The New Silk Roads' Impact on the Persian Gulf Region. Contextualizing China's Economic Ties and Diplomatic Relations with the Gulf States.

GATER-SMITH, PHILIP,HOWARD,ALEXANDER

Durham University

Philip Gater-Smith

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Primary Supervisor: Dr Christopher Davidson

Secondary Supervisor: Dr David Kerr

Institution: Durham University

School: School of Government and International Affairs

Author's College: Ustinov College

AUTHOR'S DECLARATION

'This thesis is the result of my own work. Material from the published or unpublished work of others which is used in the thesis is credited to the author in question in the text.'

Philip Gater-Smith

Durham (United Kingdom), 31 October 2017

To my parents

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LIST OF ABBREVIATIONS AND ACRONYMS

ACC	Al-Arrab Contracting Company
ADB	Asian Development Bank
ADCO	Abu Dhabi Company for Onshore Operations
ADNOC	Abu Dhabi National Oil Company
APOC	Anglo-Persian Oil Company
AIIB	Asian Infrastructure Investment Bank
AIOC	Anglo-Iranian Oil Company
ASEAN	Association of South-East-Asian Nations
BRI	Belt and Road Initiative
BP	British Petroleum Company
CCB	China Construction Bank
CCCC	China Communications Construction Company
CGIT	China Global Investment Tracker
CENTCOM	U.S. Central Command
CITIC	China’s International Trust and Investment Corporation
CIA	Central Intelligence Agency
CIC	China Investment Corporation
CIT	Complex interdependence theory
CHEC	China Harbour Engineering Company
CMF	Combined Maritime Forces
CNBM	Chinese National Building Material Company
CNPC	China National Petroleum Corporation
CPEC	China-Pakistan Economic Corridor
CRCC	China Railway Construction Company
CSCEC	China State Construction Engineering Corporation
DIFC	Dubai International Financial Center
DXB	Dubai International Airport
EIA	U.S. Energy Information Administration
EIC	English East India Company
EO	Engineer’s Office
EU	European Union
EPC	Engineering, procurement, construction
FDI	Foreign direct investment
FPI	Foreign portfolio investment
FTA	Free trade agreement
GAPP	Generally Accepted Principles and Practices (Santiago Principles)
GCC	Gulf Cooperation Council
GDP	Gross domestic product
HST	Hegemonic stability theory
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
IR	International Relations
IAEA	International Atomic Energy Agency
IPE	International Political Economy
IO	International Organization
IPO	Initial public offering
IS	Islamic State
ITC	International Trade Centre

JAFZA	Jebel Ali Free Zone
JCPOA	Joint Comprehensive Plan of Action
JFS	Joint feasibility study
JV	Joint venture
KAEC	King Abdullah Economic City
KSA	Kingdom of Saudi Arabia
KCIC	Kuwait-China Investment Company
KKU	King Khalid University
KPC	Kuwait Petroleum Company
LNG	Liquified natural gas
MASCO	Al-Suwailem Company
MENA	Middle East North Africa
M&A	Mergers and acquisitions
MoU	Memorandum of understanding
MMC	Malaysia Mining Corporation
NBAD	National Bank of Abu Dhabi
NIOC	National Iranian Oil Company
OBOR	One Belt One Road
OOC	Oman Oil Company
OPEC	Organization of Petroleum Exporting Countries
PPP	Purchasing power parity
P&O	Peninsula and Oriental Steam Navigation Company
PRC	People's Republic of China
QIA	Qatar Investment Authority
RAK	Ras Al-Khaimah
RASGAS	Ras Laffan natural gas project
R&D	Research and development
RDJTF	Rapid Deployment Joint Task Force
RMB	Renminbi
SABIC	Saudi Arabian Basic Industries Corporation
SAGIA	Saudi Arabian General Investment Authority
SBG	Saudi Binladin Group
SCO	Shanghai Cooperation Organization
SEPCO	Shandong Electric Power Corporation
SDR	Special Drawing Rights
Sinoma	China National Machinery Industry Corporation
SIS	Secret Intelligence Service (MI6)
SLOC	Sea lines of communication
SOE	State-owned enterprise
SRF	Silk Road Fund
SWCC	Saline Water Conversion Corporation
SWF	Sovereign wealth fund
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USSR	Union of Soviet Socialist Republics
VOC	*Verenigde Oost-Indische Compagnie* (Dutch East India Company)
WMD	Weapons of mass destruction
WTO	Wort Trade Organization

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Introduction

The rise of China and Middle Eastern instability are two of the early 21st century's dominating themes in international relations. Both themes' primary interface is the oil-exporting Persian Gulf region which is literally fuelling China's energy-hungry re-emergence, but which also lies in a geo-politically volatile neighbourhood that threatens this very development. In short, the growing China-Gulf relationship is increasing in economic and strategic importance – contributing to what have been called the New Silk Roads – but is potentially at risk if Middle Eastern turmoil spills over into the Gulf. What does the merging of these two themes entail?

Background

China's rise has already had a major impact on the global economy and on the distribution of power in the international system. It has coincided with a perceived relative decline of the West especially after the Financial Crisis.[1] These simultaneous developments constitute a watershed period in global history, because the West has dominated the world economically, politically, and militarily for roughly half a millennium. The current global economic re-convergence between the West and the emerging markets particularly in Asia, spearheaded by the world's oldest and largest civilization, has led to the speculation that the 21st century will belong to China in the same way that the 19th century is said to have belonged to Great Britain and the 20th century to the United States.[2] The subject matter of China's re-emergence is one of the largest in the International Relations (IR) discipline, also because China's impact is likely to go far beyond economic matters, as it turns into a potential superpower challenging the US's so-called unipolar moment.[3]

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[1] Breslin, S. (2013), *China and the Global Political Economy*. Basingstoke: Palgrave Macmillan; He, Z. (2016), *China's Financial Stability: Inherent Logic and Basic Framework*. Singapore: World Scientific Publishing Company; Jacques, M. (2012), *When China Rules the World: The End of the Western World and the Birth of a New Global Order*. London: Penguin; Kroeber, A. (2016), *China's Economy. What Everyone Needs to Know*. New York City: Oxford University Press; Zakaria, F. (2011), *The Post-American World: And The Rise Of The Rest*. London: Penguin, Chapters 1/4.

[2] Ferguson, N. (2012), *Civilization. The Six Killer Apps of Western Power*. London: Penguin; Maddison, A. (2003), *The World Economy: Historical Statistics*. Paris: OECD Publishing; Morris, I. (2011), *Why the West Rules - for Now: The Patterns of History and What They Reveal about the Future*. London: Profile Books; Nye, J. (2015), *Is the American Century Over?*. Cambridge/Malden: Polity Press; Pomeranz, K. (2001), *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton: Princeton University Press.

[3] Allison, G. (2017), *Destined for War: can America and China escape Thucydides's Trap?*. London: Scribe UK; Brands, H. (2016), *Making the Unipolar Moment: U.S. Foreign Policy and the Rise of the*

Middle Eastern instability has had its own fair share of seemingly diminishing American power. Many countries in the Middle East and beyond have been affected by domestic and regional insecurity. This has come in the form of terrorism, political and religious fundamentalism, violent regime crackdowns, outside powers' military interventions, civil wars, interstate proxy wars, refugee crises, and the threat of WMD proliferation.[4] These instability problems have also negatively impacted several Middle Eastern states economically. Only some have experienced economic growth, prosperity and even staggering wealth due to large natural resources. Half of the world's proven oil reserves are located in a Middle Eastern sub-complex, the Persian Gulf region. The enduringly oil-dependent global economy is thus exposed to potential Gulf instability.[5] Al-Qaeda's 9/11 terrorist attacks on the US ushered in a period of intensified American military intervention in the region in order to counter security threats and to upgrade America's already substantial geo-political position there. Yet, these interventions have largely been perceived as a colossal failure, and instability has intensified further in the wake of the post-Arab Spring turmoil.[6] Although the Gulf itself has so far been largely shielded from its immediate periphery's instability there is a constant risk. The regional disorder and the US's costly failure to prevent it, has raised the spectre of eventual American withdrawal from a region whose few but vital economic arteries are dependent on the US military security umbrella.[7]

Both wider stories, China's rise and Middle Eastern instability, with all their contributing elements and consequences are covered in the news on a daily basis, and

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Post-Cold War Order. Ithaca: Cornell University Press; Kissinger, H. (2012), *On China*. London: Penguin; Paulson, H. (2016), *Dealing with China. An Insider Unmasks the New Economic Superpower*. London: Headline Publishing Group.

[4] Ehteshami, A. (2017), *Iran: Stuck in Transition*. Oxon: Routledge; Gerges, F. (2017), *ISIS: A History*. Princeton: Princeton University Press; Gerges, F. (2013), *The New Middle East: Protest And Revolution In The Arab World*. Cambridge: Cambridge University Press; Halliday, F. (2010), *The Middle East in International Relations: Power, Politics and Ideology*. Cambridge: Cambridge University Press, chapters 5-9; Hinnebusch, R. (2015), *The International Politics of the Middle East*. Manchester: Manchester University Press, chapters 7-9; Kepel, G. (2009), *Jihad: The Trail of Political Islam*. London: I.B. Tauris.

[5] Gause III, F.G. (2010), *The International Relations of the Persian Gulf*. Cambridge: Cambridge University Press; Miller, R. (2016), *Desert Kingdoms to Global Powers: The Rise of the Arab Gulf*. New Haven: Yale University Press; Yergin, D. (1991), *The Prize. The Epic Quest for Oil, Money, and Power*. New York City/London/Toronto/Sydney/Tokyo/Singapore: Simon & Schuster.

[6] Buckley, M., Singh, R. (2006), *The Bush Doctrine and the War on Terrorism*. Oxon: Routledge; Gordon, M.R., Trainor, B.E. (2006), *Cobra II: The Inside Story of the Invasion and Occupation of Iraq*. New York: Pantheon; Ricks, T.E. (2006), *Fiasco: The American Military Adventure in Iraq*. New York: Penguin.

[7] Glaser, C.L., Kelanic, R.A. (2017), 'Getting Out of the Gulf. Oil and U.S. Military Strategy'. In: *Foreign Affairs*, January/February 2017 Issue.

therefore both also feature prominently in the academic IR discipline. Less discussed is what both themes entail for each other, although a growing amount of literature has come into existence in the last half decade, as Chapter 1, the Literature Review, shows. Generally, measuring China's impact abroad is a key indicator of China's global power. Furthermore, such a measurement is especially important in the world's most strategically relevant regions. The Middle East, located between three continents, has long been one such region, and even more so since the discovery of its oil reserves. Considering the historical record, it does not seem far-fetched to claim that a great power's advanced global position has also often correlated with its advanced position in the Middle East, especially the Persian Gulf.[8] Before the US's relative regional hegemony, Britain's role there was very similar, but so had been that of other outside powers, such as the Portuguese and Dutch trading empires.

Research Question

What is China's impact on the Gulf and what is the Gulf's impact on China? How does China's ascent play out in the Middle East, or rather more specifically, the Persian Gulf? How does that region with all its resources, but also with its many actual and potential conflicts impact on China? The answers may be far from straight forward. China's rise offers economic opportunities for Gulf countries, and the wider region's insecurity may cushion or indeed propel China's rise by way of alerted incentives to protect its interests there more assertively. The hydrocarbon-rich Persian Gulf region is now China's largest import source of foreign oil and China has emerged as the Gulf's largest oil export market.[9] The potentially soon-to-be largest economy in the world seems to be increasingly dependent on the world's most important oil-producing region – a development which constitutes a vital relationship between the two territories and arguably has an impact not only on the global energy market but on the entire global economy. Is China therefore on the verge of becoming the Gulf's most significant outside power, potentially replacing the US's regional hegemony in some form or another? More precisely, will China's already profound economic

[8] Macris, J., Kelly, S. (eds.) (2012), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition].
[9] Downs, E.S. (2013), 'China-Middle East Energy Relations'. *Brookings Institution*, 6 June 2013 [https://www.brookings.edu/testimonies/china-middle-east-energy-relations/].

importance to the Gulf states be followed by a game-changing geo-political effect? For example, could China one day even station its military forces on bases in the Gulf?

This thesis seeks to address the theme of China's recent, current, and ultimately possible future role in the Persian Gulf. However, merely assessing the nature and scope of China-Gulf relations does not lend any deeper meaning to them. They need to be contextualized in various ways and be analysed in reference to other structures and developments that influence them and which they need to be compared to. In order to do so step by step, the thesis is structured the following way.

Thesis Structure

First, contextualization involves a theoretical framework that integrates, more formally, this relatively new subject matter and introduces the research question to the IR discipline. The two most widely used IR theories, neo-realism and neo-liberal institutionalism, are chosen for this undertaking. Chapter 2, Methodology, explains this choice of theories, their underlying ontology and epistemology, and provides the theoretical framework, covering key texts of both theories. Whilst neo-liberal institutionalism emphasizes that economic interdependence constrains the actors' flexibility and incentivizes the pursuit of absolute gains and multilateral cooperation, neo-realism stresses that the international system's structural anarchy leaves states with little choice than to pursue relative gains and therefore rivalry or alliances. Yet, the author argues that both theories can, to a significant extent, be synthesized via the inclusion of geographical realities centred on strategic regions. For this objective, a theory of "regional hegemonic stability", capturing elements from neo-liberal institutionalism and neo-realism, and the ideas of several key geo-political thinkers, is suggested. The theoretical framework ends with three according hypotheses about the Gulf. For the theoretical assessments at the end of each chapter and the overall conclusion, the two theories and their region-centred synthesis provide wider and more specific notions to consider in the analytical process and help to discuss the topic with an IR theory "language". Section 2 of the methodology chapter outlines research methods and the research design.

Second, the modern historical context of Gulf outside powers, from the Portuguese in the 16th century, to the Dutch Empire in the 17th, and to the British Empire in the 19th and partly 20th century, is provided in Chapter 3. This enables the author to identify some historic patterns and general analogies that should be helpful to illuminate the meaning and possible trajectory of current structures and developments regarding the Gulf, China, and other present outside actors, such as the US.

Third, recent history and the current Gulf situation which sees the US dominating the region, forms the current geo-strategic context, described in Chapter 4. After covering the US Twin Pillar strategy, the origins and implementation of the Carter Doctrine, and finally the post-9/11 era of enduring but contested *Pax Americana*, the chapter also covers the economic sides that brought about and might end the US's Gulf hegemony. Whether the status quo prevails or not, the US Gulf role heavily influences China's interests, positions, and options there.

Fourth, it is necessary to emphasize that China and the US are far from being the only relevant Gulf outside actors, as Chapter 5 highlights. The very story of Asia's recent economic development that brought China to the region as an economic actor, also brought in other major Asian states and markets. Japan's, South Korea's, and India's growing ties to the Gulf states, contributing to what have been dubbed the New Silk Roads, thereby form the inter-regional context within which China operates.

Fifth, China's own particular New Silk Roads to the Gulf markets are merely another part of its much wider evolving trade and investment networks across Asia and beyond. China's economic and potential geo-political rise plays out in new financial institutions and across much of the Eurasian landmass, particularly with the announcement of the so-called Belt-and-Road Initiative. The Gulf states form just one important example of regions on China's New Silk Roads. This example is elaborated upon in Chapter 6 and provides the China-Gulf context for the following case studies.

Sixth, the first case study covers China's ties with Saudi Arabia. Chapter 7 looks at their bi-directional trade and investment flows, diplomatic relations, and their strategic underpinning. Saudi Arabia is chosen as a case study, especially because it is usually China's largest foreign oil provider and therefore its most important Gulf partner.

Seventh, China's ties with the UAE are covered in Chapter 8. This bilateral relationship forms the second case study, because, in terms of value of economic transactions, the UAE is China's second most important partner in the Gulf, and in terms of diversity of connections, it is indeed China's number one Gulf partner.

Finally, all these threads are woven together in the Conclusion in order to summarize the nature and scope of China-Gulf relations and characterize China's recent, current, and possible future role and extent of power in the region. Using historical analogies from Chapter 3, balancing Chapter 4's core insights on the US Gulf position with China's regional impact and interests, assessing China's prospects for competition or cooperation with other Asian actors in the Gulf, first addressed in Chapter 5, and thereby integrating the core analysis of Chapters 6-8 into all these contexts, serves to tackle the research question in a meaningful way. This is undertaken via a discussion which of the three theory-based hypotheses is the most accurate, first in terms of recent and current developments, and second in terms of their extrapolation towards imaginable futures.

PART ONE:

Research Context and Research Design

1. Literature Review

The narrower subject matter of China-Gulf relations, and the broader one of Asia's so-called New Silk Roads and of the question how the Gulf region fits into them, are relatively new. A few individual exceptions were published in the 1990s and early 2000s, when China's economic ties with the Gulf states started to blossom but were clearly not yet of strategic importance. However, it was especially from the time of the Financial Crisis onwards, when commentators and analysts increasingly focused on China's rise and the West's relative decline that curiosity also grew on China's new value to other regions, such as the Middle East. Most of the secondary literature in the field was produced after 2008. The topic can still be regarded as a niche. Nonetheless, there is certainly a stirring academic engagement with a topic of increasing economic and strategic relevance in the IR discipline.

A growing number of journal articles and online think tank and business reports are approaching the subject matter from different angles. For the sake of brevity, the author only reviews major academic publications in this literature review, including mostly books in the form of edited multi-author volumes and single-author monographies. A few expanded online journal publications with multiple chapters and authors are covered. Further secondary literature is discussed in the next chapter in the section on data collection methods, as is a reference to the author's inevitably limited Western-based literature. IR theory literature is not covered here either, but in the methodology chapter, where a summary and discussion of notions for the thesis' theoretical framework takes place.

Before turning to the core subject matter's literature on China-Gulf relations, this literature review broadly follows the thesis' chronology of its main body of work – starting with Gulf history with a particular focus on outside powers in this region. It then covers contemporary Gulf history up to the present day, reviewing the most important major works on the US role in the Gulf during and after the Cold War. Thereby, it briefly touches upon the region's security environment and political economy in terms of the global financial and energy landscape. Afterwards, in the literature review's second section, the most important academic works on Asia's and China's rise and the New Silk Roads to the Gulf are discussed, building a thematic bridge to the core subject matter of China-Gulf relations.

1.1 The Gulf and the World: History, Security, and Political Economy

No chapter-long literature review could do justice to the vast amount of literature focused on Middle Eastern history. Among the most prominent and widely-cited general works in the English-speaking world are Bernard Lewis' landmark book *The Middle East: 2000 Years of History from the Rise of Christianity to the Present Day*, Albert Hourani's *History of the Arab Peoples*, and Eugene Rogan's *The Arabs: A History*. Similarly, Michael Axworthy's *Iran: Empire of the Mind: A History from Zoroaster to the Present Day* has also been lauded as the best long-term historical overview of the Persian Gulf's eastern lands. Yet, here, too, it merely represents the tip of the iceberg's tip. For other examples and further readings on very general or indeed highly specific themes, numerous references on a multitude of macro- and micro-historical literature throughout this thesis are provided.

These four important examples provide crucial overviews of Middle Eastern time and space, capturing the region's essence in its global context and its historical development over the long term. The Persian Gulf sub-region, as it could be called, features prominently in all of them, although cannot possibly be discussed there in its entirety and indeed in its peculiar geographical, political, economic, and cultural distinctiveness. For an overview prioritizing the last half-millennium, it is David Commins' *The Gulf States: A Modern History*, that stands out as a single-author volume – brilliantly summarizing the most important developments and incidents. He successfully outlines how the Gulf's near and far periphery has influenced the region and has been influenced by it without losing his spacial focus. Starting with the Gulf in ancient times, and summarizing the Gulf's role in the Middle Ages, the book then turns to the early-modern and modern era charted in seven chapters. Though Commins' use of primary sources is moderate, the overview-character of his book could be seen as an acceptable justification for what otherwise would be a risky omission for a History book. This thesis' first context chapter has made significant use of the thematic accessibility of Commins' creation.

Before turning to the specialized literature of the Persian Gulf's modern interaction with outside powers – the focus of this section and this thesis' first context chapter – it is also necessary to mention the most important recent works on the pre-modern counterpart of this topic from a broader trans-regional perspective. This largely revolves around the notion of the old Silk Roads – connecting the Middle East and the Gulf with Asia and Europe via trade corridors on land and sea. Among the most important recent books on this wider subject matter, five have stood out in their impact.

In 2004, John Hobson published his landmark work on *The Eastern Origins of Western Civilisation*, persuasively showcasing not only the pioneering level of oriental globalization for the millennium between the 6th and the 16th century – to which the West only really caught up around 1800. He also demonstrates the extensive transfer of, not only goods and art, but also of ideas, institutions, knowledge, and technology along Silk Roads encompassing what he calls the 'Afro-Asian' space. East Asian civilizational elements, spearheaded by Chinese culture, flowed towards Europe via Central Asia, West Asia, and Africa, all of which respectively left their decisive civilizational mark on a, for long, backward Occident. The Middle East in particular served not only as a centre of innovation and discovery, but represented a vital bridge facilitating transactions for a surprisingly global economy. As this thesis shows, Hobson's observations regarding the Middle East, including the Persian Gulf, continued to be relevant throughout most of the modern era, the Western Age, and are now experiencing a renaissance on the New Silk Roads.

For an easily accessible overview on the ancient land-and-sea Silk Roads in their global context, Xinru Liu's *The Silk Road in World History* is highly recommendable. Though the book often takes its label very literally and predominantly focuses on the commodity of silk, its argument is that the three largest civilizations that produced and consumed that commodity in the early Middle Ages – Tang China, Byzantium, and the Islamic empires – contributed to a much greater economic and cultural fusion than might have been expected.

A more detailed, grand historical analysis and conclusion was reached by Christopher Beckwith in his award-winning *Empires of the Silk Road: A History of Central Eurasia from the Bronze Age to the Present*, which was first published in 2009. He defines and describes the Silk Road as a trans-continental economic and cultural system, with ups and downs between the Bronze- and Industrial Ages. This broadly echoes Hobson's and Liu's arguments, but differs in two important aspects. Firstly, Beckwith takes a considerably critical stance not only towards the pre-modern West, e.g. Rome or Byzantium, but also towards the large Asian civilizations of China, India, and the Middle East. All four civilizations he labels as 'peripheral powers'. He does not deny their achievements at different points in time. However, he emphasizes that the principal reason for their triumphs was their openness towards outside influences and the principal reason for their occasional downfalls their assertive imperialism. Although this could be synthesized with Hobson, Beckwith puts one region of the world centre stage: nomad-dominated Central Eurasia acting not only as his crucial "middle man" in the transactions but functioning indeed as the principal driver of global commerce and economic and cultural output. It was the modern rise of the West to global dominance in geo-politics, art, trade, technology, and transport that gave the final blow to the Silk Road, because trade by sea – a 'littoral system' – became relatively cheaper, faster, and safer. What Beckwith fails to clearly acknowledge, is that, unlike Central Eurasia, the Middle East, and especially the Persian Gulf region mostly had access to the trade routes on land as well as at sea. In both the pre-modern era and today, the Gulf formed and forms again a crucial global trade hub that Central Eurasia could never match geographically. Beckwith not only largely omits the Gulf's proven long-distance trade by sea in the pre-modern era. By correctly pointing towards Middle Eastern productivity-decline in the modern pre-oil age as the harbinger of a relative Gulf isolation, he misses the fact that even during this period the Gulf was central to the Western empires doing business and wielding power in the Orient.

Valerie Hansen's *The Silk Road: A New History* largely resembles Beckwith's focus on trade, art, and cultural transmission on land across Central Asia. Her attention to the micro-elements of the wider story, putting seven landlocked Steppe hubs of the ancient Silk Road under the microscope are what makes her work powerful and informative. Yet, since geo-political dynamics and the Gulf region are largely side-lined, the book is of lesser relevance to this thesis.

An author who does cover geo-politics and places the world's centre of gravity in the Middle East, especially in Persia, with both its Central Asian and Gulf outlets, is Peter Frankopan. His 2015 publication *The Silk Roads: A New History of the World* bares an overly-ambitious sub-title, because, contrary to its cover's promise, it largely brushes over Africa, the Americas, and East- and South Asia, but nevertheless persuasively shows how the Middle East served as the primary motor for the world's flow of goods, ideas, and conflicts throughout the ages. Although, unlike his preface seems to imagine, Frankopan is not the first to criticize a Western-centric view of world history, and although he fails to explain why the West became so dominant, his narrative still demonstrates impressively the impactful long-distance networks, connecting regions via multiple arteries labelled Silk Roads. The Gulf features prominently in this beautifully written story from antiquity to the 21st century.

Even so, these books' focus on the old Silk Roads does not offer a specialized and detailed analysis of this sub-region and the specific theme of outside power influence there. Lawrence Potter's edited 2010 volume *The Persian Gulf in History* does. The book is a collection of individual papers on various elements of Gulf history from antiquity to the present. It deals with socio-cultural and geographical aspects, emphasizing the unique and cosmopolitan *Khaleeji*-identity on both the Arabian and Persian coastline compared to their different hinterlands, as well as geo-political aspects, discussing internal and external actors. Among the latter, João Teles e Cunha, Willem Floor, Frederick Anscombe, J.E. Peterson, and Gary Sick respectively include the Portuguese, the Dutch, the Ottomans, the British, and the Americans. Particularly their part of the book, is thus of profound importance to this thesis.

Potter's follow-up work, *The Persian Gulf in Modern Times*, was published in 2015. Unlike its predecessor, this volume has a much narrower time-frame, analysing merely the last two centuries. Furthermore, outside powers as political actors in the region, such as the British and the Americans, are only indirectly discussed. Rather, the papers concentrate predominantly on anthropological matters, such as the changing roles of different port cities along the coastline, and Gulf demographics and migratory flows from within and from outside the region. The book is therefore slightly less applicable to this thesis' priorities.

That cannot be said about Jeffrey Macris' and Saul Kelly's edited 2012 volume *Imperial Crossroads: The Great Powers and the Persian Gulf*. Focusing exclusively on the subject matter of modern Gulf outside powers, the papers of this book are all highly relevant for this thesis' context chapters. Rudi Matthee's chapter on the Portuguese, Virginia Lunsford's chapter on the Dutch, and Robert Johnson's, Saul Kelly's, Jeffrey Macris', Tore Petersen's, Clive Jones', Frank Jones', and Jason Campbell's respective chapters on the British and the Americans each contribute to the specific case-illuminations, as well as the bigger picture. Indeed, since the editors, Macris and Kelly, and their fellow authors, follow the same motivations as the author of this thesis – showing the long-term similarities, highlighting the differences between various modern outside powers in the Gulf, and how their analysis can provide critical analogies for current regional affairs – important legwork has already been done. This is crucial, because the author of this thesis does not have the same amount of space available for the historical analysis as did the authors of Imperial Crossroads had for theirs. On the other hand, Macris' and Kelly's publication only briefly discusses the re-emergence of India and China to the Gulf in two of the final chapters, in which James Holmes, Toshi Yoshihara, and Ben Simpfendorfer look at the recent developments and the future. Furthermore, since the book is composed of many stand-alone chapters, it can neither offer a consistent narrative, nor a holistic interpretation towards the end. Both inevitable shortcomings are compounded, because the book contains no overall conclusion chapter, which would have been fascinating and useful.

Jeffrey Macris had already undertaken this to an extent with the conclusion of his 2009 monography *The Politics and Security of the Gulf: Anglo-American Hegemony and the Shaping of a Region*. As the title of the highly impressive book shows, Marcis largely excludes coverage of the Gulf's early-modern period with the Portuguese and the Dutch, as well as the Gulf's recent "look east" policy to India and China. Nevertheless, the scope of his work is large enough to produce some critical historical lessons for future Gulf and US interests – derived from recurring geo-political dynamics. He is also in a position to highlight the repercussions as well as the benefits of two similar Gulf orders in the 19th and 20th century – *Pax Britannica* and *Pax Americana*. They did not witness a smooth transition though, but an unstable and ultimately violent geo-political anarchy due to the post-British vacuum that Washington was not immediately willing to fill. The status quo has been defined by an American outside power essentially functioning as the principal arbiter of war and peace in the region. This fact has led to many problems, as Macris concedes. However, the alternative to American influence he sees as even more dangerous. His book thereby offers a clear warning of the great risks inherent in a potential US military withdrawal from the Gulf.

Before turning to further works on the more contemporary matters, three books on the British Gulf role need to be mentioned. Donald Hawley's *The Trucial States*, published in 1971, in the year of the UK's granting of independence to its Gulf protectorates, offers a comprehensive examination of the Gulf era of *Pax Britannica* and the UK's administration of the coastal sheikdoms post-World War Two. Similarly, Frauke Heard-Bey's landmark *From Trucial States to United Arab*

Emirates has an even longer-term time-frame and provides a detailed analysis of the domestic environment in the small sheikdoms on the lower Gulf's Arabian coast over the centuries, including post-independence. Her coverage of the British role is extensive though and is highly useful for this thesis. Finally, James Onley's *The Arabian Frontier of the British Raj: Merchants, Rulers, and the British in the Nineteenth-Century Gulf* is the most recent major work on *Pax Britannica* in the region. Although it predominantly discusses the 19th century and thereby has a narrower historical focus on a particular era, it has a wider view in terms of geographic space – incorporating the entire sub-region as an informal part of the British Raj, rather than merely the lower Gulf on its own. Studded with an unsurpassed amount of primary source material, Onley's work has been heralded as a much-needed update on Anglo-Gulf history.

The 20th century's first half, including World War One, the interwar period, and World War Two is subject to countless older and newer influential books on Middle Eastern and Gulf history and the important British role played in it. This list is too long, and the number of important books too high to do justice towards in a literature review merely concerned with long-term historical contextualization. As with other short and specific periods, numerous examples and recommendations for further readings are provided in the footnoted references throughout this thesis.

More directly relevant subject matters are the Gulf's very young modernization, its political economy, and the contemporary US role in the region. The best detailed overview, discussing the entire region's contemporary history from around 1971 onwards and within the context of the Cold War and post-Cold War international systems, Gregory Gause's *The International Relations of the Persian Gulf* cannot be rated too highly. Outlining the British withdrawal from the Gulf and its immediate consequences, explaining the transformative developments surrounding the OPEC oil-embargo, the rise of the Gulf's petro-states, the Iranian Revolution, the three Gulf Wars, and the post-9/11 US-Gulf security complex, Gause excels at constructing a fluent and connected narrative around the most important developments, incidents, conditions, and actors in and around the Gulf. The book has a limited time-and-space horizon, however, ignoring both long-term history as well as the Gulf's recent economic re-orientation towards Asia. Although Gause's work clearly requires an update after almost a decade has passed since his book's publication, it would have been possible nevertheless to at least briefly discuss the emergence of the New Silk

Roads. Yet, for Gulf history between 1968 and 2008, this book has to rank amongst the most commendable.

Despite these 40 years of direct US influence, the latter had its hidden origins earlier in the 20th century. Whereas Britain was the immediate security guarantor on the Gulf coastline, the US, prior to the Second World War, started to build strong relationships with the emergent regimes in Saudi Arabia and Iran and cemented those relationships immediately with the start of the Cold War. Stephen Kinzer's two books *Reset: Iran, Turkey, and America's Future* and *All the Shah's Men: An American Coup and the Roots of Middle East Terror* offer an interesting glimpse into the US's early and later diplomatic interactions with Saudi Arabia and Iran. The origins of the US-Saudi special relationship are also explored in detail by Robert Vitalis in his forceful polemic *America's Kingdom: Mythmaking on the Saudi Oil Frontier*. Meanwhile, the military and energy alliance between the US and Pahlavi Iran during the 1970s is painstakingly analysed against the backdrop of Middle Eastern insecurity, the Cold War, and the global energy crisis, in Andrew Scott Cooper's *The Oil Kings: How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*. Especially the latter two books present a formidable enrichment through Vitalis' and Coopers' analysis of primary sources and are of great use to this thesis' second context chapter. Though all four books incorporate sometimes strong normative tones, their often-controversial analysis has been impactful.

Then, there is Madawi al-Rasheed's celebrated *History of Saudi Arabia* from 2010. As the title suggests, the book is focused on one country alone, and although the pre-20th century history is relatively brief too, its analysis of Saudi post-World War Two society and politics, including the alliance with America, is highly detailed and informative. The US-Saudi alliance post 1979 is furthermore comprehensively analysed in Robert Lacey's 2010 book *Inside the Kingdom* and Rachel Bronson's 2008 book *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia*. Lacey offers a gripping journalistic account of the evolution, not only of US-Saudi relations, but particularly of Saudi Arabia's home-grown Salafism and jihadism – both prior to and after 9/11. Bronson's perspective covers the entirety of the bilateral US-Saudi relationship from World War Two to the post-9/11 era. Her analysis is backed up by a large number of primary sources, both archival and through interviews and is surely one of the most important contributions to that specific subject matter. For a more updated account, Bruce Riedel's 2017 publication *Kings and Presidents: Saudi Arabia and the United States since FDR* relies mainly on its anecdotes and on its unprecedented coverage of the complete Obama era, as well as the new US-Presidency of Donald Trump.

For a more regional picture on the US role in the Gulf, which goes beyond the Washington-Riyadh relationship and incorporates the latest geo-economic developments regarding the New Silk Roads, Stephen Hook's and Tim Niblock's edited 2015 volume *The United States and the Gulf. Shifting Pressures, Strategies and Alignments* is a formidable analysis of the US regional security role. The authors cover the latter's nature and scope and its potential future developments, including challenges from within region and within Washington itself. Future extrapolations are also set against the hypothetical evolution of Asian and European actors playing a future role in Gulf security. The book is thus of high relevance for many of this thesis' chapters.

Regarding the wider subject matter of the Gulf's security environment and the Gulf's position in the global political economy, countless books provide general overviews and specific discussions. The most recent works include Anoushiravan Ehteshami's *Dynamics of Change in the Persian Gulf: Political Economy, War and Revolution*, Kristian Coates Ulrichsen's *Insecure Gulf: The End of Certainty and the Transition to the Post-oil Era* and *The Gulf States in International Political Economy*, Matteo Legrenzi's *The GCC and the International Relations of the Gulf: Diplomacy, Security and Economic Coordination in a Changing Middle East*, Bessma Momani's and Matteo Legrenzi's *Shifting Geo-Economic Power of the Gulf: Oil, Finance and Institutions*, and Mohamed Ramady's *The GCC Economies: Stepping Up To Future Challenges*. These books all brilliantly capture the interface of economic, political, and security issues, which is crucial to understand the region's overall situation in every sphere. Energy issues are discussed as much as the GCC's financial importance to the global economy, as well as the GCC's ambitions to build knowledge economies. Regional security issues include the feared Iranian role in the GCC neighbourhood, including its nuclear programme, as well as Islamist terrorism, sectarianism, and the Middle East's post-Arab Spring turmoil that is surrounding the hitherto stable GCC countries.

When it comes to the Gulf's position in the global oil and wider energy landscape, no study of that topic can avoid Daniel Yergin's two bestsellers *The Prize: The Epic Quest for Oil, Money, and Power*, and *The Quest: Energy, Security and the Remaking of the Modern World*. As one of the world's leading experts on the history and geo-politics of oil and energy in general, Yergin's chapters on the Gulf centrality for global energy security provide the best portal to this issue. His strength is his deep understanding of the many threads that make up this theme: economics, geology, finance, technology, history, strategy, and geo-politics.

Directly descending from its dominance of global energy markets, the Gulf's increasing financial power encompasses not only the rise of sovereign wealth funds, but also the petro-dollar history and the potential future shifts in global monetary power. For an introduction to the theme of sovereign wealth funds, the GCC's among them, Gordon Clark et. al.'s *Sovereign Wealth Funds: Legitimacy, Governance, and Global Power*, is highly commendable. For an introduction to global monetary affairs, Jonathan Kirshner's edited *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* or Alan Wheatley's edited *The Power of Currencies and Currencies of Power* are among the most accessible in-depth analyses by experts. James Rickards' *The Death of Money: The Coming Collapse of the International Monetary System* is a more provocative polemic but offers a refreshing critique of the more conventional and cautious takes on the subject matter. His analysis demonstrates how vulnerable the prevailing monetary order could turn out to be. The Gulf states, and especially China, feature prominently in his book.

All these works are the most important examples for the literature used in the background and contextualization section of this thesis.

1.2 The Gulf, the Rise of Asia, and the New Silk Roads

The re-emergence of China on the world economic, political, and cultural stage is one of the most important developments in recent times. It has already contributed to the closing of the income and power gap between Western civilization, Asia and the global South. This is so because other non-Western countries have accompanied and partly even preceded China's rise. For the past half-millennium, the West has dominated the globe in economic, cultural, and geo-political terms. Economic historians have come to call this the "great divergence". Among the most influential works on this topic, but partly also on the recent story of the great re-convergence are Kenneth Pomeranz's *The Great Divergence: China, Europe, and the Making of the Modern World Economy*, Angus Maddison's *The World Economy: Historical Statistics*, Ian Morris' *Why the West Rules - for Now: The Patterns of History and What They Reveal about the Future*, Niall Ferguson's *Civilization: The Six Killer Apps of Western Power*, and Kent Deng's *Mapping China's Growth And Development In The Long Run, 221 BC To 2020*. John Hobson's book has already been mentioned above. These works, with their own distinct methodologies, all seek to explain why the West forged ahead of the rest and made the modern world, even though there is some disagreement among these and other scholars on the exact point in time when and why this happened. This question is not the subject matter of this book and thus does not need to be discussed here. However, it is important to emphasize this discussion as a context within which China and other Asian countries are rising in economic and geo-political importance to other regions of the world. The New Silk Roads across Asia, including to and from the Gulf, are a central example in this story.

Before turning to the literature of Asia-Gulf, and especially China-Gulf relations, it is also necessary to briefly cover the most influential and helpful publications on the rise of China and other non-Western countries. Fareed Zakaria's *The Post-American World: And The Rise Of The Rest* was published after the Financial Crisis and addressed a topic that had sprung to sudden interest following the West's sudden economic malaise and China's comparatively successful weathering of the storm. Whilst addressing the credit crunch, the book's main focus is on China's, India's and other emerging markets decade-long catch up in economic performance. Zakaria shows that the 21st century is not likely to see the absolute, but rather a relative decline of the West. This would usher in a world in which the US is the first among equals, but in which its unipolar dominance is over, as especially China surges ahead in GDP measures.

Similarly, Gideon Rachman's *Easternisation: War and Peace in the Asian Century* provides an update to Zakaria's book and explores China's, Russia's, Japan', and India's geo-strategic relations and influence in other regions, the Middle East among them. Despite the West's declining capabilities and influence to guarantee global outcomes in its interests, Rachman still sees an institutional advantage in Europe and America.

This is not something that Martin Jacques believes. His landmark book *When China Rules The World: The End of the Western World and the Birth of a New Global Order* strikingly demonstrates that China's abandonment of communist economics and its embrace of capitalism, fused with its millennia-old civilizational self-confidence and its sheer size, will fundamentally re-shape the international system, not only economically, but also politically, institutionally, and culturally. David Shambaugh's *China Goes Global: The Partial Power*, reaches similar conclusions, but does not go as far as Jacques, stating instead that China's global influence – while being felt everywhere – would not (yet) usher in a completely Sino-centric world.

Henry Kissinger's *On China* is more concerned with China's 20th century history – partly shaped by the author himself – and focuses more on diplomatic and strategic culture than on economics. Towards the end of the book, Kissinger outlines his concerns about a future clash between the US and China, but also suggests measures on how to avoid such a potential geo-political cataclysm. Graham Allison picks up this question in his recent and highly celebrated work on the US-China relationship. His book is titled *Destined for War: Can America and China escape Thucydides' Trap?*. In it he covers China's economic rise and the US response so far, but, crucially, presents numerous historical case studies in which he tests the outcomes of previous rivalries between ruling powers and rising powers. His analogies are highly illuminative and should stand as a strong warning about the dangers of Sino-American conflict, but also as a potential blueprint for how to prevent a possible World War Three.

Much depends on the potential antagonists' strategies, but also their capabilities. Bernard Cole's *China's Quest for Great Power: Ships, Oil, and Foreign Policy* explores both these things, thereby supplying the critical facts without which no ideas for the short-term future have much credibility. The book renders a useful background when assessing especially China's maritime Silk Road plans.

The New Silk Roads, both at sea, as well as on land, have many origins, directions, and destinations. The so-called Belt-and-Road-Initiative, PRC-President Xi Jinping's signature foreign and economic policy project, is a relatively recent story – at least with this slogan and with regard to new institutions like the Asian Infrastructure Investment Bank. Nevertheless, Tom Miller has written a comprehensive overview and journalistic account on the subject matter. His book *China's Asian Dream:*

Empire Building along the New Silk Road provides another crucial pan-Eurasian backdrop to the more specific China-Gulf Silk Road-branches that are the focus of this thesis.

John Calabrese was one of the first Western scholars to write on the topic of Middle East-Asia relations. After having introduced the topic via an article in the Asian Survey, he published his book *China's Changing Relations with the Middle East* in 1991. Considering that no New Silk Roads existed at that time, as China's ties with most of the Middle Eastern states until then had only been vague at best, the book was visionary. It can serve as a useful basic read on the historic backgrounds of how China's modern relations with the Middle East came into existence. However, since this manuscript deals with their development from around the millennium onwards, Calabrese's 1991 book does not play an eminent part in this thesis.

In 2002, it was the Emirati scholar Muhammad bin Huwaidin who published the first specific book on *China's Relations with Arabia and the Gulf: 1949-1999*. Spanning half a century, it remains one of very few modern histories of Sino-Arab relations. Therefore, it too falls largely outside the time frame which this manuscript addresses. It finishes at that point in time when the New Silk Roads were only just starting to take shape.

In 2004, at the time when especially the inter-regional energy-trade began to surge, Anoushiravan Ehteshami produced an update on developments by editing a volume on the broader inter-regional connections. Going beyond economic ties, *The Middle East's Relations with Asia and Russia* examines geo-strategic realities and China's approach to its future role. In this book, Ehteshami drew upon his somewhat prophetic 1992 book-chapter, *The Rise and Convergence of the "Middle" in the World Economy: The Case of the NICs and the Gulf States*, in Charles Davies' *Global Interests in the Arab Gulf*. It was the early start of an ongoing series of publications edited by Ehteshami, which are discussed below.

A detailed case study on the modern history of a potentially game-changing bilateral relationship between an Asian power and a major Gulf power was published by John Garver in 2006. *China and Iran – Ancient Partners in a Post-Imperial World* is essential reading also for anyone dealing with China's relations with West Asia around the millennium. Beijing's declared interest and strategy of pursuing the best possible relations with any state in the name of purely economic interests are of a very pragmatic nature and may seem rather facile. However, as Garver shows, not only do China and Iran stress the fact that they are both proud ancient civilizations later suffering similar experiences during certain stages of Western imperialism, but also that their relationship had and may again have significant strategic potential. These factors are essential to keep in mind when investigating China's relations with other Gulf states. Even so, over a decade since its publication, there is still no updated edition or any other landmark book on Sino-Iranian relations, although there is much new material to cover. Hence, there is desperate need to fill this gap in the literature. This thesis, as stated above, does not cover Iran as a case study and therefore does not attempt to fill this gap, but emphasizes the country's importance in China's overall Gulf strategy in Chapter 6.

Contributing further to the wider development, Yukiko Miyagi wrote the first book on *Japan's Middle East Security Policy* which was published in 2008. Since this manuscript only briefly discusses Japan as one of several Asian actors in the Gulf, Miyagi's book merely serves this thesis briefly. Her later publications, in the form of book chapters, are more up-to-date and thus more valuable for the very limited space the text offers on Japan-Gulf relations.

The same year, Jon Alterman and John Garver published a landmark book called *The Vital Triangle – China, The United States, and the Middle East*. Strictly spoken, it covers a broader spectrum than most of the books mentioned in this literature review, as it not only assesses China's relations with all Middle Eastern states, but also includes the United States in a three-dimensional and global analysis on broader strategic questions. The book is particularly useful for parts of this thesis' that address the rather specific question of America's response to China's emergence and consolidation in the Persian Gulf.

Listing the data of the most significant Sino-Arab/Iranian deals and contracts, describing their formations and interpreting their wider outlook and impact, Alterman and Garver demonstrate how especially China's hydrocarbon-based relationship with Middle Eastern states has constantly intensified. On top of that, they explain why Beijing, currently free-riding on the US security umbrella, has no interest yet in challenging America's strategic primacy in the region, let alone strengthening the capability to do so. Furthermore, they also highlight how Saudi

Arabia is using its now closer relationship with China to put pressure on the weary American titan, its key ally. The US is generally facing the problem that in the Middle East it is 'easy for [America] to look bad', where it is 'easy for China to look good' in both the economic as well as the political spheres.[10] In the end, Alterman and Garver clearly demonstrate the potential dangers of a clash over geo-strategic and geo-economic interests between the superpowers in the Middle East. Additionally, they clarify how unnecessary such a scenario would be and show the immense potential for Sino-American and multilateral cooperation in the region.

The book leaves two gaps open though. The first is the simple fact that its publication now also dates from almost a decade ago. Therefore, the subject matter clearly requires an update. Yet, it also lacks a theory-based methodology which would have been interesting for analysing the triangular nature of the China-Gulf-US relationship. The critique on this lack of theoretical guidance, in fact, applies to all of the essential books that are reviewed here. As further outlined below in the methodology chapter, this is one of the major gaps the author is seeking to begin to fill with this thesis.

The critique also applies to the next important analysis of the subject matter, which is more of a journalistic account. In 2009, the Royal Bank of Scotland's then chief China economist Ben Simpfendorfer published his innovative and fascinating book *The New Silk Road – How a Rising Arab World is Turning Away from the West and Rediscovering China*. It was the first book coining this rather romanticized label, at least for the subject matter of current Sino-Arab ties. However, it brings out much more. Though Simpfendorfer is primarily an expert in finance and global economics, the well-travelled and both Arab- and Mandarin-speaking Simpfendorfer not only analyses the inter-regional energy trade, petrodollar-redistributions, and sovereign wealth funds' activities, but highlights how far and deep the links between China and the Middle East already go in several other spheres, including increasing cultural convergence. China's large Muslim population in the Xinjiang Province, for instance, is beginning to serve as a cultural bridge to the Middle East by building a pan-Asian Islamic Corridor. Generally spoken, what Simpfendorfer's coverage, anecdotal reporting and analysis excels at foremost, is the integration of the micro-level into the macro-level and creating a whole new story in the process.

[10] Alterman, J.B., Garver, J.W. (2008), *The Vital Triangle. China, The United States, and The Middle East*. Washington D.C.: The CSIS Press, p. 112.

Simpfendorfer's first interpretation of the reasons why we are experiencing the birth of a new Silk Road is that China's rise has been accompanied by the rise of the Arab world. His report is not confined to the Persian Gulf states where China's growing energy demand has led to increasing oil prices and thus, to a significant extent, the Gulf wealth boom in the last decade. He also discusses poorer North Africa, Egypt and Syria, countries that are just as awash with cheaply produced Chinese consumer goods as the rich oil monarchies. However, even though this being a recent phenomenon with further enormous potential, his rather optimistic interpretation has clearly been overtaken by events, especially the post-Arab Spring turmoil. This fact has no immediate ramifications though for this thesis, since it does not cover Chinese-Levantine or Chinese-North African relations.

Someone who does indeed capture the new Asia-Gulf Silk Roads with a more rigorous analytical approach, albeit also without using theories, is Christopher Davidson in his pioneering publication on inter-regional connectivity, *The Persian Gulf and Pacific Asia – From Indifference to Interdependence* (2010). He offers the first overview of the relationship of what are the two economically most important sub-regions of Asia and of the Middle East. Rather than dealing with all of Asia and all of the Middle East or simply with a single bilateral relationship, he offers the first closer integrated overview of the ties between the most advanced economies of both regions – the GCC-states, and the East Asian powerhouses of China, Japan and South Korea. Primarily focusing on economic relations, it makes sense to select the most significant commercial players and measure the impact of their bi-directional trade and investment. Therefore, his book gives an insightful overview along with many individual examples and illustrates important data in various charts and tables.

His structure is built on parameters similar to this thesis' New Silk Roads- and case study chapters. He covers hydrocarbon trade, non-hydrocarbon trade, investment and joint ventures, as well as construction and labour contracts. Davidson has also offered chapters on the historical background, a demographic and economic comparison of both regions, the question regarding the possibility of an Asian security umbrella in the Gulf, diplomatic ties as well as possible future developments.

The differences of this thesis are five-fold. Firstly, it is more extensive and allows for more room in discussing both contexts and case-study-related details that Davidson covers relatively briefly. Secondly, the author focuses on China and, in one chapter alone, discusses the other Asian powers Davidson covers, plus India, a vital South Asian power with high stakes in the Gulf. Thirdly, particularly when discussing geo-political aspects, the story is more complete when also incorporating Iraq and Iran, too. China's relations with both of them, especially with Iran, will automatically affect the closeness or distance of China towards the Arab Gulf states. By no means can China become a regional military stabilizer – something that seems highly unrealistic at least in the short-term future anyway – if the weaker Arab/Sunni side of the Gulf perceives Beijing to be too soft on Tehran, let alone act as an Iranian ally. Iran is exactly what the monarchies claim they are seeking protection from. Less than twenty years ago, it was Saddam Hussein's Iraq that needed to be driven out of Kuwait and then deterred by the US military. To generalize, the author adopts Gregory Gause's concept, who in his book *The International Relations of the Persian Gulf*, treats the sub-region – composed of the GCC countries plus Iraq and Iran – as a specific security complex and regional system. Fourthly, this thesis provides a contextualization into Gulf outside power history, portraying the New Silk Roads as the latest potential example of a long chain of cases. Last, but not least, it also makes use of IR theories in order to guide the subject matter's analysis, something Davidson's facts-based overview did not have the necessary room for.

Neither did the otherwise impressive online volume of essays, *China and the Persian Gulf – Implications for the United States*, published in 2011 by the Woodrow Wilson International Center for Scholars. Edited by Bryce Wakefield and Susan Levenstein, it incorporates six essays written by Wu Bingbing, Jon Alterman, Emile Hokayem, Afshin Molavi, Jean-François Seznec, and Erica Downs. They respectively present China's perspective, the various Gulf perspectives, the US's position between China and Saudi Arabia, briefly India's relevance within both its relations with China and the Gulf, and explicitly discuss the most important issue area, energy, in China-Gulf relations. Although the volume focuses primarily on the three larger Gulf states, Saudi Arabia, Iraq, and Iran and neglects the smaller Gulf monarchies, it primarily takes a regional approach when evaluating China's and the Gulf's mutual interests and how the US fits into these. Only where the types of economic transactions differ or the Gulf states are antagonistic towards each other does the volume highlight the unavoidable differences concerning China's regional strategy. It goes without saying that a short volume like this one does not have the space to delve into many details across the board. Nevertheless, even though long-term historic contexts and Asia's wider context mostly remain untouched, the publication offers a stream-lined overview of the subject matter's essence.

One of the more recent publications extensively covering the subject matter in very similar ways to this thesis, is Geoffrey Kemp's *The East Moves West – India, China, and Asia's Growing Presence in the Middle East* (2012). As the title indicates, it covers several important Asian players, apart from China, Japan, South Korea and the ASEAN-members, integrating the South Asian countries of India and Pakistan. This is particularly interesting as it blurs the boundaries of regions – and thus shows how complex the economic as well as the political and strategic affairs of the New Silk Roads are and will be. The China-Gulf relationship does not only have to consider the US as a regional outside power, but India too, arguably one of China's potential major rivals in the future. Although the commercial interdependence between these two Asian giants is constantly increasing, an intensifying competition in both the economic as well as strategic landscape, including the Gulf, seems plausible.

As Kemp underlines, both keep essential interests in the Gulf and are heavily reliant on energy security. This entails access to vital sea-lanes and maritime bottlenecks like the Strait of Malacca and the Strait of Hormuz. Hence, geographically, a powerful India could imply a potential barrier for China's control on free-flowing energy imports. Kemp demonstrates that India in the long run wants to play a dominating role in its backyard, including the Gulf. However, India has even less interest in challenging the US than China may have and would benefit far more from the US Navy's presence than from its exodus. Generally, India cultivates a multilateral mind-set when it comes to strategic questions – whereas China has always sought to expand its influence bilaterally. Kemp lists the multilateral initiatives, symposia, fora, military exercises as well as actual maritime operations that have been developing over the last decade. He does not merge India's multilateral strategy with these actual developments and thereby might neglect a point. Could it be that China is less involved in these activities not so much due to US reluctance or China's geographical distance, but due to her less cooperative political will on a multilateral basis? Could China's naval role grow faster if it adopted a more multilateral initiative? This is an interesting and important question to tackle.

Awarding India rather than China better chances in having a direct say in Gulf security is of great significance. Kemp seems sceptical of the fact that the US will remain welcome enough throughout the Indian Ocean in the longer run. He does not shed light on the growing level of alarm China's rapid rise and expansion of influence causes typically in East Asia and how this fact can impact strategic developments also in West Asia. Consequently, his pessimism regarding the perception of US hegemony in the entire Indian Ocean may still be exaggerated at this point. Generally, Kemp's book's wide scope does not include more detailed case studies on China's economic ties to Gulf states. Neither does it make use of IR theories or historical contextualization of previous Gulf outside powers. Last but not least, half a decade has passed since the publication which requires updates in the dynamics he describes.

Highly important for the author's case study on Sino-Saudi relations is Naser Al-Tamimi's 2014 book *China-Saudi Arabia Relations, 1990-2012 – Marriage of Convenience or strategic Alliance.* It offers the most comprehensive material for this thesis' case study. It goes without saying that this thesis' one chapter on Sino-Saudi relations cannot match the scope of Al-Tamimi's thematic devotion to an entire manuscript. His book's wholly bilateral analysis offers a much larger range of details and their fascinating interpretation. Al-Tamimi's context chapters discuss China's rise and the oil background to China-Middle East ties, as well as their general political and strategic interests. Subsequently, the book covers both China's perspective and Saudi Arabia's perspective on their relationship and their interests. It then goes on to cover the scope of Sino-Saudi economic relations and focuses especially on oil trade and investment. Finally, it discusses bilateral military cooperation between the two and what this entails for the US – maximizing an analysis of what little relevant developments occurred prior to its publication. All chapters are rich in information and backed up with tables and charts.

However, three problems arise from it. Firstly, the book's main body and its conclusion almost entirely lack a discussion of theories, a fact that inflicts all the more harm since its proclaimed methodology sets out to discuss IR realism and liberalism. Although Al-Tamimi briefly introduces some of the theories general concepts, he does not make use of them at all, apart from a very brief exception in one of the conclusion's paragraphs – only to suddenly dismiss the theories as unfit for the subject matter.

Secondly, the book not only misses a historical contextualization, which means its sudden coverage of America's Gulf role towards the end of the book seems argumentatively complicated and takes important structures for granted within a more short-sighted time horizon. More importantly though, it is the absence of a regional context, particularly regarding the Gulf, that China's interests in and relations with Saudi Arabia cannot be convincingly separated from. Consequently, the narrow bilateral focus struggles with clearly reasoning its subject matter's relevance to regional and global affairs.

Thirdly, the book's content is not structured via chapters with a clear thematic distinction. The context chapters all cover issues that are re-visited in the deeper thematic chapters – with the result that the book is often repetitive. Hence, it might not be surprising that two of Al-Tamimi's three scenarios for the future of Sino-Saudi-US relations partially do not differ greatly in their respective characterizations, with relatively unpersuasive distinctions.

