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ASIA IN THE GCC
A NEW STRATEGIC PARTNER?

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THE GCC IN THE ASIAN CENTURY: OPPORTUNITIES, CHALLENGES, AND FUTURE TRAJECTORIES

Adel Abdel Ghafar & Abdullah Baabood

BACKGROUND AND CONTEXT

Over the past two decades, the four major Asian powers—Japan, China, India, and South Korea—have deepened their engagement across the Middle East, in particular with the countries of the Gulf Cooperation Council (GCC). Cooperation between the Asian powers and the GCC has been multifaceted, incorporating socio-economic, political, and security dimensions. Across the GCC, the Asian powers' growing footprint can clearly be observed. From South Korean construction and Chinese Belt and Road Initiative (BRI) connectivity to Japanese infrastructure and technology investments and extensive Indian manpower, all indicate that these partnerships will only grow as the economic weight of the world shifts to Asia.

As the GCC countries undergo a historic process of socio-economic transition, these partnerships will become increasingly important. Fluctuating hydrocarbon revenues, demographic pressures, unemployment among Gulf youth, and a lack of economic diversification have put enormous strain on public finances. Together, these factors have created major impetus for economic reform across the GCC. In addition to socio-economic challenges, GCC countries are likely to feel the increased impact of climate change over the next decades. Asian powers will have an important role to play as GCC states address these multilayered, complex challenges.

Asian powers' growing engagement with the GCC will come with the challenge of having to navigate an increasingly complex geopolitical picture. Intensifying U.S.-China competition, ongoing civil wars and unrest in the broader Middle East, inter-GCC disagreements, and tensions over Iran's nuclear program all highlight that the four Asian powers cannot limit their engagement to the economic realm and may have to contribute to the region's security.

To examine the multifaceted and expansive socio-economic, political, and security linkages between the GCC and Asia, the Middle East Council on Global Affairs and the State of Qatar Chair for Islamic Area Studies at Waseda University initiated a two-year research project bringing together leading experts to provide in-depth, timely analysis on many of these issues. Two workshops were held, one in Doha in 2022 and one in Tokyo in 2023. Participants were invited to contribute forward-looking, policy-oriented chapters to this dossier, which focuses on key issues and trends shaping Asia-GCC relations.

STRUCTURE

This dossier is divided into two parts. The first part focuses on political and security dynamics between Asia and the GCC and is set against a backdrop of nascent shifts in the Gulf's security architecture. Arguably, the United States' gradual retreat from the region has prompted Gulf states to establish new partnerships and alliances, and increasingly Asian powers are becoming central to these efforts.

In chapter one, Matthew Gray explores this new reality by highlighting the centrality of the Indo-Pacific region to the evolution of great power competition. Gray stresses that competition between China and the United States will increasingly play out in the Indo-Pacific region, attributing the region's significance to several factors, including the region's energy resources. In chapter two, Rory Miller hones in on Asia-GCC security engagement. Miller argues that a heightened sense of insecurity within the Gulf region has paved the way for expansive engagement between Asia and the GCC in the maritime domain. As GCC-Asia relations strengthen, he argues that Asian states will be further involved in the Gulf's maritime security.

In chapter three, Jonathan Fulton delves into I2U2—the recently established minilateral bringing the United States, the United Arab Emirates, Israel, and India together. Fulton situates the partnership within the recent rise of U.S.-led minilaterals, namely the Australia-UK-U.S. security alignment (AUKUS) and the Quadrilateral Security Dialogue (Quad/Qaud Plus). He argues that the partnerships can be understood as the United States' attempts to secure its partners in the region and curb the expansion of ties with China. In chapter four, Mohammed Soliman explores how the United States should address the shifting security landscape in the region. Soliman explains that while the Gulf region continues to be one of importance to the United States, the United States' focus has largely shifted towards the Indo-Pacific. To maintain a considerable presence, Soliman argues that the United States should push for increased cooperation between Asian states and the Gulf and incorporate the United States into Asia-GCC security arrangements.

In chapter five, Li-Chen Sim tackles changing energy dynamics in light of the ongoing Russia-Ukraine war. Sim looks to the future and projects that while the war will create long-term changes, such as increasing Russian energy exports to Asia, other dynamics will remain unchanged. Asia will continue to primarily rely on the Gulf for its energy supplies and the Asian market will continue to serve as a central arena for energy competition. In chapter six, Kazuto Matsuda examines inter-Asian competition in the Gulf. Matsuda dispels the notion that Asian engagement within the Gulf has been homogenous, assessing the case of competition between China and Japan. Matsuda explains that China's growing presence in the region has pushed Japan to further envelop the Gulf region into its regional security frameworks.

In chapter seven, Mahjoob Zweiri and Farah Al Qawasmi explore China's ties with the GCC. The authors touch on China's increasingly political engagement with the region, highlighting the significance of the 2023 Iran-Saudi peace deal brokered by Beijing. Zweiri and Qawasmi argue that the peace agreement serves as a precursor to increased Chinese engagement in regional politics and presents avenues for further cooperation between China, Iran, and the Gulf at large.

The second part of the dossier shifts focus to socio-economic dynamics within Asia-GCC engagement. The authors consider the impact of the energy transition on Asia-GCC ties and the evolution of economic relations between Asia and the Gulf. In chapter eight, Steven Wright explores the impact of the global shift towards renewable energy on Asia-GCC energy relations. Wright argues the shift towards renewable energy presents GCC states with both challenges and opportunities. On the one hand, most GCC states are well-equipped, due to existing infrastructure, to contribute to increased production of renewable energy, such as blue hydrogen, which can expand economic ties with Asian states. On the other hand, if GCC states are not responsive to the global shift towards clean energy, this could reduce Asian states' reliance on the Gulf states as energy suppliers. In chapter nine, Shigeto Kondo examines avenues of cooperation between Saudi Arabia and Japan amidst the emerging energy transition. Kondo explains that the energy transition will not drastically impact Japan-Saudi relations. Instead, the transition will push for increased collaborations in areas such as ammonia and hydrogen supply chains.

In chapter 10, Aisha Al-Sarihi analyzes China-GCC relations in the post-Paris Agreement era. Sarihi stresses that following the Paris Agreement, both China and various GCC states committed to net zero targets, advancing initiatives and frameworks to facilitate the transition towards clean energy. The expansion of relations between China and the Gulf beyond hydrocarbons will create opportunities for increased cooperation between China and the Gulf on bolstering renewable energy capacities.

In chapter 11, Narayanappa Janardhan explores India-GCC ties. Janardhan highlights that India and the GCC's longstanding ties, which include economic relations and people-to-people exchange, are shifting to become increasingly strategic in nature. Janardhan argues that India's engagement with the GCC will likely grow and strengthen. However, India's aspirations to contribute to the Gulf's security landscape will be complicated by its own regional challenges, such as tension with Pakistan and China. In chapter 12, Nader Kabbani focuses on the Indian diaspora's wide-reaching presence and influence across GCC states, arguing that Indian migrant workers will continue to hold a sizable presence in both low-skilled and high-skilled occupations across the Gulf. This necessitates the Indian government's expansion of ties with the GCC and provision of support to the Indian diaspora.

In chapter 13, Tingyi Wang assesses evolving economic ties between China and the GCC. Wang emphasizes the significant growth, beyond energy, in trade between both China and the Gulf. Wang explains that as economic relations strengthen, China and the GCC will find it increasingly difficult to maintain their balancing strategies amidst regional and global rivalries. In chapter 14, June Park examines South Korea's ties with the GCC. Park argues that global shifts, namely U.S.-China competition, have diversified relations between South Korea and the GCC states. South Korea and the GCC's engagement has expanded to new areas, such as South Korea's contributions to the development of the region's nuclear capacities. For the Republic of Korea (ROK), the GCC is a market for exporting its technology whilst securing energy supplies, and the GCC benefits from the ROK as a partner that can equip the region with advanced technology.

In chapter 15, Koji Horinuki maps the history of Japan's relations with the Gulf. Horinuki finds that several factors, primarily competition from China, India, and South Korea resulted in an overall decline of Japan's economic engagement with the Gulf. In chapter 16, Fahad Al-Marri analyzes the complexity of the GCC's sovereign wealth funds. Al-Marri identifies sovereign wealth funds as political tools that function as soft power projection for small states. In the context of the GCC and Asia, sovereign wealth funds have expanded relations between both regions through Gulf states' extensive investments across Asia.

SECTION ONE
POLITICS AND SECURITY

Iranian Foreign Minister Hossein Amir-Abdollahian, Saudi Arabia's Foreign Minister Prince Faisal bin Farhan Al Saud and Chinese Foreign Minister Qin Gang during their meeting in Beijing—April 6, 2023.

THE CHANGING SECURITY ENVIRONMENT IN THE INDO-PACIFIC AND THE IMPLICATIONS FOR THE GCC

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INTRODUCTION

The Gulf has long been a fiercely contested arena for geostrategic and geoeconomic power and is likely to prove so in the coming decades as the international energy system and competing political economic models become aggressively contested, especially between the United States and China, as well as involving intercontinental middle powers. Competing transnational alignments and impactful new technologies already show profound signs of shifts in the international order since 1991 and, arguably, since the end of World War II. The Indo-Pacific region will probably prove to be a crucial arena; indeed, the Indo-Pacific concept as a "mental map"[1] for scholars and policymakers is a direct outcome of it. This chapter examines the nature of the Indo-Pacific as a meta-region, its role in recent and future global shifts—where and why the Gulf fits into it—and how events in the region might affect Gulf states at a crucial period in their economic development and search for security.

THE INDO-PACIFIC AS A CONCEPT

The concept of the Indo-Pacific as a region is expansive in scope and complexity. A liberal geographic definition covers almost half of the world, stretching from the United States west coast across Asia and the Pacific, to the Indian Ocean, and as far as eastern Africa. Even a more modest scope incorporates East Asia and Southeast Asia and their maritime edges—Central Asia, South Asia, and the northern Indian Ocean—and the edges of the Middle East and East Africa. However, this does not necessarily negate its usefulness. In this broad realm, China has the greatest strategic reach and influence, through its Belt and Road Initiative (BRI) and Maritime Silk Route (MSR) strategies, covering multiple areas where the United States has a history of active engagement. The United States and China will seek new and enhanced alliances and alignments within the Indo-Pacific, including emerging states as important middle powers. It is thus where the international order will predominantly be defined and play out in the coming decades.

Its breadth captures the declining importance of regionalism in the emerging international order. While regional and sub-regional security complexes[2] will retain importance in structuring international relations, states will increasingly look beyond these, strengthening the idea of an Indo-Pacific meta-region. Moreover, a new security architecture is emerging that is much less grounded in traditional geographic spheres. Minilateral arrangements such as the Quadrilateral Security Dialogue (the Quad) and the Australia-UK-US security alignment (AUKUS), are examples,[3] as are partnerships such as I2U2 between India, Israel, the UAE, and the United States.[4]

The Indo-Pacific idea is conceptually useful because it manages to capture these disparate yet interconnected and overlapping spheres of cooperation and competition. Rather than terrestrial, it is a mental map centered on the maritime sphere, where in another era "the most likely friction points between [the United States and China] are located at sea."[5] The Gulf states, while seemingly on the Indo-Pacific's geographic periphery, will nonetheless play an important role, and be profoundly impacted by its evolving dynamics.

THE EVOLVING INDO-PACIFIC SECURITY ORDER

There has been much speculation among both foreign policy scholars and practitioners as to whether the United States is in decline and China rising in its stead.[6] China's post-Mao economic transformation has been quite remarkable, with an attendant expansion in military power, and the United States appears to be fatigued after its long Middle East wars and domestic social tensions. However, assumptions of the United States' decline and a Chinese rise are greatly overstated. International power transformations over the 2020s and 2030s are likely to be much more nuanced.[7] A slight relative decline in U.S. global economic and military power is very possible, but U.S. strategic reach remains well ahead of China, and economically, the United States more advanced, entrepreneurial, and open. Meanwhile, after an impressive, four-decade-long period of economic transformation, China's future is becoming less assured, hobbled by inefficiencies, corruption, and a public debt of over 250% of GDP, as of 2016.[8] The United States decoupling from China will impact the technological and innovation capacities of the Chinese economy, whose workforce has begun to shrink, as will its overall population later this decade; it will, therefore, face the often-cited challenge of "growing old before it grows rich."

Moreover, the ways in which power is contested are changing. The 2020s are not simply a repeat of the U.S.-Soviet Cold War, given the strong linkages between the major actors and the limited ideological basis in the U.S.-China rivalry. The U.S.-China rivalry will play out and be assessed in the military sphere to some extent—there will be an arms race, especially in emerging technologies, in maritime reach, air power, and in space. However, their rivalry in other spheres will be crucial as well, from economic power, especially trade and investment, to cultural and other forms of "soft" power, to the ability to create more adaptable alliances and partnerships.

This does not mean the United States will remain unchallenged, nor that China will not become an increasingly powerful rival to Washington. However, the likeliest trend is not towards a bipolar superpower rivalry, but something more complex: a growing collection of middle powers also vying for regional and even some global power. Within an Indo-Pacific rivalrous region, there will be important roles for middle powers that possess territory, such as France and the UK, and for important economic and/or military actors in or near the region, including Japan, India, South Korea, Indonesia, and Australia. Saudi Arabia, and possibly the UAE and Iran, can also fashion roles for themselves, if they actively engage beyond their immediate region, maximize use of economic influence, and invest in greater military reach. How closely they ally or align with the United States or China will determine their regional security structure and prospects just as much as specific policies coming from Washington or Beijing.

Overlapping spheres of power and influence are likely to emerge. For example, they could compete through trade and another investment; one may compete through maritime reach and the other through basing; one through soft power and another preferring strategic partnership at the state level. Security arrangements will become more adaptable and flexible. Large mutual defense pacts such as NATO will remain, but, overall, there is likely to be less of a regional-based security architecture, and more minilateralism. States may play on this complexity, seeking to balance major powers to maintain a strategic relationship with one, and an economic link with another.

THE PLACE OF THE GULF IN THE NEW INDO-PACIFIC

Where will the Gulf fit into this new order? For reasons that have long determined its global importance, the Gulf will continue to hold a significant presence, particularly in the international energy system.[9] It will remain a crucial source for much of the world for as long as hydrocarbons retain geoeconomic criticality, which is likely to be several more decades. China and other industrialized Asian economies are likely to be dependent on oil and petroleum from the Middle East, above all the Gulf, until around 2050, embedding China's development prospects in the Gulf.[10] China will have to compete with other East Asian economies, who in turn will have to compete internationally. Despite the rise of unconventional oil and gas, the Gulf was (pre-Covid) supplying some 23% of the world's oil, including 37% of maritime oil exports.[11]

This will mean that the sea lines of communication (SLOC), including those through the Indian Ocean, will remain crucial to Indo-Pacific security, keeping a range of states connected to the Indian Ocean for their energy security. In turn, China's ability to export is also heavily dependent upon secure Indian Ocean SLOCs, making maritime chokepoints and congestion points in and around the Gulf vital too; not only the Strait of Hormuz but also the Bab el-Mandeb Strait, the Suez Canal, and further afield, the Malacca Strait. Finally, certain regional actors will be important partners for major powers. Qatar has recently been designated a major non-NATO ally by the United States,[12] supplementing U.S. alliances with Turkey, via NATO, and Israel. The United States will retain a strategic interest in other GCC states, even if some, such as the U.S.-Saudi relationship, have recently come under strain. For China, the relationship with Pakistan will deepen, as might the one with Iran, as Beijing seeks to build connections for trade, maritime security, and port access. China will maintain and probably expand port investments around the Indo-Pacific, including the Middle East,[13] in part as an alternative to military basing—although that may become a goal in the future.

With both the shifting geostrategic environment in the Indo-Pacific and the Gulf's strategic and economic position, several changes could emerge in the Gulf's approach to the United States and China, its foreign policies, and stance on security architecture.

The Gulf states' foreign policies—especially those of Saudi Arabia, the UAE, and perhaps Bahrain—are likely to shift towards a cautious approach to Washington. They will not abandon their U.S. security and defense relationships, however their trust in the United States has weakened. The Gulf states accept the U.S.-led War on Terror is drawing to a close, with a subsequent reduction in Washington's interest in the Middle East and West Asia, while, at the same time, the United States is turning its focus further to the east. However, the Saudis were displeased with the United States for not retaliating against Iran's attack on Aramco facilities in September 2019, and the Emiratis felt the United States responded poorly to Yemeni Houthi attacks on the UAE in January 2022.[14] In both cases, the regional view of the United States as a security guarantor was seriously damaged.

This is prompting the Gulf to cautiously expand links with China, especially in trade and technology—essential areas for their economic development strategies and diversification plans.[15] Chinese leader Xi Jinping's visit to the Gulf in December 2022 was widely suggested at the time as being an example of China's rise in the Gulf. The visit lead to some 34 new investment deals, around US$30 billion in new trade, and a strategic partnership agreement.[16] This helps develop ties, but Chinese-GCC investment is well down from a 2018 peak and heavily skewed towards oil and energy projects.[17] Sectors such as ports, telecommunications, defense/security, and emerging technologies would likely lead to strategic influence, and here, Chinese trade and investment has increased but remains modest. Therefore, whether closer economic ties will extend to Gulf states adopting hedging policies depends on both future regional U.S. security commitments and the importance that China can build in Gulf rulers' minds through primarily economic connections, especially in diversification and development.

Gulf concerns, primarily Saudi, over Iran's nuclear program, the growing security relationship with Russia since the Russia-Ukraine war in February 2022, and, for Abu Dhabi, a desire to build peaceful economic links with Israel will tie the Gulf to the United States. These states will not, in the immediate future, abandon U.S. arms for Chinese (or other), on a large scale, necessitating an on-going security arrangement for decades to come.[18] Yet as China's energy reliance on the Gulf remains strong, and its economic strategies become more sophisticated, there will be scope for Beijing to exert more influence in the Gulf.

Crucially, the universal trend towards greater minilateralism will not bypass the Gulf,[19] who are likely to find increasing utility in minilateral arrangements, both as appendices to multilateral fora—for example, selectively bringing non-member states into limited arrangements with the GCC or, given the decline in GCC influence, with some of its member-states[20]—and minilateralism could also facilitate Gulf states' efforts of expanding their reach into the wider Arab world[21] and the Horn of Africa.[22] At present these remain limited, but the attractions of more flexible, adaptable, and specific arrangements are strong.

Incorporating India, Israel, the UAE, and the United States—made possible by the Abraham Accords—the I2U2 Group is configured as a multifaceted minilateral, heavily focused in the first instance on trade and investment[23] but with an eye towards a future security role.[24] It certainly fits into the U.S. strategy of building deeper but flexible arrangements across the Indo-Pacific to revitalize and enhance U.S. regional alliances and partnerships, especially to counter Chinese influence in both economic and security spheres, although the ultimate scope and success of I2U2 will come down to yet-to-be-determined factors, such as whether Saudi Arabia and Israel make formal peace. It will also be shaped by the other states involved, where the interest seems stronger on economic matters than security ones; for example, the UAE and Israel seem to have a predominantly economic and technology focus in their relationship at present.

Another example is India's planned "Arab-Mediterranean Corridor,"[25] linking India to Greece and Europe via the Gulf and Israel. The project could place the Gulf in a critical position for India's economic development strategy, and by extension its security posture, if it proceeds—but it is an expensive, ambitious project, competing with other priorities. Other minilaterals, especially the Quad, already involve India, and in the future could evolve into something incorporating the Gulf—perhaps as a so-called "Quad Plus" arrangement—this is a long-term prospect with no guarantees.

Beyond the above, the Gulf itself and its perceived needs are changing. Saudi Arabia is a major power in the oil industry, increasingly willing to pursue its own energy interests and resisting U.S. production pressures. It is even displaying what one observer has called a "new nationalism,"[26] with the Saudi leadership replacing Islamic legitimacy with nationalist socioeconomics. Meanwhile, Qatar occupies similar prominence in the global gas sector, which grows further as new gas trains come online in the early 2020s and cultivates an image both at home and abroad as a place where Islam, tradition, and modernity coexist harmoniously. Qatar's success in hosting the 2022 FIFA World Cup placed this on display, as an occasion to showcase the country and its development, as well as being an economic boon and diplomatic opportunity.

Across the Gulf, the imperatives of economic diversification and job creation—a combination of investment attraction, greater trade, and new technologies and innovation—are arguably pulling these states towards a more comprehensive security view; one that retains a role for the United States as a security guarantor and arms supplier, but which also finds room for new and wider relationships. This will not necessarily pull them from the U.S. orbit towards China, but rather adopt new initiatives with a range of key states. The future—in both the Gulf and Indo-Pacific—seems not so much a U.S.-Chinese bipolar one, but a broader multipolar, adaptable, and complex network of intertwined security, economic, and soft-power arrangements.

CONCLUSION AND POLICY OUTLOOK

This paper is by its nature somewhat speculative, and dynamics could change suddenly if, for example, the United States and China come to blows over Taiwan, suffer an abrupt economic calamity, or a substantial shift in policy.

However, the combination of a U.S.-China rivalry—a fractious, multilayered middle-power dynamic, the enduring energy importance for the global economy, and the Gulf's need for new economic, technological, and security links—coalesce into a trajectory that will keep the Gulf as a crucial subregion in international geopolitics and geoeconomics for decades to come. This is the first challenge—and opportunity—for policymakers in the Gulf: to acknowledge the centrality of the Indo-Pacific in major-power thinking and its potential to shape strategic thinking in the years and decades ahead. Unfortunately, the Gulf states are yet to routinely think in broad Indo-Pacific terms; although this is something they should be doing to align their foreign and defense policies to a changing international order.

To meet challenges from the rise of the Indo-Pacific and the growth of maritime-centered thinking, leaders should also develop greater maritime capabilities, especially in cases such as Saudi Arabia and the UAE, who, with some justification, envisage themselves as rising global middle powers. Finally, the Gulf has a strong capacity to enhance Indo-Pacific security through economic means, especially by investment in key states and pushing for a secure and open Indo-Pacific—something which is in the Gulf's interests as much, or even more, than that of most states.

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ASIAN POWERS IN THE GULF MARITIME DOMAIN: THE ARAB GULF PERSPECTIVE

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INTRODUCTION

In the contemporary era, the maritime domain is increasingly situated at the nexus of national security, economics, and trade for the six member states of the Gulf Cooperation Council (GCC). At the same time, key states from north-east, south, and south-east Asia—China, Japan, South Korea, India, and Pakistan—are increasingly active in the Gulf maritime domain, understood here to include the waters inside the Gulf of Oman, the Gulf of Aden, and the Red Sea, leading into the wider Indian Ocean. This chapter examines Asia's rising engagement and fast-moving reconceptualization of their roles and priorities within the GCC's maritime domain.

MANAGING THREATS IN THE MARITIME DOMAIN

Over the last two decades, GCC states have responded very differently to many of the causes and consequences of regional instability. Yet in the maritime domain, they all face the same security and safety threats—including inter-state disputes, violations of international law, piracy, terrorism, organized crime, the smuggling of illicit goods, human trafficking, accidents, and natural disasters.

Asian states have long faced these same challenges in their local maritime domains. But their ongoing dependence on international trade and energy imports has made sustaining a safe and functioning order across the Indian Ocean, including the Gulf maritime domain, a key priority. An official statement by the Indian Ministry of Defense explained in 2016: "The safety and unhindered continuity of maritime trade, through ships that use this route, is a primary national concern."[1]

In 2008–09, India, China, Japan, and South Korea all deployed naval vessels to the Gulf of Aden in response to high levels of Somali piracy, directly threatening commercial vessels and the free flow of energy and trade.[2] The threat of piracy has declined since then, leading Asian states to develop greater ambitions that extend beyond anti-piracy to address a range of other security threats, increasingly in cooperation with Gulf states, in their immediate vicinity.

There has been a rise in Asian naval ship visits to Gulf ports and bilateral naval exercises between Asian and Gulf navies. The first being between India and Oman in 1993. However, following his accession to power in 2014, Prime Minister Narendra Modi developed his predecessor Manmohan Singh's "Look West Policy" to extend maritime security ties across the entire Arab Gulf, leading to the first bilateral Indian naval exercises with the UAE (2018) and Saudi Arabia (2019).[3] The Indian navy has since participated in further multilateral exercises with the UAE, under the auspices of the Quad and I2U2.[4] It has also undertaken new rounds of bilateral exercises with Oman, Qatar, and Bahrain and, in 2022, deployed a squadron of training ships to Gulf waters that included a port visit to Kuwait.[5]

In 2012, the Japanese government publicly raised the possibility of sending the Japan Maritime Self-Defense Force (JMSDF) to the Strait of Hormuz for minesweeping and escort operations.[6] In the following years, the JMSDF and Gulf navies conducted irregular bilateral exercises. In the wake of the 2019-attack on a Japanese vessel in the Gulf of Oman, the JMSDF launched the Indo-Pacific Deployment (IPD) and increased bilateral naval exercises.[7] South

i. This is not to deny that in recent years the Gulf states have made significant investments in naval upgrades that provide an expeditionary as well as littoral maritime capability. This has been evident in the UAE's deployment of warships between Arabia and Africa and in the Saudi-led blockade of the Yemeni ports of Hodiedah and Al Saleef.

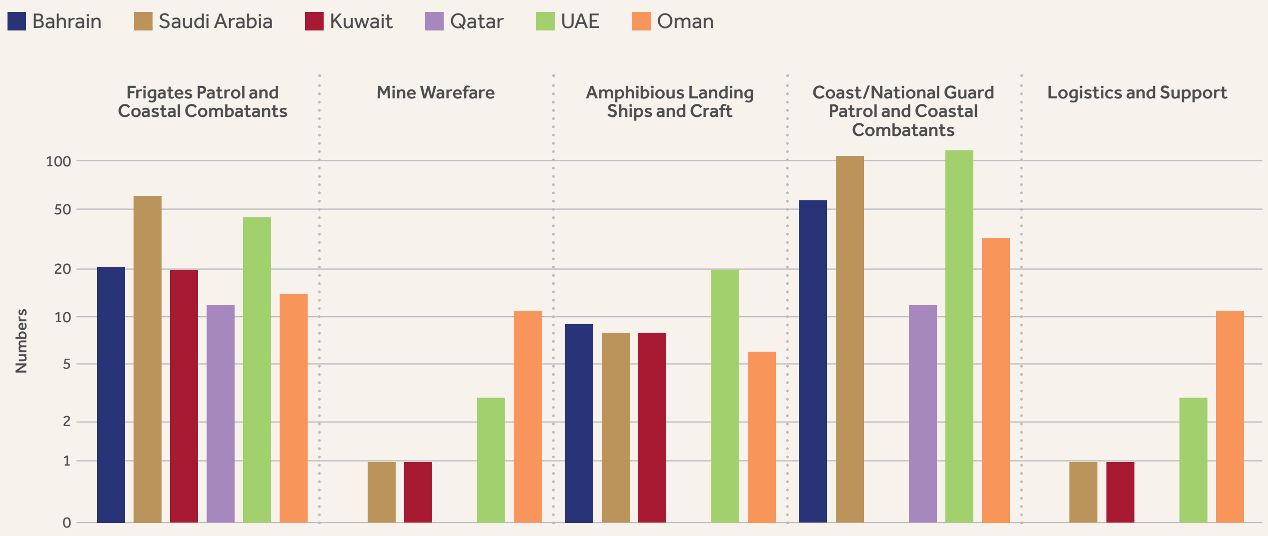
Korea has had less direct bilateral engagement, than Japan and particularly India, with Gulf navies. In January 2021, the Ministry of National Defense (MND) in Seoul announced the deployment of its anti-piracy unit to the Strait of Hormuz after Iran seized a South Korean-flagged oil tanker travelling through the Strait.[8]

Japan and South Korea are among eight Asian members of the 34-strong U.S.-led Combined Maritime Forces, Combined Task Forces (CTF) 150–153.[9] Founded in 2001, the CMF is the world's largest multinational maritime coalition. Originally mandated to address threats around the Strait of Hormuz, CTF 153 was launched in April of 2022, extending its role to the Red Sea, Bab el-Mandeb, and the Gulf of Aden. The other Asian members are Pakistan, Malaysia, Seychelles, Singapore, the Philippines, and Thailand; in July 2022, India joined as associate member.[10] Interestingly, Pakistan, which established a Regional Maritime Security Patrol (RMSP) in 2018, is a leading contributor to CMF. In April 2022, the Pakistan Navy took command of CTF 151 for the tenth time and has led CTF 150 twelve times.[11]

The International Maritime Security Construct (IMSC) was founded in 2019. With an operational arm in Bahrain, Coalition Task Force (CTF) Sentinel is mandated to ensure unrestricted shipping access to the Strait of Hormuz and adjacent sea lanes. The IMSC includes the GCC's Bahrain, Saudi Arabia, and the UAE as well as the UK and the United States. However, since dispatching a destroyer and a surveillance plane on information-gathering duties in 2020, Japan has shared intelligence with IMSC while remaining outside of the coalition.[12]

The proliferation of these maritime security frameworks is an important indicator of high levels of regional insecurity, at a time when GCC states still lack the hard power capabilities required to resolve most maritime challenges.[i] For this reason, any Asian navy security provisions around the Strait of Hormuz are welcome, which, alongside the Suez Canal and the Bab el-Mandeb Strait at the southern tip of Yemen, is one of three critical constriction points in the Indian Ocean.

Figure 1: Naval Capabilities Gulf Countries: Comparison



Source: The Military Balance, 2022.

Yet when compared to the bilateral and multilateral contributions of the Bahrain-based U.S. Naval Forces Central Command and European naval contributions—participation in bilateral and multilateral joint exercises, personnel exchanges, or standardization of practices and logistics—the major Asian states are still minor security players in the Gulf maritime domain. Most naval platforms and systems used by Gulf navies still come from the United States and Europe.

Indeed, despite an almost continuous at-sea presence for more than a decade, the lack of Asian naval capabilities in the Gulf serves are a constant reminder to the Gulf states to look beyond traditional maritime security suppliers. The People's Liberation Army Navy (PLAN), which declined to participate in U.S.-led multinational patrols around the Gulf in 2019,[13] has not yet deployed an aircraft carrier into the Indian Ocean.[14] Nor has it succeeded in expanding its regional foothold beyond Djibouti, as underscored by the 2021 controversy over the alleged construction of a secret naval facility at the UAE Khalifa port.[15] Japan, like China, maintains a base in Djibouti.[16] But the JMSDF openly acknowledges that it has limited naval assets available in the Indian Ocean.[17] It has also long faced constitutional and resource constraints on the use of its assets overseas. Though at times of crisis or significant external pressure, Japan has looked to modify its laws in this regard. For example, in late 2001, following the 9/11 Al-Qaeda attacks on the United States, Japan authorized a naval deployment to the Indian Ocean for the first time in support of United States operations, but it was restricted to refueling and logistical support. Until 2006, Japanese troops deployed in Iraq were prohibited from using force.[18]

BUILDING RESILIENCE IN THE MARITIME DOMAIN

From the Gulf's perspective, in part due to security provisions by Western actors, hard power is the least important contribution made by Asian states to Arab Gulf priorities in the maritime domain. In recent years, Gulf states have extensively developed their maritime energy and non-energy sectors into what has been called "vectors of post-oil identities."[19] These include state-of-the-art fleets and port facilities and infrastructure; maritime sustainability programs; next-generation maritime technologies; and overseas ports and other facilities. These programs are only partly conceived as ways to achieve economic diversification out of energy. They are also anchored in a view of the maritime domain not only as a means of resources or a transport route but as a soft-power asset, fostering international interdependence, and contributing to national resilience.

Asian states have played a growing role in these endeavors because they and the Gulf states share a pragmatic approach to maritime security cooperation. For example, China and India, and increasingly Japan, are involved in building-up Iran's port infrastructure while looking to develop similar ties with the GCC.[20]

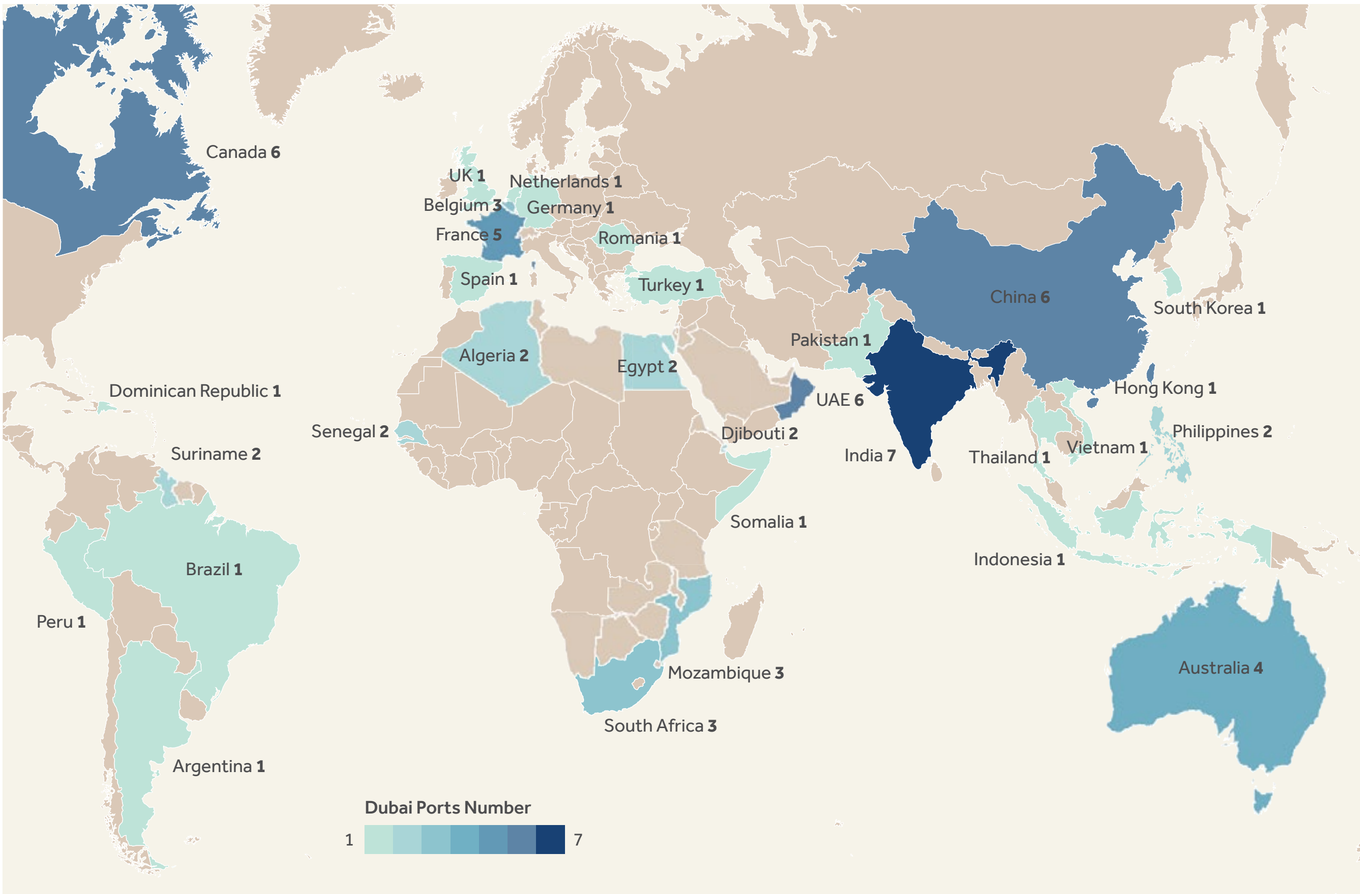
On the Gulf side, there is a willingness to put aside differences, on the Iran issue, and focus on a number of overlapping approaches to the maritime domain that bind them to Asian states. The first is a mutual willingness to enter into high-cost, high-risk partnerships with only medium-to-long term benefits. The second, and most important, is a shared strategic understanding and economic value in using the maritime domain to foster interdependence across the international system.