Despite these three points of critique, Al-Tamimi's book is pioneering in its choice of subject matter and therefore already merits frequent discussion in this thesis' case study chapter. The book is a highly useful and integrated source of detailed information. Since a comparably comprehensive work on Sino-Emirati relations does not exist to date, the research and writing of this thesis' second case study inevitably poses a greater challenge.

So far, there are merely online articles or book chapters that cover China-UAE ties. One such secondary source is a chapter in Muhamad Olimat's 2015 book on *China and the Middle East – From Silk Road to Arab Spring*. Although the chapter on Sino-Emirati relations, like all of Olimat's other bilateral case studies in the book, is a helpful overview, it does not have the space for a comprehensive analysis of details. This is due to Olimat's much wider regional approach which covers not only the Gulf, but the entire Middle East – selectively discussing also Israel, Saudi Arabia, Iran, and Algeria. This offers an interesting and wider, though incomplete perspective, because states like Libya, Egypt, Turkey, Syria, or Iraq, or other Gulf monarchies are left out without a deeper explanation. However, the book's main strength lies in Olimat's tri-dimensional approach to China's relations with Middle Eastern countries – which goes beyond narrow bilateral observations and analyses these in reference to third parties. For example, Olimat shows that Sino-Saudi relations cannot be discussed without offering the context of both countries' relations with Iran, or without incorporating the US when talking about Sino-Middle Eastern relations in general.

The book's shortcomings lie in the randomness of case studies, their lack of demonstrated connection, and the randomness of some of the analysis' paradigms. Furthermore, the book's subtitle is slightly misleading, because it gives the impression of extensive historical coverage. Though Olimat devotes an entire chapter to China's reaction to the Arab Spring, the old or new Silk Roads receive only sparse mention. Neither are other China-and-Middle East-connected Asian states and markets examined, nor are long-term historic patterns. Instead, the book is more of a patchwork of various specific themes within the wider subject matter, rather than a wholly connected narrative.

Due to the very nature of edited volumes with multiple authors, a connected narrative is also not fully possible with what are two recent series of academic books on Asia-Middle East ties. First, Gerlach Press' ongoing book publications of edited papers from the Gulf Research Center's annual conferences in Cambridge is a formidable source of information about and rigorous academic analysis of the wider subject matter. Tim Niblock, one of Britain's front-line experts on Gulf affairs and on Gulf-Asia ties, stands out as a recent major contributor to the subject. Two of his numerous edited Gerlach Press volumes tackle it. In 2013, he and Monica Malik published *Asia-Gulf Economic Relations in the 21st Century – The Local to Global Transformation*. Niblock provides the book's introduction and its first chapter himself, contextualizing an overview over the wide subject matter. Relevant to this thesis' slightly more streamlined focus are further chapters from the book, written by Naser Al-Tamimi, Sara Bazoobandi, Girijesh Pant, K.M. Seethi, Chen Mo, Huang Minxing and Ji Kaiyun, as well as Ho Wai-Yip, Joachim Kolb, Yukiko Miyagi and Yoshio Minagi. Respectively, they cover specific issues such as Saudi or Iranian perspectives on Asia, India's strategic position in the pan-Asian and Gulf contexts, China-GCC economic relations, China-Iran relations, Ningxia Province as a Chinese bridge to the Arab world, as well as both South-Korea's and Japan's relations with the Gulf states.

A Year later in 2014, Niblock and Yang Guang edited and published another Gerlach Press volume, building on the previous one. A slightly different focus, *Security Dynamics of East Asia in the Gulf Region* completes what a year before had primarily been an economic analysis. Niblock once again uses the introduction and the first chapter as an overview and a highly useful contextualization over what follows. The book's further chapters, all of which are linked to this thesis, are written by Talmiz Ahmad, Muhammad Al-Sudairi, Dania Thafer, Nikolay Kozhanov, Yang Guang, Chen Mo, Ho Wai-Yip, Yukiko Miyagi, Keiko Sakai, Hirotake Ishigruo, and Jeongmin Seo. Respectively, they cover normative arguments for a new Gulf security architecture contributed towards by Asian stake-holders, and the Saudi, Kuwaiti, and Iranian perspectives on this. Furthermore, China-GCC relations in energy and beyond are approached, as are specific elements of these, such as Hong Kong's potential role as a Chinese Islamic Finance hub. Finally, several chapters are devoted to Japan's strategic interests and options in the Gulf and both their hitherto domestic constraints and possible future developments. A similar analysis is conducted on South Korea's recent military and nuclear cooperation with various Gulf states.

These two volumes are highly complementary and provide not only very specific factual details, but also wide-spectrum analyses on the subject matter. In several parts of the thesis, these books are among the most useful academic sources of secondary data and analytical arguments. Where edited multi-author books are strong, is their flexibility in offering a collection of distinctive sub-topics, which single-author monographies cannot do without risking methodological inconsistencies or their connected narrative. The latter, on the other hand, Niblock's edited volumes cannot easily provide. Finally, neither of the two books offers theoretical frameworks as lenses for interpretation, which can prove to be a strength in flexibility and in its focus on facts, as well as a weakness in analytical substance simultaneously. History neither was offered much room in any of the books, which is forgivable because of the determined specialization on very recent conditions and their facts. Yet, when it comes to the normative parts, especially written by Talmiz Ahmad, a wider and long-term historical perspective plus historical analogies would have made the argument more persuasive.

In early 2015, two further edited volumes on the subject matter were published. The first, edited by Niv Horesh, discussed China's most recent energy relations with the Gulf states and its diplomacy with the wider region. *Toward Well-Oiled Relations? – China's Presence in the Middle East Following the Arab Spring* brought together a range of diverse experts on the topic. Horesh, Yitzhak Shichor, Zan Tao, Christina Lin, Robert Bianchi, Mohammed Shareef, Yasser Gadallah, Gawdat Bahgat, Neil

Quilliam, Michael Singh, John Garver, Manocher Dorraj, and Ruike Xu tackled individual sub-themes around bilateral relations or various issue areas, ranging from China, Turkey, Israel, Egypt, and Iraq, to the GCC and Iran, and from energy trade to Arab Spring ramifications. However, given this thesis' focus on the Gulf, not all of the chapters from this thought-provoking book are relevant here.

A similar edited volume was published by Anoushiravan Ehteshami and Yukiko Miyagi almost simultaneously, with *The Emerging Middle East-East Asia Nexus*, as part of Routledge's Durham Modern Middle East and Islamic World Series. Extending his specialization on the subject matter, first started in his above-mentioned 2004 volume *The Middle East's Relations with Asia and Russia*, Etheshami has also emerged, alongside Niv Horesh from the University of Nottingham's former China Policy Institute, as one of UK academia's most active specialists on Asia's and the Middle East's New Silk Roads. The 2015 volume rounded off papers from a 2014 conference at Durham University's School of Government and International Affairs and features chapters written by Ehteshami, Miyagi, Raymond Hinnebusch, Yoshikazu Kobayashi, N. Janardhan, Namie Tsujigami and Koji Horinuki, as well as Janet Xuanli Liao, Baris Adibelli, Naser Al-Tamimi, Robert Bianchi and Flynt and Hillary Leverett. Their contributions cover the growing inter-regional connectivity as well as more bilateral cases, mostly surrounding China, Japan, Iran, and Saudi Arabia, and thereby inevitably including the US's Middle Eastern position and focusing primarily on energy, diplomacy, and strategy.

Although Asian countries like South Korea and especially India, and the smaller Gulf monarchies for example do not feature in chapters with an according bilateral focus, the volume comes close to this manuscript's approach for two reasons. Firstly, the inter-regional contextualization is extensive and indeed the book's major rationale. Secondly, and so far, uniquely, some of its chapters feature IR theoretical concepts. Indeed, particularly Miyagi and Ehteshami make use of two of this thesis' theories – complex interdependence and neo-realism. Furthermore, they go beyond, employing concepts of regionalism and foreign policy analysis. The book is thus the most in-depth academic analysis of the subject matter and firmly rooted within the IR discipline.

Yet, given its edited character with multiple authors, not all of whom use these theories, and since each chapter on its own does not allow for the same kind of space the author of this thesis enjoys, the theoretical discussions in the book cannot hope to be as consistent across different stand-alone chapters and cannot hope to be as extensive. Nevertheless, the book's content is of high importance for many of this thesis' chapters.

Later in 2015, Etheshami complemented his editing activity on the subject matter in a special issue of the *East Asia* journal, titled *Regionalization, Pan-Asian Relations and the Middle East*, for which he served as guest editor. Adopting a similar approach to his preceding edited book, the journal's issue features seven articles. Ehteshami introduces its subject matter with a pan-Asian IR regionalist analysis of Middle Eastern affairs. The other authors, John Hobson, Sara Bazoobandi, Mhabeni Bona, Ceren Ergenc, Sanjay Sharma, Neil Quilliam and Maggie Kamel cover a much more diverse range of topics compared to the previously discussed books, both from a topical and methodological view-point. Hobson engages in a long-term historical analysis of East-West modernization flows across the Eurasian landmass, Bazoobandi shows how the nuclear-related sanctions on Iran affected its relations with China, Bona conducts discourse analysis of pan-Asian values influencing the Gulf monarchies, Ergenc gives an overview of Sino-Turkish relations, Sharma does the same for South Korea and the Middle East, and Quilliam and Kamel examine the same particular inter-regional relations between the GCC and Asia that are highly relevant for this thesis.

2. Research Methods, Methodology, and Theoretical Framework

This thesis aims to outline and analyse the nature and scope of China's relations with the Gulf states and to provide meaning to this subject matter by situating it into various contexts. The Literature Review has demonstrated several gaps in the works on this relatively new subject matter. Most of the more significant gaps revolve around its deeper analysis via contextualization. This thesis first covers the modern historical context of former and current outside powers in the Persian Gulf region and thereby interprets China's recent regional economic arrival through this light. Second, the thesis also covers the inter-regional context of the New Silk Roads, thereby providing overviews of the Gulf states' economic and diplomatic relations with other potential outside powers from Asia, all of which are China's economic and likely geo-political competitors. Third, the thesis briefly outlines China's general economic and diplomatic relations with the whole Gulf region. This is necessary in order to provide the direct China-Gulf context for the two case studies chosen by the author. In terms of assessing nature and scope of China-Gulf relations, the two case studies, on Saudi Arabia and then on the UAE, are therefore the most detailed part of the subject matter's analysis. Hence, this thesis is, to a significant extent, case-study driven. Yet, before turning to the methodological discussion around the thesis' main body of work, another important originality lies in the theoretical context. The author seeks to introduce the relatively new subject matter of China-Gulf relations and their historical and inter-regional contextualization to the International Relations discipline on a more extensive scale than previous literature has done, as the Literature Review has shown. This undertaking is conducted by utilizing a theoretical framework which is to be applied, discussed, and also critiqued throughout the manuscript. The two chosen IR theories come under the names of neo-liberal institutionalism and neo-realism.

Hence, the first section of this Methodology Chapter explains the choice of these two theories. It then goes on to summarize the core assumptions, notions, concepts, arguments and hypotheses of both theories. The second section, Research Design, continues to explain the forms of contextualization, as well as the choice of case studies, before discussing the research and data collection methods for the thesis. Finally, the author characterizes the limits of the thesis' coverage, briefly outlining examples for ideas, methods, and concepts for further research, and thereby emphasizes what this thesis does not investigate.

2.1 Theoretical Framework: Neo-Liberal Institutionalism vs Neo-Realism

2.1.1 Choice of Theories and their Ontology and Epistemology

The subject matter of China's and wider Asia's relations with the Gulf states has so far been dominated by economic transactions. Trade and investment flows in their various forms thereby take up the bulk of the case study chapters, the China-Gulf context chapter and the inter-regional context chapter. The historical and contemporary context chapters, covering various Gulf outside powers, were and are also characterized by economic transactions. However, given that these powers acted and act as empires and hegemons, their ties with the Gulf were not confined to trade and investment, but had important geo-political, including military dimensions out of security and overall power interests.

The author has chosen and tested two theories which both prioritize these basic economic, diplomatic, and strategic interactions, though both have their respective priorities. Neo-liberal institutionalism and neo-realism are not only particularly fitting to analyse the subject matter and its historical and inter-regional contexts. Furthermore, both theories, roughly over the past forty years, have been dominating International Relations (IR), a discipline which methodologically mostly works with theories.[11] Consequently, for an integration of the thesis' relatively new subject matter into the IR discipline, there is a strong case for starting this ongoing process by utilizing the discipline's most important theories. It does not imply that this approach ultimately suffices. Rather, it should be seen as a vital starting point for future research. Since many other IR theories were coined in reference to and as a critique of neo-liberal institutionalism and neo-realism, this invitation for future research requires a preceding coverage of both dominant theories. Only after this has been provided, which this thesis seeks to contribute towards, can other IR theories be used more elegantly as a critique.

The IR discipline and its specialized sub-discipline, called International Political Economy (IPE) have long been dominated by these themes, economic and diplomatic relations, and their potential geo-political underpinnings or consequences.[12] Yet, several other aspects in IR, such as cultural relations and identity politics have also

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[11] Brown, C., Ainley, K. (2009), *Understanding International Relations*. Basingstoke: Palgrave Macmillan, chapters 2-3.
[12] Ibid.: chapter 8.

come to play an increasing role – all of which have led to the establishment or revival of various and highly different theories, such as IR Marxism, constructivism, the English School, or post-modernism. All of these theories are contenders with both neo-liberal institutionalism and neo-realism, as well as with each other. This is not only because different priorities define them, but also because of their different underlying philosophical roots. Their different ontologies and epistemologies in the wider area of Social Sciences result in different definitions of what constitutes the IR discipline.[13]

Here, neo-liberal institutionalism and neo-realism have come to share the same paradigm. In view of the author's choice of the two theories, he therefore necessarily adopts the underlying ontology and epistemology of his two theories. This does not entail his rejection of other definitions of IR, of other ontologies and epistemologies, as indeed he has pointed out that the subject matter requires an ongoing analytical enrichment through other methodologies. How useful they all would turn out to be is another question and would have to be seen. This invitation for future research, both within the IR discipline, but also beyond it, is addressed at the end of this chapter.

Both neo-liberal institutionalism and neo-realism have their philosophical roots in their much older predecessors, classical liberalism and classical realism.[14] Yet, their neo-versions hold distinctly different ontologies and epistemologies than their classical predecessors, from which they are further apart than from each other.

First, neo-realism and neo-liberal institutionalism share the same ontology and epistemology and by and large also the same methodology. Both assume rationalism and self-interest among the actors and thus make use of rational choice theory in the methodological tradition of Karl Popper.[15] Broadly, this entails a positivist epistemology. Positivism is neither a purely empirical theory nor is it a normative one but placed neutrally in between.[16] Despite the problem of the scholar's subjectivism, positivists believe that objective observation and knowledge is possible. They can use

[13] Ibid.: chapters 2-3.
[14] Ibid.
[15] Hindmoor, A. (2010), 'Rational Choice'. In: D. Marsh, G. Stoker (eds.), *Theory and Methods in Political Science*. Basingstoke: Palgrave Macmillian, p. 42.
[16] Furlong, P. Marsh, D. (2010), 'A Skin not a Sweater: Ontology and Epistemology in Political Science'. In: D. Marsh, G. Stoker (eds.), *Theory and Methods in Political Science*. Basingstoke: Palgrave Macmillian, p. 29.

theories 'to generate hypotheses which can be tested by direct observation'.[17] Empirical proof can be delivered, also due to positivism's deliberately limited ontology which excludes irrational and, crucially, non-material factors. The ontology is therefore foundationalist, meaning that a material reality and truth exists in the world, independent of human knowledge of that reality and humans' discursive constructs.[18] In the IR context, this again entails that a foundationalist ontology and a positivist epistemology assume that the international system holds the same knowable laws as systems in the natural world and that these can be extracted by a rationalist and materialist focus.[19] This makes them explanatory and predictive theories, rather than for example, normative theories. Using a framework of neo-liberal institutionalism and neo-realism thus requires the author to test their broader or more detailed hypotheses. From a positivist viewpoint, the results are falsifiable truths.[20]

Second, both are structural theories, not behavioural theories. In the agency-structure debate they consequently fall on the latter side, even though their epistemology is diametrically opposed to philosophical structuralism and should not be confused. Both theories are state-centric, even as they acknowledge the existence and relevance of other actors, especially neo-liberal institutionalism. This assumption and the theories' structural nature are addressed in more detail below, as some of the major texts of both theories are discussed.

In the interest of brevity, and due to the more general nature of the hypotheses at the end of this section, the author merely covers some of the most representative and helpful theoretical works, more precisely, what could be understood as the "foundational" texts of various strands in both theories. The following section does therefore not intend a complete overview of what has been dubbed the 'neo-neo debate'.[21]

[17] Ibid.: p. 194.
[18] Ibid.: pp. 186-190.
[19] Ibid.: pp. 212-215.
[20] Ibid.: pp. 27-28.
[21] See: Keohane, R., (ed.) (1986), *Neorealism and its Critics*. New York City: Columbia University Press; Nye, J. (1988), 'Neorealism and Neoliberalism'. In: *World Politics*, 40:2, pp. 235-251; Waever, O. (1996), 'Rise and Fall of the Inter-Paradigm Debate'. In: S. Smith, K. Booth, M. Zalewski (eds.), *International Theory: Positivism and Beyond*. Cambridge: Cambridge University Press, pp. 149-185.

2.1.2 Complex Interdependence

Though the term neo-liberal institutionalism was only used from the 1980s onwards, the theory was born in the 1970s. Among its most important founders are Robert Keohane and Joseph Nye. Their 1977 book *Power and Interdependence* launched one of neo-liberal institutionalism's most important sub-theories.[22] Complex interdependence theory (CIT) is indeed also this thesis' most usable and significant component in its wider theoretical framework, because the specific condition, level, nature, scope, and respective relevance of interdependence between China and the Gulf is a fundamental element in the research question.

According to Keohane and Nye, interdependence is a condition between a specific number of actors. The currently popular terms globalism or globalization describe an overarching condition of the world that interdependent states bring about.[23]

Levels and Distributions of (Inter-)dependence

An interdependent relationship reigns when its potential breakup would have 'reciprocal costly effects'.[24] This is different from a relationship where simply interconnectedness reigns, because the latter would enable a breakup without paying a noteworthy price.

Furthermore, Keohane and Nye make clear that there are often different levels of power recourses involved in an interdependent relationship. With this in mind, they differentiate between 'symmetrical' and 'asymmetrical interdependence' – mutual benefits and mutual costs, but to different degrees, and therefore with differing values of stakes, for both actors.[25]

Last, but not least, the level of interdependence for both actors is a crucial variable when assessing unilateral freedom of action. Whereas interconnectedness involves no costs for both actors in case of a breakup, interdependence does. However, to what degree? Here, Keohane and Nye again differentiate between 'sensitivity interdependence' and 'vulnerability interdependence', with the former implying a significant, but still bearable cost for the actors. The latter would constitute an

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[22] Keohane, R., Nye, J. (2011), *Power and Interdependence*. London: Longman.
[23] Ibid.: chapter 10.
[24] Ibid.: p. 15.
[25] Ibid.: pp. 15-16.

unacceptable cost.[26] Ending a vulnerably interdependent relationship would cause such an amount of damage that this is at least very unlikely to occur.

The Characteristics of Complex Interdependence

Therefore, what does this condition entail for the characteristics of an interdependent relationship between two (or more) states? For Keohane and Nye, complex interdependence is an ideal type, formulated in direct opposition to another ideal type – realism.[27] Neither of both ideal types are ever quite met in the real world, but for the IR scholar, the interesting question is when and where on a scale between these two opposite poles reality can be placed. This is likely to differ case by case.

Realism, Keohane and Nye observe, holds three core assumptions: Firstly, it is a purely state-centric theory disinterested in placing value towards non-state actors and their relationships. Secondly, in a realist world, force or the threat of force is the most effective tool for states to secure their interests. And thirdly, there is a clear 'hierarchy of issue areas' with 'military security dominating' all others.[28]

The ideal type of complex interdependence, on the other hand, challenges all three of those assumptions: Firstly, in an interdependent world, 'multiple channels' connect societies at various state levels and far beyond – and these diverse connections have an impact on political and economic conditions. Secondly, no military force is exercised when complex interdependence prevails. And thirdly, interdependence ensures an 'absence of hierarchy among issue areas' where security and geo-political power is only one of many equally serious sectors, concerns and interests of states.[29]

The Political Process of Complex Interdependence

After defining the characteristics of complex interdependence, Keohane and Nye turn to the 'political process' that shapes it. They outline five different variables.

[26] Ibid.: pp. 10-11.
[27] Ibid.: p. 19.
[28] Ibid.
[29] Ibid.

Firstly, actors need to 'translate power resources into power [...] over outcomes'.[30] This will be more difficult under complex interdependence conditions, because a variety of state goals (across various internationally connected ministries and offices) makes it impossible to satisfy everyone's interests via one overarching strategy.

Secondly, the extent of 'linkage strategies' can influence policy outcomes. Usually, linkage is resisted, because domestic and transnational actors in specific issue areas have different interests than those in other issue areas. Whilst for realists world politics is one issue area where military and economic dominance ensures positive outcomes for great powers, in a complex interdependence world it is the power within each issue area that matters. Joint interests of various actors incentivize policy-makers to resist issue linkage.[31]

Thirdly, a world of multiple issues of equal importance will necessitate the decision-makers to prioritize issues. 'Agenda setting' of issues shape part of the political process that brings about growing interdependence.[32] This usually involves a cost-and-benefit analysis that seeks gains somewhere and accepts losses elsewhere.

Fourthly, the level of 'transnational and transgovernmental relations' becomes more extensive and diverse and therefore different networks that form multiple channels connecting societies and governments have an impact on a policy formulation. This process blurs the line between domestic and foreign policy in each country.[33]

Last but not least, the 'role of international organizations' is increased in a world of interdependent states. IOs group issues together productively and advise governments. The latter do not have to follow the IOs' advice, but need to be aware of reputation, which can be damaged if too much unilateralism is pursued.[34] A damaged reputation seeds distrust and ultimately harms a state's interests in future deal-making capacity.

[30] Ibid.: p. 25.
[31] Ibid.: p. 25-26.
[32] Ibid.: p. 27.
[33] Ibid.: pp. 28-29.
[34] Ibid.: pp. 29-30.

The Management of Interdependence

In order to avoid excessive unilateralism and revisionism, a world of complex interdependence relies on international regimes that establish rules everyone is expected to follow in the name of stability, transparency, and joint gains. The politics of regime-creation, -maintenance, and -change is what Keohane and Nye focus on last. They observe four processes that help create, help to maintain or change international regimes.

Firstly, the 'economic process' explanation sees market forces on their own shaping a regime in favour of free trade and relatively open borders. As Keohane and Nye point out, this goes in line with Neo-Classical Economic Theory in the broad tradition of e.g. Adam Smith, David Ricardo and Richard Cobden.[35] The idea of the market's invisible hand ensuring gains for all societies and their individuals takes on a world-wide dimension in the era of globalization and therefore sees more states than ever before subscribing – under formally sovereign conditions – to a regime in favour of relatively free trade.

Secondly, often regimes require a creator and leader who enforces, or changes it if considered necessary. An eroding regime can see a superpower interfere in order to save it or build a new one – if that is possible. This is because there is often a correlation if not a causation of the superpower's eroding hegemony. Keohane's and Nye's 'overall power structure' explanation is more in line with what has been called hegemonic stability theory (HST) and even realism where great powers need to act as a stabilizer and public goods provider.[36]

Thirdly, Keohane and Nye assign huge importance to the 'issue structure'. According to this explanation, power is often distributed differently among issue areas instead of across the board. In an interdependent world, where destructive issue-linkage is mostly avoided, merely emphasizing states' general capabilities without examining specific issue areas clouds the actual power of states over international regimes. Nevertheless, just like the overall power structure explanation, the issue structure model defines power as control over resources which influence a regime.[37]

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[35] Ibid.: pp. 33-34.
[36] Ibid.: pp. 35-39. For more on HST and realism, see below.
[37] Ibid.: pp. 42-45.

Last but not least, the 'international organization' model captures the less state-centric world of complex interdependence where transnational elites and their networks influence regime creation, maintenance, or overthrow.[38]

To recapitulate, Keohane and Nye provide this thesis with four levels of analysis: the extent and distribution of (inter)dependence; the characteristics of complex interdependence which are set directly against the opposing ideal type of realism; the political process that brings about complex interdependence; as well as interdependence-related creation and/or change of international regimes. In the IR theory landscape, these levels of analysis have been widely embraced and refined, as well as critiqued. Keohane's and Nye's key intra-paradigm antagonist, Kenneth Waltz, did so only shortly after – with a re-definition of IR's oldest school of thought, including a re-interpretation of interdependence in world affairs. His transformative work marked the birth of neo-realism.

2.1.3 Systemic Anarchy

Kenneth Waltz's *Theory of International Politics* (1979) is considered one of the landmark works in the IR discipline and enjoys a constitution-like status for neo-realists (also called structural realists).[39] As the latter's name and the book's title hint at, Waltz's theory is a structural, or a systemic theory. This mirrors much of Keohane's and Nye's methodology in their CIT.

Systemic Theory

'One cannot infer the condition of international politics from the internal composition of states, nor can one arrive at an understanding of international politics by summing the foreign policies and the external behaviors of states'.[40] Rather, Waltz emphasizes the necessity to analyse 'how [they] stand in relation to each other'.[41] This does not imply ignoring the capabilities of a state – i.e. looking inside the unit. What matters is how the capabilities compare to those of other states in the system. And these comparisons automatically influence foreign policy behaviours, even if they do

[38] Ibid.: pp. 46-49.
[39] Waltz, K. (2010), *Theory of International Politics*. Long Rove: Waveland Press.
[40] Ibid.: p. 64.
[41] Ibid.: p. 82.

not completely determine decisions. These systemic factors though, Waltz notes, are constantly central enough to enable the IR scholar to extract relatively regular patterns of conduct in international relations, even though his theory does not equip him with specific predictive instruments.

Still, it is possible to specify conditions under which different developments stand a higher or lower chance of occurring. Especially because of great powers' shifting capabilities '[s]tructures [...] may suddenly change. [...] Distinguishing between anarchic structures of different type permits somewhat narrower and more precise definitions of expected outcomes'.[42]

Waltz stresses though that structures should not be treated as agents, simply because they influence the behaviour of units. Structures have an indirect impact. Effects in international politics 'are produced in two ways: through socialization of the actors and through competition among them': A influences B and vice versa; But: 'Each is not just influencing the other: both are being influenced by the situation their interaction creates'.[43] The regularity of this dynamic is what then encourages 'norms' and 'conformity'.[44]

This points to one of Waltz's key assumptions: Systemic factors force units to behave in a rational way. The least irrational units will be the most successful actors. Thus, a successful unit entices other units to try and compete. Some then do so successfully, others fail. 'And thus the units that survive come to look like one another. Patterns are formed'.[45]

Political Structure

Yet, units, as Waltz points out, and unit-level phenomena need to be left out of any structural theory.

> 'Abstracting from the attributes of units means leaving aside questions about the kinds of political leaders, social and economic institutions, and ideological commitments states may have. Abstracting from relations means leaving aside questions about the cultural, economic, political, and military interactions of states'.[46]

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[42] Ibid.: p. 70.
[43] Ibid.: p. 74.
[44] Ibid.
[45] Ibid.: p. 77.
[46] Ibid: p. 80.

In order to identify what needs to be ignored and what included, a definition of "relations" is required. Waltz differentiates between two relevant meanings: the 'interaction of units' as well as 'the positions they occupy vis-à-vis each other'.[47] The structure and its interacting parts form the system.

The units of the international system face a different structure than domestic units inside the state, where they are hierarchically ordered. In the international arena '[f]ormally, each is the equal of all the others. None is entitled to command; none is required to obey. International systems are decentralized and anarchic'.[48] Here, Waltz draws from Adam Smith's classical economic theory, pointing to the fact that as firms and individual persons (units) act as "economic men" to maximize profits (micro-economic theory), they thereby produce an outcome – the market (laissez-faire) – which forms a structure that does not resemble the units' intentions. In a world of sovereignty, following the incentive to survive, states help themselves. This assumption forms the central pillar of Waltz's theory. Acknowledging the existence of other international actors than survival-seeking states, he observes that it still is at least the major states, i.e. the great powers, who are the most influential units of the system. '[A] theory that denies the central role of states will be needed only when nonstate actors develop to a point of rivalling or surpassing the great powers, not just a few of the minor ones'.[49]

The structure of the system is largely formed by the number of great powers exercising most influence (on others and therefore on the system itself). More specifically, this means the following:

> 'The structure of the system changes with changes in the distribution of capabilities across the system's units. And changes in structure change expectations about how the units of the system will behave and about the outcomes their interactions will produce. [...] Power is estimated by comparing the capabilities of a number of units. Although capabilities are attributes of units, the distribution of capabilities across units is not. The distribution of capabilities is not a unit attribute, but a system-wide concept'. [50]

Anarchic Conditions and the Balance of Power

The resulting structure of the international system may be a balanced or unbalanced one. However, Waltz is convinced the units strive to create a balance over time, even

[47] Ibid.
[48] Ibid.: p. 88.
[49] Ibid.: p. 95.
[50] Ibid.: pp. 97-98.

if they constantly upset it again through war. Due to anarchy, war or the constant threat of war is a natural state of affairs and will always occur from time to time.[51] This happens despite interdependence – contrary to Keohane's and Nye's interpretation. Waltz maintains that as long as the world is composed of sovereign states, interdependence will only leave nations or citizens relatively loosely connected across borders.[52] Whilst interdependence might facilitate easier and more regular cooperation, still 'the structure of international politics limits the cooperation of states in two ways':[53]

Firstly, in a self-help system relative gains matter more than absolute gains – another key disagreement with neo-liberal institutionalism. A state needs to ask the question whether the other state will use its enhanced capability against it. '[T]he condition of insecurity – at the least, the uncertainty of each about the other's future intentions and actions – works against their cooperation'.[54]

Secondly, political or economic cooperation creates dependence and dependence limits autonomy – making the state more vulnerable. 'States that are heavily dependent, or closely interdependent, worry about securing that which they depend on. [...] Like other organizations, states seek to control what they depend on or to lessen the extent of their dependency'.[55] These observations indeed mirror CIT. However, neo-realism underlines the dependent state's structural incentives to reduce that dependence. CIT believes such an undertaking to be impossible without efficiency- and gains loss.

Waltz does not further elaborate on these potential consequences, because he assumes their relative irrelevance for one important reason: his assumption mirrors Keohane's and Nye's characterization of realism when they assume it to believe in a hierarchy of issue areas and the supremacy of security. Waltz explains this by emphasizing that all organizations have two goals: 'to get something done and to maintain themselves as organizations. Many of their activities are directed toward the second purpose'.[56]

[51] Ibid.: p. 102.
[52] Ibid.: p. 105.
[53] Ibid.
[54] Ibid.
[55] Ibid.: p. 106.
[56] Ibid.: p. 111.

This purpose Waltz stresses to be particularly pressing, because in a self-help system governed by international anarchy rather than legitimacy, uncertainty of other states' intentions is the only certainty. In international politics, a struggle for capabilities, 'force serves, not only as the ultima ratio, but indeed as the first and constant one'.[57] The only reason why outright war is not a constant is that its prospect has 'sobering effects' on the relations between states.[58] Yet, these sobering effects, as Waltz underlines, are not part of the structure. They are part of a process that has its impact on international politics but cannot change the structure of anarchy itself. *Realpolitik* is the necessary result of these structural constraints. The logical result of every state's *Realpolitik* then, at least over time, is a rough balance of power – even if the theory cannot predict when and how it will be brought about.

> 'In anarchy, security is the highest end. Only if survival is assured can states safely seek such other goals as tranquility, profit and power. Because power is a means and not an end, states prefer to join the weaker of two coalitions. They cannot let power, a possibly useful means, become the end they pursue. The goal the system encourages them to seek is security. Increased power may or may not serve that end. [...] If states wished to maximize power, they would join the stronger side, and we would see not balances forming but a world hegemony forged. This does not happen because balancing, not bandwagoning, is the behavior induced by the system. The first concern of states is not to maximize power but to maintain their positions in the system. [...] Secondary states, if they are free to choose, flock to the weaker side; for it is the stronger side that threatens them [...] provided [...] that the coalition they join achieves enough defensive or deterrent strength to dissuade adversaries from attacking'.[59]

This is where Waltz is challenged not only by neo-liberal institutionalists, who would indeed point towards a considerably enduring hegemonic liberal order. He is also challenged by his fellow neo-realists Stephen Walt – who seeks to specify more clearly when states balance and when they bandwagon – and by John Mearsheimer – who disagrees with Waltz's defensive interpretation, at least when great powers are involved (see below).

Interdependence and (In-)stability

The crucial neo-realist observation here though, is that due to the anarchic international system, units always face the same constraints over time – even if admittedly at different levels. Large units with great capabilities can influence the

[57] Ibid.: p. 113.
[58] Ibid.: p. 114.
[59] Ibid.: pp. 126-127.

structure.[60] In terms of stability, Waltz observes that a small number of (large) units is better than a large number of (small) units.

> 'Smaller systems are more stable, and their members are better able to manage affairs for their mutual benefit. Stable systems are self-reinforcing, moreover, because understanding others' behavior making agreements with them, and policing the agreements become easier through continued experience'.[61]

This realization entails another vital disagreement with neo-liberal institutionalism and CIT. Higher complexity does not reduce the danger of conflict, it increases it. And higher interdependence makes the world more complex. This is why Waltz concludes the opposite of Keohane and Nye:

> 'In a self-help system, interdependence seems to loosen as the number of parties declines, and as it does so the system becomes more orderly and peaceful. As with other international political concepts, interdependence looks different when viewed in light of our theory. Many seem to believe that a growing closeness improves the chances of peace. But close interdependence means closeness of contact and raises the prospect of occasional conflict. It is impossible to get a war going unless the participants are somehow linked. Interdependent states whose relations remain unregulated must experience conflict and will occasionally fall into violence. If interdependence grows at a pace that exceeds the development of central control, then interdependence hastens the occasion of war'.[62]

Waltz points towards history which demonstrates that such an order is not safe from a breakdown, because a definition of 'interdependence as sensitivity leads to a[...] [purely] economic interpretation of the world'.[63] He again stresses the importance of overall capabilities, because their relative distribution affects how flexibly a country can adapt to "quantitative" and "qualitative" interdependence, even if he does not incorporate Keohane's and Nye's concept of interdependence's different (a)symmetry-levels.[64] One could add, that where realists are accused of elevating the security issue area, neo-liberalists could be accused of elevating economic ones.

Military Power and the Security Dilemma

Military power remains the most important variable with which to determine the structure of the international system, Waltz underlines. It sets the stage on how to measure it via the identification of alliances and antagonisms. A bipolar structure he identifies as the most stable. This is partly, because he believes that the resulting

[60] Ibid.: pp. 129-134.
[61] Ibid.: p. 136.
[62] Ibid.: p. 138.
[63] Ibid.: p. 142.
[64] Ibid.: pp. 143-144.

unequal alliances do not give the junior partners any good options, entailing them to follow their superpower leaders.[65]

Force is meaningful primarily not through direct usage – which reduces its "value" – but through the power that derives from a military deterrent. Hence, it is a question of structure which causes its units to face what John Herz defined as the "security dilemma". Since capabilities are the only "certainty", states find themselves in a condition in which they, 'unsure of one another's intentions, arm for the sake of security and in doing so set a vicious circle in motion', even if they are not aiming for that result.[66]

Great Power Management

If for a state the outcome of a struggle is the accumulation of power, then what are that state's subsequent intentions? Waltz emphasizes the impact of great power status. His most important realization involves the great power's interest in "system management" – the greater the power the greater the ability to shape and maintain the international system. Here, Waltz's theory is moving closer to Keohane's (and Nye's) writings (even though significant differences remain). Since superpowers hold a much higher stake in the stability and maintenance of "their" system, 'absolute gains become more important as competition lessens'.[67] A superpower with system-wider interests will be interested in defending all those concerns and thereby will be interested in defending the system as such, even if it requires seemingly altruistic costs and sacrifices.

This does not mean that the existence of great powers with those interests will make 'collective action for the common good' easy. Even great powers will be hesitant spending and sacrificing where their own direct interests or the system's interests are not significantly affected. 'Internationally, collective goods may not be provided because the providers would be serving some who evade paying their share of the costs'.[68]

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[65] Ibid.: p. 169.
[66] Ibid.: p. 186.
[67] Ibid.: p. 195.
[68] Ibid.: p. 197.

The extent of the superpower's power will be a variable for its likelihood to get involved.[69] Hence, the more superpowers compose the system, the larger the room for major disagreement and conflict – and the higher the likelihood for a major 'system-transforming war'.[70] Bilateral disagreement need not even be the cause of this conflict. The extended system-wide interests that great powers follow often involve these principal actors in international politics having potentially vital stakes in far-flung regions. 'Great powers have an interest in areas whose instability may lead to their involvement and, through involvement, to war'.[71] If such areas are of crucial strategic importance – in other words if the great powers are somewhat dependent on them – the likelihood of escalation increases still.

It is obvious though, as Waltz admits, that in the industrial and nuclear age, great power wars, and even smaller wars, quickly bare high costs and existential threats. How do superpowers therefore seek to avoid conflict and hence such costs, both during their global dominance, but especially once their hegemony declines? In his responses to Waltzian neo-realism this constitutes Robert Keohane's central question in his key publication *After Hegemony*.[72]

2.1.4 Eroding Hegemony and International Regimes

Both neo-realists and neo-liberal institutionalists are not only systemic or structural theorists, but are considered "state-centric", even if at varying degrees. This results in the assumption that the system is made up of units (rationally acting states), and that domestic factors are constants, not variables.[73]

Both also believe that the international system is composed of different kinds of structures at different times and that the differences are by and large determined by the number of great powers and their blocs and alliances. Most would broadly differentiate between bipolar and multipolar systems, and some would further differentiate within the two concepts. Others also acknowledge the possibility of completely unipolar systems.

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[69] Ibid.
[70] Ibid.: p. 199.
[71] Ibid.: p. 208.
[72] Keohane, R. (2005), *After Hegemony: Cooperation and Discord in the World of Political Economy*. Princeton: Princeton University Press.
[73] Ibid.: p. 25.

Whether they acknowledge the latter or not, most would agree with the notion that often any kind of the aforementioned polarities is dominated by a hegemon – a first among equals setting the rules of the game. Such a hegemon, as Waltz himself hinted at towards the end of his *Theory of International Politics*, not only enjoys larger power and autonomy, but also "tragically" inherits more interests to defend as a result. These include the interest of sustaining the system itself – necessitating the sometimes costly role of a global public goods provider. This line of thought has found its representation in hegemonic stability theory (HST) which finds its adherents in both neo-realism and neo-liberal institutionalism. Robert Gilpin is one of its most prominent realist representatives, whereas Charles Kindleberger and Stephen Krasner belong to the liberal school.[74]

Robert Keohane also acknowledges HST's basic insights and the historic usefulness of a hegemon creating and successfully spreading institutions that inherit its beliefs and goals. In an increasingly interdependent world this means that such global hegemonic institutions group some issues together in order to coordinate and manage them via international regimes.[75] He adopts Stephen Krasner's definition that regimes are 'principles, norms, rules, and decision-making procedures'.[76]

However, whereas realists and most neo-liberalists who subscribe to HST predict the inevitable erosion of these institutions following the hegemon's own decline, Keohane challenges the notion of hegemony being the only way to reach international stability via the same set of rules. A unipolar kind of *Pax Romana*, *Pax Britannica*, or *Pax Americana* might be a helpful asset. Yet, neither is it a guarantee for stability and cooperation, nor is it an ironclad prerequisite – as international regimes may be more than capable to prevent disorder. Once these have been established, 'post-hegemonic cooperation is also possible'.[77]

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[74] See: Gilpin, R. (2001), *Global Political Economy: Understanding the International Economic Order*. Princeton: Princeton University Press; Kindleberger, C. (2013), *The World in Depression, 1929-1939*. Oakland: University of California Press; Krasner, S. (ed.) (1983), *International Regimes*. Ithaca: Cornell University Press.
[75] Keohane 2005: p. 61.
[76] Krasner, S. (1983), 'Structural Causes and Regime Consequences: Regimes as Intervening Variables'. In: S. Krasner (ed.), *International Regimes*, Ithaca: Cornell University Press, pp. 1-21.
[77] Keohane 2005: p. 32.

Harmony, Cooperation, and Discord

Yet, mutual effort needs to be actively enabled and implemented. Keohane identifies three distinct, possible conditions of the relations between at least two states: harmony, cooperation, and discord. 'Harmony refers to a situation in which actors' policies (pursued in their own self-interest without regard for others) automatically facilitate the attainment of others' goals'.[78] In this idealized scenario cooperation is not even necessary, since the latter 'requires that the actions of separate individuals or organizations be brought into conformity with one another'.[79] If in the absence of harmony, no such attempts of 'policy coordination' and adjustment are made, 'the result is discord'.[80] This again can be reacted to with coordination or without. Either cooperation or further discord (and conflict) will ensue.

All in all, cooperation usually tends to be the most likely state of affairs in international relations as Keohane seeks to demonstrate in his book. Discord, however, 'tends to predominate over harmony as the initial result of independent governmental action' even where generally benign intentions reign.[81]

International Regimes

Under the rational actor assumption, international and supranational institutions, including international regimes, Keohane shows, are the most efficient and promising vehicles to achieve that cooperation. A strong regime sees tight connections between a certain set of principles, norms, rules and decision-making procedures regarding the management of a corresponding issue area. Such strong connections are realized not through a hegemon's enforcement, but once the regime's plenty subscribers cherish its institutional automatism, clarity, and efficiency in a complex and interdependent world. Absolute gains are achieved out of the same self-interests Waltz's sovereign units follow. This does not entail that the reign of regimes is a static condition:

[78] Ibid.: p. 51.
[79] Ibid.
[80] Ibid.: p. 52.
[81] Ibid.: p. 54.

'Since issue-areas depend on actors' perceptions and behavior rather than on inherent qualities of the subject-matters, their boundaries change gradually over time. [...] Issue-areas are defined and redefined by changing patterns of human intervention; so are international regimes'.[82]

A further important aspect is that 'injunctions of international regimes rarely affect economic transactions directly'.[83] These are done by state institutions; so are specific interstate treaties and agreements that govern the states' injunctions. However, these agreements rarely exist in a vacuum. Indeed 'a major function of regimes is to facilitate the making of specific cooperative agreements among governments' in the first place.[84]

Game Theory and Interdependence

Keohane demonstrates that the same rational-choice-assumption that neo-realists utilize to explain an anarchy-induced and Machiavellian "all against all" can have very different outcomes under different conditions. He does this by highlighting the limitations of neo-realism's favourite game theory: the prisoners' dilemma. The latter's calculation acknowledges the actors benefiting from 'mutual cooperation, but [...] more from double-crossing' one another.[85]

The neo-liberalist's problem with the constants and variables at the disposal of the classic prisoners' dilemma is that they are not complete. Whilst not dismissing the prisoner's dilemma's value entirely Keohane identifies a major problem with what he calls the "single play prisoners' dilemma". The latter's ontology, Keohane stresses, ignores a world beyond the moment of that one game – a dangerous oversimplification. The reality of having to "play multiple games" over time and involving the same participants creates an entirely different decision-making calculus. Defection in one game will haunt the defector in the next. In other words, actors need to take into consideration not only the immediate benefits, but especially their long-term liabilities and the overall consequences of their decisions. The 'Iterated Prisoners' Dilemma' accounts for this – not only from a rational but even from an egoistic point of view. Robert Axelrod has demonstrated how cooperation can emerge from a policy of "tit-for-tat" that allows for defection and retaliation and the learning-effect this has on the actors in terms of egoistically seeing the benefits of

[82] Ibid.: p. 61.
[83] Ibid.
[84] Ibid.: p. 62.
[85] Ibid.: p. 67.

cooperation.[86] The incentive to defect is greatly reduced.[87] This is even more the case in an interdependent world with high 'issue-density'.[88]

The theory of collective action reaches the same conclusion. A group's members that monitor each other closely can reward and punish. They can thus replace a single hegemon from taking over the enforcement role. This is exactly what international regimes frequently enable.[89]

Functioning Regimes

A problem with rational-choice analysis, Keohane underlines though, is that it leads 'immediately [...] to functional arguments'.[90] Functionalism's post hoc nature does not allow for contingency in the outcomes of potentially different initial motivations. However, Keohane sees functionalism as a useful first step to address why 'political market failure' occurs and how regimes can help prevent this from happening.[91]

Regimes are created as a reaction to increased issue density. Closely connected issues are then grouped together to form issue areas that the regime "governs". Successful regimes therefore organize a 'productive issue-linkage' that enables more effective problem-solving.[92] Simultaneously, this process inhibits 'destructive issue-linkage' and incentivizes states to clearly define and separate the issue areas.[93] Once an interdependent world is collectively managed, transparency is elevated, and breaking the rules of such a system involves higher costs for everyone. 'Political market failure' is more likely when there is less or no transparency and the threat of destructive issue-linkage incentivizes cooperation. Even though enforcing 'retaliatory linkage' following a breach, involves high costs also for the "punisher(s)" and is thus only likely when the initial rule-breaker has caused severe damage, the long-term losses in efficiency, information-access or wealth are usually feared enough by the members of

[86] See: Axelrod, R. (2009), *The Evolution of Cooperation*. New York City: Basic Books.
[87] Keohane 2005: p. 76.
[88] Ibid.: p. 79.
[89] Ibid.: p. 77.
[90] Ibid.: p. 80.
[91] Ibid.: pp. 80-84.
[92] Ibid.: p. 92.
[93] Ibid.

a regime.[94] Keohane highlights how a state's 'reputation' and therefore its future attractiveness to others for deal-making can be at stake.

Deal-making essentially involves the written or unwritten rules of reciprocity. Interstate cooperation executed in a reciprocal manner is assisted by the relevant regimes. Having touched upon the reciprocity logic in *After Hegemony*, Keohane analyses it more closely in his follow-up publication *International Institutions and State Power (1989).*

Reciprocity

Keohane differentiates between a stricter and more direct 'specific reciprocity' which is often followed by newly cooperating and therefore considerably distrustful actors, and 'diffuse reciprocity' which allows for a loose, open, and more trustful relationship where actors do not require an instant *quid pro quo.*[95]

He then discusses two essential forms of the concept. First, 'contingency' refers to a dimension where conditionality is the focal point. 'Reciprocal behavior returns ill for ill as well as good for good'.[96] Second, 'equivalence' serves as a rough guide word to what equals in international relations expect from each other's obligations.[97] Good can not only be traded for good and bad for bad – the nature and extent of the deed requires a fairly equally valued deed in return. Yet, reciprocity 'can also characterize relations among unequals, for instance, between a patron and his client, when there is little prospect of equivalent exchange. Patron-client relationships are characterized by exchanges of mutually valued but noncomparable goods and services'.[98]

However, measuring exact equivalence will be somewhat impossible unless the reciprocal agreement is the trade of economic goods with exact values/prices.[99] Saudi-American "oil for security"-agreements though are hardly calculable in value. Keohane even gives an example reflecting a scenario not unlike the story behind more recent US-guaranteed Gulf security. 'How is one to ascertain the relative value of a superpower's pledge to protect an ally from attack, on the one hand, and the ally's

[94] Ibid., p. 85-105.
[95] Keohane, R. (1989), *International Institutions and State Power. Essays in International Relations Theory*. Boulder: Westview.
[96] Ibid., p. 135.
[97] Ibid.
[98] Ibid.
[99] Ibid.: p. 136

willingness to accept stationing of the superpower's troops in its territory, on the other'.[100] Nevertheless, Keohane insists on the possibility of determining at least approximate equivalence in reciprocity.

In specific reciprocity, the actors' behaviour equals a "tit-for-tat" – which can encourage and cement cooperation but can also go disastrously wrong. Instead of trading good for good, the actors could end up trading bad for bad and creating a real deadlock.[101]

The problems reciprocity faces in the multilateral rather than merely bilateral context are quite different in nature. A context in which a group of states benefit from somebody else's provision of a public good creates incentives for individual states to "free-ride". Hence, cooperation in producing the public good is less likely than in a bilateral relationship.[102] Why reciprocal behaviour would suffer from this free-rider problem is easily understood:

> 'Incentives to police an agreement by retaliating against defectors are likely to be much lower than in bilateral games, since the "policeman" will suffer the opprobrium of other actors, while gaining only a small portion of the benefits of enforcing the rules. Thus if a given actor's violation of a particular rule does not directly threaten the benefits received by the group, retaliation is unlikely to be severe. As a consequence, the incentive to cooperate provided by reciprocity – that defection will lead to punishment by one's partners – may not prove compelling in a multilateral situation'.[103]

Yet, these observations by Keohane are probably more accurate inside a more established alliance or cooperative multilateral grouping where diffuse reciprocity has already become the norm. Defectors in such a grouping where specific reciprocity still reigns are more likely to spawn entirely different consequences. Since specific reciprocity is conditional, a country adopting this policy in a multilateral context and in circumstances of significant interdependence with several countries will create a negative reciprocal chain reaction amongst all those other countries. 'Where many issues and many countries are involved, insisting on specific reciprocity can create administrative and diplomatic nightmares'.[104]

This scenario leads to Keohane's concept of 'diffuse reciprocity'. Its key term is "obligation", which is far too vague to fall under the concept of specific reciprocity. 'Since practitioners of diffuse reciprocity do not receive direct rewards for their

[100] Ibid.
[101] Ibid.: p. 137.
[102] Ibid.: p. 139.
[103] Ibid.
[104] Ibid.: p. 145.

cooperative actions, a pattern of diffuse reciprocity can be maintained only by a widespread sense of obligation'.[105]

The success of diffuse reciprocity in a multilateral or bilateral relationship is often based on a successful process of specific reciprocity first. Timing is one of the key variables. For specific reciprocity to become successfully institutionalized, much less to lead to diffuse reciprocity, exchange must take place sequentially rather than simultaneously'.[106] The latter timing, on the contrary, as Keohane exemplifies, is more a sign of hostility and distrust, as parties fear to be double-crossed. It is sequential reciprocity that creates more benign perceptions and actions.[107]

This can lead to the rarer condition of diffuse reciprocity. The latter though carries with it many advantages, but also the danger of hosting a free-rider in the midst of the group who would then create a dilemma for the other states contributing to the public good.

Narrowing the Debate's Gap

When a mixture of these circumstances becomes the norm and trade and investment is facilitated through treaties and political cooperation the central argument that neo-liberal institutionalism holds onto is that such relationships can foster peace and stability rather than anarchic rivalries and conflict. Political order underpinned by a public-goods-providing hegemon or even by efficient and accepted international regimes though is the precondition for the more idealistic commercial peace theory associated with classical liberalism. Keohane's contributions have moved liberal arguments closer to accepted neo-realist constraints.

2.1.5 Defensive Realism and Alliance Formations

Placed in the same theoretical tradition as Kenneth Waltz, Stephen Walt's *The Origins of Alliances* (1987) stands among neo-realism's key texts. What sets Walt's book apart is merely a specification of a narrower topic within international politics. As the book's title shows Walt deals with alliances and their formation and break up,

[105] Ibid.: p. 146.
[106] Ibid.
[107] Ibid.: pp. 147-148.

rather than international politics as a whole. Walt seeks to answer the following questions:

> 'What causes states to support one another's foreign policy or territorial integrity? How do statesmen choose among potential threats when seeking external support? How do great powers choose which states to protect, and how do weaker states decide whose protection to accept? In short, how do states choose their friends'.[108]

These questions involve a debate between two different alliance incentives and outcomes that states face – do they tend to balance or bandwagon?

Balancing vs. Bandwagoning

Balance-of-power theory hypothesizes that 'states join alliances to protect themselves from states or coalitions whose superior resources could pose a threat'.[109] It would predict the states in question to join the weaker of two sides in order to avoid domination by those states or coalitions with superior resources. 'Joining the weaker side increases the new member's influence within the alliance, because the weaker side has greater need for assistance. Allying with the stronger side, by contrast gives the new member little influence (because it adds relatively less to the coalition)'.[110]

Bandwagoning behaviour though claims the opposite. Deterred by a great power and its threat potential, weaker states choose the presumed safer option of joining the great power rather than resisting it. Why should this be considered safer? 'The belief that states are prone to bandwagoning implies that most alliances are extremely fragile' for two motives: 'First, bandwagoning may be a form of appeasement [...] Second, a state may align with the dominant side in wartime in order to share the spoils of victory'.[111] The former reason inherits a defensive, the latter an offensive motivation.

Choosing between balancing and bandwagoning, Walt shows, depends to a large extent on the nature of the threat, not merely the extent of the threat's power, as traditional balancing and bandwagoning theories have asserted. 'It is more accurate to say that states tend to ally with or against the foreign power that poses the greatest

[108] Walt, S. (1987), *The Origins of Alliances*. Ithaca: Cornell University Press.
[109] Ibid.: p. 18.
[110] Ibid.: pp. 18-19.
[111] Ibid.: p. 21.

threat. For example, states may balance by allying with other strong states if a weaker power is more dangerous for other reasons'.[112]

Walt identifies four different sources of threat: 'aggregate power, geographic proximity, offensive power, and aggressive intentions'.[113] Aggregate power plays a fundamental but not necessarily the most decisive role. For example, a country's neighbouring states might have less aggregate power than a distant hegemon, but pose a larger threat due to their geographic proximity when coupled with enough offensive power to do harm. As a result, alliance formations resembling chess-boards can be the outcome, which is not seldom the case. Yet, this is an oversimplification because what ultimately makes the combination of threat-sources decisive is the "threatening" state's perceived or actual intentions. Only if these are considered or proven aggressive will a state balance rather than bandwagon.[114] Here, Walt effectively abandons Waltz's (and Mearsheimer's, see below) belief that in the anarchic world of international relations between sovereign states, in which only capabilities can be judged, intentions do not matter, because they are uncertain.

Walt then summarises his 'Hypotheses on the Conditions Favoring Balancing or Bandwagoning':[115]

'1. Balancing is more common than bandwagoning.

2. The stronger the state, the greater its tendency to balance. Weak states will balance against other weak states but may bandwagon when threatened by great powers.

3. The greater the probability of allied support, the greater the tendency to balance. When adequate allied support is certain, however, the tendency for free-riding or buck-passing increases.

4. The more unalterably aggressive a state is perceived to be, the greater the tendency for others to balance against it.

5. In wartime, the closer one side is to victory, the greater the tendency for others to bandwagon with it'

Balance of Threat

The 'Dominance of Balancing' over bandwagoning, which Walt's Middle Eastern case studies predominantly reveal, has several consequences for the expectations

[112] Ibid.: p 21-22.
[113] Ibid.: p. 22.
[114] Ibid.: pp. 22-27.
[115] Ibid.: p. 33.

regarding both small states as well as great powers. For the latter, threats from rival great powers are more significant and mostly are logically prioritized.[116]

Involvement in foreign regions by one great power can easily be the catalyst for another great power to join in. The ensuing rivalry entails competition between the great powers in the region, a competition regional powers then have the freedom to exploit.[117] The more important the superpowers' interests, the more encouraging for the regional states to threaten realignment.[118]

Walt goes on to show how great powers seek to manage these dangers to and opportunities for their national interests in the region. 'One form is to counter the other superpower by opposing its regional clients, either directly or by supporting other regional states. [...] The second form is to try to entice the opponent's clients into realigning (either by offering more or by subverting them)'.[119]

Both superpowers and smaller states form different alliances for different motives. Based largely on his Middle Eastern case studies, Walt offers three reasons for this.

'First, regional states are indifferent to the global balance because they are much weaker than either of the superpowers and can therefore do little to change the global balance'.[120] Instead, they 'will ally with the superpower that is most willing to support their own political objectives'.[121] The relative power of a superpower vis-à-vis another superpower matters little to regional states, as any significant outside capabilities will be enough in order to deter or defeat regional threats.

'Second, the regional powers in the Middle East are unlikely to view either superpower as posing an imminent and direct threat'.[122] Proximate threats are usually more urgent and constant.

Finally, 'because each superpower will oppose expansion by the other, regional states can be less worried about either one'.[123] Hence, it can be concluded that regional states even have an interest in a certain level of superpower rivalry for defensive reasons.

[116] Ibid.: p. 153.
[117] Ibid.: p. 156.
[118] Ibid.: p. 157.
[119] Ibid.
[120] Ibid.: p. 162.
[121] Ibid.
[122] Ibid.
[123] Ibid.: p. 163.

Regional states enter alliances with outside powers also for offensive reasons, as their offensive capabilities will be enhanced. However, there is one scenario in which regional states will be more likely to resist outside power involvement. When the outside power becomes too dominant and when the bilateral relations and the alliance becomes too asymmetrical, small states will have an interest in resisting superpower muddling in their internal affairs. Thus, though the offensive capabilities of outside powers enrich smaller states' security, 'Aggressive Intentions' by the outside powers can encourage balancing behaviour by the small states and even a realignment 'with the superpower that seems least aggressive'.[124]

A balancing coalition of smaller states though, as Walt highlights, is more likely to form against aggressiveness and threats from other regional states.[125] These inherit far less aggregate power than superpowers do. However, other factors increase the threat and threat perception posed by proximate aggressors. The global distribution of capabilities has less of an impact within each region's alliances.[126] Consequently, Walt concludes that his 'balance of threat theory is superior to balance of power theory'.[127]

His contribution will be of high value when assessing so-called "patron-client" relationships between the Gulf states and outside powers such as the US and China, as well as the interplaying dynamics of intra-regional rivalries. Yet, Walt's so-called defensive realism was contested by his fellow scholar, John Mearsheimer, who set out to emphasize different structural conditions and incentives for the great powers of the international system.

2.1.6 Offensive Realism and Great Power Rivalry

John Mearsheimer's landmark *Tragedy of Great Power Politics* (2001) is in many ways complementary to Waltz's and Walt's manuscripts.[128] Sharing their positivist epistemology of neo-realism, Mearsheimer's different focus, or rather his nuance, as the title insinuates, mostly entails a divergent set of beliefs regarding the incentives and actions of great powers. The book includes a theory of great power politics, not of

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[124] Ibid.: p. 170.
[125] Ibid.: p. 171.
[126] Ibid.: p. 179,
[127] Ibid.: p. 172.
[128] Mearsheimer, J. (2001), *The Tragedy of Great Power Politics*. New York City: W. W. Norton & Company.

all states in the international system. These very few actors face a unique set of opportunities, freedoms, constraints, and perceived obligations. He defines his theory as offensive realism.

Power Maximization

Mearsheimer believes that all states are 'power maximizers', not 'security maximizers', as Waltz and Walt claim.[129]

> 'The overriding goal of each state is to maximize its share of world power, which means gaining power at the expense of other states. But great powers do not merely strive to be the strongest of all powers, although that is a welcome outcome. Their ultimate aim is to become a hegemon – that is, the only great power in the system. […] This unrelenting pursuit of power means that great powers are inclined to look for opportunities to alter the distribution of world power in their favor. They will seize these opportunities if they have the necessary capability. Simply put, great powers are primed for offense'.[130]

Why, according to Mearsheimer, is this so? '[T]he structure of the international system forces states which seek only to be secure nonetheless to act aggressively toward each other'.[131] He bases his observation on five key assumptions about the international system:[132]

1. The system is anarchic.
2. Great powers usually have some form of offensive military capability.
3. There is always uncertainty about other states' intentions.
4. Survival is the prerequisite for all other foreign policy objectives.
5. States are rational actors.

These five assumptions, in Mearsheimer's thinking, dominate the international relations of actual and potential great powers. This does not mean that non-structural issues cannot have an impact. Echoing Waltz, Mearsheimer is well aware of other factors in human behaviour, including irrationality, ideology and domestic politics,

[129] Ibid.: p. 35.
[130] Ibid.: pp. 2-3.
[131] Ibid.
[132] Ibid.: p. 31.

but also believes it is impossible to construct one grand theory including all these things.[133]

Mearsheimer specifies that in an anarchic world, survival interests require relative power accumulation to be more important than absolute power accumulation. Great powers employ the use or the threat of 'Calculated aggression'.[134] This has three consequences.

The more relative power a state acquires, the more likely it acts offensively, because it simply can afford to; as rational actors, states carefully way the costs and benefits or offensive vs defensive behaviour, because states are not 'mindless aggressors'; and finally, miscalculation happens very often too and great powers thus 'end up doing themselves serious harm'.[135]

Regional Hegemony

How do these behaviours translate into strategy? Since, according to Mearsheimer, global hegemony is impossible, due to the 'stopping power of water' and the lack of a decisive first strike capability of any actor so far (including the US), a great power will seek to become a regional hegemon. Dominating its backyard and its periphery is possible for a great power. Once this exclusive status has been reached, the hegemon enjoys the luxury of being 'free to roam'.[136] With this capability, it will seek to tackle potential and actual threats to its hegemony and will thus try to prevent other potential and actual great powers from dominating their respective regions also. Peer competitors free to roam should not be tolerated, because they would pose a direct threat to the hegemon's status.

The objective of preventing the emergence of other regional hegemons can be pursued via various strategies, for example 'offshore balancing' or, at least as a last resort, military intervention (see below). Global hegemony is an impossibility according to Mearsheimer. Hence, the ultimate aim for a great power is to become

[133] Ibid.: pp. 10-11.
[134] Ibid.: p. 37.
[135] Ibid.: pp. 38-39.
[136] Ibid.: p. 83; Mearsheimer, J. (2015), 'We Asked John Mearsheimer: What Should Be the Purpose of American Power?'. In: *The National Interest*, 21 August 2015 [http://nationalinterest.org/feature/we-asked-john-mearsheimer-what-should-be-the-purpose-13642].

the only regional hegemon in the world. This is what Mearsheimer defines as a 'status quo power'.[137]

Power has been defined by IR scholars in various ways. Mearsheimer sees a country with a relatively large population and vast wealth as a potential or actual great power, because these ingredients can be transformed into a formidable military force.[138]

Bipolarity, Balanced Multipolarity, and Unbalanced Multipolarity

Such a transformation has the potential to alter the structure of the international system. Since Mearsheimer has already discarded true unipolarity as near on impossible, there are three different possible structures: 'unbalanced multipolarity', 'balanced multipolarity', and 'bipolarity'. The 'level of fear' in the international system varies in degrees, with bipolarity being the most stable structure generating relative tranquillity, to be followed by balanced multipolarity which is less stable and tranquil, to be followed by the most unstable, uncertain, and fear-generating condition of them all: unbalanced multipolarity.[139]

The latter structure allows for several possible alliance formations, defections and escalations. These potentialities are more likely when the system is unbalanced, because survival dictates states to establish a dominance or at least a balance of power. In an unbalanced system, there are likely to be disrupters and challengers of the status quo power. The status quo power has no interest in giving up that status and will resist attempts by its rivals to change the system.[140]

Offshore Balancing vs. Military Intervention

How is the hegemon – or indeed the challenger – likely to succeed? Controlling territory and wider space remains the most critical element of global power. Mearsheimer notes that not all space is equal and identifies a 'Primacy of land power'.[141]

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[137] Mearsheimer 2001: p. 42.
[138] Ibid.: p. 56.
[139] Ibid.: p. 269.
[140] Ibid.
[141] Ibid.: p. 83.

Yet, sea power is the second critical element in a superpower's control of space. Offensive realism defines it as follows:

> 'A navy bent on projecting power against a rival state must first gain command of the sea, which is the bedrock mission for naval forces. Command of the sea means controlling the lines of communication that crisscross the ocean's surface, so that a state's commercial and military ships can freely move across them. For a navy to command an ocean, it need not control all of the sea all of the time, but it must be able to control the strategically important parts whenever it wants to use them, and deny the enemy the ability to do likewise'.[142]

This kind of strategy becomes possible with capabilities based in ports and bases both at home and abroad. However, where possible, Mearsheimer believes that states and especially great powers usually seek to pursue interests and ensure survival through 'balancing' or 'buck-passing', and not necessarily the stationing of a vast number of troops and amount of material all over the world. Yet, despite offshore balancing being something like an empire on the cheap, Mearsheimer does not identify 'appeasement and bandwagoning' as 'particularly useful for dealing with aggressors'.[143] This echoes Walt's observations in his defensively realist balance of threat theory.

In offensive realism though, hegemons are sensitive to potential threats emerging in the first place. If possible, hegemons will try to pre-empt this through offshore balancing, buck-passing and, when necessary, direct military intervention:

> 'Not only do great powers aim to dominate their region, they also strive to prevent rivals in other areas from gaining hegemony. Regional hegemons fear that a peer competitor might jeopardize their hegemony by upsetting the balance of power in their backyard. Thus, regional hegemons prefer that there be two or more great powers in the other key regions of the world, because those neighbors are likely to spend most of their time competing with each other, leaving them few opportunities to threaten a distant hegemon'.[144]

If power is distributed evenly amongst states of another region the distant hegemon can stay out. However, if that balance is threatened the first option for the distant hegemon would be to buck-pass (i.e. to be an 'offshore-balancer'). If even that does not suffice, the distant hegemon intervenes in one way or the other.[145]

Strategic Regions

A hierarchy of global interest nevertheless entails different regions inheriting a varying degree of importance for the hegemon. Regions with other great powers are

[142] Ibid.: p. 87.
[143] Ibid.: p. 139
[144] Ibid.: p. 141.
[145] Ibid.

important due to the very existence of the other great powers there. Yet, this is only one of several potential reasons.

> 'Great powers also seek to prevent rival great powers from dominating the wealth-generating areas of the world [...] [such as also areas with] critically important raw materials. Great powers sometimes attempt to dominate those regions themselves, but at the very least, they try to ensure that none falls under the control of a rival great power'.[146]

Mearsheimer identifies three regions of critical importance to the only current regional hegemon in the world, the United States, during its 20th and 21st century hegemony: Western Europe and East Asia host other great powers and wealth which provide the most important markets. The third region, according to him, was and is the Persian Gulf, which holds around half of the world's proven oil reserves – a critical resource for every state and especially every great power, as long as the technological status quo in the energy industry prevails.[147] Hence, Mearsheimer's offensive realism (and his current strategic observations) are an essential component to the framework built to analyse this thesis' subject matter.

However, Mearsheimer, just as most of the other theorists reviewed in this section have one critical aspect in common: their omission of regions and geography, not so much in their discussions, but in their very theories. Both neo-realism and neo-liberal institutionalism lead the author of this thesis towards two according hypotheses regarding his research question. These will be formulated at the end of this section. However, a third hypothesis is possible via a critique of both theories' omission of regions and via a theoretical synthesis based partly on the inclusion of this concept.

2.1.7 Regional Hegemonic Stability: Towards a Neo-Neo Synthesis

Some of these neo-realists and neo-liberal institutionalists mention regions in passing, as just witnessed with Mearsheimer. And although that confirms geography's relevance to their analysis, these scholars do not seem to notice their omission and thereby fail to incorporate the concept into their theories. In this section, the author of this thesis seeks to critique some of the theories' shortcomings by seeking to demonstrate the room for a neo-neo synthesis, centred particularly on

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[146] Ibid.: p. 143.

[147] Mearsheimer, J. (2014), 'America Unhinged'. In: *The National Interest*, January-February Issue 2014 [http://nationalinterest.org/files/digital-edition/1388435556/129%20Digital%20Edition.pdf], p. 12.

regions and geography, and allowing him to introduce the concept of regional hegemonic stability.

Complex Interdependence under Region-specific Conditions

Keohane and Nye's CIT is the first example in which the omission of regions and geography has noteworthy consequences for the theory in several ways. Implicitly, when describing the conditions of complex interdependence, Keohane and Nye have in mind either certain bilateral relations, such as between the US and Canada and between the US and Australia, or regions such as Western Europe, as their case studies demonstrate. The CIT ideal type therefore describes a condition in which transnational flows of goods, capital, people and institutions is so advanced that inter-state military rivalry and security concerns are completely off the table.

However, firstly, Keohane and Nye do not give enough attention to causality. Thus, they do not explicitly address the question whether the ideal type of complex interdependence has caused a demilitarization of ties or whether a hitherto demilitarization of ties has helped bring about the interdependence and cooperation.

Secondly, they therefore do not account for the possibility that interdependence between states, in a bilateral or multilateral context, or between states and other regions of the world, can develop despite ongoing security concerns.

This serious omission has come about precisely because CIT does not address causation. A further reason revolves around Keohane's and Nye's limited concept of interdependence. They correctly accuse realists of elevating the security issue area over all others. Yet, CIT could be accused of disregarding its own notion that there is no hierarchy of issue areas, because it unwittingly seems to elevate economic matters above all others.

Interdependence though, can involve security interdependence. This could simply mean that two or more states have significant military capabilities in combination with bilateral or multilateral political disagreements and even potential conflicts. Such a condition will be all the more relevant in cases in which insecurity and geo-political uncertainty is a reality in at least one of the regions in which at least one of the states is located. This is a potentiality even if the bilateral or multilateral relationship is also defined by economic interdependence. As an example, would US-

Canada relations be as tranquil and non-militarized if the North American region were highly insecure and geo-strategically critical for many other actors? In answering that hypothetical question, the assumption that under those hypothetical circumstances no economic interdependence and political cooperation between the US and Canada would flourish to the same extent is an invalidated speculation.

Furthermore, it is far from clear whether interdependence between regions, composed of several actors, heightens the chance for peaceful cooperation when insecurity reigns in at least one of the regions or an antagonistic relationship exists between at least two actors inside one of the regions. Neo-realists like Waltz already see interdependence per se as making conflict and war more likely, not less likely. Even under the assumption that he is wrong, the question of inter-regional, rather than merely inter-state interdependence, needs to be addressed: Clearly, all interdependent actors would derive important absolute gains from multilateral cooperation over mutual interests. However, if neo-realists are right in that relative gains matter more, especially in a relationship between potentially antagonistic states – be they themselves economically interdependent or not – then how likely is multilateral cooperation? Would not the fear of relative losses also trump the fear of absolute losses?

Such a scenario would entail the following realization: Inter-regional interdependence may not automatically lead to multilateral cooperation but could indeed intensify intra-regional rivalry. If all actors know about their own and their unloved neighbours' dependence on another region, then their fears of being outperformed by them in that region could easily sabotage cooperation and lead to unilateralism. This scenario leads back to realist insights.

In other words, regional conditions matter, and regional conditions are critically shaped also by geographical location and indeed further geographical characteristics.

Geography's Hidden Relevance for Neo-Realism

The same observation holds true for the basic neo-realist world-view. According to Waltz, the structure of the international system is made up of states. Neo-realism determines power by the distribution of capabilities across the system's units. These capabilities are to an important extent made up of demographics – i.e. human geography. A state's demographic size matters if that is translated into wealth and if that again is translated into military capabilities. Unacknowledged by Waltz, geography thus matters to his theory.

On top of that, if geography matters to the theory, then physical geography clearly also does. The distribution of capabilities across the system's units should consequently incorporate the distribution of geographical conditions across the system's units. These include aspects such as location, regional environment, territorial size, terrain, natural resources, and climate. Such an amended theory need not specify what exactly those conditions are inside every state's territory, as that would indeed destroy the structural nature of the theory. However, when viewed comparatively, Waltz' system-wide distribution-focus comes back into play and can be made to work.

Neo-realism is often characterized as treating states like billiard balls lying on a billiard table. This comparison is at best incomplete and at worst inaccurate. Firstly, what it ignores is the individual billiard ball's location on the billiard table. This factor can be critical though, as it enhances or diminishes the billiard ball's chances of being slotted home or not. The location of a state is a geographical matter.

Secondly, when viewed with geography and the diversity of regions in mind, a game of billiards might not be the most useful analogy for describing the international system. A billiard table is flat and thereby equal in terms of terrain – an unnecessary and dangerous oversimplification of the world. The world's terrain is wholly diverse. A more useful analogy could be the game of golf. This continues to treat states like balls – not looking inside the unit – but accounts for diverse geographical conditions of the terrain whilst also easily acknowledging the balls'/states' location as crucial.

These observations lead to further realizations about Waltz's theory. If geography matters, then it is not only the inherent capabilities of great powers that can influence the structure of the international system, which is what Waltz claims. If the distribution of capabilities across units incorporates important geographical realities, then these realities can find themselves distributed among other units that are not great powers. However, if these potentially far-flung geographical properties happen to matter significantly to the great powers, then they influence the great powers' interests, actions, and capabilities. In short, certain regions that are not composed of great powers can nevertheless influence the international system due to their location or natural resources, for example.

The author elaborates further on this notion when returning to Stephen Walt's ideas, below. First, it is necessary to also discuss Robert Keohane's work on eroding hegemony and international regimes in light of regions.

Hegemony, Regimes, and Regional Insecurity

Keohane's analysis of states in the global political economy involves a discussion of both superpower hegemony and international regimes as means to avoid discord and facilitate cooperation. Although he accepts basic neo-realist constraints, he does not fully highlight the available room for an explicit synthesis between neo-realism and neo-liberal institutionalism. His brief discussion of hegemonic stability theory is only brought up to sketch the older hypothesis that successful international regimes require a powerful policeman to protect and enforce them when necessary. Since HST has neo-liberal institutionalist and neo-realist proponents, the case for synthesis should be evident. Keohane and Nye, in their previous construction of CIT, acknowledge that the overall power structure in which a hegemon builds and defends the rules of the game stems from realist notions.

Keohane does not develop this insight further, because he is eager to stress the potential irrelevance of hegemony in regime maintenance. Yet, HST could have led him to an important question which is wholly absent from his analysis: how can regimes possibly suffice to uphold a cooperative order, especially in unstable and insecure regions, when the regimes' prerequisites – basic trust and "diffuse reciprocity", as he calls it, – are absent there? As outlined above, unstable and insecure regions can nevertheless be fully integrated into the global political economy. Such regions, with which outside powers are economically interdependent despite insecurity, are unaccounted for in Keohane's neo-liberal institutionalism. Keohane merely worries about the nuisance of free-riders, especially in a multilateral context. Yet, from the status-quo power's point of view, it might be a price worth paying, because, firstly, it allows for its potential rivals' appreciation of an absolute-gains-driven system, and secondly, it continues to provide the status-quo power with a relative-power-dividend that comes with being the "policeman".

In his employment of an amended "iterated" prisoners' dilemma, Keohane correctly highlights how long-term interests can lead rationally-acting and egoistic states to choose cooperation over double-crossing. However, from a neo-realist viewpoint, this choice necessitates a relatively low level of short-term fear. And, as Mearsheimer stresses, fear is a constant element due to uncertainty over intentions. Interdependence, under which multiple channels connect societies and governments, admittedly lessens the amount of uncertainty. Yet, if greater certainty and transparency happens to confirm that fear is justified, Waltz's claim that interdependence can make conflict even more likely would be accurate.

Mearsheimer would also stress that unstable and insecure regions in which and with which geo-political antagonisms exist, fear will be hard to avoid. Furthermore, this can be contagious beyond that region if the region is important to several great powers. On top of that, his offensive realism observes that an international system composed of unbalanced multipolarity incorporates the highest level of fear in great power politics.

These are hardly the best circumstances for an absolute-gains-driven iterated prisoners' dilemma. Once again, the conditions of certain regions can produce quite different incentives and outcomes. As seen in the previous section, Stephen Walt would agree.

Geography and Defensive Realism's Synthesis Potential

Among the utilized theoretical texts in this thesis, Walt's is the one which most incorporates geography. He does not emphasize this vividly, but still touches upon it in his framework. His balance of threat theory highlights geographic proximity as a crucial component as to when and how states feel endangered. Although state B can be weaker than state C, state A can nevertheless perceive a greater threat by state B if the latter is located within its neighbourhood, than by the more powerful state C which is geographically more distant.

This notion could be taken further by stating that because of the greater threat level through geographic proximity, it is the regional distribution of capabilities that has a serious influence on the region as well as beyond. Walt indeed claims the global balance of power is of lesser relevance inside such regions.

Although that is correct from his theoretical viewpoint, it too underestimates the full potential meaning of geography, as well as the potential room for neo-liberal institutionalist notions. Only because weaker states in certain regions do not have much aggregate power, this does not entail that such states cannot influence the global balance of power. CIT rightly points towards the necessity to measure the distributions of power within different issue areas. Inside some issue areas, weaker states can exercise significant global influence. Geography, in the case of the Gulf states, for example, has produced two areas in which weaker states are globally influential. Firstly, their very location between the three continents of Asia, Africa, and Europe, automatically turns them into a strategically vital region. Secondly, their vast oil resources make them powerful actors in the energy issue area.

If this means that the global political economy is dependent on a region, and that several outside powers have a strong interest in the region, this elevates the regional states' power despite their weakness in aggregate terms. Hence, defensive realism should be regarded as a useful instrument to highlight the relevance of geography and intra-regional conditions, as well as to build a further bridge between neo-realism and neo-liberal institutionalism.

Offensive Realism's Unchartered Territory

Bridge-building between the two theories is admittedly more difficult when it comes to John Mearsheimer's offensive realism. The only exception revolves around his important realization that interdependence very much exists also outside the economic arena. Great powers with overwhelming military capabilities are automatically security interdependent, because they have the power to completely destroy each other and thus cannot exist in absolute security. Other than that, Mearsheimer does not see economic interdependence as a guarantor for peace.

Regarding the criticality of regions and geography in general, however, Mearsheimer has much to say. Yet, he is the most dramatic example for failing to incorporate geography into the theory itself. Several examples illustrate this.

Global hegemony is impossible, according to Mearsheimer, due to, among other things, the stopping power of water – an obvious geographical observation. Then, like Waltz, Mearsheimer sees demographics (a country's large population) as a likely precondition for great power status, and thus again fails to highlight that it is human geography which helps determine that status. He also devotes an entire chapter to the primacy of land power in great powers' race to control territorial space, another geographical observation. The same goes for offensive realism's reflexion of the importance of sea power also. Mearsheimer specifically emphasizes a great power's incentive to control the sea lines of communication (SLOCs) and the global strategic bottlenecks with its navy. This argument therefore leads to the importance of specific locations on the planet.

Despite this critique, Mearsheimer, at least implicitly, acknowledges how regions matter to great power politics: firstly, they are critical to the emergence or non-emergence of a hegemon, because Mearsheimer's definition of the latter depends on a great power's clear dominance of its back-yard in order to be free to roam. Secondly, Mearsheimer believes different regions vary in global importance. Strategically vital regions can be just that, not only due to their inhabitation of one or more great powers, but also when the regions simply hold wealth-generating properties, especially critical raw materials. In his empirical findings, Mearsheimer sees four regions in the world that presently matter: next to the western hemisphere, which is important because it is the backyard of the US – the world's currently sole hegemon – the other three regions are Europe, East Asia, and the Persian Gulf.

These are convincing observations. However, Mearsheimer's omission of geography as an official element to his theory not only results in awkwardness, because he constantly mentions geographical matters, such as the Gulf's importance due to natural resources. It also causes him to brush over the fact that regions can be vital to the international system simply due to their geographical position on the map.

In a final step, it is now necessary to first give a very brief overview of the academic tradition of geo-politics, building on the work of several key authors who have demonstrated geography's impact on strategic regions and who have so far not been aptly integrated into the neo-neo debate. This leads to one final, but crucial hypothesis: The Persian Gulf's centrality to global affairs.

Heartland, Rimland, and Sea: Geo-Politics and the Persian Gulf Region

Although various academic disciplines have always differed over how much geography matters to human life and although the age of hyper-globalization might have suggested that it matters less and less, many have proven that world affairs are to a certain extent always influenced by it. Whilst for example the biologist/geographer Jared Diamond could, to an extent, be regarded as a geographical determinist, the archaeologist Ian Morris takes a slightly more nuanced view – showing that geography has always mattered and matters, but that it mattered in different ways at different times, depending on the changing circumstances of social development.[148] Similarly, the political scientist Parag Khanna sees the 21st century through the prism of both technology-charged globalism and geographical factors.[149] Yet, even economists such as Ruchir Sharma, see certain locations, including the Persian Gulf and in particular Dubai, as a 'geographic sweet spot'.[150]

As this thesis' literature review has partly already shown, many scholars have not only argued for the importance of Asia to human civilization, but either implicitly or explicitly of West Asia, i.e. the Greater Middle East region. They have done so for many reasons, but geography has been a crucial element.

John Hobson's concept of Afro-Asia and the Eastern origins of Western ascendancy takes a holistic view of civilizational history and, also for geographical reasons, places the Middle East at its core. Although Christopher Beckwith could be accused of underestimating the extent of pre-modern maritime commerce and the Middle East's centrality to it, his arguments go in a similar geographic direction. Peter Frankopan on the other hand, clearly acknowledges the Middle East's positional advantage, showing how especially the Persian empires and their periphery benefited from access to both the Silk Roads on land in Central Eurasia, as well as to the sea routes of the Indian Ocean via the Persian Gulf.

Yet, these observations are not new. It was already the Greek philosopher Herodotus who stressed the centrality of the region between the Mediterranean and Central Asia

[148] Diamond, J. (2017), *Guns, Germs, and Steel. A Short History of Everybody for the Last 13,000 Years*. London: Vintage; Morris, I. (2011), *Why the West Rules – For Now. The Patterns of History and What They Reveal About the Future*. London: Profile Books.
[149] Khanna, P. (2016), *Connectography. Mapping the Global Network Revolution*. London: Weidenfeld & Nicolson.
[150] Sharma, R. (2016), *The Rise and Fall of Nations: Ten Rules of Change in the Post-Crisis World*. New York City: Penguin, p. 166.

as essential to the very advance of civilization.[151] The Arabian historiographer Ibn Khaldun argued along similar lines and emphasized how the very origin of civilization was spurred first by desert nomads seeking an easier sedentary life that created agriculture, literacy, and the first cities in ancient Mesopotamia.[152] In the modern age, it was especially the historian William Hardy McNeill who showed that the history of civilization, including Western civilization, was enabled by cross-cultural interactions, in which the Middle East functioned as the vital bridge between Asia and Europe.[153] Similarly, and as determined as his current successors, the historian Marshall Hodgson passionately argued against Western exceptionalism in world history. Picking up the ancient Greek concept of *Oikumene* – more or less the same region Herodotus first focused on – Hodgson's work demonstrated how the locus of "Islamdom" later continued to shape world history.[154]

Such ideas have geo-political relevance and have long featured in the works of many academics and strategists from different generations. For the focus of this thesis, five famous names stand out.

First, it was the English academic Halford Mackinder, often referred to as the founding-father of geo-politics, who interpreted global affairs via the study of the map. In 1904, in an essay that partitioned the world into various zones, he came up with the concept of the "heartland".[155] A child of the late-19th-century "Great Game" between the British Empire and Tsarist Russia, Mackinder's most famous, though simplistic dictum would ring across 20th century geo-politics: 'Who rules East Europe commands the Heartland: Who rules the Heartland commands the World-Island: Who rules the World-Island commands the World'.[156] The world-island described Eurasia as a whole which, according to Mackinder, formed the most important geographical, economic, cultural, and political space on the planet, with the

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[151] Herodotus (Author), Dewald, C. (Ed.), and Waterfield, R. (Tr.) (2008), *The Histories*. Oxford: Oxford University Press.
[152] Ibn Khaldun (1377), *The Muqaddimah: An Introduction to History*, translated by F. Rosenthal (1967). Princeton: Princeton University Press, pp. 93, 109, 133, 136, 149.
[153] McNeill, W.H. (1963), *The Rise of the West: A History of the Human Community*. Chicago: University of Chicago Press.
[154] Hodgson, M.G.S. (1974), *The Venture of Islam: Conscience and History in a World Civilization. Volume 1: The Classical Age of Islam*. Chicago: University of Chicago Press; Hodgson, M.G.S. (1974), *The Venture of Islam: Conscience and History in a World Civilization. Volume 2: The Expansion of Islam in the Middle Periods*. Chicago: University of Chicago Press.
[155] Mackinder, H.J. (1904), 'The Geographical Pivot of History'. In: *The Geographical Journal*, London, April 1904.
[156] Mackinder, H.J. (1942), *Democratic Ideals and Reality: A Study in Politics of Reconstruction*. Washington D.C.: National Defense University Press, p. xviii.

Americas, Africa, Australia, and all islands representing the 'lands of [the] outer or insular crescent'.[157] At the centre of the world-island, the heartland describes the approximate territory of the later Soviet Union. The control of this space ensured control of the world's most important land-mass.[158] Hence, Mackinder also only implicitly viewed the Middle East and its Persian Gulf as important to world affairs, because it touches the heartland's southern edge, just as Eastern Europe touches its western edge.

On the other side of the geo-strategic debate, at the time, was the 19th-century US-Navy officer Alfred Thayer Mahan, who in his 1890 publication *The Influence of Sea Power upon History*, saw naval power as the most important geographical domain in global mastery. Its potential world-wide reach, rather than the more limited control of territory, would give a seafaring great power a much more holistic access to global affairs. Especially the Indian and Pacific Oceans which had long been the world's primary trade routes and naval playgrounds he saw as critical, also to project power into Eurasia.[159]

It was another geo-strategist from the first half of the 20th century who, building on both Mackinder's and Mahan's ideas, specified the various zones and consequently reached a slightly different conclusion – literally occupying the middle ground. Nicholas J. Spykman, in his influential academic work during World War Two, labelled the Eurasian area semi-circling Mackinder's heartland as the "rimland" – reaching from Europe, the Middle East, and South Asia over to East Asia. Spykman placed the rimland's importance over the heartland's. The more heavily populated rimland serves also as a buffer zone between the heartland and the ocean, sandwiched between them, and influenced by land power and sea power. The oceanic powers' access to and potential control of the rimland would leverage their sea power via littoral bridgeheads, but from their positions there would also give them power over the heartland and therefore the world.[160]

These ideas found an update in the second half of the 20th century. Serving as US National Security Advisor to President Jimmy Carter, Zbigniew Brzezinski put many

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[157] Mackinder 1904: p. 435.

[158] More or less, although perhaps unknowingly, a similar Central-Eurasian-centric interpretation was made by Beckwith, even without him discussing modern geo-politics. See: Literature Review.

[159] Mahan, A.T. (1987), *The Influence of Sea Power Upon History, 1660-1783*. First published in 1890. Boston: Little Brown.

[160] Spykman, N.J. (1942), *America's Strategy in World Politics: The United States and the Balance of Power*. New York: Harcourt Brace.

of his ideas into practice in the 1970s and later penned them in his bestselling publication *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*. Heavily influenced by Mackinder and Spykman, Brzezinski saw US dominance over Eurasia as crucial to its global power status. This included influence over the heartland and more directly, the rimland. With regards to the latter, he formulated similar ideas to Mearsheimer's later perspective on strategic prioritization of the three regions of Europe, East Asia, and the Persian Gulf. As briefly shown in this thesis, Brzezinski himself, as a National Security Advisor, was to a great respect responsible for the elevation of the Gulf in Washington's geo-strategic investment. Yet, in both his official advisory as well as his later academic writing, Brzezinski clearly regarded the three regions as equally important, first in the containment of the USSR and later in the strategic objective to prevent the emergence of any other superpower dominating Eurasia.[161]

In retrospect, this imperative might have been much easier said than done. Although in the late 1990s Brzezinski was already well aware of China's growing economic and geo-political clout, circumstances had already intensified fast by the end of the 21st century's first decade. Accordingly, the journalist and strategic consultant Robert Kaplan was the next to draw on his predecessors' ideas – demonstrating Mahan's, Mackinder's, Spykman's, and Brzezinski's utter relevance today. In his 2010 publication *Monsoon: The Indian Ocean and the Future of American Power*, Kaplan provides an historical and contemporary geo-political analysis of much of Spykman's rimland and Mahan's sea power, advocating a US shift in strategic attention towards the Indian Ocean. 21st century global trade and conflict are likely to occur primarily in this zone according to him.[162] In 2012, just two years later, Kaplan's follow-up book, *The Revenge of Geography: What the Map tells Us about Coming Conflicts and the Battle against Fate*, recapitulates the central ideas of Mackinder's heartland and Spykman's rimland, and demonstrates two things: their rebooted importance whilst the world is beginning to witness a new Great Game over these zones, as well as geography's indisputable impact on 21st century globalization.[163]

[161] Brzezinski, Z. (1997), *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*. New York: Basic Books.
[162] Kaplan, R.D. (2011), *Monsoon. The Indian Ocean and the Future of American Power*. New York City: Random House.
[163] Kaplan, R.D. (2012), *The Revenge of Geography: What the Map tells Us about Coming Conflicts and the Battle against Fate*. New York: Random House.

Hence, these prominent examples argue how regions and geography have continued to influence thought and strategy in international relations and great power competition. Their empirical generalizations have also validated that some regions and zones often matter more than others. Yet, when viewing both neo-realism and neo-liberal institutionalism through the amended geographical prism and when also considering the works of these five geo-strategists, two observations emerge: Firstly, the concept of regions creates more room for a neo-neo synthesis. Secondly, a potential hierarchy of important regions is detectable.

If the insights of Mahan, Mackinder, and Spykman are merged, the following picture appears: The Middle East lies at the geographical centre of the extended Afro-Eurasian world-island. It is the Indian subcontinent that is situated at the centre of Eurasia's crescent, the rimland. The rimland semi-circles the heartland and is directly accessible also by the sea. Yet, because the Indian subcontinent is, first, partly cut off from easy access to the heartland due to mountainous terrain and, second, because the subcontinent's sheer size entails much greater distance from the heartland anyway, it is the Persian Gulf, directly west to the rimland's centre that becomes the true centre of it all: it is the rimland's only central region with access to both the heartland and the sea.

This leaves the author with the recognition that the Persian Gulf, geo-politically spoken, becomes the most important region of the world, according to the synthesis of the reviewed writers, and backed up by many historians across the ages. Having utilized the case of the Gulf region – the focus of this thesis – as further ammunition for the argument that geography and regions have a clear influence on the international system and the relations of its units, it is now time to fuse the essence of these insights with both theories.

Mixing the Ingredients for a Neo-Neo Synthesis

1. *Regions*: Geography can influence why some regions matter more than others.

2. *Complex Interdependence*: It cannot exist in a regional security vacuum for long, in which case inter-regional interdependence could perpetuate intra-regional rivalry.

3. *International Regimes*: Their basic flexibility is required to allow all of the system's participants to appreciate and mostly adhere to the order, under ideal conditions of

reciprocity. Yet, the latter are not easily found in insecure regions. In order for the system to function, someone needs to secure the region.

4. *Offensive Realism*: Global security interdependence constrains great power rivalry. The status quo power's military security provision in regions that are critical for all, can discourage the potential revisionist powers' very own security competition in such regions.

5. *Defensive Realism*: Unstable, yet globally important regions primarily balance against intra-regional proximate threats, and thereby form defensive balancing coalitions with capable outside powers. The alliance with a particular outside power only holds as long as an absolute-gains-system, that helps secure the basic interests of most regional and most outside actors, is maintained.

These five ingredients can theoretically feed on each other and thereby coexist. When combined they form a phenomenon that could be described as "regional hegemonic stability". However, what is also obvious from these deductions is that such a system is highly complex and highly fragile. Distinct elements from both neo-liberal institutionalism and neo-realism are part of it. Yet, they depend on a sensitive balance between them which is far from guaranteed, especially as time goes by. Although this synthesis clearly pulls CIT and neo-liberal institutionalism more broadly onto the neo-realist side, the latter thereby clearly constrains itself. An absence of security provision in unstable regions would likely start to dismantle economic interdependence. An unhinged neo-realism on the other hand, either by the status quo power or by a rising power (and then by both), would end regional hegemonic stability.

All of this theoretical and empirical material, and the author's own theoretical synthesis, leaves him with three theory-based hypotheses for his thesis.

2.1.8 Hypotheses

The author analyses the subject matter and the research question via his theoretical framework in assessment sections that function as individual chapter conclusions. The essence is then brought together in the thesis' overall conclusion and extrapolated upon. For the sake of simplicity and room for the thesis' multiple methods to deliver meaning to the analysis, only three very broad hypotheses are offered. In reference to the research question, each hypothesis captures the most general interpretations of both theories and their region-centred synthesis respectively:

H1 (*neo-liberal institutionalism*): China-Gulf, Asia-Gulf, US-Gulf, and US-Asia interdependence prevents direct, hard great power rivalry in the Gulf region, incentivizing all actors to institutionally cooperate, with military security provided collectively, but playing less and less of a role the more interdependence grows.

H2 (*neo-realism*): China's, the US's, and other Asian outside powers' strategic interests in the Gulf makes geo-political great power rivalry there inevitable, leading the US to adopt a strategy that seeks to prevent China from playing a military security role in the region and leading China to a revisionist Gulf strategy.

H3 (*regional hegemonic stability*): The Persian Gulf region's centrality to global affairs promotes both diverse interdependencies and geo-political insecurity simultaneously, intensifying the need for Asia-Gulf-US cooperation, but reducing its likelihood, should economic flexibility and the American-led military stabilizing force not be maintained.

2.2 Research Methods and Research Design

2.2.1 Qualitative Research Methods and Analysis

The research design of this thesis is centred on qualitative methods integrated into the foundationalist ontology, the positivist epistemology, and the rationalist methodology. The theoretical framework presented above provides lenses through which to analyse and interpret the subject matter and help answer the research question.

Qualitative methods might not be as widely used in positivist research as quantitative ones but can still be employed in a straight-forward manner if the nature of the research question makes this advisable. Vromen writes that qualitative methods in political science, and therefore also in its sub-discipline IR, emphasize 'the centrality of meaning, context and history' and 'an in-depth understanding of their research subject'.[164] This is meant to challenge the dominating quantitative methods, which necessarily inherit more difficulty in capturing such 'thick' ingredients.[165]

Qualitative research also involves an appreciation of the 'distinctiveness of particular cases'.[166] The consequences of such a view are that, for example, case studies are not chosen randomly, the way quantitative analyses would. Rather, the researcher will choose cases that are 'substantively important'.[167] Case studies that might be enriched or even enabled by documentary primary sources or field interviews also produce a more in-depth qualitative approach correspondingly.[168]

The non-random nature of these methods and choices unavoidably involves a certain bias, which should always be acknowledged. Nevertheless, as stated above, the positivist researcher aspires towards and claims objectivity at least in his analysis after the data collection process. His presented results are seen as falsifiable truths.[169]

The author regards his qualitative approach as elemental to his way of tackling the wider subject matter and especially the research question. A quantitative analysis would have been much more viable if the research question had been reduced, at worst, to merely analysing the nature and scope of China's economic relations with the Gulf states, and at best, to contextualize these transactions merely in other contemporary ones, such as inter-regional Asia-Gulf economic relations and/or US-Gulf economic relations. Such a focus would have ventured more towards the Economics discipline, reducing the research question to a transactional, but not a geo-political/geo-strategic assessment which has more substance through wider contextualization.

In order to maximize the ability to assess the wider strategic meaning of the subject matter, the author sees the usefulness and even necessity to capture a much longer historical context in the geo-political sense. An analysis of pre-20th-century history though gives little opportunities for a quantitative analysis due to the lack of numerical data. A thorough and profound analysis is required to do so, and hence,

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164 Vromen, A. (2010), 'Debating Methods: Discovering Qualitative Approaches'. In: D. Marsh, S. Stoker (eds.), *Theory and Methods in Political Science*. Basingstoke: Palgrave Macmillan, p. 255.
165 Ibid.: p. 251.
166 Ibid.: p. 256.
167 Mahoney, J., Goertz, G. (2006), 'A Tale of Two Cultures: Contrasting Quantitative and Qualitative Research'. In: *Political Analysis*, 14:3, p. 242.
168 Yanow, D., Schwartz-Shea, P., Freitas, M. (2009), 'Case Study Research in Political Science'. In: A. Mills, G. Durepos, E. Wiebke (eds.), *Encyclopaedia of Case Study Research*. London: Sage Publications.
169 Mahoney, Goertz 2006.

qualitative methods are a promising approach. A mixed-methods approach as an extension of the undertaken qualitative analysis, on the other hand, would have exhausted the time and space for the production of this thesis.

Furthermore, the numerical data on recent and current economic transactions between the relevant actors, are often incomplete, and even contradictory, depending on sources and their access to primary data and their definitions and categorizations. This is why this thesis treats the recorded and published secondary numerical data with caution, and merely presents them as indicative, but loose estimations.

Most importantly, the author is not trained in advanced statistics and econometrics, which would be necessary for a quantitative analysis of the topic. More is said about non-used methods and entire academic disciplines for capturing the wider subject matter at the end of this chapter.

The following section briefly discusses the qualitative approach, the research methods, and sources according to their relevance for this thesis' respective chapters.

2.2.2 Historical Contextualization and Analogies

'For the qualitative researcher, explanation and understanding of human social and political behaviour cannot be independent of context. Therefore, the qualitative researcher tries to convey the full picture, and this is often referred to as 'thick' description'.[170] This view is critical for providing a historical context of outside powers in the Persian Gulf region. Though the author is not conducting a behavioural analysis, his examination of historical and contemporary developments, situations and their underlying structures necessarily involves describing certain actions of the actors. These relate directly to the structures which the theoretical framework is centred on and should not be confused with, for instance, an IR foreign policy analysis.

Pierce has listed several typical attributes of qualitative analysis, two of which are highly relevant to this thesis.[171] First, the inductive analysis is wide and selectively deep, especially in the historical context chapter, but also beyond. This approach goes beyond mere deductive hypothesis testing. The latter, connected to the theoretical

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[170] Vromen 2010: p. 257.
[171] Pierce, R. (2008), *Research Methods in Political Science*. London: Sage Publications, p. 43.

framework, is only one of several ways to derive meaning from the specific content of the context chapters and from the recent and contemporary (and very briefly, future) China-Gulf relations. Second, a holistic perspective acknowledges the complexity of issues involved. Rather than reducing the analysis to very few exact variables, the thesis is sensitive to the historical and temporal contexts.

China-Gulf relations in their current form are a very recent phenomenon. Hence, there is not much modern history to explore in them. Historically more relevant towards an assessment of China's impact on the Gulf, not only in an economic, but geo-political sense, is to examine the structures and situations that brought in, maintained, and expulsed former outside powers in and from the region. Together with the theoretical framework, this thesis' chapter on historic Gulf outside powers seeks to identify patterns, similarities, and differences in the respective structural conditions and developments for the outside powers involved. These can then be applied to China's and the Gulf's current situation and briefly its possible future developments. An application of historical analogies can imply both an endorsement of relative similarity of the compared cases, but also a rejection of dissimilar cases.

The author has chosen to cover the most important cases of the modern era, meaning a selection of the relatively dominating Gulf outside powers at the time. Both in the interest of necessary brevity, and in the belief that pre-modern history differs too much from modern and hence current circumstances, he does not extensively cover the cases of Gulf outside powers before the 1500s, even though there would have been plenty of opportunities. Consequently, after providing a brief pre-modern "prologue" that demonstrates the Gulf's long-term centrality to the old Silk Roads, the history chapter discusses the cases of the Portuguese Empire in the 16th century Gulf, the Dutch East India Company in the 17th century Gulf, and the British Empire in the 19th and 20th century Gulf. The 18th century is also covered precisely because it saw no dominating outside power in the region – a condition potentially imaginable 21st scenario for the Gulf, as the conclusion briefly shows. The history chapter chronologically ends at the time of the British withdrawal from the region in the 1970s.

A second context chapter was deemed necessary in order to simply summarize the nature and scope of the current Gulf outside power's role there, the United States. The slightly more extensive and separated coverage of this recent history and ongoing situation is not solely explained by the motivation to provide the most recent possible historical analogy for China's role in the Gulf. Since the US is still the dominating outside power there, it directly influences China's and the Gulf's current situation and prospects. Hence, the US-Gulf chapter extends the historical context and provides a vital contemporary one on top.

At the ends of both these context chapters, a theoretical assessment of their subject matter is undertaken, interpreting its content through the lenses of neo-liberal institutionalism and neo-realism.

2.2.3 Inter-Regional Contextualization

Vromen's and Pierce's notes on qualitative research are also relevant for this thesis' other context chapters. Since the US is not the only contemporary outside power in the Gulf, at least in an economic and diplomatic sense, which China and the Gulf states have to reckon with, a further contemporary contextualization is necessary.

In an economic and diplomatic sense, there are indeed countless states and their companies that are or would be interesting to consider. The limited space in this thesis unfortunately requires an exclusion of several of those candidates from all over the world. The author has chosen Asia's three largest economies alongside China. Japan, South Korea, and India are all closely connected to the Gulf states via growing economic transactions and diplomatic cooperation. Hence, in any case, their state-owned and private firms are important economic competitors of China's and their diplomatic connections with the Gulf states are also important variables for China's political leaders and diplomats to consider when dealing with the region.

The choice of these three states though lies not merely in these explanations, but also in two others. Firstly, Japan's, South Korea's, and India's economic connections to the Gulf are part of rapidly growing, inter-regional and indeed pan-Eurasian New Silk Roads of which China is an integral part. It can thus be argued, that Asia's New Silk Roads to and from the Gulf thereby form one large economic sub-system of the global economy. Secondly, Japan, South Korea, and India find themselves more or less within China's direct neighbourhood. Next to their global economic importance and their geographical proximity to China, their historically tense political relations with China represent vital geo-strategic variables which are arguably compounded by all these countries having relatively equal stakes in the Gulf. The combination of all these factors makes the inter-regional connections between Asia and the Gulf rather unique.

Other major economic and even political partners of some Gulf countries do not share the same factors. The European Union, as well as individual European nation-states like Britain and France, are indeed among the most important economic partners of the GCC states and are for now even more crucial political partners to them than any of their Asian counterparts. The author has decided to discard Europe from the contemporary analysis because the EU so far cannot be considered a political and military superpower, and neither do Britain and France nowadays count as such. Although the latter two play a bigger role in Gulf geo-politics and security than any of the Asian countries, and although Japan and South Korea are much too small to count as actual or potential superpowers, it is the conceivable future in which China and India become superpowers combined with Japan's and South Korea's East Asian strategic relevance that explains first and foremost the author's choices of incorporation.

Russia could be considered a superpower, albeit a currently less powerful one than the US, and a less powerful one than China, at least in an economic sense. However, its role in the Gulf has been and still is a minor one due to the lesser economic significance that Russia and the Gulf states represent to each other. A more directly relevant peripheral power in the Gulf is Turkey. Yet, as with Europe, there was too limited argumentative space for the post-Ottoman Turkish case to be included.

Since this thesis deals with the phenomenon of the New Silk Roads, of which China-Gulf relations constitute merely one determining element, the selection of contemporary pertinent cases is underpinned by a thematic logic.

Atlhoguh it structurally belongs to Part Three of the thesis, which focuses on the core subject matter of China-Gulf relations, it could be said that the inter-regional context overview which solely covers China's relations with the Gulf region is completed in Chapter 6. However, it can still be regarded as a more detailed contextualization for the following case studies on Saudi Arabia and the UAE. Even the space of one entire thesis would arguably have been too limited for a comprehensive analysis of China's relations with the entire Gulf region, involving all of its states.

The analysis of the four Asian countries' relations with the Gulf states primarily covers economic relations, because business dominates them. The chapters are composed of sections on trade as well as investment flows. Migratory flows would have offered a further important theme. Yet, in the name of brevity, this aspect needed to be excluded. Diplomatic relations are covered loosely and analysed from a geo-strategic point of view where considered relevant.

2.2.4 Case Study Choices

The two case study chapters provide the thesis' most detailed analyses of bilateral relations and represent the thesis' most original contribution in terms of China-Gulf relations. As stated above, a case study approach is deemed necessary in order to analyse some crucial aspects of China-Gulf relations in greater detail. A purely bilateral analysis of China's relations with one Gulf state would have been another option and would have provided an even larger amount of details. However, this would have merely covered the nature and scope of that particular bilateral relationship. It would not have provided for contextualization, which is essential in giving deeper meaning to China's recent, current, and future regional role.

Aforementioned, the choice of case studies, especially in a qualitative analysis, is unavoidably biased due to its non-random nature. The author has specifically chosen Saudi Arabia and the UAE for several reasons.

Saudi Arabia is the largest GCC country and China's most important economic partner in the region. This is the case in both trade and investment flows, but it is China's oil import volumes from Saudi Arabia which makes the country the principal Chinese Gulf partner. Furthermore, the Kingdom's relative political dominance of the Arabian Peninsula, the GCC, and the Arab Middle East, and its religious-cultural centrality to the Muslim world is a further strategic variant which China needs to consider.

As for the UAE, it is China's second most significant economic and diplomatic partner among the GCC countries, also accounted for with trade and investment flows and the extent of diplomatic cooperation and state-visits. Moreover, the nature of Sino-Emirati trade and investment is characterized by a more diverse nature. The UAE, in many ways is a unique case in China's ties with the Gulf. This case study provides an interesting opportunity which to test complex interdependence theory with, because the latter emphasizes diversity in transactions, channels, and contacts, and the UAE thus represents a useful case study to maximize a CIT application.

The other Gulf countries do not reach the extent of China's economic ties and diplomatic cooperation. There is only one, quite different, exception. Iran is China's second largest Gulf economic partner and arguably a potentially important geo-political partner. A comparison of China's relations with Saudi Arabia and Iran would indeed have an interesting one from a regional point of view, due to the Kingdom's and the Islamic Republic's mutual enmity towards each other. This represents a formidable challenge for many of the Gulf's outside partners, including China. Yet, from a global point of view China's relations with the GCC states are potentially more meaningful, because the GCC is closely allied to the US. The research question is about China's impact on the whole Gulf, but because this is also discussed within the context of the region's currently dominating outside power, the US, the question of potential Chinese replacement of the US regional role is most relevant to where the latter is currently based – and this is the GCC. Additionally, there is more uncertainty about Iran's immediate future given the recent lifting of sanctions. The latter had incidentally prohibited much of Sino-Iranian trade and investment over the last decade, so its recent research data is narrow.[172] Nonetheless, Chapter 6 specifically incorporates an emphasis on Iran, especially in respect to diplomacy and strategy, due to its regional importance.

These considerations entail that the case study choices are reasoned by their most vital overall relevance in terms of the research question. Hence, they are not randomly, but deliberately chosen. Both case studies cover the same categories – trade, investment, and political relations – as the two preceding chapters, but in greater detail. All chapters' data collection methods and their challenges are discussed in the next section.

2.2.5 Data Collection Methods

In view of the diverse nature of the thesis' chapters, the research relies on a variety of secondary and partly primary sources.

[172] Last but not least, the author conducted field research in the UAE which was considerably more conclusive and easier in terms of his university Ethics endorsement and insurance.

For the historical context chapters, purely secondary data was used. Despite the relevance of historical contextualization, it needs to be re-affirmed that this is an IR-, and not a History-thesis. Thus, both historical context chapters did not require archival work to support the arguments with first-hand documents. The author scarcely makes use of primary sources, and almost entirely relies on secondary literature – partly provided by historians' primary literature analysis. The historical context chapters' noteworthy originality lies in their theoretical analysis and their later application to the research question. The latter's contemporary nature does not allow for more space which would have been required for an original primary-source-based History analysis. For the objective of historical contextualization, this limited approach was deemed sufficient by the author.

The inter-regional context chapters shift towards a greater economic focus due to the dominating commercial nature of Asia-Gulf relations. The author especially drew on the very recent academic publications by Gerlach Press, in the wake of the annual conferences at the Gulf Research Centre in Cambridge, authored and edited by contributors such as Tim Niblock, Monica Malik, Yang Guang, Talmiz Ahmad, N. Janardhan, and Ranjit Gupta. These experts on Asia-Gulf relations provided general overviews of the topic as well as very specific chapters on particular bilateral relations or inter-regional transactions of a particular product or investment. As already shown in the literature review above, this highly specialized literature has been greatly contributed towards by cooperative book publications by collaborating scholars from Durham University and Nottingham University. Anoushiravan Ehteshami and Niv Horesh have edited a growing number of volumes on East Asia-Middle East relations, focusing markedly on China and the Gulf. Profiting from these, the academic book publications integrate various research threads and analysed primary and secondary data – relevant directly for this thesis' inter-regional context chapters.

Besides academic publications, the author also consults substantially open-source online publications from specialized think tanks and specialized news-websites. Two largely stand out. First, the Washington-based Middle East Institute's Middle East-Asia Project is a large online pool of yet more specialized reports and articles within the wider subject matter. Second, the also-Washington-based online magazine The Diplomat provides an even larger sample of daily-published articles on Asian issues, encompassing diplomacy, politics, security, strategy, trade, investment, and culture, with reports and blogs on East Asia, South-East Asia, South Asia, Central Asia, the

Middle East and pan-Asian New Silk Roads. Both sources are extremely helpful, because their contributors integrate the most recent news into the wider context of much of this thesis' subject matter.

Further secondary data comes from a wide and random range of online sources, including specialized reports by other think tanks, consultancies, and private companies, including major banks, as well as online news-articles from the media. When relying on the latter, the author seeks to maximize the utilization of large internationally-renowned and respected brands, such as the BBC, Bloomberg, CNN, the Economist, the Financial Times, the New York Times, the South China Morning Post, or the Washington Post – in other words, media not subject to censorship in their home countries. Wherever news is not covered by such providers, because it is either not considered relevant enough for a generalist global audience, or because it is very industry-specific, the author makes exploits into local media online or specialized media. The latter two categories include local Gulf or Chinese media such as Al-Jazeera English, Arabian Business, China Daily, Gulf News, Khaleej Times, The National, or Xinghua, or specialized business news such as Construction Intelligence Center, Construction Week Online, Cemnet, or Rigzone.

In terms of numerical data, a number of secondary sources is utilized. For the world of energy trade, among the most detailed and informative providers of primary and secondary data, as well as tailored analysis, the U.S. Energy Information Administration's (EIA) or BP's annual reports and country profiles are highly useful. The author has employed data from both sources and has also pasted some of their charts into his thesis for visualization purposes.

For general trade statistics, the International Trade Centre (ITC) provides data collected from a wide range of other secondary and primary sources, including UNCTAD, the IMF's Direction of Trade Statistics, as well as the reported data from all involved governments' ministries of commerce and suchlike. The ITC website is very valuable, because it not only presents data from the year 2000 onwards – which, coincidentally, is also the time when China-Gulf trade began to skyrocket. It breaks down the trade statistics into many general and specific product categories. Furthermore, ITC provides easily accessible related datasets of the respective trade values and product categories, which enables the user to directly compare various cases. The author has collected all relevant datasets and, in the interest of visualization, has created several charts in MS Excel, partly using the programme to calculate further figures. Just as with the numerical investment data, discussed beyond the next paragraph, he has included charts and tables in the chapters concerning China-Gulf relations – the thesis' core subject matter.

Yet, it is important to stress that the ITC's data is secondary data. Since it is drawn from other secondary and primary data, the website stresses caution when viewing the statistics. Many governments have different definitions or categorizations for distinctive aspects, and numerous ministries do not report all trade data. Consequently, when using a dataset for a bilateral trade relationship, it often depends one which frame of reference the user selects, because the other country's mirror data can be different. Thus, it is crucial to emphasize that trade data presented in this thesis should be understood as estimations rather than wholly accurate values, which the author highlights in the manuscript when considered necessary.