Over the last decade, the best example is China's Belt and Road Initiative (BRI). Since 2018, China has partnered with a number of Gulf states in its "Industrial Park–Port Interconnection" program, linking port complexes across the Indian Ocean under the Maritime Silk Road Initiative (MRSI) of the BRI.[21] In line with this approach, China plays a central role in Oman's plans to develop itself into a geographically convenient and geopolitically reliable maritime base, strategically located outside of the Strait of Hormuz.

China has contributed to the development of three key Omani ports, which are intended to become hi-tech hubs between the Middle East, Asia, Africa, and Europe. Salalah, a transshipment hub in the south; the deep-sea Port of Sohar in the north, midway between Dubai and Muscat; and Duqm, a port industrial city and free-trade zone, in the center of the country.[22] South Korea has made a lesser but still notable contribution to Omani port projects. Beyond Oman, one can see Asian, in particular Chinese, involvement in a number of Gulf ports in Saudi Arabia, Qatar, and the UAE.[23]

Gulf resilience-building via the maritime domain takes place in the home territories of Asian countries as well as in the Gulf. As of mid-2022, twenty-five of Dubai Ports World's (DP World's, figure 2) forty container and non-container marine and inland terminals outside of the Middle East were located in south, south-east, and east Asia.

Figure 2: DP World–Global Network of Port Facilities

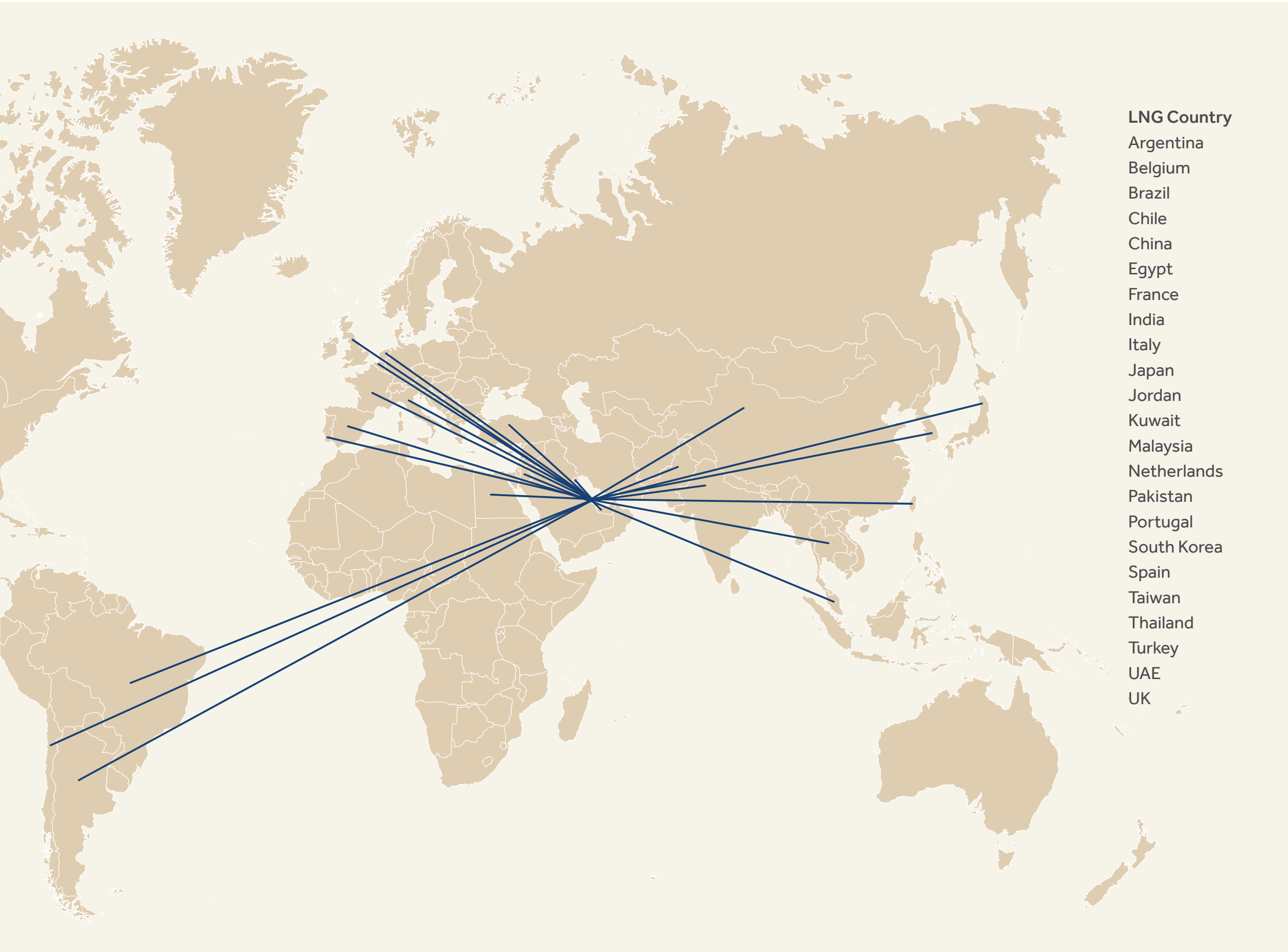


Map based on Longitude (generated) and Latitude (generated). Color shows sum of Dubai Ports Number. The marks are labeled by Dubai Ports Country and sum of Dubai Ports Number. Details are shown for Dubai Ports Country.

Qatargas's state-of-the-art Liquified Natural Gas (LNG) tanker fleet was constructed in three shipbuilding yards in South Korea.[24] In June 2020, QatarEnergy ordered another 100 LNG carriers from Korean firms.[25] But the centrality of Asia in Qatar's efforts to use its position as a leading maritime exporter of LNG, extending its global interdependence, goes beyond South Korea's largest fully integrated merchant shipbuilding program of the last fifty years.

Five of the world's ten largest LNG terminals are in Japan (two) and South Korea (three).[26] During the blockade, between 2017 and 2021, Qatar used its role as a key Asian gas provider (figure 3)—for China, Japan, and South Korea, as well as Malaysia, Pakistan, Taiwan, Thailand, and India—to overcome regional diplomatic as well as economic isolation. Throughout the blockade, Qatar maintained its status as the world's largest LNG exporter with Japan, China, and South Korea among its top customers.[27] This milestone had huge significance beyond energy sales. In fact, it evidenced how interdependence fostered by long-term, high-cost, high-risk partnerships can contribute to a country's resilience in times of crisis.

Figure 3: Qatar–Global LNG Customers



Map based on Longitude (generated) and Latitude (generated). Color shows details about LNG Country. The marks are labeled by LNG Country. Details are shown for LNG Country.

CONCLUSION AND POLICY OUTLOOK: ASIA'S ROLE IN THE FUTURE OF THE GULF MARITIME DOMAIN

The Indian Ocean and the Gulf maritime domain is witnessing rising strategic competition between China and the United States and between China and its main Asian competitors. In 2020, the United States, India, Japan, and Australia began their largest joint naval exercises in over a decade. In response, China accused the United States of having a "Cold War mentality."[28] For its part, China's growing maritime assertiveness has been evident in recent times. In December 2019, Iran hosted the first ever trilateral joint naval exercise with China and Russia, codenamed "Marine Security Belt" (MSB). In early 2022, PLAN carried out joint exercises with the Russian navy in the Arabian Sea, on different occasions. Most recently, in March 2023, China, Russia, and Iran undertook naval drills in the Gulf of Oman.[29]

Beijing, to some China-watchers, has also moved beyond traditional forms of economic diplomacy in dealing with Gulf states. China is now looking, as one commentator recently put it, to convert growing commercial relations into a security foothold in the region as part of a "long-term infiltration strategy."[30]

On becoming Indian prime minister, Narendra Modi promoted a policy of "Security and Growth for All" (SAGAR) that emphasized cooperation and respect for international maritime rules and norms. At the same time, India, in the words of its department of defense in 2022, considers itself "the principal regional maritime force in the Indian Ocean."[31] In this role, it sees itself as a counterweight to China and Pakistan in the maritime domain. For their parts, despite mutual differences on a number of issues, Japanese and South Korean attempts to check Chinese advances in the maritime domain now extend beyond the Pacific theatre into the Indian Ocean. Japan cooperates with India on both a bilateral (JIMEX naval exercises) and multilateral basis (annual trilateral Malabar alongside the United States).[32]

The North Atlantic Treaty Organization's (NATO) Strategic Concept of June 2022 addressed U.S. concerns over rising Chinese activism in the Gulf maritime domain, which called on NATO allies and non-NATO partners in the Indo-Pacific "to tackle cross-regional challenges and shared security interests."[33] The following month, the final communique of the U.S.-GCC summit in Jeddah, Saudi Arabia, welcomed the recent launch of two U.S.-led maritime security coalitions—Combined Task Force 153 and Combined Task Force 59—that "strengthen defense coordination between GCC countries and the U.S. Central Command [and help] detect naval threats."[34]

Great power tensions and intra-Asian competition in the Gulf maritime domain are likely to increase as the United States and Asian allies become increasingly preoccupied with containing Chinese naval ambitions in the Gulf's waterways;[35] and the "geopolitics of ports"[36] intensifies and basing access for extra-regional actors becomes even more important.

In this future environment, GCC states should try to enmesh Asian states in multinational maritime security coalitions wherever possible in order to limit the negative consequences of instability. Including Asian states in such coalitions would also appeal as a way to further consolidate GCC-Asia relations in multilateral settings. Gulf states, other than the already-evolved UAE, should strongly consider associating closely with the growing number of mini-lateral initiatives across the wider region, such as the Quad.

Beyond this, Gulf states with ongoing ambitions to project power and even to become security providers, in their own right, in the wider region—as was the case for the UAE and Saudi Arabia during recent times, including in Yemen—may also try to enlist Asian actors in their own offensive maritime coalitions. They should also try to leverage their strategic locations as they look to develop their sovereign maritime defense-industrial capabilities.[37]

Regardless of such pursuits, Gulf states should prioritize relations with those Asian states who share innovative and ambitious attempts to use the maritime domain to deepen interdependence with key global partners, extending their external influence and building-up resilience. At a time when all actors are searching to identify and develop competitive advantages in the maritime domain, these policy goals will increasingly preoccupy and perhaps even dominate Gulf-Asian relations in coming years.

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I2U2: INDO-PACIFIC MINILATERALS COME TO THE MIDDLE EAST

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INTRODUCTION

The I2U2, consisting of India, Israel, the United Arab Emirates (UAE), and the United States, was created in October 2021, and thus far has a clear economic agenda working on projects and policy areas for cooperation that are narrowly focused and unlikely to challenge other powers' interests.[1] This is a strategic choice, given the geopolitical consequences lest it be perceived as an anti-China coalition. However, perception matters in international politics and in Beijing it likely is seen in the context of other U.S.-centered minilaterals in the Indo-Pacific: The Quadrilateral Security Dialogue (Quad) and the Australia-United Kingdom-United States partnership (AUKUS). In his May 2022 speech, titled "The Administration's Approach to the People's Republic of China," Secretary of State Antony Blinken described the United States' goal as shaping Beijing's strategic environment while promoting its own preferences for an open and inclusive Indo-Pacific.[2] Leaders in Zhongnanhai likely see I2U2 as yet another attempt to shape China's strategic options. This chapter analyzes how I2U2 affects the strategic landscape in the Middle East.

MINILATERALS ACROSS THE INDO-PACIFIC

The U.S. Department of Defense has identified the Indo-Pacific as its priority theatre and China as a pacing challenger.[3] Secretary Blinken described China as "the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it."[4] This conclusion has bipartisan consensus in the United States, articulated in the 2017 National Security Strategy of President Trump's administration as well as the 2022 National Security Strategy issued by President Biden's administration.[5] Whether labeled as a great power competitor (Trump) or strategic competitor (Biden), the result is the same: the United States' effort to minimize Chinese gains across the Indo-Pacific.

Minilateral groupings have been a policy instrument of choice to work towards this. Minilateralism is a trend that has increased in recent years, distinguished from multilateralism as "a narrower and usually informal initiative intended to address a specific threat, contingency or security issue with fewer states..sharing the same interest for resolving it within a finite period of time."[6] The Quad's earliest iteration was a joint naval response to the 2004 Indian Ocean tsunami, a highly effective example of a response to a specific issue as well as a finite engagement. Its revival in the 2010s has been repurposed, with the shared threat being China's growing power and influence across the Indian Ocean Region (IOR) and the challenges to liberal norms that it presents.

In recent years, each of the four member states, India, the United States, Japan, and Australia, has tried to shift attention away from the perception of the Quad as a bloc to balance against China. The leaders' summit held in September 2021 studiously avoided discussing China, instead focusing on positive examples of endeavors to address climate change, COVID-19, education, and technology.[7] The Joint Statement released after the following summit in May 2022 also omitted China, emphasizing "the importance of fundamental values and principles" and a commitment "to work tirelessly to deliver tangible results to the region."[8] The U.S. 2022 Indo-Pacific strategy document only mentions the word China five times, once in the context of engagement with Asian powers, three times to mention the South China Sea and East China Sea, and once in reference to the United States' One China policy.[9]

The AUKUS grouping, established in September 2021 as a trilateral security pact for the Indo-Pacific, is yet another obvious example of regional China-focused minilateralism. While AUKUS joint statements—like those with the Quad—emphasize shared values and do not explicitly mention China, United Kingdom (UK) Defense Secretary Ben Wallace made the link in a BBC interview, saying "China was embarking on one of the biggest military spends in history. It is growing its navy [and] air force at a huge rate. Obviously it is engaged in some disputed areas. Our partners in those regions want to be able to stand their own ground."[10]

The UK, like partners United States and Australia, is yet another country that has grown increasingly hawkish on China. In 2015, then-Prime Minister David Cameron hosted Xi Jinping, famously having fish and chips and pints of ale at a pub, and the joint statement from the visit listed a wide range of cooperation priorities, ending with a commitment to "support each other's prosperity and development and to work together for the benefit of global peace, security and development."[11] By 2020, the UK had decided to block Huawei from its networks[12] and in 2021 it put sanctions on Chinese officials for human rights conditions in Xinjiang.[13] In Beijing, London's decision to join AUKUS is linked to the deterioration of this bilateral relationship.

CHINA IN MENA

Taken together, it is not unreasonable for Beijing to perceive I2U2 as an attempt by Washington and New Delhi to limit Chinese gains in the Middle East and North Africa (MENA). It is a crucial geopolitical region where all three powers have significant interests. The region's strategic location links it to several other regions, it is also home to the three primary chokepoints in global shipping, Bab el-Mandeb, the Strait of Hormuz, and the Suez Canal, as well as its centrality in three of the world's great religions, and vast hydrocarbon reserves. The United States has long been the dominant extra-regional power, with a dense network of political and security partnerships. India has a sizeable expatriate population, especially in the Gulf, and is a major energy customer. China, meanwhile, has emerged as a major economic actor in MENA over the first two decades of this century, the largest extra-regional trading partner of most countries in the region, a major contractor for infrastructure construction, and the world's largest energy consumer. This economic position has resulted in deeper political cooperation as well, and China has established partnership agreements with 13 MENA countries since 2013.[14]

For MENA governments, China's growing engagement and influence is more an opportunity than a threat. Its emergence as a significant source of investment, public goods, and political support provides an alternative option for states that have had few. For much of the post-Cold War era, the international system, including lending institutions and development banks, has been U.S.-dominated and based on Western liberal norms.[15] Pressure for liberalization, political reform, and improvements on human rights was not especially welcome in many governments across the Middle East. China's ambitions for a greater role in setting international agendas with non-liberal norms offers an attractive alternative for regional governments and challenges U.S. preferences.[16]

These liberal preferences are embedded in I2U2 and present a contrast with China's approach as evident in the Belt and Road Initiative (BRI) and its affiliated programs. The United States and its partners have rolled out their own initiatives in recent years, first with the Blue Dot Network. Announced in 2019 by the United States, Australia, and Japan, Blue Dot is an attempt to present alternative funding sources for infrastructure projects to lessen the attraction of cooperating with China through the BRI. In this case, the plan is to link private investment sources with developing countries' infrastructure development needs.[17]

It faces a significant hurdle, however, in that large-scale infrastructure projects are not especially attractive as private investment vehicles since they rarely result in direct profit, but rather create the conditions for indirect profit. Build Back Better World is another such attempt, rolled out at a G7 summit in 2021 to much fanfare but little effect.[18] I2U2 is also underpinned with liberal values, with the goal of linking private sector investment with countries' development needs, under the premise that the oversight of private money results in more sustainable projects that align with long-term needs and objectives. This is in contrast with China's BRI approach, however, and in Beijing it too must be perceived as yet another attempt to limit the gains China has been making in the region.

If in fact the I2U2 is meant to be a geopolitical tool to curb Chinese influence in MENA, it faces significant hurdles. First, while India and the United States share an assessment of China as a major rival and threat, Israel and the UAE do not. Tel Aviv will follow Washington's lead because it must, but in Israel many see economic engagement with China as an opportunity and there is resentment that the United States has placed a ceiling on this. Since the Biden administration announced its industrial policy to subsidize industries that relocate production to the United States, the resentment is even stronger; Israeli firms have been moving away from China and Russia to placate the United States, which is now increasingly adopting protectionist policies, limiting Israeli market access.[19] Still, given Israel's political dependency on the United States, it is clear which side Tel Aviv will choose when given the binary of the United States or China.

The UAE does not face the same degree of vulnerability as Israel. While the United States is its most important partner, Abu Dhabi has more freedom to diverge from Washington than Tel Aviv and has proven willing to chart an independent course where Beijing is concerned. The stalled F-35 deal is illustrative. Long-prized by the Emiratis, the F-35 was at the center of public discussion of the Abraham Accords, with the Trump administration agreeing to sell them shortly after the Accords were announced.[20] In an unsurprising turn, however, the Biden administration linked the deal to the condition of keeping Huawei 5G out of UAE networks due to concerns that it would compromise U.S. security. The deal was suspended in December 2021, with the UAE citing concerns with "technical requirements, sovereign operational restrictions, and cost/benefit analysis."[21] Two months later, the UAE purchased 12 Chinese L-15 trainer aircraft—the largest arms sale between the two countries to date.[22] While the L-15 is by no means an alternative to the F-35, it does indicate the UAE is diversifying its arms suppliers. In late 2022, Presidential Advisor Anwar Gargash gave a speech in Abu Dhabi in which he addressed the tension inherent in maintaining a balance between the United States and China, saying, "The UAE has no interest in 'choosing sides' between great powers…Our trade relations increasingly look to the East, while our primary security and investment relations are in the West."[23] That the Emirates would participate in a coalition that would jeopardize its relations with China is unlikely.[24]

CONCLUSION AND POLICY OUTLOOK

Given these differing orientations towards China, the I2U2 does appear quite different from the Quad and AUKUS, both of which are security-centered and consist solely of states with clearly articulated objections with Chinese ambitions. The cooperation priorities emphasized at the July 2022 I2U2 leaders' summit—food and energy security, green technologies, public health, waste treatment, low carbon development, and modernized infrastructure[25]—address crucial economic and development concerns and present a useful model for further types of engagement in the region. An obvious limitation is Israeli participation, as private capital—even in Negev Forum countries—may be unwilling or reluctant to work with Israeli firms, while Arab countries that have not established diplomatic relations with Israel may be reluctant to engage with the I2U2 brand. Still, in a region preoccupied with economic concerns, it could be a welcome model for innovative policy solutions.

At a time when geopolitics dominates the international system, however, I2U2 will raise concerns in Beijing. Several Indo-Pacific countries have been unwilling to align with the Quad, knowing that it would unnecessarily strain relations with China. Singapore, for example, has studiously avoided any policy that looks like balancing against China. Its Prime Minister Lee Hsien Loong gave a speech in which he warned about the consequences of the strategic competition narrative, saying, "it's far better that China's economy be integrated into the region, than for it to operate on its own by a different set of rules."[26] Chinese officials have made their perceptions of the Quad clear which heightens the transaction costs for non-Quad members. State Councilor and former Foreign Minister Wang Yi described the Quad and U.S. Indo-Pacific strategy as "essentially a strategy for creating divisions, a strategy for inciting confrontation, and a strategy for destroying peace," and claimed it is "doomed to fail."[27] MENA governments, wanting increased trade and investment from China, may see a similar concern limiting their willingness to work with I2U2.

For now, Israel and the UAE are benefiting from increased attention from the United States. During President Biden's trip to Israel in July 2022, the two countries announced the Strategic High-Level Dialogue on Technology, enhancing their partnership on a wide range of "critical and emerging technologies and solutions to global challenges, [such as] pandemic preparedness, climate change, implementation of artificial intelligence, and trusted technology ecosystems."[28] Four months later, the United States and UAE announced the Partnership to Accelerate Transition to Clean Energy (PACE), a $100 billion cooperative framework to invest in clean energy.[29] It certainly appears that the United States is refocusing on engaging more meaningfully with partners that have been working closely with China in recent years, and this is consistent with Secretary Blinken's strategy of shaping the strategic landscape that China has to operate in. At the same time, this will likely invoke responses from Beijing as it works to reshape that landscape to its own advantage.

For I2U2 countries to expand on their early gains, they should bring a wider group of countries into the fold. Like it or not, great power competition is back in the Middle East, and regional governments need to find a way to use it to their advantage. Stronger institutional ties with the states that comprise the Quad, AUKUS, and other like-minded countries like South Korea or France can help address economic and developmental concerns; China is not the only option. Many of these are already significant political and economic actors in MENA and have substantial regional interests and experience, and all of them share concerns about China's growing international behavior. By drawing these countries more deeply into MENA affairs, regional countries can increase opportunities to address their development and economic diversification agendas and have a better chance of shaping the Middle East according to their own visions rather than being geopolitical objects for extra-regional powers.

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TOWARDS A US-BACKED WEST ASIAN SECURITY ARCHITECTURE

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INTRODUCTION

Washington's grand strategy has largely been shaped by containing the threat that China and Russia pose to the United States' global hegemony. Containment also informs the lens through which the United States forms its global posture. The war in Ukraine highlighted the United States' indispensable role as Europe's security guarantor and heightened the importance of the U.S. security umbrella. However, Washington is shifting its sights to the Indo-Pacific region with the objective of preventing Beijing from annexing Taiwan to maintain a favorable U.S. strategic position in the Indo-Pacific and, to a larger extent, Asia.

To focus on the growing dual Chinese-Russian threat, the United States is re-positioning and re-examining its global strategic posture in Europe and the Middle East. The United States is pursuing a multi-theater containment of the China-Russia axis: from inking the Abraham Accords to withdrawing troops from Afghanistan, and from expanding NATO's strategic scope to the Indo-Pacific, to building coalitions such as the QUAD, AUKUS, I2U2, and the Negev Forum. This chapter argues that in West Asia, the United States should build a West Asian system through existing mechanisms, such as I2U2 and the Negev Forum, and aim to include like-minded allies and partners in this system through working groups and new minilateral formats.

THE UNITED STATES IS STILL THE MOST DOMINANT SECURITY PLAYER IN THE MIDDLE EAST

At the Manama Dialogue in 2021, U.S. Secretary of Defense Lloyd Austin stated to an anxious audience, "Let's be clear: America's commitment to security in the Middle East is strong and sure."[1] The need to stress the United States' commitment to the Middle East's security reflected regional allies and partners' uncertainty surrounding the U.S.' strategic position. On the one hand, the United States has preserved the capability and capacity to uphold a dominant military position in the Middle East through a considerable presence of its troops and assets, at least for now. On the other hand, Washington's political commitment to Gulf security is now in question. This is due to shifting sands in the United States as it reckons with the end of the unipolar moment and the Russia-Ukraine war—the latter ushered in a new era of global disorder where states are willing to mobilize limited resources behind historical grievances and geopolitical disputes against U.S. allies and partners.

From a military standpoint, the Trump administration's 2018 National Defense Strategy[2] marked the Pentagon's transition from adopting a two-major war construct[3] to a single-major war construct and force planning design, reflecting that the United States could no longer afford extensive military involvement across various regions simultaneously. This transition continued into the Biden administration's 2022 strategy.[4] Thus, Washington cannot sustain[5] a credible deterrent against, for example, a potential Chinese advance in Taiwan while continuing to provide expansive material support to Ukraine and maintain a significant military footprint in the Middle East—particularly in the Gulf.

The U.S. strategic dilemma contends with other factors, such as an increasingly active Russia and China in the broader Middle East—however, neither China nor Russia currently hold the ability to challenge the United States' dominant security position. In the long term, however, they could pose a strategic threat to the United States' overall regional positioning.

RUSSIA IN THE MIDDLE EAST

The Middle East has been and remains a region of strategic importance for Russia. Despite tensions felt in the region due to its war against Ukraine last spring, Russia has largely been able to maintain a substantial flow of exports to the region and continue strengthening relations with key nations in the Gulf and beyond. Russia's major exports to the Middle East include[6] military equipment, machinery, oil and gas, petrochemicals, metallurgical, and agricultural products. Additionally, the region is the main destination[7] for Russian grain exports, whose importance was underscored by shortages caused by the war. The Middle East also carries geostrategic significance for Russia: the country's only naval base[8] outside the former Soviet Union is located in Tartus, Syria, and is a foundation of the Russian military's power projection in the Mediterranean.

Russia continues to be involved in several significant on-the-ground military engagements in the Middle East that go beyond aiming to check NATO influence in the region. In Syria, the Russian military rushed[9] to the defense of President Bashar Assad during the country's civil war, seeking to not only protect its critical naval base, but also to prevent Syria from entering the U.S. sphere of influence. The Wagner Group was, and continues to be, heavily involved[10] in supporting the Syrian government on the ground, while Russian jets dropped bombs to devastating effect.

The nascent decline of U.S. hegemony in the Middle East has also created new opportunities for Russia. Capitalizing on Gulf states' fears that the United States is no longer a reliable long-term defense partner, Russia has made inroads[11] to supplant the United States in this role by expanding military sales and general defense ties. The decline of U.S. influence has also provided Russia with a wider space to better develop comprehensive relationships with traditional U.S. allies like Saudi Arabia, which has shown a willingness to resist U.S. desires in favor of greater energy cooperation with Russia. Although there is scant evidence of any bilateral policy coordination, China's parallel efforts[12] to challenge U.S. hegemony in the Middle East, and expand its own presence in the region, are for the time being, aligned with Russia's interests and pursuits.

CHINA IN THE MIDDLE EAST

As opposed to Russia, China operates in the Middle East with a lighter touch. For instance, the Chinese military, owing to China's longstanding policy of non-alignment and non-intervention, is not physically involved in any conflict in the region. Instead, China has pursued[13] a careful balancing act when addressing conflicts in the Middle East. In Syria, China strongly opposed regime-change but also placed pressure on Bashar Assad's government to halt its attacks against civilians. In Libya, China has largely remained[14] neutral, choosing to continue its economic engagement with both rivaling sides. Beyond spaces of conflict, Beijing generally pursues[15] a foreign policy of multilateralism and balancing between regional rivals, attempting, for example, to build[16] friendly relations with both Israel and Iran.

China has significant strategic interests in the Middle East. As of 2021, the region was home[17] to six out of China's top ten sources of oil, a resource vital for fueling China's bold aspirations for economic growth. This created a strong interest for China to ensure the free and reliable flow of oil. Regional stability is also integral to China as it seeks[18] to introduce and expand sea and land-based development projects in the Middle East.

China lacks the ability and desire to advance its status in the region through military power projection. This has led Beijing to center development projects in its strategy[19] to expand its influence in the region and challenge U.S. dominance. China has invested[20] billions of dollars in infrastructure, telecommunications, technology, and energy projects across the Middle East as part of its Belt and Road Initiative (BRI). The BRI has served as a platform for China to develop[21] robust ties and strong relationships with most countries in the Middle East, including traditional U.S. allies, such as Saudi Arabia and the United Arab Emirates (UAE). China is also steadily expanding[22] its cultural and intellectual footprint in the Middle East.

The extensive volume and competitive pricing of Chinese weaponry is attractive[23] to countries in the region who are seeking to reduce their reliance on Western defense partnerships and upgrade their military capabilities. China is also capitalizing on[24] Russia's preoccupation with arming its troops in Ukraine to capture a larger share of the arms market in the Middle East, providing early indications of how, in the long-term, relations between China and Russia could transform from alignment to rivalry.

China's mediation of the peace deal between Saudi Arabia and Iran, in March of 2023, represents a new reality in West Asia, namely that China is now a geopolitical and economic force in the region with capabilities to shape bilateral ties and security dynamics. The United States still serves as the primary security guarantor in the Gulf, and the first country to recognize this geopolitical fact is Saudi Arabia. As a prerequisite for normalizing relations with Israel, Riyadh offered Washington the following broad roadmap: security guarantees, backing for a civilian nuclear program, and fewer constraints on U.S. arms sales to the Kingdom.[25]

CONCLUSION AND POLICY OUTLOOK: WHY AND HOW SHOULD THE UNITED STATES RESPOND?

The Middle East presents a fundamental strategic conundrum for Washington: how can the United States do more with less in the region? The region is vital to the United States since it controls and dictates global energy dynamics as well as occupy a strategic geographic position within Eurasia. In recognition of the region's importance, Washington aims to preserve its political and diplomatic clout in the Middle East. However, the United States is also seeking to reduce its long-term military engagements in the region as it shifts the majority of its scarce resources to the Indo-Pacific.

The U.S. response, to growing Chinese and Russian influence in the Middle East, should involve reimagining the borders of the region and building a West Asian system that could reshape the current geopolitical landscape. Despite its limited bandwidth and perceived decline in the Middle East, the United States maintains a strong footprint in the form of bilateral military, security, and intelligence relations with many regional powers. The region also falls under the mandate of the United States Central Command (USCENTCOM), the crown jewel of the U.S. security presence in the Middle East. To sustain its influence and limit the expansion of its rivals' engagement with the region, the United States should capitalize on its existing advantage to advance several policy trajectories.

First, the Middle East should be redefined as West Asia, a region that encompasses the Middle East and South Asia. In doing so, the broader region will benefit from the integration of India as a growing economic and political power into regional geopolitics. This will create avenues for U.S. allies and partners to realign on major issues, including China and Iran.

Second, the United States should encourage and endorse strengthening relations among its Arab and Asian allies and partners, such as the increase in bilateral ties between Asian nations—India, Indonesia, Korea, and Japan—with their Middle Eastern counterparts—Saudi Arabia, the UAE, Egypt, and Oman. Washington should also propose new minilaterals that include incorporating emerging bilateral alignments between Middle Eastern and Asian nations.

Third, the United States should work to integrate France, Italy, and Greece as force multipliers in Washington's West Asia strategy and embrace European minilateral groupings—sometimes developed without Washington—such as the France-UAE-India trilateral format, the Egypt-Greece-Cyprus trilateral format, and the East Mediterranean Gas Forum.

Fourth, the United States should continue to integrate Israel into the Middle East's security architecture through the Abraham Accords and the Negev Forum, and into the USCENTCOM instead of the European Command. These initiatives prime the Middle East for a broader strategic alignment between U.S. allies and partners. The United States should also facilitate the rollout of a regional air defense system that includes Egypt, Saudi Arabia, Israel, the UAE, Qatar, and Jordan. Establishing a U.S.-sponsored regional air defense system could serve as a building block towards a regional security architecture that includes counter-terrorism operations, intelligence sharing, and joint naval exercises in the Mediterranean and Red Seas.

Fifth, expanding I2U2 to include Egypt and Saudi Arabia should be pursued as a long-term strategic objective. Saudi Arabia's resumption of diplomatic relations with Iran should be viewed as tactical de-escalation rather than Riyadh re-configuring its strategic approach. Bringing Egypt and Saudi Arabia into I2U2 will draw these countries closer to the UAE, India, and Israel and allow for increased cooperation and innovation in key sectors. This would signal significant geopolitical changes as these countries have historically adopted different approaches to Russia, China, and Iran. With member states already shifting pre-existing norms—for example, the increase of Israeli weapon sales to India[26]—the addition of Saudi Arabia and Egypt would only embolden these endeavors and lead to the propagation of new security constructs.

The United States must also utilize its status as a global power to synchronize work streams among its Middle Eastern allies and partners and eventually integrate them into a Washington-backed bottom-up internationalized security architecture in the region.

Since the last decade, and as a reflection of growing global disorder, India, Japan, and South Korea have developed strong bilateral ties with U.S. allies and partners in the Middle East independently from Washington. By consolidating the strategies of partners in the Middle East and Asia, the United States will allow for increased focus on the Indo-Pacific without leaving a vacuum in the Middle East.

Pre-existing architectures such as the Negev Forum, Abraham Accords, and I2U2 demonstrate proof of concept and provide structures which Washington and regional partners can build upon or derive inspiration. The success of multi-theater containment of the China-Russia axis is contingent upon a functioning security apparatus in key geopolitical theaters, including the greater Middle East or West Asia. Through collaborative military and security networks, the West Asian powers—from Egypt to India—can play a role in preserving their security. The United States has two options: it can either guide this process and mold it to align with its strategic needs, or it can let the strategic pitch sail right by and watch others take their swing.

ENDNOTES

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RUSSIA-GCC-ASIA ENERGY DYNAMICS: IS THE UKRAINE WAR A GAME CHANGER?