The same counts for investment data, which is even more complicated for any institution to calculate. The first problem revolves around the definition of the word investment. It ranges from foreign direct investment (FDI) to foreign portfolio investment (FPI) but could also include mere project contracting. Loosely formulated, FDI is usually understood as a company from one country opening a branch in another country or acquiring shares in a joint venture in another country.[173] This can take place via a greenfield investment, meaning a new start-up, or comes in the form of mergers and acquisitions (M&A).[174] FPI concerns the purchase of a foreign company's stock in one country by a private person, or a private or state-owned firm from another country, but does not involve any physical presence abroad.[175] Investment statistics usually are confined to FDI, because the information on FPI is mostly not open-source. These definitions from the IMF are very loosely adopted by the author. However, it is not the task of this thesis to measure or classify investment types when analysing the subject matter. The IMF definitions here merely serve as a broad orientation.

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173 Patterson, N., Montangees, M., Motala, J., Cadillo, C. (2004), 'Foreign Direct Investment. Trends, Data Availability, Concepts, and Recording Practices'. *International Monetary Fund* [https://www.imf.org/external/pubs/ft/fdi/2004/fditda.pdf], whole report, but especially pp. 1-3.

174 Ibid.: p. 19.

175 *International Monetary Fund* (2009), 'Balance of Payments and International Investment Position Manual' [https://www.imf.org/external/pubs/ft/bop/2007/pdf/bpm6.pdf], p. 110.

With regard to project contracting, the investments can cover several industries. For this thesis, the only relevant type of project contracting revolves around what is often stamped as 'engineering, procurement, construction' (EPC).[176] Most of China's investment into the Gulf states comes in this form. However, it is important to underline that sometimes the capital investment *per se* is not at all undertaken by the Chinese firm, but is provided by funds from local entities, like banks or other companies.

Thus, in a strict sense, investment data should always be considered as incomplete. For the sake of simplicity, the author uses the term investment in a very general manner – encompassing all legal capital flows minus trade payments and remittances. This is considered advisable because media reports in particular handle the term in the same way. The author employs a small number of secondary data sources, including UNCTAD's FDI database and data published in reports by the Arab Investment & Export Credit Guarantee Corporation (Dhaman). The latter relies on UNCTAD, but also on the IMF's and Financial Times' FDI databases. The author did not have access to the latter two.

A further useful source of secondary data for this thesis is drawn from the China Global Investment Tracker (CGIT), a database set up by a joint project between the American Enterprise Institute and the Heritage Foundation, two major US think tanks. The CGIT covers a comprehensive range of Chinese FDI into other countries and is a very helpful source of orientation as well as of specific information about individual investments. The author has obtained the dataset and has set up tables and charts in MS Excel with data on Chinese investment into Saudi Arabia and the UAE. Each row in the tables covers an individual investment, with the columns providing information on the companies or entities involved, the investment value, the sector, etc. The respective data from the CGIT on the individual investments are then used by the author for more extensive research about them in online media sources, and the associated companies' press releases and reports on their websites. The latter therefore supply numerical and non-numerical primary data. Hence, when an involved company elaborates on its investments, the information needs to be treated with caution due to its PR nature and the business-interest-related bias.

[176] *EPC Engineer* (2014), 'EPC - Engineering Procurement Construction' [https://www.epcengineer.com/definition/132/epc-engineering-procurement-construction].

Before turning to the last type of primary sources, it again needs to be stressed that the CGIT's data requires serious caution, too. First, some of its content could not be verified by the author. Second, the database lacks a noteworthy amount of Chinese investment contracts in both Saudi Arabia and the UAE. Hence, it can only offer a rough estimation. Most of the database's information on both case study countries covers EPC-contracts, but lacks a documentation of other FDI flows, including M&As and some greenfield investments. The author has chosen to incorporate investment projects not covered in the CGIT where he deems it supportive to portray the nature and diversity of China's investment into Saudi Arabia and the UAE. However, it has to be emphasized that the manuscript's investment sections cannot be considered complete, due to the lack of comprehensive information from a larger number of secondary and primary sources. These sections should be treated as worthwhile estimations. Fortunately, this limited approach suffices to analyse the subject matter in the interest of answering the broad research question.

A further source of primary data for this thesis derives from field interviews conducted by the author during his research. These took on the type of what Pierce and Burnham et al. define as 'elite interviews' – individuals from business, public services, or academia.[177] For the interviewee selection process, as Vromen points out, a qualitative analysis involves 'an emphasis on the distinctive nature of the sample populations and a detailed criteria-based explanation of purposive (rather than random) sampling used to select interviewees'.[178]

The author has followed these ideas and interview-characterizations. Interviews were conducted on two field research trips to the UAE, and during conferences attended and presented at by the author.

These conferences, during which the author conducted field interviews, include the February 2015 Annual Convention of the International Studies Association in New Orleans, where the author also presented a paper on elements derived from his first case study; and a joint conference on the Silk Roads and China-Middle East subject matter, between the China Policy Institute (Nottingham University) and the School of Government and International Affairs (Durham University) in May 2015 in

[177] Pierce, R. (2008) *Research Methods in Politics: A Practical Guide*. London: Sage, pp. 117-127; Burnham, P., Lutz, K.G., Gyn, W., Layton-Henry, Z. (2008), *Research Methods in Politics (political analysis)*. Basingstoke: Palgrave Macmillan; Manheim, J.B., Rich, C.R. (1995), *Empirical Political Analysis: Research Methods in Political Science*. Harlow: Pearson Longman.
[178] Vromen 2010: p. 259.

Nottingham, where the author presented a paper on elements from his Gulf outside power history chapter. These conferences brought together academics specialized in the specific and wider subject matter, including the thesis' theoretical framework. They thus offered a useful pool of primary data in the form of expert opinion.

The field research trips took place between June and August 2015 and in November 2016. The UAE was chosen as a location for four reasons. Firstly, the second case study concerns China-UAE relations. Secondly, even for research on the Gulf as a whole, the UAE's regional business hub status entails that most regionally relevant business and research entities have branches, if not even their main Gulf headquarters in that country. Thirdly, most of the author's contacts in the Gulf are located in the UAE, thereby providing a small network of individuals with further contacts in a whole range of industries. Receiving access to potential interviewees located in the Gulf was therefore easiest in the UAE. Fourthly, visa regulation in the UAE is amongst the most open in the Gulf, especially when compared to the second case study country, Saudi Arabia. Furthermore, the ethics board's consent of the author's university as well as insurance provision for field research was also far easier to obtain for the UAE. Due to several barriers towards entry into Saudi Arabia and potential risks requiring a higher insurance costs, convinced the author to refrain from traveling to the KSA.

However, firstly, given the UAE's hub status, many of the interviews conducted there by the author had a regionally relevant and insightful character. Secondly, it needs to be emphasized that almost all of the author's interviews produced information or viewpoints that can be verified or obtained through secondary literature or online open-source primary data, too. The likely reasons for this are discussed in the next paragraph. Due to the relatively limited value of primary data from the interviews, the author has decided to only include interview-data that highlight particular arguments in an original sense. Most of the overall primary data from the interviews have therefore been kept aside by the author, because they would not have unilaterally influenced the thesis' discussion, but merely would have bloated it.

The author's interviews were informal or semi-structured. No surveys or comparably structured methods were used. Types of questions varied according to the interviewees' profession but were drawn from a long list which is attached in this manuscript's appendix and sanctioned prior to the interviews by Durham University's ethics board. In qualitative research this loose form of interview is commonly used, as Vromen points out. 'It is necessary to keep in mind that qualitative interview-based researchers do not attempt to make generalization to a broader population based on the small sub-section they study. Instead, there is an emphasis on the distinctive nature of their sample populations'.[179]

The interviews conducted during the conferences had the rationale of sampling academic expert opinion on the subject matter. The interviews conducted during the field research trips also included academics for the same reasoning, but especially sought to gain inside perspectives from individuals within the direct or indirect professional environment of the subject matter. Interviewees included professionals from the energy industry, finance, insurance, market research and consulting, the shipping industry, but from diplomatic circles as well. Most of the interviewees in these areas were not Chinese or worked for Chinese entities. This undoubtedly reduces the potential scope of inside perspectives. The author sought to interview as many as Chinese businessmen- and women as possible within his limited network of contacts or when contacting individuals outside his network. However, this proved a difficult undertaking, since many Chinese businessmen- and women, in the name of confidentiality, showed reluctance to risk a misunderstanding by their superiors.

This problem occurred despite the author's offer for unconditional confidentiality and despite his official documents stating his university's ethics approval. It occurred that most candidates agreeing to be interviewed were Westerners. Most of the author's interview partners though wished to remain unnamed or at least not quoted, despite the subject matter's relative non-controversial nature. Consequently, the thesis does not include any transcripts. References to the used interview data merely contain footnotes with the amount of details agreed to by the interviewee's signature on the provided Written Consent Form – based on a template from the author's university department. The interviews took place in conference venues, offices, hotel lobbies, restaurants, and cafes, during which the author fully informed the interviewees of his research, the nature and purpose of the interviews, and provided the interviewees with ethics approval proof and required their signature on the Written Consent Form.

[179] Ibid.

2.3 Alternative Methodologies and Methods for Future Research

Different ontologies, epistemologies, and methodologies are highly encouraged by the author in order to deepen and diversify the subject matter's and the research question's analysis. Positivist methodologies for instance could make use of quantitative methods, especially since the subject matter is heavily dominated by economic transactions and offers much room for advanced statistical analysis. Post-positivist methodologies on the other hand could tap into areas which this thesis has not covered, for example cultural relations between China and the Gulf states or at least the cultural underpinnings which might be influencing the relations.

Within the IR discipline, different IR theories would therefore offer themselves, such as constructivism which includes questions of identity of the actors. This also incorporates the philosophical roots of strategy, foreign policy making, business mentality, and general interpretations of world affairs, foreign interests and their realization.

For such methodologies, theories, and methods a different skills-set than the author's is required. The author also chose his approach due to his type of background in positivist IR and History. For a post-positivist methodology, which could include an analysis of cultural relations, constructivist theory, and the necessary amount of discourse analysis, for instance, the researcher would have to either specialize in Chinese or Middle Eastern culture or ideally be a Chinese or Middle Eastern national in order to comprehend the vast complexity. This includes Chinese, Arabic, and Persian language skills which the author of this thesis cannot offer to the necessary extent and because of which he is not in a position to provide more than a top-down analysis of structural and largely materialistic factors.

These structural and material factors are highly important though and form the crucial background for any further diverse take on the topic. In IR, this would include a foreign policy analysis approach, which examines the units from inside. Indeed, there is room for further materialistic analysis also beyond the IR discipline. The subject matter's characteristics merit also a purely macro-economic analysis within the Economics discipline, which could cover trade and investment in all their forms and with multiple theories and methods. This could even entail a cross-disciplinary analysis including geology – focusing on global energy technology and its impact on the Gulf and China.

Another angle and another discipline with potential to tackle the wider subject matter would be Anthropology, because the old and new Silk Roads are not only about goods and capital, but also people. The migratory and travel patterns along them, especially in the multi-cultural demography of the smaller Gulf states should offer fascinating topics which would have to bring culture, mentality, and civilization into the equation.

PART TWO:

Historical and Inter-Regional Context

3. The Persian Gulf in the Modern History of Empires

The Persian Gulf region, for most of its history, has not spawned an empire of its own. Except for Sumer and Dilmun, among the world's first proven civilizations, the Gulf was either subjugated by other near and distant empires or has found itself on their peripheries. Over the millennia-long period of human civilization various empires have ruled the Gulf or incorporated it into their informal spheres of influence and traded with and through it. These include the Bronze Age civilizations of ancient Mesopotamia, ancient Egypt and the Indus Valley civilization, as well as the great powers of classical antiquity, such as the regional Persian empires of various dynasties – the Achaemenids, the Seleucids, the Parthians, and the Sassanids. The Greek Macedon Empire also touched the Gulf. The Romans praised *Arabia Felix*.[180]

Alongside ancient and early-modern Persia, Arab-Islamic civilization birthed the only truly regional empires that ruled the Gulf. Yet, their cores also were never located there, but rather in Mecca, Medina, Damascus, Baghdad or Cairo.[181] After the Mongol invasion of the Fertile Crescent, as well as the Mongol Empire's subsequent collapse, Arab civilization remained fragmented and has never since managed to build another empire, despite many attempts.[182] Islam by that time had been exported to other ethnicities and cultures which in turn achieved imperial greatness and influence in the Gulf. In early modernity, the Islamic Mughal Empire ruling the Indian subcontinent and Persia's Islamic Empire of the Safavids were thriving regional and peripheral powers, but soon declined relatively to their Ottoman rivals.[183] The latter sought and partly achieved expansion in all directions, including the Red Sea and Gulf littorals. Persia's Qajar Empire on the other hand was only one in name.[184]

[180] Commins, D. (2012), *The Gulf States: A Modern History*. London/New York City: I.B. Tauris [Kindle Edition], chapter 2, section 1; For further readings, see also: Crawford, H. (2009), *Dilmun and its Gulf Neighbours*. Cambridge: Cambridge University Press; Potts, D.T. (1990), *The Arabian Gulf in Antiquity: Volume I: From Prehistory to the Fall of the Achaemenid Empire*. Oxford: Oxford University Press; Potts, D.T. (1990), *The Arabian Gulf in Antiquity: Volume II: From Alexander the Great to the Coming of Islam*. Oxford: Oxford University Press.

[181] Commins 2012: chapter 2, section 2-4; see also: Hourani, A. (2013), *A History of the Arab Peoples*. London: Faber and Faber, chapter 2.

[182] See: Lewis, B. (2004), *The Middle East: 2000 Years of History from the Rise of Christianity to the Present Day*. London: Phoenix, pp. 86-110.

[183] See: Howard, D. (2017), *A History of the Ottoman Empire*. Cambridge: Cambridge University Press; Inalcic, H. (2003), *The Ottoman Empire: 1300-1600*. London: Phoenix; Richards, J. (2010), *The Mughal Empire*. Cambridge: Cambridge University Press; Mitchell, C. (2009), *The Practice of Politics in Safavid Iran: Power, Religion and Rhetoric*. London/New York City: I.B. Tauris.

[184] See: Katouzian, H. (2006), *State and Society in Iran: The Eclipse of the Qajars and the Emergence of the Pahlavis*. London: I.B. Tauris.

By the time both the Ottoman and Qajar Empires, in the early 1900s, followed the fate of Mughal India's earlier collapse, the Gulf had already come under mostly indirect control by a series of Western empires. The latter encompassed the Portuguese Empire in the 16th century, the Dutch and English East India Companies in the 17th, and finally the British Empire in the 19th and 20th, as this chapter shows. An important part to this 500-year-long story of Western Gulf involvement is a striking feature of Gulf geo-politics: for most of this time, the smaller Gulf sheikdoms and tribes managed to assert their relative independence from the hinterlands' regional powers. Rarely were they subjugated by the latter. As this chapter shows, there are largely two reasons. Firstly, the populations dwelling on the Gulf coastline have often differed culturally, economically, and politically from the various regional powers neighbouring them. They have often been mixed, and mobile, exogenous, and therefore, more than the hinterland, focused on overseas maritime trade with other civilizations outside the region. Consequently, the second reason for Gulf autonomy from regional powers has been that very contact with outside powers. The latter often served as outside allies shoring up Gulf "independence" politically and militarily. Thus, it is important to underline that despite often being an imperial periphery and subject to outside power influence, this has never meant the smaller Gulf entities were or are without agency. As this chapter also shows, they have often played off their powerful regional or outside counterparts against each other. At times, especially in the 18th century, these geo-political dynamics caused war and instability – which then also deterred outside power presence. These periods are here referred to as interregna.

Before starting to cover the Gulf's modern outside-power history it also needs to be emphasized, that this 500-year long Western age was not the Gulf's first globalization experience. For instance, before, there were several periods in which regular and direct interconnectedness between the Gulf and China existed. Hence, the new subject matter of current Sino-Gulf relations also has many historic prologues, which were merely interrupted by the Western age and the great global divergence in modernity. Before that, the Gulf was in contact with many other civilizations across Asia.

3.1 Prologue: The Pre-Modern Gulf and the Old Silk Roads

Commercial networks connected the Gulf to the East by land and sea. The Indian Ocean economy was driven by China's silk and ceramics, 'South-East Asia's Spice Islands, India's rich textile, spice and pepper supplies, Persian silk, and East African ivory and slaves'.[185]

It was in classical antiquity that the Silk Road, the Eurasian trade-based economy, reached its first peak. It connected to what Christopher Beckwith calls the 'peripheral civilizations', such as Imperial Rome and Han China, via Parthian and Sassanid Persia and Central Asian nomadic merchant cultures 'to such an extent that Roman and Chinese writers, who normally disdain to mention commerce, actually discuss it'.[186] China's trade and diplomatic contacts with Persia were so extensive that emissaries 'were sent several times a year'.[187] Similar to today's world, these political state visits were accompanied by large trade delegations, selling silks and foodstuffs. 'Diplomatic envoys typically accompanied large caravans bringing goods for trading, which then returned home with products that were sought after at home – including Red Sea pearls, jade, lapis lazuli, and consumables such as onions, cucumbers, coriander, pomegranates, pistachios and apricots', as well as frankincense and myrrh.[188]

After the Sassanid Persian Empire's collapse and the rise of Arab-Islamic civilization, the region experienced another high point in economic mobility, science, and art, especially under the Abbasid Caliphate. Trade, knowledge- and technology transfer between the Middle East and India and China flourished.[189] With a wide reach across the entire Middle East, most of North Africa, and deep into Central Asia the empire lay centralized at the heart of three continents. Baghdad foremost profited from this geographical position and became one of the largest, most prosperous, enlightened, and advanced cities in the world.[190] A prominent example for an important technology transfer was the city's 'introduction of paper manufacture from China'.[191]

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[185] Commins 2012: chapter 3, section 1, para. 3.
[186] Beckwith, C. (2011), *Empires of the Silk Road: A History of Central Eurasia from the Bronze Age to the Present*. Princeton: Princeton University Press, pp. vii/79.
[187] Frankopan, P. (2015), *The Silk Roads. A New History of the World*. London: Bloomsbury Publishing, p. 20.
[188] Ibid.
[189] Axworthy, M. (2007), *Iran. Empire of the Mind. A History from Zoroaster to the Present Day*. London: Penguin, p. 84; Commins 2012: chapter 2, section 4, para. 9.
[190] Hourani, A. (2005), *A History of the Arab Peoples*. London: Faber and Faber, pp. 32-46.
[191] Axworthy 2007: p. 84.

The result was that 'the production of books became easier and cheaper, and [therefore] libraries multiplied'.[192] It is therefore possible to note that "China" and the "Silk Road" supercharged the Arab-Islamic civilization's most enlightened and prosperous period with fundamental long-term effects on the world.

On the Gulf coast, the town of Siraf is said to have been one of the Abbasids' most significant maritime trading hubs 'feeding on the appetite of [...] Baghdad for goods from China, India, and East Africa'.[193] These included Chinese stone works and porcelain in such quantities that Sino-Middle Eastern maritime trade to the Gulf at the time has been described as then constituting 'the world's biggest maritime trading system'.[194] This was because under China's Tang Dynasty, the country experienced one of its most economically productive eras of all time, only surpassing it over a millennium later, towards the end of the 20th century.[195] Simultaneously, the Abbasid Empire became the world's largest market for almost anything. Hence, the immense trade between the two should then come as no surprise. A Chinese prisoner of war, Du Huang, living through the construction of Baghdad – and thus only witnessing the mere beginning of this prosperity –, later documented his amazement: 'Every thing [sic.] produced from the earth is there. Carts carry countless goods to markets, where every thing [sic.] is available and cheap: brocade, embroidered silks, pearls and other gems are displayed all over markets and street shops'.[196]

Admittedly, it is believed that the first direct contacts between China's Tang Dynasty and the Abbasids were not exactly of the strictest commercial nature. They were violent. In the mid-8th century, Tang forces repeatedly invaded parts of Central Asia, which in 751 brought them into a direct clash with Abbasids in the Battle of Talas – 'the first and the last meeting of Arab and Chinese armies'.[197] In the immediate aftermath, several captured Chinese mercenaries, Du Huang allegedly among them, incidentally became the Abbasids' teachers in paper production. Furthermore, after Sogdian-dominated Central Eurasia had seen a Tang retreat and a major rebellion threatened Tang China shortly after, the Arabs and Chinese empires switched from confrontation to cooperation. Sending Uighur Muslim allies to assist the besieged

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192 Beckwith 2011: p. 154.
193 Commins 2012: chapter 2, section 4, para. 9.
194 Stargardt, J. (2014), 'Indian Ocean Trade in the Ninth and Tenth Centuries: Demand, Distance, and Profit'. In: *South Asian Studies*, 30:1, pp. 36-37.
195 Beckwith 2011: p. 126.
196 Cited in: Liu, X. (2010), *The Silk Road in World History*. Oxford: Oxford University Press, p. 101.
197 Millward, J. (2017), *Eurasian Crossroads: A History of Xinjiang*. New York: Columbia University Press, p. 36.

Tang, the Abbasids and Tang Chinese formed a military alliance that defeated the Sogdian rebels. [198]

Though Eurasia's early medieval period saw a cultural, scientific, and commercial flourishing, it also witnessed constant warfare along the Silk Road. In the high Middle Ages then, violence reached its peak in the form of the Mongol invasions of much of Eurasia. These also brought down the Seljuks who had controlled the largest Islamic empire at the time. Baghdad, still run by Abbasid remnants, also fell in 1258. However, further south, the Persian Gulf, protected by mountains to its north-east, was spared the carnage, because the Mongols focused on the political centres of power along the Silk Road's commercial land arteries, including the Middle East's northern tier. 'Consequently, they showed no interest in mastering maritime routes running through the Gulf'.[199]

From there, ships continued to sail as far as Guangzhou, one of China's most significant ports, carrying Egyptian, Arabian, and Indian goods like ambergris, cotton, frankincense, glass, pepper, and other spices.[200] The Gulf also continued to be an obvious transit station for travellers, missionaries, and merchants between West and East. In the Mediterranean, Venice became Europe's most globalized seafaring entrepot, eager to bring such goods also to an increasingly curious Occident. The city state's most eminent merchant family, the Polos, are said to have made use of Hormuz Island – by then the Gulf's main trade hub – on several occasions on their journeys to and from Mongolia and China.[201] Besides Marco Polo, another famous travelling author from the high medieval period, who also sailed through the Gulf on his extensive travels, was the Moroccan scholar Ibn Battutah. Between various pilgrimages to Mecca, he travelled extensively around Eurasia and the Arabian

[198] Ibid.: pp. 36-37; Beckwith 2011: p. 113 / pp. 145-154.
[199] Commins 2012: chapter 2, section 4, para. 11-14.
[200] Frankopan 2015: p. 186. This is proven by several shipwrecks discovered from around that time, off Guangzhou and today's Indonesia.
[201] Nicolò, Matteo, and Marco Polo, at least as accounted for in the latter's immortalized publication, travelled down the fertile crescent, through Baghdad and sailed down the Gulf to Hormuz, from where they then took the land route through Khorasan, the Hindukush, and the Taklamakan Desert to Cathay between 1271 and 1275. After Marco Polo's alleged adventures in the service of Kublai Khan, the Venetians travelled back home between 1292 and 1295, this time taking the sea route from Chinsai through the Strait of Malacca and the Indian Ocean back again to Hormuz and from there through Persia on land. See: Polo, M. (2004), *The Travels*. Translated and Edited by R. Latham. London: Penguin Classics.

Peninsula, stopping over in places like Jeddah, Aden, Dhofar, Shiraz, Tabriz, Baghdad, and, in the Gulf, Basra.[202]

Basra always had the geographic advantage of prospering not only from long-distance trade, but additionally from higher local productivity. This was due to its location at the fertile crescent's southern end. Yet, that also made it more vulnerable to unwanted influences from the more populated hinterland, be it foreign aggression or disease. Hence, on the Gulf coast, it was Basra which was hit hardest when the land-based Silk Road from Central Asia in the mid-1400s transported the plague. Decimating the populations of Central Asia, Europe and the Middle East, the bacterium *Yersinia pestis* ultimately also affected Persia and the entire Arabian Peninsula[203] Though it was one of the darkest periods in all history and set back Eurasia's health and wealth on a massive scale, the Black Death subsequently had the long-term consequences of boosting wages amid labour shortages, elevating the purchasing power of entire economies.[204] Despite large parts of the Middle East and even Norther India coming to suffer again severely under the invasions of Timurid-Mongol Tamerlane in the late 1300s,[205] economically better times lay ahead again. In the following two centuries, several parts of Eurasia 'saw a similar surge in growth and ambition'. 'Business boomed in southern India as trade with China built up along-side that from the Persian Gulf and further afield'.[206]

This accelerated trans-regional interactions. A glamourous Gulf encounter with China took place in the early 15th century, when the famous explorer Zheng He, a Muslim admiral in the service of China's thriving Ming dynasty was sent on several missions abroad by the Yongle Emperor. He was assigned to sail along the Indian Ocean littoral to exchange goods with distant "barbarian" kingdoms. Far from constituting a profit-making rationale, his mission was meant to showcase China's civilizational superiority and extend the Middle Kingdom's periphery of tributary states. His voyages between 1405 and 1424 included Hormuz Island in the Gulf, to where the admiral sailed with a fleet of 61 of the world's largest ships. The missions marked the peak of historic Chinese maritime exploration. Successful though Zheng He's

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[202] See: Ibn Battutah (2003), *The Travels of Ibn Battutah*. Abridged, Introduced, and Annotated by T. Mackintosh-Smith. London/Basingstoke/Oxford: Picador.
[203] Frankopan 2015: pp. 187-195.
[204] Ibid. Even the birth of the Italian Renaissance – and thus modernity – is said to have been indirectly facilitated by the apocalyptic pandemic in the mid-1300s.
[205] Beckwith 2011: pp. 183-201.
[206] Frankopan 2015: p. 195.

individual missions appear to have been, they did not build a legacy. After the Yongle Emperor's death, his Ming successors, under fiscal strain and commercial and cultural indifference, legally suspended the voyages and decided it was best to turn inward, away from the world.[207]

Hence, it was ironic, that just half a century after Zheng He's explorations and displays of China's prowess, a handful of other famous sailors from the other end of the Eurasian landmass embarked on a similar mission – and found a wide-open door. With Portugal leading the way to linking the world's sea lanes, it would re-start globalization to unprecedented extents in the long run. The Gulf lay at the centre of this. However, with maritime trade – a 'Littoral System' – becoming the future, Portugal and its successors rang the death knell of the old Silk Road.[208]

3.2 Persian Gulf Outside Powers in Early Modernity

In the 1500s, two regional powers, Safavid Persia plus the rapidly expanding Ottoman Empire, and one European power, Portugal, became major players in and around the Gulf. Mughal India was a dazzling empire as well and a large economic power, though its role outside the subcontinent, including in the Gulf, was almost entirely commercial and cultural.[209]

The Safavids took over Persia to embark on a near 200-year reign from 1501 to 1722. For the entirety of Portugal's Gulf involvement, the Safavids were the dominating regional power which by and large exceeded that of distant Portugal.[210] The Safavids controlled the Gulf economically, especially in regard to the silk trade. Shah Abbas managed to divert these goods away from Ottoman control in order to deal directly with the growing European market.[211]

The Ottoman Empire was turning into Persia's close neighbour and growing rival when it defeated Egypt's Mamluk dynasty in 1517, invaded Basra in 1546, and occasionally managed to take several other major port-cities around the Arabian Peninsula in the following decades. Though causing alarm in Persia and among local Arab tribes, the Ottoman conquest of Basra and several subsequent, though only

[207] Ferguson 2012: pp. 28-32.
[208] Beckwith 2011: pp. 251-262.
[209] Richards 2010: p. 207.
[210] Commins 2012: chapter 3.
[211] Ibid.: chapter 3, section 4, para. 5.

short-term victories, did not suffice to impose direct Turkish rule in the entire Gulf. Yet, this Ottoman emergence was enough to incentivize the Safavid Shah to leverage the new Portuguese presence in the region to counterbalance the Turks.[212]

3.2.1 The Portuguese Empire and the Gulf

1510 marks the most important date in the beginning of Portugal's imperial history in Asia, when Goa in India, became a Portuguese vice-regal seat. From there, Portugal would launch its maritime trading enterprise in the East. This novel development of European seafaring in the Indian Ocean had been first enabled by Vasco da Gama's pioneering circumvention of Africa's Cape of Good Hope in 1498. It opened up a maritime trade route between Europe and Asia despite entailing countless months of hazardous travel. Tellingly, the latter burden was considered less risky than the land route through the Middle East. Nevertheless, plenty of maritime risks were reason enough for the Portuguese to try and police these sea lanes by force. Their theatre of operations included the Gulf, where Hormuz and Muscat, both controlled by them through an allied local dynasty, became their central outposts for over a century, notwithstanding some crucial interruptions.[213]

Three years before they conquered Goa, 1507 saw their first arrival in today's Oman, in the form of Admiral Afonso de Albuquerque with his men.[214] Sailing up the Gulf, they violently intimidated locals, ransacking those local settlements and ports which refused to pay tribute to Portugal.[215] They occupied Muscat and conquered Hormuz Island. Albuquerque's motivations for establishing an outpost in the Gulf were closely aligned with the proclaimed goals of Portugal's King Manuel I. Expanding his country's role in the world, especially in the Indian Ocean, was the King's signature policy. It covered three spheres – commerce, ideology, and geo-politics – all of which can explain both Portugal's rise and demise in the East.[216]

The first can be explained by the growing appetite in Europe for exotic Asian goods in the late medieval and early-modern period. Portugal, at the time, lead the European efforts to explore the unknown world and import spices from Asia in larger quantities

[212] Ibid.: chapter 3, sections 3-4.
[213] Ibid.: chapter 3.
[214] Matthee, R. (2012), 'The Portuguese Presence in the Persian Gulf: An Overview'. In: J.R. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition], chapter 1, section 1, para. 1.
[215] Ibid.: chapter 1, section 3, para. 3.
[216] Ibid.: chapter 1, section 3.

and to establish a trade monopoly.[217] Albuquerque's entry into the Gulf was intended to cut off the Egyptian or Ottoman middlemen and buy directly from the Persians instead.[218] The trade supply chains required logistical centres; monopolization required armed policing and deterrence. For these matters, commercial hubs and military forts were set up along the Indian Ocean littoral. Hormuz came to host one such hub, and one such fort, with neighbouring Qeshm Island and the Persian port city of Gamrun (now Bandar Abbas) hosting support bases.[219] From there, as well as Aden, the Portuguese then soon after aggressively sought to enforce their trade monopoly interests by blocking maritime traffic through the Gulf and the Arabian and Red Seas, northwards to Mesopotamia and Egypt.[220]

On top of that, religious ideology added an influential missionary dimension to the Portuguese Empire. The early 1500s saw a heated clash-of-civilizations-mentality between Christianity and Islam in the Mediterranean and beyond.[221] As Rudi Matthee underlines, 'the desire to convert the peoples of the East and to fulfil a long-cherished dream of Christianity by "liberating" Jerusalem from Muslim overlordship' played a central part also in Lisbon's Gulf role, especially during the reign of King Manuel I.[222]

However, Portugal's strategic rationale was geo-political too, as it sought to contain Middle Eastern regional powers in the Arabian Sea and the Mediterranean. Security concerns were important incentives. Still, Portugal, as Matthee observes, 'never controlled the Gulf, certainly not territorially – aside from holding Hormuz and monitoring access to the entrance of the waterway' for roughly a century.[223] On the one hand, this was down to Portugal's relative indifference to a region that, compared to "Asia proper" and except for Persian silk had little business to offer.[224] On the

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[217] Crowley, R. (2015), *Conquerors: How Portugal seized the Indian Ocean and forged the First Global Empire*. London: Faber and Faber; Ferguson 2012: pp. 33-43; Subrahmanyam, S. (2012), *The Portuguese Empire in Asia, 1500-1700: A Political and Economic History*. Chichester: Wiley-Blackwell, chapter 3.
[218] Matthee 2012: chapter 1, section 3, para. 1; Commins 2012: chapter 3, section 4, para. 5.
[219] Matthee 2012: chapter 1, section 2, para. 3.
[220] Commins 2012: chapter 3, section 2, para. 4-6.
[221] Crowley 2015; also: Crowley, R. (2013), *Empires of the Sea: The Final Battle for the Mediterranean, 1521-1580*. London: Faber and Faber.
[222] Matthee 2012: chapter 1, section 3, para. 2; see also: Matthee, R. (2010), 'The Politics of Protection: European Missionaries in Iran during the Reign of Shah Abbas I (1587-1629)'. In: C. Adang, S. Schmidtke (eds.), *Contacts and Controversies between Muslims, Jews, and Christians in the Ottoman Empire and Pre-Modern Iran*. Würzburg: Ergon Verlag, pp. 245-271.
[223] Matthee 2012: chapter 1, section 2, para. 2.
[224] Beckwith 2011: p. 246; its main source of income was fishing, date-farming, and pearl-trading, as well as exporting Arabian and Persian horses to warring parties on the Indian subcontinent. See: Floor, W.M. (2006), *The Persian Gulf: A Political and Economic History of Five Port Cities 1500-1730*. Washington D.C.: Mage Publishers, pp. 58-65.

other hand, Portugal's relative overall power was modest. Apart from the forts which had limited land-power projection capabilities, Portugal's military power on Indian Ocean shores stemmed almost entirely from its naval reach. The latter seems to have been one in only two reasons for the Safavids' partnership: firstly, they themselves possessed no navy. Thus, alliances with admirals like Albuquerque and his successors offered the Persians a back-up against Ottoman naval forces. Secondly, at the time, Portuguese silk importers simply happened to be the most numerous from the European market. Hence, though Lisbon's military and economic relevance in 16th century West Asia cannot be disputed, it never went as far as that of later outside powers.[225] The Ottomans, for instance, inflicted two major defeats on Portugal's Gulf position, when they captured Muscat in 1552 and again in 1581, before the Portuguese took it back in 1588.[226]

The Portuguese Empire's decline in much of Asia, including the Gulf, became visible in the earlier 1600s. Ultimately, seeking a trading monopoly proved an impossible goal, as Asian and Middle Eastern merchants simply located to other ports where Portugal had no military presence.[227] The Portuguese anti-free-trade policy made few friends and invited local and regional opposition right from the onset.[228] With the collapse of Mamluk Egypt, the Ottoman Empire had already proven a far more formidable obstacle. Consequently, the Portuguese then limited their strategy to one of regulated commerce that entailed the introduction of customs-duties.[229] They ended up sharing the bulk of Indian Ocean trade to Europe with the Ottomans and Persians whilst simultaneously engaging in quite constant battles with the former.[230] Even this more constrained trade policy proved unpopular and gave way to new alternatives beyond Portugal's power.[231] In Oman, where in 1624 a tribal alliance was mobilized by Nasir ibn Murshid of the Yariba clan, local merchants began to move

[225] Matthee 2012: chapter 1, section 2, para. 2-3.
[226] Malekandathil, P. (2014), *Maritime India: Trade, Religion and Polity in the Indian Ocean*. New Delhi: Primus Books, p. 117.
[227] Commins 2012: chapter 3, section 2, para. 7.
[228] The policy bolstered resolve among Portugal's enemies in the Indian Ocean. Even local Portuguese business partners experienced the disadvantages of lacking a diversification strategy – encountering dramatic losses whenever their sole supply chain to Europe broke down. Without alternatives, such as the traditional land route, Asian merchants frequently found their warehouses overladen with goods that had no outlet. And if they attempted to by-pass the Portuguese, they risked the sinking of their ships, the destruction of their goods and their very lives. See: Crowley 2015: pp. 190-192.
[229] Commins 2012: chapter 3, section 2, para. 7.
[230] Crowley 2012: pp. 361-362.
[231] Frankopan 2015: p. 238.

towards an overthrow of the dysfunctional Portuguese trading system.[232] Omani commerce with India (for rice, lumber, and cotton) and East Africa (for slaves used for agricultural labour), soon prospered, also thanks to taxes imposed on foreign merchants in the Gulf.[233] Under the eyes of the increasingly overwhelmed Portuguese, the Persians meanwhile turned to new European alternatives in the shape of the Dutch and English East India Companies, both of which offered larger trade deals.[234]

Along with the economic alienation of locals came their ideologic alienation, in the form of Portugal's religious agenda. King Manuel I's dreams of destroying Islam and his imperial agents' determination of sometimes violently enforcing missionaries' conversion attempts only reinforced the determination of regional powers and their local allies to oust the Portuguese once this became doable.[235]

Fateful geo-political challenges to the Portuguese Empire came in the form of regional and outside re-alignments.[236] Following a Safavid-Ottoman peace treaty in 1613, the situation had changed. Now less threatened by Istanbul, and thus less dependent on the formerly protective alliance with Lisbon, Persia's Shah Abbas I began to move against the Portuguese regional presence. In 1615, Persian troops re-conquered Gamrun and re-named it after its new ruler – Bandar Abbas.[237] This coincided with the Shah's first important outreach to the English East India Company (EIC) to which he granted commercial rights in Persia. This paved the way for an alliance, that, in 1622, would oust the Portuguese from Hormuz militarily and would mark a decisive strategic and financial loss to Portugal's position in the Gulf.[238] The Portuguese Empire tried to militarily fight the decline aggressively – which only perpetuated its reputation as an unwelcome spoiler. It first re-located its main Gulf base to Muscat, which it managed to hold onto until 1650.[239] Yet, by that time, Oman's new Yariba Imamate had turned into a self-sufficient economic and political

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[232] Commins 2012: chapter 3, section 7, para. 2.
[233] Ibid.
[234] Ibid.: chapter 3, section 5.
[235] Though some of Portugal's missionaries were later to establish some footholds in Persia, they were entirely unsuccessful on the Arabian side of the Gulf. See: Matthee 2012: chapter 1, section 4, para. 3-4; the doomed project stalled after King Manuel's death. See: Crowley 2012: pp. 361-362.
[236] Matthee 2012: chapter 1, section 4, para. 4; Commins 2012: chapter 3, section 7, para. 3/section 5.
[237] Matthee 2012: chapter 1, section 4, para. 4.
[238] Ibid.: chapter 1, section 2, para. 2/section 5, para. 2; Glenn, J.A. (2000), *Renascent Empire? The House of Braganza and the Quest for Stability in Portuguese Monsoon Asia, ca. 1640-1683*. Amsterdam: Amsterdam University Press.
[239] Matthee 2012: chapter 1, section 5, para. 2-3.

player in the Gulf and the wider Indian Ocean. It was only a matter of time, that it would also enlist English and Dutch help to throw the Portuguese out of Muscat.[240] This opened a new chapter in the history of European outside power involvement in the Persian Gulf.

3.2.2 The Dutch East India Company and the Gulf

In the early 1600s, the Dutch and English East India Companies were issued charters by their governments in Amsterdam and London to pursue business in Asia. The liberty to conduct trade and invest into foreign markets additionally incorporated a free hand to 'wage war and negotiate treaties' with Asian polities.[241] In spite of the fact that they were private companies, solely responsible to their shareholders, these charters turned them into state-like entities with considerable financial and military capabilities. Though the English East India Company (EIC) provided the bulk of naval assistance to the Safavids in Portugal's 1622 expulsion from Hormuz, and though the EIC had acquired commercial rights in Persia, it would not enjoy the dominant Gulf market share for over another century.[242] It was the Dutch East India Company (VOC) which mastered Indian Ocean trade in the 1600s and dominated the seas militarily. Among the VOC's achievements was 'the integration of the Persian Gulf region into the new, emerging capitalist world system over which the Dutch exerted hegemonic supremacy'.[243] Where the Portuguese and Spanish discovered and connected new worlds, the VOC truly piloted economic globalization.[244]

Next to the VOC's business objectives in Asia, fighting the Portuguese there had a geo-political dimension, because Spain's brief annexation of Portugal turned the latter into a Dutch enemy. Spain and Holland were engaged in an 80-year-long war at

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[240] Commins 2012: chapter 3, section 7, para. 3. Though Lisbon kept plenty of colonies until the 20th century, the mid-17th century saw their relative imperial demise in the Indian Ocean with the simultaneous loss of Malacca, Ceylon, and their colonies on India's Malabar coast to the Dutch. See: Matthee 2012: chapter 1, section 5, para. 3.
[241] Commins 2012: chapter 3, section 5, para. 1.
[242] Ibid.: chapter 3, section 5, para. 2.
[243] Lunsford, V. (2012), 'The Dutch in the Persian Gulf'. In: J.R. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition], chapter 2, section 1.
[244] Ibid.: chapter 2, section 2, para. 2.; On the VOC and Dutch global financial and economic dominance, see: Israel, J.I. (1989), *Dutch Primacy in World Trade, 1685-1740. Oxford: Oxford Clarendon Press*; Parthesius, R. (2010), *Dutch Ships in Tropical Waters: The Development of the Dutch East India Company (VOC) Shipping Network in Asia 1595-1660*. Amsterdam: Amsterdam University Press; Wallerstein, I. (1980), *The Modern World System II: Mercantilism and the Consolidation of the Modern World Economy*, 1600-1750. New York City: Academic Press.

the time. And so the Dutch began to launch a series of attacks on the Iberian Union's Portuguese possessions in Asia and on any Portuguese ship they encountered.[245] The Iberians, furthermore, held a competitive advantage over the VOC in Asia. Unlike Spain and Portugal, who owned large silver mines in their South American colonies, the Dutch could not satisfy Asia's demand for precious metals. The VOC then overcame this challenge by identifying another market, namely that of intra-Asia trade. The investment into the latter's facilitation ultimately opened up the VOC's opportunity for domination. Japanese consumers wanted Chinese silk, and Indian warlords bought Arabian horses. 'By the mid-seventeenth century, nearly half of the company's ships that left Europe remained in Asia for regional use'.[246]

By and large, the Indian Ocean, naturally incorporating the Arabian Sea and the Persian Gulf, became a Dutch lake. The VOC's more specific reasons for establishing a Gulf presence was Persian silk. And as part of its wider intra-Asian trade strategy, it intended to profit from also expanding Persian and Omani trade with India.[247] With its main Gulf headquarters in Bandar Abbas until 1765, the VOC built factories and trading bases in Persia's capital Isfahan (1623-1745) in order to consult closely with Shah Abbas and his successors, and running the regional trade network bypassing the Ottoman middleman.[248] As a result of trade agreements in 1623 and 1652, Persia hosted the VOC's most profitable establishments in the entire Orient throughout the 17th century.[249] Notwithstanding European competition, the VOC became the Persians' number one overseas trading partner.[250] The company's numerous trading stations manifested this. Inside the Safavid Empire's territory, apart from Bandar Abbas and Isfahan, Dutch bases could be found in Kirman, Bushire, Shiraz, Lar, and on Kharg Island by the mid-1600s. On the Arabian Peninsula too, VOC bases were set

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245 Lunsford 2012: chapter 2, section 2, para. 6.
246 Ibid.: chapter 2, section 2, para. 7. The profits this new Dutch-run intra-Asian trade network reaped were then re-invested in the spice trade with Europe. Successful monopolization enabled the VOC to buy cheaply and sell expensively, turning 17th century Amsterdam into the world's business capital and the VOC into its most liquid entity. This enabled greater naval innovation and efficient bureaucratization, proving decisive in the VOC's military dominance. See: Ibid.: chapter 2, section 2, para. 7-9.
247 Ibid.: chapter 2, section 2, para. 9
248 Ibid.: chapter 2, section 3, para. 5-7.
249 Floor, W.M. (2009), 'Dutch Relations with the Persian Gulf'. In: L.G. Potter (ed.), *The Persian Gulf in History*. New York City: Palgrave Macmillan, p. 240.
250 Davies, D.W. (1961), *A Primer of Dutch Seventeenth Century Overseas Trade*. The Hague: Martinus Nijhoff, p. 99; Floor 2009: pp. 251-255; Lunsford 2012: chapter 2, section 3, para. 8; Prakash, O. (1985), *The Dutch East India Company and the Economy of Bengal, 1630-1720*. Princeton: Princeton University Press, pp. 172-173.

up in Muscat and Basra, even though the former was to be firmly controlled by the Omanis, and the latter remained an Ottoman outpost.[251]

Yet, despite the VOC's financial and naval capabilities, it made no bid for empire in the Gulf. The company managed to keep out the Portuguese, it made itself the shahs' preferred trading partner, it consequently snatched away market share from the comparably modest EIC business in the Gulf, and at least in the region, it prevailed in the mid-17th century Anglo-Dutch Wars.[252] However, since the profit-motive lay at the centre of VOC strategy, too much involvement in regional politics was considered a threat to the company's business interests.[253] Even with their limited strategic objectives and their relative indifference towards domestic Gulf affairs, the VOC (and EIC) seemed to have faced quite enough political risks already. As Lunsford writes, despite cooperative deal-making and mutual gains-seeking, the European-Asian interactions were far from harmonious, especially in Persia:

> 'The profitability and vibrancy of the VOC-Iran trade belied its erratic history, the source of which was the haphazard implementation of the contracts the VOC had forged with the Iranians. These trade agreements were a frequent source of frustration to the Dutch. [...] No less vexing to company leadership was the rampant corruption that afflicted VOC Gulf personnel.'[254]

Moreover, unlike in other Asian theatres such as the Spice Islands, which came under the VOC's direct control, in Persia, the Dutch were in no position to do anything against their risk-exposure. If they wanted to maintain their trading dominance, they simply had to accept these conditions, because not only was Persia a serious regional power, it could additionally simply switch to alternative overland trade routes to India, or to alternative European trading companies.[255] Although there were occasional military clashes after some Persian treaty violations, and although in those escalations the VOC always re-enforced its maritime power and domination against the largely navy-less Safavids, these Dutch military victories on the Gulf coast never shifted the overall balance of power between them and never transformed into a Dutch political say in Persia's domestic affairs.[256] On the other hand, such occasional conflicts, as in 1645, 1685, and 1712, hardly seemed to have disrupted Dutch-Persian

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[251] Lunsford 2012: chapter 2, section 3, para. 6.
[252] Israel 1989: p. 212; Jones 1996; Peterson, J.E. (2009), 'Britain and the Gulf: At the Periphery of Empire'. In: L.G. Potter (ed.), *The Persian Gulf in History*. New York City: Palgrave Macmillan, p. 278.
[253] Van Goor, J., Van Goor, F. (2004), *Prelude to Colonialism. The Dutch in Asia*. Hilversum: Uitgeverij Verloren, p. 19.
[254] Lunsford 2012: chapter 2, section 3, para. 14.
[255] Ibid.
[256] Ibid.: chapter 2, section 3, para. 15-16; Floor 2009: pp. 238-239.

business. Trade continued to flourish, and both saw the advantages of continuing their commercial relationship.[257]

Nonetheless, all this changed dramatically in the 18th century. When disorder and conflict came to the Persian Gulf amid the Yariba and Safavid dynasties' respective collapses in 1720 and 1722, the VOC's limited influence in the hinterlands left it with little assets to prevent a spill-over into its business interests. Persian and Omani trade with India and Europe grounded to a halt.[258] This ultimately paved the way for the VOC's exit from the Gulf in the 18th century. It abandoned its bases in Basra, Bushire, Bandar Abbas, and on Kharg Island by 1765. The company now classified the Gulf as 'too unstable, risky, and thus unprofitable' and decided to break off relations with Persia, focusing on less volatile regions in Asia instead.[259]

Still, the VOC's 18th century Gulf misfortune, should not be regarded as a completely isolated case. The overall prospect of intra-Asian commerce, which had once been the company's successful formula, declined in the changing economic landscape of the time. The value of silk for instance had fallen dramatically and conflict was harming most Asian business.[260] Given the VOC's always limited political influence inside the lands of Asia, it had no chances to even try to reverse that trend.

3.2.3 The 18th Century Interregnum

When Afghan tribes invaded Persian territory, and raided its capital Isfahan in 1722, the Safavid dynasty ended. This spark lit up not only Persia itself, which plunged into a series of civil wars, but also its periphery, parts of which were immediately, though only briefly, invaded by the Ottoman and southward expanding Russian empires.[261]

The 18th century's first Persian civil war was won by Nadir Khan in 1736, who crowned himself Shah, but ruled Persia for a mere decade. Nevertheless, that decade was marked by numerous and colourful military campaigns which reconquered the Ottoman and Russian-captured territories and included brief invasions of peripheral territories, including parts of the Arabian coast, and even as far a place as Mughal India. He intervened in Oman's civil war in 1737 and again in 1741 but withdrew most

[257] Floor 2009: p. 244.
[258] Lunsford 2012: chapter 2, section 4, para. 1.
[259] Ibid.: chapter 2, section 4, para. 2-3.
[260] Ibid.: chapter 2, section 4, para. 4; Commins 2012: chapter 3, section 5, para. 5.
[261] Ibid.: chapter 4, section 2, para. 2.

of his forces relatively fast.[262] This pattern of his behaviour can be observed in most of his campaigns, including his invasion of India in 1739. Despite extraordinary military success, Nadir Shah did not channel his growing tax revenue, his looted wealth, and his considerable power into a wider long-term political and economic strategy that might not only have re-stabilized Persia itself, but also the entire Gulf region.[263]

When Nadir Shah died violently in 1747, Persia immediately plunged back into civil war. In 1750, a member of the Zand tribe, Karim Khan, managed to gain an upper hand, before in 1763, he ushered in a short period of stability. Karim Khan's final years in power (and life) saw some economic growth and some modest military successes outside Persia, when his troops briefly took Basra from the Ottomans in 1776.[264] Still, his death in 1779 sparked the next violent succession crisis. Mass tribal warfare ensued and only ended in 1796, when the Turkic Qajar tribe, led by Agha Muhammad Khan, fought itself to victory. Having already moved the capital to Tehran 1785, Agha Muhammad Shah managed to rebuild Persia's state institutions, which finally ended a near-century of war. Even though he died only a year after his coronation, the Qajar dynasty was established and would go on to rule until the early 20th century.[265]

Meanwhile, the Arabian side of the Gulf had faired equally badly throughout the 1700s. The Yariba Imamate of Oman collapsed between 1719 and 1720. The reasons for this as well as the 30-year civil war that followed, also lay in a succession crisis. When Sultan Saif ibn Saif died between 1718 and 1719 and was replaced by his 12-year old son, this was immediately challenged by several tribal factions and ideological opponents composed of the Yariba elite and more orthodox Ibadis. Intensified by rivalries between the Ghafiri and Hinawi tribes, ultimately two dominant antagonists emerged from a decade of violent anarchy. Whereas Saif ibn Sultan II, now a grown man, established a realm on the coast and, for a short while, successfully summoned substantial military assistance from Persia's Nadir Shah, the Ibadi *ulama* nevertheless managed to control and dominate the tribes of the Omani hinterland. Although Nadir Shah and Saif ibn Sultan II managed to conquer Muscat, the city would eventually fall again to the Ibadi coalition shortly after Nadir Shah's

[262] Ibid.: chapter 4, section 2, para. 2-5.
[263] Ibid.: chapter 4, section 2, para. 6.
[264] Commins 2012: chapter 4, section 2, para. 7.
[265] Ibid.: chapter 4, section 2, para. 8.

death in 1747, by which time most of his Persian forces had withdrawn from Oman – ending in the Ibadis' candidate, Sayyid Ahmad ibn Said's elevation as the new Imam.[266] Thus was created Oman's Al Bu Said dynasty, which is still reigning to date.

Although incessant civil war ended with Ahmad ibn Said's election by the *ulama*, this did not entail a complete end to conflict in and around Oman. Even though the new dynasty enjoyed increasing support and brightening economic prospects, with Oman's maritime trading network with India and Africa revitalized, tribes on the fringes of the Omani realm also became more independent, which would result in a violent tumult especially at sea.[267] Most prominently, the Qasimi tribe (plural: Qawasim) of today's UAE were Muscat's fierce economic and military rivals. 'Having a much narrower economic base than their Omani enemies, [the Qawasim] relied more and more on the [trade] supplies which they captured from Omani trading vessels passing through the Gulf to and from Basra'.[268] Piracy's impact was all the more severe, because the Qawasim had at that time found a new backer from inside the shifting sands of the Arabian desert.

Amidst a regional power vacuum that had come about through Persian, Omani, and Ottoman weakness and a continued absence of outside powers a new ideological entity emerged that would, despite setbacks, ultimately change the region until the time of writing. When in 1744, Muhammad ibn Abd al-Wahhab, a preacher from Najd, who was calling for Islam's "purification", entered an alliance with Muhammad ibn Saud, leader of a tribe in the town of Dir'iyya, it would mark the birth of the first Saudi-Wahhabi state. Even though it took three decades to indoctrinate and finally take over, one-by-one, the various autonomous tribes of Najd, to contemporaries it seemed that the new Saudi emirate had the wind behind its back. After the fall of Riyadh to Saudi forces in 1773, next was al-Hasa, on the Gulf coast. Despite fierce resistance from the local tribes and sheikdoms, 'Eastern Arabia's richest agricultural zone' and most 'strategic position' was finally conquered in 1795.[269] Now, the Saudis were on the brink of turning into the Gulf's new potential regional power. Ottoman weakness on Mesopotamia's immediate periphery was further demonstrated by its Mamluk governors' failure to defend al-Hasa, and then by being driven out of the

[266] Heard-Bey 1982: pp. 273-276.
[267] Ibid.: pp. 275-276.
[268] Ibid.: p. 281.
[269] Ibid.: chapter 4, section 5, para. 1-8; Al-Rasheed, M. (2010), *A History of Saudi Arabia*. Cambridge: Cambridge University Press, pp. 14-20.

Shia's holy city of Kerbala in an overwhelming Saudi attack in 1802. This invasion was accompanied by a sectarian-motivated massacre of 5,000 Shiites.[270] In 1806, even Islam's holy cities, Mecca and Medina, fell to the Saudis – 'a huge blow to Ottoman prestige'.[271]

For the smaller Gulf sheikdoms and for the Omanis, more than prestige was at stake after the Saudis had conquered the Buraimi Oasis in 1800 and now dominated not only the Arabian Peninsula. They also menaced Gulf waters and the Straits of Hormuz through an alliance with Oman's Qasimi enemies.[272] Relief to the besieged Omanis finally came from outside. Various, previously independent threads of global and regional affairs were now being woven together.

3.3 *Pax Britannica* and the Trucial Coast

3.3.1 The British Empire's Gulf Emergence

When in 1793 war broke out between Britain, the rising superpower, and its challenger, Revolutionary France, this conflict would not be limited to Europe. In this first era of globalization and Western imperial expansion into far flung lands and seas, war between the rivals entailed that the theatre of conflict would also be world-wide. Just as the Seven Years War had done half a century before, the Napoleonic Wars turned the Indian Ocean into an intra-European combat zone, with France and Britain once more being the principal antagonists.[273] The Persian Gulf therefore never really had a chance to entirely escape this conflict. Yet, there were three specific reasons why the region would pose a vital strategic battleground.