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INTRODUCTION

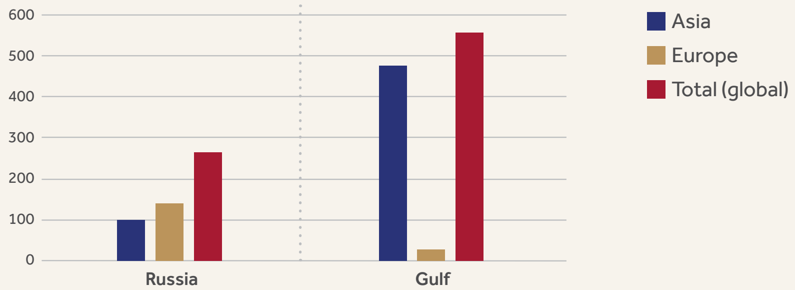
The triangular energy relationship between Russia, the Gulf Cooperation Council (GCC) states, and their Asian customers prior to 2022 can generally be characterized as follows: First, the Gulf states are more important than Russia as suppliers of hydrocarbons to Asia. The Gulf states provide nearly five times more crude oil, almost four times more gas, and one-and-a-half times more refined petroleum products to Asia than Russia (figures 1, 2, and 3). Coal is the only exception (figure 4)—the Gulf states do not export the commodity, unlike Russia, the third largest coal-exporting country in the world, which exports more to Asia (55.3%) than to Europe (35.2%).

Second, the Gulf states are almost singularly focused on the Asian market; comparatively, the discrepancy between Russia's hydrocarbon exports to Europe and Asia is much less stark. For instance, 77.1% of Saudi Arabia's crude oil exports ended up in Asia in 2021 but only 8.3% was directed to Europe; in the case of the UAE, Asia accounted for 98.2% of all of its oil exports and Europe only 0.7%.[1] As for Qatar, Europe accounted for 15% of its liquefied natural gas (LNG) sales in 2021, Asia, with a share of nearly 80%, was still its most dominant market.[2] By comparison, while Europe received 52.6% of Russia's total crude oil exports, Asia was not too far behind at 37.3% (figure 1).

Third, Russia is much more of a one-stop shop for Asia's overall energy needs relative to the Gulf states. Apart from fossil fuels, Russia is also the region's largest extra-regional source of nuclear energy. Its state-owned corporation, Rosatom, is building and/or providing fuel for nuclear power stations in China, Bangladesh, and India. In contrast, there is no coal or nuclear export industry in the Gulf.

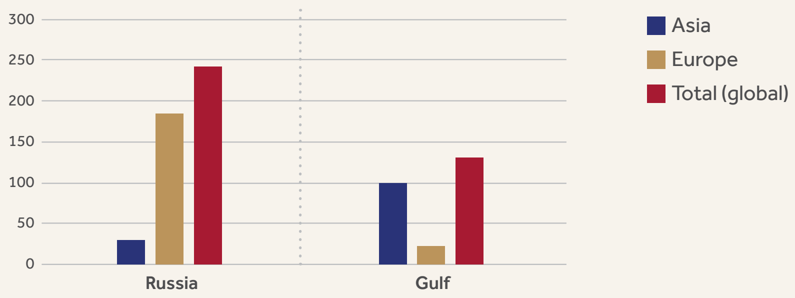
Fourth, at a country level, China has been the key theatre of competition for oil and gas suppliers from Russia and the Gulf (as well as others from Australia and the United States). Russia's significance as a source of imported oil (crude and petroleum) for China doubled from 7% to 15.1% between 2010 and 2019, partly due to oil-for-loans deals with China in the wake of the post-Crimea sanctions; Saudi Arabia's share remained around 14–16% during that period.[3] Consequently, they take turns as China's top and second largest supplier of imported oil. As for gas, Russia had been playing catch up with Qatar but finally surpassed it in 2021. In 2019, Russia accounted for less than 5% of China's gas imports but its share rose to almost 10% in 2021, thanks to initial flows from the first dedicated Russia-China gas pipeline, known as Power of Siberia; Qatar's corresponding share was 7%.[4]

Figure 1: Crude Oil Exports from Russia and the Gulf, 2021 (in millions of tons)



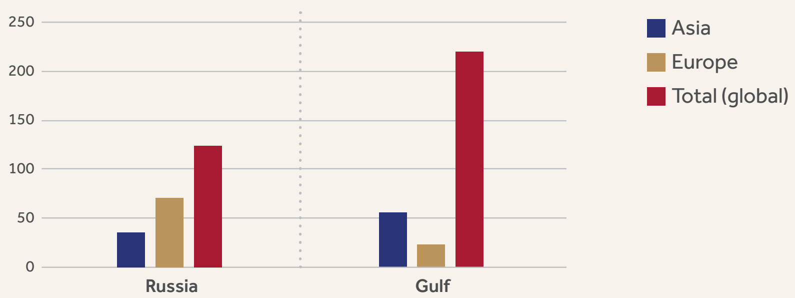
Note: Data here is for the three Gulf states: Kingdom of Saudi Arabia, the UAE, and Kuwait.
Source: BP, "Statistical Review of World Energy 2022 | 71st Edition," June, 2022.

Figure 2: Natural Gas (Pipeline and LNG) Exports by Russia and the Gulf, 2021 (in billions of cubic meters)



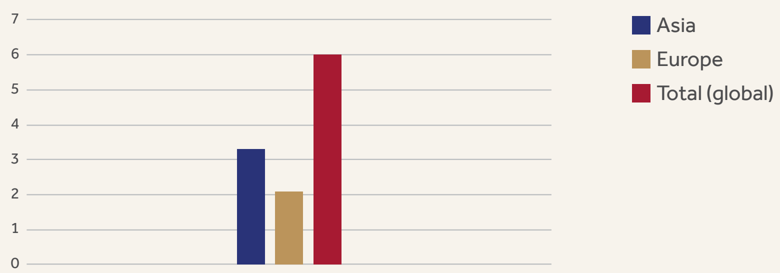
Data here is for the three Gulf states: Qatar, the UAE, and Oman.
Source: BP, "Statistical Review of World Energy 2022 | 71st Edition," June, 2022.

Figure 3: Refined Petroleum Exports by Russia and the Gulf, 2021 (in millions of tons)



Note: Data here is for the six GCC states.
Source: Chatham House, "resourcetrade.earth," 2021.

Figure 4: Coal Exports by Russia, 2021 (in exajoules)



Source: BP, "Statistical Review of World Energy 2022 | 71st Edition," June, 2022.

WHAT IS CHANGING

The Russia-Ukraine war of 2022 intensified an energy conflict between Russia and Europe that began in 2005 but escalated during the last quarter of 2021, resulting in higher-than-average prices for gas in Europe prior to the invasion. A range of weapons have been deployed, including self-sanctions, gas pipelines sabotage, financial sanctions, release of oil from strategic reserves, price caps, a ban on shipping insurance, and a ban on European imports of Russian seaborne crude and petroleum products. Dramatic changes underline the recalibration of import and export decisions in global energy flows, including in Asia.

Increase in Russian Energy Exports to Asia

First, Russia has re-directed even more of its energy flows to Asia since its hydrocarbons were shunned in Europe. The volume of Russia's October crude oil exports to non-EU and non-G7 countries in Asia increased from 13% to 52% in 2021 and 2022.[5] Petroleum products from Russia that were traditionally sold to Europe are also flowing mostly to Asia. For example, in September and October 2022, Asian imports of Russian residual fuel oil used by power stations and ships were almost three times European volumes.[6] Going forward, developing countries in Asia—such as Pakistan, priced out of LNG by Europe—are expected to turn increasingly to discounted Russian fuel oil or coal for their power plants.

Asia as a recipient of the majority of Russia's crude oil and product sales, in contrast to pre-2022, is likely to be permanent for several reasons. One is that sanctions, once imposed, tend to be sticky and difficult to remove. Indeed, there is unusually strong consensus among political and business leaders in Europe to never again be as energy dependent on Russia. Except for small volumes of Russian LNG and reblended or relabelled Russian oil, Russia is highly unlikely to ever regain its dominance in Europe.

In addition, the Gulf states appear willing to cede some Asian market share to Russia in view of new opportunities opening to non-Russian hydrocarbon sources, and as a form of 'side-payment' to keep Russia in OPEC+. This is because even with the loss of oil production due to sanctions—estimated to be between 0.85 and 1.4 million barrels per day (bpd) during Q1 of 2023—Russia will still be the second-largest producer within OPEC+ by far.[7] Therefore, should oil prices nosedive in the future, Russia's cooperation to stabilize prices is essential. In this regard, Gulf states like Saudi Arabia and the UAE have resisted a major price war to undercut Russian inroads into Asia.

Furthermore, some Asian countries will continue to purchase Russian energy if they feel the risk is minimal of secondary EU/G7 sanctions on Russia. India, for example, has been encouraged by U.S. officials to leverage the EU/G7-imposed price cap to seek deeper discounts to further reduce Russia's earnings from fossil fuels and, by implication, impair its ability to finance the Russia-Ukraine war. Japan's purchase of oil from the Sakhalin-2 project has been exempted from the price cap until September 2023. As for China, it is probably too significant geopolitically and geoeconomically to sanction effectively and will hence continue to purchase Russian energy.

Recalibration of Bilateral Energy Relations

The Russia-Ukraine war is also recalibrating certain sets of Russia-Asia energy relations, which may impact GCC-Asia engagement. Space limitations only permit a brief mention of two examples, India and Japan. India's imports of fuel from Russia have been particularly noteworthy, with December's crude imports rising from just over 36,000 bpd in 2021 to over 1 million bpd in 2022; this trend was replicated as well in other months.[8] As a result, Russia accounted for around one-fifth of India's crude imports in 2022, compared to less than 3% historically. Saudi Arabia, India's second largest source of imported oil in 2021, has been unfazed probably because higher Russian volumes were at the expense not of Saudi crude but those from the United States and Africa. Riyadh also believes it will be the 'last man standing' in the global oil market given the cost-effectiveness and lower emission levels of Saudi oil. In contrast, the long-term decline of Russia's oil industry, even prior to the current round of Western sanctions, along with structural problems, such as high freight costs and voyage times between Indian and Russian ports, challenge the long-term sustainability of the Russia-India oil trade.[9]

The Russia-Japan energy relationship is also changing, albeit less perceptibly and rapidly than the Russia-India one. Prior to 2022, Russia supplied almost 9% of Japan's gas needs and was its fourth largest supplier. In turn, Japanese companies played a crucial role in the development of Sakhalin-2, Russia's first LNG plant, as investors—22.5% of the project—and offtakers—60% of the gas is delivered to Japan. The mutual interdependence explained why, despite being labelled by Russia as an 'unfriendly' country due to G7 related sanctions, Japan was allowed to retain its stake in Sakhalin-2. Nevertheless, change is afoot, none of which are advantageous to Russia. For over a decade, Japan has been fashioning a more robust foreign policy that leveraged its alliance with Western partners to counter the perceived threat from China; Russia's ever closer ties with China, a country that poses a 'pacing challenge' to the United States, will strain Russia-Japan relations. Japan's Strategic Energy Plan released in 2021 envisions a larger role for nuclear energy and a correspondingly smaller role for LNG in 2030 (20% of the country's energy mix) compared to 2020 (37%).[10] While this is bad news for LNG exporters, it is much worse for Russia given the relative absence of strategy, financing, and technology to decarbonize its gas sector. Comparitvely, Qatar and the UAE are ahead of the curve.[11]

WHAT WILL NOT CHANGE

Asia as the Key Theatre of Energy Competition

Despite the significant increase in Saudi and UAE oil exports to Europe and the conclusion of a long-term LNG deal between Qatar and Germany (with more to come) since the Ukraine war, Asia will remain the key theatre of energy competition between the GCC and Russia.[12] This is consistent with the pre-2022 trend, highlighted earlier in the chapter. The effects of the Russia-Ukraine war simply reinforce long-term energy trends in Asia as the world's center of gravity for demand growth in oil and gas. This is due to slow progress in electrification of transport, abundant room for coal-to-gas switching in the energy mix, refining capacity expansion in oil-poor countries, population growth, and urbanization, among other considerations.

In contrast, the structural decline in Europe's fossil fuels demand renders the continent a relatively less attractive long-term market for Russia and the Gulf. The war has only served to galvanize already robust efforts to electrify transport and industry and scale-up renewable energy uptake. For instance, prior to the war, the EU had planned to double the share of renewables in total energy to 40% by 2030; since then the target has been raised to 45% and supporting legislation and financing has been forthcoming.

Gulf Dominance of Asia's Energy Market

What also will not change is Gulf dominance of Asian oil and gas markets in the long run. The decline of Russia's oil and gas industry, particularly offshore oil and LNG developments, has been accelerated—but not caused—by the withdrawal in 2022 of Western expertise, technology, and financing as well as by Russia's decision to halt indefinitely almost all pipeline gas flows to Europe. In a best case scenario, it would take Russia at least a decade to raise its gas supplies to Asia to reach its 2021 export levels to the EU, 155 billion cubic metres.[13] However, this assumes Russian access to substantial capital and access to energy technology at a time when sanctions prohibit it.

In China, Asia's largest gas import market, no final decision has been taken to construct a dedicated gas pipeline redirecting western Siberian gas from Europe to China, despite pressure from Russia. Such a pipeline would significantly increase Russia's share of China's gas needs but would still constitute less than 60% of levels historically supplied to Europe. China has long-practiced a well-diversified gas import strategy; while Beijing is happy to take advantage of discounted Russian fuels in the short run, it is unlikely to jettison its long-term energy security strategy by becoming over-dependent on Russia. In other words, Russia is very unikely to replace the Gulf as Asia's—and China's—primary supplier, particularly given the spending spree in the Gulf to increase oil, LNG, and refining export capacity in the coming years to monetize what is widely regarded as the world's last oil boom.[14]

CONCLUSION AND POLICY OUTLOOK

This chapter argues that Russia's energy engagement intensity with Asia is likely to increase in the short and medium terms as a result of its pariah status in Europe, following the Russia-Ukraine war. Nevertheless, Asia as theatre of competition for Russian and Gulf energy exporters—and the position of the Gulf states as the dominant oil and gas suppliers for the region—are rooted in pre-2022 long-term trends that are highly unlikely to change.

The following are policy recommendations that build upon the above analysis. First, Gulf states should explore opportunities that have opened up for them in Europe even though traditionally it has been a non-core energy market. Europe offers avenues in terms of oil arbitrage and reblending as well as long-term LNG contracts, renewable energy investment plays, openings for low-carbon steel, green aluminium, and fertilizers to replace shunned Russian products.[15]

Second, the Gulf states should continue their positive engagement with Russia in OPEC+ and disregard suggestions that Russia be excluded from monthly quotas in response to difficulties with oil production caused by voluntary and official sanctions—consequently increasing the scope for Gulf states to pump more oil at Russia's expense.[16] Despite the expected fall in oil production due to sanctions, Russia will still be the second largest oil producer by far in OPEC+ and it is in the interest of the Gulf states to manage its continued influence over production and prices within OPEC+.

Third, while the allure of discounted and available supplies of Russian oil, coal, and, to a lesser extent, gas is undeniable, developing Asia should be wary of carbon lock-in resulting from energy 'addition' instead of energy 'transition'. In so doing, they could be sacrificing short-term gain for long-term decline in economic competitiveness in a low-carbon world. With new renewables cheaper to build and operate than existing widely used coal plants in Asia and with falling energy storage costs, Asian states, with support from multilateral lending agencies and developed countries, could consider increasing momentum away from fossil fuels.[17]

Fourth, Northeast Asian countries should build on their already robust ties with the Gulf states since they will continue to be the dominant energy suppliers. Joint ventures and investments outside of the oil and gas commodity trade will be especially valued by the Gulf states since these align with their focus on economic diversification. These include tie ups for ammonia/hydrogen in bunkering and steel, parts localization of shipbuilding or solar-module processes in the Gulf, and space cooperation, among other fields.

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INTRA-EAST ASIAN COMPETITION IN THE GULF AND THE INDO-PACIFIC: THE CASE OF JAPAN AND CHINA

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INTRODUCTION

Over the past decade, many have explored the Gulf Cooperation Council (GCC) states' economic shift from the West to Asia, exemplified by discussions of their "Look East" policy and "pivot to Asia."[1] While the GCC states' growing economic ties with Asia, particularly East Asia, contribute to strengthening relations between both sides, existing literature has thus far focused on the GCC states' perspective, leaving intra-Asian dynamics vis-à-vis the GCC states largely unexamined.[2] For instance, little is discussed on how intra-East Asian competition influences East Asian countries' foreign policies towards the GCC states. Furthermore, when discussing East Asia-Gulf relations, intra-East Asian political dynamics are often depicted as homogeneous.

This chapter aims to illustrate the existence and complexity of inter-East Asian competition in the Gulf and the Indo-Pacific by taking the case of Japan and China's competition for energy. The chapter focuses on the following question: How has the Chinese challenge on Japan's energy security impacted Japan's foreign policy towards the GCC states over the past decade?

This chapter argues that in response to the Chinese challenge to Japan's energy security, the Japanese government has worked to incorporate Japan-Gulf relations into its broader inter-regional foreign policy frameworks to sustain its energy security. These frameworks include the conceptualization of the Free and Open Indo-Pacific (FOIP), a concept which is primarily aimed to safeguard the status quo along Japan's oil import sea lane, stretching between Japan and the Gulf region.

JAPAN'S ENERGY SECURITY AND THE CHINESE CHALLENGE

Japan's energy security is closely linked to the GCC states and the oil import sea lane that stretches between both sides. Over the past decades, Japan has heavily depended on the Gulf region for its oil imports. The stable inflow of Gulf oil enabled Japan to enjoy significant economic growth, including economic prosperity witnessed in the 1960s.

However, following the global oil shock in 1973–74, the Japanese government has been striving to enhance its energy security. Such efforts included, first and foremost, the geographic diversification of the country's oil imports.[3] For instance, the country sought to strengthen ties with non-Gulf oil producers such as China, Indonesia, and Mexico, albeit with limited success in the last quarter of the 20th century. Despite these efforts, the GCC states continue to be Japan's major oil providers today. The 2022 Annual Report on Energy released by Japan's Agency for Natural Resources and Energy (ANRE)—a state body leading the country's energy policy—shows that in 2020, the country relied on GCC states for 90.2% of its oil imports, Saudi Arabia (42.5%), the UAE (29.9%), Kuwait (8.6%), Qatar (8.3%), Bahrain (1.5%), and Oman (0.4%).[4]

The figures highlight Japan's continued reliance on Gulf oil, and the importance of the sea lane route stretching from the Gulf region to Japan, passing through the Strait of Hormuz and the Strait of Malacca. Thus, Japan's energy security is highly vulnerable to changes in the status quo along the area in which the route is situated.

When compared with other major East Asian and Western countries, Japan faces the highest Choke Point Risk for its oil imports. This is evidenced, for example, by ANRE's annual energy report Energy Whitepaper 2022.[5] The Choke Point Risk assumes that oil shipments passing through narrow straits are subject to economic and political risks, including blockade exposures and deliberate traffic disruptions. Based on this assumption, ANRE calculated Choke Point Risk for major countries' oil imports (table 1).

Table 1: Choke Point Risk Percentage

	2000s	2015	2019
Japan	177.2	167.6	180.2
South Korea	163.6	175.8	171.4
China	141.8	149.6	151.2
France	71.8	66.3	62.7
Germany	45.0	58.4	55.6
United States	50.0	42.5	29.3
United Kingdom	8.5	11.1	11.1

Source: Agency for Natural Resources and Energy of Japan, Enerugii Hakusho 2022 [Energy Whitepaper 2022], (Agency for Natural Resources and Energy of Japan, 2022), 120, edited by author, https://www.enecho.meti.go.jp/about/whitepaper/2022/.

The calculation was made based on the percentage of imported oil that passes through the world's eight major narrow straits—i.e., the Strait of Hormuz, the Strait of Malacca, the Bab el-Mandeb Strait, the Suez Canal, the Turkish Straits, the Panama Canal, the Denmark Strait, and the Cape of Good Hope.[6] If oil cargos pass through multiple straits, en route to the final destination, the calculation is made per strait/canal, meaning the figure can exceed 100%. Hence, the higher the Choke Point Risk percentage, the more risk the oil import carries. Table 1 highlights that Japan holds the highest Choke Point Risk when compared with major East Asian and Western countries, at least since the 2000s.

Japan's vulnerability has been compounded by China's increasing economic and political influence in the Gulf region and the areas along Japan's oil import sea lane. China's growing influence can be seen through its Belt and Road Initiative (BRI) announced in 2013, the "1+2+3" model for Arab-China cooperation introduced in 2014, and the Arab Policy Paper released in 2016.[7] In the context of the BRI, for example, the initiative is "more closely linking Arab markets and Gulf oil supplies to China's expansive trading network…most BRI investments have accordingly focused on Gulf oil production and key seaports."[8] China's investment in Oman's Duqm development and the UAE's Khalifa Port expansion are just a few of these examples.[9]

More recently, the first China-Arab States Summit held in Riyadh in December 2022, the GCC states' (except Oman) participation in the China-led Shanghai Cooperation Organization as dialogue partners, and the Chinese-brokered Saudi-Iran deal announced in March 2023 highlighted China's increasing engagement in the Gulf. These diplomatic and economic initiatives aim to foster stronger cooperation between China and Arab countries, particularly the GCC states, in various fields, such as energy and trade.

From the Japanese government's perspective, China's looming influence on the Gulf poses a challenge to the sea lane considered vital for Japan's energy security.[10] However, it should be acknowledged that the rise of the Chinese presence is not the only challenge to Japan's energy security landscape. Other challenging factors include Japan's loss of oil concessions from the Saudi side of the Khafji oil field in 2000, the 2009 "Abu Dhabi shock"—referring to the Japan-US consortium's defeat by the South Korean consortium to construct a nuclear power plant in the UAE—and the shutdown of 54 nuclear power plants following the Fukushima nuclear power plant incident in 2011.[11]

Nonetheless, officials in Tokyo have increasingly been interpreting China's expanding role in the Gulf as an external challenge that cannot be overlooked. The Ministry of Foreign Affairs' newly published Diplomatic Bluebook 2023 explicitly states that China's increasing political, economic, and military influence is "the biggest strategic challenge" to Japan's peace and security.[12] Importantly, this perceived challenge invariably played a role in leading the Japanese government to recalculate its foreign policy towards the GCC states.

JAPAN'S RECALCULATIONS OF FOREIGN POLICY ON JAPAN-GULF RELATIONS

Due to its historical dependence on oil imports, the Japanese government has long understood the importance of the oil rich GCC states to its energy security. This is particularly true since the 1973–74 oil shock.[13] Nevertheless, Tokyo's perception of Japan-Gulf relations was largely limited to a framework of bilateral ties, centered around hydrocarbons and economic sectors.[14]

However, China's introduction of the aforementioned diplomatic initiatives, including the BRI in 2013, influenced the Japanese government's decision to recalculate its foreign policy approach towards the GCC states. This recalculation included incorporating Japan-Gulf bilateral relations into Japan's broader inter-regional foreign policy frameworks, primarily FOIP, to boost Japan's energy security against the challenge of China's growing influence in the Gulf and the Indo-Pacific.[15]

Prior to the formal establishment of the FOIP, Prime Minister Shinzo Abe underscored the importance of the Indo-Pacific to Japan's security in a speech titled "Confluence of the Two Seas." Addressing the Indian parliament in 2007, Abe stressed the vitality of preserving the Indo-Pacific's security.[16]

However, the new inter-regional foreign policy repertoire and its momentum soon faded later that year, following Abe's resignation as prime minister due to health issues. Nevertheless, upon his return to the premiership in 2012, the approach regained momentum. Following China's introduction of the BRI in 2013, Abe formally announced FOIP at the Sixth Tokyo International Conference on African Development (TICAD VI) in 2016. He reiterated the strategic importance of the Indo-Pacific region, stating "Japan considers the key to the stability and prosperity of the international community to be…the two free and open seas—the Pacific and the Indian Oceans." [17] The new concept—aimed at bolstering peace and prosperity between Asia, including the Gulf, and Africa by promoting connectivity across the Indo-Pacific[18]—was intended to counter China's new diplomatic initiative.[19]

Within the FOIP framework, the Japanese government recognizes the strategic importance of the GCC states, and more broadly the Middle East, as a hub of hydrocarbon resources. In 2017, for example, former Foreign Minister Taro Kono stated "[As] a hub of energy resources, financial dealings, and commodity distribution, with several critically important maritime chokepoints… the Middle East is vital to our "Free and Open Indo-Pacific Strategy.""[20]

In 2021, his successor Toshimitsu Motegi also emphasized the salience of the region for the FOIP during the Second Japan-Arab Political Dialogue.[21] Moreover, an official in charge of the Gulf at Japan's Ministry of Foreign Affairs affirmed that the Japanese government has been incorporating Japan-Gulf relations into its broader inter-regional foreign policy configurations. He explained that "the Gulf region is strategically important for Japan as it constitutes part of Japan's oil import sea lane. Hence, the enhancement of security in the Gulf region through FOIP is imperative for the Japanese side."[22]

It was in this context that the Japanese Ministry of Defense strengthened its defense cooperation with the GCC states in recent years. Officials from the ministry have attended various multilateral security conferences in the Gulf, such as the Manama Dialogue and the Doha Forum, and the Japan Self-Defense Force (JSDF) has visited Gulf ports and airports (e.g., Oman, the UAE, Saudi Arabia, and Bahrain) to enhance the region's stability and safety against, among others, China's increasing presence and influence.[23] Thus, the Japanese government's focus on safeguarding Japan's energy security has prompted a recalculation of its traditional foreign policy approaches vis-à-vis the GCC, accelerating the integration of Japan-Gulf relations into the concept of FOIP.

CONCLUSION AND POLICY OUTLOOK: SAFEGUARDING JAPAN'S ENERGY SECURITY

This chapter has elucidated the existence and complexity of intra-East Asian competition for energy in the Gulf and, more broadly, the Indo-Pacific. Notably, the findings suggest that despite prevailing assumptions that East Asian countries' interactions with GCC states are homogeneous, the case of Japan and China demonstrates that that is not the case.

This chapter has also revealed Tokyo's changing perceptions of its relations with the GCC states. Amid the Chinese challenge to Japan's oil-import sea lane, exemplified by BRI, Tokyo has increasingly transcended its traditional view of Japan-Gulf relations. This included going beyond the scope of mere bilateral ties by incorporating Japan-Gulf policies into broader inter-regional foreign policy repertoires, particularly FOIP, to enhance its energy security.

As reiterated, China's diplomatic and economic efforts to strengthen ties with the GCC states are becoming increasingly overt in the past decade, ranging from the launch of the BRI in 2013 to the China-brokered Saudi-Iranian agreement in March 2023. In light of this, the Japanese government will likely continue seeking ways to further counter-balance China's looming influence in the Gulf and the Indo-Pacific.

FOIP may serve as a useful tool for such efforts. In fact, on March 20, 2023, Japanese Prime Minister Fumio Kishida announced the country's "New Plan for a 'Free and Open Indo-Pacific'," emphasizing the enduring importance of the Gulf and the Indo-Pacific for Japan's energy security.[24]

Notwithstanding FOIP's growing importance and relevance, it should not be the sole foreign policy approach to secure Japan's national interests. Particularly, given the recent global rise in minilateralism,[i] including in the Gulf and the Indo-Pacific[25] (e.g., the Quad[ii] and I2U2[iii]), it may be effective for the Japanese government to consider minilateral arrangements with the GCC states as a way of gaining greater energy security.[26] These arrangements do not necessarily have to include security elements, which, if incorporated, would stimulate its East-Asian rival, China. Instead, minilateral and purely economic cooperation frameworks with the GCC states, such as I2U2, may well be a new foreign policy approach that can align both Japan's energy security interests and the GCC states' "look East" policy or "pivot to Asia."

Japan's realization, however, requires a rigorous internal policy discussion among the different government bodies in charge of the country's Gulf, energy, or economic policies—e.g., Cabinet Office, Ministry of Foreign Affairs, Ministry of Economy, Trade and Industry, and Agency for Natural Resources and Energy. Moreover, Tokyo needs to identify potential partner states among and beyond the GCC states. Whether Tokyo decides to take these steps or not, one thing is clear: the Japanese government's recent foreign policy orientation and China's continuing effort to increase its influence in the Gulf and the Indo-Pacific suggest that the GCC states will remain important strategic partners for Japan for the foreseeable future.

i. Defined here as "specific, flexible, and informal arrangements involving three or more states and established to address a specific threat, issue, or possibility."
ii. The Quad is an inter-regional security framework between Japan, India, Australia, and the United States to counter-balance China in the Indo-Pacific.
iii. I2U2 was launched in 2021 as an economic cooperation framework between India, Israel, the UAE, and the United States.

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CHINA AND THE GULF: FROM ECONOMIC ENGAGEMENT TO STRATEGIC COOPERATION?

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INTRODUCTION

In March of 2023, Saudi Arabia and Iran signed a historic peace agreement brokered by China. The peace agreement followed the inaugural China-GCC Summit that was hosted by the Kingdom of Saudi Arabia, in Riyadh, in December of 2022. During the summit, China proposed its collective security framework with aims to restore and maintain peace in the region.[1]

While the initiative is significant, its potential for creating a substantive Chinese presence in Gulf security remains unclear. The summit and the Iran-Saudi peace deal come at a time of significant change in the region. Arguably, the United States' gradual retreat from the region has strengthened China-Iran relations and expanded Sino-Gulf economic ties. This chapter seeks to provide a backdrop against which the recently brokered deal can be situated, and to shed light on the potential limitations of China's increasingly strategic engagement with the region. Finally, the paper argues that while China-GCC engagement has provided significant economic gains, Beijing should tread the region with caution as increased political engagement could prove costly.

THE RISE OF SINO-GULF RELATIONS

China's ties with GCC states extend beyond economic engagement and geopolitical interests in the region. Historically, China's engagement was minimal compared to its current status. Diplomatically, the People's Republic of China (PRC) did not engage with Gulf states until 1990, despite Beijing serving as one of the region's primary economic partners.[2] Throughout the 1990s, China made inroads into multiple Gulf states, positioning itself as a prominent investor and energy importer.

Economically, China-Gulf relations have grown significantly since the establishment of diplomatic ties. Namely, the Sino-Saudi relationship is of particular importance and includes political, economic, and military engagement. Saudi Arabia emerged as China's most crucial trading ally in the Middle East and North Africa (MENA) and its top global crude oil supplier, until 2023 when Russia succeeded Saudi Arabia as China's top supplier of oil.[3] Similarly, China ranks amongst Saudi Arabia's most prominent trading partners.[4]

While China's engagement with the Gulf has primarily taken place within the economic realm, several emerging dynamics signal that China-Gulf relations could evolve to increasingly incorporate security elements. The United States' seemingly ambiguous objectives, in the region, have prompted a re-configuration of its Gulf allies and Iran's foreign policies. Gulf officials have long recognized that their alliance with the United States is premised on mutual interests rather than shared ideals. As the United States shifts its focus to the Indo-Pacific—to limit China's role in the region—Gulf states recognize that this shift could potentially come at the expense of the United States' contribution to Gulf security.

However, Gulf leaders continue to prioritize strengthening and maintaining the United States' regional engagement. Several factors indicate that the United States' abrupt retreat from the region is exaggerated. For instance, the United States extended its Defense Cooperation Agreement with the United Arab Emirates (UAE) for an additional 15 years in 2017.[5] However, the United States' shifting foreign policy priorities have undoubtedly paved the way for the Gulf's expansion of ties and engagement with Asian powers, particularly China.

CHINA AND THE GULF: A HISTORY OF ECONOMIC ENGAGEMENT

The Middle East, particularly the Gulf, has grown to hold increasing importance for China. This can be attributed to several factors, most importantly, the region's natural resources—notably energy—which contribute to the growth of China's economy. Moreover, the Gulf also provides access to crucial global sea and road networks connecting China to African and European markets. The Gulf's strategic location has also been instrumental to increasing economic interdependence between China and the GCC, fostering engagement across a host of diverse domains, including energy, trade, and investment. Expansive economic relations have therefore contributed to elevating the Gulf's ties with China to the level of strategic cooperation.[6]

China's exponential economic growth in the late 20th century necessitated pursuing diverse energy outlets to meet increasing demand for oil and natural gas. The Gulf region consequently developed into a prominent partner given its abundant resources and ease of naval access to Chinese ports. China's growing demand for oil and a projected peak, by 2030, of consuming 780 million tonnes per day, signals that energy will continue to constitute the core of China-Gulf engagement.[7]

China has also expanded its investments into Gulf economies. Based on the American Enterprise Institute's China Global Investment Tracker, between 2005 and 2021, the total of Chinese investments and construction projects in the Gulf amounted to $43.47 billion in Saudi Arabia, $36.16 billion in the UAE, $11.75 billion in Kuwait, $7.8 billion in Qatar, $6.62 billion in Oman, and $1.42 billion in Bahrain.[8]

CHINA AND IRAN: A MARRIAGE OF CONVENIENCE

In 2021, a 25-year cooperation pact was signed between China and Iran.[9] The strategic agreement boosted political ties, with both sides pledging to enhance bilateral collaboration, particularly economic cooperation, over a period of 25 years.[10] To that end, during President Raisi's visit to Beijing in February 2023, China and Iran officiated 20 agreements across various fields reinforcing their commitment to strengthening and expanding ties.[11]

Within the next 25 years and through frameworks set by the cooperation pact, China has pledged $400 billion of investments in Iran's oil, banking, and infrastructure sectors.[12] The pact is also set to entail increased collaboration within nuclear energy, technology, and defense. However, the sanctions imposed on Iran will pose significant challenges to the implementation of these projects, which will complicate the allocation of the $400 billion fund.

While China's presence in Iran is perceived favorably by most, there remains a fraction of Iranians that are apprehensive about China's increasing presence. Many in Iran are concerned about the extent to which Chinese products have penetrated the Iranian market.[13] Bilateral trade between China and Iran extends to multiple markets and commodities; however, Iran mainly imports industrial vehicles and engines from China, while China's imports from Iran are oil-based.[14]

Iranian officials view the cooperation pact with China as a promising one; however, many worry that the pact was borne out of economic desperation, due to the toll Western sanctions have taken on the Iranian economy, which would lead to a "debt trap." The Iranian Financial Tribune announced that Iran will be receiving a loan from China amounting to 15.3 billion yuan, to be paid back as 21.88 billion yuan.[15] This has fueled concerns around Chinese loans potentially harming the Iranian economy further, as the Iranian government might face difficulties re-paying its debt.

The robust alliance between China and Iran can be attributed to similarities on political, ideological, and cultural levels. Iran and China both take pride in their national heritage and historical contributions to science and literature. Furthermore, both countries have had multiple conflicts with the West, allowing for increased cooperation strategically, politically, and economically.