Britain's position in India had, during the later 1700s, turned into direct colonial rule over vast swathes of the subcontinent. Thus, it was in London's and Calcutta's crucial interest to safeguard the sea-lines of communication (SLOCs), trade routes, and geo-strategic bottlenecks between Britain and India. The Middle East lay right between

[270] Commins 2012: chapter 4, section 5, para. 8; Al-Rasheed 2010: pp. 20-21.
[271] Commins 2012: chapter 4, section 5, para. 9-10.
[272] Heard-Bey 1982: p. 278.
[273] Baugh, D.A. (2011), *The Global Seven Years War 1754-1763: Britain and France in a Great Power Contest*. Oxon: Routledge; Harvey, R. (2007), *The War of Wars: The Epic Struggle Between Britain and France: 1789-1815*. London: Constable.

the two, and the Persian Gulf, the Arabian Sea, and the Red Sea had to be shielded from a hostile takeover by any imperial rival.[274]

The dominant one at the time happened to be France, Britain's old, but now revitalized European foe. In that respect, London's alarm bells began to ring loudly, when Napoleon invaded Egypt in 1798.[275] His immediate intentions were to control France's maritime strategic backyard, the Mediterranean, and to open up new markets for French trade in North Africa and the Levant. However, in France's continuous military conflict with Britain, Napoleon had to try to identify his enemy's vulnerabilities. Thus, his strategy included economic warfare against Britain, the pioneering industrial power: just like his later Continental Blockade sought to harm the British economy, Napoleon's intervention in Egypt and the Levant sought to disrupt the stability on British trade routes to and from India.[276]

A French diplomatic mission to Persia in 1796 had already been seen by London as a disturbingly close geo-political threat which sparked a major British effort to lure the Persians into an alliance.[277]

Ergo, it should come as no surprise that 1798 saw the first bilateral treaty between a Gulf sheikdom and Great Britain. The Sultan of Muscat and Oman and an emissary from the British Government signed an agreement for political and economic cooperation.[278] This now placed Oman firmly within the British Empire's sphere of influence. Though a considerable portion of its rationale seems to have been a counter-piracy alliance, it was far from a coincidence that it was forged the same year as Napoleon's expedition to Egypt.

As mentioned above, the growing influx of Qasimi pirate-attacks that hit Omani and British-Indian trading vessels presented a dramatic local problem in its own right.[279] The Qasimi alliance with the expanding Saudi-Wahhabi menace clearly added a regional dimension to this security escalation that would have probably caused a heightened British involvement in the Gulf anyway. Incidentally, the 1798 British-

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[274] Macris, J. (2010), *The Politics and Security of the Gulf: Anglo-American Hegemony and the Shaping of a Region*. Oxon: Routledge, p. 11.
[275] Ibid.
[276] Harvey 2007: pp. 249-250/p. 516/p. 532.
[277] Axworthy 2007: p. 180.
[278] Heard-Bey 1982: p. 283.
[279] It should be mentioned that the notion of Qasimi piracy in the Gulf has been contested in research. Sultan Muhammad al-Qasimi argues that the British at least greatly exaggerated the extent of pirate attacks, implying a *casus belli*. See: Al-Qasimi, S.M. (1986), *The Myth of Arab Piracy in the Gulf*. Oxon: Routledge.

Omani treaty is seen by Commins as the turning point that 'would tip the balance against the Qasimi sheikhs'.[280] But he nonetheless acknowledges French regional influence as the primary British motivation to sign it.

This was also locally relevant, because the East India Company had suspected the French themselves of seeking the establishment of a trading station in Muscat. As a result, it was the EIC who "motivated" the Sultan into choosing the British by offering naval cooperation, but also by threatening to blockade Omani merchants' entry to their vital markets in Surat and Bombay. This carrot-and-stick-approach worked in the EIC's, i.e. in Britain's, favour when the Sultan agreed to the treaty. It included a clause directly 'pledging [him] to bar French ships from Muscat'. It was also followed by a second treaty in 1800, which 'granted the Company permission to post [its own] agent' there.[281]

Britain's closer engagement with Oman was not an isolated Gulf case though. As mentioned above, the 1796 French mission to Persia was met with substantial British counter-offers. In 1801, Persia's new Qajar ruler, Fath Ali Shah signed a treaty with Britain that sought to build a full-blown alliance. Besides a trade deal, the treaty included an obligation of the Shah to exclude the French from Persia and to militarily assist the British in India in case of Afghan incursions over the North-Western Frontier. In exchange, Britain promised to deliver arms and heavy military equipment in the instance of an Afghan or French attack on Persia.[282]

The treaty failed immediately though, because by the time Fath Ali Shah invoked it against the Russians, who continued to eat away Persian territory in the Caucasus, the Tsar had just joined Britain's anti-Napoleon coalition. London therefore broke the treaty by ignoring the Shah's request. Consequently, this sparked the next round of diplomatic pivots. The French spotted the opportunity and made a successful counter-offer, persuaded the Persians to sign a new treaty in 1807 – the exact 'mirror image of the previous treaty with the British'.[283]

It was not to be. That same year, Napoleon defeated the Tsar and forced him into a peace agreement signed in Tilsit. Freshly discredited, the new French mission to Persia had failed from the outset, prompting the Shah to again give an audience to the

[280] Commins 2012: chapter 4, section 7, para. 8.
[281] Ibid.
[282] Axworthy 2007: p. 180.
[283] Ibid.: p. 181.

British who were, by then, urgently pushing for a renewal of their previous deal. The story repeated itself, as both signed a treaty which again was broken at the height of Napoleon's invasion of Russia. The British did help broker an agreement between Russia and Persia in the Caucasus, but one with clear Persian concessions, ceding further territory to Russia, forcing them to give up military presence in the Caspian Sea, and giving Russia an indirect say in Persia's governance.[284] Even though the post-Napoleonic world would again turn Britain more anti-Russian, Qajar Persia and its cautious British ally would ultimately fail to prevent further Russian incursions into Persia and its considerable influence there throughout the 19th and even 20th century.

The most immediate great power rival to Britain until 1815 was Napoleonic France. In that conflict, the British Empire emerged victorious and, in the process, had also managed to shift Middle Eastern and Gulf matters to London's (and India's) favour. This incorporated a victory against the Arabian Peninsula's principle revisionist entity – the first Saudi-Wahhabi emirate. Despite the treaties between London and Muscat, Oman's Al Bu Said dynasty found itself on the brink of a Qawasim-assisted Saudi overthrow after 1804. The Qawasim had managed to seize Omani territory in the Gulf, including Hormuz and Bandar Abbas whilst the Saudis continued to strike inner Oman from their new Buraimi stronghold.[285] In a classic example of strategic buck-passing, the British entered an implicit alliance with the humiliated Ottoman Empire which was eager to re-establish its old control of Egypt and parts of the Arabian Peninsula, most importantly, Mecca and Medina. It was an anti-Napoleon alliance that had succeeded in ejecting his forces from Egypt in 1801.[286] Later it also implied a de facto alliance against the Saudi-Wahhabi emirate in Arabia. Thus, in 1811, when Mehmet Ali Pasha of Egypt, the largely autonomous Ottoman governor and founder of modern Egypt, assembled his forces and intervened in the Hijaz and beyond, the Omanis were finally relieved from their Saudi suffocation. Saudi jihadists were drawn back westwards, now fighting – in vain – for their own emirate's survival. They were finally defeated in 1818. Egyptian and Ottoman prestige had been restored – for a few decades.[287]

[284] Ibid.: pp. 182-183.
[285] Commins 2012: chapter 4, section 7, para. 9.
[286] Harvey 2007: part 5.
[287] Al-Rasheed 2010: pp. 21-22.

Though Mehmet Ali's victory against the Saudis 'altered the balance of power in the Gulf', the region was not pacified yet.[288] For the Qawasim were continuing their stinging attacks against their Omani enemies, and also pursuing their piracy against Gulf traders. In 1808, Qasimi pirates sacked several British merchant vessels. In response, the EIC's naval force, the Bombay Marine, in alliance with Omani land forces, executed a row of pincer-like surgical strikes against the Qasimi-controlled ports on both sides of the Gulf and bombarded the Qasimi stronghold at Ras-al-Khaimah, destroying numerous pirate ships in the process.[289]

Though causing severe damage to the Ras-al-Khaimah sheikdom and the Qawasims' maritime capabilities, it was not the final blow. Before the Saudis were defeated in 1818, they imposed a Qasimi leadership change and helped to rebuild Ras-al-Khaimah and boosted ongoing piracy expeditions that indiscriminately attacked merchant vessels across the entire Arabian Sea. By the late 1810s, the EIC had had enough, and, making use of Mehmet Ali's fresh victory against the Saudis by land, and local Omani advances across the Musandam Peninsula, sent an eleven-warship-strong Bombay Marine Force against the Qawasim and Ras-al-Khaimah in December 1819. This successful intervention marked the end to the excessive Qasimi piracy and its Gulf destabilization and 'was the beginning of Britain's definite ascent in Gulf affairs'.[290] The 18th century interregnum had come to an end.

3.4.2 The 19th Century's Trucial-States-System

'We were here before any other Power, in modern times, had shown its face in these waters. We found strife and we have created order. It was our commerce as well as your security that was threatened and called for protection. At every port along these coasts, the subjects of the King of England still reside and trade.... We saved you from extinction at the hands of your neighbours. We opened these seas to the ships of all nations, and enabled their flags to fly in peace. We have not seized or held your territory. We have not destroyed your independence but have preserved it... The peace of these waters must still be maintained; your independence will continue to be upheld; and the influence of the British Government must remain supreme.'[291]

When just under a century later, Lord George Nathaniel Curzon, Viceroy of India, spoke these words in 1904, he was summarizing what he saw as Britain's role in the Persian Gulf in the preceding period. Leaving the self-congratulating and

[288] Commins 2012: chapter 4, section 8, para. 1.
[289] Ibid.: chapter 4, section 8, para. 5.
[290] Ibid.: chapter 4, section 8, para. 6-7.
[291] Lord Curzon quoted in: Fisher, J. (1999), *Curzon and British Imperialism in the Middle East, 1916-1919*. London: Frank Cass Publishers, p. 100.

propagandistic tone aside, they nonetheless capture the British Empire's effect on the region relatively accurately.

In January 1820, following the Bombay Marine's defeat of Qawasim piracy and jihad in Gulf waters, London and the EIC's governing body in India saw a more permanent and institutionalized involvement in Gulf affairs as vital to a regional stability that would shield British India and augment maritime trade. The same month, Britain brokered bilateral (and in effect multilateral) truces between the sheiks of Ras-al-Khaimah, Abu Dhabi, Ajman, and Umm al-Quwain, who all signed the General Treaty of Peace with the Arab Tribes. These treaties enshrined the illegality of piracy in the region and completed Britain's already active treaty with Muscat and Oman. The individual treaties were constantly renewed and from 1853 onwards formed a network of Trucial States.[292]

This system guaranteed the small sheikdoms relative independence from the three regional powers, Qajar Iran, the Second Saudi Emirate, which was reborn mid-century, and the Ottoman Empire. The interests of all signees were upheld with the permanent diplomatic presence of British political residents in all of the Gulf sheikdoms. These agents answered to the EIC Governor of Bombay, who again answered to the Viceroy in Calcutta. A political resident was no colonial ruler, but rather carried out the role of ambassador with privileged access and informal influence over the sovereign sheik.[293] Yet, in the anarchic regional environment that in the preceding century had produced constant enmity and warfare, political agreements alone did not suffice to pacify the region. When severe conflicts erupted, and violence threatened to spread, the treaties were enforced by the Bombay Marine patrolling Gulf waters. Usually, stability and relative peace was quickly re-established. There was no British military presence on the Arabian Peninsula, save for the moments it needed to intervene and go after treaty violators. To pacify the regional waters and coastlines, political/diplomatic presence, naval patrols and only very occasional military interventions, but usually a policy of strict non-interference in hinterland disputes, sufficed. What had once been dubbed the Pirate Coast, was now called the Trucial Coast.[294]

[292] Hawley, D. (1971), *The Trucial States*. London: George Allen & Unwin Ltd., chapter 6.
[293] Ibid.
[294] Onley, J. (2008), *The Arabian frontier of the British Raj. Merchants, Rulers, and the British in the Nineteenth-Century Gulf.* Oxford: Oxford University Press, p. 103; Commins 2012: chapter 5, section 2, para 3.

This system did not only protect British and Indian merchants and the wider Indian Ocean economy, but, as had been intended, became an integral part to a much wider buffer zone shielding British India from the rival European powers France, Russia, and later Germany. It was a peripheral strategy circling all of the subcontinent and ranged from the greater Middle East and Persia over to Afghanistan and Tibet, all the way to South East Asia. In all these areas, the British sought to run an informal empire guarding the central pillar of their superpower status.[295]

Despite this motivation, the system could only function though if the overwhelming majority of peoples in this British sphere of influence gained from it as well. Britain's network of treaties along the Gulf's Arabian shores did not completely eradicate local skirmishes but compared to the 18th century greatly stabilized the Gulf region. This success convinced the Gulf's sheikdoms to constantly renew the treaties. Indeed, their very own economies bounced back as a result, especially due to one old but now globally booming commodity – pearls. Gulf sea beds were inhabited by large pearl banks. 'The pearl merchants plugged into perennial trade to India, where Bombay emerged as the global distribution centre, re-exporting the Gulf's gems to Europe and North America'.[296] Even though Britain's more liberal 19th century empire enforced its humanitarian mission also on the Gulf, by abolishing the slave trade – after all another thriving Omani "business" with East Africa – *Pax Britannica's* overall economic effect on the Trucial Coast was relatively profitable for local merchants.[297]

The system was considered stable, because even though the British had no permanent military presence on Gulf *terra firma*, their diplomatic presence and their over-the-horizon-capability in the form of the Bombay Marine provided incentives for local and mostly also regional powers to adhere to it. This was the case because on the occasions a regional power did seek to upset the system, the British intervened and ensured no red lines were enduringly crossed. Several examples illustrate this British strategy.

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[295] For a general view on informal British imperialism, see: Gallagher, J., Robinson, R. (1953), 'The Imperialism of Free Trade'. In: *The Economic History Review*, 6:1, pp. 1-15; Macris 2010: pp. 16-19.
[296] Commins 2012: chapter 5, section 1, para. 4-5.
[297] Heard-Bey 1982: chapter 5; Onley 2008: p. 34.

3.4.3 Great Games in the Persian Gulf

When Mehmet Ali made his bid for Egyptian independence from the Ottoman Empire by also re-invading Syria and parts of Arabia in 1838/39, the British backed the Sultan in Istanbul, and, in agreement with Austria-Hungary, Prussia, and Russia, militarily forced Mehmet Ali to back down. Though the British had indirectly used the Mehmet Ali army two decades earlier as an ally to counter the first and most aggressive expansion of the Saudi state, they could not allow him to threaten the very existence of the Ottoman Empire.[298] The "sick man of Europe's" utter disintegration was not in the British interest, because it would have created a wider regional vacuum vulnerable to Russian southward expansion. London's desired answer to the Eastern Question from this time onwards, and for the remainder of the 19th century was to prop up the Sublime Porte's weak, but enduring control of the Levant, Asia Minor, and the Bosporus. The decision to fight on the side of the Ottomans (as well as France and Piedmont-Sardinia) against Russia in the Crimean War in the 1850s can be read in this light.[299] In the pre-Suez-Canal-age, the Dardanelles had been of even greater importance in terms of sea-and-land-connectivity to the Gulf and India.

The Great Game, as it was called, had become Britain's primary motivation for influence over Gulf geo-politics.[300] The 19th century had started with France being British India's primary outside threat that needed to be contained, and the century ended with Germany taking over that role. Yet, at the height of Pax Britannica, Anglo-Russian rivalry in Eurasia, and especially in Afghanistan and Persia, amounted to what was essentially the 19th century's Cold War. The primary Russian motivation for enhanced influence towards the Gulf did not merely have a defensive anti-British element to it, but incorporated the long-held desire to acquire a warm-water port.[301] To meet these objectives, Russia had previously, as mentioned above, militarily expanded through the Caucasus far into Persian territory, and, due to Britain's rather moderate support for the Shah, had managed to gain greater influence in Tehran.[302]

[298] Harrison, R.T. (2016), *Britain in the Middle East. 1619-1971*. London: Bloomsbury Academic, chapter 7.
[299] For overviews on the Eastern Question and the Crimean War, see: Figes, O. (2011), *Crimea. The Last Crusade*. London: Penguin; Sedivý, M. (2016), *Crisis Among the Great Powers: The Concert of Europe and the Eastern Question*. London/New York City: I.B. Tauris.
[300] Hopkirk, P. (2006), *The Great Game: On Secret Service in High Asia*. London: John Murry.
[301] Johnson, R. (2012), 'The Great Game and Power Projection'. In: J.R. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition], chapter 3.
[302] Axworthy 2007: pp. 183-187.

Now, the Russians backed Persia's new ruler, Mohammad Shah in his domestic standing and his neighbourhood policies, especially regarding Afghanistan. There, the Russians encouraged the Persians to invade in order to "compensate" them for their territorial losses in the Caucasus. Mohammad Shah complied and sent forces to besiege Herat and Kandahar in 1837. This immediately provoked British ire, who responded in the Gulf theatre by occupying Persia's Kharg Island and forced the Shah to withdraw from Afghanistan. The concluding Anglo-Persian treaty in 1841 – by which time the British had (fatefully) occupied parts of Afghanistan themselves – forced new and more asymmetrical trading concessions to Britain.[303] Similar procedures were repeated when Persia successfully re-attempted to conquer Herat in 1856, which was followed by a British military intervention in Bushire, a strategic port city in the Gulf, forcing another Persian withdrawal from Afghanistan. The Crimean War-concluding Peace of Paris in 1856 then also incorporated stipulations against Persian invasions of Afghan territory.[304]

Generally, the British Empire's Persia strategy did not reflect its relative hands-off policy on the Arabian side of the Gulf, as mentioned above. Whilst the (admittedly scarcely populated) Trucial Coast was thriving on top of pearl-exports, the Persian economy, though clearly larger than in the violent previous century, seems to have suffered considerably due to informal, but substantial foreign imperial encroachment. The asymmetric and monopolistic trading concessions to Britain not only greatly harmed domestic entrepreneurs, but even caused famines. Furthermore, other than in many of its formal colonies, Britain made no attempt to develop Persia. The lack of infrastructure-investment, for example into railway construction, was deliberate in order to prevent a rapid spread of political unrest or even fast troop mobilizations by either Persian forces or by potentially invading Russians.[305]

Instead, whilst Persia was suffering economic stagnation, at times outright famine, and political humiliation, the Great Game consumed more and more of the Shah's sovereignty. Whilst Britain established largely economic control, for example by being granted rights to found and run the Imperial Bank of Persia, the Russians exercised more political and military influence, by setting up the Iranian Cossack

[303] Ibid.: p. 191.
[304] Ibid.: p. 196.
[305] Ibid.: pp. 196-200.

Brigade, which partially modernised the Persian military, but was run by Russian officers.[306]

When resistance finally gained track and Persia plunged into domestic riots that mushroomed into the constitutional revolution of 1906-1911 Russia and Britain had formed an alliance against Imperial Germany. This made them sort out their differences regarding Persia and agree on their respective spheres of influence in a treaty in 1907. Russia received northern Persia, Britain took control of the south, and both abandoned the mere indirectness of their imperial influence there – wholly disregarding the 'new conditions of popular sovereignty in the country'.[307] Following the Persian imposition of customs duties onto Russian goods as a reaction to deteriorating economic conditions, and political unrest raising the spectre of civil war, Britain and Russia finally invaded Persia.[308]

This direct British presence and everyday political influence was, in all of the 19th century, found to a much lesser degree on the Arabian side of the Gulf. In the Peninsula's hinterland, it was hardly to be found at all. The second Saudi Emirate, due to its reduced territorial aggression and reduced religious zeal compared to its predecessor, now enjoyed a relative toleration by the British, at least in the first decades of its existence. Though it incorporated much of the Arabian coastline in the Gulf, it first timidly acknowledged Britain's treaty commitments with the Trucial States and Oman. Yet, in 1845, the Saudis sought to test their boundaries by re-occupying Buraimi. After two decades of skirmishes and political manoeuvring, Britain finally got involved and shelled several Saudi ports, forcing Riyadh to abandon its further conquests. As Commins writes, the British 'demonstrated that even though treaties limited their political and military commitments at sea and shore, they sufficed to influence inland political dynamics' when they deemed it necessary.[309]

Britain threatened similar measures against its Omani ally later in the 19th century, when the Sultan began to ignore his commercial treaty obligations. He was setting up diplomatic ties with the French, granting them rights to build a coaling station near Muscat and allowing Omani slave ships to sail under French flags. In response, Lord

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306 Ibid.: p. 198.
307 Ibid.: p. 212.
308 Commins 2012: chapter 5, section 9, para. 15-16.
309 Ibid.: chapter 5, section 5, para. 6.

Curzon, the above-mentioned Viceroy of India, ordered naval forces to threaten bombardment of the port. In the end, the mere threat availed, and Britain and France diplomatically reached a compromise that permitted both to use the coaling station.[310]

A comparable case illustrating geo-strategic rivalry between superpowers in the Gulf is Kuwait, which became integrated into Britain's informal empire, after following the Trucial States' example by signing a bilateral treaty in 1899. Though its ruling sheik, Mubarak Al Sabah, who had requested the Anglo-Kuwaiti treaty, was motivated by fear of Ottoman designs on the sheikdom, the British wanted to contain what they perceived as an even different threat. London had found out about a Russian initiative to build a railroad from Syria to Kuwait. Great Game-logic could not allow this to happen, and so the British lobbied the sheikdom into an agreement, which prohibited the Russian enterprise.[311] This Anglo-Kuwaiti treaty proved strategically vital just over a decade later, when Germany emerged as the new challenger to Britain's Middle Eastern sphere of influence. German plans for the now famous Berlin-Baghdad railway project intended the construction of a branch to Basra, Kuwait's close neighbour.[312] The treaty prevented the Sabah ruler from having a say in this. The British and the Germans meanwhile cut a deal: in exchange for Baghdad, and not Basra, being the Express' final destination, banks from the City of London agreed to co-finance German explorations for natural resources along the new route.[313] The Persian Gulf though was to be shielded from all foreign strategic incursions. In words similar to Lord Curzon's, British foreign secretary Lord Lansdowne's statement in 1903 was still mainly directed at the Russians and French but would soon after also apply to the Germans.

> 'The British Government should regard the establishment of a naval base, or of a fortified port, in the Persian Gulf by any other Power as a very grave menace to British interests, and we should certainly resist it with all the means at our disposal.' [314]

Up to this moment, the strategic rationale behind this policy was the protection of India, and, since 1882 it should be added, the new British Protectorate of Egypt and

[310] Ibid.: chapter 5, section 4, para. 9-10.
[311] Ibid.: chapter 5, section 8, para. 4-6.
[312] McMeekin, S. (2011), *The Berlin-Baghdad Express: The Ottoman Empire and Germany's Bid for World Power, 1898-1918*. London: Penguin, chapter 2.
[313] Ibid.: p. 50.
[314] Lord Lansdowne quoted in: Commins 2012: chapter 5, section 8, para. 7.

the Anglo-Egyptian Condominium in the Sudan.[315] The Suez Canal – the British Empire's vital artery – connected the motherland with India, bypassing the Persian Gulf. Yet, the years between 1908 and 1914 saw a regionally crucial watershed, that would add an equally important reason for the geo-strategic centrality of the region. In 1908, British prospectors led by William Knox D'Arcy made the first oil strike in the Middle East, in south-western Persia.[316] Apart from the long term transformational nature of the discovery, which would completely alter the region's socio-economic structures, one of the first strategically significant consequences for the British Empire was the opportunity to switch the Royal Navy's energy source from coal to oil. This made ships faster and less labour-dependent and would prove to be a decisive advantage in Britain's naval rivalry – and then World War – with Wilhelmine Germany.[317] British soil held plenty of coal, but hardly any extractable oil. So, when Winston Churchill, then First Lord of the Admiralty, took this decision a few years after the Knox D'Arcy breakthrough, and the British Government subsequently purchased a 51 % share of the new Anglo-Persian Oil Company (APOC), this put 'Persian Gulf security on a higher plane than ever before'.[318] It happened in May 1914, a month before the fateful assassination of Austria-Hungary's Archduke Franz Ferdinand and his wife and the resulting outbreak of World War One. This development ended the 19th century era of global *Pax Britannica*, would change the course of the 20th century, and with it the Persian Gulf region's very nature of existence.

3.5 World War and the Persian Gulf

The period between 1914 and 1945 would transform the greater Middle East's entire political and economic landscape. The collapse of the Ottoman Empire would end a regional order which had lasted for almost half a millennium, and, for better or worse, brought modernity to the Middle East. On its ruins, not only a wholly sovereign Turkish nation-state was built. A whole range of Arab nation-states with somewhat artificial borders was created by the period's usual suspects: The victorious

[315] Landes, D. (1980), *Bankers and Pashas. International Finance and Economic Imperialism in Egypt*. Cambridge (Massachusetts): Harvard University Press; Wright, W. (2009), *A Tidy Little War: The British Invasion of Egypt 1882*. Stroud: The History Press.
[316] Yergin 1991: pp. 134-164.
[317] Ibid.
[318] Commins 2012: chapter 5, section 10, para. 5.

British and French Empires drew 'lines in the sand' according to their interests.[319] Post-World-War-One, they rather non-altruistically took upon themselves the burden of running new "mandates", the League of Nations' terminology for colonies that would gradually be turned into self-governing, sovereign, and modern polities. Besides Palestine and Transjordan, the British stuck to their Middle Eastern priority zone, the Persian Gulf, where Iraq came under British control. Whilst dramatic and not wholly peaceful change swept the region in the interwar period, World War Two would gradually exhaust not only the British Empire's finances, but also its stamina to carry on, as the very legitimacy of the imperial project came under heavy fire from everywhere, including public opinion at home. It certainly came not only from a Soviet phoenix rising from the ashes of a collapsed Tsarist Russian Empire, but also from the new Anglophone superpower that was gradually replacing Britain as the world's hegemon. The United States' abandonment of isolationism, its decisive role in both World Wars, and its newly acquired relative power and resulting global interests, naturally also brought it to the oil-rich Persian Gulf – the Middle East's only sub-region that by 1945 still looked fairly similar to what it had looked like back on the eve of World War One.

3.5.1 World War One and Its Aftermath

At the dawn of the 20th century, the Trucial States system seemed relatively stable and tranquil. But in the Arabian Peninsula's hinterland, trouble was brewing, and change lay in the air. The second Saudi Emirate had collapsed in 1891 over inner-dynastic rivalries.[320] Yet, in 1902, Abdulaziz ibn Saud came to power in Riyadh, establishing the third Saudi Emirate and also re-conquering al-Hasa in the process. Despite Ibn Saud's lukewarm relations to the British, he seemed to accept the Trucial States system or at least focused on other theatres.[321] By the time World War One was raging in the Middle East, the British had entered into something of an alliance with him, supplying him with weapons and funds in order to now fight Germany's Middle Eastern ally, the Ottoman Empire.[322] World War with Germany had caused a 180-degree switch of Britain's global and regional alliances. Whereas much of the 19th

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[319] Barr, J. (2012), *A Line in the Sand: Britain, France and the struggle that shaped the Middle East*. New York City/London/Toronto/Sydney/Tokyo/Singapore: Simon & Schuster.
[320] Al-Rasheed 2010: pp. 22-24.
[321] Ibid.: pp. 37-39.
[322] Ibid.: pp. 39-41.

century had seen British support for the Ottoman Empire against both Russian as well as Saudi bids for regional domination, London had now turned against Istanbul and instead allied with its former primary Eurasian rival, as well as with the principal regional disrupter.[323]

Britain's fight against the Ottoman Empire was undertaken via both conventional warfare, taking on Ottoman forces directly on the battlefield, as well as indirectly via irregular guerrilla warfare on the Arabian Peninsula. The former tactic included vast setbacks, such as the one over Gallipoli, but in the end resulted in decisive victories when General Allenby took Jerusalem and Damascus, and General Maude took Basra and Baghdad.[324] Most well-known, and probably crucial to the generals' successes, was Arab asymmetric warfare against the Ottoman presence on the Arabian Peninsula. Especially the operations against the important Ottoman supply line, the German-built Hejaz railway, carried out by pan-Arab guerrillas led by Faisal ibn Hussein and the famous Thomas Edward Lawrence, paved the way to end Ottoman rule in Arabia.[325] Though this campaign was largely run under Hashemite leadership from the Hejaz, the Saudis enduring rival, Ibn Saud contributed to it under an implicit alliance with the British Empire. Prince Faisal's dream of a united pan-Arab polity of course did not materialize, and he and his brother Abdullah were merely compensated after war with ruling the new states of Transjordan and Iraq, both under de facto British control, but the Saudi-Wahhabi state, tolerated by Britain, was gradually carved out by Ibn Saud. His modern state, Saudi Arabia was founded in 1932, the same year Iraq was granted at least formal independence.[326]

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[323] See: Coates Ulrichsen, K. (2014), *The First World War in the Middle East*. London: C Hurst & Co Publishers Ltd; Fisk, R. (2006), *The Great War for Civilisation: The Conquest of the Middle East*. London: Harper Perennial; Rogan, E. (2016), *The Fall of the Ottomans: The Great War in the Middle East, 1914-1920*. London: Penguin.

[324] See: Hughes, M. (1999), *Allenby and British Strategy in the Middle East, 1917-1919*. Oxon: Routledge; Silverfarb, D. (1997), *Britain's Informal Empire in the Middle East: A Case Study of Iraq, 1929-1941*. Oxford: Oxford University Press, p. 5.

[325] Faulkner, N. (2017), *Lawrence of Arabia's War: The Arabs, the British and the Remaking of the Middle East in WWI*. New Haven: Yale University Press; For the classic, first-hand account written by Lawrence himself, see: Lawrence, T.E. (1935), *Seven Pillars Of Wisdom. A Triumph. First Trade Edition*. London: Jonathan Cape.

[326] Al-Rasheed 2010: chapter 2; Tripp, C. (2007), *A History of Iraq*. Cambridge: Cambridge University Press, chapter 2.

3.5.2 The Interwar Period

British troops and administrators though remained in Iraq – a state of affairs originally brought about by the World War One occupation – which ended Britain's 19th century strategy of offshore balancing in the Gulf. More direct colonial rule and resulting military presence was also now increasing on the Trucial Coast. In the interwar period, which saw considerable unrest in Britain's and France's Middle Eastern mandates, including major uprisings in Iraq, the Trucial States remained relatively calm. Though the Great Depression caused the collapse of the once thriving Gulf pearling industry, the region's future economic lifeline would lie with the hydrocarbon sector. British and American oil explorations began in the interwar period but were interrupted by the outbreak of World War Two.[327]

Until then, British oil explorations prioritized not only Iraq, but especially Persia, which had been carved up by Russia and Britain and also saw their initial and later returning military presence. After the Russian Revolution in 1917, Russian troops for the time being withdrew from the northern Persian provinces, leaving behind a weak administration, which, for the sake of survival sought British protection, even though its new national assembly did not ratify the proposed treaty.[328]. When in 1921, Reza Khan swept to power in Tehran, subsequently crowned himself Shah and founded the Pahlavi dynasty, Persia – or rather Iran, as it was now predominantly called – embarked on a similar secularization- and modernization process that aimed at copying Mustafa Kemal's Turkey. It moderately succeeded, but, despite this, by the time of the 1930s, the highly authoritarian and repressively brutal nature of the regime had alienated much of the country's population.[329] Even though the Russians had withdrawn and even though the British enjoyed less influence than before, the Anglo-Iranian Oil Company (AIOC) still controlled the country's hydrocarbon industry. Even though the 1908 Knox D'Arcy oil concession was renegotiated, the new agreement still merely gave the Iranian state a 20% share of AIOC's output revenue.[330] The Abadan complex, near the Gulf coast, then one of the largest oil

[327] Hawley 1971: p. 197; Commins 2012: chapter 6, sections 1/5-9.
[328] Axworthy 2007: pp. 219-224.
[329] Ibid.: pp. 225-232.
[330] Ibid.

refineries in the world, continued to be run solely by AIOC and functioned as an economic, bureaucratic and cultural unit entirely independent from Iran.[331]

3.5.3 World War Two

Even though it impacted the livelihoods and existence of nearly all states, World War Two was less transformational for the Middle Eastern political order than World War One. The war's "only" game-changing consequence on the east-Mediterranean shores was the creation of Israel in 1948. In the Gulf though, borders and regimes did not change as a result of the war.

The Allies prevailed and hence, the designs Nazi Germany and Fascist Italy had on the wider region were defeated also, including their North African campaign. The outcome was not a forgone conclusion though. Together with clandestine operations by German intelligence officials in Palestine and Iraq, a victorious Afrika Korps had plans to take over Egypt, the Suez Canal and push far into the Levant in order to link up northwards with the Wehrmacht's Eastern Front divisions, which had invaded Russia in 1941 and where advancing south-eastwards. Yet, Hitler's Operation Barbarossa and his intended push for the Caucasus and the Caspian oil fields – essential for the German war machine's energy demand – ultimately failed also.[332]

Nevertheless, Iran's situation especially was still somewhat affected by the developments. Reza Shah's early sympathy with Nazi Germany, and the simultaneous German support for the neighbouring Iraqi coup d'état against the pro-British Hashemite monarchy there, prompted the Allies, Britain and the USSR, and later also the USA, to (re-)invade Iran.[333] Reza Shah had to make way for his son, Mohammad Reza Shah, and for the remainder of the war, Iran's sovereignty was essentially nullified. The British, and also the Americans, required the route through the Persian Gulf and through Iran, to supply their Soviet ally with arms, munitions, machinery, and equipment, as an alternative to the highly hazardous Artic convoys to Murmansk. Churchill's, Roosevelt's, and Stalin's famous war- and post-war-planning conference in Tehran in 1943 then promised the Iranians an Allied withdrawal after the war. This

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[331] Louis, W.R. (1984), *British Empire in the Middle East, 1945-51: Arab Nationalism, the United States and Postwar Imperialism*. Oxford: Clarendon, pp. 8-9.
[332] Yergin 1991: chapter 17.
[333] Ibid.: pp. 223-234; Marcis 2010: pp. 36-38; Rubin, B., Schwanitz, W. (2014), *Nazis, Islamists, and the Making of the Modern Middle East*. New Haven: Yale University Press, p. 13.

was executed instantly by the Americans and British according to the agreement, yet the Soviets dragged their feet – thereby paving the way for the start of the Cold War – and only pulled out reluctantly from Northern Iran in 1946.[334]

By that time the international system had finally changed into a bi-polar one. This would affect the question of Gulf outside powers in the long run, though not as immediately as might have been suspected.

3.6 The Cold War Gulf and Britannia's Indian Summer

The start of the Cold War between the West and the Soviet Union coincided with another major development in world politics – decolonization. Not only did public opinion and the spread of national independence movements in much of what would then be called the Third World delegitimize the entire idea of colonialism. The World Wars had furthermore completely exhausted the Europeans' capacity to finance and run their empires, let alone fully develop their colonies. This included France's and Britain's former Middle Eastern mandates, but in Britain's case, and most importantly for this subject matter, also the Raj.[335] The hasty and messy partition of the subcontinent into India and Pakistan not only resulted in a British exodus from South Asia. Indian and Pakistani independence in 1947 additionally took away Britain's geo-economic and manpower-capacity that had been crucial to its superpower status. It also took away what had been the primary reason for controlling the Persian Gulf – the shielding of British India.[336]

Yet, by that time, another reason for British military and political presence in the Gulf had become even more important – petroleum. This was significant firstly in terms of British economic interests, because in the three decades after World War Two, the Gulf provided around half of all UK oil consumption.[337] Secondly, it was also significant in terms of wider Western strategic energy interests. Even though the new

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[334] Axworthy 2007: pp. 234-239; Gaddis, J.L. (2000), *The United States and the Origins of the Cold War 1941-1947*. New York City: Columbia University Press, pp. 309-324; Yergin, D. (1977), *Shattered Peace. The Origins of the Cold War and the National Security State*. Boston: Houghton Mifflin Company, pp. 179-192.

[335] Ferguson 2004: chapter 6.

[336] Marcis 2010: pp. 81-82.

[337] Onley, J. (2009), *Britain and the Gulf Shaikhdoms, 1820–1971: The Politics of Protection*. Center for International and Regional Studies: Georgetown University School of Foreign Service in Qatar [https://socialsciences.exeter.ac.uk/iais/downloads/Onley_Britain_and_Gulf_Shaikhdoms2009.pdf] p. 21.

superpower, the United States, was still largely energy-self-sufficient in those days, most of the First World's industrial economies, i.e. Europe's, but also Japan's, were not, and increasingly matched Britain's Gulf oil dependence.[338] With the Cold War burgeoning into a global enmity between the two blocs, this became a crucial geo-strategic variable. The principal global energy artery, the Persian Gulf and the Strait of Hormuz, had to be guarded from potential instability, especially in the form of Soviet influence. Though this was a new development, it did mirror elements of the 19th century Great Game.

Consequently, this explains an anomaly in Britain's post-war foreign policy. In the midst of decolonization and greatly diminished British geo-political clout, the small Gulf sheikdoms, including Bahrain, Kuwait, Oman, Qatar, and the Trucial States, for almost three decades, continued to rely on British military protection. For this period, they even came to look like something they had specifically never been – *de facto* colonies. Following the 1947 extinction of the Indian Civil Service, the British Foreign Office became responsible for the Trucial States' administration and modern development.[339] In an era in which the United States would maintain its primary strategic focus on Western Europe and East Asia, the British Gulf presence served as a vital component in a wider Western economic framework and security architecture. Thus, in the Gulf, Britain enjoyed a temporary extension of its former global power status – an "imperial Indian summer" as might be formulated – at the same time as it not only had to grant independence to colonies all over the world, but also faced an especially hostile backlash against its influence in much of the rest of the Middle East, as the next sections will briefly show.

3.6.1 Britain's Demise as a Middle Eastern Outside Power

As a result of Britain's post-World War Two weakness, and as an effect of regional movements against its imperial influence, London faced a series of dramatic losses, setbacks, and outright foreign policy failures in the greater Middle East of the 1950s and 1960s. The 1952 coup d'état in Egypt by the Free Officers Movement ended the

338 Macris 2010: p. 110.
339 Heard-Bey 1982: pp. 306-335.

rule of King Farouk and ended the British Protectorate.[340] The same fate befell the pro-British Hashemite monarchy in Iraq in the revolution of 1958.[341]

In neighbouring Iran, the Pahlavi dynasty's pro-Western stance came under severe stress when Mohammed Mossadeq was democratically elected Prime Minister in 1951. Following his nationalization of Iran's oil industry, Mossadeq was subsequently toppled in 1953 by a CIA/SIS-sponsored coup and replaced by the former monarch, the autocratic Mohammad Reza Shah who did keep Iran in the Western camp, but nonetheless inflicted another setback on British Middle Eastern interests. Firmly resisting a return to the pre-1951 oil concessions, the now newly named British Petroleum Company (BP) had to make do with the creation of a consortium of multiple companies, and a mere 50% share of its Iranian oil production.[342]

The two most dramatic setbacks, both in terms of their symbolism, but also in terms of raw political and military power and logistical capabilities, were, first, the outcome of the 1956 Suez Crisis and second, the outcome of the Aden Emergency in 1967.

The nationalization of the Suez Canal by Egypt's new President Gamal Abdel Nasser prompted a (successful) military intervention by Britain, France, and Israel which nevertheless was rendered futile by the US's and USSR's cooperative resistance to it. Britain's subsequent withdrawal, forced by Washington's financial blackmail, firmly left London not only without its hitherto regionally important military access and free shipping rights to the Suez Canal, but also with a fateful wound to its perception as a superpower. Now, it was Nasser's anti-Western pan-Arabism which had politically triumphed instead.[343]

A second major blow to Britain's regional credibility was the failure to prevent its Aden Protectorate, the Federation of South Arabia, from ultimately falling to the Marxist National Liberation Front, while the Imam of North Yemen fell to the pro-Nasser insurgency.[344] Britain's withdrawal from Aden, which, after all, hosted its largest overseas military base in the Orient at the time, but now, instead, became the

[340] See: Gordon, J. (2016), *Nasser's Blessed Movement: Egypt's Free Officers and the July Revolution*. Cairo: The American University in Cairo Press.
[341] Tripp 2007: pp. 139-142.
[342] Axworthy 2007: pp.239-245; Yergin 1991: pp. 243-260; Kinzer, S. (2008), *All the Shah's Men: An American Coup and the Roots of Middle East Terror*. Hoboken: John Wiley & Sons.
[343] Kyle, K. (2011), *Suez: Britain's End of Empire in the Middle East*. London: I.B. Tauris; Lucas, W.S. (1996), *Divided We Stand: Britain, the United States and the Suez Crisis*. London: Sceptre.
[344] See: Hinchcliffe, P., Ducker, J.T., Holt, M. (2012), *Without Glory in Arabia: The British Retreat from Aden*. London: I.B. Tauris; Walker, J. (2014), *Aden Insurgency: The Savage War in Yemen 1962-67*. Barnsley: Pen & Sword Military.

capital of the People's Democratic Republic of South Yemen, also negatively impacted London's ability to guarantee Gulf security.[345]

This series of British failures to unilaterally realize its interests and uphold its duties towards its Middle Eastern protectorates underlined the sheer relative lack of Britain's military power. It showcased therefore also the generally hollow nature of the wider Western regional strategy which had been contractually assured by the 1955 Baghdad Pact. An alliance between Britain and the Middle Eastern Northern Tier countries of Turkey, Iraq, Iran, and Pakistan, as the region's anti-Soviet shield, seems to have been doomed to fail from the start due to Britain's disability to hypothetically defend those countries militarily from a Soviet invasion, and Britain's inability to actually defend those countries politically from socialist or nationalist revolutions – whether inspired by Nasser or the USSR.[346]

3.6.2 Britain's Gulf Fanfare

Despite these decisive setbacks though, the core theatre on the Persian Gulf's Arabian coast experienced relatively little anti-British resistance. The most important sub-region in terms of oil was spared British foreign policy failures. On the contrary, the 1950s and 1960s saw relatively successful British nation-state-building on the Trucial Coast, and a successful political and military defence of these sheikdoms' independence against possible threats and ideological influence from regional powers'.[347] Britain also committed itself to domestic pacification measures in the Trucial States.

Following World War Two, a border dispute between Abu Dhabi and Dubai escalated into open tribal warfare in 1948. Only a British intervention and unilateral definition of the future border between the two sheikdoms ended the conflict.[348] Yet more dramatically, a major dispute over the Buraimi Oasis between Saudi Arabia, Oman, and Abu Dhabi heated up again in the 1950s. Although a 1935 treaty had placed Buraimi inside the borders of the Trucial States, Saudi Arabia had historically collected *zakat* from its inhabitants, and claimed it as its own territory. More importantly, the alleged oil reserves in that area gave the dispute a geo-economic

[345] Macris 2012: p. 126.
[346] Commins 2012: chapter 6, section 2-3.
[347] Heard-Bey 1982: pp. 306-335.
[348] Ibid.: 203.

connotation. This was also relevant for the Arabian American Oil Company (Aramco), which was now heavily involved in developing Saudi Arabia's vast hydrocarbon resources. As protector of the Trucial States, this placed Britain not only against Saudi Arabia, but also against American oil interests. When arbitration efforts between the parties failed and Saudi Arabia sought to gain control unilaterally, the British Royal Air Force and the British-led Trucial Oman Levies took the Buraimi Oasis in a bloodless *fait accompli* and sent the captured Saudi troops back home.[349]

A larger Gulf crisis erupted in 1961, when Britain granted full independence to Kuwait. This immediately aroused old Iraqi territorial claims. In the post-1958 revolutionary Republic of Iraq, it only took a week of Kuwaiti independence for Iraqi Prime Minister Abdul Karim Qassim to 'demand every inch of its territory'.[350] The threat to invade militarily then prompted Kuwait to reluctantly seek British help. As a result, previous British scenario-planning was set in motion and Operation Vantage, composed of a giant airlift and amphibious landing, was successfully launched. Consequently, Iraq was deterred and backed down. Subsequently, British forces were replaced by an Arab League contingent.[351]

The rest of the Trucial Coast experienced no noteworthy challenges to the British-led system, as Nasser's pan-Arabism mostly failed to catch on there. On the contrary, the Trucial States were now benefiting from British efforts to build modern state-institutions and the rule of law. This brought about relative political stability. In socio-economic terms too, the British invested into infrastructure and especially into the development of the oil industry. All these efforts coincided with an influx of foreign companies and workers, which also raised productivity.[352] Benefiting also from the Gulf Arabs hostility to the atheist Communism and thus to Soviet influence, it can therefore be stated that the British Trucial System and the enhanced development and administrative assistance functioned relatively well and therefore caused no substantial indigenous resistance to this order.

Hence, it came as a shock, especially to the region's ruling sheiks, who were also benefiting economically and politically from British support, when in 1968 the Labour Government of Harold Wilson announced the UK's withdrawal from East of

[349] Ibid.: pp. 302-305; Macris 2010: pp. 115-116.
[350] Quoted in: Macris 2010: p. 126.
[351] Ibid.: p. 127.
[352] Heard-Bey 1982: pp. 306-335.

Suez by 1971. This decision was not only taken out of fiscal pressures, but especially for ideological reasons. Though the British Conservative Party lead by Edward Heath, who came to power a year before the deadline, was unhappy with this decision and initiated an enquiry into reversing Wilson's decision, and even though various ruling sheiks offered to bare the entire financial cost of maintaining the UK's military presence, these initiatives proved to be too late to halt events.[353]

The year of 1971 saw the successful founding of the United Arab Emirates (UAE), the State of Qatar, and the Kingdom of Bahrain. A Gulf state where the British remained directly involved militarily until 1975, was Oman, which was caught up in the Dhofar insurgency that had begun in the mid-1960s. Oman's new Sultan Qaboos, who is still head of state at the time of writing, was fighting China-backed Marxist rebels from South Yemen streaming into western Oman. Qaboos, himself educated at Sandhurst, with substantial British and Iranian help, finally defeated the insurgency, which in the Cold War was of vital Western interest.[354]

Despite major setbacks and a largely negatively perceived legacy of Britain in the Middle East, the Gulf's Arab sub-region, which had for one and a half centuries been called the Trucial Coast, marks something of a largely positive exception. It had seen a relatively stable and prosperous period and now Britain had helped build a new regional order composed of independent and rapidly modernizing emirates. Nevertheless, the era in which Britannia had ruled Gulf waves had now come to an end. Yet, this greatly reduced British political and military role proved not to be enough to guarantee local, regional, Western, and indeed global interests, as the world's new American hegemon would find out only a few years later.

3.7 Chapter Conclusion and Theoretical Assessment

Each of the historic cases of outside power involvement in (and absence from) the Gulf provides insights from a theoretical point of view. Although some minor elements from neo-liberal institutionalism are detectable, it is especially neo-realism

[353] Ibid.: pp. 336-379; Kelly, S. (2012), 'The Gamekeeper vs the Mercenary Spirit. The Pax Britannica in the Persian Gulf'. In: J.R. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition], chapter 4, section 4.

[354] Gardiner, I. (2006), *In the Service of the Sultan: A First-Hand Account of the Dhofar Insurgency*. Barnsley: Pen & Sword Military; Jones, C. (2012), 'A Guiding Hand or Controlling Grasp? Britain, Intelligence, and the War in Oman, 1970-1976'. In: J. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press [Kindle Edition].

that offers greater utility in this chapter. Neo-liberal institutionalism is a child of late-20th century globalization and thus cannot hope for much usefulness when analysing older history.

Given the limits of regular seafaring distances, neither theory is fit for purpose to interpret pre-modern geo-politics. Nevertheless, it can be deduced that the Persian Gulf has been central to global flows of goods, culture, ideas, and warfare across the ages. The very birth of civilization occurred in that wider region and came to connect the likes of Rome and China via Persia, or Europe and India via the Arabs. Trade and diplomacy was conducted via the Old Silk Roads on land and at sea. The Gulf lay at the centre of both routes. The thriving Abbasid and Tang Dynasties in the Middle East and China were closely connected via these networks, and saw the exchanges of goods, technology, conflict and cooperation. Though China's late medieval Ming Dynasty sent entire fleets across the Indian Ocean and on to the Gulf, these were "merely" tribute-seeking marketing stunts, rather than geo-political manoeuvres guided by an offensive grand strategy. It was only at the dawn of modernity that far-flung outside actors began to play a direct and geo-political role in the region, enabling an IR-theoretical analysis.

Both Portugal's entry into and exit from the Gulf resembles neo-realism in its assumptions that relative gains, overall power and security matter most. Via its military commanders, Lisbon sought to dominate this geo-strategically important region, as offensive realist logic would predict, in both economic and military matters – showing no interest in potential cooperation with regional powers like Egypt's Mamluks or the Ottomans. On the contrary, the Portuguese Empire constantly fought the Ottoman Empire with the motivation of excluding it from the Gulf and the Red Sea and pragmatically allied with the Safavids. The Portuguese sought this alliance, because they were not generally powerful enough to control the Gulf without Safavid toleration, but also because the Safavids – who had no navy – were not powerful enough to prohibit Portugal's presence without outside help. The Safavids' more immediate economic and security concerns were the (more powerful and numerous) Ottomans who threatened Persia by land and sea. Yet, when two new outside powers, the English and Dutch East India Companies, joined the theatre, the balance of power was upset – enabling the Safavids to form a new alliance with them in order to eject the Portuguese. This is closely in line with defensive realism's balance of threat notion: the more geographically proximate the threat, the greater the incentive to balance against it, even via an alliance with outsider actors with considerable aggregate power. Only when the proximate Ottoman threat had been dealt with in a treaty, did the Safavids (and Omanis) view overstretched and aggressive Portugal as their most immediate threat.

Portugal's relative, but always shaky and contested dominance of Gulf waters in the 16th century especially offers one crucial insight. The Portuguese found out the hard way that establishing a commercial monopoly and complete geo-political control in the region proved ultimately impossible, when both market forces and regional and global military alliance structures worked against them.

The same can be said about the Dutch East India Company, although for different reasons. Before the VOC's Gulf exit, it enjoyed a century of profitable trade with Persia and Oman. Contrary to the Portuguese, the VOC adopted an approach that in economic matters included an absolute-gains-rationale and in political matters refrained from getting regionally involved in more than commerce. Profitable for its own business interests, the VOC promoted growth in intra-regional trade along the Indian Ocean littoral, including the Gulf. The Dutch indeed took control of it, but their intra-Asian trade network offered more than simple bi-directional commerce between Asia and Europe. It thus also proved profitable enough for regional merchants and their political masters, who made use of the greater opportunities the Dutch provided.

The Dutch did not seek political involvement or military hegemony on land, but merely secured regional waters with their navy. Neither did they pursue indirect political influence in Persia or the Gulf sheikdoms and therefore did not even exercise what offensive realists would call an offshore balancing strategy. The focus on business and maritime security alone proved popular and therefore highly successful in the 17th century Gulf. However, this only worked as long as the region was stable. Once Persia and Arabia economically stagnated and politically disintegrated into violent anarchy in the 18th century, the VOC did not have the capability or the will to protect its interests and thus decided to exit the region.

These developments created quite different conditions in the Gulf and brought about an interregnum for the entire century, again showcasing the ultimate regional prerogative of geo-political trajectories. The regional imbalance of power and no domestic stability in Persia, where the Safavid dynasty had collapsed, or in Oman, where the Yariba dynasty had simultaneously experienced the same fate, characterized the region in the 1700s. These necessarily supercharged "realist" conditions, in which numerous civil war parties fought for survival and dominance, first deterred potential outside powers from entering the Gulf, which in turn did not help in ending the regional anarchy either. Around 1800 then, the return to relative political certainty in Oman and Persia and the still gaping security vacuum made it easy for a new outside power, the British Empire, to finally intervene in the region, when London's strategic perceptions made it necessary.

The English, or rather by then British, East India Company's colonization of the Indian subcontinent brought the Gulf into its imperial neighbourhood. Hence, when both local Gulf developments – Qasimi piracy and Saudi-Wahhabi jihad – as well as global ones – Napoleon's invasion of Egypt and diplomatic overtures in Persia – made a securitization of the region necessary, the British government and the EIC became heavily involved. After helping to expulse the French from the Middle East via an Anglo-Ottoman alliance, after gaining diplomatic influence in Persia, and after militarily defeating the pirates and jihadists, the 18th century interregnum came to an end.

The Gulf era of *Pax Britannica* re-stabilized most of the region via the Trucial States system. Its legal and "institutional" dimension brought with it increased cooperation among Gulf sheikdoms and with British political residents, as did the Bombay Marine's deterrence, legal enforcement, and security assurances. Furthermore, the resulting economic opening re-energized Gulf business, especially the pearl trade, contributing to Gulf prosperity, at least when compared to the 18th century. These developments could be interpreted as an albeit highly miniaturized precursor of conditions described by neo-liberal institutionalism. Certainly, hegemonic stability theory's explanatory power is particularly evident.

Yet, by and large, the geo-political dynamics of the 19th century Gulf still resemble realism far more closely. This includes local actors with their constant rivalry and occasional skirmishes, as well as outside actors. The British Empire clearly followed offensive realist behaviour. It often engaged in buck-passing tactics, as long as they were conceived sufficient and was engaged in offshore balancing, unless it saw the necessity for rapid deployment strikes. But not only did it militarily intervene when some of the local conflicts threatened to de-stabilize the region. London and Calcutta were also determined to shield off British India, and later also the Suez Canal, with a buffer zone from which other potential outside powers were to be excluded. The Gulf clearly fell into this zone, both on the Trucial Coast, as well as inside Persia (and Afghanistan). Rivals comprised the French, especially during the Napoleonic Wars, the Russian Empire, especially during the Great Game, and, around the fin de siècle, the German Empire. *Pax Britannica* in the Gulf was realism to the core.

Furthermore, it was firmly influenced by strategic thinking that found its intellectual outlets in Mahan's, Mackinder's, and Spykman's writings. Sea power had enabled the emergence and global dominance of the British Empire in the first place, as Mahan was well aware. The Indian subcontinent – Britain's land- and manpower asset on which the Empire equally depended – also lay at the actual centre of what Spykman later called the Eurasian rimland. Its periphery, including the Persian buffer zone that the Russians increasingly sought to dominate led straight into Mackinder's heartland.

The entire situation was transformed dramatically with the Gulf oil-discoveries, the world wars, and the British colonization of Iraq, de facto parts of Iran, and increasingly the Trucial States. The world war and interwar periods find no examples for any actor resembling neo-liberal institutionalist characteristics. Local, regional, and outside actors again behaved in highly realist manners, in order to ensure survival and/or maximize power. Just as defensive realism would predict, regional powers like Reza Shah's Iran sought to play the major powers off against each other, first balancing and then bandwagoning in the face of necessity. In two world wars, Britain successfully managed to prevent its enemies, the Ottoman Empire, Wilhelmine Germany, and later Nazi Germany from gaining (deliberate) control of the heartland and of what by then, in terms of oil resources as well, had become the most important region in the world.

However, heavily indebted and decolonizing Britain was in no position to prevent the world's new superpower, the United States, from gradually taking control of the region. The distribution of capabilities across the world's major units had fundamentally changed – now, in the Cold War, forming a bipolar international system. After a few – failed – unilateral British attempts at reasserting its standing in the Middle East, Britain finally had to bandwagon itself and subsequently maintained a successful Cold War alliance with the US in the region. Britannia's three-decade-long Indian Summer in the Gulf was by and large successful but proved too heavy a burden for a country that was no longer a superpower. The UK's military priorities shifted to Europe, its own backyard, which was more directly threatened by the Soviets, and because of which the British military was not free to roam. It was aware of its limitations and hence exercised the newly necessary restraint. This line of behaviour can also be characterized as realist.

To conclude in one sentence, neo-realism has proved the far more accurate theory when assessing the modern history of Persian Gulf outside powers.

4. The United States' Persian Gulf Hegemony

After shining light on the modern history of Gulf outside powers in the previous chapter, this one seeks to complete the story by briefly focusing on the present situation and its recent history. Since the mid-20th century especially, the United States has gradually taken over the role of Gulf security underwriter. This role has experienced varying degrees and changing strategies since Britain's final moments in playing it.

4.1 The Two-Decade Interregnum

4.1.1 America's Gulf Emergence

The United States' quiet emergence in Gulf affairs goes back to the beginnings of the 20th century, when a handful of Americans became involved in the Persian administration and civil service. At the time, and probably up to the eve of the 1953 coup against Mossadeq, they had indeed been largely welcomed. Compared to British and Russian imperialists with their modest track record in the country, Persians seemed to perceive American advice and assistance as benevolent, constructive, and even inspirational.[355] This only changed in the 20th century's second half.

On the other side of the Gulf, in Saudi Arabia, Americans were also quick to spot an opening in Britain's sphere of influence, which had always been concentrated more on the Arabian Peninsula's coastlines and not so much the hinterland. From the 1930s onwards, the California Arabian Standard Oil Company (later Aramco) became involved in explorations in Saudi Arabia, alleged to hold massive oil reserves. It was only the Second World War that put these surveys and investments on hold until the War's conclusion.[356]

Regarding US political involvement in the Gulf region, two dates are of significance. The year of 1945 saw President Franklin D Roosevelt's famous meeting with King Abdulaziz ibn Saud on board the USS Quincy in the Red Sea, where both heads of state cut their famous oil-for-security deal which has been lasting until the time of writing. Tellingly, Roosevelt had not informed his ally and friend, Winston Churchill,

[355] Axworthy 2007: pp. 213-215; Kinzer, S. (2010*), Reset: Iran, Turkey, and America's Future*. New York City: Henry Holt, pp. 90-30.
[356] Yergin 1991: pp. 263-286; Al-Rasheed 2010: pp.88-96.

on their prior meeting at Yalta, knowing fully well how he would have reacted.[357] The signal was clear: America was beginning to edge the British out of the Middle East.

Though this was less true for the Trucial Coast, where a buck-passing, pragmatic Washington appreciated the British presence, but certainly true regarding Iran. In 1953, the CIA's involvement in the overthrow of Mohammed Mossadeq and the re-installation of Mohammed Reza Shah marked the beginning of a strategic bilateral alliance that lasted until 1979. Though the coup was sponsored in alliance with Britain, the Americans became the Shah's primary ally and BP had to accept less favourable oil concessions, as mentioned in the previous chapter.[358]

4.1.2 The Twin Pillars and their Collapse

Both incidents, in 1945 and 1953, marked the foundations of the American Twin Pillar strategy in the Gulf in the 1970s. What was also named the Nixon Doctrine sought to rely on the Gulf's two regional powers, Iran and Saudi Arabia, instead of on American military presence that might have followed the 1971 British exodus. In the interest of protecting its access to cheap oil, in order to stabilize the region, and in order to keep the USSR out of the Gulf, this strategy closely resembled earlier empires offshore balancing and buck-passing, especially in consideration of the excessive American arms sales to Iran that started around 1970. US military presence was still very marginal. In Iran it grew, though not in the form of bases and contingents, but of military advisers, weapons systems operators, and a vast signals intelligence infrastructure. With the exception of a small naval presence in Bahrain after the UK withdrawal, the US, distracted also by the Vietnam War, still had no role in the newly established small Arab Gulf monarchies.[359]

This strategy, relying on Gulf regional powers rather than direct support for the small coastal states, differed from the previous British one. The secret and unrestricted arms sales to the Shah was not the only US instrument with which to prop him up and turn him into the 'Guardian of the Gulf'.[360] President Nixon and his National

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[357] Macris 2010: pp. 73-80.
[358] Axworthy 2007: pp.239-245; Yergin 1991: pp. 243-260; Kinzer 2008.
[359] Gause III 2010: pp. 16-44; Cooper, A.S. (2011), *The Oil Kings. How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*. New York City: Simon & Schuster; Litwak, R.S. (2009), *Détente and the Nixon Doctrine: American Foreign Policy and the Pursuit of Stability, 1969-1976*. Cambridge: Cambridge University Press.
[360] Cooper 2011: pp. 51-78.

Security Advisor and later State Secretary Henry Kissinger – going against US economic interests – even encouraged the Shah to raise oil prices, in order to prevent Iran's potential economic implosion. They wanted to turn Iran into the regional powerhouse that would stabilize the region and to deter the Soviets.[361]

Yet, this hardly assured the Arab Gulf States, who were constantly distrustful of their ambitious Persian neighbour. Despite their hypothetical support by the Twin Pillars, the small Arab Gulf States, fearing greater Iranian designs in the line of the Shah's unilateral seizure of three contested Gulf Islands after the British Gulf withdrawal, showed, apart from Oman in Dhofar, little interest in cooperating militarily with Iran.[362]

Economically, the situation, at least for the Western oil consumers, was starting to be no less volatile. At the same time, the Saudis renegotiated the terms on oil concessions, gradually taking over the previously Western oil production. Nixon scrapped the US's oil import quota out of raw necessity which caused American reliance on Gulf oil to skyrocket simultaneous to a global surge in demand. The recklessly overspending Shah now seized control of the oil consortium out of both pride as well as fiscal necessity. As various regional crises amalgamated, the situation reached boiling point in October 1973. The Yom Kippur War was accompanied by the Arab-led OPEC oil embargo, which would contribute to recession across the Western world, especially in Europe.[363]

Bahrain also gave the US Navy an ultimatum to leave its small base at the same time as Iraq happened to grant the Soviet Navy docking rights.[364] An alarmed Kissinger is said to have been prepared to activate some of the Pentagon's contingency plans: Orders by his ally, Defense Secretary James Schlesinger, were given to the US Navy and the US Marines, who were simultaneously conducting regional military exercises, to prepare for an amphibious invasion of oil-rich Abu Dhabi in late November to reinstate credibility.[365] The mere threat, beside Kissinger's diplomacy, proved successful and the embargo was lifted, although admittedly the Gulf's ultimate

[361] Ibid.: p. 26.
[362] Gause III 2010: pp. 23-25; Gardiner 2006; Jones, C., 2012.
[363] Yergin 1991: pp. 545-634; Cooper 2011: pp. 90/134-196; Gause III 2010: 25-34; Keohane 2005: pp. 222-224.
[364] Cooper 2011: p. 128.
[365] Ibid.: pp. 127-134.

economic interests also incentivized OPEC to get back to business.[366] However, the incident, which had also threatened the US Navy's fuel supply, awakened the US desire to establish a military presence in the Gulf in the long run.

Yet, the oil price rises driven by the Shah, who had nevertheless not joined the oil embargo, continued, and with Kissinger's consent, – partly out of the necessity to pay back the Iranian state's huge piles of debt, but, imprudently also, in order to purchase ever more American weapons. Washington's motivation was two-fold: firstly, Kissinger emphasized Pahlavi Iran's centrality in America's Cold War strategy in West Asia, and secondly, America's huge foreign oil expenditure needed to be recycled to the maximum.[367] However, Kissinger's endorsement of Iranian oil price rises contributed to the worsening of the global energy crisis and skyrocketing inflation inside Iran. Furthermore, the Shah's overly ambitious domestic development plans could not work in the inflationary environment and his over-extended military spending is said to have damaged Iran's hitherto positive economic trajectory, certainly its domestic legitimacy and thus its political stability.[368] In Washington, it also stirred the first opposition to the unchecked and unbalanced American support for the Shah. He showed little sign of moderation and cooperation though, prompting the mood to finally swing against him. Kissinger's opponents won the argument and brought about a full American switch to Saudi Arabia as the US's main regional strategic ally and oil provider.[369]

The resulting loss of flowing US dollars into Iran damaged the Iranian economy even more, which after all had been rapidly modernizing following the Shah's White Revolution. Yet, this sudden dip may have had an impact on the course of developments leading up to the 1979 Islamist Revolution. [370] Inspired by the religiously fundamentalist preaching and political opposition of the exiled cleric Ruhollah Khomeini, the Pahlavi dynasty fell and with it one of the most important American allies between Europe and Japan.[371] This marked the breakdown of America's Twin Pillar Gulf strategy and changed the Middle East's political and ideological landscape until the time of writing.

[366] Ibid.: pp. 133/158; Gause III 2010: p. 32.
[367] Cooper 2011: pp. 46/218.
[368] Ibid.: pp. 212/199-290; Axworthy 2007: pp. 252-253.
[369] Cooper 2011: pp. 317-366.
[370] Ibid.: pp. 353-387.
[371] Axworthy 2007: pp.361-363; Gause III 2010: pp. 45-57; Milani, M. (1994), *The Making of Iran's Islamic Revolution*. Boulder, CO: Westview Press.

4.1.3 The Carter Doctrine

The Carter Presidency and the Iranian Revolution coincided with a perceived as well as actual increase in Soviet assertiveness, including in the greater Middle Eastern region. Though the 1973 OPEC oil embargo and resulting 1974 global energy crisis caused the first American doubts over the sufficiency of their Twin Pillar strategy, it was only the 1979 fall of the Shah that incentivized American strategists to prepare a new potential approach to the region.

One of the principal architects of what would come to be known as the Carter Doctrine, was the President's National Security Advisor Zbigniew Brzezinski. The collapse of one Gulf pillar convinced him of three things. Firstly, the offshore balancing and buck-passing approach to the Gulf had already failed; secondly, especially in a time of growing Soviet global and regional assertiveness it would therefore be even more inadequate to carry on as before; and thirdly, the complete centrality of the Persian Gulf region for Western energy interests had reached a new quality, necessitating a new equivalence in the Gulf's regional importance, beside the dominating Western Europe and East Asia in American prioritization. 'America's security had become interdependent with the security of three central and inter-related strategic zones consisting of Western Europe, the Far East, and the Middle East-Persian Gulf area'.[372]

His new concept 'was first broached in the spring of 1979', but notwithstanding the preparation of memos, only found growing support in the wider US national security and foreign policy establishment by the time the USSR invaded Afghanistan at the end of the year.[373] This Soviet incursion overtly confirmed the new Soviet assertiveness in the wider region and together with the influx of recent regional crises and even an apparent new jihadist threat to Saudi Arabia – the second pillar – convinced Jimmy Carter of introducing a new regional strategy.[374]

Consequently, Brzezinski advised Carter to not only give full public American political backing to the Persian Gulf's Arab monarchies, especially Saudi Arabia, but to underwrite that backing with teeth. Ergo, he was calling for enhanced military

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372 Brzezinski, Z. (1983), *Power and Principle: Memoirs of the National Security Adviser, 1977-1981*. London: Weidenfeld & Nicolson, p. 443.
373 Ibid.
374 Ibid.: 444; Gause III 2010: pp. 56-57; Lacey, R. (2010), *Inside the Kingdom. Kings, Clerics, Modernists, Terrorists and the Struggle for Saudi Arabia*. London: Arrow Books, pp. 3-36; Macris 2010: pp. 200-228.

presence at least around the Arabian Sea's coastlines. This over-the-horizon-capability would be enabled via a new rapid deployment force which had the sole purpose of militarily protection the Strait of Hormuz and if need be the Gulf States' oil fields onshore.

In his January 1980 State of the Union Address, Carter announced his new doctrine – and sounded strikingly similar to Lord Curzon less than a century earlier:

> 'Let our position be absolutely clear. Any attempt by any outside force to gain control of the Persian Gulf region will regarded as an assault on the vital interest of the United States of America, and such an assault will be repelled by any means necessary, including military force'.[375]

Yet, it would take the US another decade to fully implement the Carter Doctrine and step into Britain's Gulf footprints. Though already March 1980 saw the creation of the Rapid Deployment Joint Task Force (RDJTF), which would, in 1983, following the restructuring of the US Armed Forces, turn into US Central Command (CENTCOM), Washington would not station vast numbers of troops in the Gulf until 1990/91.[376]

Two Gulf Wars caused this further American switch from on over-the-horizon-capability, to a direct military presence inside Gulf states. The Iran-Iraq War from 1980 to 1988 – by far the Middle East's most violent conflict since World War Two, even until the time of writing – already brought in the US Navy on a greater scale. President Ronald Reagan's approach to the war was a literal balancing act – since his administration provided arms and support, as well as opposition to both antagonists, depending on who threatened to dominate at different times.[377] It proved not to be enough to stabilize the Gulf and to then deter Iraq's dictator Saddam Hussain shortly after. When he invaded Kuwait (and also crossed the Saudi border) in the summer of 1990, this put in motion a US-led and UN-endorsed grand coalition. Operation Desert Storm militarily ousted Hussain from Kuwait and Saudi Arabia in 1991, and, though regime change was not yet on the agenda, left behind US troops on bases in all GCC states until the time of writing.[378]

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[375] President Jimmy Carter, quoted in: Jones, F.L. (2012), 'In Brzezinski's Forge: Fashioning the Carter Doctrine's Military Instrument'. In: J. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press, Kindle Edition, chapter 8, section 7, para. 1.
[376] Gause III 2010: p. 57; Macris 2010: pp. 229-248.
[377] Gause II 2010: 57-85; Chubin, S., Tripp, C. (1988), *Iran and Iraq at War*. Boulder, CO: Westview Press.
[378] Gause II 2010: 88-120.

4.2 *Pax Americana* in a Globalized Gulf

4.2.1 From Dual Containment to War on Terror to Arab Winter

The US military presence in all Arab Gulf states including Saudi Arabia essentially put America in charge of Gulf security. As Macris highlights, since 1991 the US has been the 'arbiter of war and peace in the region'.[379] This trend reached its peak especially with the post-9/11 invasion of Iraq when American grand strategy completed the shift to prioritize the Middle East over all other regions.[380] Arguably it has come under stress ever since.

In the 1990s, Washington pursued a Gulf strategy of 'dual containment' – with both Iran and Iraq, despite their mutual contemporary enmity, being the West's and the GCC's regional antagonists.[381] America's military presence in the Gulf served as a buffer zone between the three regional powers and protected the independence of the small Gulf monarchies.

Post-9/11, the George W Bush administration's war on terror directly affected the Gulf's security environment. This coincided with the small monarchies' ongoing, rapid modernization and integration into the global economy, not merely in the form of oil and gas exports, but also in the form of regional business- and tourism hubs.[382] On the Gulf's immediate periphery meanwhile, conflict and disorder escalated. With the ill-fated US-led invasion of Iraq, Washington abandoned its decade-long status quo management, and adopted an active quasi-imperial role with the intention of changing the status quo and spreading representative government institutions. Regime change in Iraq and the following civil war also changed the regional distribution of power, essentially taking Iraq out of a previously triangular order.[383]

Iran was the only conventional American enemy left. Its nuclear programme now posed one of the biggest Western- and Gulf Arab security concerns. Given the poor American track record in its Afghanistan- and Iraq reconstructions though, this crisis

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[379] Macris 2010: p. 7.
[380] Gause III 2010: p. 2.
[381] Edwards, A. (2016), *"Dual Containment" Policy in the Persian Gulf: The USA, Iran, and Iraq, 1991-2000*. New York City: Palgrave Macmillan.
[382] Kamrava, M. (2016), *Gateways to the World: Port Cities in the Persian Gulf*. London: C Hurst & Co Publishers Ltd; Legrenzi, M., Momami, B. (eds.) (2011), *Shifting Geo-Economic Power of the Gulf: Oil, Finance and Institutions*. Oxon: Routledge; Ramady, M. (2012), *The GCC Economies: Stepping Up To Future Challenges*. New York City, Heidelberg, Dordrecht, London: Springer; Coates Ulrichsen, K. (2016), *The Gulf States in International Political Economy*. London: Palgrave Macmillan.
[383] Gause III 2010: pp. 148-168/p. 183; Gordon, Trainor 2006; Ricks 2006.

was not met with another military intervention. In the end, at least a temporary diplomatic solution was achieved between the Obama- and Rouhani administrations and the multilateral treaty, the JCPOA, has allegedly halted Iran's nuclear programme in exchange for the lifting of UN-sanctions.[384]

This relative success has not resulted in an American military withdrawal from the Gulf, given that general regional insecurity has increased, not decreased. Much of this is down to what in 2011 was still optimistically called the Arab Spring, but which has since mutated into an Arab Winter. The popular uprisings which toppled the autocratic regimes of Tunisia, Egypt, Libya, and Yemen, firstly, have only produced modest results at best (in Tunisia's case), and civil wars and fragmentation (in Libya and Yemen) at worst.[385] Moreover, simultaneous to the US's withdrawal from Iraq in 2012, the revolutions' internet-assisted message spilled over into other Middle Eastern countries. Most prominently, this happened in Syria and Iraq, which, for all intents and purposes, have ceased to exist as nation-states. The subsequent rise of Islamic State has only seen a half-hearted US-led intervention, with few boots on the ground.[386]

West Asia's 21st century version of the Thirty Years War has created fragmentation and unleashed sectarianism, creating a political and security vacuum, that the US has shied away from filling the way it might have tried under the Bush administration. Instead this power vacuum across much of the Fertile Crescent, bordering the Gulf sub-region, is being filled by the geo-political rivalries between the two regional powers and primary antagonists – Iran and Saudi Arabia – and their proxies.[387]

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[384] *U.S. Department of State* (2015), 'Joint Comprehensive Plan of Action'. 14 July 2015 [https://www.state.gov/e/eb/tfs/spi/iran/jcpoa/]; Laub, Z. (2017), 'The Impact of the Iran Nuclear Agreement'. *Council on Foreign Relations*, 20 July 2017 [https://www.cfr.org/backgrounder/impact-iran-nuclear-agreement]

[385] Abrams, E. (2017), *Realism and Democracy: American Foreign Policy after the Arab Spring*. Cambridge: Cambridge University Press; Danahar, P. (2015), *The New Middle East: The World After the Arab Spring*. London: Bloomsbury; Hill, G. (2017), *Yemen Endures: Civil War, Saudi Adventurism and the Future of Arabia*. London: C Hurst & Co Publishers Ltd; Willis, M. (2014), *Politics and Power in the Maghreb: Algeria, Tunisia and Morocco from Independence to the Arab Spring*. Oxford: Oxford University Press.

[386] Cockburn, P. (2015), *The Rise of Islamic State: ISIS and the New Sunni Revolution*. London / New York City: Verso Books; Gerges 2017; Hokayem, E. (2017), *Syria's Uprising and the Fracturing of the Levant*. London / New York City: Routledge; Reuter, C. (2016), *Die schwarze Macht: Der »Islamische Staat« und die Strategen des Terrors*. Munich: Penguin; Todenhöfer, J. (2017), *Inside IS - 10 Tage im 'Islamischen Staat'*. Munich: C Bertelsmann Verlag.

[387] Haass, R. (2014), 'The New Thirty Years' War'. *Project Syndicate*, 21 July 2014 [https://www.project-syndicate.org/commentary/richard-n--haass-argues-that-the-middle-east-is-less-a-problem-to-be-solved-than-a-condition-to-be-managed?barrier=accessreg]; Hashemi, N., Postel, D. (2017), *Sectarianization: Mapping the New Politics of the Middle East*. London: C Hurst &

Hence, following the Obama administration's unwillingness to directly engage in most of these conflicts, and given the current Trump administration's semi-isolationist impulses, there is an ongoing regional and global perception of gradual American retreat from the Middle East. Yet, at least until the time of writing, *Pax Americana* endures – if not in various Middle Eastern hinterlands – then at least in and between the economically globalized GCC-member-states and the waters of the Persian Gulf, Arabian Sea, and Indian Ocean. In order to assess if this is to remain so in the short-to-mid-term future, it is necessary to understand the essentials of America's Gulf Role.

4.2.2 The Nature of America's Gulf Role

Notwithstanding the souring of US-Russia relations and the fears of China's rise, since 9/11, the greatest threat to US national security is perceived to originate in the Middle East. Saudi Arabia, the biggest, richest, and most influential GCC member is America's key regional ally. Although most US military personal is based in the small coastal monarchies, the US-Saudi "special relationship" is a central pillar to the entire Gulf security system. Due to its relative size, resources, political, and ideological influence in the Arab and (Sunni-)Islamic world, the Kingdom's role in the US's regional strategy is a unique element.[388]

Yet, it has always been a double-edged sword, especially since 9/11. On the one hand, the KSA not only seemed to be the most important regional ally in a war on terrorists, but, on the other hand, also the latter's' home. 15 of Osama bin Laden's 19 suicide bombers on 9/11 were Saudis, considerable portions of the KSA's population anti-Western, some wealthy individuals of those portions direct and indirect financiers of several Islamist militant groups, and one of their recipients al-Qaeda on the Arabian Peninsula – the Kingdom's very own domestic terrorist problem in the earlier 2000s.[389]

Co Publishers Ltd; Mabon, S. (2016), *Saudi Arabia and Iran: Power and Rivalry in the Middle East*. London / New York: I.B.Tauris.

[388] Al-Rasheed 2010: pp. 113-116/pp. 154-163; Gause III 2010: pp. 144-148; Bronson, R. (2008), *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia*. Oxford: Oxford University Press; *Council on Foreign Relations* (2017), 'U.S.-Saudi Relations'. 12 May 2017 [https://www.cfr.org/backgrounder/us-saudi-relations]; Vitalis, R. (2009), *America's Kingdom: Mythmaking on the Saudi Oil Frontier*. London / New York City: Verso Books.

[389] Lacey 2010: pp. 225-236; Hegghammer, T. (2010), *Jihad in Saudi Arabia: Violence and Pan-Islamism since 1979*. Cambridge: Cambridge University Press.

The second grave US and Saudi security concern in the Gulf since that time has been the Iranian nuclear programme, which was, like 9/11, ironically sparked off by the very regional presence of the US military itself.[390] Apart from Israel, the principal actor feeling endangered by Iran's uranium enrichment though has been Saudi Arabia. On several occasions Riyadh has threatened to join the nuclear arms race were its regional nemesis in Tehran to achieve a breakthrough.[391] As a result, the US – more than reluctant to forcefully intervene against Iran – has significantly upgraded its conventional arms exports to Saudi Arabia, in order to tilt the regional military balance decisively against Iran.[392]

Iran's nuclear programme, as well as terrorism and Islamist violence, most dramatically in the form of the so-called Islamic State (IS), represent potentially grave security threats in their own right to both the US as well as its Arab Gulf allies. The situation's volatility was and is still enhanced further though, through the Gulf's geo-economic importance in energy matters. Middle Eastern terrorism and regional rivalry between Saudi Arabia and Iran present the entire world economy with potentially grave challenges. A disruption of energy flows out of the Persian Gulf through a security breakdown or even an international, negative market perception alone could cause oil prices to skyrocket, as they have partly done during historic regional crises.[393] The dynamics of supply and demand dictate that this would be ultimately bad for everyone – consumers and producers alike. Even if America does achieve so-called energy independence in the near future due to its shale revolution, many of its allies and trade partners around the world will not. Moreover, the entire global economy is and will stay dependent on stable oil prices, as long as no alternative energy has fully replaced oil (which according to experts is still presumed

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[390] Allin, D., Simon, S. (2010), *The Sixth Crisis: Iran, Israel, America, and the Rumors of War*. Oxford: Oxford University Press, pp. 80-108; Etheshami, A. (2013), *Dynamics of Change in the Persian Gulf: Political Economy, War and Revolution*. Oxon: Routledge, p. 21.

[391] Allin, Simon 2010: pp. 110-111; Riedel, B. (2016), 'Iran and the bomb: What would Saudi Arabia do?'. *Brookings Institution*, 1 December 2016 [https://www.brookings.edu/blog/markaz/2016/12/01/iran-and-the-bomb-what-would-saudi-arabia-do/].

[392] Black, I. (2010), 'Barack Obama to authorise record $60bn Saudi arms sale'. In: *The Guardian*, 13 September 2010 [https://www.theguardian.com/world/2010/sep/13/us-saudi-arabia-arms-deal].

[393] Cooper 2012; Stafford, J. (2016), 'War Between Saudi Arabia And Iran Could Send Oil Prices To $250'. *Oilprice.com*, 12 January 2016 [http://oilprice.com/Energy/Oil-Prices/War-Between-Saudi-Arabia-And-Iran-Could-Send-Oil-Prices-To-250.html].

to be at least two decades away).[394] The oil price, and thus global energy security, is and will be highly dependent on relative Gulf stability for some time to come.

Up to now, this has been largely maintained via the US military presence in the Gulf, both on land and especially at sea. It is impossible to know what current security escalations in Syria, Iraq and Yemen, or even the Saudi-Iranian enmity would entail for the small Gulf oil monarchies in the absence of American military presence there. A spill over of these regional conflicts, first into the GCC states, and then into oil price dynamics does not seem fanciful. Explaining the enduring low oil price prevalent at the time of writing needs to include such a counterfactual scenario: regardless of the post-2014 global oil glut – would prices really have had a chance to be as low in an absence of American bases and of the US Navy's Fifth Fleet in the Persian Gulf? [395]

The American-Saudi relationship has long been a core ingredient of this security system. If Washington or Riyadh were to break up their 'arranged marriage' without Saudi Arabia having a new robust regional system in place, it is hardly likely Gulf security would improve, especially in the long run.[396] History has shown that great power retreat from the region can create a security vacuum that is relatively quickly filled by intra-regional rivalries. After Britain's exodus from east of Suez in 1971, these unleashed rivalries that had previously been mostly contained, escalated with politically-driven oil price rises, arms races, the Iranian Revolution and thus indirectly resulted in Iraq and Iran to launch the biggest and longest Middle Eastern war of the 20th century's second half.[397]

History never repeats itself, but it often rhymes, and the structures and imbalances of power in the Gulf are not too different from previous periods and various "interregna" which often saw similar developments. The prospect of non-state actor violence and the extent of globalization though have dramatically intensified. Hence, ending the special relationship without any functioning alternative in place could be synonymous with allowing insecurity to spread in the Gulf and beyond. This could

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394 Yergin, D. (2012), *The Quest. Energy, Security, and the Remaking of the Modern World*. London: Penguin, p. 720; Osborne, A., Gosden, E. (2014), 'US shale revolution will transform global economy, says BP'. In: *The Telegraph*, 15 January 2014 [http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/10575331/US-shale-revolution-will-transform-global-economy-says-BP.html]
395 Rogoff, K. (2016), 'What's behind the drop in oil prices?'. *World Economic Forum*, 2 March 2016 [https://www.weforum.org/agenda/2016/03/what-s-behind-the-drop-in-oil-prices/].
396 Kaiser, R.G., Ottoway, D. (2002), 'Oil for Security Fuelled Close Ties but Major Differences led to Tensions'. In: *Washington Post*, 11 February 2002.
397 Chubin, Tripp 1988; Gause III 2010: pp. 57-85.

have dramatic costly effects for and inside Saudi Arabia as well as for the United States and its interests. Reciprocal costly effects could be felt in terms of terrorist violence and its impact on humans as well as infrastructure, but also in terms of regional conflict and its own impact on energy trade, on global financial markets, and on entire economies – impacting large numbers of individuals detrimentally in multiple ways.

This is why the US-Saudi relationship can be characterized as highly interdependent in the security issue area and beyond. The more interesting question might be whether it is also symmetrically interdependent. In the security issue area, the alliance is one of mutual benefits and mutual costs. Both indeed face a popular domestic backlash against the close relationship. American suspicions and antipathy run deep about a religiously ultra-conservative Wahhabi Saudi society, its harsh Sharia law enforcement, and human rights abuses.[398] As mentioned above, a considerable number of Saudis are equally resentful towards the West and view the special relationship as nothing but colonialism. The extreme elements of these voices indeed joined Osama bin Laden's al-Qaeda in the 1990s in order to end this undesired status quo.[399] Hence, both governments face negative backlash of interdependence in popular perceptions.

Both, however, at least for the moment, have bolstered their alliance and continue to cooperate closely in intelligence sharing and counter-terrorism. Both have an entrenched military-to-military dialogue, US arms sales to Saudi Arabia recently represented the largest military technology transfer the US has ever conducted, as mentioned above, and US military advisers play a vital role in the Kingdom's national security structures.[400] These measures, characteristic for an interdependent network of transgovernmental channels, have further improved the high level of interoperability of both militaries.

In terms of infrastructure, as well as national elites, a cooperative Saudi Arabia provides the US with a higher degree of access to the region than Washington would

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[398] Ahmed, A.S., Edwards-Levy, A. (2016), 'New Poll Underscores Frailty Of U.S. Relationship With Saudi Arabia'. In: *Huffington Post*, 31 December 2016 [https://www.huffingtonpost.com/entry/poll-us-perception-saudi-arabia_us_5866f84ae4b0d9a5945b7d36].
[399] Prins, G. (2001), 'Blood and Sand'. In: *The Guardian*, 21 December 2001 [https://www.theguardian.com/world/2001/dec/21/afghanistan.britainand911]; Schuster, H. (2004), 'Poll of Saudis shows wide support for bin Laden's views'. *CNN*, 9 June 2004 [http://edition.cnn.com/2004/WORLD/meast/06/08/poll.binladen/]; Hegghammer 2010.
[400] Council on Foreign Relations 2017.

otherwise enjoy. Both those assets were recognized early on and aspired towards by the architects of the Carter Doctrine, who emphasised the need for an infrastructure and a cooperative transgovernmental network, essential for any future US rapid reaction force.[401] Yet, it needs to be noted that relying entirely on the smaller Gulf monarchies and even merely West Asia's periphery hosting US military bases would hypothetically still enable the US to secure the Strait of Hormuz, similar indeed to the UK's former approach. This indeed seems to have been noticed by then national security advisor Brzezinski, one of the principal strategists in charge of planning the Carter Doctrine, when he first proposed Somalia, Oman, and Kenia as candidates for essential strategic bases on the shores of the Arabian Sea.[402] Furthermore, ever since the US military's large-scale exodus from Saudi Arabia in 2003, the bulk of American forces in West Asia are stationed in some of the smaller Gulf monarchies like Bahrain, Kuwait, and Qatar.[403] Thus, Saudi Arabia's undeniable importance to America's regional security interests might be overstated. In this case, speaking of complete US vulnerability to an imaginary end of the special relationship might indeed take the interdependence argument too far.

Barack Obama's statements in an interview with Jeffrey Goldberg, published by The Atlantic magazine, revealed the former President's long-held opinions towards the KSA – a country he labelled America's 'so-called ally' – add fire to this.[404] Admittedly, the US would be highly sensitive to the possible political consequences and conceivable security breakdowns a bilateral breakup could spark. A Saudi Arabia left to its own devices could result in unwelcome Saudi policies or Saudi inaction on sensitive matters. Some even would predict the collapse of the Saudi regime at least in the long run when combined with the threats posed by sustained low oil prices and lack of diversification of the Saudi economy. Such a scenario could diminish greater American regional influence and threaten the entire Arabian Peninsula.

[401] Jones, F. 2012.
[402] Ibid.
[403] *The Heritage Foundation* (2015), '2016 Index of US Military Strength. Assessing America's Ability to Provide for the Common Defense'. Washington DC: The Heritage Foundation, pp. 102-104; Des Roches, D. (2015), 'The Evolving American Security Role in the Gulf'. In: S. Hook, T. Niblock (eds.), *The United States and the Gulf. Shifting Pressures, Strategies and Alignments*. Berlin: Gerlach Press; Sun, D., Zoubir, Y.H. (2015), 'The Eagle's Nest in the Gulf: Analysis of US Military Deployment in the GCC Countries (1991-2014)'. In: S. Hook, T. Niblock (eds.), *The United States and the Gulf. Shifting Pressures, Strategies and Alignments*. Berlin: Gerlach Press.
[404] Goldberg, J. (2016), 'The Obama Doctrine'. In: *The Atlantic*, April 2016 Issue [http://www.theatlantic.com/magazine/archive/2016/04/the-obama-doctrine/471525/].

From the Saudi perspective, a breakup could have two effects. On the one hand, Islamists sympathetic to or even actively supportive of jihadism against the West may become further marginalized in wider popular Saudi opinion. The "Great Satan's" complete withdrawal from the land of the two sanctuaries would certainly deny radicals the necessary oxygen for their argument's perceived legitimacy. Ironically, this could have a positive effect on Saudi national security from domestic threats. Nevertheless, on the other hand, regarding actual and perceived outside threats, the Kingdom would feel considerably exposed to potential foreign aggression, be it from state or non-state actors in the region. The KSA's relatively small population vis-à-vis rivals like Iran would leave Saudi Arabia's defences at a numerous disadvantage. Furthermore, the Kingdom's most sophisticated US weapons technology that currently still places Riyadh in a stronger position than Tehran would be left to its own devices in the long run, as arms transfers require more than merely a one-time delivery. Constant technological upgrades, replacement equipment, and expert training personnel are part of the transfer and entail the arms importer's significant dependence on the exporter.[405]

Therefore, despite all kinds of ideological and political challenges to the US-Saudi security relationship, the Saudis, despite their growing friendliness to China, Russia, Turkey, and Israel, are likely to remain favourable to American protection, because of 'TINA' – there is no alternative.[406] None of these countries have the capabilities to take over the US role, alone or in an unlikely full-blown alliance, and neither is a fully-integrated GCC security structure, let alone cooperation with Iran in sight. Yet, there are more variables to consider than the current distribution of military capabilities.

4.3 Energy, Monetary, and Political Variables in America's Gulf Role

4.3.1 The Petrodollar

Next to America's strategic priority to keep the Persian Gulf open to global trade and maintain access to it firmly under the military control of the US Navy, 'the other geo-economic mainstay of American supremacy has been the dollar's standing as the

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[405] SIPRI (2016), Arms Transfers Database. Trade Registers. Information generated: 15 August 2016 [http://armstrade.sipri.org/armstrade/page/trade_register.php].

[406] Al-Tamimi, N. (2014), *China-Saudi Arabia Relations, 1990-2012. Marriage of convenience of strategic alliance?*. Oxon: Routledge, p. 106.

world's leading transactional and reserve currency'.[407] Not only has the dollar's standing enabled the US 'to extract seigniorage from other countries' and reduced exchange rate risk for the US.[408] Global transactions in dollars that do not even involve the US, have kept dollar demand high. Moreover, Flynt Leverett and Hillary Mann Leverett highlight 'the dollar's role as the overwhelmingly dominant currency in which oil and gas volumes are priced on international markets' and have been for the last forty years.[409] This has led to an 'accumulation of large dollar surpluses by major energy producers', which subsequently has led to a more or less constant "recycling" of those surpluses 'back into the US economy to cover America's never-ending current account and fiscal deficits'.[410]

Where did this system originate? In the post-Bretton Woods world, the foundation of dollar-underpinned American grand strategy, the US needed to incentivize foreigners to hold ever larger surpluses of dollars. Nixon, Ford, Carter, and Reagan sought to plan and implement this by ending the old Bretton Woods-era barriers to cross-border portfolio investment and by pushing for the liberalization of international finance. [411]

As the Leveretts point out, the petrodollar is a fruit of this policy. However, it is not merely a symptom of wider dollar hegemony, but the result of a carefully planned and absolutely central component of American grand strategy after the breakdown of the Bretton Woods monetary order in the early 1970s.

> 'As the United States worked to reconstitute dollar primacy, its strategic ties to Gulf Arab hydrocarbon producers proved central to forging the contemporary oil-dollar nexus; these ties have remained critical to maintaining this nexus. [...] Washington's ability to leverage [...] [Gulf Arab, and especially Saudi Arabian security] concerns through its security partnerships with Gulf Arab states has been vital to the recasting and perpetuation of post-Bretton Woods dollar hegemony'.[412]

This active US policy seems to have been essential. Throughout the 1970s, the OPEC countries were pushing for oil trade conducted 'in a basket of currencies [...] pricing oil in IMF-administered Special Drawing Rights' (SDRs).[413] Hence, it is credible when Jonathan Kirshner underlines that monetary matters are always high politics, and

[407] Leverett, F., Mann Leverett, H. (2015), 'America's Monetary Stake in the Gulf and the Looming Challenge of the Petroyuan'. In: S. Hook, T. Niblock (eds.), *The United States and the Gulf. Shifting Pressures, Strategies and Alignments*. Berlin: Gerlach Press, p. 115.
[408] Ibid.
[409] Ibid.: p. 116.
[410] Ibid.
[411] Ibid.: p. 119.
[412] Ibid.: p. 116.
[413] Ibid.: p. 121.

not merely determined by market forces.[414] The Leveretts state that there is nothing "natural" about the petrodollar. It is the outcome of 'strategic bargains' between the US and the Gulf Arab states.[415]

These included secret deals with Saudi Arabia and the UAE in 1974, when those countries' central banks agreed to purchase 'substantial volumes of US Treasury securities outside the normal auction process', buttressing the 'international image of US treasury bills as the world's safest investment instrument'.[416] This was perpetuated by another comparable US-Saudi deal in 1978.

How did this course of events come about? The US seems to have played on three Saudi and Emirati incentives: firstly, Washington began to offer preferential terms to the Gulf Arabs; secondly, it supported an enhancement of Saudi voting power in the IMF; and thirdly, 'US officials did not hesitate to link Gulf Arab states' willingness to help the United States financially with American willingness to guarantee their security against threats perceived by Gulf Arab elites'.[417] Despite Cold War America's focus on its Soviet rival, Saudi Arabia's primary threat perception then already revolved around Iran, which at the time was still ruled by Shah Mohammed Reza Pahlavi, Washington's central ally and arms customer in West Asia. 'These conditions both enabled and incentivized Washington to leverage Gulf Arab states' concerns about Iranian power to influence their financial and monetary decision-making'.[418] This threat perception has risen to entirely new proportions over the decades since. The Islamist Revolution in 1979, the Iran-Iraq War, Iranian efforts to export both its Islamist ideology to the "Arab Street", as well as to bolster the "Shia Crescent" in the Middle East and Sunna-dominated conservative Gulf, Iran's independent and anti-Western foreign policy, and, most dramatically, its recent nuclear programme, as well as its temporary conclusion through the lifting of UN-sanctions, have perpetuated this Saudi and Gulf Arab fear.[419] The US has been able to play on that and extend its political and military influence in the region over the same time period. The origins of

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[414] Kirshner, J. (2003), 'The Inescapable Politics of Money'. In: J. Kirshner (ed.), *Monetary Order: Ambiguous Economics, Ubiquitous Politics*. Ithaca: Cornell University Press, p.1; Kirshner, J. (2003), 'Explaining Choices about Money: Disentangling Power, Ideas, and Conflict'. In: J. Kirshner (ed.), *Monetary Order: Ambiguous Economics, Ubiquitous Politics. Ithaca*: Cornell University Press, pp. 260-262.
[415] Leverett, Mann Leverett 2015a: p. 122.
[416] Ibid.: p. 123.
[417] Ibid.
[418] Ibid.
[419] See: Mabon 2016.

this well-known development though, as the Leveretts demonstrate, lie in Washington's Gulf oil-dollar diplomacy of the 1970s.

Despite the post-"Arab Spring" world seeing American reluctance to engage in regional military adventures and actively idealistic and transformative policies, and despite Saudi Arabia's suspicions about a perceived American disengagement from the region, the post-Bretton Woods system and the Gulf security order remain firmly in place for now. As a IISS-publication, led by Alan Wheatley emphasizes, the US's overwhelming dominance in defence, technology, and finance makes a sudden shift to a new monetary system unlikely in the short-term, and even in the mid-term, an increasingly possible shift together with the global economic re-convergence, would be gradual and multipolar, rather than characterized by any new non-dollar unipolar order.[420] For the Gulf, defence matters most. 'US security commitments to its Persian Gulf allies, especially vis-à-vis the perceived threat of Islamist Iran, have elicited sustained Gulf Arab support for the oil-dollar nexus'.[421]

However, this does not mean that the Gulf and its new primary energy importers are wholly without alternatives should stronger incentives arise to build new monetary orders and oil-trade regimes, as portfolio manager and DoD-advisor James Rickards points out. Since the GCC economies are still so dependent on oil exports, they continuously require the best-suited monetary and oil-trade regimes. He pictures two:

> 'A logical extension, then, of the SDR basket approach would be to include the dollar price of oil in the basket. By doing so, the exchange value of the GCC currency would move in tandem with the dollar price of oil. If the Fed pursued a cheap-dollar policy and the dollar price of oil increased due to the resulting inflation, the GCC currency would appreciate automatically, mitigating inflation in the GCC.'[422]

However, Rickards also imagines an even more disruptive alternative monetary regime change. Although long-held ideas on an integrated GCC-currency for now seem to have lost appeal following the Eurozone crisis, this could change again in the future. A potential GCC-currency would offer itself as a viable one for pricing oil- (and natural gas-) trade – 'thereby allowing the GCC currency to float relative to other currencies'. Rickards concludes stating that such a development 'could truly mark the beginning of the dollar's demise as the bench-mark currency for oil prices,

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420 Wheatley, A. (ed.) (2013), *The Power of Currencies and Currencies of Power*. Oxon: Routledge, pp. 143-155.

421 Leverett, Mann Leverett 2015a: p. 124.

422 Rickards, J. (2014), *The Death of Money. The Coming Collapse of the International Monetary System*. London: Penguin, pp. 155-156.

and it would create immediate global demand for the GCC currency'.[423] He credibly evaluates the likelihood of such revolutionary developments relative to the state of US-GCC relations. Yet, there is even another potential alternative, centred on the Gulf's primary oil customer, China, as the Leveretts point out and as is discussed in the final chapter of this thesis.

Furthermore, there are signs that shifting market forces in the world of energy itself are beginning to influence and even change the status-quo rationale.

4.3.2 The Shifting American Energy Landscape

Since the dawn of American presence in the Persian Gulf, the US economy has been significantly dependent on oil imports from that region, albeit always to a lesser extent than for example Europe. The height of American oil dependence on the Gulf, was in the mid-1970s and again in the early 2000s, although by then, the US energy import and consumption mix was already relatively less dependent on the Gulf. In 1977 it imported 2.4 mbd and in 2001, 2.7 mbd.[424] By 2011, the US share of Gulf oil exports had decreased below 10%. By contrast, Asia's share of Gulf exports, having skyrocketed especially since the millennium, was 43%.[425] In 2013, the US barely imported more than a fifth of its oil consumption from the Gulf.[426]

This reduction of US imports from the Gulf has come about due to an increased global oil and gas supply, due to newly reachable reserves especially in North America. The most important explanation is the so-called shale gas, tight oil, and oil sands revolution.[427] US imports of Canadian oil sands, for instance, have risen.[428] Incremental technology breakthroughs in recent years have substantially cheapened the upstream production of these unconventionals – unlocking gigantic reserves in

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[423] Ibid.: p. 156.
[424] *U.S. Energy Information Administration* (2017), 'U.S. Imports from Persian Gulf Countries of Crude Oil' [https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRIMUSPG2&f=A].
[425] Yang, G. (2014), 'Structural Change in the International Oil and Gas Markets and its Impact on China-GCC Relations'. In: T. Niblock, Y. Guang (eds.), *Security Dynamics of East Asia in the Gulf Region*. Berlin: Gerlach Press, p. 141.
[426] *Oil Sands Magazine* (2017), 'EIA predicting US oil imports could be reduced to zero by 2037'. 4 July 2017 [http://www.oilsandsmagazine.com/news/eia-predicting-energy-us-imports-reduced-zero-by-2037].
[427] Yergin 2012: pp. 255-265/327-334.
[428] *U.S. Energy Information Administration* (2017), 'U.S. Net Imports by Country' [https://www.eia.gov/dnav/pet/PET_MOVE_NETI_A_EP00_IMN_MBBLPD_A.htm].

North America, including the US, which has enormous reserves of shale gas. Hence, domestic production there has become profitable.[429]

The immediate effect of this development has been its contribution to a global oil glut. Despite constantly rising global demand, global over-supply has therefore resulted in a dramatic fall of the oil price since 2014, when it plunged from $96 a barrel to $41 in 2016.[430] Since then it has not surpassed $50 – causing sudden dents in Gulf economic growth and directly threatening even its richest members with budget challenges.[431] A Saudi Arabia-led OPEC first reacted by maintaining its production levels, presumably in its member countries' race for market share as well as their desire to slow the profitability and supply of their North American unconventional competitors.[432] In late 2016, Saudi Arabia finally gave way and returned to its classic role as swing producer – although this has only very moderately increased the oil price. Despite the serious challenge of low prices, the unconventionals' production has not been dramatically hurt.[433]

As Yang observes, the simultaneous developments of growing oil and gas supply, is beginning to have quite opposite effects in the oil and gas markets. Whereas the previously highly internationalized oil trade is increasingly regionalizing – with sellers and buyers now being able to trade with regional partners, the previously more regionalized gas market is gradually internationalizing, because the world's largest gas consumers and their regions also happen to still have lower gas production levels.[434]

The overall emerging picture is that the US consumption mix will become even less dependent on oil imports, especially from the Gulf. As US gas consumption is

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[429] Yergin 2012: pp. 331-336.
[430] *Statista* (2017), 'Average annual OPEC crude oil price from 1960 to 2017 (in U.S. dollars per barrel)' [https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/].
[431] Desai, R.M. (2016), 'Oil prices, authoritarian bargains, and reform opportunities in the Gulf States'. *Brookings Institution*, 3 June 2016 [https://www.brookings.edu/blog/future-development/2016/06/03/oil-prices-authoritarian-bargains-and-reform-opportunities-in-the-gulf-states/].
[432] Elliott, L. (2015), 'Opec bid to kill off US shale sends oil price down to 2009 low'. In: *The Guardian*, 7 December 2015 [https://www.theguardian.com/business/2015/dec/07/opec-plan-kill-us-shale-oil-price-down-seven-year-low].
[433] Kemp, J. (2017), 'Saudi Arabia resumes swing producer role in oil: Kemp'. *Reuters*, 31 January 2017 [http://www.reuters.com/article/us-opec-production-kemp/saudi-arabia-resumes-swing-producer-role-in-oil-kemp-idUSKBN15F1ER]; Vaughan, A. (2017), 'Oil price slides as Opec production cuts fail to impress markets'. In: *The Guardian*, 25 May 2017 [https://www.theguardian.com/business/2017/may/25/opec-meeting-oil-price-saudi-arabia-production].
[434] Yang 2014: pp. 138-144.

growing and its oil and gas supplies are both mainly met by domestic production and imports from within the Americas, its current energy mix is already very different from the past. In the near future, the BP predicts 'US […] energy-self-sufficiency by 2021 and oil self-sufficiency by 2030'.[435] Moreover, also by 2021, BP predicts North America to become a net oil exporter and, due to shale gas, the US to become a net exporter of liquified natural gas (LNG) in 2017. Already, the US is one of the world's major exporters of refined oil products, rivalling even the established giants Saudi Arabia and Russia.[436]

This game-changing development has the potential to fundamentally reshape the US-Saudi and wider US-GCC alliance – and with it the very nature of America's regional role. What was once called the "oil-for-security"-relationship is likely to at least undergo a review, even though the US still imports large amounts especially of Saudi oil and will continue to have an interest in stable oil prices – which prolongs energy interdependence with the Gulf, even though not as much as before. How far it will influence the monetary underpinnings – the Petrodollar – is one further open question in this equation. Its possible answers will be mainly addressed in this manuscript's final chapter. There, it will be merged with an assessment on what the Gulf states increasing energy interdependence with Asia could simultaneously entail.

4.3.3 The Future of the US-GCC Alliance

Gulf history has been moving fast in the recent decade and some of its developments have called into question the future endurance of *Pax Americana* in the Gulf. Not merely is the Gulf's periphery in violent turmoil, parts of which can be firmly laid at the door of the US's failures in its regional foreign and security policies, the situation in Iraq being the most important example. What matters here is how America's regional power, performance, and prospects are perceived. Both the Bush and Obama administrations have faced significant hostility, not only by America's regional enemies, but also by its allies – albeit for diametrically opposed reasons. Where Bush was seen as doing too much (and failing in his objectives), Obama was seen as doing

[435] *BP* (2016), 'BP Energy Outlook. Focus on North America' [https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2016/bp-energy-outlook-2016-focus-on-north-america.pdf], p. 64.

[436] Kumar, D.K., Parraga, M. (2017), 'Why record U.S. oil exports are poised for even more growth'. *Reuters*, 27 July 2017 [https://www.reuters.com/article/us-usa-oil-exports/why-record-u-s-oil-exports-are-poised-for-even-more-growth-idUSKBN1AC0ER].

too little (and also failing to uphold his allies' interests).[437] In the Gulf, it is especially Saudi Arabia which has lamented Obama's off-hands approach, his lukewarm support for the Kingdom's interests and legitimacy, and his outreach to Iran which concluded with the nuclear agreement. It is too early to judge which path the Trump administration will follow.

America's Middle Eastern misadventures and perceived retreats have also been coincided by other global and regional developments, which are likely to have an impact on the question of future US strategy in the Gulf. The 2008 global, but largely Western, financial crisis and credit crunch resulted in the biggest Western economic recession since 1929. This has not only undermined Americans' economic self-confidence, but also their domestic economic prospects, and the US' global economic power. With a gigantic budget deficit, a heavily indebted US superpower has already felt the need to cut some of the Pentagon's budget.[438] In the future, it might be forced to take an even harder look at its priorities. Simultaneously to the sequestration, the Obama administration announced a rebalancing to Asia as its future regional priority – thereby allowing a withdrawal of more troops from Europe sooner, even though the likelihood of the pivot is now questionable.[439] Whether the Trump administration will follow this course and might even herald an American drawdown from the Persian Gulf, seems highly unlikely for now, for all the reasons shown above, but it is not inconceivable. Indeed, an increasing number of commentators are already calling for this.[440] How this may interact with China's and Asia's Gulf emergence, and how far history and theory can inform the issue, is addressed in this thesis' conclusion.

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437 *BBC News* (2003), 'Saudis warn US over Iraq war'. 17 February 2003 [http://news.bbc.co.uk/1/hi/world/middle_east/2773759.stm]; Rampton, R. (2016), 'Obama reaffirms U.S. to deter aggression against Gulf Arabs'. *Reuters*, 21 April 2016 [http://www.reuters.com/article/us-usa-gulf-obama-summit/obama-reaffirms-u-s-to-deter-aggression-against-gulf-arabs-idUSKCN0XI0UB].

438 *The Economist* (2013), 'Squeezing the Pentagon'. 6 July 2013 [https://www.economist.com/news/united-states/21580460-wrong-way-cut-americas-military-budget-squeezing-pentagon].

439 Lieberthal, K. (2011), 'The American Pivot to Asia'. In: *Foreign Policy*, 21 December 2011 [http://foreignpolicy.com/2011/12/21/the-american-pivot-to-asia/]; Panda, A. (2017), 'Straight From the US State Department: The 'Pivot' to Asia Is Over'. In: *The Diplomat*, 14 March 2017 [https://thediplomat.com/2017/03/straight-from-the-us-state-department-the-pivot-to-asia-is-over/].

440 Glaser, Kelanic 2017; Glaser, J. (2017), 'Withdrawing from Overseas Bases: Why a Forward-Deployed Military Posture Is Unnecessary, Outdated, and Dangerous'. *Cato Institute*, 18 July 2017 [https://www.cato.org/publications/policy-analysis/withdrawing-overseas-bases-why-forward-deployed-military-posture]; Jones, T. (2011), 'Don't Stop at Iraq: Why the U.S. Should Withdraw From the Entire Persian Gulf'. In: *The Atlantic*, 22 December 2011 [https://www.theatlantic.com/international/archive/2011/12/dont-stop-at-iraq-why-the-us-should-withdraw-from-the-entire-persian-gulf/250389/].

4.4 Chapter Conclusion and Theoretical Assessment

As globalization and interdependence have greatly increased since the 1970s, this chapter's subject matter sees a more diverse picture in theoretical interpretations. Neo-realism's explanatory power clearly endures, but neo-liberal institutionalism has become more relevant than in the previous chapter.

By the mid-20th century, American oil interests in the Persian Gulf were in competition with British ones. This had political implications insofar as the American companies gradually undermined the British position in Saudi Arabia and Iran. The leaders of both those major Gulf countries favoured American involvement. As defensive realism would predict, Saudi Arabia and Iran made use of Anglo-American competition and at least softly balanced against the British, by giving favourable concessions to the Americans. On the Trucial Coast this did not happen, due to the presence of British personnel from the foreign office and the military. Local and British joint efforts to create a modern state bureaucracy and infrastructure went by relatively smoothly. Hence, whereas the Americans were seeking to edge the British out of Saudi Arabia and Iran, or at least reduce their role in those countries, in the small Gulf states the Americans came to adopt the opposite tactics. Indeed, as already seen in the previous chapter, in the first three decades of the Cold War, Washington appreciated the British military presence, buck-passing to London the burden of securing Gulf waters. Thus, both strategies can be interpreted through offensive realism – seeking to gain the perceived necessary control of the region through its largest and most powerful states, but staying largely offshore, because it was deemed sufficient.

Realism again offers similar insights into the Nixon Doctrine, which was created after the British Gulf withdrawal. The twin pillar strategy was another example of American offshore balancing by the act of buck-passing. Though the British abandoned their historic role, the US was able to stay offshore, because the Shah of Iran especially more than willingly caught the buck. As a result, Washington sold him massive amounts of high-tech military equipment and even seemed to have sanctioned the Shah's part in the oil price rise policies in the 1970s in order to stabilize Iran's economy (and polity). His overspending and unilateral actions though then incentivized Washington to switch to Saudi Arabia, the second (and minor) pillar, as the US primary foreign oil source. Offensive realism would see the Iranian ally becoming too powerful, independent, and unpredictable, and would try to prevent Iran from becoming a regional hegemon. Saudi Arabia was also an important US ally but committed much less to the Gulf security architecture. Hence, the US indirectly pursued soft balancing against the Shah. The Nixon Doctrine was not only there to protect the flow of oil, but also to keep the Soviets out of the region – again highly realist motivations.

Neo-liberal institutionalism though, and specifically complex interdependence theory (CIT), also has a case in this point too. The power-shift from the oil consumers to the producers had serious geo-economic and geo-political implications. OPEC's re-negotiations on concessions, its oil embargo, and the resulting dramatic price rises made the Gulf states richer than ever before and gave them an influential voice in global diplomacy. Rather than, as in realism, merely measuring overall power distribution, it is the distribution of power among different issue areas that is increasingly relevant under interdependence conditions. CIT stresses that destructive issue-area linkage can be harmful to a state's diverse interests and that this is why the US was incapable of using its overall power to prevent the oil embargo. Furthermore, as the author of this thesis has highlighted, this Gulf power resource stems from region-specific geographical properties: the hosting of critical raw materials that can be translated into power dividends that can bring about beneficial outcomes to its holders. Yet, it needs to be highlighted, that in this case, CIT's assumptions probably underestimate the relevance of military asymmetry once a crisis was in danger of escalating. CIT cannot account for the historic fact of how very close the US came in linking the issues and breaking the oil embargo militarily.

Nevertheless, neo-liberal institutionalism is additionally helpful to explain the formation of oil trade regimes and their connection to monetary regimes. As CIT would predict, the US became dependent on the Petrodollar. This required the Gulf states to constantly buy US Treasury bonds in order to sustain the dollar as the world's reserve and transaction currency, including in oil trade. Such a unipolar monetary order is closely described by elements from both hegemonic stability theory and regime theory.