Several factors have paved the way for China's growing engagement with the Gulf and, as cooperation between China and Iran increases and relations strengthen, a number of important questions pertaining to China's relationship with the Gulf states arise: critically, the question of how China's evolving relations with the Gulf will impact China-Iran ties. Furthermore, what will China's increased presence in the region mean for other global powers, such as the United States? Several factors are pushing Gulf states to expand their alliances and partnerships beyond the United States. Chief amongst those factors is the United States' nascent shift towards the Indo-Pacific, which could potentially come at the expense of its embedded security presence in the Gulf.

China's engagement with the region has thus far mainly taken place through the process of building relations rather than creating alliances. As its ties with the Gulf developed, Beijing was cautious to strike a balance between fostering closer relations with Gulf states while not jeapordizing its ties with other neighbouring countries. For example, China was able to maintain a solid relationship with Israel, while simultaneously developing its relationship with Iran and the Gulf.[16] It brokered an agreement between Saudi Arabia and Iran, two regional rivals, to avoid being intertwined in the region's most salient religious and ethnic conflicts. Gulf states have adopted a similar approach, in their choice to avoid conflict, by furthering economic engagement with China while marginalizing accusations, relating to the Uyghurs, against Beijing.

CHINA-GULF ENGAGEMENT BEYOND ECONOMICS: BEIJING AS A MEDIATOR

While China primarily occupied the role of economic partner in its relations with the Gulf, it has recently increased its involvement within both global and regional mediation efforts. This has been demonstrated by China's mediation in the ongoing Russia-Ukraine war. China is leveraging its position as an integral ally to Russia and actively calling for resolve between both sides. In a phone call between Chinese President Xi Jinping and his Ukrainian counterpart Volodymr Zelensky, in April of this year, Jinping underscored the importance of a neogitated settlement, pledging China's commitment to facilitating this settlement by sending its Special Representative on Eurasian Affairs to Ukraine.[17]

Within the region, China facilitated the unprecedented Saudi-Iran peace deal. The deal, albeit still in its early stages, has prompted the region to rethink its past alliances. Historically, a significant share of the Arab states' peace agreements were brokered by the United States. Today, China has cemented its place as a prominent player in the region, amongst the GCC states, namely, Saudi Arabia, and Iran.

For China, brokering peace agreements and mediation efforts, whether in Asia, or the Gulf, presents five critical opportunities: gaining leverage, the implementation of its collective security framework that calls for regional integration, sub-regional cooperation, dynamic trade agreements, and most importantly resolving, or reducing, disputes that threaten political and economic stability. In doing so, Beijing is able to present itself as a significant international player, as well as securing its interests in the region.

CONCLUSION AND POLICY OUTLOOK

China's aspirations for integrating MENA states into the Belt and Road Initiative (BRI) have catalyzed China's engagement in regional political and economic affairs. The two most potent GCC states—Saudi Arabia and the United Arab Emirates—will continue to constitute the pillars of China's Middle East economic policy due to China's sustained demand for energy resources.

Considerable shifts in regional dynamics will create avenues for China to increase its strategic engagement with the Gulf. However, the core will continue to take place through economic interests. As for China's relations with Iran, the recent peace deal between Saudi and Iran represents China's ability to reconcile regional rivals and will likely strengthen existing relations between Beijing and Tehran; and potentially foster greater trilateral engagement between Beijing, Tehran, and Riyadh. The main frameworks that will consolidate China's engagement with the region, namely the Gulf and Iran, are the BRI and its collective security framework.

Nonetheless, the peace deal will not overdo decades of hostile relations between Saudi Arabia and Iran. The durability of the deal will therefore serve as a litmus test for China's ability to act as a mediator and significant player in regional politics. To establish that role, China should limit its involvement in the Gulf's, highly complex and contentious, domestic politics. Greater involvement, beyond the role of mediator, risks embroiling China in conflicts, such as those with Israel. Increasing China's direct involvement in regional politics could also increase the risk of a confrontation with the United States. China's role should therefore be refined and limited to securing its, mainly economic, interests in the region.

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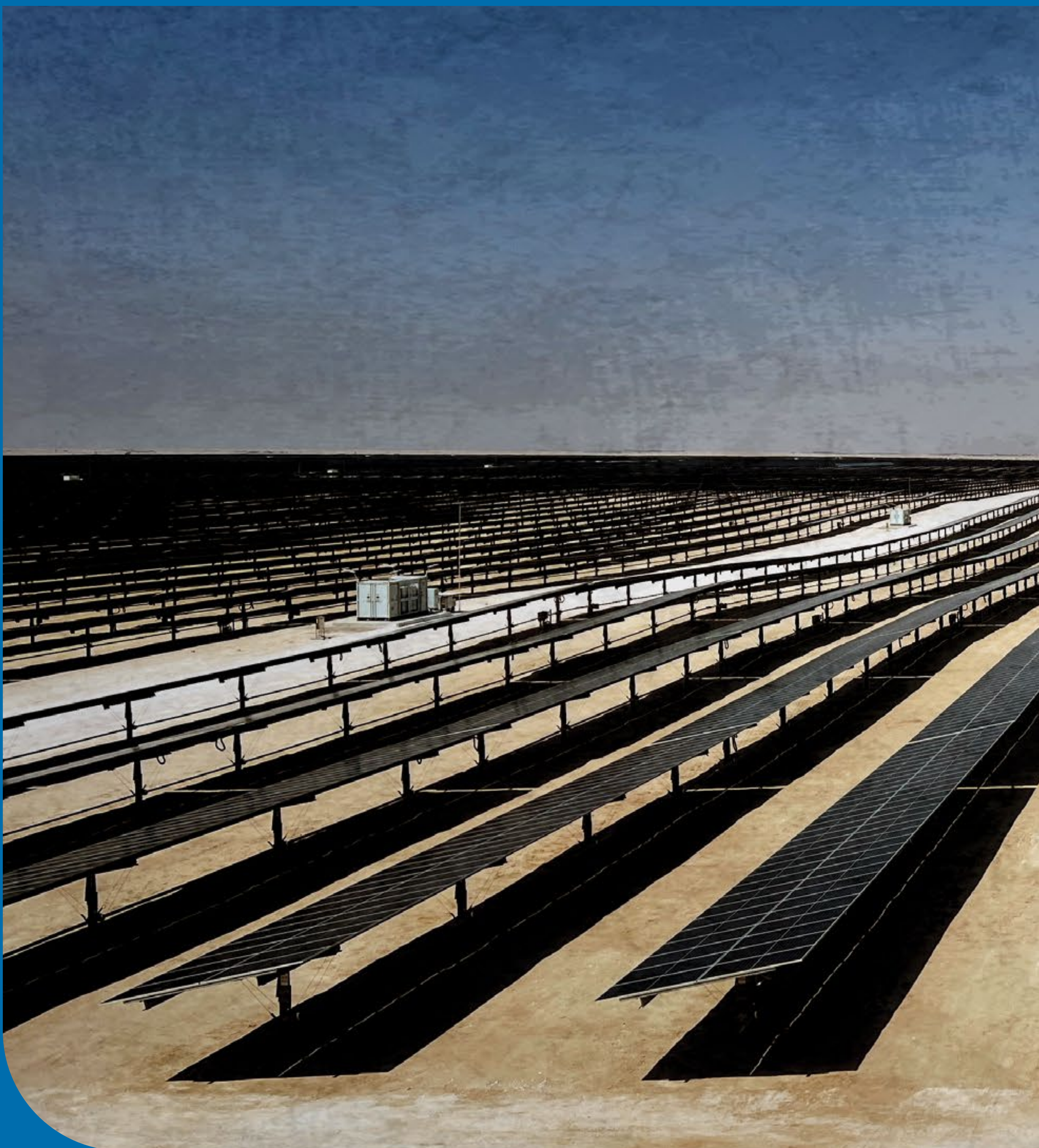
SECTION TWO
SOCIO-ECONOMICS



Solar Panels are seen at the Al Kharsaah solar plant project, in Al Kharsaah, Qatar, October 18, 2022. REUTERS/Imad Creidi

GCC ENERGY IMPORTS BY ASIAN POWERS: NAVIGATING THE GLOBAL ENERGY MARKET AND GEOPOLITICAL CHALLENGES[i]

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INTRODUCTION

The Asian market is of critical importance to the future energy export calculations of the Gulf Cooperation Council (GCC), where east and southern Asia constitute the main export destination of GCC energy exports and has the largest potential for growth. The energy trade between the GCC and Asian powers is central to the GCC's political economy, but this relationship must adapt to the major geopolitical shifts that are currently taking place. This chapter aims to provide a comprehensive analysis of GCC energy imports and to identify policy-relevant conclusions for the GCC in light of key global energy market trends and challenges with regard to Asian powers.

THE EVOLVING NATURE OF ENERGY GEOPOLITICS

Russia's partnership with key energy-consuming countries has evolved significantly in recent years. Russia has historically been a major provider[ii] of energy and natural gas to Europe and Asia,[1] however, hostilities between Russia and the EU heightened following the introduction of sanctions in response to Russia's seizure of Crimea in 2014.[2] It was the attack on Ukraine in 2022 that profoundly altered this partnership. Preceding the 2022 conflict, Russia's petroleum oil and gas output generated 10.1 million barrels per day (b/d) in 2021, of which 4.7 million b/d (45%) was shipped; China got 1.4 million b/d, and the Netherlands and Germany received 1.1 million b/d combined.[3] In terms of natural gas, Russia generated 24.8 trillion cubic feet (Tcf) and shipped 8.9 Tcf in 2021, with 84% transported via pipes and the remainder as compressed liquefied natural gas (LNG). With nearly 75% of Russia's total natural gas shipments, Western Europe was the biggest regional consumer; Germany, Turkey, Italy, Belarus, and France obtained the bulk of natural gas shipments. China and Japan were among the top ten locations, making for roughly 10% of Russia's natural gas shipments, or 882 billion cubic feet.[4]

The 2022 Ukraine war has forced the EU to break from this relationship and has necessitated Russia to look for alternative export markets. This has led to increased competition for market share between Russia and the GCC nations in the Asian energy market, decreasing the need for Asian reliance on GCC oil and gas. This compounds the rise in competition from Australia and the United States for market share in the Asia region.

Russia has also become increasingly involved in the energy sector in other geographic regions as a result of the breakdown in this energy trade with the European Union due to sanctions. This extends to central and southern Asia. Russia's pivot towards China dates back prior to the 2022 Ukraine war, with the two countries forming an increasingly cooperative relationship, most notably following the inauguration of the East Siberia–Pacific Ocean (ESPO), and the energy deals signed in 2013 and 2014.[5] This relationship has been beneficial for both countries, with China gaining access to much-needed energy resources and Russia gaining access to a large and growing market. The increasing energy cooperation between Russia and China has significant implications for the global energy market and the geopolitical landscape. Furthermore, Russia has expanded its energy exports to other countries in the Asian region, including India and southeast Asian countries. Russia has a well-established energy relationship with India, and its bilateral growth in energy trade has seen exponential growth

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ii. Prior to the Russia-Ukraine war, around 75% of Russian natural gas was exported to Europe, and around 25% of crude oil and condensate. This accounted for around 27% of total EU-27 imports of oil and 45% of natural gas needs in 2019.

since the Russia-Ukraine war in 2022.[6] It has expanded its energy exports to southeast Asian countries in addition to Turkey,[7] with the announcement of the construction of a new pipeline, Power of Siberia 2, which will transit through Mongolia to China, and will provide up to 50 billion cubic meters of gas a year.[8]

Russia's expanding energy exports to Asian powers are likely to have significant implications for the GCC, which is also a major energy exporter to these markets. Russia can be a more attractive option for these countries due to their energy security calculations and potential for discounted rates, leading to more competition for the GCC in Asia. To respond to this trend, the GCC will need to consider ways to enhance the competitiveness of its energy exports, such as investing in innovative technologies or diversifying its energy export mix. Additionally, the GCC should consider ways to strengthen its relationships with key energy-consuming nations in Asia to maintain its market share in the global energy market and mitigate the impact of increased competition from Russia.[9] This could involve the blue energy sector, to appeal to countries that are increasingly looking for sustainable and clean energy options. This will allow them to differentiate a proportion of their export portfolio from Russia.

Overall, Russia's expanding energy exports to Asian powers adds to the long-term challenge for GCC states to maintain market share in the context of competition and the changing energy mix away from hydrocarbons to renewables.[10] To address this challenge, the GCC should take a multifaceted approach that includes enhancing the competitiveness of its energy exports, strengthening relationships with key energy-consuming nations, and investing in renewable energy sources. By taking these steps, the GCC nations can help to mitigate the impact of increased competition from Russia, Australia, and the United States and maintain their position in the Asian energy market.

THE GLOBAL ENERGY TRANSITION

The global energy transition presents the GCC nations with a multifaceted challenge with significant ramifications for their trade relationships with key Asian powers. As the world moves towards a future characterized by greater use of renewable energy and a commitment to carbon neutrality, it is imperative to consider the historical precedent established by previous energy transitions. The transition from wood to coal and from oil to gas, for instance, caused significant political, social, and economic upheaval.[11] The ongoing transition to renewable energy is likely to have a transformative impact on the GCC's economic base and their multilateral relationships,[12] which presents both opportunities and challenges.

The GCC states have made notable strides in their efforts towards economic diversification, yet they remain heavily dependent upon their energy exports as a primary source of revenue, economic growth, and structural deficiency mitigation.[13] In terms of monetizing their existing oil reserves and diversifying their economies, the transition to renewable energy poses both a significant challenge and opportunity to these states.[14] Blue hydrogen/ammonia as a viable and less costly alternative to green hydrogen/ammonia is a significant development in this context. Producing blue hydrogen, which is partially derived from hydrocarbons, is less expensive than producing green hydrogen, which is fully derived from renewable energy sources. Qatar, and to a lesser extent Saudi Arabia, the UAE, Oman, and Kuwait, is well-positioned to enter the blue hydrogen market as a supplier to countries such as Germany,[15] South Korea, and Japan due to its access to inexpensive natural gas. Blue hydrogen has the potential to be a transitional "premium fuel" in the absence of affordable green renewable energy.[16] Despite this, it needs to be acknowledged that there are wide variances between GCC states in terms of policy frameworks, their strategies—with regard to both the blue and green hydrogen sectors—and their capacities to export blue/green ammonia via sea routes.[17]

The GCC states have an opportunity to utilize their existing energy infrastructure to facilitate the transition to renewable energy. The GCC countries possess the resources and know-how in their energy sector to invest in the research and development of new technologies that can be used to increase the efficiency and scalability of renewable energy. However, it is essential to critically evaluate the potential of these opportunities, as GCC countries face not only the challenges of monetizing their existing oil reserves as highlighted above,[18] but also the challenges posed by their economies' slow pace of diversification, which makes the transition to renewable energy more difficult.[19]

Furthermore, as the GCC countries navigate this transition, they must consider its social and political implications given their political economy.[20] In the case of Qatar, it can be concluded that its importance from a political economy perspective to the global economy is set to grow further, given its leading position in the gas sector. Other regional states that are able to develop a profitable green/blue energy sector will also reap economic benefit. Unless the repositing of the energy sectors is done successfully in the context of the transition to renewable energy, it has the potential to pose challenges to existing power structures and redistribute wealth among GCC states through upsetting an entrenched social contract. Policymakers need to consider these implications and develop equitable policies that adapt to this new context, while also diversifying the revenue sources that the state relies on particularly through repositing the energy sector and developing new value chains. In addition, GCC states will need to consider the environmental and sustainability implications of their energy policies, not only in terms of reducing carbon emissions, but also in terms of water and land use, as well as their impact on biodiversity.[21]

In a final analysis, the GCC countries face both obstacles and possibilities as a result of the global energy transition. To effectively manage this shift, they need a clear and strategic strategy that includes plans for monetizing current hydrocarbon supplies, profiting on blue hydrogen/ammonia, and repositioning their energy sector.[22]

THE STRATEGIC POTENTIAL OF THE GCC BLUE ENERGY SECTOR

The GCC blue energy sector, which includes blue ammonia and blue hydrogen, is a fast-emerging subsector of the energy industry that has attracted increased interest because of its potential to diversify its energy exports in the context of the global energy transition. Blue ammonia and blue hydrogen can serve as alternatives to fossil fuels in a variety of applications, including power generation, transportation, and industrial processes.

The GCC region has significant potential in hydrogen/ammonia and solar, and is therefore an ideal location for the production of blue energy given its existing hydrocarbon resources.[23]

Additionally, the region is home to a number of major energy companies, such as Qatar Energy,[24] which have made significant investments in the development of blue energy, particularly blue ammonia.[25] Qatar Energy announced in 2022 its intention to construct the world's largest blue ammonia facility, Ammonia-7, which will use carbon capture and storage facilities to capture and sequester approximately 1.5 million tons of CO2 per year.[26] The Ammonia-7 train will also be powered by more than 35 MW of renewable energy from a photovoltaic (PV) solar power plant. This opens up opportunities for collaboration with China, given its leading position in the solar sector. This aligns with a regional trend in demand for cleaner energy sources in the region that are further explored in other chapters in this book, as countries strive to reduce emissions and meet international climate goals.

The GCC region will necessarily play a critical role in satisfying the ongoing hydrocarbon needs of key Asian nations such as China, Japan, and India.[27] This will be in addition to building on existing relationships, particularly with China, as bilateral relationships have shown progressive and multifaceted growth.[28] As the global energy transition gathers momentum and the demand for renewable energy sources rises, the GCC will need to adapt its energy export strategy to meet the evolving energy needs of these Asian powers. Utilizing blue ammonia and blue hydrogen could assist Asian powers in reducing their carbon emissions and meeting their energy needs in a more sustainable and environmentally friendly manner. Therefore, the GCC has an opportunity to prioritize its production and export of blue ammonia and blue hydrogen as a response to this anticipated shift in demand.

To capitalize on the opportunities presented by the expansion of the blue energy sector, the GCC must continue to invest in the development of renewable energy projects and the infrastructure required to support the production and export of blue ammonia/hydrogen.[29] This is likely to entail the development of new renewable energy facilities, primarily solar and carbon capture and storage, as well as the transport and export infrastructure required for these energy sources.[30] The GCC's ability to address these challenges and capitalize on the opportunities presented by the global energy transition will be crucial to its success in the blue energy sector.

In addition, the GCC region should consider implementing policies, governance, and regulations that encourage the growth and development of both the green and blue energy sectors.[31] It is observable that the UAE and Saudi Arabia are seeking to take a lead in these sectors, while Qatar is more focused on blue ammonia.[32] This could include financial incentives for companies investing in the sector and regulations to promote the use of blue ammonia and blue hydrogen in a variety of industries. In addition, the GCC should investigate opportunities for collaboration and partnership with other nations and organizations in order to share knowledge and expertise and promote the development of the blue energy sector.

In a final analysis, the GCC blue energy industry offers the GCC countries significant potential to diversify their economies, lessen their reliance on fossil fuels, and play a vital part in the global energy transition.[33] It would also capitalize on the identified demand for blue energy in key Asian countries.[34] The GCC can take advantage of this opportunity and support a more sustainable and environmentally friendly global energy future via strategic investments and policy actions.

CONCLUSION AND POLICY OUTLOOK

In conclusion, this chapter has analyzed Asian powers' energy imports from the GCC region, with a special focus on the evolving dynamics of the global energy transition, the rise of blue energy, and Russia's changing position in energy geopolitics. The results show that the Russia-Ukraine war had a significant effect on Russia's ties with key energy-consuming countries, resulting in greater rivalry for market share between Russia and Gulf nations. The chapter also emphasizes the GCC region's substantial potential for its national energy firms to further engage in the growth of blue and green energy sectors. In light of these key findings, three specific policy recommendations have been identified:

Firstly, the GCC states should investigate opportunities to diversify and enhance the competitiveness of their energy exports. This will be achieved particularly in the blue energy sector, through the development of new renewable energy facilities, primarily through solar and carbon capture and storage, and transport and export infrastructure. This requires targeted investments in renewable energy projects development and the required infrastructure to support the production and export of blue ammonia and blue hydrogen.

Secondly, the GCC states should consider diversifying their energy export strategy to meet the evolving energy needs of Asian powers to maintain market share. They should investigate opportunities for collaboration and partnership with key Asian countries, particularly Japan and South Korea, to develop logistics value chains to support the blue and green energy sectors.

Finally, it is recommended that GCC states should implement policies and regulations encouraging growth and development of the blue and green energy sectors. This could include financial incentives for investors and support for R&D. Regulations to promote the use of blue ammonia and blue hydrogen in a variety of industries could be developed to reduce emissions and support demand from the sector.

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THE IMPLICATIONS OF THE ENERGY TRANSITION ON ASIAN POWERS AND THE GCC: FROM THE PERSPECTIVES OF JAPAN AND SAUDI ARABIA

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INTRODUCTION

In recent years, the energy transition's momentum has been rapidly growing around the world. October 2018 marked a key turning point when the Intergovernmental Panel on Climate Change (IPCC) published a report emphasizing the importance of achieving net-zero emissions by 2050 to limit global warming to 1.5°C above pre-industrial levels.[1] The 2021 United Nations Climate Change Conference in Glasgow (COP 26) heightened calls for urgent climate action. Globally, many countries have committed to net-zero targets, including major Asian countries and most of the Gulf Cooperation Council (GCC) countries.[i]

To achieve such ambitious goals and facilitate the energy transition, major Asian countries and the GCC are focusing on increasing their capacity for developing clean energy. How will this affect Asia and the GCC's economies? Moreover, how will it affect the relationship between Asia and the GCC? What role can major Asian countries play in the GCC's energy transition? Through focusing on the case of Japan and Saudi Arabia, this chapter seeks to answer these questions.

IMPACTS OF THE ENERGY TRANSITION ON ASIAN POWERS AND THE GCC

Impact on Asian Powers

The global trend towards decarbonization has a major impact on Japan's energy structure. In 2021, coal accounted for the second-largest share (31%) of sources for power generation after natural gas.[2] Japan's extensive reliance on fuels, that emit greenhouse gases, warrants increased effort to reduce the country's use of greenhouse gas (GHG)-emitting fuels. Japan has already developed one of the world's most efficient coal power generation systems,[3] but further efforts are needed to reduce GHG emissions.

To address this issue, Japan has proposed the complimentary firing (co-firing) of ammonia in coal power generation. Co-firing uses coal and biomass to reduce emissions. While ammonia is a clean energy source, existing technology does not currently allow for it to be used on its own as fuel for power generation. To address this gap, Japan plans to co-fire 20% ammonia with coal-fired power generation, expecting demand for ammonia to be 3 million tons per year by 2030.[4] Japan is also trying to increase the introduction of hydrogen in the form of 30% co-firing with gas-fired powerplants and dedicated hydrogen firing.[5]

Impact on the GCC

Since GCC economies still largely depend on fossil fuel export revenues, the energy transition is projected to impact Gulf economies. However, this will likely prove untrue due to two main factors. First, projections of a sharp decline in oil demand in the coming decades, such as the, often cited, International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario, are overstated. Under the Organization for Petroleum Exporting Countries' (OPEC) scenario, demand for oil will continue to rise until 2045,[6] and under the reference scenario of the Institute of Energy Economics, Japan (IEEJ), it continues to rise until 2050.[7]

i. Japan is aiming for 2050, with 46% reduction in GHG by 2030 compared to 2013. In Asia, South Korea has also set for 2050, while China and India have set for 2060 and 2070, respectively. In the GCC, Saudi Arabia is aiming for 2060, reducing its GHG by 278 million tons per year by 2030. Kuwait and Bahrain are also aiming for 2060, while the UAE and Oman are set for 2050.

Second, GCC countries are undergoing a nascent shift to new energy sources, specifically Saudi Arabia and the United Arab Emirates (UAE). Saudi Arabia has traditionally used a relatively high percentage of oil as fuel for power generation—which has limited the country's oil export capacity—but aims to produce over half of its electricity from renewable energy sources by 2030, which will likely increase the Kingdom's capacity for oil exports.[8] In addition, there are a number of projects, aimed to increase hydrogen production, underway in the UAE, Saudi Arabia, and Oman. These countries could count on export revenues from hydrogen to some extent, from 2030 onwards.[9]

Impact on the Relationship Between Asian Powers and the GCC

Given the aforementioned factors and conditions, the relationship between major Asian countries and the GCC is expected to remain strong in the coming decades. As previously noted, Japan's demand for both ammonia and hydrogen[ii] in 2030 is expected to be 3 million tons per year, while Saudi Aramco—Saudi Arabia's national oil company—plans to produce up to 11 million tons of blue ammonia annually by 2030.[10] In addition, the Saudi government has announced plans to produce 4 million tons of clean hydrogen annually.[11] Thus, ammonia and hydrogen produced in Saudi Arabia and other GCC countries will be able to partially meet[iii] Asian demand in the coming decades.[12]

On the other hand, even if Japan and other major Asian countries' fossil fuel imports were to decline somewhat towards 2050, it is unlikely that they would decline significantly. While the European Union (EU) and other countries have committed to manufacturing zero-emission vehicles by 2035, none of the major Asian countries are attempting to make such a rapid shift. In addition, petroleum continues to be an important raw material for petrochemicals. Of all fossil fuels, natural gas has the lowest GHG emissions. If natural gas can be combined with carbon capture, utilization, and storage (CCUS) technologies, it can continue to be used as a carbon-free fuel source. All of these factors suggest that the importance of energy to economic relations between Asian powers and the GCC will not significantly change until at least 2050.

THE ROLE OF ASIAN POWERS TOWARDS THE GCC'S ENERGY TRANSITION

Cooperation on Hydrogen and Ammonia

There are many ways in which the GCC and the Asian powers can cooperate in the energy transition, one of which is to establish blue hydrogen and ammonia supply chains. In September 2020, during the G20 Energy Ministers meeting in Saudi Arabia, Saudi Aramco and the IEEJ announced they had conducted the world's first shipment of blue ammonia, from Saudi Arabia to Japan.[13] All of the processes, including ammonia production and carbon dioxide capture, were carried out at existing facilities of Saudi Aramco and its subsidiary petrochemical company Saudi Basic Industries Corporation (SABIC). The blue ammonia transported was used in "zero-carbon power generation."[14]

The shipment's success signaled to Saudi's Aramco that expanding the production of blue ammonia production was a viable option. Following this milestone, Korean chemical compa-

ii. Blue ammonia is composed of nitrogen and blue hydrogen and produced by reforming natural gas in combination with CCS technology—where carbon dioxide is captured and stored underground. Blue ammonia is easier to transport than blue hydrogen.
iii. The importance of Asia-Middle East relations will not change in 2050 under the Circular Carbon Economy/4R scenario, which is based on the concept of a circular carbon economy proposed by Saudi Arabia and endorsed by the G20 summit in 2020, constituting four key components; Reduce, Reuse, Recycle, and Remove (4R). This scenario was made by IEEJ and assumes that decarbonization technologies are used to their fullest extent.

ny, LOTTE Fine Chemicals, is now working with Saudi Aramco and others to increase the scale of commercial shipments of blue ammonia. In December of 2022, SABIC and Aramco facilitated the first certified, by German-based TÜV Rheinland, shipment of blue ammonia.[15] Korea's LOTTE Fine Chemical received a shipment of 25 thousand metric tons of blue ammonia.

The amount of ammonia transported has also increased significantly from 40 tons in 2020 to 25 thousand metric tons in 2022. It is interesting to note that in Japan, ammonia is primarily imported by electric companies for power generation; however, South Korea's Lotte Fine Chemical is a chemical company suggesting that Japanese chemical companies could explore opportunities to import blue ammonia from Saudi Arabia.

Cooperation on Renewable Energy

Renewable energy is undoubtedly one of the main components of the energy transition, and both the GCC and Asian powers are focusing on increasing their utilization of clean energy. In particular, Saudi Arabia has been introducing renewable energy—mainly solar and wind power—on a large scale to strengthen its oil exports, but the UAE is ahead of Saudi Arabia in this regard. In both Saudi Arabia and the UAE, major utility companies, ACWA Power and MASDAR, respectively, have grown to be leading players in the development of renewable energy.

Foreign companies have also shown increasing interest in the bidding process in the Gulf. For example, Japan's Marubeni, a trading company, and Saudi's Al Jomaih Energy & Water Company are developing a 300 MW solar power plant in the city of Rabigh, Saudi Arabia.[16] The project's solar panels will be supplied by Chinese manufacturer LONGi.[17]

Cooperation on CCUS

Saudi Arabia is seen as one of the most suitable locations for carbon capture and storage (CCS) in the world. As early as 2015, the Japanese government commissioned a Japanese research institute to investigate the possibility of CCS in the country. This study assumed that Mitsubishi Heavy Industries—a Japanese company with advanced technology in CO2 capture—would deliver the equipment for the project. The captured CO2, in turn, would be utilized for enhanced oil recovery (EOR) in Saudi oil fields, such as Ghawar, Ain Dar, and Abqaiq.[18] Although the project did not materialize, it underscored the potential for CCS in Saudi Arabia.

Shortly after Chinese President Xi Jinping's visit to Saudi Arabia in December 2022, the King Abdullah Petroleum Studies and Research Center (KAPSARC)—Saudi Arabia's leading energy research institute—hosted a webinar to examine opportunities for cooperation between the two countries in the field of CCUS.[19] Cooperation between the GCC and Asian powers in CCUS is still in the conceptual stage, but it is an area where cooperation is expected to deepen in the coming decades.

Bilateral Carbon Crediting Schemes

Japan and Saudi Arabia agreed, in 2015, to establish the Joint Crediting Mechanism (JCM), a framework for GHG reduction whereby Japan receives credits for certain GHG reductions in exchange for technical and financial assistance for specific projects. So far, one energy efficiency project has been implemented between both countries, and another renewable energy project is expected to be approved in due course.[20] Japan is looking to expand this framework with the UAE and other countries. South Korea also recently launched a similar bilateral framework in 2022.[21]

Using this JCM framework, Saudi Arabia could facilitate the introduction of Japanese low-carbon technologies. In exchange for Japan's provision of low-carbon technology, Saudi Arabia will have to provide a certain amount of GHG emission reductions as credits to Japan. Establishing regulatory mechanisms to ensure the distribution of these credits will allow Saudi Arabia to gain a major foothold in accessing Japanese technology.

CONCLUSION AND POLICY OUTLOOK

While the energy transition could impact economic relations between Asian powers and the GCC, the shift away from fossil fuels will likely push both regions to deepen energy cooperation in new areas such as hydrogen and ammonia development and exchange. The GCC and the Asian powers have already demonstrated remarkable examples of cooperation in the fields of blue hydrogen and blue ammonia, and cooperation is expected to increase in the future, and extend to areas where further technological development is anticipated, such as CCUS and carbon credits.

Saudi Arabia, for example, plans to establish a CCUS hub in its eastern province.[22] Japanese companies with a competitive edge in the field of carbon capture, for example, could contribute to the development of this project. In addition, Japan's JCM is still unfamiliar to most GCC countries. As JCM based initiatives expand, Japan-GCC partnerships will prove beneficial to both parties. To this end, the Japanese government should work towards expanding the number of JCM partner countries beyond Saudi Arabia in the region. Overall, the energy transition will create new opportunities for collaboration between the Asian powers and the GCC which will invariably strengthen relations between the two regions.

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GCC-CHINA ENERGY RELATIONS IN THE POST-PARIS AGREEMENT ERA

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INTRODUCTION

Ties between Asia and the Gulf Cooperation Council (GCC) have, for decades, revolved around energy, especially the trade of oil and gas. China, in particular—the world's top energy consumer[1]—has been a top destination for GCC hydrocarbon exports.[2] Over time, this relationship has expanded to include infrastructure investment, goods and services, digital technology, and defense, although hydrocarbons still dominate.[3] With the Paris Climate Agreement having entered into force in 2016,[4] followed by the accelerated global momentum to decarbonize and hit net-zero emissions by mid-century, this chapter explores whether China-GCC energy ties can evolve beyond hydrocarbons.

CHINA-GCC TIES: BEYOND HYDROCARBONS?

China has been a top destination for GCC hydrocarbon exports, importing nearly 40% of its crude oil from the GCC (table 1 and figure 1). This has provided a platform for growth beyond hydrocarbons.

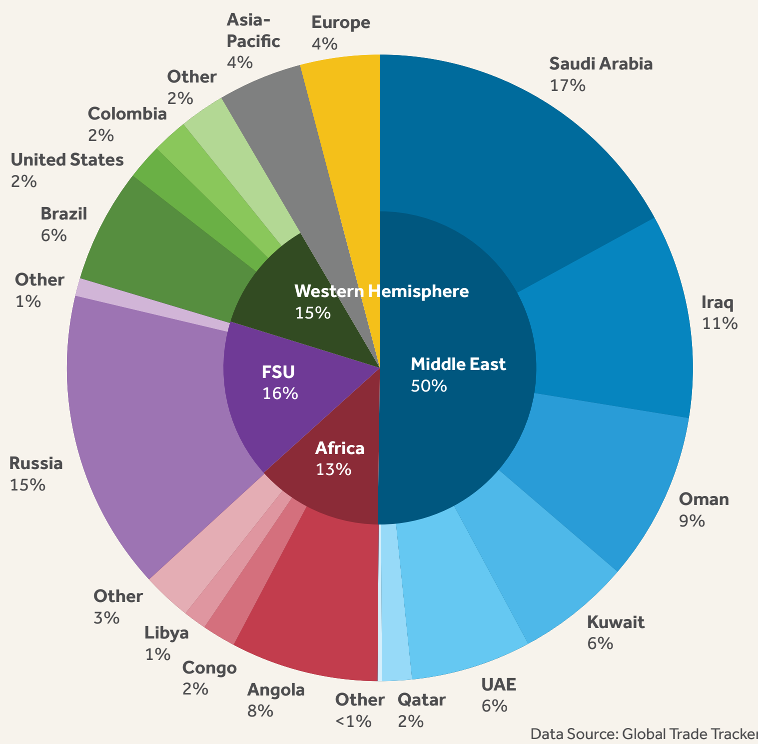
China's launch of the Belt and Road Initiative (BRI) in 2013[5] has been a trigger to expand economic ties with GCC states, capitalizing on opportunities arising from the various countries' economic diversification plans. China-GCC ties have also surged after President Xi Jinping proposed the 1+2+3 framework in 2014—a formal plan to advance Sino-Arab cooperation.[6] The three pillars of the framework are energy, infrastructure, and trade and finance.[7] China has now become a significant partner for GCC states in several non-oil industry fields. Between 2005 and 2022, Chinese investments and construction projects totaled $52.12 billion in Saudi Arabia, $39.23 billion in the United Arab Emirates (UAE), $12.96 billion in Kuwait, $8.61 billion in Qatar, $7.42 billion in Oman, and $1.42 billion in Bahrain.[8] The distribution of Chinese investments across the region is roughly proportional to the gross domestic product (GDP) of each country.[9] Thus far, the focus is on energy, transport, utilities, chemicals, and real estate. Sporadic investments are slowly growing in health, finance, tourism, entertainment, logistics, and technology (figure 2).

Table 1: Top Six GCC Fuel Export Destinations, 2020

GCC Crude Petroleum Export by Destination (percentage of total fuel exports), 2020						
Destination Rank	**Bahrain**	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**United Arab Emirates**
1	Japan (100%)	China (28.7%)	China (85.2%)	Japan (32.6%)	China (25.3%)	Japan (28.7%)
2		South Korea (17.3%)	India (6.3%)	Singapore (19.1%)	Japan (15.5%)	China (20.8%)
3		Japan (12.3%)	Chinese Taipei (3.5%)	South Korea (15.8%)	South Korea (13.1%)	India (14.8%)
4		India (10.7%)	Japan (2.1%)	China (14.3%)	India (11.4%)	Thailand (9.1%)
5		Vietnam (9.9%)	South Korea (1.3%)	India (10.8%)	Chinese Taipei (3.7%)	South Korea (7.5%)
6		Chinese Taipei (7.6%)	Malaysia (1%)	Chinese Taipei (4.3%)	Thailand (2.7%)	Singapore (7.2%)

Source: The Observatory of Economic Complexity.[10]

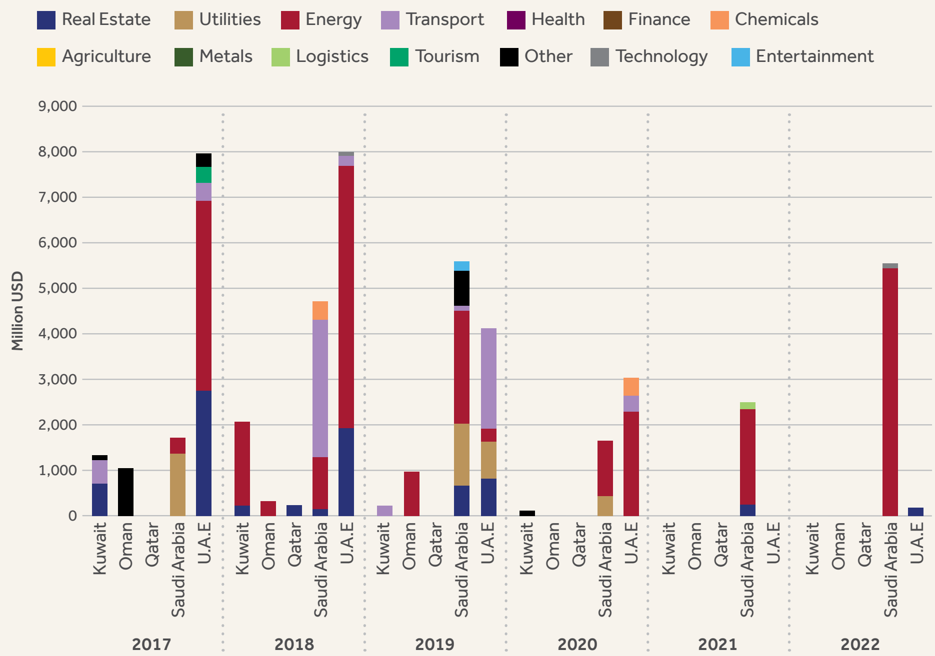
Figure 1: China's Crude Oil Imports by Source, 2021



Data Source: Global Trade Tracker.
Note: Total may not equal 100% because of independent rounding. FSU refers to countries that once made up the Soviet Union.

Source: U.S. Energy Information Administration.[11]

Figure 2: China Investments in the GCC per Sector, 2017–2022

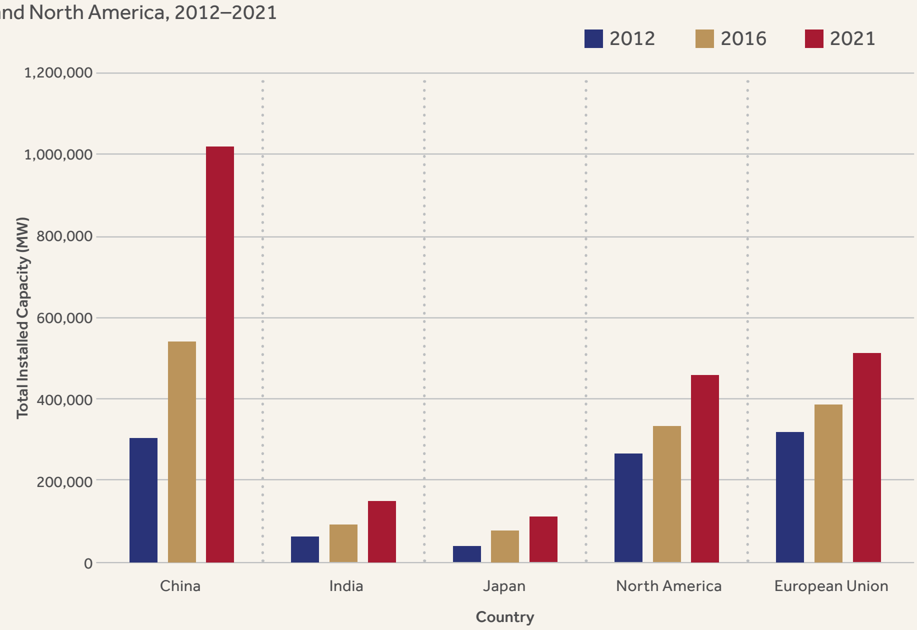


Source: American Enterprise Institute (AEI) Database.[12]

CHINA'S ENERGY TRANSITION LANDSCAPE

China has pledged to decarbonize its economy and hit net-zero emissions targets by 2060. In its Nationally Determined Contributions, China has committed to several ambitious targets by 2030: peak its CO2 emissions and achieve carbon neutrality before 2060; reduce carbon intensity per unit of GDP by over 65% from 2005 levels; increase the share of renewable energy sources within primary consumption to around 25%; and increase its installed capacity of wind and solar power to around 1.2 billion kilowatts.[13] China has positioned itself at the forefront of the clean energy race, whether in terms of total clean energy investment, installed capacity, or innovation (figure 3).

Figure 3: Total Renewable Energy Installed Capacity in China Compared to India, Japan, EU 27, and North America, 2012–2021



Source: International Renewable Energy Agency (IRENA).[14]

According to the latest Bloomberg New Energy Finance (BNEF) report, global investments in energy transition totaled $1.1 trillion in 2022—a 31% increase from 2021—with almost half in Asia.[15] Renewable energy—wind, solar, and other renewables—remains the largest investment sector, committing a new record of $495 billion in 2022, up 17% from 2021.[16] China was the largest energy transition investor, earmarking $546 billion in 2022, "nearly half of the global total ... including renewable energy, energy storage, electrified transport, electrified heat, carbon capture and storage (CCS), hydrogen and sustainable materials."[17]

While China comes fourth after Europe, the United States, and Japan in terms of low-carbon energy (LCE) innovation,[18] it dominates the production of mass-manufactured technologies and components—thanks to low manufacturing costs, a strong base in materials production, and sustained policy support in these industry segments.[19] It controls at least half of the output of most of the main technologies, notably solar PV and electric vehicle (EV) batteries,[20] presenting new opportunities for technology transfer to technology-importing countries, such as the GCC.

GCC ENERGY TRANSITION LANDSCAPE

GCC states have taken strides to flesh out their climate change strategies. Along with newly developed governance architecture conducive to mitigating the effects of climate change and adapting to an evolving environment, every GCC state has launched initiatives, regulations, and programs intended to address climate change and achieve the goals set in their national development strategies. All GCC countries, with the exception of Qatar, have pledged to achieve net-zero emissions targets by or around mid-century, complemented with holistic national climate strategies (table 2). While today's energy production and consumption are still dominated by hydrocarbon resources, especially oil and gas, the GCC states have put forward targets and initiatives to scale up investments in alternative, cleaner energy sources and technologies, such as renewables, energy efficiency, hydrogen, CCS, and nuclear.

In addition, GCC states have joined a number of international climate-related initiatives. These include the Carbon Sequestration Leadership Forum, which was established to improve efficiency and reduce the cost of the carbon capture, utilization, and storage (CCUS);[21] Clean Energy Ministerial and Mission Innovation;[22] and the Oil and Gas Climate Initiative—a voluntary group for CEOs who represent 30% of global oil and gas production and collaborate to find climate solutions for oil producing countries, including reaching a near-zero methane emissions target of well below 0.2% by 2025.[23] In April 2021, Saudi Arabia and Qatar joined four other countries in establishing the Net Zero Producers Forum, which brings together Canada, Norway, Qatar, Saudi Arabia, and the United States, collectively representing 40% of oil and gas production worldwide.[24] Furthermore, all GCC states are participants in the Global Methane Pledge, which seeks to collectively reduce methane emissions by 30% by 2030, compared to 2020 levels.[25]

Table 2: Climate-Related Strategies, Policies, Targets, and Initiatives in the Six GCC States

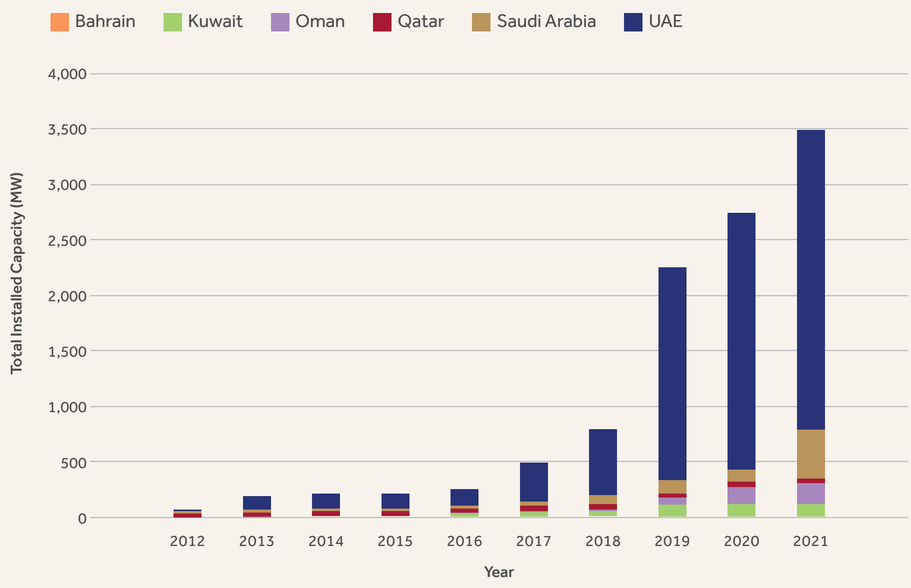
Country	Net-Zero Target	Renewable Energy Targets	Emissions Reduction Target	National Climate Strategy	Climate Initiatives/ Governance Entities
Bahrain	Yes, by 2060	5% by 2025 10% by 2035	Cut emissions by 30% by 2035 and reach net-zero by 2060	No	Joint National Committee on Climate Change (2007)
Kuwait	Yes, by 2060	15% by 2030	Avoid 7.4% of GHG* emissions by 2035 relative to BAU** levels	No	Kuwait National Committee on Climate Change
Oman	Yes, by 2050	10% by 2025 30% by 2030	Reduce GHG emissions by 7% relative to a BAU scenario by 2030	National Strategy for Adaptation and Mitigation to Climate Change, 2020–2040) National Carbon Neutral Strategy	Regulations for the management of climate affairs (2016) National Climate Strategy Oman Sustainability Centre
Qatar	No	20% by 2030	Reduce 25% of GHG by the year 2030	Yes	National Climate Change Committee (chaired by the Ministry of Environment)
Saudi Arabia	Yes, by 2060	50% by 2030	Reduce, avoid, and remove GHG by 278 million tons of carbon dioxide equivalent (MtCO2e) annually by 2030	Yes (National Circular Carbon Economy Program) Saudi Green Initiative	National Committee for the Clean Development Mechanism/Designated National Authority (2009) Saudi Green Building Forum (2010) Saudi Energy Efficiency Center (2012) PIF Regional Voluntary Carbon Market Company
UAE	Yes, by 2050	Clean energy 50% (44% RE, 6% Nuclear) by 2050	31% reduction compared to the BAU scenario for the year 2030	Yes (2017: Green Growth Strategy/ UAE Green Agenda 2015–2030)	Dubai Integrated Energy Strategy 2030 Abu Dhabi carbon trading exchange and carbon clearing

* GHG = Greenhouse gase | ** BAU = Business-as-usual

The potential of renewable energy, particularly solar, is remarkable—more so for countries in the sun belt of the Arabian Peninsula. In response to changing energy market dynamics, the renewable energy market is evolving in the six GCC states, all of which have set renewable energy targets for 2025 and 2030, as well as aspirational long-term objectives for 2050 (table 2).

The total renewable energy installed capacity in the region increased from 56 megawatts (MW) in 2011 to 3,261 MW in 2020.[26] At the end of that year, the GCC had 146 gigawatts (GW) of installed power capacity, of which renewable energy accounted for 3,271 MW (figure 4). In terms of renewables, solar PV technologies remain the most dominant (71%), followed by Concentrated Solar Power (CSP) at 23%, biomass and waste (4 %), and wind (2%).[27] The UAE has been a regional leader in its renewable energy adoption, accounting for 68% of total regional renewable energy installed capacity, followed by Saudi Arabia (16%) and Oman (9%) (figure 4).

Figure 4: Renewable Energy Installed Capacity in GCC countries, 2011–2021



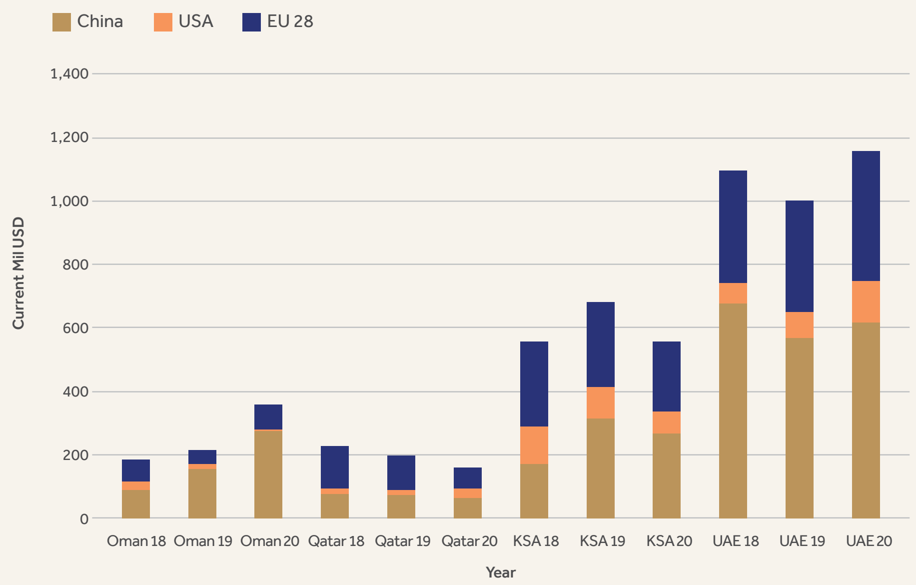
Source: IRENA, "Renewable Energy Capacity Statistics 2021."[28]

GCC-CHINA ENERGY TRANSITION RELATIONS

Renewable Energy Technology Transfer

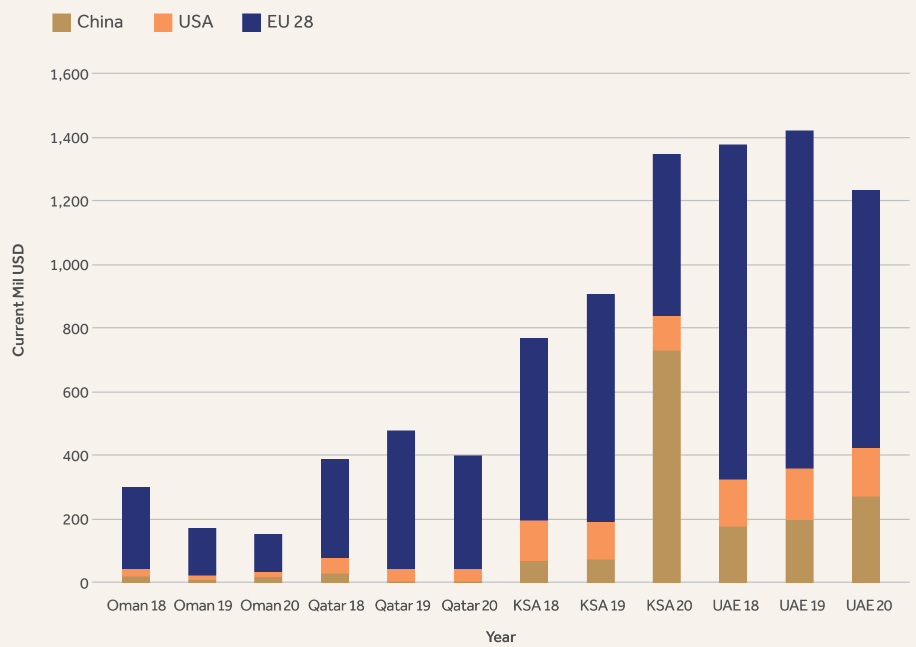
China has used its expertise in renewable technology to gain a substantial foothold in the GCC market. Beijing's penetration varies with respect to importer, type of import, and time span. Its penetration in the GCC market is higher for solar PV products than for wind power (figures 5 and 6). Chinese solar share in Oman increased from 47% in 2018 to 76% in 2020. The increases are more modest in Qatar and Saudi Arabia, reaching 41% and 48%, respectively, in 2020. By contrast, its share in the UAE fell from 62% to 53% during the same period.[29] Saudi Arabia has pivoted to China for wind-power related equipment in 2020, importing more than half of its needs. Though on a smaller scale, growth was also evident in the UAE and Oman, where Chinese penetration in wind-power imports reached 22% and 13%, respectively.

Figure 5: GCC Solar Components Imports by Supplier Country, 2018–2020



Source: Emre Hatipoglu, Aisha Al-Sarihi, and Brian Efird. "Geopolitical Challenges of Renewable Energy Adoption in MENA." In Handbook on the Geopolitics of the Energy Transition, ed. Daniel Scholten. Elgar Handbooks in Energy, the Environment and Climate Change. Surrey, UK: Edward Elgar Publishing, forthcoming.

Figure 6: GCC Wind-Power Components Imports by Supplier Country, 2018–2020



Source: Hatipoglu, Al-Sarihi, and Efird, "Geopolitcal Challenges of Renewable Energy."

Public-Private Partnerships and Finance of Renewable Energy Projects

Public-private partnerships in renewable energy between the two regions are also evolving. In 2019, ACWA Power and Huawei collaborated on the development of the Sakaka solar power plant, Saudi's first utility scale power plant.[30] The second Belt and Road Forum in May of 2019 also saw ACWA Power officiate deals with Power China, China Gezhouba Group Company, and the Bank of China.[31]

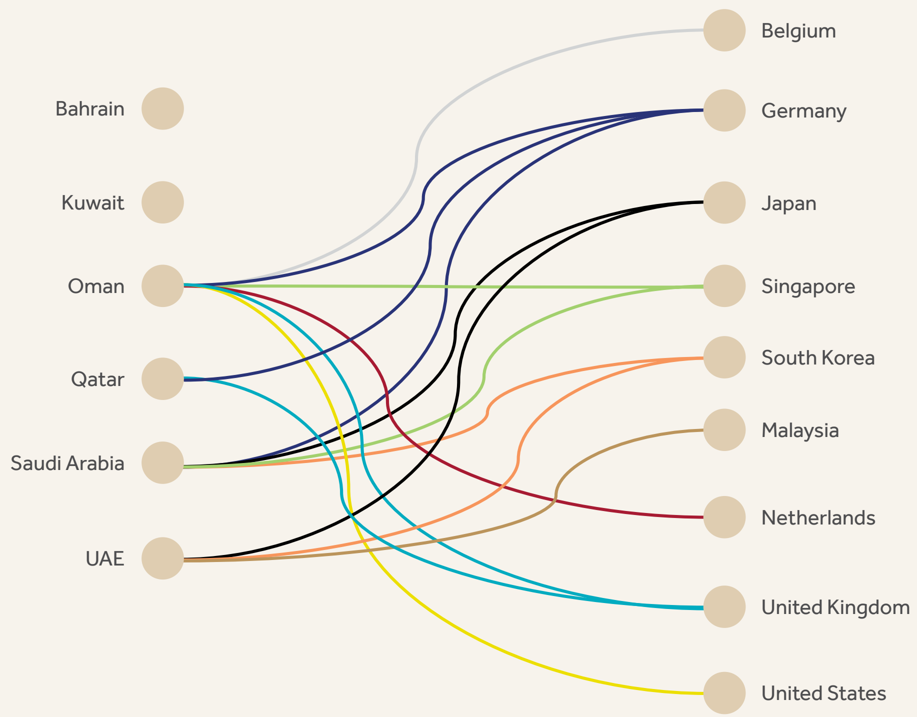
China is also active in financing renewable energy projects in the GCC. For instance, the fourth phase of the Mohammed bin Rashid Al Maktoum Solar Park is developed by a consortium comprised of Dubai Electricity and Water Authority, ACWA Power, and the Silk Road Fund.[32] The development of the Noor Abu Dhabi solar plant, valued at $871.1 million, involves China's Jinko Solar Holding as a co-developer. Once the project is finalized, the plant will hold a capacity of producing 1.2 GW of power.[33] Moreover, UAE's Masdar aims to expand its partnership with Belt and Road Initiative projects, including its equity partnership with the China Resources Group.[34]

China's Jinko Solar holds a 20% equity stake in Abu Dhabi's Sweihan 1.2 GW PV solar project, which will require a total investment of $872 million.[35] The Asian Infrastructure Investment Bank agreed to lend $60 million for the 500-megawatt Ibri II solar power project in Oman.[36] The project marked the bank's first investment in a GCC based renewable energy project.

China-GCC Hydrogen Partnership

While both China and GCC strive to develop hydrogen economies, at present, GCC bilateral deals and agreements to build and operate hydrogen infrastructure and facilitate cross-border hydrogen trade are dominated by relationships with Western partners, especially European countries (figure 7). China-GCC hydrogen partnership was initiated only most recently during President Xi Jinping's visit to Riyadh in December 2023, during which Saudi and Chinese companies signed 34 investment agreements covering several sectors, such as green energy, green hydrogen, photovoltaic energy, information technology, cloud services, transportation, logistics, medical industries, housing, and construction factories.[37]

Figure 7: GCC International Hydrogen Alliances—Countries with MoU, Partnerships, or Agreements



Source: Adapted from Aisha Al-Sarihi, "Gulf States Hedge Against Global Energy Transition, Now With Hydrogen," The Arab Gulf States Institute in Washington *(blog), June 21, 2022, https://agsiw.org/gulf-states-hedge-against-global-energy-transition-now-with-hydrogen/.*

CONCLUSION AND POLICY OUTLOOK: THE WAY FORWARD

Meeting Chinese energy needs continues to constitute the core of China-Gulf partnerships. While Chinese investments across the region have been growing, covering a diversified portfolio of investments in the last few years, they remain focused on the energy sector, including utilities and petrochemical industries. China has used its expertise in renewable technology to gain a substantial foothold in the GCC clean energy market.

A major producer of mass-manufactured technologies and components, China dominates the GCC solar component imports, with a growing involvement in other sectors, such as wind, hydrogen, and CCS. As most GCC countries and China strive to achieve net-zero by or around mid-century, both regions can expand their relationships beyond oil and gas trade and should maximize their mutually beneficial partnerships and cooperation in low-carbon energy technologies and investments. Even in a net-zero emissions scenario, hydrocarbons will continue to play a role in meeting future energy needs, especially in hard-to-abate sectors. Both China and the GCC perceive a continued, albeit declining, hydrocarbon role in meeting global energy needs in a net-zero world.

Accordingly, both sides should prioritize sectors with higher co-benefit outcomes. Seeking an immediate greening of exported hydrocarbon supplies is a win-win opportunity for both sides to achieve their economic decarbonization goals. Governments and private sectors should consider coupling hydrocarbon partnerships with clean energy investments and scaling up investments that decarbonize the current, expanding hydrocarbon sector, including the expansion of CCUS technologies, energy efficiency, and hydrogen.

Furthermore, the two regions can benefit from China's rising leadership in clean energy by enhancing partnership on clean energy innovations. While China plays a pioneering role in low-carbon innovations, GCC states' clean-energy innovation systems are still nascent. Increased research collaboration and exchanging students and researchers can facilitate greater exchanges of knowledge and support integrating new innovations between both regions.

Governments should facilitate the exchange of knowledge and technical expertise in clean energy technology and policy areas. This can be done through different avenues, such as forums, conferences, and workshops. The two regions can also benefit from developing green finance flows by enhancing partnerships between China and Gulf-based institutions.

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INDIA'S 'THINK WEST' POLICY ALIGNS WITH THE GCC'S 'LOOK EAST' POLICY

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INTRODUCTION

Rooted in centuries-old civilizations and decades-long symbiotic ties, the engagement between India and Gulf Cooperation Council (GCC) countries is moving beyond oil, trade, and expatriates. These new avenues convert the traditional buyer-seller relationship into a strategic partnership. This includes cross-investment, infrastructure development that links energy security with food security, renewable energy, artificial intelligence bridges, space cooperation, minilateral formations, and defense and security collaborations.

These changes occurred amid four developments. One, the GCC's "Look East" policy recognizes the economic center of gravity has shifted towards Asia, including India. Two, given India's healthy relations with Iran, GCC countries are keen to promote their own influence and interests. Likewise, realizing the market potential, the GCC intensified ties with India over Pakistan. For example, the GCC remained evasive after India's 2019 constitutional changes in Kashmir—investing in its development in 2023—despite Pakistan's discomfort.[1] Three, in an increasingly multipolar world, middle powers like India and some GCC members are recalibrating their approaches. They are focusing more on cooperative economic dynamics rather than confrontational policies. This has yielded new geographically, non-contiguous groupings like the I2U2, comprising India, Israel, the UAE, and the United States.

Finally, it is important to situate these within the context of an unlikely champion of India's recent policies towards Muslim countries—Prime Minister Narendra Modi's rightwing Hindu nationalist government. While the Modi government has intensified efforts undertaken by previous governments, its robust engagement with the Gulf region, which contradicts its domestic policies of religion-based polarization, highlights India's non-ideological foreign policy. On the other hand, as with economic diversification, GCC countries are also pursuing foreign policy diversification with India and others, linking economic interests with diplomatic and security interests.

This chapter focuses on India-GCC economic relations, specifically between 2014 and 2022, when the Modi government had been at the helm. The central question it seeks to examine is: What are the dynamics driving the strategic relations between the Hindu agenda-oriented Indian government and the Muslim GCC bloc?

While answering this, the chapter examines how India and the GCC are exploring unchartered terrain. It analyzes how economic engagement has taken a strategic form and the implications this would have for India and the region. The chapter also argues that several factors—India's sphere of influence stretching beyond the subcontinent, the GCC punching above their weight, and the ambivalent influence of Western powers—are encouraging the search for alternative rules of engagement, which throw up opportunities and challenges for the future.

NON-IDEOLOGICAL FOREIGN POLICY

Acknowledging that "cordial ties with two of the principal antagonists in the region: Iran and Saudi Arabia" was "no minor accomplishment" for an "unabashedly Hindu nationalist government," critics have argued that "the blatant abuse of India's Muslim communities now places at risk New Delhi's carefully tailored diplomatic approach to the Middle East."[2] They highlight the increasing instances of anti-Muslim violence since the Modi government assumed power. Similar innuendos were made in 2019 when India abrogated the autonomous status of Jammu and Kashmir, bringing them directly under New Delhi's supervision.[3]

India did employ emergency diplomacy to stress New Delhi's positions but there was no official criticism from any GCC government on both issues. The exception was some countries summoned Indian envoys, following international outrage, over Modi's party colleagues making derogatory comments against the Prophet in 2022.[4]

Without undermining such concerns, it is pertinent to ask: Did former U.S. President Donald Trump's pre-election rants against Islam impact his post-election relations with the region? Has the region recalibrated ties with China based on Beijing's treatment of the Uighurs?

The fact is India-GCC relations have benefitted from a non-ideological approach. The UAE and Bahrain conferred Modi with their respective highest civilian honors, both just before the 2019 elections. Three years earlier, Saudi Arabia did the same.[5] The UAE also took the progressive approach of authorizing the building of the first Hindu temple in Abu Dhabi. And Saudi Arabia has been screening Bollywood films since 2017.

Thus, the Gulf countries, Japan and the United States are the "three codes" that "Modi cracked to give India a huge foreign policy jumpstart."[6] Modi's ability to transform relations with the Gulf, "while avoiding enmeshment in the current intra-Gulf rivalries and while preserving good relations with Iran, demonstrates an agility that has eluded even the United States."[7] The emphasis on pragmatism and hedging strategies on both sides underlines the robustness of India-GCC ties.

India is the third-largest energy consumer in the world. It imports 85% of its requirements, making it the world's biggest energy importer in terms of percentage dependence.[8] Its oil import bill was $119 billion in 2021–2022[9] and India is tipped to be the top energy consumer by 2035.[10] It imports crude from nearly 50 countries, but about 60% of its imports are from Iraq, Saudi Arabia, and the UAE. Russia jumped to third place in 2022 amid the war against Ukraine.[11] On the gas front, Qatar is the biggest supplier.[12]

From being mere buyers and sellers to becoming strategic partners, Saudi Aramco and Abu Dhabi National Oil Company (ADNOC) decided in 2018 to be 50% stakeholders in a $44 billion refinery plant in India.[13] To boost India's energy security, the UAE invested in two win-win oil storage facilities in India. Conversely, an Indian consortium was awarded a 10% stake in the UAE's Lower Zakhum offshore oilfield in 2018, making it a cross-investment engagement.[14] Similarly, Reliance Industries signed up with ADNOC in 2021 to develop a $2 billion chemicals facility in Ruwais.[15]

From just $7 billion in 2000–2001, the India-GCC trade bill in 2021–2022 was $154 billion.[16] The UAE and Saudi Arabia accounted for most of this and were third and fourth among India's top trade partners. Further, Saudi Arabia expressed long-term interest in investing $100 billion in India, and the UAE $75 billion.[17]

Some of these investments materialized in the energy sector as indicated earlier. Others include Dubai ports operator DP World and India's National Investment and Infrastructure Fund (NIIF) teaming up to invest up to $3 billion equity in the transport and logistics sectors in India in 2018.[18] This followed NIIF signing a $1 billion deal with the Abu Dhabi Investment Authority in 2017.[19] Saudi and Abu Dhabi sovereign wealth funds invested $3.5 billion in Reliance Industries' Jio (digital) Platforms in 2020.[20]

Another common thread is the expatriate workforce. Indians are the largest community in the region, comprising 38.2% of the population.[21] Of the 8.5 million Indians living there, about 3.5 million resided in the UAE in 2021.[22] About 30% of India's annual remittance—nearly $100 billion in 2022—was from the GCC, with the UAE and Saudi Arabia being the top sources after the United States.[23]

STRATEGIC SHIFT

In this milieu, the genesis of India-GCC strategic engagement began after the 9/11 attacks when GCC countries were victims of Western Islamophobia. This coincided with the rise of Asian economies, including India, which encouraged the GCC bloc to adopt the "Look East" policy. An example of this is the UAE-India farm-to-port project. It envisages a special corporatized farming zone where crops are grown specifically for the UAE, with dedicated logistics infrastructure to the port that would be developed utilizing UAE investment.[24] In 2019, 17 UAE companies invested about $7 billion in this sector,[25] making it a strategic "food security for energy security" collaboration.

Gulf countries also put aside religious ideology by aligning more with India than Pakistan thus conveying that "economic sense is common sense." The UAE and India sealed a Comprehensive Economic Partnership Agreement (CEPA) in 2022, which could increase annual bilateral trade and services from the current $60 billion to $115 billion by 2027.[26] In addition, the 2010 Riyadh Declaration and the 2017 Comprehensive Strategic Partnership Agreement with the UAE provided tactical impetus in the security domain. These security partnerships signaled a strategic shift away from the region's U.S.-centric protection net.

Looking beyond bilateral ties, India and the UAE, along with Israel and the United States, are now part of the I2U2 minilateral grouping, facilitated by the 2020 Abraham Accords. It focuses on synergies in technology and infrastructure projects, enhancing political and economic cooperation, and maritime security. In 2022, the I2U2 bloc announced food security projects in India worth $2.33 billion.[27]

Together, India's new "Think West" policy now aligns with the GCC's Look East policy. This is positive because while the GCC started looking East two decades ago, India reciprocated much later because it was improving relations with the West. In 2015, India acknowledged: "If the eastern front is building upon longstanding policy, the western one is relatively more recent conceptually, even if India has had a historical presence in the Gulf...'Act East' would [now] be matched with 'Think West'."[28]

Since 2014, Prime Minister Modi has visited Israel—the first by an Indian premier—and all the countries on either side of the Gulf, except Kuwait, at least once. He has visited the

UAE four times, last in 2022—after no Indian premier made the trip between 1982 and 2015—and visited Saudi Arabia a second time in late 2019.[29]

SECURITY DYNAMICS

India's energy, trade, and diaspora stakes mandate that its engagement with the Gulf includes security cooperation. Bilateral strategies include collaboration on counter-terrorism, money laundering, cyber security, organized crime, human trafficking, and anti-piracy issues. Serving as instructive tools are the UAE-India joint statements issued between 2015 and 2018. The gamechanger is the intent to expand their interaction to include maritime security, Gulf armed personnel training, joint exercises, and tapping into defense equipment production. They also agreed to better engage in intelligence sharing and extradition arrangements. To facilitate these, they have been engaged in a Strategic Security Dialogue since 2017, involving national security councils and advisers. A defense attaché has been posted to the Indian mission in Abu Dhabi since 2013.[30]

In 2018, Oman granted India access to the strategic Duqm Port in the Indian Ocean[31] and the Saudi-India Strategic Partnership Council was signed in 2019.[32] Further, India began joint naval exercises with the UAE in 2018 and with Saudi Arabia in 2019.[33] During the 2019 volatility in the region, where several tankers were attacked, India deployed two warships and surveillance aircraft without being a part of the U.S.-led coalition.[34]

Finally, in a trilateral framework, India partnered with the UAE to establish a tele-education center in Ethiopia.[35] And, in 2002, India, France, and the UAE finalized a trilateral strategy on renewable energy and maritime security.[36] Thus, India and the UAE are now concurrently engaged in bilateral, trilateral (France), and quadrilateral (I2U2) formats.