On the other hand, it is vital to stress realism's looming shadow over these global monetary structures. From the late 1970s onwards, the US linked not only the energy, but also the monetary issue area to the security issue area, by providing much needed military protection to the Gulf states. This underlines a dominance of the overall power structure shaping a specific trading regime. It additionally underlines a hierarchy of issue areas governing bilateral relationships, with military security ultimately dominating. The high politics of the oil-dollar nexus and the connected Gulf security arrangements, point towards realist, rather than liberalist dynamics. A differentiation of power distribution among different kinds of issue areas has proven to be a necessary theoretical contribution, as this chapter has demonstrated. However, CIT highlights the necessity to measure power not only as power over resources, but also as power over the control of outcomes. And here, the outcomes in the monetary and oil-trade regimes since the 1970s have been relatively favourable to the overall hegemon, the United States. The Petrodollar is an American success story, and, despite clear vulnerability interdependence at play, reinforces the explanatory power of realism to a greater extent than CIT acknowledges.

The present Gulf security order was created with the Carter Doctrine. Following the Iranian Revolution and the Soviet invasion of Afghanistan, the US became increasingly involved in ensuring Gulf security with its own military. Just as the British Empire before, the US sought to stabilize the region with its presence and to exclude its Soviet enemy from the region, in a highly realist behaviour. America's motivations thereby followed Britain's former ones when it comes to the control, not only of the sea, but also the rimland, particularly its central bridgehead, the Persian Gulf region, and part of the contested heartland, where, in Afghanistan, the US entered a clandestine alliance with Pakistan and the Mujahideen against the USSR simultaneously. This grand strategy was at the time heavily influenced by Zbigniew Brzezinski who himself had been greatly influenced by the intellectual tradition of Spykman and Mackinder.

Before the Carter Doctrine's implementation though, for another decade Washington continued to rely on offshore balancing, arming the Gulf's then warring parties Iran and Iraq and balancing them against each other. The Carter Doctrine was finally implemented with the US's 1991 ousting of Iraq's invading forces from Kuwait. Though offensive realism would have predicted this American move, there can also be neo-liberal institutionalist interpretations. With his invasion, Saddam Hussein violated several internationally and regionally endorsed regimes and, consequently, a multilateral coalition under US leadership came together to restore order.

The subsequent *Pax Americana* has involved large numbers of American troops stationed in the GCC-states, creating a security buffer between the GCC and its remaining conventional antagonist, Iran. This order can also be interpreted with both theories. On the one hand, it falls within a security framework accepted by units of the regional and global economic system, with the exception of Iran, which has been treated as a rogue. Neo-liberal institutionalism allows for such cooperative security measures based on diffuse reciprocity. Hegemonic stability theory also clearly points towards the benefits of a leader guarding his own and the system's interests. As these liberalist notions however also correctly claim, such a system can bring about free-riding by non-contributing members. This is what has happened in the Gulf since 1991.

On the other hand, America's military dominance in the most pivotal of the world's three strategically most relevant regions clearly reinforces realism's utility. High levels of interdependence in the security issue area between the US, the Gulf states and all the Gulf's free-riding trading partners buttresses Washington's huge amounts of relative overall power. The heavy militarization of Gulf security and thus of global energy security in the form of US regional presence and arms sales, especially when considering the post-Arab Spring's turmoil all around, makes it difficult to not see neo-realism dominating the picture: first, Mearsheimer's offensive realism in regards to America's role, and second, Walt's defensive realism in regards to both the GCC's bandwagoning to the US and the GCC's balancing against the greater proximate threat posed by Iran.

This interpretation is now being further strengthened by North America's shale gas and tight oil revolution, which has turned the US into a major energy producer and which will potentially turn it into the world's largest LNG exporter. Hence, from a CIT viewpoint, a shift in the distribution of power within the energy issue area is likely to be taking place, with Saudi Arabia having to make room for its American ally in matters where the KSA used to dominate. This makes the US-Saudi relationship even more asymmetrical than it was before. Ironically, it will strengthen America's overall power, thereby giving it more flexibility to act in purely realist manners vis-a-vis its Saudi partner and in its wider Gulf role.

However, when matched with its post-9/11 regional military blunders and reduced American appetite for military intervention post-Iraq, it also hands the US a potential incentive to one day withdraw from the Gulf, leaving regional security to countries in greater dependence on Gulf oil. Offensive realism could incorporate a return to offshore balancing. Yet, unless American overall power is dramatically reduced, it would struggle to predict such a move, because now, in the 21st century, Eurasia's rimland and heartland are seemingly up for grabs again, as new regional powers and great powers are entering the race. The Persian Gulf, the strategically most important region of the world lies at the centre of this more than ever and can again be the ultimate harbinger of the superpowers' command of the global commons.

Neo-liberal institutionalism on the other hand would point towards the opportunity of burden-sharing. This, a fiscally-challenged Washington has also long demanded, although it is still unclear, which candidates it would be willing or unwilling to accept for such a sensitive role.

A discussion on future developments will be addressed in the conclusion of this thesis.

5. China's Asian Competitors on the Persian Gulf's New Silk Roads

In the 20th century's second half, the Gulf's rapid modernization coincided with a global modernization and economic growth that, especially from the 1970s onwards, gradually narrowed the great divergence between the developed Western world and the developing world.[441] Since then globalization has increasingly entailed "Asianization".[442] This process was first importantly contributed towards by Japan and the Asian Tigers – Hong Kong, Singapore, Taiwan, and South Korea.[443] China under Deng Xiaoping followed in their path from the 1978/79 onwards, and so did India from the 1990s onwards.[444] Consequently, whereas the Japan and the Asian Tigers enjoyed a head start vis-à-vis China, the latter enjoyed a head start vis-à-vis India. The different levels of these countries' development still reflect this, and therefore, so do their economic characteristics in their interactions with the Gulf states, as this chapter shows. All of the countries covered in this chapter have mutual interests in regard to the Gulf, especially in terms of oil imports. Yet, each have their own comparative advantages, which entails that they have a particular economic role in the Gulf. Nevertheless, Japan, South Korea, and India, to various extents all find themselves in commercial competition with each other, as well as with China.

5.1 Japan and the Gulf

Japan was the first modern non-Western country which built a fully-industrialized, globalized economy. This process, which had started with the 1870s' *Meji* Restoration, was dramatically, but briefly interrupted by the events of World War Two.[445] Following its reconstruction to a capitalist and democratic state, with a

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441 See: Ferguson 2012; Maddison 2003; Morris 2011; Pomeranz 2001.

442 Ehteshami, A. (2015), 'Middle East-East Asia relations. Between geopolitics and globalization. In: A. Ehteshami, Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*. London / New York City: Routledge, pp. 13-15; Funabashi, Y. (1993), 'The Asianization of Asia'. In: *Foreign Affairs*, November/December 1993 issue [https://www.foreignaffairs.com/articles/asia/1993-12-01/asianization-asia].

443 See: Mee Kim, E. (1998), *The Four Asian Tigers: Economic Development and the Global Political Economy*. Bingley: Academic Press; Smith, D.B. (1995), *Japan since 1945: The Rise of an Economic Superpower*. London: Palgrave Macmillan.

444 For China, see next chapter, for India, see: Ghosh, M. (2013), *Liberalization, Growth and Regional Disparities in India*. New Delhi / Heidelberg / New York City / Dordrecht / London: Springer; Joshi, V. (2017), *India's Long Road: The Search for Prosperity*. New York City: Oxford University Press.

445 Smith 1995; Beasley, W. G. (1995), *The Rise of Modern Japan: Political, Economic and Social Change Since 1850*. New York City: St. Martin's Press; Paine, S.C.M. (2017), *The Japanese Empire: Grand Strategy from the Meiji Restoration to the Pacific War*. Cambridge: Cambridge University Press.

pacifist constitution and under a de-facto American military protectorate and Cold War alliance, Japan rapidly recovered and developed into the world's second-largest economy for half a century, before China overtook it in 2010.[446] Given this condition and given its own energy-resource scarcity, it also quickly became one of the world's most energy-import-dependent powers. Consequently, in modernity, at least among the major powers, Japan is the oldest East Asian economic and political partner of the Gulf countries, with which it developed ties already in the 1950s – importing oil from them before most of their resources had even been tapped.[447]

5.1.1 Japanese-Gulf Trade

In the two decades since the Cold War's end, the value of Japan's trade with the Gulf rose almost by a factor of five, from $38 billion in 1990 to $180.3 billion in 2011. By comparison, Japan's global trade merely grew by a factor of three over the same period.[448] Japan-Gulf trade is heavily dominated by energy, which explains these diverging ratios.

The Gulf approximately supplies a staggering average of 90% of Japan's oil consumption.[449] The country's total energy consumption peaked in the mid-2000s.[450] In 2004, a mere 4% of its energy consumption came from domestic non-nuclear sources, complemented by 18% provided by its then growing nuclear industry. Total oil dependency constituted around 26% a year later – but already nearly 90% of that oil came from the Gulf.[451] This regional dependency has remained the case and has even intensified in relative terms. Though Japan's total energy consumption, including its oil consumption have been declining since 2005 in absolute terms, its

[446] Ibid.; Forsberg, A. (2014), *America and the Japanese Miracle: The Cold War Context of Japan's Postwar Economic Revival, 1950-1960*. Chapel Hill: The University of North Carolina Press; Barboza, D. (2010), 'China Passes Japan as Second-Largest Economy'. In: *The New York Times*, 15 August 2010 [http://www.nytimes.com/2010/08/16/business/global/16yuan.html?pagewanted=all]

[447] Miyagi, Y. (2011), 'Japan's Middle East Security Policy. Theory and Cases'. Oxon: Routledge, pp. 61-63. Miyagi, Y. (2014), 'Japan's Politico-Strategic Relations with the Gulf'. In: T. Niblock, Y. Guang (eds.), *Security Dynamics of East Asia in the Gulf Region*. Berlin: Gerlach Press, p. 183.

[448] Minagi, Y. (2013), 'Japan and the Gulf: Balancing the Business Relationship'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 343.

[449] Ibid.: 341.

[450] Ministry of Internal Affairs and Communication, Statistics Bureau (2017), *Statistical Handbook of Japan 2017*. Tokyo: Statistics Bureau Ministry of Internal Affairs and Communications Japan, p. 78 [http://www.stat.go.jp/english/data/handbook/pdf/2017all.pdf#page=90].

[451] Miyagi, Y. (2013), 'Japan's Engagement in the Gulf'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 319.

relative oil-dependency has increased due to its termination of nuclear energy production, following the 2011 Fukushima disaster.[452] In 2015, 42% of Japan's energy consumption was covered by 'petroleum and other liquids'. Coal was at 27%, natural gas at 23%.[453]

The rankings for oil imports by Gulf country have mostly remained relatively similar, with only Iran and Iraq constituting differences over certain times for largely geo-political reasons. Iran's political risk has often caused dents in Japanese oil imports, starting from the Islamic Revolution in 1979, throughout the Iran-Iraq War and then, up to more recently, due to international sanctions by reason of Iran's covert nuclear programme, following which the US exerted high pressure on Japan to reduce its imports from Iran. In 2011, Iran still supplied roughly 9% of Japan's crude oil imports, 2015 saw a decreased ratio of 5%.[454] Though blessed with a huge amount of resources, Iraq's almost four-decade-lasting insecurity, sanctions, war and underdevelopment meant it has still not realized its oil production and export potential. In 2011, Japan could still merely import 2.3% of its oil from Iraq.[455] Yet, despite this long-lasting reduction of Japanese oil imports from Iran and Iraq, prospects for future growth are significant, given the 2016-lifting of UN-sanctions on Iran, and taking into account an optimistic scenario of long-term Iraqi stabilization following the suffocation of IS.[456]

Saudi Arabia and the UAE have constantly dominated the stage since the 1990s.[457] In recent times Japan's crude oil import from the Gulf peaked in 2008 by value, though this was due to the high oil price at the time. The fact that the years since, up until 2015, saw a lower value is due to the low oil price, especially since 2014.[458] In 2015, Saudi Arabia supplied 34% of Japan's oil imports, followed by the UAE's 25%. With the exception of Russia, which supplied 8% the same year, other Gulf countries

[452] Idid.: p. 320.
[453] *U.S. Energy Information Administration* (2017), 'Japan. Country Analysis Brief'. 2 February 2017 [https://www.eia.gov/beta/international/analysis_includes/countries_long/Japan/japan.pdf], P. 3.
[454] Ibid.: p. 6; Bazoobandi, S. (2013), 'Iran's Ties with Asia'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, pp. 68-71.
[455] Minagi 2013: p. 348.
[456] England, A. (2017), 'Iraq announces defeat of Isis'. In: *Financial Times*, 9 December 2017 [https://www.ft.com/content/d6636416-dcf3-11e7-a8a4-0a1e63a52f9c].
[457] Minagi 2013: p. 345.
[458] Ibid.

followed among Japan's top suppliers, with Kuwait and Qatar both supplying 8% each.[459]

In terms of Japan's natural gas imports – a resource covering 23% of Japan's energy consumption in 2015 – the country's general import-origins are geographically more diversified than with oil, although most imports are shipped in by sea in the form of liquified natural gas (LNG). Despite import diversification, the Gulf region still constitutes roughly a quarter of Japan's natural gas imports. Its most important partners in 2016 were Australia (27%) and Malaysia (18%). Russia provided 9% and Indonesia 8%, but Qatar, now Japan's most important gas provider from the Gulf covered 15% (i.e. the third in total), the UAE 6% and Oman 3%.[460]

In spite of more diversification in gas imports, all these figures underline how central the Persian Gulf is to Japan's energy security and will remain so, especially post-Fukushima. This is also underlined by the constant trade deficit Japan has run with its Gulf partners. From the post-World War Two period until Fukushima Japan enjoyed a global trade surplus.[461] The Gulf always marked an exception in this, demonstrating the uniqueness of the ties due to energy.[462]

Gulf exports to Japan are nearly fully composed of energy products.[463] Nevertheless, already since the 1970s, the region has also been importing a large amount of Japanese manufactured goods, including electronics, automobiles, and heavy machinery.[464] However, these have been declining relatively throughout the last twenty years in the face of intra-Asian competition, especially from South Korea and China. As Minagi underlines, '[i]t became difficult for 'Made in Japan' products to compete in terms of price with the products of emerging Asian countries'.[465]

Around half of Japan's exports to the Gulf are categorised as 'transport equipment'.[466] This includes passenger- and large automobiles, motorcycles, and construction

[459] EIA 2017, 'Japan': p. 7.
[460] Ibid.: p. 12.
[461] *BBC News* (2015), 'Japan records first trade surplus since 2012'. 22 April 2015 [http://www.bbc.co.uk/news/business-32408371]; Smith 1995.
[462] Minagi 2013: pp. 342-345.
[463] Ibid.: p. 348.
[464] Ibid.: p. 341.
[465] Ibid.
[466] Ibid.: p. 346.

machinery. Trade in this category has sometimes fluctuated due to oil-price dynamics or geo-political supply-chain disruptions.[467]

A curious phenomenon can be observed in the product category of electrical machinery, including tech-goods from established world-class companies such as Panasonic, Sharp, Sony, and Toshiba. Logistical networks, outsourcing, and re-export business have watered down the Gulf impact of 'Made in Japan' products, because 'more than 90% of those companies' products in the Gulf come from Asian countries other than Japan'.[468]

The types of Japanese products to the Gulf do not significantly vary by country. In addition to the above-mentioned categories, Japan also exports metal products, chemicals, and textiles to all Gulf states.[469]

Given the intra-Asian competition and Japan's demographic challenge the country is set to restructure its economic model – with the aim of maintaining its current account surplus, but not to return to its trade surplus. Instead, economists are recommending Japan to reinvent itself as a big outward investing country.[470] The Gulf has so far been a relatively moderate Japanese FDI destination, but has significant growth potential, despite increased competition in that area also.

5.1.2 Japanese-Gulf Investment and Project Contracting

For Japanese investment to have a highly noticeable impact in the Gulf, the country's large enterprises would need to step up their direct investment there. Japanese foreign direct investment (FDI) and Engineering/Procurement/Construction contracts (EPC) have vacillated since 1975. From then until 2011, with only a few exceptions, its average portion has merely represented less than 1% of its global outward investment. It reached more than $1.2 billion in 2008, its peak so far, along with its trade.[471]

Historically, Japanese FDI into the Gulf has mainly been in the petrochemical and steel industries. A well-known example from Saudi Arabia is the Petro Rabigh project

[467] Ibid.: p. 347.
[468] Ibid.
[469] Ibid.: pp. 348-355.
[470] *The Economist* (2012), 'Japan's trade balance. Seeing red'. 14 January 2014 [http://www.economist.com/node/21542794].
[471] Minagi 2013: p. 357.

of 2005, a $10 billion joint venture between Japan's Sumitomo Chemical and Saudi Aramco.[472] Other Japanese companies such as Marubeni, Mitsui, and Sojitz are also conducting business in various Gulf countries. Most Japanese companies are located in the UAE, especially in Dubai's free zones, where 100% foreign ownership is permitted. Saudi Arabia hosts the second largest number of Japanese firms in the Gulf, followed by Qatar and Iran.[473] Especially the latter, after the lifting of UN-sanctions, is a potentially big market for Japan to invest in, as it has already sought in the past, before UN-sanctions and before US pressure forced divestment.[474] Japan's high prospects in Iran post-sanctions were also confirmed by Jonathan Siklos, Associate Director of Control Risks' Dubai branch. He emphasizes the large number of Japanese clients of the risk consultancy recently seeking to enter the Iranian market.[475]

In terms of contracting, the Gulf absorbed a larger share of Japanese investment, especially in the 1970s and 1980s in the petrochemical industry. It rose again in the early 2000s, peaking in 2005 with a total value of $13.4 billion – representing a staggering share of more than 50% in global Japanese contracting. Minagi lists 12 contracts signed in 2005: two LNG plants in Qatar; a refinery plant, an LNG plant, a methanol plant and two petrochemical plants in Saudi Arabia; a chemical textile plant and petrochemical plant in Iran; and, most famously, a hyper-modern light rail transit system in the UAE – the Dubai Metro.[476]

In terms of banking, Japanese finance houses constitute the longest-present from Asia in the Gulf, with China catching up only after the financial crisis. Most Japanese banks in the Gulf have branches in the UAE, Saudi Arabia and Qatar. Minagi highlights an important competitive advantage that Japanese banks have over their intra-Asian rivals, for now: 'Japan has the financial capability to support the Gulf economies, not only for Japanese related projects in the Gulf but also for local projects/entities, whereas other Asian countries have only supported their own country-related business in the Gulf'.[477]

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472 Ibid.: p. 358.
473 Ibid.: pp. 358-359.
474 Bazoobandi 2013: p. 70.
475 Siklos, J. (Control Risks), interviewed by the author on 23 November 2016 in Downtown Dubai. See Consent Form attached.
476 Minagi 2013: p. 360.
477 Ibid.: p. 365.

Indeed, this he highlights as potentially crucial for Japan, if the Gulf is to help alleviate Japan's overall and especially its Gulf trade deficit, because other Asian countries, especially South Korean companies, have recently won more and often prestigious contracts.[478] Tokyo has been alarmed by this and as a result, in addition to its highly increased incentive to contribute where it can towards its energy security, has recently pushed for closer diplomatic relations with the Gulf states.

5.1.3 Japanese-Gulf Diplomacy and Strategy

Given Japan's Peace Constitution, the country has essentially acted as a demilitarized trading-state for a long time.[479] Although it has recently seen a push for amendment in 2016, it remains to be seen how far this translates into a different strategy for Japan's armed forces abroad.[480] Since Japan relies on US-military protection at home and in East Asia, as well as in the Persian Gulf, on which it is heavily resource-dependent, its strategic ties with the Gulf states have been largely apolitical and firmly entrenched inside its alliance with the US. Though Japan pursued an independent economic policy with countries like Iran and Iraq at certain times, it has ultimately been forced to bow to American pressure whenever that policy breached US geo-political interests in the Gulf.[481] Replacing the hitherto relatively significant amount of oil imported from Iran until 2012 has not been as easy as the currently large global supply might suggest. This is to be recalled when discussing Asian countries' dependence levels and symmetries.

Furthermore, the Gulf's political and security risks, have on numerous occasions threatened and harmed its trade and investment flows – and, given its energy dependence on the Gulf – its economic growth at home. The 1973 OPEC oil embargo against the developed world, the 1979 Iranian Revolution, the Iran-Iraq War, the 1990/91 Gulf War, and the 2003 Iraq War are the most dramatic examples of the kind of consequences oil-import-dependent countries can face. Ehteshami utilizes

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[478] Ibid.: p. 364.

[479] Miyagi 2011: pp. 9-11 / pp. 68-69; Sebata, K. (2010), *Japan's Defense Policy and Bureaucratic Politics, 1976-2007*. Lanham/Boulder/New York City/Toronto/Plymouth: University Press of America.

[480] McCurry, J. (2016), 'Japan could change pacifist constitution after Shinzo Abe victory'. In: *The Guardian*, 11 July 2016 [https://www.theguardian.com/world/2016/jul/11/japan-could-change-pacifist-constitution-after-shinzo-abe-victory].

[481] Sakai, K. (2014), 'The Demise of Japan's Independent Policy in the Middle East'. In: T. Niblock, Y. Guang (eds.), *Security Dynamics of East Asia in the Gulf Region*. Berlin: Gerlach Press, pp. 203-221.

these recent historic analogies to convincingly demonstrate the risk-dimensions that now all major Asian oil importers face, including, more than ever, Japan:

> ‘So, while ‘Asianization’ of the Middle East may be taking root, it also exposes West Asia and East Asia to each other’s considerable geopolitical tensions. Thus, the strategic vulnerability of the relationship should not be overlooked. A preview of the impact of the inter-Asian interdependencies which could be replicated in later decades occurred in 1973/74, during which Japan’s impressive GDP growth rate of 5.1 per cent a year was reduced to just 0.5 per cent as a direct consequence of the oil supply disruptions and subsequent price rises of that period. Japan’s vulnerability then was compounded by the fall of its trusted energy ally, Pahlavi Iran, in 1979 and the energy crisis which followed the eruption of open conflict between the two neighbouring oil states of Iran and Iraq. Japan arguably did not recover from this crisis’.[482]

In order to prevent such crises from impacting its economy, Japan, just as all other Gulf-energy-importing countries, for now, rely on the US military’s Gulf security umbrella and that of its closest allies. Though Japan, under American pressure, deployed a small number of non-combat-engaged troops to the Gulf in both the 1991 and 2003 wars to complement its financial assistance, these deployments can be regarded as mostly cosmetic in nature without a game-changing impact on security provision.[483]

Nevertheless, in recent years, following numerous simultaneous developments, such as American encouragement for more burden-sharing, even higher Japanese oil-import-dependency, and the growing role of Asian rivals, especially China, in the Gulf, Japan has cautiously been upgrading its regional engagement. It has facilitated a more regular, in-depth, multi-dimensional dialogue, especially with its most important GCC partners, setting up several bilateral fora contributing to a growing institutionalization of Japan-GCC ties. These serve largely economic cooperation, educational exchange and tourism promotions, but also political and security consulting in order to address the region’s risks to energy supply-and-demand-security. As Miyagi underlines, both Japan and the GCC countries, recognize a ‘mutual dependency’ towards each other, and are therefore deliberately expanding this dependency in order to firmly entrench the bilateral ties.[484]

Diplomatic and other institutional and cultural ties with Iran are far less established due to American pressure. With Iraq on the other hand, Japan has sought to diversify and intensify its political relations creating multiple cooperative economic fora in

[482] Ehteshami 2013: pp. 27-28.
[483] Ishiguro, H. (2014), ‘The Japan Maritime Self-Defence Force and Regional Security in the Indian Ocean and the Gulf: Looking Towards 2023’. In: T. Niblock, Y. Guang (eds.), *Security Dynamics of East Asia in the Gulf Region*. Berlin: Gerlach Press, pp. 226-228.
[484] Miyagi 2013: p. 325.

order to promote Japanese investment into the development of Iraq's hydrocarbon industry and beyond.[485]

All GCC countries, but especially Saudi Arabia and the UAE, enjoy a higher degree of Japanese attention though, and, due to their combined relative stability and diverse importance, will continue to do so, unless US-Iran relations are fully rehabilitated. After a period of relative neglect, Japanese state visits to GCC countries have increased in recent years, especially under the second Shinzo Abe-administration – placing it into a more pro-active foreign (and potentially security) policy in general but highlighting the growing priority it places on the Gulf in that respect.[486]

Last but not least, the Japanese Navy's participation in the US-led international counter-piracy operations around the Horn of Africa, even though relatively low-key so far, underline Tokyo's growing determination to abandon its complete hands-off approach to global security matters. Along with naval operations in the Gulf of Aden and the Indian Ocean, the Japanese Navy is setting up closer ties with the GCC and has recently stationed liaison personnel at America's naval base in Bahrain and is increasingly interested in military exchanges and joint exercises.[487] It seems likely that these will be expanded and further integrated into the exercises it already undertakes regularly with the US, India and Australia.[488] Most tellingly, Japan has recently announced to further expand its military base in Djibouti, as part of its counter-piracy operations, but also with the intention of matching China's new military base there.[489] This simultaneous and sudden choice speaks volumes for Sino-Japanese rivalry overseas. It is even being joined by a third important East-Asian actor.

5.2 South Korea and the Gulf

Apart from Hong Kong, Singapore, and Taiwan, South Korea was one of the Four Asian Tigers which first started to roar audibly in the 1980s. Despite its geographical surroundings being made up by great powers like China, Japan, and Russia, and

[485] Ibid.: pp. 327-329.
[486] Sakai 2014: p. 220.
[487] Ishiguro 2014: pp. 225-236.
[488] Smith, J.M. (2017), 'Why Is India Excluding Australia From Naval Drills?'. In: *The Diplomat*, 1 June 2017 [https://thediplomat.com/2017/06/why-is-india-excluding-australia-from-naval-drills/].
[489] Kubo, N. (2016), 'Japan to expand Djibouti military base to counter Chinese influence'. In: *Reuters*, 13 October 2016 [http://www.reuters.com/article/us-japan-military-djibouti-idUSKCN12D0C4]

despite the North Korean threat beyond the Demilitarized Zone, South Korea has developed into a fully modernized, industrialized, high-tech, free-trading, capitalist, liberal democracy. Notwithstanding its relatively small population of just over 50 million, at the time of writing, it is the eleventh largest economy in the world and enjoys the highest standard of living at home, and a large degree of cultural attractiveness and soft power abroad.[490]

Yet, both its economy and its security depend on the same two things that Japan depends on, because of two also similar geological and geo-political realities: South Korea requires uninterrupted access to foreign energy resources due to its lack of domestic ones, and a military alliance with the US due to Cold War-inherited regional enmities and rivalries. Thus, just like Japan, South Korea's industrial development and growth almost automatically needed and needs to rely on oil (and gas) imports from the Persian Gulf, and, just like Japan, South Korea is not only dependent on the American security umbrella at home, but also on the one in the Gulf to protect its energy supply-lines and trade routes, as this section shows.[491]

5.2.1 South Korean-Gulf Trade

After lagging far behind Japan, and even the lesser developed China and India prior to the Cold War's end, South-Korea's trade with the Gulf states has grown rapidly since 1990, and, with the exception of financial crisis-hit 2009, also consistently. Whereas 1990 merely saw a trade value of $6.1 billion, by 2011, it had reached $134.1 billion.[492] For 2011, trade with South Korea constituted 8% of the GCC's global.[493] Similar to other Gulf trading partners, the bulk of goods flowing between Gulf countries and South Korea has been oil and to a lesser extent gas. Consequently, South Korea also runs a heavy trade deficit with the Gulf.[494]

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490 See: Chung, Y. (2007), *South Korea in the Fast Lane: Economic Development and Capital Formation*. New York City: Oxford University Press; Heo, U., Roehrig, T. (2014), *South Korea's Rise: Economic Development, Power And Foreign Relations*. Cambridge: Cambridge University Press.
491 For an analysis of the US's East-Asian alliances, see: Rozman, G. (ed.) (2015), *Asia's Alliance Triangle: US-Japan-South Korea Relations at a Tumultuous Time*. Basingstoke: Palgrave Macmillan.
492 Niblock, T. (2013), 'Gulf-Asia Economic Relations, Pan-Gulf and Pan-Asian Perspectives'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, pp. 26-29.
493 Al-Sudairi, M. (2012), 'South Korea-GCC Economic Relations: An Overview'. *Gulf Research Center*, November 2012 [https://www.files.ethz.ch/isn/156678/GCC-ROK_Paper_final_6-11-2012_8858.pdf], p. 3.
494 Ibid.

Following its consistent economic growth in the last few decades, South Korea's energy demand has naturally followed, even though it is noteworthy that the country's efforts for energy efficiency are among the highest in Asia and indeed the world. In 2015, South Korea was the ninth largest energy consumer in the world. Its energy consumption was to 41% dependent on petroleum and other liquids, 31% on coal, 14% on natural gas, 13% on nuclear energy, and 1% on renewables.[495] Though the relative oil-dependency in its energy consumption is high and has steadily increased in absolute terms, petroleum and other liquids have reduced their share in South Korea's energy consumption. These peaked in the mid-1990s, reaching around 66% of the country's total. South Korea has increasingly and successfully sought to balance its consumption mix, leading to coal's, gas's and nuclear energy's slight growth. Shifts in the fuel portfolio seem destined to continue as the country additionally seeks to expand its use of renewables for environmental concerns.[496]

Despite oil consumption moderation over the years, it will continue to dominate in the short-to-mid-term future. It has grown consistently in absolute terms from the 1990s onwards, with 1998 and 2008, during the Asian and Global financial crises, being the only exceptions. Petroleum and other liquid's 41% dominance in 2015 equated a consumption of 2.4 million barrels per day (b/d). This entailed an overwhelming reliance on the Persian Gulf as South Korea's main source of oil. In that year, more than 80% of South Koreas' crude oil imports came from Gulf countries. Saudi Arabia provided 30% of that, Kuwait 14%, Iraq 13%, Qatar 11%, the UAE 10%, and Iran 4%.[497]

A major difference to Japan's Gulf import patterns is Iraq, where South Korean oil companies have won more contracts.[498] With regards to Iran, Seoul faced the same American pressure that forced Tokyo to reduce its imports. In 2011, Iran's share in South Korea's crude oil imports still stood at 10%. After the following international sanctions package, this had to be drastically reduced even though 'South Korean officials [...] expressed their concerns over the de-stabilizing effect of sanctions

[495] *U.S. Energy Information Administration* (2017), 'Country Analysis Brief: South Korea'. 19 January 2017 [https://www.eia.gov/beta/international/analysis_includes/countries_long/Korea_South/south_korea.pdf], p. 3.
[496] Ibid.: p. 2.
[497] Ibid.: p. 5.
[498] Kolb, J. (2013), 'Small is Beautiful: South Korean-Gulf Relations as an Example of Strategic Engagement by Players in Different Arenas'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 302.

against Iran on international oil markets, which can impose adverse effects on the South Korean economy'.[499] Similar to Japan's import pivot, South Korea turned to the Arab Gulf states and found willing replacers for Iranian oil in Saudi Arabia, Kuwait, Qatar, and the UAE. Since the lifting of the UN-sanctions, South Korea is well-placed to revive its oil imports from Iran, especially because the two countries had already improvised their trade mechanisms in the face of the pre-oil-industry-sanctions-regime. As Bazoobandi writes, 'from October 1, 2010, to compensate for the negative impact of sanctions, South Korea started using won instead of dollars to clear the payments to Iran'.[500] This might be of continued importance given the enduring American refusal to lift its unilateral sanctions on Iran, which prohibit dollar-denominated trade and investment.[501]

If Iran, in the future, manages to heavily diversify its own energy consumption – one of the goals of its nuclear programme – it could also expand its exports of natural gas, which, up to now, has barely happened. South Korea's own established consumption diversification has consistently seen an increase of natural gas imports until 2013 and would thus be an interested partner. So far, all of its natural gas imports come in the form of LNG, and, again similar to Japan, those LNG import-origins are more diversified than with oil. Yet, the Gulf again provides the lion's share, accounting for roughly half of South Korea's LNG imports in 2015. Qatar heavily dominated the South Korean gas market with 37%, followed by Oman, which covered 12%. The country's other major LNG providers were Indonesia, Malaysia, Russia and Australia.[502]

Until recently, the non-hydrocarbon trade between South Korea and the Gulf was relatively marginal compared to oil and gas, and indeed marginal compared to Japan's, India's, and China's relative trade diversification with the Gulf. This has changed though, with South Korea's strong reputation as a developed country producing world-class goods. South Korea has been exporting a growing number of manufactured products – both high tech, where it primarily competes with Japan – as well as historically more low-tech, where China is now heavily dominant though. Some of South Korea's exports to the GCC states have been followed by FDI of several

[499] Bazoobandi 2013: pp. 74-75.
[500] Ibid.: p. 77.
[501] Myers, D. et. al. (2016), 'OFAC Provides Further Guidance On Iranian Sanctions'. *Reed Smith Client Alerts* [https://www.reedsmith.com/en/perspectives/2016/10/ofac-provides-further-guidance-on-iranian-sanction].
[502] EIA 2017, 'South Korea': p. 12.

established South Korean consumer brands, especially in automobiles and electronics.[503]

Despite the trade deficit, South Korea's exports to the GCC as a collective destination have been growing, with the bloc recently becoming 'South Korea's second greatest export destination after China'.[504] Davidson recounts the most prominent developments in recent decades. In 1982, for instance, Hyundai started to supply parts worth $700 million for the development of a Saudi Arabian offshore oilfield, with Daewoo following the year after to supply gas compression platforms worth $110 million to the Kingdom. He also highlights the prominence of barter deals in the relationships, in which South Korean companies export technological products in return for oil imports to the country – thereby saving all parties some considerable currency exchange costs.[505] Thus, the above-mentioned barter system that South Korea has also used in trade with sanctioned Iran does not appear to be an isolated case.

South Korea's exports to the GCC states are now increasingly diversified, hitherto being dominated by textiles and rubber parts, and especially automobiles. Yet, in recent years, the latter accounted for merely around 20% of the country's total exports to the Gulf. Now, electronic equipment and high-tech gadgets, such as mobile phones, smart phones, and computers are the most quantitatively and qualitatively prominent products. Big brands like Samsung and LG are highly popular among the GCC's diverse national and international consumers.[506]

Per head, the UAE was until recently clearly the largest destination for South Korean goods. Saudi Arabia is number one in absolute and relative terms – importing 39% of South Korean exports to the GCC in 2009. Yet, that year, the UAE followed closely with 37%. Given Saudi Arabia's much larger population, there should be a much larger market for South Korean merchants to tap into. Qatar followed third, with 10%, Kuwait 9%, Oman 4%, and Bahrain 1%.[507] A South Korea-GCC free trade deal would likely see a growth and balancing effect on the bulk and destination of South Korean exports to the GCC countries. Negotiations were launched in 2007 and

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[503] Davidson, C.M. (2010), *The Persian Gulf and Pacific Asia: From Indifference to Interdependence*. New York City/Chichester: C Hurst & Co Publishers Ltd, pp. 42-44.
[504] Ibid.: p. 42.
[505] Ibid.: p. 43.
[506] Ibid.
[507] Ibid.

several rounds have followed, though up to the time of writing, have not yet come to fruition. As Al-Sudairi writes, 'progress in the talks has stalled as a result of differences over tariff concessions for high-priority products like electronics, automobiles, and petrochemicals'.[508]

Despite Iran's near four-decade-long post-revolutionary pariah status, South Korean goods have enjoyed a considerable market share in Iran. Similar to the GCC, South Korea's main exports to Iran have been cars, mobile phones, computers, and other electronic high-tech gadgets.[509]

In a post-sanctions world, these Korean exports to Iran are destined to increase, alongside FDI and EPC-contracts, which could quickly mirror the already substantial investment and contracting that South Korean companies have so far undertaken in GCC countries.

5.2.2 South Korean-Gulf Investment and Project Contracting

Admittedly, despite being major corporations, the South Korean firms investing directly into the Gulf countries are still relatively few in number. However, in the area of construction contracting the country's companies have become Asia's and indeed the world's most successful players in the Gulf market, winning competitive bids for prestigious contracts in a multitude of areas. Though catching up fast, as the second part of this manuscript shows, China's reputation as a merchant, investor, construction contractor still seems to be influenced by the stereotypical, though comparably correct notion of providing more cheaply-manufactured technology, goods, and know-how. For the moment, at least in construction, South Korea is ahead and has even overtaken Japan. It is quality over quantity now, because the amount of South Korean EPC-contracts was larger in the 1970s and 1980s, than until very recently.[510]

South Korean construction companies like Hyundai, and large numbers of construction workers arrived in Gulf countries already in the 1960s and had a huge impact on the first Gulf construction boom. Yet, when 'living standards in South

[508] Al-Sudairi 2012a: p. 9.
[509] Bazoobandi 2013: p. 76.
[510] Kolb 2013: p. 295.

Korea rose, these companies increasingly priced themselves out of the market' in the late 1980s, though only for the time being.[511]

As they developed higher standards, they won more prestigious contracts from the 1990s and throughout the 2000s. Tellingly, despite the relative quantitative decline of South Korean construction activity in the Gulf, 'it was estimated that over 90 per cent of South Korean construction work was [nevertheless] originating in the Persian Gulf with South Korean companies sometimes even acquiring market shares in Persian Gulf monarchies that were in excess of South Korea's total value of oil imports from those countries'.[512] Noteworthy projects included the building of the Abu Dhabi Investment Authority's grand headquarters in 2003 and Dubai's Burj Khalifa in 2004, both by Samsung Engineering and Construction.[513] Such projects re-started an increase in South Korean EPC-contracts in the Gulf. In 2008, when the financial crisis started, but before it had its biggest impact in the 2009 global credit crunch and Dubai's real-estate crash, South Korea's impact on Gulf construction seems to have been huge again. Davidson breaks the story down into the numbers:

> 'In total, it is [sic.] has been estimated that South Korean companies won [...] just over $27 billion [worth of EPC-projects] in 2008. With total Gulf construction contracts in 2008 being worth $47.6 billion, [...] this means that South Korea had secured an impressive 57 per cent of the region's business'.[514]

Former South Korean President Lee Myung-bak, who had formerly chaired and transformed Hyundai Corporation into a global construction giant in the 1980s, initiated another South Korean construction pivot to the Gulf during his 2007 presidential election campaign.[515] Combining South Korea's earlier as well as recently revived infrastructure investment into the Gulf, Davidson observes, that over time, 'of the three principal Pacific Asian states, it has been South Korea that has made the greatest inroads into the Persian Gulf construction and labour sector'.[516]

A key moment in the new South Korean Gulf construction landscape came in December 2009, when Lee, then as newly-elected President on a state visit to the UAE, helped his country win a highly prestigious and attention-grapping bid to create

[511] Ibid.
[512] Davidson 2010: p. 59.
[513] Ibid.: p. 60.
[514] Ibid.
[515] Kolb 2013: p. 304.
[516] Davidson 2010: p. 59; Another successful bid included Hyundai Engineering and Construction's, Hyundai Heavy Industries', and the GS Engineering and Construction Company's involvement in constructing three out of five gas facilities in Abu Dhabi's Habshan region, worth $4.9 billion, which started in 2009. See: ibid.: p. 61.

an Emirati nuclear industry. A consortium composed of Korea Electric Power (KEPCO), Hyundai, Samsung, and Doosan Heavy Industries won a contract to build four nuclear power plants in the UAE, stunning the hitherto favourite competitors from Japan, the US, France, and the UK.[517] In 2011, South Korea also signed a cooperative nuclear agreement with Saudi Arabia.[518]

Other noteworthy South Korean construction projects in Saudi Arabia include Hyundai Engineering and Construction's investment into the Kingdom's natural gas infrastructure in the Khurais and Karan fields. Dealim, SK, and Samsung moreover won contracts in the Saudi refinery and petrochemical industries.[519] Although there is more information available on South Korean-UAE construction projects, Saudi Arabia has been the largest recipient of South Korean EPC involvement – absorbing a fifth of the GCC's total – and mostly in energy and also petrochemical infrastructure. 'Aramco alone has already signed deals with over 89 Korean construction companies to carry out some 39 contracts valued at $11.5 billion'.[520]

President Lee's initiative was a key moment and helped to lead to a new growth in South Korean EPC-contracts in the Gulf despite the global credit crunch at the time. General South Korean FDI into the Gulf states did not follow the respective trade and EPC patterns though, especially prior to Lee's initiative. It needs to be said that data on FDI-flows between South Korea and Gulf countries is even less available than data on EPC-contracts, especially when it comes to GCC-members' outward investment, with the slight exception to the UAE. On average, over the last two decades, the investment recipient countries which have so far seen the highest portion of South Korean FDI seem to have been Oman and the UAE. In the year 2010, according to the OECD, they yielded approximate FDI stock values of $762 million and $564 million respectively. Though slowly catching up again, Saudi Arabia ($221 million), the

[517] Ibid.: pp. 100-106; Kolb explains this breakthrough with five important factors influencing the UAE's choice. Firstly, the 'South Korean bid of $20bn was 40% lower than that of the nearest competitor and considerably below market expectations'. See: Kolb 2013: p. 304; Secondly, President Lee's state visit showed enthusiastic South Korean government support, bolstered also by further sweeteners such as guaranteed trade packages, which all together trumped that of the competitors. Thirdly, it seems that the South Korean government showed a much greater willingness for technical knowledge transfers. Fourthly, South Korea's pro-active commitment towards military cooperation with the UAE was then, and still is, without equals among the GCC's Asian economic and diplomatic partners. Last but not least, South Korea's non-great-power status might have played a role in Emirati perceptions and intentions to reduce the UAE's great-power dependency wherever possible. See: Kolb 2013: pp. 304-305.
[518] Kolb 2013: p. 305; Al-Sudairi 2012a: p. 8.
[519] Davidson 2010: p. 62.
[520] Al-Sudairi 2012a: p. 14.

largest Arab Gulf country and importer of South Korean goods and EPC, as seen above, still paled in comparison with these two countries, and was even behind Iraq ($327 million), and barely ahead of tiny Bahrain ($190 million). Iran, already under tight sanctions, received $34 million that year, Qatar a mere $17 million, and Kuwait a modest $4.8 million.[521]

The trend is going in the direction of the UAE, which overtook Oman a year later, with Saudi Arabia in hot pursuit. According to the Korea EXIM Bank in 2011, there were 187 active joint ventures between South Korean and Emirati enterprises, and a 166 between South Korean and Saudi ones.[522]

In the entire GCC, the number of South Korean firms stood at 448, and, when including joint ventures which incorporated other non-GCC and non-Korean multinational companies, at 990.[523] Observing the same dataset, Al-Sudairi underlines that 'most of these JVs are industrial SME projects focusing on telecommunications, petrochemicals, IT, and even automobile manufacturing'. He goes on to highlight growing 'Korean investments in service, finance and real estate ventures', which are largely UAE-based.[524] In Oman, most of the more than 100 South Korean companies that have so far directly invested there, are involved in EPC-contracts in the energy sector and port infrastructure, such as in Duqm, and are also building Omani ships.[525]

In Qatar, South Korean distribution companies have formed a joint venture with the Ras Laffan natural gas project (RASGAS) and have been awarded with long-term LNG purchasing concessions since 1995. Ten years later, the involved Korean consortium purchased a 5% equity stake in RASGAS.[526] In April 2012, a joint investment memorandum was signed between South Korea's Ministry of Land, Transport and Maritime Affairs and the Qatar Investment Authority to co-finance EPC-projects in third party countries.[527]

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[521] Kolb 2013: p. 294.
[522] Al-Sudairi 2012a: p. 11.
[523] Kolb 2013: p. 307.
[524] Al-Sudairi 2012a: p. 11.
[525] Cafiero, G. (2016), 'A Look at Oman and South Korea's Strategic Partnership'. *Middle East Institute*, 23 March 2016 [http://www.mei.edu/content/map/look-oman-and-south-korea%E2%80%99s-strategic-partnership#_ftn6].
[526] Kolb 2013: pp. 309-310.
[527] Ibid.: p. 310.

South Korea's investments in Iran have suffered the same fate as their bilateral trade, due to the sanctions regime. Yet, South Korea is keeping its options open despite US pressure and is set to exploit the recent lifting of UN-sanctions. In 2010, South Korea's GS Engineering and Construction $1.2 billion natural gas investment project in Iran's South Pars field was annulled.[528] The fate of an agreement signed between the countries in 2012, to invest jointly into a 1,680km pipeline construction between the Caspian Sea and the Gulf of Oman is still unclear but could soon see a new initiative.[529]

Regarding the GCC members FDI into South Korea, little information is publicly available. The total amount of global FDI inflows into both South Korea and Japan is marginal anyway, compared to other Asian countries. Most of the GCC's, i.e. predominantly the UAE's, FDI and FPI into South Korea flows into the manufacturing sector and into industrial services, and almost exclusively stems from sovereign wealth funds and national energy companies.[530] A rather lonely but more prominent Saudi investment into South Korea saw Saudi Aramco's purchase of a 35% equity stake in South Korea's S-Oil Refining Company in 1991, providing several of S-Oil's subsequent CEOs.[531] All in all, there is definitely room for FDI and FPI expansion between South Korea and the Gulf.

5.2.3 South Korean-Gulf Diplomacy and Strategy

Especially due to their energy trade, the diplomatic and strategic relationships between South Korea and the Gulf states have intensified. The upgraded diplomatic exchanges, institutionalization, and bilateral cooperation have also helped to, by now, greatly diversify trade and investment flows – resulting in deeper relations and a growing interdependence.[532]

Kolb lists and compares South Korea's as well as the GCC's respective interests in regard to the bilateral relationships, demonstrating their basic compatibility. They largely revolve around ongoing energy trade, but also around the diversification of non-energy trade, investment, knowledge transfer and cultural relations. In the

[528] Bazoobandi 2013: p. 75.
[529] Ibid.
[530] Al-Sudairi 2012a: p. 12.
[531] Ibid.
[532] Kolb 2013: pp. 291-297.

strategic arena, both the GCC and South Korea want to strengthen their institutional diplomatic dialogue and military cooperation.[533]

These dynamics are reflected by the growing number and level of bilateral state visits, for which Kolb offers a database covering the years from 2000 to 2012.[534] Furthermore, the Gulf regional importance for South Korea is also reflected in its government's endorsement for a 2010 proposal titled 'Building a Partnership with the Middle East in the Post-Oil Era' and the 2011 establishment of a Middle East Infrastructure Order Support Center in the UAE.[535]

South Korea's diplomatic relations with Iran are of very low scale, but both countries, as stated above, have mutual interests to expand at least their trade and investment connections, which will become increasingly viable, though not yet without barriers, in a post-UN-sanctions world. Iraq has seen a slightly greater effort on the part of South Korea to moderately deepen diplomatic relations following the 2003 US invasion. This has also been enabled, because South Korea deployed troops to Iraq between 2003 and 2008, when it, at least moderately, assisted US-led peace-keeping efforts.[536] The enduring political and security risks in the country though have prohibited greater South Korean involvement.

Oman and South Korea have had diplomatic relations since 1974 and given Oman's geo-strategic position at the Strait of Hormuz, and given South Korea's FDI into the country, both have an interest in maintaining stable and ongoing ties.[537] Bahrain and South Korea have enjoyed ongoing diplomatic relations since 1976, but their political ties do not seem to be a priority for either of them. One important side note concerns South Korea's increased military cooperation with some GCC members. Though very modest in scale, South Korea has recently become involved in the Manama-based Combined Maritime Forces (CMF), led by the US Navy and its allies.[538]

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[533] Ibid.: pp. 298-299.
[534] Ibid.: p. 299.
[535] Ibid.: p. 300.
[536] Hwang, B. (2004), 'South Korean Troops to Iraq: A Boost for U.S.-ROK Relations'. *The Heritage Foundation*, 13 February 2004 [http://www.heritage.org/asia/report/south-korean-troops-iraq-boost-us-rok-relations]; Axe, D. (2010), 'South Korea's Secret War'. In: *The Diplomat*, 27 April 2010 [https://thediplomat.com/2010/04/south-koreas-secret-war/].
[537] Cafiero 2016.
[538] *Combined Maritime Forces* (2017), 'Maritime International Cooperation discussed during Naval Visits'. 21 June 2017 [https://combinedmaritimeforces.com/2017/06/21/maritime-international-cooperation-discussed-during-naval-visits/].

Kuwaiti-South Korean relations, established in 1979, have also been ongoing for decades, and Kuwait's importance as a major oil-provider makes the country more important to South Korea, than Oman or Bahrain.[539] Qatar, in the last two decades, has acquired greater significance for South Korea, compared to the two first decades of diplomatic relations since 1974. In addition to Qatar's high relevance for South Korea's LNG imports, and the expanding FDI and EPC activity, both countries upgraded their political and institutional ties in 2010, seeking to diversify cooperation in a multitude of areas.[540]

Such deep and varied ties have always, but especially recently, been even more established between Saudi Arabia and South Korean. Since the opening of diplomatic relations in 1962/63, the countries became connected in energy trade and construction and labour contracting, as shown above. An initiative to set up closer strategic cooperation in economic, cultural, educational, scientific, and political matters gained traction as a result of Saudi Arabia's new eastward orientation, and then President Lee's second Gulf construction pivot in the late 2000s. This trend seems likely to further intensify and increasingly mirror the deep and multidimensional nature of South Korea's cooperation with the UAE.[541]

The latter country has long stood out in that respect and continues to do so. The Emirates' regional centrality as a business hub has spawned the most advanced South Korean engagement with the Gulf. Though this reflects the UAE's general standing in the world, there is even a qualitatively higher level of South Korean involvement. The level of institutional cooperation, energy and non-energy trade, and especially in South Korean EPC contracts and FDI, has been further diversified and deepened by South Korea's involvement in military cooperation with the UAE.[542] In 2010, South Korea agreed to export drones, and other high-tech military equipment to the UAE. Furthermore, and so far, unique among Asian partners of Gulf states, South Korea deployed a 130-strong training unit of elite soldiers, the Akh Brigade, to the UAE in January 2011 and then a 140-strong unit in July 2011, in order to help train Emirati special forces for counter-terrorism operations.[543] This marked South Korea's first

[539] Kolb 2013: p. 209.
[540] Ibid.: p. 310.
[541] Ibid.: p. 308-309.
[542] Ibid.: p. 303-307; Seo, J. (2014), 'The Changing Strategic Interests of the Gulf-South Korea Relationship: from Nuclear to Military Cooperation'. In: T. Niblock, Y. Guang (eds.), *Security Dynamics of East Asia in the Gulf Region*. Berlin: Gerlach Press.
[543] Ibid.

military deployment in a non-conflict zone. In 2016, it was reported that some South Korean troops had been permanently stationed in the UAE for these purposes.[544]

Combined with the South Korean military participation in the 1991 Gulf War, soft though it was, and its post-2003 contribution to Iraq's (then contemporary) reconstruction and military security provision, and South Korea's active involvement in counter-piracy operations around the Horn of Africa, an overall trend seems to be emerging. South Korea's willingness to get involved militarily, even if only on a very low level compared to Western powers in the wider Gulf region and periphery, makes it stand out from its intra-Asian neighbours and potential geo-political rivals. It needs to be stated though that, given South Korea's small country size, and given its complete prioritization of North Korea in security matters, this pro-active military role in the Gulf can only ever be complimentary to either the established Western-led security architecture, or complimentary to any other future one. Nevertheless, as Seo points out, South Korea, much to the UAE's and GCC's appreciation, seems set to continue and even upgrade its bold new Gulf strategy.[545] For structural reasons, one other Asian country in particular though has a much higher likelihood to have a strategic impact on the Gulf.

5.3 India and the Gulf

Its geographical position at the southern end of Asia's heartland creates an altogether different geo-strategic situation for India than for the East Asian powers of Japan, South Korea, and China. Historically, for this reason, it also marks a major difference to the latter three, in so far as India has experienced an ongoing and largely uninterrupted relationship with the peoples, polities, and markets of the Gulf. This encompassed more or less the total history of human civilization, from antiquity to the present.[546] Following the collapse of the Mughal Empire, British India, as seen in the previous part, traded with and militarily policed the Gulf for almost two centuries via Indian merchants, Indian civil servants, and the Bombay Marine's Indian manpower, even though the geo-strategic decision-making ultimately lay in London.

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[544] *The Korea Times* (2016), 'South Korean troops in UAE mark 5 years of stationing'. 1 January 2016 [http://www.koreatimes.co.kr/www/nation/2017/06/120_196085.html].
[545] Seo 2013: pp. 239-257.
[546] Pillalamarri, A. (2016), 'India and the Gulf States Share a Long History'. In: *The Diplomat*, 10 June 2016 [https://thediplomat.com/2016/06/india-and-the-gulf-states-share-a-long-history/].

Following independence, the Cold War too presented a unique experience, because India belonged to the Non-Aligned Bloc, whereas Japan and South Korea were Western allies, and China pivoted away from the Soviet-led communist bloc towards a de-facto partnership with the US, if not in the form of a geo-political alliance, then nonetheless in a game-changing economic partnership.[547] Over this period, Indian migration to the Gulf intensified, with numerous small Indian enterprises and large numbers of Indian workers causing a relative demographic dominance in most of the small Gulf states. At the time of writing, over six million Indians live and work in Gulf countries, a demographic dominance that dwarfs not only the Japanese, Korean, or Chinese expatriates there, but also the smaller GCC-states' domestic populations by an order of magnitude.[548] This Indian migration wave originated from deep historical currents, but created a rising tide especially from the 1970s onwards, when the Gulf states' skyrocketing oil-revenue created millions of new jobs for unskilled and semi-skilled contract workers.[549] It has continued ever since. All in all, India's demographic presence and labour-impact has been substantial and is likely to further intensify, even with the prospect of more advanced Gulf indigenization efforts and increased competition in labour services also from other Asian countries, including China.[550] This Indian labour-impact has not only been positively felt in the GCC countries, but also in India itself, in the form of vast remittances flows. 'Currently, remittances account for about 4 per cent of India's GDP. [...] By the end of the last decade, the Gulf was the largest source of remittances to India – at about 40 per cent, which was estimated to be around $60 billion'.[551] Such transactions between GCC countries and India, over that same period, have been increasingly complemented by an overwhelming growth in respective bilateral trade.

[547] Kissinger 2012: chapters 9-12; McMahon, R. (1994), *The Cold War on the Periphery: The United States, India, and Pakistan*. New York City: Columbia University Press.
[548] Pant, G. (2013), 'Situating India's Engagement with Emerging Asia'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 135.
[549] Seethi, K.M. (2013), 'India and the Emerging Gulf: Between "Strategic Balancing" and "Soft Power" Options'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 156.
[550] *Center for Strategic & International Studies* (2015), 'Gulf Roundtable: India between Iran and the Gulf'. 5 October 2015 [https://www.csis.org/events/gulf-roundtable-india-between-iran-and-gulf].
[551] Seethi 2013: p. 159.

5.3.1 Indo-Gulf Trade

After the fall of the Iron Curtain and India's comparably belated embrace of economic liberalization in the 1990s, its resulting high GDP growth complemented this old and new "Indianization" of the Gulf, as diplomatic relations and business ties intensified, especially in the realm of Indian energy imports, but also in trade generally.