CONCLUSION AND POLICY OUTLOOK

India has the longest, uninterrupted, and most important ties with all Gulf countries, including Iran and Iraq. Its strength emanates from its foreign policy that is non-hegemonic, non-descriptive, "non-intrusive, non-judgmental," and unbiased "in intra-regional disputes."[37] This enables India to have close relations with both sides of the Gulf, thus protecting its multifaced interests. In addition, India is championing SAGAR—Security and Growth for All in the Region, or "ocean" in Hindi—since 2015. This promotes an ocean-based "blue economy," wherein sustainable economic development is linked to security.[38]

Simultaneously, India and other principal Asian players are also aware they should stop piggybacking on U.S. naval presence in the region's waters and find other means to secure the supply chain. But India's quest to advance its strategic interests in the region faces deterrents. First, although India has expressed interest in keeping the region's communication sea lines open, it will never be a U.S.-style protector of Gulf security. Second, inconsistent GCC-Iran ties will continue to be an irritant in India's balancing act. Third, there is also inadequate consensus about any meaningful alternative security system in the Gulf, especially due to India-Pakistan rivalry and India-China competition, among others.

Finally, while India's proximity to the United States helps in the region in some ways, U.S.-China friction adds fuel to India-China tensions, which could play out in the Gulf in some form. While the Indian Ocean region was viewed as being largely within India's sphere of influence, the China-Indian Ocean Forum in 2022 demonstrated Beijing's interest in the region. New Delhi would seek to limit this to the extent possible but has not ruled out the possibility of cooperating with China for their common good. Either way, these are encouraging signs for an alternative, collective security architecture in the Gulf region, which includes an Indian role, and one that even some U.S. experts are propagating.[39]

Moving forward, India and the GCC could consider the following policy options to strengthen their ties. First, since the GCC bloc is not as homogenous as it was, India and regional countries must explore options to promote bilateral relations instead of a collective approach. They could do so by incubating minilateral economic partnerships with likeminded partners in Africa to advance their economic interests and face the challenges of the new world (dis)order.

Second, they could explore new collaborative fields like the blue economy, an emerging sector that harnesses economic ocean-capabilities in environmentally sustainable ways. It could address some major regional and global concerns, including transformation to a knowledge-based economy, climate change, food security, and economic cooperation to expand regional and global connectivity, which combines energy, trade, technology, food, infrastructure, and logistics.

Third, while a collective India-GCC free trade agreement (FTA) is difficult because of differences among GCC countries, the India-UAE CEPA agreement could be a template to encourage more bilateral agreements or even stimulate progress in the stagnated FTA domain. It is worth noting that Singapore first signed an FTA with Qatar, expanding it GCC-wide in 2008.

Fourth, while India-GCC relations have thrived—mostly due to people-to-people and business-to-contacts—taking it to a strategic level may require government-to-government contacts. An India-GCC summit to share thoughts on future strategies would help. Finally, to facilitate the above policy improvements, India and the GCC countries could also experiment with a three-plus-three format involving the economy, foreign, and defense ministers at the bilateral level.

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INTRODUCTION

The oil-rich Arab countries of the Gulf have long relied on migrant workers to support their rapid economic growth and development. In 2020, foreign workers represented close to 80% of the workforce of Gulf Arab states, the highest share in the world by far. Migrant worker populations range from 76–78% of the total in Bahrain, Oman, and Saudi Arabia,[1] to 85% of the total in Kuwait, and over 90% in Qatar and the United Arab Emirates (UAE);[2] thus, largely reflecting the Gulf's relative wealth. Workers from the Indian subcontinent make up over 30% of the 30 million migrant workers in the Gulf, easily the largest single community.[3]

In recent years, as national populations increase and revenues from oil decline, Gulf countries have intensified efforts to replace migrant workers with nationals. Low-skilled nationals are taking on white-collar service jobs, while medium-skilled nationals are replacing migrants in mid-level professional positions. Migrant workers continue to dominate low-skilled, blue-collar positions that nationals reject as well as high-skilled professional positions (doctors, engineers, etc.) where there remain too few nationals to meet demand. In this context, migrant workers from India are in a strong position to maintain and even increase their presence. Besides historic connections and proximity to the Gulf, their wide range of skills, sturdy social networks, competitive wages, command of English, and other key skills play important roles. This chapter explores these dynamics and argues that improving ties with India and its workers holds benefits both for the subcontinent and the Gulf states.

THE EVOLVING EMPLOYMENT CONDITIONS IN THE GULF

Oil and natural gas exports have been the main driver of growth in the Gulf. Gulf countries pass these revenues along to their citizens though social services, such as free education, healthcare, and public sector jobs that offer citizens wages and benefit packages far higher than what they can earn in the private sector.[4] Over the years, Gulf nationals have focused on obtaining the education credentials needed to gain access to these lucrative public sector jobs. However, these credentials can be quite different from those in demand in the private sector. As a result, most nationals lack the skills to gain employment with comparably high wages in the private sector.

The Gulf continues to serve as a major global destination for workers seeking higher wages and a better life. Even controlling for differences in prices and living conditions, many migrant workers can attain a higher standard of living in the Gulf and have money left over to save or send back to their families. Indeed, remittances play an important role in supporting communities in sending countries. Most migrant workers eventually return home, as there are practically no pathways to citizenship or even permanent residence for the average worker. That said, high-net-worth non-nationals can obtain long-term residencies, and some have become top businesspeople or policy advisors. A few have even been granted citizenship.

Migrant workers in the Gulf, especially low-skilled, blue-collar laborers, face precarious employment conditions. Most Gulf countries rely on the *kafala* system of sponsorship, essentially placing the worker at the mercy of their employer, unable to switch jobs or travel without their permission. On-time payment of salaries can be an issue and workers risk losing out on months of wages in the event firms go bankrupt.[5] Living conditions for laborers can be cramped and unhygienic, a problem which was highlighted during the pandemic. Still, workers line up for the opportunity to work in the Gulf, often paying middlemen in their home country a year's worth of income to help them secure a job, even though this practice is technically illegal in all Gulf states.

Since the 1980s, fast growing populations coupled with declines in hydrocarbon revenues meant most Gulf countries could no longer provide government jobs for all citizens who wanted one. However, plenty of jobs existed in the private sector and were being filled by foreign workers. So, Gulf states began incentivizing, and even requiring, private firms to hire nationals through quotas, increasing work permit fees, and encouraging citizens to improve their relevant skills. Over time, an increasing number of nationals began working in the private sector.[6] The higher cost to firms of hiring foreign workers also had an impact on the migrant mix of Gulf countries, preferring migrants from countries with lower reservation wages, such as India.

It will take time for the skills mix of the private sector workforce to evolve into a new steady state. While Gulf countries have invested heavily in citizen education and skills development, new cohorts must complete and graduate from education tracks that provide access to high-skilled professional roles. Thus, skills gaps will persist for some decades. In addition, low-skill nationals will continue to shun blue-collar jobs and manual work, even in the long term. Thus, for the foreseeable future, Gulf economies will continue to rely on foreign workers for high-skilled professional roles and low-skilled, blue-collar positions.

AN EMERGENT INDIA

In 2023, India overtook China as the most populous country in the world.[7] With a youthful population of 1.4 billion people, India will take on a greater global economic role. By 2030, it is poised to overtake Japan and Germany to become the world's third largest economy.[8] However, India remains a highly unequal and divided society. The richest 10% own nearly two-thirds of the country's wealth.[9] Indeed, since the mid-1980s, India has witnessed extreme increases in income and wealth inequality in the world.[10] Poverty persists throughout the country, and many areas remain unindustrialized with few economic opportunities and social services.[11] This has hampered economic growth. In 1990, per capita GPD in India was higher than that of China. By 2020, per capita GDP in China was five times that of India, at $10,400 compared to only $1,900.[12]

India is a country of contradictions and extremes. It has globally elite universities and high rates of illiteracy. It has world-class industries and services and a large informal sector with low-paying jobs. It is innovative and technologically advanced, but has an outdated bureaucracy that stifles growth and development. The dearth of economic opportunity has encouraged many to look for opportunities elsewhere. Most succeed and thrive: Sundar Pichai, the CEO of Alphabet/Google, and Satya Nadella, the CEO of Microsoft, were both born and educated in India. People of Indian origin are among the most educated and wealthiest ethnic groups in the United States.[13]

Indians are helped in their migration by several factors. First, globally, they represent the largest diaspora and retain relatively resilient connections to their families and communities back home. This provides a pathway for others to follow, facilitating easier integration. Also, for many Indians, English is a working language, giving them an advantage over other migrants, especially in the West and the Gulf. While the caste system limits social cohesion, there is a strong sense of social connectedness and support with high rates of intermarriage, especially among Indians born abroad.[14] Their economic presence is translating into increased political power among second generation Indians. Rishi Sunak is the Prime Minister of the United Kingdom. Nikki Haley, former U.S. ambassador to the United Nations and South Carolina governor, has announced her candidacy for the U.S. presidency.

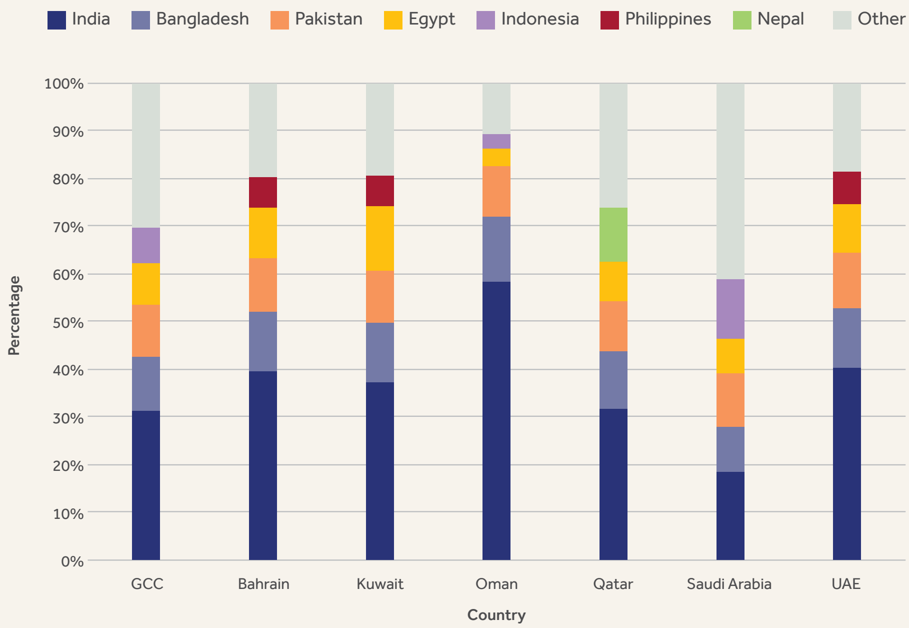
India's rising influence is reflected in increased economic and political engagement globally and within the region. It has signed numerous bilateral trade agreements, including setting up a Strategic Partnership Council (SPC) with Saudi Arabia in 2019[15] and finalizing the India-UAE Comprehensive Economic Partnership Agreement (CEPA) in 2022.[16] In 2021, it formed the I2U2 block with the United States, UAE, and Israel, to deepen economic cooperation and technological collaboration.[17] India will also host the G20 Summit in September 2023.[18]

INDIAN MIGRANTS IN THE GULF

India has a long history of trade and economic integration and political relations with the Gulf that pre-dates the discovery of oil. During the 1960s, the Gulf rupee, pegged to the Indian rupee, was used as legal tender throughout the region and intermarriage was not uncommon. Oman's late Sultan Qaboos was taught by Shankar Dayal Sharma, who later became India's President.[19] Gulf cuisines maintain an Indian influence. Some Indians have resided in the Gulf for generations. Several Indian families continue to hold prominent positions in business and enjoyed close relations with ruling elites, including Dubai's Ved and Jethwani families. Pankaj Khimji, a top advisor at Oman's ministry of commerce, is of Indian origin. Even some naturalized Indians hold important positions within the business community and government.

In 2020, Indians represented the largest country of origin for migrants to the Gulf. The India-Gulf migration corridor is the second busiest after Mexico-U.S.[20] While Gulf countries vary slightly in their migrant mix (figure 1), Indians represent the largest migrant group in all six countries of the Gulf Cooperation Council (GCC). In 2020, 9.6 million Indians resided in the Gulf, representing 31% of the total migrant population, followed by Bangladesh, Pakistan, and Egypt, representing 11%, 11%, and 9%, respectively. The shares from India ranged from 59% in Oman to 19% in Saudi Arabia of the total migrant population (see figure 1).

Figure 1: Migrant Populations in the Gulf, Top Five Shares by Country



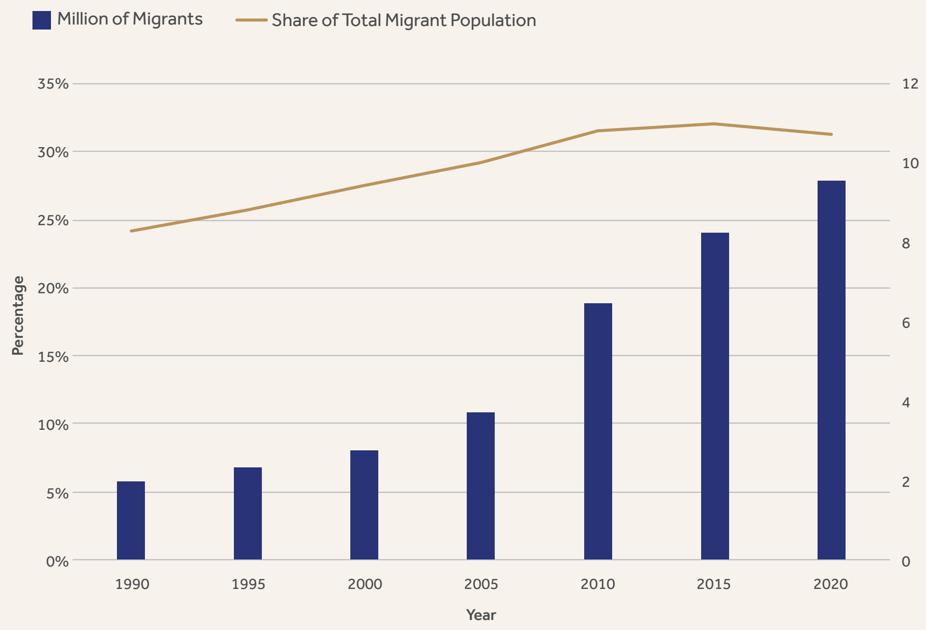
Source: Author's calculation, UN Department of Social and Economic Affairs, Population Division, "International Migrant Stock 2020," December, 2020.

The migrant population from India to the GCC is predominantly male; only 24% of this group are women. This is slightly lower than the overall share of women in the Gulf's migrant population, estimated at 28% in 2020. Female migrant workers from India, and other South Asian countries, tend to work in domestic service. They also hold positions as nurses, receptionists, and hospitality-related jobs.[21] Indian migrant communities in the Gulf enjoy a wide range of amenities, including Indian schools, stores, and services.

Indians in the Gulf have fared relatively well over time. Their share among migrant workers steadily increased from 24% of the total migrant population in 1990 to 32% by 2015, before dropping slightly to 31% by 2020 (figure 2). This was accompanied by a corresponding decrease in the share of migrants from high- and upper-middle income countries from 16% to 11% over the same period. This change took place as Gulf-based companies moved to replace high-wage workers with relatively lower-wage workers from India and other lower-middle income countries.

Indeed, Indians are one of the few nationalities whose workers are abundant at all skill levels, from construction workers, to doctors and engineers, to CEOs of major corporations. This has allowed them to avoid being pigeon-holed into one skill category. Thus, while around 70% of Indian workers today are in blue-collar jobs as laborers or technicians

Figure 2: Indian Migrants in the Gulf, in Millions and as a Share of the Total Migrant Population



Source: Author's calculation, UN Department of Social and Economic Affairs, Population Division, "International Migrant Stock 2020," December, 2020.

in the construction sector, domestic workers, and drivers, there has been an increasing trend towards skilled and highly-skilled migration in the past decade.[22] This trend will likely continue as Gulf states seek lower-wage workers as they nationalize their workforces and diversify their economies.

That said, Gulf states aim to maintain a balance between nationalities of foreign workers so that no one group grows too large. So far, Indian migrants have been regarded positively and, while they form the largest community in all six Gulf states, Oman is the only country where they represent a majority of foreigners. However, this position of relative privilege could change. For example, if Indian populations in the Gulf grow too large or if India becomes more nationalistic and assertive as it gains global economic and political power, one or more Gulf countries may reduce their Indian expatriate population. The Indian government is aware of this and has actively been building closer commercial and security ties with Gulf states.

Like other migrants, Indian workers in the Gulf send money home to their families. Remittances are a more important source of income for developing countries like India than overseas development assistance or foreign direct investment.[23] In 2022, remittances to India topped $100 billion for the first time. This was primarily driven by increases in remittances from the United States, UK, and Singapore. The share of remittances to India from five GCC countries (Saudi Arabia, UAE, Kuwait, Oman, and Qatar) dropped from 54% in 2016–2017 to 28% in 2020–2021.[24] These were likely due to dynamics caused by the pandemic, including lower incomes in the Gulf and increased support from richer diaspora in advanced economies.

Despite the important role migrant workers play in sending remittances home, the Indian government only recently began providing meaningful support.[25] It introduced "e-Migrate" to regulate overseas employment and set minimum referral wages for migrant workers in countries with weak labor standards, including the Gulf.[26] However, although these efforts were meant to safeguard migrant worker interests, they may, perversely, have made them less attractive for recruiters and employers. The Indian government has also developed pre-departure, protection-during-work-abroad and rehabilitation-upon-return programs, and instituted a fund to support Indian nationals in an emergency.[27]

The efforts have complimented those by Gulf states themselves to improve migrant workers' conditions. Qatar has been at the forefront of these reforms, effectively abolishing the kafala system, allowing workers to change jobs without former employer approval at the end of their contracts, and creating a fund to compensate workers whose employers fail to pay them. In Saudi Arabia, changes to the labor law now prohibit passport confiscation, punish firms that fail to pay salaries, and require employers to provide workers with copies of their contracts. The law also introduced sharp penalties on firms who fail to abide by these laws.[28] Still, gaps and loopholes continue to place excess burden and uncertainty on migrant workers.

CONCLUSION AND POLICY OUTLOOK: THE ROAD AHEAD

Indians represent the largest contingent of migrant workers in the Gulf, and are well-positioned to take advantage of the Gulf's shift to nationalize their workforce and reduce labor costs as they diversify their economies into a post-hydrocarbon future. Their diversity of skills sets and strong technical, linguistic, and people skills hold great promise for continuing, and even expanding, their presence in the Gulf. That said, several issues should be kept in mind.

First, India must upskill its workforce. Gulf countries are on the path to reducing reliance on medium- and low-skill service workers. At the same time, there is strong demand for high-skilled Indian workers in developed economies, such as the United States and the UK, which could place high-skilled Indian workers outside the wage brackets Gulf economies are willing to offer. The solution is for India to introduce programs to improve the skills of medium- and semi-skilled workers. This can be done by expanding access to higher education and upskilling the workforce through targeted training programs focused on language and technical skills.

Second, the Indian government should continue to develop programs to support migrant workers and engage its diaspora. However, it must ensure these programs do not inadvertently create disincentives or obstacles to hire Indians, as some current policies appear (inadvertently) to. The government has a proclivity to over-bureaucratize; simplifying procedures can improve the process without sacrificing the aims of its migrant support policies.

Finally, the Indian government should also continue to engage Gulf states bilaterally, increasing trade and ensuring the smooth functioning and even expansion of the India-Gulf migration corridor. Gulf states are already moving to improve the regulatory environment covering migrant workers. The Indian government can play a positive role in reporting gaps and abuses in the systems that Gulf states are trying to build.

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OIL OR MORE? CHINA'S ECONOMIC RELATIONS WITH THE GCC

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INTRODUCTION

Over the past few decades, China and the states of the Gulf Cooperation Council (GCC) have developed robust and deep economic ties centered around the GCC's abundant energy resources and significant non-energy trade. Initially, however, GCC states were reluctant in establishing formal diplomatic relations with the People's Republic of China (PRC). Between the 1970s and 1990, GCC states established diplomatic relations with China with Saudi Arabia being the last member state of the GCC to establish bilateral ties with Beijing in July 1990.

Since then, China-GCC economic relations have considerably grown. Excluding the European Union (EU), China was the GCC's largest trade partner in 2013[1] and in 2020, China surpassed the EU as the GCC's lead trade partner.[2] China had the largest volume (15.8%) of GCC total trade in goods globally in 2020, surpassing the EU (12.3%).[3] Economic connections between China and the Islamic Republic of Iran have also thrived over the previous decade, despite the latter being sanctioned by the United States. According to the Ministry of Commerce of the People's Republic of China, Beijing has consistently been Tehran's largest trading partner in the last 10 years, and bilateral trade reached $15.8 billion in 2022.[4]

Economic ties have played a leading role in China's relations with the Gulf countries in the past decades. In 2022, bilateral trade between China and the GCC reached $315.8 billion.[5] Furthermore, all six GCC states have signed One Belt One Road (OBOR) agreements or memoranda of understanding with the Chinese government.[6]

However, China-GCC relations face significant pressure from the United States and China's great power rivalry.[7] Both China and the GCC share great aspirations towards expediting the officiation of a China-GCC Free Trade Agreement (FTA); however, negotiations have entered their tenth round and both sides have yet to reach a conclusive deal.[8] This chapter seeks to explore how China became the Gulf's largest trade partner along with the challenges and opportunities that lie ahead of China-GCC economic relations.

BACKGROUND AND DEVELOPMENT OF CHINA-GULF ECONOMIC RELATIONS

China's interests and strategy, towards the Gulf states, have been relatively ambiguous. Beijing's interest in the region emerged from growing domestic demand for energy and aims to increase international trade. For the Gulf, "the East"—China, India, Japan, South Korea, and Indonesia—is believed to be an important driver of the GCC's economic prosperity.[9] Some experts assert that China is pursuing ambitious geopolitical interests in this strategic region, shifting "strategicness" into bilateral cooperation.[10] Both sides are eager to forge comprehensive strategic partnerships in technology, renewable energy, and infrastructure.[11]

Although the energy sector has constituted the core of China-Gulf relations in past decades, bilateral relations began with military and political engagement in the 1980s. During that period, both Beijing and Taiwan competed for diplomatic recognition from the Gulf states, and this competition finally ended in 1990 when Riyadh pivoted from the Republic of China on Taiwan (ROC) to the People's Republic of China (PRC).[12]

In 1988, Saudi Arabia purchased the CSS-2 intermediate-range ballistic missiles from Beijing.[13] The deal included crew training and site preparation prior to the establishment of official diplomatic relations in 1990.[14] Between 1990 and 2000, trade between China and all six GCC states was relatively low compared to the rest of the Gulf's main trading partners (see table 1). Notably, between 2000 and 2013, China became a leading trade partner in the Gulf; China's trade grew exponentially, eventually replacing the EU as the Gulf's top trading partner.[15] For the last two centuries, "Gulf trade had been tied in primarily to Western-based trading networks."[16]

Table 1: Growth of Gulf Trade with Major Partners, 1990–2013 ($ billion)

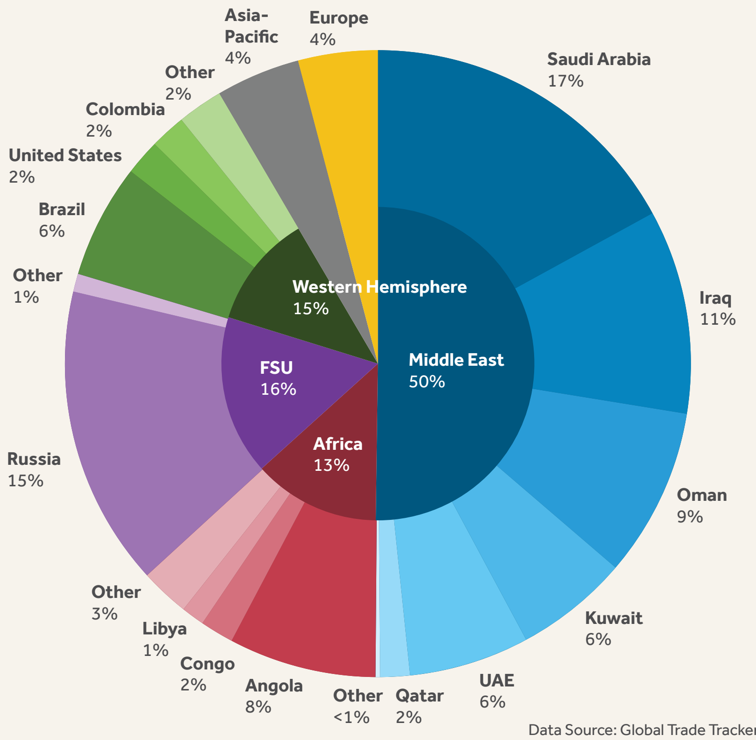
Dimension	1990	2000	2005	2008	2009	2012	2013
China	1.3	11.8	44.9	121.4	93.4	203.5	224.4
India	4.4	6.6	21.4	119.3	87.9	186.5	183.9
Japan	33.5	52	103.8	176.1	103.7	181.3	171.6
South Korea	6.1	25.6	53.4	109.7	71.9	142.4	136.1
EU	59.9	66.7	142.5	212	156	207.4	216.2
U.S.	19.1	33.9	66	124.8	71.2	143.7	137.2

Source: Tim Niblock, "Strategic Economic Relationships and Strategic Openings in the Gulf," in The United States and the Gulf: Shifting Pressures, Strategies and Alignments, eds. Tim Niblock and Steven Hook (Berlin: Gerlach, 2014), 8, https://doi.org/10.2307/j.ctt1df4h8c.4.

CHINA'S GROWING INTERESTS IN THE GULF

Currently, China has a comprehensive economic interest in the Gulf region, this includes within energy, infrastructure, transportation, commercial trade, finance, etc.[17] From a Chinese perspective, Gulf countries—mainly Saudi Arabia, Oman, Kuwait, and the UAE—constitute half of China's crude oil imports (see figure 1). While the United States has become less dependent upon Gulf oil, China's economic and energy interests in this region have increased tremendously over the past three decades.[18] Now, the Gulf region has become a vital and indispensable partner in China's energy landscape. According to Chinese President Xi's keynote speech at the first China-GCC summit, China aims to "[set] up a new paradigm of all-dimensional energy cooperation" with GCC countries, including importing additional crude oil and LNG, further cooperation in clean and low-carbon technologies, oil and gas trade in RMB, and GCC trainings for "peaceful use of nuclear energy and technology."[19]

Figure 1: China's Crude Oil Imports by Source, 2021



Data Source: Global Trade Tracker.
Note: Total may not equal 100% because of independent rounding. FSU refers to countries that once made up the Soviet Union.

Source: U.S. Energy Information Administration.

Besides energy cooperation, China's interests have also been expanding into infrastructure, commercial trade, and finance in the Gulf since the 2000s. When discussing Chinese companies in Saudi Arabia, Li Chengwen, China's former Ambassador to Saudi Arabia and the current Ambassador for China-Arab States Cooperation Forum Affairs, stated in 2013 that the "bulk of the [140 Chinese companies operate] in the construction, telecommunications, infrastructure and petrochemicals industries."[20] When China launched the One Belt One Road initiative in 2013, the Gulf states were set to play an essential role as a "crossing point" in this ambitious, geoeconomic plan due to their strategic location which provides access to the Middle East, South Asia, North Africa, and the Indian Ocean.[21] Since the inception of the BRI, a significant number of Chinese businessmen now live and work in the UAE and other Gulf states. Under current global political dynamics, when China looks west geographically, the Gulf turns east.

Economically, China is relatively a newcomer when compared with other Asian powers like Japan, South Korea, and India, which have much deeper commercial connections with the Gulf region. Although China's economic interests in the Gulf are increasing, their bilateral relations still face many challenges.

CHALLENGES IN A NEW ERA

In December of 2022, Chinese President Xi Jinping arrived in Saudi Arabia for the first China-Arab States summit, the China-Saudi summit, and the China-GCC summit. Previously, in July of the same year, Xi's counterpart President Biden flew to Jeddah and greeted Mohammed bin Salman with a fist-bump. At the time, the visit was intended to repair deteriorating relations between the United States and Saudi Arabia.

The geopolitical rivalry and uncertainty between the United States and China invariably extends to this strategic region. China has recently emerged as the Gulf states' key economic partner while the United States still remains the GCC's primary security ally.

Thus far, GCC countries' approach has been applying a double-reliance policy: economic reliance on China and security reliance on the United States. In hosting the summits, Saudi Arabia aspired to maintain a balancing act, between the United States and China, to present a delicate equilibrium between security ally and primary trading partner, respectively.[22] However, maintaining a balance will be difficult to sustain in the future amidst increasing rivalry between China and the United States. This will undoubtedly affect the potential of increasing commercial and technological cooperation between China and the GCC. For instance, despite ten rounds of negotiations, a China-GCC FTA has still not been finalized. Moreover, Gulf states have been cautious in engaging with Yuan based trade instead of the U.S. dollar, despite reports that China settled its first LNG trade deal, in Yuan, with the UAE. The deal was signed between the China National Offshore Oil Corporation and France's TotalEnergies, in March of 2023, for 65,000 tons of Emirati LNG.[23] A Saudi source acknowledged that while it made practical sense to sell a small fraction of oil to China in Yuan, it was "not yet the right time."[24] This backdrop reflects Saudi and the Gulf's cautious approach to expanding economic engagement with China, in light of U.S.-China competition.

China is also engaging in its own balancing act, vacillating between a policy of commercial engagement with Saudi and political cooperation with Iran. Both sides have expressed frustration with China over its relationship with the other on different occasions. Following President Xi's visit to Riyadh, in December of 2022, Iran's foreign ministry denounced Beijing's joint statement, which signaled support for the GCC, with GCC countries on disputed islands in the Straits of Hormuz.[25]

The central question is how can China maintain its balancing policy in such a divided region? Increasing economic engagement and strategic cooperation with the GCC, and broader Arab states, are pulling China away from its carefully managed neutrality between the GCC and Iran. Furthermore, intensifying competition between China and the United States is forcing China to align with Iran geopolitically.

Earlier this year, China's mediation diplomacy surprisingly shifted the geopolitical landscape between Saudi Arabia and Iran when both announced the resumption of diplomatic relations, through a China brokered deal.[26] This reflects China's shifting policies in this strategic area. Divisions, and hidden competition, within the Gulf region also reveal the diverse strategies pursued by each of the GCC states towards Beijing. The evolving rifts in Saudi-UAE ties further complicate China's engagement with the region.

CONCLUSION AND POLICY OUTLOOK

In the 1990s, Beijing finally set its bilateral relations with all Gulf countries when China's economic reforms sparked exponential increases in energy demand.[27] From 1990 to 2000, China's trade with the Gulf was relatively low in comparison with other major trading partners. However, from 2000 through 2013, economic ties played a leading role in China's relations with the Gulf. A historical turning point appeared in 2013, marking the first year China became the Gulf's top trading partner in the past two centuries. In 2020, China replaced the EU as the largest trade partner in the GCC. Beyond energy cooperation, China has been expanding its interests in infrastructure, commercial trade, and finance in the Gulf. However, this economic cooperation is facing challenges from global politics, regional rivalries, and the energy transition.

Current dynamics considered, Gulf states' economic pivot towards the East is unlikely to change. This means that economic relations between China and the Gulf will continue, in the near future, despite great power competition. However, it is growing increasingly difficult for China and the GCC to maintain their balancing policies in this new era.

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SOUTH KOREA IN THE GULF: EMBOLDENING ECONOMIC AND POLITICAL TIES WITH THE GCC AMID THE US-CHINA TECH CONFLICT

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INTRODUCTION

Why is South Korea drawn further to the Gulf in recent years? What are the main sources of evolving Republic of Korea (ROK)-Gulf Cooperation Council (GCC) relations amidst the U.S.-China tech conflict? This chapter analyzes the evolution of South Korea's relations with Gulf states in recent years, amid rapidly shifting regional dynamics and mounting tensions between the United States and China. It argues that the rapprochement between South Korea and the Gulf states is multi-faceted and based on mutual interests, as middle powers seek balance and diversification as a strategy, at a time when the global economy is in flux.

SHIFTING GEO-ECONOMICS: THE US-CHINA COMPETITION AND SOUTH KOREA IN THE GULF

The Gulf is undergoing significant transformation. The Abraham Accords mediated by the United States and signed by Israel, the United Arab Emirates (UAE), and Bahrain in September 2020 ushered in a new era in which Gulf states are focused on economic goals. This geopolitical shift belies a bigger picture: the U.S. tilt towards Asia, notably its withdrawal from Afghanistan, to concentrate on its strategic competition with China.

As Beijing asserts its domination of the African continent—penetrating their economies and securing mineral resources for further growth—China continuously attempts to knock on the Gulf states' doors, specifically in technology, military, and finance. The Gulf region faces a similar dilemma, as the European Union (EU) and Asia, concerning the rift between the United States and China. In 2023, China became the new broker of the recent normalization in Iran-Saudi relations,[1] a development that would urge the United States to broker a normalization agreement between Israel and Saudi Arabia.[2] The United States remains fixated on its foreign economic policy on the tech war with China with aims to suppress China's military's technological advancement. How the fragmentation will unfold remains to be seen; however, these developments will inevitably reshape the Gulf's geopolitical landscape.

South Korea's expansion into the Gulf falls squarely in line with these developments, particularly on the trade and investment fronts with the UAE and Saudi Arabia. South Korea, with its technologically driven, export-oriented economy, has been negotiating free trade agreements (FTA) at the regional and bilateral levels, with a higher likelihood of bilateral success.[i]

Informal workshops have been held between Israel, the UAE, and South Korea, with an Israel-UAE FTA signed in Jerusalem, Israel, on May 31, 2022[3] and the ROK-UAE Comprehensive Economic Partnership Agreement (CEPA), which takes a similar form as the FTA, has been pursued since 2021.[4] Calls for Korean firms to participate in ROK-UAE business forums have been held several times, with the latest, the ROK-UAE summit, held in January 2023.[5] The main areas covered by ROK-UAE economic cooperation include medical, ICT, manufacturing, technology, renewable energy, and food security.

South Korea-Saudi Arabia relations were augmented upon Crown Prince Mohammed bin Salman's (MBS) visit to South Korea in November 2022 with a round of discussions on the ROK-Saudi Arabia Vision 2030.[6] The UAE and Saudi Arabia's pledges to invest and cooper-

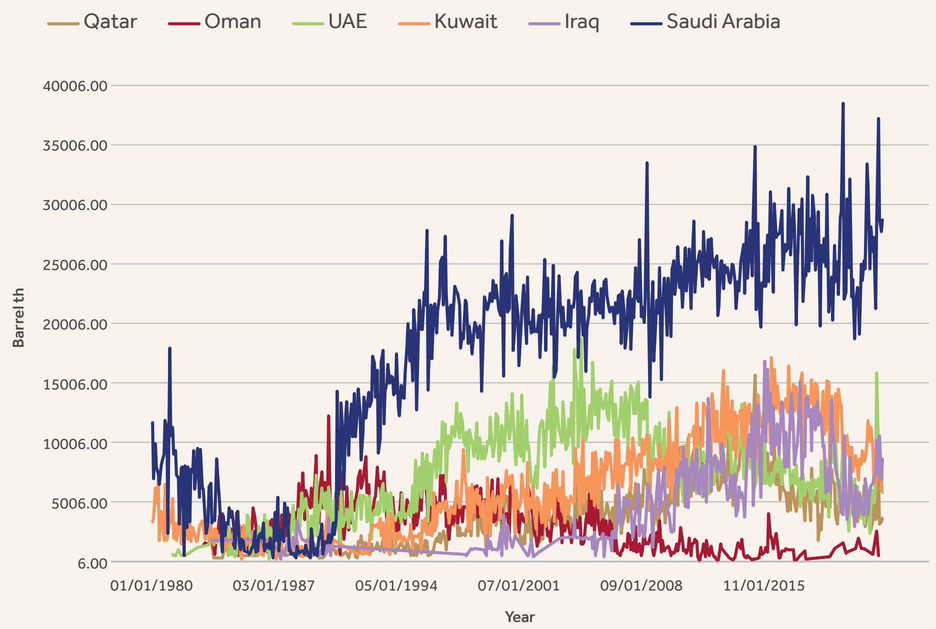
i. The crux of the divide amongst GCC states for a regional FTA has to do with the lifting of FTA tariffs on taking effect—most GCC member states rely heavily on oil revenues and tariffs for their budgets.

ate with South Korea are well within the context of mutual interests—diversifying economic partners and investment venues, while focusing on future industries—amid growing geopolitical risks underlying the U.S.-China tech competition.

THE NEXUS OF ENERGY COOPERATION: FROM OIL AND GAS TO NUCLEAR AND RENEWABLES

South Korea's recent interactions with Gulf states prove that geopolitical shifts and rapid transition into future industries are prompting the expansion of ROK-Gulf relations to non-traditional areas of economic cooperation and investment. Traditionally, South Korea's engagements in the Middle East—particularly the Gulf region—had been primarily focused on energy transactions (figure 1), based on oil and gas consumption from the Gulf.[7] As an energy-hungry economy, the country's main oil imports would primarily come from Saudi Arabia, UAE, Oman, Kuwait, and Iraq. Currently, imports from Kuwait and Iraq are in decline, while imports from Saudi Arabia remain steady, and imports from the United States have surpassed Kuwait. On the other hand, gas is purchased from Qatar, vying with Australia, Malaysia, and Oman.[8] In July 2021, prior to the Russia-Ukraine war that unleashed a series of global energy shocks, South Korea's KOGAS signed a 20-year sales and purchase agreement (SPA) with Qatar for 2 million tonnes/year (m t/y) of LNG from 2025–2044—at a 34% discount in cost per unit based on the long-term relationship,[9] as its previous long-term contract of 9 m t/y for 26 years was to lapse in 2024.[10] Meanwhile, Sinopec of China obtained an SPA with Qatar of 4 m t/y for 27 years from 2026,[11] and Germany 2 m t/y for 15 years from 2026.[12]

Figure 1: South Korean Imports of Crude Oil from the Gulf by Country (unit: thousands of barrels)



Note: The data available dates to 1980 for CEIC and 1998 for Korean Statistical Information Service (KO-SIS) (based on Korean National Oil Corporation [KNOC]).
Source: CEIC, accessed January 18, 2023.

The traditional fossil-fuel relationship began to change with South Korea's KEPCO's (Korean Electric Power Corporation) winning bid over Areva of France in 2009 to build the 5.6 GW Al Barakah nuclear power plant, with South Korea's APR-1400 model developed by KEPCO, each plant producing 1.4 GW, outside Abu Dhabi, UAE.[13] The project would establish the first ever nuclear power plant in the Middle East for civilian electricity use.[14] Team Korea—or South Korea's conglomerates Hyundai Engineering and Construction, Samsung C&T Corp, and Doosan Heavy Industries—took part in the construction of the APR-1400 models by Korea Hydro & Nuclear Power (KHNP) with the Emirati Nuclear Energy Corporation (ENEC, 82%) and KEPCO (18%) through its private joint stock company, Nawah Energy Company.

The Al Barakah Plant now has three of the four plants going on grid in 2023 and will provide one quarter of the UAE's energy, once all four units are fully operational.[15] To build the Al Barakah plant, the UAE followed the "gold standard"[ii] by signing the 123 Agreement with the United States.[16] While it was a boost for the UAE's decarbonization efforts and energy diversification, the deal would not have been possible without South Korea's signing of a secret military pact with the UAE. The pact marked the beginning of a strategic relationship between South Korea and the UAE with the stationing of South Korean troops in Abu Dhabi. Dubbed the Akh unit, the troops provide military training for the UAE's special forces.[17] These circumstances led the UAE to become a major South Korean arms customer. In 2022, South Korea and the UAE signed an agreement for the former to export its Cheongung II KM-SAM (surface-to-air missile) to the UAE for $3.5 billion.[18]

The highlight of the ROK-UAE summit in January 2023 was nuclear energy cooperation. Particularly, the envisioned possibility of a joint nuclear power plant export to a third country, possibly the UK, combining Team Korea's construction and engineering with financial backing from the UAE's sovereign wealth funds (SWF), envisioning a potential financial scheme with Korean Ex-Im Bank. However, no financing mechanism has been made clear.

Figure 2: Al Barakah Nuclear Power Plant in the UAE

Source: Pulse News, Photo by MK DB: https://pulsenews.co.kr/view.php?sc=30800028&year=2023&no=437627.

ii. However, it is not likely that Saudi Arabia will do the same, and therefore it is doubtful whether KEPCO could obtain an SMR contract as it is likely to follow the "gold standard."

Also unclear are the form and models of future nuclear cooperation between South Korea and the UAE. For instance, whether it would be for the delivery of parts, construction—as seen in South Korea's cooperation with Russia on the El Dabaa plant in Egypt[19]—or a completely different model, such as small modular reactors (SMR),[20] as seen in South Korea's joint research conducted with Saudi Arabia towards a potential tender since December 2017.[21] Saudi Arabia is seeking to have 17.6 GW capacity, for nuclear energy generation by 2040, with the aim of building two large nuclear power plants as well as launching SMRs for energy diversification.[22] MBS's visit to South Korea in November 2022 did not yield substantial discussions on nuclear power plants, and the case for China's offer of SMRs to Saudi Arabia is also up in the air, following Xi Jinping's visit to the Kingdom in December 2022.[23]

The forging of strategic and energy ties is expanding into renewables and future industries, with Gulf states' SWFs playing a major role. Examples include the UAE seeking tech cooperation with South Korea on hydrogen production and charging stations[24] and joint research and development on EV battery production with Seoul National University proposed by Saudi Arabia.[25] Such moves are in line with decarbonization and energy source diversification efforts by the Gulf states.

Both sides are doubling down on their efforts. Amidst a rapid technological transition and an evolving tech war, the Gulf is increasingly seeking a reliable partner. South Korea is seeking alternative business opportunities in the Gulf as the United States export controls on semiconductors, which take up at least 20% of South Korea's exports.[26] Both sides are jeopardized by the U.S.-China tech war and China's sluggish economic recovery.[27]

Nonetheless, public opinion shows doubts regarding the nature of the MOUs struck with the UAE and Saudi Arabia—particularly on the Neom smart city project—as their benefits have yet to materialize.[iii] Saudi Arabia's investments, totaling $30 billion, into South Korean firms via the Public Investment Fund (PIF) are aimed at the development of Neom, across the fields of energy, infrastructure, smart cities, and defense through the ROK-Saudi Business Forum hosted by Korea's Ministry of Trade, Industry, and Energy (MOTIE).[28] Among the investments is a major $7 billion investment by Aramco into South Korea's S-Oil which points to the unfolding of numerous joint projects, towards 2030, as the Kingdom seeks to diversify its economy.[29]

Similarly, as the ROK-UAE Joint Statement reveals,[30] the ROK-UAE Business Forum has yielded 24 MOUs—in addition to the 13 MOUs signed by both governments—totaling $30 billion in the areas of energy and future industries:[31] climate change, space, new technologies, the digital transition (including blockchains), future mobility and smart infrastructure, digital healthcare, smart farms (including K-strawberries), intellectual property, and statistics.[32] Even though South Korean ministries and firms are set to work on the proposals, skepticism on MOUs will hold until detailed plans with investment and revenue projections are made public.

iii. UAE SWFs Mubadala Investment Company, Abu Dhabi Investment Authority (ADIA), and Investment Corporation of Dubai (ICD) are expected to play a financing role in the cooperation schemes.

CONCLUSION AND POLICY OUTLOOK: RECOMMENDATIONS FOR SOUTH KOREA AND THE GULF STATES

The ROK-Gulf relationship is evolving with mutual interests for diversification as a strategy. South Korea's focus is seeking alternative business and economic partners while securing ample energy supplies amid the U.S.-China tech war. The Gulf states are pursuing high tech and new industries at a time of heightened momentum for an energy transition. These interests are bridged by a need for "balance" at a time of tectonic shifts and volatility in the global energy market, further compounded by the ongoing war in Ukraine.

Though ambitious and forward-looking, as ties grow stronger, both the Gulf and South Korea must brace for challenges ahead, emanating from intra-regional geopolitical risks—within the Gulf and from the U.S.-China competition—as the clash with both powers is inevitable and bypassing them is unfathomable. China's growing ties and maneuvers with the Gulf, not just in the digital economy but also in energy, may impact South Korea-Gulf ties. There are overlapping areas where China and South Korea are competitors on the global market, ranging from construction and engineering to manufacturing and consumer electronics. A key source of contestation would emerge in the Gulf if the U.S.-China conflict escalates and impacts global order. Other scenarios that could trigger potential conflict include China's quest for the petro-yuan and the possibility of Gulf states' oil trading on the Shanghai Exchange in renminbi,[33] South Korea's geopolitical positioning between the United States and China, and the lack of legislation for digitization in the Gulf, despite a strong policy drive.

To navigate the evolving U.S.-China conflict, the Gulf states and South Korea should capitalize on avenues for collaboration such as through enhancing public-private partnerships, that fulfill the goals of the MOUs struck, and joint venture start-ups. Policy coordination on energy issues as well as policy dialogues on digitization in the Gulf may also facilitate the deepening of technical exchanges. Lastly, close cooperation must be accompanied by regional expertise and geopolitical maneuvers[iv] on both sides to minimize potential or accidental conflict.[34]

iv. Given North Korean threats and its slippery ties with Iran—involving frozen Iranian funds of $7 billion from oil revenues in South Korean banks due to U.S. sanctions—South Korea still walks on thin ice regarding Iran post-JCPOA. Washington may work on releasing these funds with Qatar to free U.S. hostages.

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ENERGY FIRST, BUSINESS SECOND: JAPAN'S ECONOMIC DIPLOMACY TO THE GCC STATES

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INTRODUCTION

This chapter examines Japan's economic diplomacy towards the Gulf Cooperation Council (GCC) states. The central pillar of Japan's relations with the Gulf has been energy, which is crucial, both historically and today. Japanese private energy companies have acquired and developed oil concessions in the GCC, importing a considerable amount of oil and natural gas (figure 1). The Japanese government provides extensive support to Japan's energy companies' engagement with the Gulf and has played a critical role in their development.

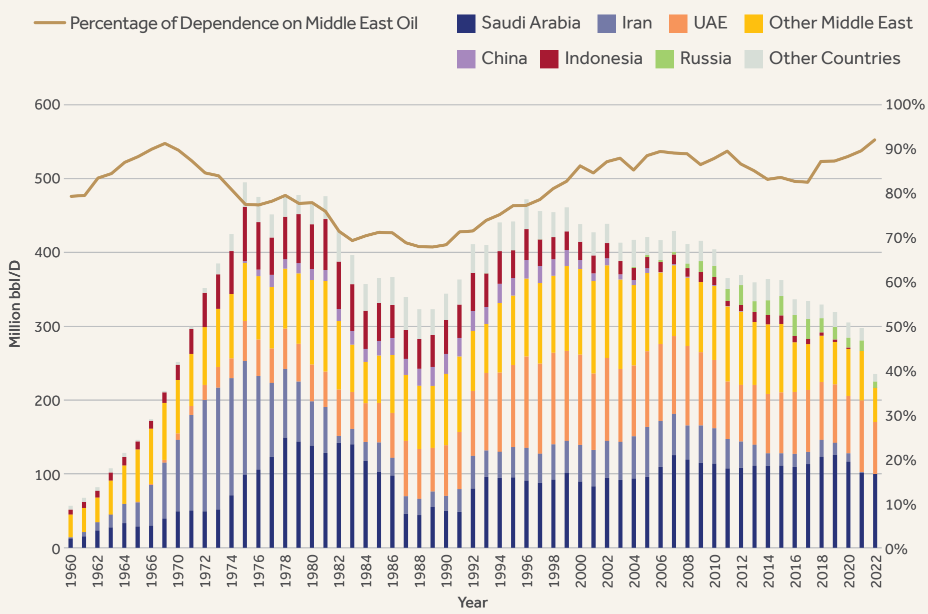
Energy security has long been the primary focus of the Japanese government, leaving the expansion of general economic relations to the private sector, with aims to secure additional resources collaterally. Moreover, as this chapter will discuss, Japan's economic presence in the GCC has been declining over the years, while that of China, South Korea, and India has been on the rise. The private sector expects the government to play a more proactive role, by increasing support for their business activities in the GCC. For example, the Keidanren (Japan Business Federation) recently called on the Japanese government to strengthen economic relations with the GCC and resume free trade agreement (FTA) negotiations.[1]

Why has Japan's economic relationship with the GCC declined over the past two decades when compared with other Asian states? What economic diplomacy approaches has the Japanese government adopted towards the GCC to support the economic activities of Japanese companies?

This chapter will broaden the understanding of economic diplomacy beyond the narrow scope of government-to-government economic negotiations. Instead, the definition utilized for the purposes of this chapter is "a process in which the government, semi-governmental agencies, the private sector, and civil society organizations work together to achieve the country's economic goals."

The main objective of Japan's economic diplomacy to the GCC is to secure energy resources. The Japanese government, and oil companies, have adopted various approaches to acquire energy resources since the 1960s. However, because attention was focused on energy relations, economic developments in non-energy sectors have largely gone ignored. It is therefore necessary to shed light on the relationships between state actors and non-state actors within Japan and the Gulf that have played a role in securing Japan's economic interests.

Figure 1: Japan's Crude Oil Imports by Country and Dependency on the Middle East (FY1960–2020)



Source: Agency for Natural Resources and Energy (2022).

JAPAN'S ECONOMIC ACTIVITIES IN THE GCC

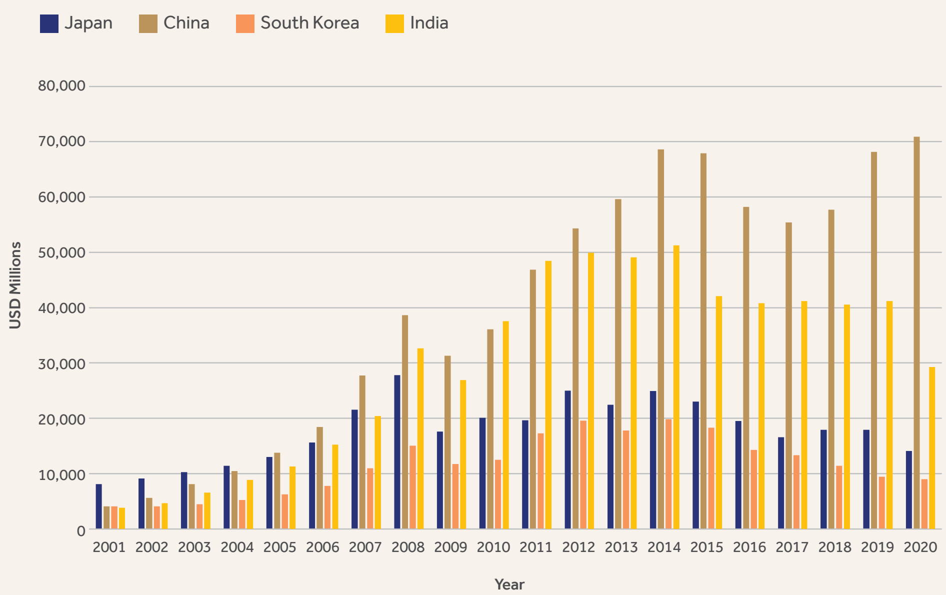
Economic engagement between Japan and the GCC began in the 20th century and took off in earnest after the 1960s, when most Gulf states achieved independence and began nation-building. The Japanese economy experienced rapid growth following the end of the second World War, particularly within manufacturing exports. The private sector sought business opportunities in the Middle East, including the Gulf region. The 1970s Gulf oil boom further attracted Japanese trading houses, machinery, and plant manufacturers.

The GCC states achieved significant economic growth in the 2000s, following the Iranian revolution and the Gulf War. This led to an increase in the number of Japanese company branch offices, particularly in Dubai, as well as an increase in the number of Japanese residents in the country. Currently, the UAE hosts over 4,000 Japanese nationals.[2] The UAE is also home to 340 Japanese companies.[3] However, competition from South Korea and China has increased in the Gulf. While Japan remains competitive in automobiles, South Korean and Chinese products now hold a competitive edge in consumer electronics and other products.[4]

Trade data for the GCC and the four major Asian economic powers—namely Japan, China, South Korea, and India—between 2001–2020 highlights several important developments. During the early 2000s, in terms of the value of Asian countries' trade to and from the GCC, Japan exceeded China, South Korea, and India, on both imports and exports. However, these countries gradually caught up with Japan. China overtook Japan, in GCC exports to Asian countries, in 2005, followed by India in 2008 (figure 2). Japan's imports—mostly oil and natural gas—eventually fell behind China's in 2015 (figure 2).

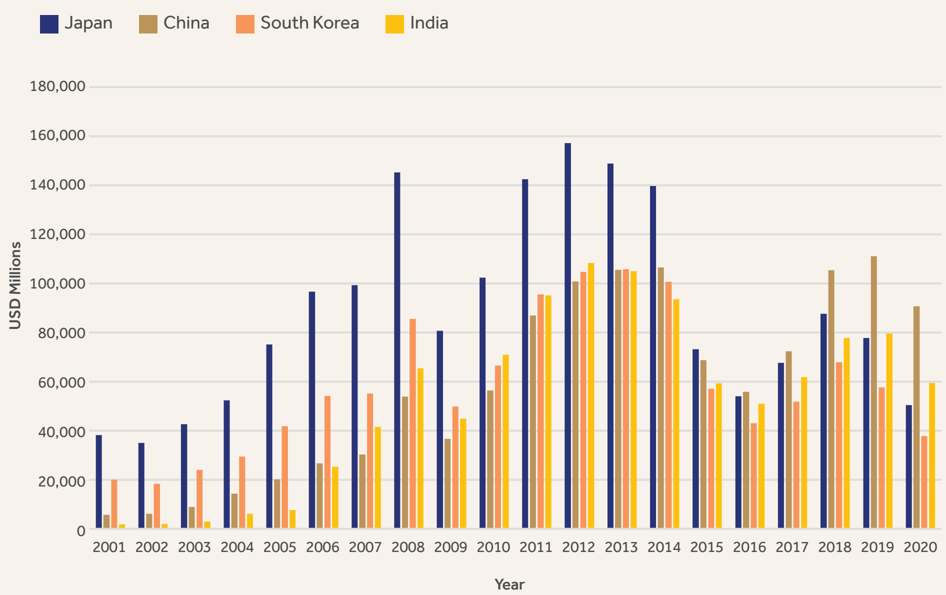
With regards to trade balance, all of the Asian countries, with the exception of a few periods, have a trade deficit with the GCC states. This is a structural problem, as the absolute value of each country's energy imports is high. Of the four, Japan has by far the largest imports relative to exports and the largest trade deficit with the GCC; however, the gap between Japan and the other Asian countries has been closing in recent years (figure 4).

Figure 2: GCC Exports to Select Asian Countries (2001–2020)



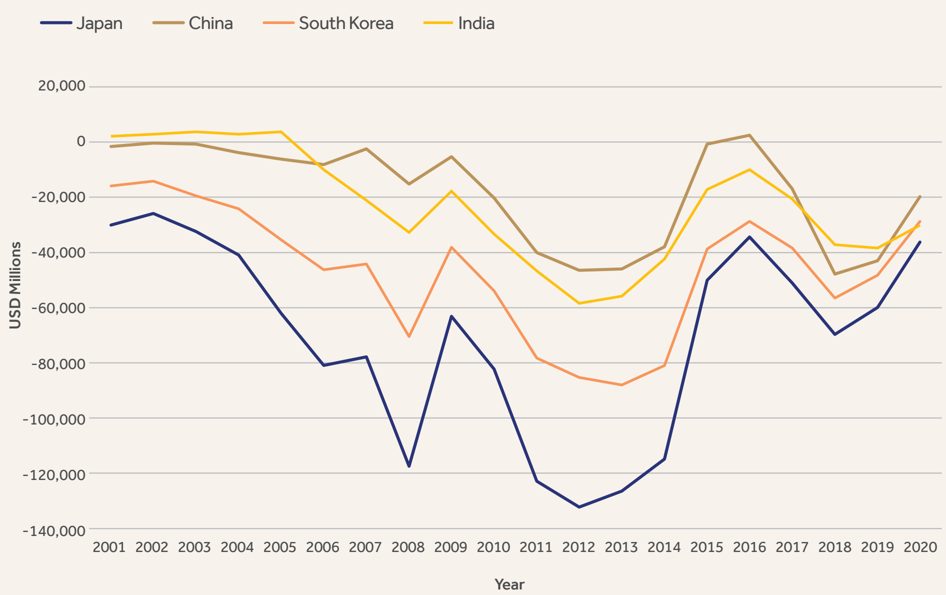
Source: IMF DOTS.

Figure 3: GCC Imports from Select Asian Countries (2001–2020)



Source: IMF DOTS.

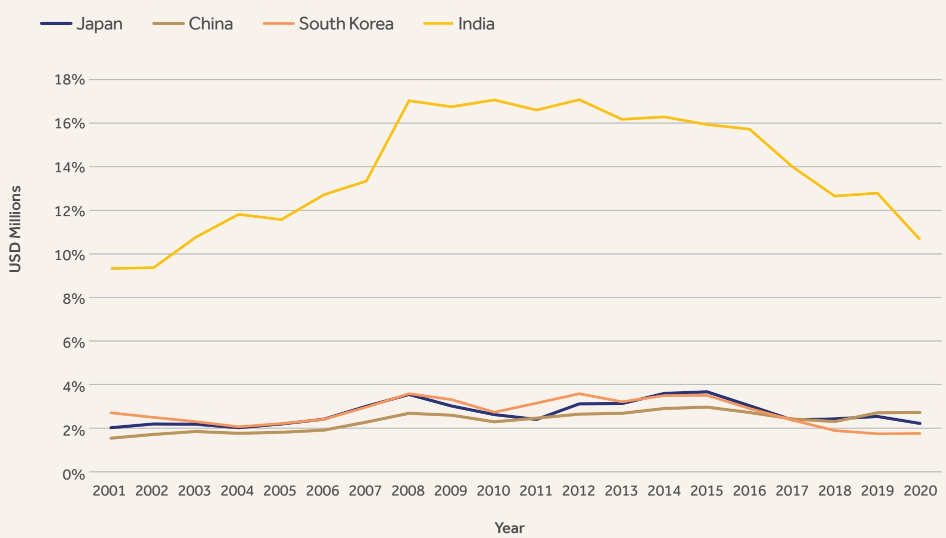
Figure 4: GCC Trade Balance Between Select Asian Countries (2001–2020)



Source: IMF DOTS.

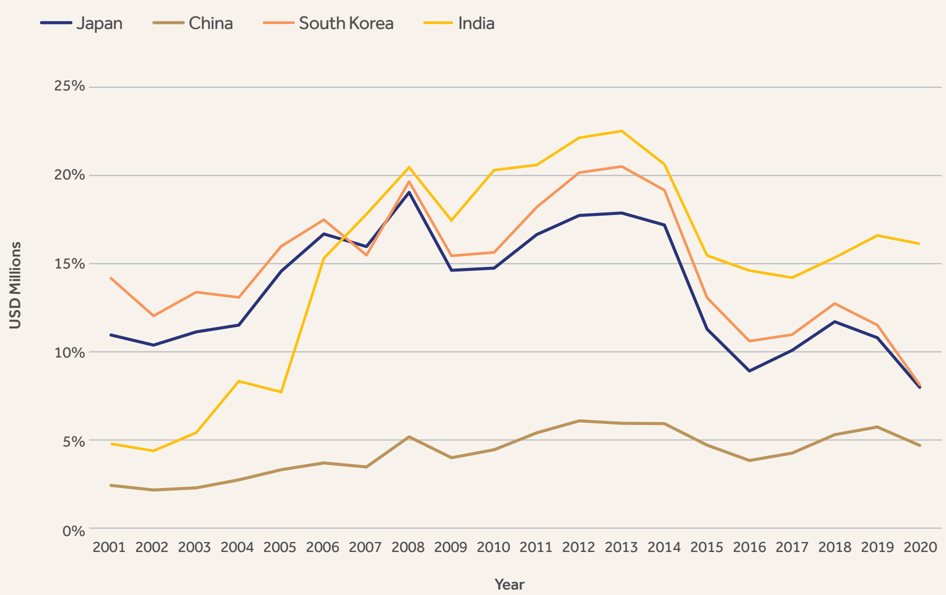
The GCC's share in the value of the four Asian countries' exports and imports are also noteworthy. For exports, the figures for Japan, South Korea, and China, are in the range of 2–4% (figure 4), indicating that GCC states are not always a large export market for them. However, it is clear that the Gulf is a very important market for India. In recent years, India has strengthened its economic ties with the UAE and other GCC states. For imports, Japan and South Korea are highly dependent on the GCC for energy, and China and India's increasing imports from the GCC reflect increased energy dependence on the Gulf (figure 5).

Figure 5: GCC Share of Total Exports to Select Asian Countries (2001–2020)



Source: IMF DOTS.

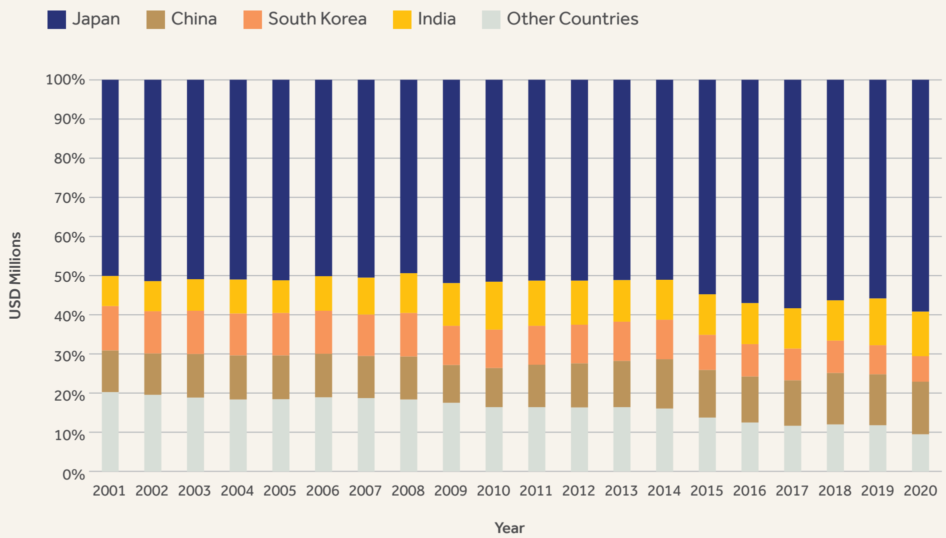
Figure 6: GCC Share of Total Imports from Select Asian Countries (2001–2020)



Source: IMF DOTS.

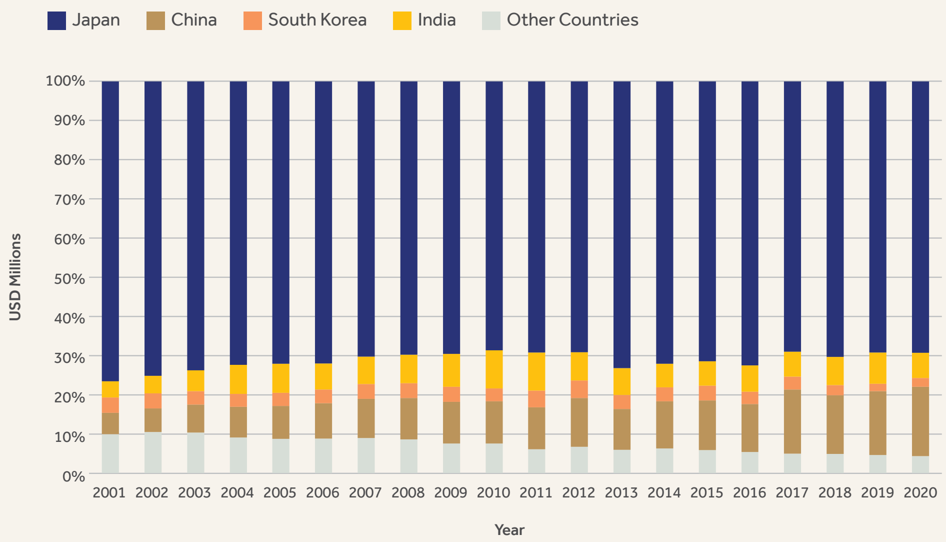
All four Asian countries, covered by this chapter, have a strong presence in GCC imports, accounting for a third of total imports. In the past 20 years, China's share has tripled, while Japan's has halved. Today, China's increasing exports to the GCC are not only consumer goods, but also capital goods and machinery, putting China in direct competition with Japan and South Korea. In terms of GCC states' share of exports, the four Asian countries remain important, accounting for 40% of export destinations (figure 7). For the GCC, Chinese and Indian export shares are growing, while those of Japan and South Korea are shrinking (figure 8).

Figure 7: Share of GCC Exports Compared to Select Asian Countries (2001–2020)



Source: IMF DOTS.

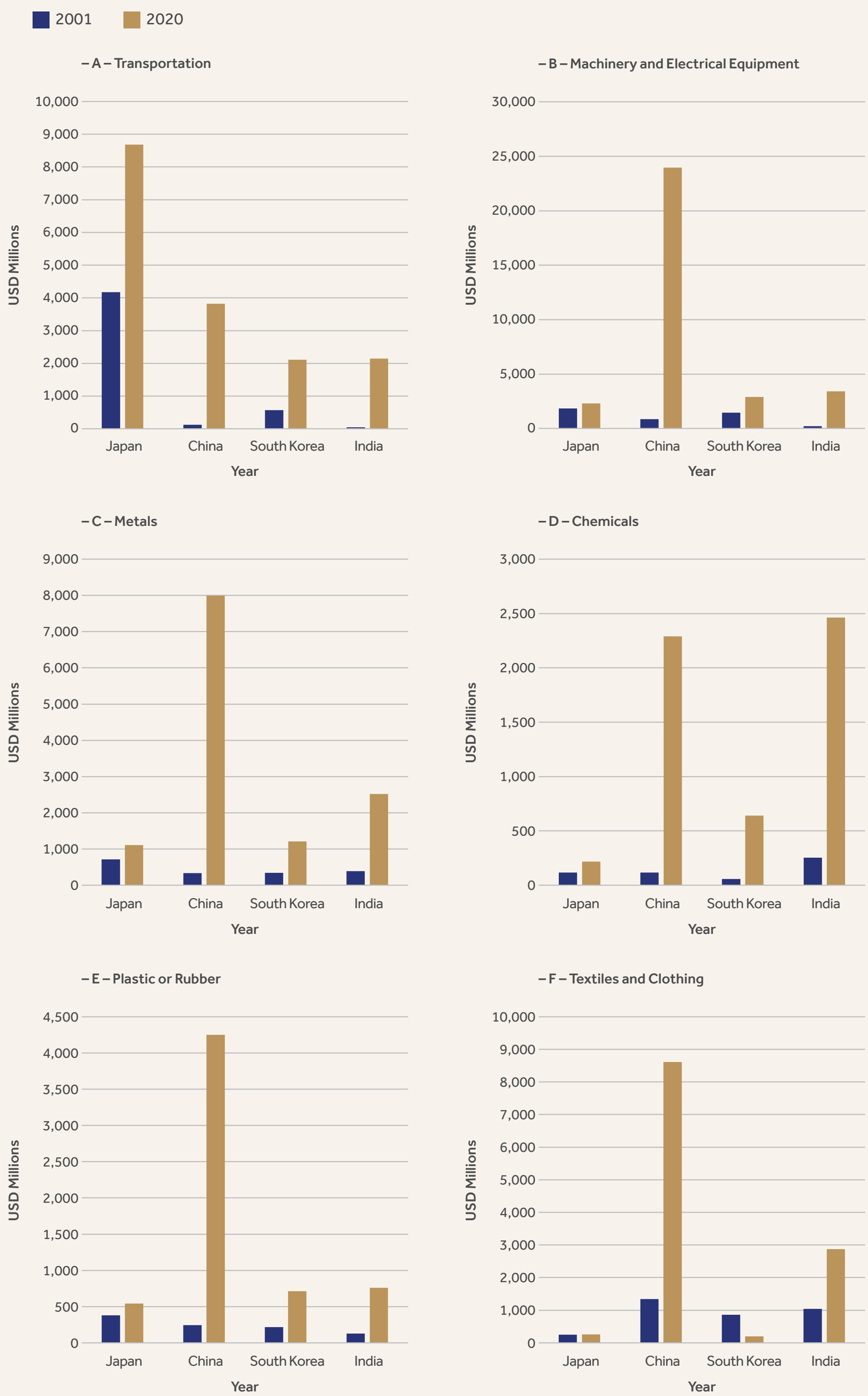
Figure 8: Share of GCC Imports Compared to Select Asian Countries (2001–2020)



Source: IMF DOTS.

In terms of the main goods exported, between 2001 and 2020, Japan's main exports were: transport equipment, machinery and electronics, metals, plastics or rubber, textiles and clothing, and chemicals. In transport equipment, Japan remains competitive with China, South Korea, and India. In other areas, however, the latter three countries have significantly increased the value of their exports, indicating that Japan has been outcompeted (figure 9).

Figure 9: Changes in the Value of the Main Export Goods from Select Asian Countries to the GCC (2001 and 2020)



Source: World Integrated Trade Solutions.

Overall, an analysis of Japan's trade relations with the GCC compared to China, South Korea, and India's trade with the Gulf suggests that Japan's economic presence is declining in the region. However, this decline is not limited to GCC states. Similar observations can be made in Japan's economic relations with other major and emerging economies.

Japan's decline can be attributed to several factors including Chinese and Korean products becoming increasingly competitive in terms of quality and price.[5] Another factor may be the relative decline in Japan's technological capabilities, reducing product attractiveness in today's markets. In addition, India's economic and industrial development and geographical proximity to the GCC have contributed to the considerable growth of its trade with the Gulf. Particularly manufactured goods, such as fuel and chemicals, machinery, metals, and transport equipment, have been at the center of the growth in India's trade exports.

JAPAN'S ECONOMIC DIPLOMACY TOWARDS THE GCC

This chapter utilizes the analytical framework of a "national diplomatic system" (NDS) to discuss Japan's approach towards economic diplomacy with the GCC. According to Lee and Hocking, "diplomacy cannot be compartmentalized into separate economic and political activity,"[6] and economic diplomacy involves government ministries as well as private and civil actors. Conceptually, NDS posits that the Ministry of Foreign Affairs is the coordinator between various actors. Other actors involved in these processes are viewed by the Ministry as partners who work together to achieve diplomatic goals.[7]

Japan's economic diplomacy has primarily focused on energy security, and government-led initiatives beyond energy have held secondary importance. Between the 1970s and 1990s, the Japanese government promoted economic and technical cooperation with GCC states, including human resource training and technology transfer, to ensure energy security. However, the Japanese government did not directly support commercial projects led by private companies. Since 1999, the Japanese Ministry of Foreign Affairs (MOFA) has set up contact points at diplomatic missions abroad to support the business activities of Japanese companies by providing information, facilitating the resolution of business related issues, and conducting promotional activities.[8] Nevertheless, MOFA's economic diplomacy has primarily been geared towards the United States, Europe, and the Asia-Pacific region, with the Middle East, particularly the GCC, being of less significance.[9]

However, Japan's economic diplomacy through the NDS framework illustrates that the Ministry of Economy, Trade and Industry (METI), semi-governmental agencies, the private sector, and civil society organizations work together to promote Japan's economic interests in the Gulf (figure 10). METI, could not, in principle, provide direct support to private companies abroad, it has provided indirect support through subsidies to semi-governmental organizations, such as the Japan External Trade Organization (JETRO) and Japan Cooperation Center for the Middle East (JCCME).[i] These semi-governmental agencies have established local offices[ii] in the GCC and have provided extensive assistance to Japanese companies since the 1980s.[10]

In the 2000s, amidst economic competition from other Asian countries operating in the Gulf, the Japanese government began to take initiatives to strengthen economic ties with the

i. JETRO's financial statements show METI's operating subsidy accounted for 62% of recurrent revenue in FY2021. In addition, according to JCCME's budget statement for FY2023, METI grants accounted for 89% of operating income. Therefore, it can be said, that both organizations are strongly characterized as institutions that provide practical support to METI policies.
ii. JETRO established offices in Dubai (1981) and Riyadh (1994); JCCME established a Saudi Arabia office (1994), Business Support office (2008), Water desk (2005), Dammam-Japan desk (2015), UAE-Japan desk (2009), and Kuwait-Japan desk (2002–2015).

GCC. Several oil concessions in Abu Dhabi were up for renewal in the 2010s,[11] there was a need to strengthen multi-faceted relationships to secure energy reserves. As a result, the Abe administration (2006–2007, 2012–2020) adopted an "all-Japan approach." This approach stressed securing resources and increasing trade exports, through economic diplomacy premised on the public and private sectors working collaboratively. It emphasizes overcoming vertical divisions in administrative structures, with MOFA, METI, specialized government agencies—such as Japan Organization for Metals and Energy Security (JOGMEC) and Japan Bank for International Cooperation (JBIC)—and the private sector working together to expand ties in various economic sectors.

Prime Minister Abe was the first Japanese prime minister to visit all of the GCC states several times, strengthening diplomatic and economic ties: Japan and the GCC signed comprehensive and strategic partnerships,[12] cementing cooperation in the fields of economy, health, infrastructure, science and technology, and renewable energy, in addition to political and diplomatic relations.

Despite the Abe administration's efforts to strengthen the all-Japan approach, Japan's economic presence in the GCC declined relative to other Asian countries due to a combination of factors. To strengthen its ties with the Gulf, Japan shifted focus to bilateral cooperation in areas where it has a competitive edge, such as advanced technology. For example, when Yasutoshi Nishimura, METI minister, visited the UAE in January 2023, he launched a new cooperation scheme called "the Japan-UAE Coordination scheme for Advanced Technology."[13] The framework facilitates matching advanced Japanese technology start-ups with UAE investors, with the aim of promoting industry, developing human resources, and creating innovation in the UAE through cooperation.[14] Japan can therefore contribute to the GCC's economic diversification efforts.

Figure 10: Multiple Dimensions of Economic Diplomacy Between Japan and GCC States

		GCC STATES	
		Government/ Semi-Government Agency	Private Sector
Japan	Government/ Semi-Government Agency	***inter-state negotiation and cooperation:*** FTA talks (suspended). Saudi-Japan Vision 2030. Diplomatic support for energy security (securing energy concessions, introducing new energy).	***Japanese government support for economuc diversification in the GCC:*** Training and technical transfer. Organising business forums and sending delegations.
Japan	Private Sector	***Business to Government:*** Export/import of oil and natural gas, investments in upstream and downstream sectors. Award and construction of infrastructure and plant projects. GCC's SWF investment to Japan.	***Economic activities in the private sector:*** Trade, business, investment, banking, tourism, etc. Training and employment of the GCC nationals. Friendship association promotes mutual understanding.

CONCLUSION AND POLICY OUTLOOK: BUILDING ON A CONCRETE STRATEGIC PARTNERSHIP

Thus far, Japan's economic diplomacy with the GCC has focused on securing energy resources and expanding economic relations in non-resource areas has not been a major diplomatic priority. Although Japan's economic presence in the GCC was relatively significant, in terms of imports and exports, in the 20th century, competition from South Korea, China, and India led to a relative decline in Japan's economic influence. This prompted Japan to adopt an all-Japan approach to strengthen its engagement with the GCC, establishing a system of cooperation between MOFA, METI, semi-governmental agencies, and the private sector.

However, analysis of economic data shows that Japan's presence in GCC markets is declining. As economic interdependence between Asia and GCC states grows, how should Japan develop its economic diplomacy? First, in line with the evolving economic landscape in the GCC, it is important to strengthen the all-Japan approach. Since the end of the Abe administration, the Japanese prime minister, Fumio Kushida, has not visited any of the GCC states. On the other hand, the leaders of China, South Korea, and India have paid multiple visits to various GCC countries. Continued mutual exchanges between Japan and GCC countries at the level of heads of government and ministers is an integral step in expanding Japan's economic presence in the Gulf.

Second, a Minister of State for the GCC (or MENA) should be created to be responsible for configuring the all-Japan approach. This new minister would preferably have diplomatic or business experience in the Middle East, be an Arabic speaker, and the term of the post would be at least five years.

Third, Japan should actively attract investment from the GCC. If Japan can attract GCC investment in the field of hydrogen, Japan's demand for hydrogen use will grow. This would lead to the development of export markets for GCC states seeking to export hydrogen and contribute to the stabilization of energy relations.

Fourth, and most importantly, each of the strategic partnerships with the GCC should lead to the materialization of concrete projects, in the near future, to reflect tangible results. This is vital as strategic agreements oftentimes tend to remain symbolic. It is therefore important to identify actionable issues, align them with the GCC's needs, and accelerate the pace of public-private cooperation.

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THE ROLE OF THE GCC SOVEREIGN WEALTH FUNDS IN ASIA

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INTRODUCTION

This chapter considers the sovereign wealth fund (SWF) investment strategies of the Gulf Cooperation Council (GCC) states in Asia. With a high dependency on fossil fuel revenues and extensive attempts to diversify away from hydrocarbons, GCC states have developed SWFs as an alternative means to expand their economies. Despite their purported economic purposes, SWFs have become highly dynamic tools that can be utilized for various purposes.

Economic relationships with other countries can be driven by various motives including social, political, economic, and a desire to assert a certain status. Additionally, they can include a significant strategic component linked to technology transfer, knowledge transfer, relationship-development, and stability for security purposes. This underscores that GCC SWF investments in Asia go beyond mere direct overseas investments and serve many of the aforementioned purposes.

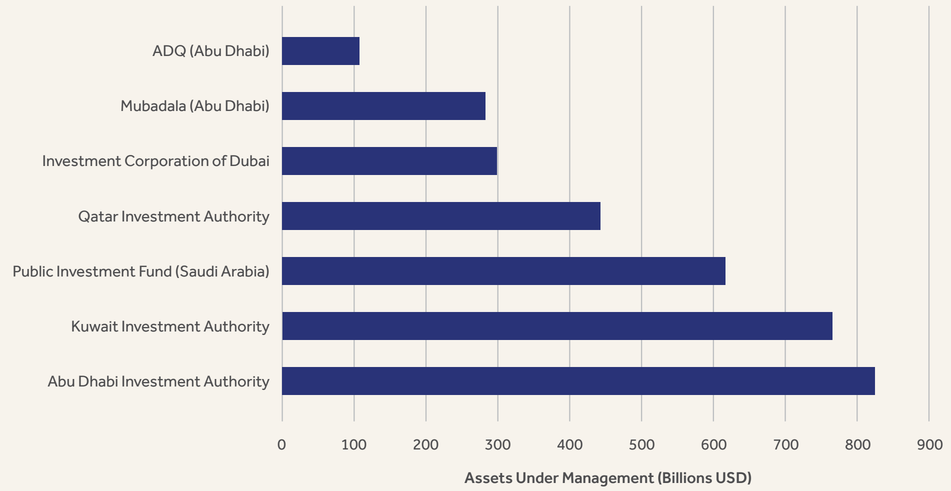
The focus of this chapter is on three dimensions: GCC SWFs with the largest footprints in Asia; investments into vital and emerging sectors such as energy, finance, technology, and security and defense; and those considered vital for achieving security, stability, domestic economic goals, technology transfer, and knowledge transfer. This chapter argues that GCC investments in Asia are not only rent seeking, but also aim to further knowledge and technology transfer. These investments are essential for the future of the Gulf states, and the establishment of consolidated policies will ensure their continual development.

GULF SWF INVESTMENTS IN ASIA

Pioneered by Kuwait in 1953, SWFs have developed into international financial vehicles with purposes that include intergenerational wealth transfer, stabilization funds, pension funds, and strategic development funds, among others.[1] SWFs have steadily grown, as has their influence in the global financial arena, since the 2008 financial crisis.

The GCC—comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)—claim some of the world's largest SWFs. It is estimated, as of 2019, that at least 40% of current global SWF assets under management originate from the GCC.[2] Figure 1 illustrates some of the largest GCC SWFs and the estimated assets under their respective management. GCC SWFs are among the most opaque in terms of investment decisions, which means that despite their active investment profiles, obtaining accurate information about the precise sums under their management is challenging.[3] This is despite the Truman Scoreboard and the Santiago Principles, regulatory frameworks geared towards promoting accountability and transparency in SWF investments reporting.

Figure 1: Largest GCC SWFs



Source: Ben Bartenstein, Dinesh Nair, and Archana Narayanan, "Record Gulf Funds Pour Into Global Deals as Liquidity Dries Up," Bloomberg, July 26, 2022, accessed August 27, 2022, https://www.bloomberg.com/news/articles/2022-07-26/cash-rich-gulf-funds-splurge-on-mega-deals-as-liquidity-dries-up.

Issues raised regarding the transparency of the GCC's SWFs could be linked to the fact that they have been described, in some contexts, as having political functions.[4] This broadly supports Burton's argument that while the relationship between Asia and the GCC is often perceived to be dominated by energy transactions, it is more nuanced.[5] GCC member states, like other actors, recognize that investment interests can be linked to national security.[6] They also form an integral part of the regional political economy, developed to maximize autonomy in light of prevailing geopolitical precarity across the globe.[7]

Additionally, as small states, the GCC has inherent disadvantages that limit their aggregate structural power relative to large states.[8] This power asymmetry has led to a realization that other power tools must be used to compensate for limited size and influence on the international stage. In this light, Long argues that various small states can "possess different material, ideational and relational bases" in addition to distinct goals.[9] This results in three power bases for small countries such as those of the GCC: particular-intrinsic power, derivative power, and collective power.[10]

GCC countries have been able to use their energy resources—oil and natural gas—as sources of particular-intrinsic power, funneling financial resources derived from hydrocarbon sales into their globally-invested SWFs, increasingly in Asia.[11] GCC SWFs have also been used as derivative sources of power, notably when Kuwait utilized its SWF in 1991 to garner support from the international community, and ultimately a U.S.-led alliance, to defeat the invading and occupying Iraqi forces.[12] Kuwait's SWF was used to pay for the government in excise in Saudi Arabia and as part of its efforts to get the international community to support its grievances against the occupying Iraqi forces.

Similarly, during the blockade of Qatar by the UAE, Saudi Arabia, Bahrain, and Egypt in 2017, the country repatriated a portion of its SWF back to Qatar to shore up the country's banking system and to fund growing cooperation with Iran and Turkey.[13] GCC states also occasionally present a united front through the use of collective power. Notably, the China-GCC Strategic Dialogue provides a forum to discuss energy relations as well as wider engagements.[14]

GCC SWF investments have helped develop relations between GCC states and Asia. Investment and business innovation, as parameters of soft power,[15] provide various means for GCC leaders to cultivate new relationships in Asia to increase their political influence in the region in various ways. Each of these small states may have similar specific-intrinsic power resources but their goals with respect to their engagement with Asian countries may differ. These relationships are symbiotic: Asian countries can make use of the commercial activities of the GCC SWFs to develop new opportunities in their domestic markets, while GCC countries use them as a means of cultivating influence in Asia. They also present new challenges in the geopolitical sphere given current tensions between China and the United States, requiring the GCC to strike a careful geopolitical balance in Asia.

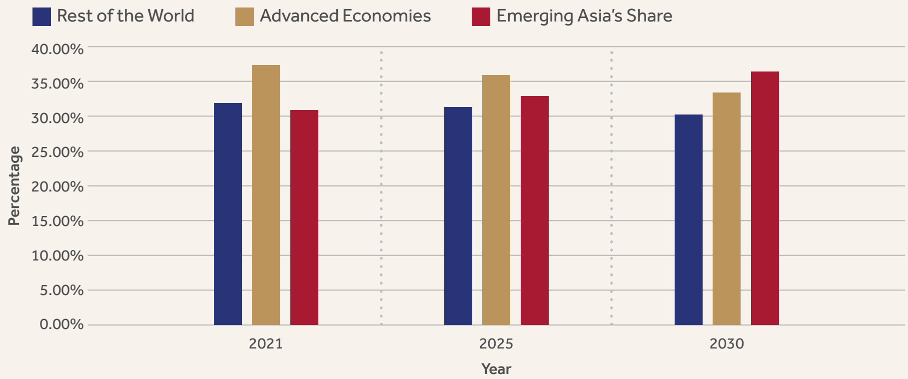
GCC countries' status as some of the largest direct investors in Asia can be explained by various factors, including declining investment opportunities in mature Western markets as well as growing investment confidence in expanding Asia markets.[16] Other factors include technological advances in Asia that could be supportive of the Gulf's SWF's domestic economies, in addition to the growing middle class in the Association of Southeast Asian Nations (ASEAN). Furthermore, the development priorities of certain ASEAN countries and new investment possibilities in a wide range of industries—including real estate, agriculture, and financial services—have all influenced this investment pattern.

While the GCC has pivoted towards Asia and its strategic partnerships with China and India have grown significantly, there is still room for considerable growth with ASEAN countries in areas such as food and agriculture, e-commerce, and fintech. Other areas of collaboration include knowledge sharing, such as halal auditor trainings in Singapore, which could facilitate trade in halal food and pharmaceutical products.[17] GCC countries have also encouraged technological investments in domestic markets, which could provide opportunities for the local sourcing of services and technological requirements. For example, Qatar's cloud computing service has utilized major Western companies such as Google and Azure.[18] In the Gulf, other Asian technology companies such as Chinese AliBaba Cloud provide cloud computing services in partnership with the Saudi Telecom Company.[19]

Figure 2 and table 1 indicate how GCC trade with Asia is accelerating and how, by 2030, the GCC is expected to engage in more business with Asia than with mature Western markets. GCC countries are increasingly pivoting towards Asia due to Asian economies' appealing conditions as well as their geographical proximity to the Gulf.[20] The increase in GCC-Asian trade has been bolstered by GCC SWFs investing not only in large and established markets but also in emerging ones, especially in ASEAN countries.[21] While there is no official definition of "emerging markets," common characteristics include strong and sustained growth and the production of high-value goods and services.[22] Among the GCC SWFs investing in these markets are the Abu Dhabi Investment Authority (ADIA), the Saudi Arabia Public Investment Fund (PIF), and the Qatar Investment Authority (QIA).[23]

The pivot towards Asia indicates that the majority of southeast Asian countries have become attractive foreign direct investment destinations due to their high-standing economic performance indexes, workforce talent, economic openness, and institutional frameworks, especially transparency.[24] While some emerging southeast Asian markets lag behind in terms of transparency, their upwards trajectory—compared to other regions—means they have continued to receive large foreign direct investments. For example, the United Nations Conference on Trade and Development (UNCTAD) indicates that the value of foreign direct investment into emerging southeast Asia in 2021 amounted to $619 billion, compared to $134 billion and $83 billion in Latin America and Africa, respectively.[25] The GCC SWF investments are an indication of the positive investment environment created by Asian countries.

Figure 2: GCC-Asia Investment Outlook 2021 to 2030



Source: Neve, "The Middle East Pivot to Asia 2022."

Table 1: GCC-ASEAN Bilateral Trade Values (2021)

Total Trade (USD millions)	**UAE**	**Saudi Arabia**	**Kuwait**	**Qatar**	**Bahrain**	**Oman**	**Total GCC**
Brunei	197.78	307.47	0.03	66.72	0	0.21	572.21
Cambodia	123.91	7.67	3.87	5.68	5.33	8.21	154.67
Indonesia	3,914.43	5,370.52	132.33	734.26	90	422.88	10,664.42
Laos	9	2.55	0.21	0.88	0.02	–	12.66
Malaysia	5,225.3	3,692.21	214.52	695.59	104.86	454	10,386.48
Myanmar	199.13	2,157.01	5.33	282.29	4.41	17.35	2,665.52
The Philippines	1,162.98	1,505.85	27.36	276.3	17.21	20.28	3,009.98
Singapore	13,437.72	7872.7	357.26	6,163.41	165.19	584.25	28,580.53
Thailand	11,692.35	6430.6	300.2	3,013.03	285.22	687.78	22,409.18
Vietnam	5,240.39	1126	61.45	179.65	15.02	148.97	6,771.48
Total ASEAN	41,202.99	28,472.58	1,102.56	11,417.81	687.26	2,343.93	85,227.13

Source: Neve, "The Middle East Pivot to Asia 2022."

SWFS IN ASIA

Foreign direct investment into Asia has been on an upward trajectory for a little over a decade given the opportunities presented by Asian markets. Some of the highest-value foreign direct investments into Asian markets have been made by GCC SWFs, especially the larger ones; tables 2 and 3 illustrate the Gulf's SWFs investments made over the periods 2009–2013 and 2015–2022, respectively. The GCC's SWFs recognized the potential of Asia's emerging markets and began investing strategically to secure and establish a foothold in regional economic activities, including provisions for relationship building, and other forms of cooperation.

Table 2: Selected GCC SWFs' Investments in Asia 2009–2013

Gulf SWF	Deal Involved	Asian Country	Value (USD billions)
Mubadala (UAE)	PETRONAS – Oil fields	Malaysia, Indonesia, Thailand, Vietnam	Undisclosed
QIA (Qatar)	Real estate, commodities, energy	Malaysia	5
QIA & Qatar Petroleum	Petrochemical complex	Vietnam	4
KIA[a] & Kuwait Petroleum	Refinery with Japanese and Vietnamese firms	Vietnam	9
SWFs in Saudi Arabia & UAE	Banking and real estate	Malaysia	Undisclosed
Mubadala (UAE)	Singapore Chartered Semiconduction Pte Ltd.	Singapore	Undisclosed
QIA (Qatar)	Real estate, financial services, hospitality, and agriculture	Vietnam, Malaysia, Myanmar, Laos, Philippines	Undisclosed
KIA & GIC[b] (Kuwait)	Islamic bond	Malaysia	0.455

[a] KIA = Kuwait Investment Authority | [b] GIC = Gulf Investment Corporation.
Source: Bin Abu-Hussin, "Gulf Arab Foreign Direct Investment."

With more than $2.5 trillion in their collective investment portfolios, the pivot of GCC SWFs towards Asian markets marked a significant development. Furthermore, it also has implications for the Gulf's strategic objectives in Asia. GCC economic and social reforms enable Asian investors to partner with GCC firms in non-hydrocarbon sectors. Gulf SWFs are investing in Asian technology companies, renewable energy, agriculture, and afforestation, among others.[26]

Larger Gulf SWFs—such as the UAE's ADIA, Saudi Arabia's PIF, and Qatar's QIA—have led the way in these investments. Investments in renewable energy serve various purposes for these countries, including meeting their commitments to the United Nation's Sustainable Development Goals 2, 7, and 13—Goal 2 centers around the achievement of food security and the development of sustainable agriculture, and Goal 7 stipulates access to reliable, affordable, sustainable, and modern energy for all. Given that Gulf countries are some of the leading exporters of hydrocarbon-related energy, investments in clean energy can push the Gulf closer to meeting Goal 13, which concerns combatting climate change and its impact on the environment.

Table 3: Selected GCC SWF Investments in Asia 2015–2022

Gulf SWF	Deal and Year	Asian Country	Value (USD billions)
ADIA (UAE)	20% stake in India's IIFL[a] Home Finance (2022)	India	0.28
ADIA (UAE)	Collaboration with Mumbai's Kotak for Investment Advisor – offices in major Asian cities (2022)[27]	India and other Asian countries	0.590
Mubadala (UAE)	Collaboration with Japan-based Softbank Group to invest in Asian start-ups (2017 onwards)[28]	Japan and other Asian countries	15
Mubadala (UAE)	Collaboration with China Development Bank Capital for various bilateral investments (2015 onwards)	China	10
Mubadala (UAE)	Collaboration with BlackRock to acquire 10.53% of Tata Power (2021)	India	0.525
Masdar (UAE)	Floating power plant to generate 145MW of electricity, exporting power to Singapore (2020)[29]	Indonesia and Singapore	0.1
QIA (Qatar)	Investments in media, technology, and telecommunications (2022)	India	1.5
QIA (Qatar)	QIA Regional Hub in Asia Square Tower 1 (2021)[30]	Singapore	2.45
QIA (Qatar)	32 residential assets through a portfolio managed by Hong Kong-based Gaw Capital Partners (2022)	Japan and Hong Kong	0.800
QIA (Qatar)	Investment in India food delivery service 'Swiggy' (2022)	India	0.700
PIF (Saudi Arabia)	Collaboration with China's Ali Baba in Indonesian logistics firm (2022)	Indonesia	Undisclosed
PIF (Saudi Arabia)	Application for Qualified Foreign Institutional Investor license, China (2021)	China	Undisclosed
PIF (Saudi Arabia)	Signed MoU with Korea's Samsung C&T and POSCO; PIF owns 38% of POSCO (2022)	South Korea	Undisclosed
Kuwait Petroleum Corporation (Kuwait)	Joint refinery in East Java (2010)[31]	Vietnam and Indonesia	8–9
Various Gulf investments	Various investments in different start-ups and businesses (2016–2021)	ASEAN	13.4

Source: Collated by author from Neve, "The Middle East Pivot to Asia 2022"; Asia House, The Middle East Pivot to Asia, Research Report, (London: Asia House, 2022), https://asiahouse.org/wp-content/uploads/2022/11/The-Middle-East-Pivot-to-Asia-2022-Digital.pdf; Asia House, The Middle East's Asian Pivot: Trade Growth and Opportunities, Research Report, (London: Asia House, 2019), https://asiahouse.org/wp-content/uploads/2019/03/ME-Asian-Pivot-full.pdf.

[a] IIFL = India Infoline Finance Limited

On the one hand, Gulf states' primary particular-intrinsic power enables them, through their investments, to develop secondary intrinsic power. This provides them with collective power influence, which supports their geopolitical standing, even if sometimes shaken by national priorities. Their sizable investments—expected to total $578 billion by 2030[32]—support the business innovation argument for soft power development.[33] When assessed as part of the Gulf's broader political economy, GCC SWF investments also have a national security aspect. This is not a new phenomenon. Prior to the current pivot to Asia, GCC SWF investments were not only focused on rent-seeking but also sought security, relationship development, knowledge, and skills acquisition as well as soft power development.[34] For example, during Qatar's 2017 blockade, SWF investments provided the means to consolidate Turkish security patronage in return for Qatar's support of Türkiye on various economic and regional issues.[35]

Politics and political economy aside, GCC SWFs investments in Asia are logical given the developments in human capital that have taken place in the region over recent decades. These developments provide the foundation for technological progress, innovation, and the transition from low-value to more sophisticated, high-value products and services. The result of such developments in human capital and consequential innovation and technology can lead to higher wages which, in turn, helps expand the size of the middle class and increase their disposable income.[36]

Better prospects for economic growth in emerging Asian markets evidences this—it is projected that at least 132 million people will be added to the consumer class by 2022 and at least one billion by 2030 in the Asian region, despite the recent economic downturns from the COVID-19 pandemic and the war in Ukraine.[37] These projections support the case for GCC SWF investments in Asia.[38] As liberal theorists such as Moravcsik have argued, these evolving relations are likely to lead to economic interdependence, cooperation, and, hopefully, enduring peace.[39]

CONCLUSION AND POLICY OUTLOOK

Major GCC nations have recognized the potential for SWF investment in Asian markets and are gradually developing their footprints in these markets. This can be attributed to several factors. For one, these investments are not only rent-seeking but also provide the means to reap various rewards—including knowledge and skills transfer—which support the GCC SWFs' home countries. This is predicated on the availability of alternative investment opportunities in Asian states across many economic sectors in large markets that can claim an increasingly educated and talented pool of human capital. This explains the pivot to the East, as do the security and strategic benefits of binding Asian actors to the GCC via soft power development. Furthermore, declining investment opportunities in mature Western markets, the GCC's proximity to Asia, and high Asian market standards provide added incentives for large-scale investments from the GCC.

The following policy recommendations will support GCC SWF investments in Asia. GCC states should first work on developing policies centered around Asian company partnerships, to provide a platform for GCC SWFs to learn and exchange ideas with Asian expertise. Moreover, the GCC should aim to develop policies concerning how GCC SWFs can utilize Asian knowledge and skills to develop domestic Gulf markets, which will support diversification efforts in their local economies. As the Gulf's economic footprint expands across Asia, GCC SWFs should coordinate and consolidate investments across Asian markets, developing long-term policies in areas such as agriculture to ensure food security for the GCC's growing population.

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CONCLUSION

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The dossier's various chapters spanning trade, energy, economics, and geopolitics, have provided an up-to-date and in-depth analysis of the growing significance of Asia-GCC ties. The chapters bring forward comprehensive analyses that underscore the importance of the multifaceted relationship between both regions.

Over the past decade in particular, GCC-Asia ties have evolved from being primarily based on hydrocarbons to a broader relationship that extends to multiple sectors and fulfils the strategic objectives of both regions. Significant economic transformations across Asia and the GCC led to increasing interdependence between both regions in energy, economics, and trade paving the way for closer political relations, amidst a complex geopolitical context.

The 1990s witnessed dramatic shifts in global economic power, changing the dynamics and patterns of trade and investment. Rapidly expanding ties between the Gulf and Asia, over the last two decades, are creating a fundamental shift of wide-reaching implications for international trade, business, and politics. The Asian powers' economic growth, kickstarted with the rise of China and India, has heightened the prominence of Asian powers' partnerships with the GCC. In 2023, projections indicate that over a half of global growth will be contributed by India and China while the rest of Asia will contribute an additional quarter.[1]

The GCC is geographically well positioned to act as a trading hub between the east and the west, expanding on a role that the Gulf played for centuries before the discovery of oil. Both the trade and tourism industries can benefit from the Gulf's strategic location, presenting various opportunities for cooperation and enhancement of existing Asia-GCC economic ties.

Empirical evidence indicates that Asian states are now the GCC's most important trading partners. In 1980, Asia accounted for a mere 10% of the GCC's total trade; however, economic engagement between both regions has since expanded significantly.[2]

In 2020, China alone surpassed the European Union (EU) as the GCC's largest trading partner.[3] Over the next decade, bilateral trade between the GCC and Asia is projected to increase by around 6% annually.[4] By 2030, GCC-Asia trade will amount to about $578 billion, accounting for over 36% of the GCC's total trade, up from the current 30.83%.[5] Notably, GCC-China trade was valued at $180 billion in 2021, hitting a milestone and setting a new record—a first—by exceeding the GCC's trade with the United States and the Euro Area collectively.[6]

GDP per capita and trade openness are significant determinants for increasing levels of trade between the GCC and Asia. The GCC and Asia's strengthened economic ties, particularly within trade, were also driven by people-to-people exchanges and strong immigration flows from Southeast Asia to the Gulf. Namely, the Indian diaspora's considerable influence across GCC states which will likely be sustained in the coming years and necessitates the Indian government's expansion of ties with the GCC and provision of greater support for the Indian diaspora.

Asia is identified as the world's epicenter for growth,[7] with its investment corridor with the Gulf growing in both directions and across various industries, including oil and non-oil sectors. The dossier highlights that growth in trade is expected to be driven by the GCC's sovereign wealth funds' (SWFs) interests in Asia. Gulf SWF investment in Asia is increasing, with India and the Association of Southeast Asian Nations (ASEAN) nations constituting the major beneficiaries. The Gulf's SWFs are opening new offices in Asia to monitor investments and seek new opportunities. With over $2.5 trillion in assets under their command,[8] Gulf SWFs have the power to make big-ticket investments—and are increasingly doing so with Asia becoming a key destination for these investments. Furthermore, greater Gulf SWF investment in Asia will increase political engagement between both regions as Asian assets come under the ownership of Gulf states.

Meanwhile, economic diversification, as part of the Gulf's efforts of realizing the aspirations of their ambitious economic visions, is moving at a staggering pace and attracting Asian investment into emerging non-oil economic sectors, such as construction, renewables, and technology. Gulf investments in digitalization, fintech, digital assets, infrastructures, and ports increased GCC-Asia trade in non-oil sectors throughout 2022. China's Belt and Road Initiative (BRI) investments totaled $59.5 billion in 2021 and the Middle East and North Africa (MENA) region received 29%, the biggest share.[9] Overall, BRI investments into the MENA region surged by 360% between 2020 and 2021 and have greatly benefitted Gulf states' economic diversification efforts.[10]

Closer economic and political ties between the Gulf and Asia have the potential to enhance trade and prosperity in both regions, with Gulf-Asian ties becoming central to navigating the current global political and economic landscape. The GCC's tacit 'look East' policy can be seen in a number of key initiatives including several free trade agreements (FTAs) currently under negotiation. Gulf states are also drawn to bolster ties with Asian states due to the lack of 'political baggage' that has long served as a point of contention between the GCC and its Western allies, such as the United States and the EU. The FTAs are bound to deepen economic relations and may lead to increased competition between Asian countries, such as China, India, Japan, and South Korea.

Hydrocarbons form the core of this evolving relationship and continue to be crucial to GCC trade with Asia. Asian demand for Gulf hydrocarbons remains robust and its importance as a source of revenue for the Gulf states will only grow as demand for hydrocarbons expands. Asian investments in the Gulf's oil industry are strategic and aimed at securing energy supplies, with continued interest in extraction, refining, and ports. As Gulf states transition away from fossil fuels, following the Paris Agreement, GCC-Asia cooperation within hydrocarbons will gradually be replaced by investments in developing alternative energy sources that are both sustainable and renewable. Examples include hydrogen and ammonia, which hold significant potential in achieving net-zero goals pledged by various Asian and GCC states. GCC-Asia cooperation on sustainability and renewables is set to increase in the future, encouraging Gulf economic diversification.

Expanding trade relations with non-U.S. partners has also helped the GCC diversify its trade portfolio, reducing its overdependence on the United States. The China-brokered Iran-Saudi peace agreement, signed in March of 2023, presents avenues for further cooperation between China, Iran, and Saudi Arabia, and more broadly the Gulf.

In particular, the Saudi-China bilateral relationship has grown considerably over past years.OPEC's decision, in October of 2022, to cut production by two million barrels per day (bpd) has arguably led to a deterioration in U.S.-Saudi relations. Emerging rifts between the United States and the Gulf could encourage Gulf states to strengthen ties with China. U.S.-China relations have come under increasing strain over the past period, and further deterioration could place pressure on Gulf states to either prioritize or downgrade their relations with either side.

As competition between China and the United States grows, it will increasingly play out in the Indo-Pacific region and will likely impact the Gulf. The United States will continue to remain an important security partner for Gulf states in the foreseeable future, but China's status as an important economic partner for the Gulf will drive Beijing towards increased political and security involvement and cooperation within the Gulf, particularly in the maritime domain. Therefore, U.S.-led 'minilaterals'—namely AUKUS, the Quad/Quad Plus and I2U2—can be understood as the United States' attempts to cement its ties with regional allies in its bid to limit China's engagement with the region. This may lead the United States to increase cooperation with some Asian states and the Gulf by facilitating Asia-GCC security arrangements and involving more states in existing arrangements, such as I2U2.

Overall, growing Asia-Gulf linkages exemplify foundational changes currently unravelling in the international system, as both sides take a more assertive role in their respective regions and the world. This dossier has sought to analyze the socio-economic, political, and security components of this evolving relationship; however, the depth and extent of these dynamics will likely grow at an exponential pace and will require further research and better understanding as they continue to unfold and develop.

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ABOUT

THE MIDDLE EAST COUNCIL ON GLOBAL AFFAIRS

The Middle East Council on Global Affairs (ME Council) is an independent, non-profit policy research institution based in Doha, Qatar. The ME Council produces policy-relevant research, convenes meetings and dialogues, and engages policy actors on geopolitical and socioeconomic issues facing the Middle East and North Africa (MENA) region. The ME Council serves as a bridge between the MENA region and the rest of the world, providing a regional perspective on global policy issues and establishing partnerships with other leading research centers and development organizations across the MENA region and the world.

WASEDA UNIVERSITY AND THE CHAIR OF THE STATE OF QATAR FOR ISLAMIC AREA STUDIES

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