The EU, Japan, and the US, have long dominated the GCC countries' trade, but developing Asia has been catching up fast, especially since the millennium. In 2001, India's trade with the GCC held a value of $5.5. billion. In 2014-2015, it had reached approximately $138 billion, turning India into the GCC's second largest trade partner, but only because China overtook it.[552] Over that period, in terms of trade growth, India has been the GCC's number one partner, even ahead of China, although the latter country for the last two decades, mostly recorded a slightly higher value of goods.[553] This trade growth accompanied India's vast economic growth of 11% on average over the same period – turning the country into the world's seventh largest economy by GDP, and third largest by PPP. A large chunk of India-Gulf trade growth has consisted of Indian oil, and to a lesser extent, gas imports from the Gulf states.[554]

In 2013, India was the world's third largest energy consumer:[555] Its energy mix, relatively diversified, but potentially highly dynamic, was composed of the following sources, according to the EIA: 44% of India's energy consumption came from coal, 24% from biomass and waste, 23% from petroleum and other liquids, 6% from natural gas, 2% from hydroelectric power-generation, 1% from nuclear technology, and 1% from other renewables.[556] India is seeking to balance its skyrocketing energy requirements with environmental concerns. As the country's middle class grows and a huge number of people need to be lifted out of extreme poverty this will present a challenge, but also an opportunity for investment into cleaner energy. Hence, coal, and to an increasing degree, petroleum, will remain high and even grow substantially in absolute terms. In the long-run, they are set to decline in relative terms to clean

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[552] Calabrese, J. (2017), "Linking West' in 'Unsettled Times': India-G.C.C. Trade Relations'. *Middle East Institute*, 11 April 2017 [http://www.mei.edu/content/map/linking-west-unsettled-times-india-gcc-economic-and-trade-relations]; Pethiyagoda, K. (2017), 'India's shifting role in the Middle East'. *Brooking Institution*, 28 April 2017 [https://www.brookings.edu/blog/order-from-chaos/2017/04/28/indias-shifting-role-in-the-middle-east/].
[553] Niblock 2013: pp. 18-29.
[554] Ibid.
[555] *U.S. Energy Information Administration* (2016), 'Country Analysis Brief: India'. 14 June 2016 [http://www.ieee.es/Galerias/fichero/OtrasPublicaciones/Internacional/2016/EIA_Country_Analysis_Brief_India_14jun2016.pdf], p. 1.
[556] Ibid.: p. 4.

renewables such as wind and solar power, as well as natural gas and nuclear energy. 'Despite having large coal reserves and overall growth of coal over the past two decades, India is increasingly dependent on imported fossil fuels. India's current administration under Narendra Modi has set itself the goal of reducing India's import dependency on oil and natural gas to two-thirds by 2022 and to half by 2030'.[557]

Nevertheless, India's oil consumption has grown dramatically, and, as of 2015, marked the world's fourth-largest. Despite substantial domestic production, India has been a net oil importer for many decades. Regardless of political initiatives to reduce domestic oil consumption, India's further economic development makes it increasingly dependent on absolute growth in oil imports in the mid-term future, even in the face of relative reduction of oil consumption compared to other sources. The year 1990 already saw India's oil import dependence at 42%. It reached approximately 75% in 2015, by then an amount of 3.9 million b/d. Almost 60% of those crude oil imports in 2015 came from the greater Middle East, predominantly the Persian Gulf. Saudi Arabia was the largest provider, reaching 20% of India's global crude oil imports, with Iraq a close second at 17%, and Iran, despite sanctions, 6%. Non-Gulf Middle East/North-African states included Libya and Sudan. The largest suppliers from outside the region were Nigeria and Venezuela, reaching 11% respectively.[558] As with the other Asian oil importers, India's reliance on the Gulf is likely to at least remain the same if not intensify, especially once Iranian oil, which India had to scale down on due to US pressure, returns to the market.[559]

Unlike with oil, India's natural gas consumption only began to grow notably from around 2000 onwards at an average of 6% per annum, especially as it became a prime candidate with which to reduce coal consumption.[560] India became a net importer of natural gas in 2004, when it started buying from Qatar. Most of India's gas imports come in the form of LNG.[561] India today is the fourth largest LNG importer in the world, reaching 10.4 million tons in 2014. Moody's forecasts India's LNG imports to increase to 24 million tons by 2020.[562] Except for Nigeria, which in 2012-2013 supplied 10% of India's total LNG imports, all other sources were located

[557] Ibid.: p. 1.
[558] Ibid.: pp. 10-11.
[559] Bazoobandi 2013: pp. 71-72.
[560] EIA, 'India', p. 16.
[561] Ibid.: p. 15.
[562] Agnihotri, G. (2015), 'Growing India Becomes Major LNG Player'. *Oilprice.com*, 20 June 2015 [http://oilprice.com/Energy/Natural-Gas/Growing-India-Becomes-Major-LNG-Player.html].

in the greater Middle East. Egypt provided 4%, Algeria and Yemen both 3% respectively. Qatar enjoyed a staggering Indian LNG market share of 80%.[563] In anticipation of the hugely growing demand, India's LNG-import portfolio is destined to diversify, although Qatar's dominance is likely to continue, due to competitive pricing.[564]

Energy, as with almost all of the Gulf's trading partners, dominates India-Gulf trade. Yet it is not confined to it, with India's proximity and the presence of Indian expatriates in the Gulf states ensuring a substantial growth in the import of Indian goods. These include also services, which are harder to measure in their impact on trade figures but take up a huge portion in the Gulf. Especially India's thriving IT and telecommunications industry have a strong presence in the GCC countries and are alleged to achieve approximate growth rates of 30% per annum there.[565]

These trends are likely to intensify and have an increasing impact on India-GCC trade growth. Saudi Arabia is not only India's fourth largest trading partner in total, with bilateral trade exceeding $26.5 billion in 2012. Saudi Arabia is India's 11th largest destination of exports – accounting for more than 5% of its global share.[566]

Yet, especially when considering the demographic divergence, India's trade with the UAE by far exceeds that of Saudi Arabia. Accompanied also by strong historic, political and cultural relations and the huge dominance of Indian expatriates in the Emirati population, India and the UAE are each other's largest trade partners. Given India's population size of over a billion and the UAE country size of only a few million, this trade symmetry is extraordinary, and speaks for the Emirati performance. The UAE is the second largest market for Indian goods in the world. A significant share of these goods was re-exported to other countries in the region, such as Afghanistan, Iran, Iraq, Pakistan, Saudi Arabia and Yemen. This is due to the UAE's regional centrality as a business hub. In 2011 India-UAE trade was worth more than $67 billion.[567]

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563 Ibid.
564 Mills. R. (2017), 'Qatar's Bold Move to Reassert Its Grip on Natural Gas Market'. *Bloomberg*, 5 April 2017 [https://www.bloomberg.com/view/articles/2017-04-05/qatar-s-bold-move-to-reassert-its-grip-on-natural-gas-market].
565 Pant 2013: p. 139.
566 Seethi 2013: p. 152.
567 Ibid.: p. 153.

The other Gulf states enjoy a considerably smaller share in their trade with India. Kuwait, due to a large amount of oil exports that supply roughly 10% of India's total, saw a trade value of approximately $12 billion in 2011. Roughly a tenth of that trade was composed of Indian exports to Kuwait – which have seen significant growth in recent years.[568] Qatar's overall trade with India is much lower than might be expected. Though bilateral trade has grown since 2005 as a result of Qatari LNG exports and is beginning to diversify slightly, in 2011 its value reached a mere $7 billion.[569] Oman, with more than $5 billion, despite its economic challenges, reached almost the same amount that year. Given deep historic and cultural ties, and Oman's efforts for economic diversification, it offers considerable potential for trade-expansion with India.[570] Bahrain is the GCC country with which India conducts least of its Gulf trade, reaching $1.5 billion in 2011.[571]

India-Iraqi trade has witnessed many ups and downs following the numerous security breakdowns in the country over the last half century. Although bilateral trade almost reached $10 billion in 2011, and Iraq is India's third largest oil source, the ongoing civil war following the establishment of IS, has disrupted business in Iraq, and as a result, trade with India and others. Nevertheless, if Iraq re-stabilizes, whether as one entity or as three or more, the entire country offers a potentially huge market for Indian-manufacture goods and Indian services.[572]

Iran is probably the Gulf state that holds most potential in India's future Gulf trade. Over the last decades, the country has already been vital for India's oil-supply – representing India's second largest oil source before the US sanctions regime of 2011/12. Simultaneously, India was Iran's third largest importer of oil among Asian countries.[573] Mirroring these other customers' behaviour, India had been especially keen to maximize trade with Iran – and being quite flexible in trade mechanisms in order to circumvent sanctions. Yet, following extensive US pressure after the 2011/2012 sanctions against Iran's oil industry, India saw itself forced to noticeably decrease its oil imports from Iran for the time being – though this is likely to change again swiftly following the nuclear deal in 2015/2016. During the sanctions period, India was Iran's number one source of many agricultural products, especially rice,

[568] Ibid.: p. 154.
[569] Ibid.: p. 155.
[570] Ibid.: p. 154.
[571] Ibid.
[572] Ibid.: p. 155.
[573] Bazoobandi 2013: p. 71.

wheat, and sugar. These Indian commodity exports are likely to mushroom, but more potential clearly lies with manufactured goods and services that, in the sanctions period, were more limited, such as 'construction equipment, building material and hardware, pharmaceuticals, telecom products, textiles, automobiles and spare parts'.[574] Such Indian industries are also looking into investment and contracting opportunities in Iran, something they have already been embracing in the GCC countries, albeit very moderately compared to trade.

5.3.2 Indo-Gulf Investment and Project Contracting

As India grows in GDP, PPP, and competitiveness, and the Indian migratory impact and geo-political orientation towards the Gulf intensifies, so is the potential huge in terms of bi-directional capital flows that go beyond remittances and the purchase of goods. This enormous potential has not yet been realized, although, especially when it comes to the tertiary sector, services, it is admittedly difficult to draw boundaries between the definitions of trade and FDI. Relatively recent research on India-GCC business ties highlights four characteristics of the currently untapped investment opportunities: according to the calculations of the South Asia/GCC-orientated investment bank Alpen Capital, up until the year 2012, Indo-Gulf investment accounted for merely 3% of bi-directional trade.[575] Especially when considering the GCC-countries' sovereign wealth funds and their vast amount and value of global assets, their capital injection into India, a geographic neighbour and one of the fastest growing future economic giants, has been marginal so far. The other way around, most Indians investing in the GCC countries are expatriates who live there. Hence, their entrepreneurship has no links with "motherland" companies, and therefore cannot be strictly counted as Indian FDI.[576] Last but not least, the UAE and Oman

[574] Ibid.: p. 73.
[575] *Alpen Capital Investment Banking* (2012), 'Trade and Capital Flows – GCC and India'. 2 May 2012 [https://de.scribd.com/document/145203032/Trade-and-Capital-Flows-GCC-and-India-Final-May-02-2012].
[576] Though the UAE is placed within the top ten of Indian outward investment destinations, countries with greater share include among others the Netherlands, Singapore, and the US: *Care Ratings* (2014), 'Outward FDI Investment by India'. 14 March 2014 [http://www.careratings.com/upload/NewsFiles/Studies/Outward%20FDI%20Investment%20by%20India.pdf]. An interesting side-note needs to acknowledge that India is the UAE's largest outward greenfield investor, according the Dhaman, the Arab Investment & Export Credit Guarantee Corporation. This is almost certainly due to a looser definition of FDI which in this case would incorporate Indian expatriates setting up UAE businesses: *Dhaman* (2016), 'Investment Climate in Arab Countries. Dhaman Index Attractiveness Index 2016' [http://dhaman.net/en/news/dhaman-publishes-investment-climate-report-2016/], p. 112.

dominate an uneven GCC investment into India with more than an 85% share.[577] Despite these modest performances, it is especially Indian businesses who are seeking a larger footprint in the GCC in the years ahead. With incentives to diversify their economies and intent on building knowledge-based growth, there are many Gulf markets in which India will increasingly enjoy a comparative advantage. Indian barriers to GCC investment lie mostly in the country's regulatory complexity and scale of corruption.[578] If the Modi government or its successor tackles these problems more successfully, then GCC capital injection into India is almost sure to grow substantially.

Despite the overall modest figures compared to trade, compared to FDI and EPC-flows between Gulf states and the other major Asian countries, and compared to earlier decades, Indo-Gulf investment in the last decade has grown noticeably. In Saudi Arabia, hundreds of Indian firms have acquired licenses for numerous joint ventures in diverse sectors such as 'management and consultancy services, construction projects, telecommunications, information technology, software development, pharmaceuticals etc'.[579] The other way around, Saudi Arabian companies have formed JVs 'in fields such as paper manufacture, chemicals, computer software, granite processing, industrial products and machinery, cement, metallurgical industries etc.'.[580] As India seeks to ease its business-environment, the Saudis are keen to invest into other sectors, ranging from real estate, over tourism, to infrastructure.[581]

The same goes for the UAE, the country which enjoys the closest ties with India in migration, trade and entrepreneurship. The Emirates and India are bound to see a much larger scale of JVs and M&As, in IT, agriculture, biotechnology, pharmaceuticals and even space projects. Such diverse investment flows and commercial cooperation will be accompanied by joint R&D programmes and technology transfer. In India too, there is much potential for Emirati investors. Already they have transferred capital into India's energy infrastructure, tourism, and

[577] Care Ratings 2014.
[578] *Ernst & Young* (2015), 'Doing Business in India' [http://www.ey.com/Publication/vwLUAssets/EY-doing-business-in-india-2015-16/%24FILE/EY-doing-business-in-india-2015-16.pdf].
[579] Seethi 2013: p. 152.
[580] Ibid.
[581] Ibid.: p. 153.

IT. Undeterred by the comparably modest Indo-Gulf capital flows, the UAE is nevertheless the 10th biggest investor-country in India.[582]

Oman, building on its historic ties with India, is another major attraction for Indian investment in the Gulf. According to India's Ministry of External Affairs, there are approximately 1,500 Indo-Omani JVs, together valued at almost $8 billion, with Indian companies holding more than half the shares. These are involved in Oman's energy sector, manufacturing, mining, railway construction, real estate, IT, and telecommunications.[583]

Bahrain, Kuwait, and Qatar have experienced a significantly lower level of FDI-flows to and from India. Bahrain's weaker economic capacity and trajectory is the primary reason for this lower level. Qatar has much underused potential and mirrors the UAE's and Saudi Arabia's intention on building a knowledge economy that Indian firms, entrepreneurs and investors can help build in the kind of industries listed above. They have so far managed to acquire a slightly greater share in the Kuwaiti market, but especially in its energy sector. In the other direction, Seethi highlights the dominance of Kuwaiti portfolio investment into Indian companies.[584]

Iraq, given its heavy underdevelopment, is probably one of the Gulf countries with the biggest potential for Indian investment and contracting. Indian businesses excelling in their previously mentioned strong sectors are ready to expand their FDI there in many sectors, but not until Iraq stabilizes and fundamentally reduces its security risks. Indian companies are well-placed to provide investment in urgent fields, such as 'food, medicine, and other essential commodities'.[585]

Despite continuous interest by both parties, capital flows between Iran and India have suffered, as have equally those of the other Asian countries' exchanges with Iran. Until very recently, UN-backed multilateral sanctions have torpedoed eager Indian companies' investment in Iran. Several projects stalled over the past decade.[586]

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582 Ibid.
583 Information accessed via: Seethi (2013): p. 154.
584 Ibid.: pp. 154-155.
585 Ibid.: p. 155.
586 The largest one involves a $5 billion-valued development of Iran's southern Farzad-B gas field by state-owned and private Indian energy companies. In a consortium of three firms, ONGC Videsh Ltd (OVL) and Indian Oil Corporation (IOC) both hold 40% of stakes respectively, with the remaining 20% being hold by Oil India Ltd (OIL). Due to the sanctions, OVL hesitated to follow through with its commitments for over a decade, despite having already invested $36 million, leading to Tehran's threat in 2012 to nullify the contract and seek out other investors. See: Bazoobandi 2013: p. 73.

Other attention-grabbing projects include India's interest in investing into Iran's Chabahar port and the Mashhad-Chabahar railway, which would try to create an International North-South Corridor and contribute to a rail-and-road connection between India and Europe, crossing Iran, Azerbaijan, and Russia. Investment was delayed for many years, due to the sanctions.[587] Yet, in May 2016, only a few months after the lifting of UN-sanctions, Indian Prime Minister Narendra Modi visited Iran, signalling a revival of Indo-Iranian cooperation and investment activity. The Chabahar port project received a political shot in the arm, but it remains to be seen whether it is indeed economically sensible and viable, as Sarah Watson points out: Both the neighbouring Chinese-sponsored Pakistani port of Gwadar and its Economic Corridor (CPEC) to Kashgar, as well as Iran's biggest existing port in Bandar Abbas would seem to make more geographical sense for pan-Eurasian trade connections. Furthermore, the trade route via sea from India to Europe is highly likely to engender far lower costs than a potential land route.[588] The reasons for India's enthusiasm lie firmly in the strategic realm of pan-Asian, West Asian, and Gulf geo-politics.

5.3.3 Indo-Gulf Diplomacy and Strategy

All Gulf states, but especially Iran, are strategically central to these Indian concerns. As mentioned at the start of this section, in terms of Asia-Gulf relations, India represents a different case altogether when compared to the other observed countries. Like these other Asian states, India is highly dependent on strategically vital Gulf energy imports. But with India, additionally, because of its geographic proximity to the Gulf states, the latter's overall political and socio-economic conditions have a direct impact on India's security. Nowhere among the Gulf countries is this more the case than in Iran, which is not only considered a political pariah by the international community, but it also borders India's direct neighbour and arch-rival Pakistan, as well as India's main South Asian ally in this rivalry – Afghanistan. Moreover, since there are signs that Iran may have joined Pakistan in its

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Russia's Gazprom has been among the competitors since. Yet, the lifting of UN-sanctions seems to have re-emboldened the Indian consortium, which offered an additional $11 billion to re-boot the project. See: Sundira, S. (2017), 'India Gives Iran $11 Billion 'Best Offer' on Farzad-B Gas Field'. *Bloomberg*, 3 Juli 2017 [https://www.bloomberg.com/news/articles/2017-07-03/india-gives-iran-11-billion-best-offer-on-farzad-b-gas-field].

[587] Bazoobandi 2013: p. 73.

[588] Watson, S. (2017), 'Does India's Chabahar Deal Make Sense?'. In: *The Diplomat*, 24 May 2017 [https://thediplomat.com/2017/05/does-indias-chabahar-deal-make-sense/].

proxy support for the Afghani Taliban, it is highly logical that India has tried to exploit its relations with Iran as much as possible already in the recent sanctions era, but especially now.[589] An overthrow of the elected Afghan government of Ashraf Ghani, a close Indian ally, by Pakistan-and-Iran-sponsored Taliban forces, would create a strategic ordeal and security nightmare for India, leaving its entire north-western back-yard dominated by rivals which could easily – again – mutate into serious enemies. Pakistan's historic support for, or at least its blind eye to Islamist terrorists attacking India, both countries' rivalry over water-resources in the Indus valley, especially in their disputed territories in Kashmir, and their mutual nuclear-armed status, make this conflictual situation highly sensitive and dangerous.[590] Yet, there is still another vital layer to this story.

Pakistan happens to be China's closest ally, not only in the Eurasian heartland, but indeed in the world.[591] Given India's own rivalry with China, which could turn from soft to hard as both countries grow and turn into great powers, India is faced with potential semi-encirclement, at least on its western and northern land boundaries, if all those previoulsy listed Indian neighbours see eye to eye. Consequently, India is trying to move strategically in almost all directions. Eastwards, India's rapidly intensifying relations with Japan, China's other major Asian rival, are meant to potentially help create an anti-Chinese balancing coalition to which the US would be the leader, and to which also several ASEAN countries like Vietnam may pivot.[592] Such a potential encirclement of China would reciprocate Chinese and Pakistani efforts to contain India.

North-westwards, this geostrategic pan-Asian chessboard – quite literally a chain of "black-and-white" fields bordering each other – is relevant to India's Gulf interests, as shown above. India's diplomatic push for closer economic and political ties with Iran goes back more than a decade for precisely these and other reasons. In 2003,

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[589] Levkowitz, J. (2017), 'Iran's Taliban Gamble in Afghanistan'. *Middle East Institute*, 17 May 2017 [http://www.mei.edu/content/article/iran-s-taliban-gamble-afghanistan].

[590] See: Ganguly, S., Kapur, P. (2010), *India, Pakistan, and the Bomb: Debating Nuclear Stability in South Asia*. New York City: Columbia University Press; Kugelman, M. (2016), 'Why the India-Pakistan War Over Water Is So Dangerous'. In: *Foreign Policy*, 30 September 2016 [http://foreignpolicy.com/2016/09/30/why-the-india-pakistan-war-over-water-is-so-dangerous-indus-waters-treaty/]; Schofield, V. (2010), *Kashmir in Conflict: India, Pakistan and the Unending War*. London: I.B. Tauris.

[591] See: Small, A. (2016), *The China-Pakistan Axis: Asia's New Geopolitics*. Oxford: Oxford University Press.

[592] Ogden, C. (2017), *China and India: Asia's Emergent Great Powers*. Cambridge: Polity Press; Tomar, V. (2016). 'Modi in Japan: Why China Should Be Worried'. In: *The Diplomat*, 11 November 2016 [https://thediplomat.com/2016/11/modi-in-japan-why-china-should-be-worried/].

when the US-led Iraq invasion destabilized the Gulf, Iran and India agreed to strengthen their future defence cooperation in the New Delhi Declaration.[593] Now, China's New Silk Roads to the region are perpetuating India's simultaneous orientation to its north-west. As shown in the previous section, India's investment into Iran's Chabahar port, was incentivized by China's investment into Pakistan's Gwadar port and the CPEC, connecting it to Kashgar – and provocatively running right through disputed Kashmir. This situation is largely seen as the reason why India only shows lukewarm reactions to Xi Jinping's Belt and Road initiative – even skipping participation in a recent summit in Beijing.[594] Iran on the contrary, has shown great enthusiasm for its planned connection to China's Silk Road Economic Belt, as explained in the next chapter.

China is therefore one of several major economic players, alongside Japan, South Korea, and the EU, who are able to further outperform India's trade and investment with Iran. For much of the time since Iran's covert nuclear programme was discovered and met with international sanctions, India has enjoyed an asymmetric power relationship with Iran, as the latter became desperate for trade and investment partners. This 'bargaining power for the Indian government' resulted in Iran offering considerably discounted prices for Indian purchases of Iranian oil.[595] For a time, India made use of this, though it ultimately had to yield to US pressure to reduce its oil imports and freeze much of its investment, as mentioned above. Consequently, Indo-Iranian relations soured with Iran even seizing an Indian tanker in the Gulf in 2013 holding it for some time, allegedly to punish and pressure.[596]

Although relations have recovered since the lifting of sanctions, and although there is enormous economic opportunity for enhanced flows of goods, capital, and labour, India now may have slightly less leverage over Iran, even though, in absolute terms, the laws of comparative advantage dictate that both countries would profit from

[593] Bazoobandi 2013: p. 74.
[594] Jamal, U. (2017), 'Understanding China's 'Master Plan' for Pakistan'. In: *The Diplomat*, 18 May 2013 [https://thediplomat.com/2017/05/understanding-chinas-master-plan-for-pakistan/]; Park, S., Singh, R. (2017), 'Why India boycotted the Belt and Road Forum'. *East Asia Forum*, 13 June 2017 [http://www.eastasiaforum.org/2017/06/13/why-india-boycotted-the-belt-and-road-forum/]; Watson 2017.
[595] Bazoobandi 2013: pp. 71-72.
[596] Kirk, D. (2013), 'Coincidence? Iran Seizes Indian Ship After India Cuts Oil Imports'. In: *Forbes*, 16 August 2013 [https://www.forbes.com/sites/donaldkirk/2013/08/16/coincidence-iran-seizes-an-indian-ship-after-india-cuts-oil-imports/#3445a99f1446]; Mukherji, B. (2017), 'India Says Iran Detained Oil Tanker'. In: *The Wall Street Journal*, 15 August 2013 [https://www.wsj.com/articles/india-says-iran-detained-oil-tanker-1376602200].

enhanced trade and investment. Despite this, it remains to be seen how Indo-Iranian economic, diplomatic, and strategic relations develop and how they will compare to Iran's future ties with other Asian and European countries. So, this is another reason why India is simultaneously seeking to equally strengthen its relations with GCC states and building on its deep economic ties with most members.

India and Saudi Arabia enjoy increasingly close relations in the wake of India's huge oil imports. In the 2010 Riyadh Declaration, the then Indian Prime Minister Manmohan Singh and the late Saudi King Abdullah signed a strategic energy partnership. They also announced future cooperation in other issue areas, from science and technology to banking and investment.[597] The underlying strategic rationale for both countries willingness to upgrade their bilateral ties are firmly influenced by their respective ties to each other's main enemies: India has ongoing suspicions over Saudi Arabia's historically close political and cultural relations to Pakistan and, consequently, is interested in upgrading its own importance relative to Pakistan; Saudi Arabia on the other hand is increasingly weary over India's warmer relations to Iran and is thus seeking to pull India firmly over to the GCC side. This is one of the many reasons why Riyadh has recently reduced its support for Pakistan.[598] Yet, it would seem to be a very unrealistic Saudi dream to form an anti-Iran alliance with India. As shown above, India has strong interests not to cut off ties with Iran and is thus seeking a balanced and equally strong relationship with both antagonists, mirroring China's Gulf approach.

This entails an equal maximization and diversification of deep bilateral relations with all parties, not an equal downgrade. Saudi Arabia and India are therefore fully embracing the notion that (their) increasing interdependence will also increase their long-term closeness and cooperation.[599] India has seemingly realized, that to gain influence on the Arabian Peninsula, it needs to be open to military cooperation – though it is careful not to appear as an anti-Iran GCC ally. Saudi Arabia though lies at the heart of India's westward policy, with both countries forming a joint committee on defence cooperation in 2012. Beside India's willingness to participate in more counter-piracy operations around the Horn of Africa and the Arabian Sea, the signed

[597] Seethi 2013: p. 152.
[598] Ibid.: p. 160.
[599] Pant 2013: p. 126.

MoU incorporates intended collaboration in military training programmes, joint military exercises, and potential joint ventures in the arms industry.[600]

Given the UAE's much smaller demographic and territorial size, its diplomatic and strategic relations have less of a regional geo-political impact than the foreign relations of Iran and Saudi Arabia. Hence, the same is true also for India's strong political ties to the UAE. Besides this demographic-underpinned geo-political reality, India's relations with the UAE are probably the strongest, most diversified, widest and deepest among all Gulf countries. Not only have there been numerous state visits and numerous cooperation agreements in a multitude of areas, in all economic sectors, science, technology, education, culture and tourism. India also enjoys a high degree of influence inside the UAE due to the above mentioned huge Indian demographic impact on the Emirati population across all sectors, industries, job-levels and classes.[601]

Also, because of these deep and diverse connections, India and the UAE's cooperation additionally includes the defence and security issue areas – and has done so for longer than with Saudi Arabia. 'Defense cooperation reached a new level with the first ever India-UAE air exercise and the India-UAE Joint Defense Cooperation Committee deliberations'.[602] As Seethi highlights, a crucial point in India's trust towards the UAE is the early Emirati willingness to assist India in intelligence operations against Pakistan-based terrorists, following the Mumbai attacks in 2008. Both countries have agreed to further strengthen their security cooperation in the co-production of defence technology and equipment, defence training, joint naval exercises, and intelligence-sharing, as well as their intention of streamlining geo-strategic doctrines.[603]

Among the other GCC countries, although India has signed defence collaboration agreements with all of them and, as seen above, has sought to diversify political, economic, and cultural ties with all of them, it is merely Oman that, so far, is sticking out. It cannot match the level of connections India has built with the UAE and Saudi Arabia, due to its lesser economic importance, but it is worth stressing that Indo-Omani relations are among the oldest India enjoys on the Arabian Peninsula.[604]

[600] Seethi 2013: p. 160.
[601] Ibid.: p. 153.
[602] Ibid.: p. 161.
[603] Ibid.
[604] Pillalamarri 2016.

Indian expatriates are involved in all sectors of the Omani economy. Oman is also the country with which India first established Gulf defence cooperation. The India Oman Joint Military Committee meets on a consistent basis, exchanging intelligence and policies on regional security issues. There are regular joint naval and air force exercises between the two countries, and India often makes use of its military docking rights in Omani ports. Areas of naval cooperation predominantly involve counter-piracy operations in the Arabian Sea.[605] Another strategic dimension that strengthens Indo-Omani bilateral ties and constitute a unique opportunity for Indian interests in the Gulf, is the fact that Oman's GCC membership has not stopped the country from taking an historically ongoing mediation role in the Saudi/GCC rivalry with Iran. Muscat's more pragmatic relations with Tehran have often served also the international community in regard to Iranian issues. The recent international nuclear deal with Iran (JCPOA) was partly brokered by Oman's proactive engagement.[606] Such an approach will always be one India and also China, Japan, and South Korea appreciate given their mutual interests in stable and equal relations with both the Arabs and Iranians.

To summarize, India needs as stable a Gulf as possible and, ideally, it would continue to enjoy good relations with all Gulf states and expand them further. East Asia, South South-East Asia, and Australasia have so far taken more of India's economic and also strategic political attention.[607] But despite prioritizing the East in its economic and diplomatic relations with entire regions, India has realized that it needs to also look west, to Europe and Africa, but especially to what it calls West Asia, meaning predominantly the Gulf. Both energy security as well as raw national security dictate this. The combination of these two threads make the Gulf arguably even more important for India then for any other great power, because unlike for the others, the Gulf is India's backyard. What India draws from this recognition is open to several possibilities. Whereas some see a future Indian version of the American "Monroe Doctrine" – ultimately barring any other outside power from its backyard, which in India's case would see China's String of Pearls along the Indian Ocean littoral as a

[605] Seethi 2013: p. 161.
[606] Gupta, S. (2015), 'Oman: The Unsung Hero of the Iranian Nuclear Deal'. In: *Foreign Policy,* 23 July 2015 [https://www.foreignpolicyjournal.com/2015/07/23/oman-the-unsung-hero-of-the-iranian-nuclear-deal].
[607] Pant 2013: pp. 129-135.

threat[608] – others are trying to argue for a pan-Asian collaborative approach to Gulf security. Former Indian Ambassador Talmiz Ahmad, for instance, spoke to the author in Dubai, explaining not only his personal research interests in Asia-Gulf relations, but his active role in seeking to kick-start a track-two diplomatic dialogue between Chinese, Indian, and other Asian and Gulf academics with ties to their governments. This is meant as a foundation for future pan-Asian collaboration in the Gulf and, as Ahmad outlines, if possible even a new Asian multilateral institution modelled on the Organization for Security and Co-operation in Europe.[609] Whilst this would clearly be a benefitial model in a multilateral sense and would provide much stability to the Gulf and Asia as a whole, it is not yet clear how it can succeed, given the very real rivalry between the possible members and the even greater rivalry between some of the Gulf states.

5.4 Chapter Conclusion and Theoretical Assessment

Asia's New Silk Roads to the Gulf, involving not only, China, but also Japan, South Korea, and India are rapidly changing the economic landscape of the Gulf. These intensifying "south-south" transactions are causing increased bilateral diplomatic cooperation between Asian states and Gulf states.

In terms of trade, due to Japan's energy imports from the Gulf states, there is a clear vulnerability interdependence between them. A slight asymmetrical interdependence can be observed. Although the Gulf states require maximum long-term diversification in oil export destinations and because a theoretical Gulf cut-off from the Japanese market would constitute a grave loss, the lack of Gulf oil supplies for Japan would entail a more dramatic challenge. In terms of non-energy trade, neither Japan nor the Gulf are interdependent, as the product categories are not particularly sensitive or competitively unique. Japan has much larger markets to sell its goods to all around the world, and the Gulf too, has many alternative sources for them.

The same can be said about investment flows. Japanese FDI in the Gulf is marginal compared to its global activity. Long established Japanese multinationals including banks though have enjoyed an enduring presence and good reputation in most Gulf

[608] Holmes, J.R., Yoshihara, T. (2012), 'India's "Monroe Doctrine" and the Gulf'. In: J. Macris, S. Kelly (eds.), *Imperial Crossroads. The Great Powers and the Persian Gulf*. Annapolis: Naval Institute Press.
[609] Ahmad, T. (former Indian Ambassador), interviewed by the author on 20 July 2015 in Dubai, Jumeirah. See Consent Form attached.

states. In EPC contracts, the activity of Japanese companies has been much more extensive. However, as in trade, Japan has been losing ground to South Korea in high-quality products and related investments, and to China in more cheap manufacturing and competitive pricing, both including EPC. Hence, with the cautious exception of EPC contracts it would be too much to say that either Japan or the Gulf are dependent on each other's investments.

Japan's political relations with most Gulf states have always been close, but low-key, firstly due to the relatively one-dimensional energy nature of their ties, but secondly due to Japan's peace constitution, which entails a complete security reliance on its American ally, including for Gulf energy security. This has increased Japan's vulnerability dependence on both the Gulf and the US. A dramatic indicator was the impact of the oil price rises from the 1970s on Japan's then still thriving economy. Now, this vulnerability dependence is being further intensified through Japan's Asian geo-strategic rivals, especially China, who are gaining footholds in the Gulf without being aligned to the US. Therefore, both neo-liberal institutionalism and neo-realism have some explanatory power for this case. Yet, it seems ironic that the very rise of Japan's dependence on the Gulf states and on the US leads Japan to adopt more realist, rather than liberalist tactics. It is seeking to intensify political cooperation with the Gulf states and has recently amended its peace constitution – allowing it to open a military base in Djibouti, for instance. This is because China has taken similar initiatives, as shown in the next chapter. The result seems to be that inter-regional interdependence is ironically perpetuating intra-regional rivalry – undermining CIT's assumptions and strengthening realism's.

South Korea and the Gulf are highly interdependent in oil and, to a much lesser extent in gas trade. The level of South Korean energy dependence is not quite as high as Japan's though. Given South Korea's smaller demographic size, this fact makes it slightly easier for South Korea to diversify its energy import sources. Simultaneously, from a Gulf perspective, since South Korea is "only" the world's 11th largest economy, and its market size does not compare to much larger countries and economies. Nevertheless, a breakdown of Korean-Gulf energy trade would have highly dramatic consequences which is why the label vulnerability interdependence, especially from a South Korean point of view, can still be used. Non-energy trade was marginal for long, but in the last decade has heavily increased, making the GCC South Koreas second largest export destination of diverse high-tech goods. Therefore, the diversity of interdependence and the multiple channels being created intensify Korea-Gulf overall interdependence.

FDI flows and EPC contracts between South Korea and Gulf countries mostly go in one direction. The level of GCC investment in South Korea is hard to estimate, given the confidentiality of the former's most active investors, the sovereign wealth funds. South Korea has experienced two construction booms by its companies in the Gulf. In recent years, South Korean firms have won highly prestigious EPC contracts, especially in the UAE, but also in Saudi Arabia. In high-tech matters, South Korea has recently outperformed Japan, but in lower-tech matters, China has become an advantaged competitor. Even in the more complex and sophisticated areas, the Chinese are catching up fast as well. Given the GCC's and South Korea's high level of development and liquidity, their markets represent enticing and lucrative opportunities, but, as with Japan, it would be exaggerated to claim that they are indeed interdependent. However, this does not mean they would not feel the difference, especially in EPC projects, as the GCC is South Korea's largest capital destination.

The increasing economic interdependence between South Korea and the Gulf states is more diverse than of the Gulf's other Asian relationships. Their diplomatic and institutional ties have intensified as a result, going even as far as military corporation. South Korean special forces have been posted to the UAE in order to train their Emirati counterparts. There is no fundamental strategic impact in this though, because firstly South Korea is too small to have such an impact, and politically it is firmly allied with the United States. This alignment is or course welcomed by the GCC, but any South Korean contribution to Gulf security would be within the US-built security architecture. The same junior role for South Korea would be taken inside any other potential Gulf security architecture in the future. These structural factors make neo-liberal institutionalism the more useful theory for this bilateral relationship, because South Korea does not have the same level of a rivalry with China, as have Japan or India.

India's geographic, historic, and cultural proximity to the Gulf marks an altogether different structural situation for India, compare to the other major Asian countries. This has resulted in long ongoing and recently further intensifying Indian migration flows to the Gulf states, especially to the GCC. Particularly in the small Gulf monarchies, where Indian expatriates and large labour forces have created a substantial Indian demographic dominance. This has an impact on all other issue areas, also because Indian expatriates in the Gulf work in all sectors across all levels of society, business, and government.

India is increasingly dependent on Gulf oil and to a lesser extent gas. Vulnerability interdependence will grow quite symmetrically, since India is the second largest country in the world and its GDP growth creates a huge energy demand. India is therefore the Gulf's most important oil export market next to China and this seems destined to even intensify over the next decades. Non-energy trade has also grown and will continue to do so as India's economy grows.

When considering India's sheer size, its Gulf proximity, Gulf demographic domination, and the large Indo-Gulf trade values, it has to be noted that Indo-Gulf investment flows are still at a relatively disappointing level. Therefore, so far, they do not massively contribute to the growing vulnerability interdependence between India and the Gulf, and certainly, with the possible exception of IT and telecommunications, cannot yet compete with any of the aforementioned Asian countries. However, due to the listed structural factors, there is immense potential for the future.

India's Gulf situation is structurally different from all other major powers. Though its energy dependence is high, it faces slightly less energy security concerns than those of its Asian rivals, due to its geographic proximity. However, that very proximity probably entails a higher national security risk for India on a general basis. Fear not only is limited to terrorism carried out by Pakistani groups and their traditional (mostly private) Gulf sponsors, but also a strategic encirclement by China and Pakistan. India is seeking to reciprocate the Sino-Pakistani alliance via its own strategic alliances eastwards, especially with Japan, but also westwards with the Gulf states. Iran is at least as crucial to this equation as the GCC, which is why India is seeking to upgrade its relations with all of these states. It has managed to do so mostly with the GCC where especially the UAE stands out. Rising interdependence in economic matters, predominantly in energy, but also notably in security matters, makes CIT a useful framework. Still, due to India's geo-strategic concerns, realism once again will probably become the more accurate theory.

To summarize, all these Asian and Gulf countries hold increasing stakes in each other's states and markets. Although, unlike CIT's ideal type, with energy dominating the transactions, and there being a clear hierarchy of issue areas, the conditions merit the use of the interdependence label, even to its vulnerable level. But although this interpretation creates less room for flexible manoeuvring by all participants, it does not translate into a natural harmonization in which every state involved will always cooperate with all others. On the contrary, there is much tension between the major powers in each of the two regions. The New Silk Road phenomenon, tying them all together economically, has not reduced, but potentially re-enforced this tension. All parties could benefit from deep institutional, multilateral cooperation and see their fundamental interests thereby secured. Nevertheless, neo-realism's assumption that no actor can know the others' current or future intentions, are casting a shadow over the absolute gains rationale. To put it bluntly, the growing inter-regional interdependence has a noteworthy potential to perpetuate the already existing intra-regional rivalries. From a global, holistic perspective, Spykman's heavily populated rimland especially is growing together into a complex web, creating a fusion of what Brzezinski and Mearsheimer still saw as the three separate regions of East Asia, the Gulf, and Europe. Now, not only outside sea powers and the heartland have a heavier geo-strategic stake there, but also growing powers from within the rimland. This rimland-fusion is facilitated by growing interdependencies between these formerly more separate regions, but also by middle powers between them, such as Turkey and India. This phenomenon is only likely to dramatically intensify the forces of historic tectonic plates rubbing up against each other. The Persian Gulf rimland region, where heartland and sea meet, will be the location where East Asia, South Asia, the Greater Middle East, and the West all converge.

PART Three:

China and the Persian Gulf Region

6. China's New Silk Roads and the Persian Gulf Region

Although Japan and later the "Asian tigers" were the first non-Western countries to economically liberalize and modernize, as mentioned above, China's skyrocketing catch-up over the last four decades marked the real turning point in the half-millennium-long history of the great divergence. Deng Xiaoping's reforms and economic opening in 1978/79 was the most important and impactful development in that respect. Since then, China, the largest country in the world by population, has pulled off the fastest industrial revolution the world has ever seen, has reached second position in global GDP ranking, is on course to soon overtake the first-placed US, and has hugely contributed to the great re-convergence – steadily closing the income gap between the West and the rest of the world.[610]

> 'In a single generation, a nation that did not appear on any of the international league tables has vaulted into the top spot. In 1980, China's gross domestic product (GDP) was less than $300 billion; by 2015, it was $11 trillion [...]. In 1980, China's trade with the outside world amounted to less than $40 billion; by 2015, it had increased one hundredfold, to $4 trillion'.[611]

The result of China's growth at home, which to a great extent has been driven by its exports, has turned the country into a financial behemoth – increasingly investing abroad.[612] The economic and geo-political influence that comes with it, is being spread through both novel and established financial institutions.

The China Investment Corporation (CIC) is one of the world's largest sovereign wealth funds. These state-owned investment vehicles are an important feature of the great re-convergence, because many belong to emerging market countries. Especially after the Asian Financial Crisis in 1998, those states started to horde huge amounts of their economies' export revenues to then invest in diverse global assets portfolios, make profits and hedge against risks. The CIC is a prime example of this phenomenon which after the Credit Crunch of 2008 further contributed towards the financial world's shifting centre of gravity towards the East.[613]

After many years of Chinese diplomatic pressure and Western reluctance, in 2015 China's global financial power was finally acknowledged by the IMF's decision to

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[610] Ferguson 2012; Jacques 2012; Kroeber 2016; Zakaria 2011: chapters 1/4.
[611] Allison 2017: p. 6.
[612] Shambaugh, D. (2014), *China Goes Global: The Partial Power*. Oxford: Oxford University Press.
[613] Clark, G. et. al. (2013), *Sovereign Wealth Funds: Legitimacy, Governance, and Global Power*. Princeton: Princeton University Press, Chapters 1-3/7; Preston, A. (2010), 'Sovereign wealth funds are the new kings of the markets'. In: *The New Statesman*, 30 August 2010 [https://www.newstatesman.com/economy/2010/08/swfs-banks-financial-funds]; Quah, D. (2011), 'The Global Economy's Shifting Centre of Gravity'. In: *Global Policy Journal*, 2:1, pp. 3-9.

include China's renminbi into the A-list basket of global reserve currencies, the Special Drawing Rights (SDRs). According to the IMF, the new weight distribution in its basket is 41.73% for the U.S. dollar, 30.93% for the euro, 10.92% for the Chinese yuan, 8.33% for the Japanese yen, and 8.09% for the British pound.[614] The IMF itself labelled this reshuffling of monetary power 'a milestone in China's global financial integration'.[615] Both the (albeit slow) renminbi elevation in the IMF and also the AIIB's founding are likely to take on important roles in trade and investment on the New Silk Roads. As Chapter 4 of this thesis showed, American global power, especially also in the Gulf, is closely connected to the dollar's unipolar hegemony. Hence, Washington is highly uneasy about China's and the renminbi's rise.

This is despite China's and the US's economic importance to each other. A great portion of Chinese trade over the past decades has been conducted with the world's largest economy, the US. Capital flows between the two countries greatly increased in the form of FDI, and in the form of the Chinese purchase of US Treasury securities. China currently holds more than $3 trillion in US currency reserves – giving it considerable global financial clout, thus greatly contributing to a deep economic interdependence between the world's two largest economies. "Chimerica", as this condition was dubbed by the historian Niall Ferguson, is part of what the economist Ben Simpfendorfer analytically completed when he identified the 'financial world's holy trinity' – the US, China, and the Gulf states.[616]

Yet, whilst the US is geo-politically aligned with the GCC, the US finds itself increasingly at odds with China on the geo-political front. Despite economic and financial interdependence, the US is highly uneasy about the rise of China in geo-political and overall power matters. The world is shifting back towards a more multipolar international system. As China seeks to re-establish its superpower status, especially in its region, the US is incentivized to follow previous superpower

[614] International Monetary Fund (2015), 'IMF Survey: Chinese Renminbi to Be Included in IMF's Special Drawing Right Basket'. *IMF News*, 1 December 2015 [http://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew120115a].
[615] Ibid.
[616] Ferguson, N. (2009), *The Ascent of Money. A Financial History of the World*. London: Penguin, pp. 333-341; Simpfendorfer describes this triangular business cycle the following way: The Gulf Arabs export oil to China and thus accumulate great wealth; Chinese factories use that oil to produce massive amounts of cheaply-manufactured goods, which are then exported to America, and accumulate great wealth too; American consumers buy these goods and use their credit cards and accumulate significant debt; this debt is then financed by Arab and Chinese investors via their purchase of US Government bonds, which supports the dollar and thus ensures the low prices of consumer goods. See: Simpfendorfer, B. (2011), *The New Silk Road: How a Rising Arab World is Turning Away from the West and Rediscovering China*. Basingstoke: Palgrave Macmillan, p. 53.

behaviour and contain China.[617] Former President Obama's announcement of a 'pivot to Asia' – meant to prioritize East Asia in the US's global military presence and diplomatic engagement – is meant to create a potential balancing coalition between the US and China's neighbours in its Asian backyard.[618] Geographically, the growing US-China rivalry is mostly evident in the South China- and East China Seas.[619] Given that both areas are part of China's backyard this is going to remain the case in the short-term future at the very least. However, as China's interests and engagement go global, so will the US-China rivalry. It is especially Eurasia, the most strategically important part of Mackinder's "world island", where China is increasingly investing and where this is already beginning to show.

6.1 Belt, Road, and String: China's New Silk Roads across Eurasia

China's massive domestic infrastructure expansion since Deng Xiaoping's economic liberalization policies has dramatically changed the country's entire way of existence. Within four decades, it has created the largest urbanization and migration wave in history and has helped to lift half a billion of its citizens out of poverty. Yet, the heavy domestic infrastructure investment has had the dangerous side-effect of heating up the Chinese construction and real estate markets. It is unclear if or when this bubble will burst and what its ramifications would be. One of Beijing's policies in order to cool down its domestic construction and real estate markets has been an initiative to intensify former Presidents Jiang Zemin's and Hu Jintao's "go out" strategy for Chinese construction firms. Investment in foreign infrastructure is meant to help absorb the domestic overcapacity especially of large firms.[620]

Hence, current President Xi Jinping has launched a series of such initiatives especially in Asia and predominantly in China's neighbouring countries. In line with his designs to restore China's economic and political superpower status, Chinese firms investing into foreign infrastructure across the Eurasian landmass will create

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[617] Mearsheimer, J. (2014), 'Can China Rise Peacefully?'. In: *The National Interest*, 25 October 2014 [http://nationalinterest.org/commentary/can-china-rise-peacefully-10204].
[618] Ibid.
[619] Ibid.; see also: Kaplan, R. (2015), *Asia's Cauldron: The South China Sea and the End of a Stable Pacific*. New York City: Random House.
[620] Ng, E. (2015), "One Belt' infrastructure investments seen as helping to use up some industrial over-capacity'. In: *South China Morning Post*, 2 November 2015 [http://www.scmp.com/business/article/1874895/one-belt-infrastructure-investments-seen-helping-use-some-industrial-over]; Shambaugh 2015: p. 5.

much needed connectivity. This will generate long-term trade and investment dividends, which in turn will benefit China economically, and expand its geopolitical influence. Xi's strategy was officially introduced in November 2014. Making use of Beijing's hosting of the annual APEC conference that year, Xi announced his vision of building a New Silk Road, connecting economies all over Eurasia, from China to ASEAN, to India and Pakistan, to Russia, Central Asia, and the Middle East, right on to Europe. This was to be undertaken by investing a sum of $1.35 trillion overseas within the next decade, first and foremost in Asian infrastructure.[621] Though Xi's vision borrows from earlier uses of the New Silk Road terminology, and although such Chinese outward infrastructure investments had already been occurring over the previous decade, it is intended to become Xi's signature foreign and economic policy.[622] The chosen name for Xi's project has come to be known as "One Belt One Road" (OBOR), in short, the Belt and Road initiative (BRI).

The first component, the "Silk Road Economic Belt", describes the expansion of overland trade routes. These would include infrastructure investment into the construction of roads, railways, pipelines, fibre-optic cables, airports, factories, and commercial hubs across the Eurasian landmass.[623] Though it is a very broad and thus deliberately vague concept, common examples in the most general sense include a China-Mongolia-Russia Corridor, a New Eurasian Land Bridge, a China-Central Asia-West Asia Corridor, a China-Pakistan Corridor, a China-Myanmar-Bangladesh-India Corridor, and the China-Indochina-Peninsula Corridor.[624]

The second component, the 21st Century Maritime Silk Road, describes the expansion and facilitation of trade across sea routes. These obviously build on long-existing ones, which, unlike most of the ancient land routes – the old Silk Road – never went out of operation in the modern era. Yet, investment into ports, new and old, from the South China Sea through the Straits of Malacca and along the Indian Ocean littoral

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[621] Miller, T. (2017), *China's Asian Dream. Empire Building along the New Silk Road*. London: Zed Books, p. 24.
[622] Johnson, C.K. (2016), 'President Xi Jinping's "Belt and Road" Initiative. A Practical Assessment of the Chinese Communist Party's Roadmap for China's Global Resurgence'. *Center for Strategic and International Studies*, March 2016 [https://www.csis.org/analysis/president-xi-jinping%E2%80%99s-belt-and-road-initiative]; Summers, T. (2016), 'China's 'New Silk Roads': sub-national regions and networks of global political economy'. In: *Third World Quarterly*, 37:9; Simpfendorfer 2011.
[623] Miller 2017: pp. 30-33.
[624] PricewaterhouseCoopers (2017), 'Repaving the ancient Silk Routes. Realising opportunities along the Belt and Road'. *PwC Growth Markets Centre*, June 2017 [https://www.pwc.com/gx/en/growth-markets-centre/assets/pdf/pwc-gmc-repaving-the-ancient-silk-routes-web-full.pdf], p. 5.

into the Mediterranean, is intended to tap into many new opportunities in the age of rising Asia. Just as the Silk Road Economic Belt, the 21st Century Maritime Silk Road has conflicting definitions, even though it has several specific current investments and future investment ideas for projects. Generally, it is intended to encompass port investments on sea routes from East and South-East Asia, via the Bay of Bengal, the Arabian Sea, the Persian Gulf, to the east-African coast, and on through the Gulf of Aden, the Red Sea, the Suez Canal, reconnecting with some of the Belt's land routes, in South Asian or European port cities.[625]

The BRI's associated investment vehicles were created simultaneously. During the APEC conference, a $40 billion Silk Road Fund (SRF), 'a private equity fund specifically set up to provide anchor financing for Belt and Road projects' was announced.[626] Two weeks prior to the APEC meeting, a separate ceremony, also in Beijing, saw the announcement of the new Asian Infrastructure Investment Bank (AIIB).[627] 21 countries signed up from the outset. By the time the bank was opened in December 2015, the number of founding members was up to 57, primarily from across Asia and Europe – an astonishing and rapid success. With the founding members taking differently sized shares, this new development bank received a $100 billion pool in authorized capital and will receive more over the years to come.[628]

This success could not have been taken for granted. Miller points towards the amount of attention the AIIB's creation received, which he explains with the paranoid reaction from the US government. Washington and also Tokyo had feared that China intended to supplant institutions such as the IMF and World Bank, and the Japanese-led Asian Development Bank (ADB). The US government unsuccessfully tried to lobby European and Asian allies against joining the AIIB. Among the world's major economies, only the US and Japan are now absent from the AIIB's list of founding members.[629]

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[625] Ibid.; Klemensits, P. (2017), 'China and the 21st Century New Maritime Silk Road'. *Belt & Road Center*, 23 October 2017 [http://beltandroadcenter.org/2017/10/23/china-and-the-21st-century-new-maritime-silk-road/#_edn7].
[626] Miller 2017: pp. 25/41.
[627] Ibid.: p. 25.
[628] Ibid.: pp. 35/40.
[629] Ironically, it seems to have been the UK, the US's closest ally, which set in motion a chain reaction when it became one of the first to join. Even India went along. See: Ibid.: 35; *The Telegraph* (2015), 'European giants side with UK in Chinese World Bank row with US'. 16 March 2015 [https://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11476533/Joining-Chinas-World-Bank-is-in-UKs-national-interest-depsite-Washington-anger.html].

Yet, Washington's concerns were not complete paranoia. Another reason for the AIIB's founding was China's growing impatience with its low-level representation in the established Bretton Woods institutions. In the World Bank, China's share is merely 5% and the IMF achieved too little too late from Beijing's viewpoint.[630] Thus, China decided to indeed create its own multilateral financial institutions. It is still too early to say whether they will stand any chance in supplanting Bretton Woods. Furthermore, if corporate governance lives up to the AIIB's stated intentions and values, its operations will function much the same way as the World Bank, the IMF and the ADB. China is aware of these American and Japanese fears, which is why the AIIB has tried to reassure its sceptics. It has promised compliance with global transparency and anti-corruption regimes, as well as with labour and environmental standards.[631] It also chose to link up with established institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank, the ADB, and the World Bank, in several of its first projects. Co-financing by the AIIB and these established institutions is hoped to contribute towards trust-building. Approved and active infrastructure contracts so far especially have covered Asia's Indian Ocean rim countries, ranging from Pakistan, India, Bangladesh, and Burma to Indonesia.[632] Two projects in Oman are of direct importance to this thesis and will be covered below.

These projects are intended to emphasise benign Chinese intentions. China claims that the BRI is an instrument for growth and economic integration. Seeking to reassure its neighbouring countries, Xi even claims that it will be a 'road for peace'.[633] Before the BRI announcement, Beijing had long championed bilateral trade and investment deals. Yet, when an increasing number of Chinese FDI or EPC projects encountered problems abroad, for example by sparking local protests against the projects, Chinese firms frequently found their projects reviewed and frozen by the countries' governments, such as in Pakistan, Sri Lanka, or Burma.[634] In such cases,

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630 Miller 2017: pp. 36-37.
631 *Asian Infrastructure Investment Bank* (2018), 'Report Fraud and Corruption' [https://www.aiib.org/en/about-aiib/who-we-are/report-fraud-corruption/index.html]; *Asian Infrastructure Investment Bank* (2018), 'English – Asian Infrastructure Investment Bank Articles of Agreement' [https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html], p. 9.
632 *Asian Infrastructure Investment Bank* (2018), 'Approved Projects' [https://www.aiib.org/en/projects/approved/index.html].
633 *Xinhua Net* (2017), 'Full text of President Xi's speech at opening of Belt and Road forum' [http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm].
634 Miller 2017: pp. 127-148/177-178/191-195.

this has sometimes led to a souring or even deterioration of bilateral relations – suddenly harming China's economic and diplomatic interests in the particular country. In order to prevent the BRI from being perceived as a Chinese bid for empire, the AIIB is a deliberately multilateral institution in which China does not claim ownership.[635]

Asia's increasing connectivity and investment will not be restricted to the Chinese anyway. One of the outcomes of the BRI has been a strong re-boot in other Asian and non-Asian countries' investment surges, as the previous chapter has partly shown. Especially Japanese, but also European companies have again stepped up their FDI and EPC ventures in the region, especially in South-East Asia. Much to those recipients' economic benefit, Miller describes this as a fierce Sino-Japanese competition, with each trying to out-perform the other.[636]

How far the AIIB and the SRF will be able to fundamentally transform all of Asia into an interdependent, thriving trade and investment super-cluster remains to be seen. In fact, given the AIIB's relatively modest capacity in authorized capital of $100 billion and much less in paid-in working capital, it is doubtful that it will play the predominant role in China's outward infrastructure investment across Asia. With $40 billion in authorized capital and $10 billion in paid-in capital, the SRF's capacity is comparably even more modest. Both China's commercial banks, such as Bank of China (BOC) or the Industrial and Commercial Bank of China (ICBC), as well as particularly China's policy banks, such as China Development Bank or the Export-Import Bank of China (China Exim Bank), all whose capacity is much higher, will invest and lend substantially more than the AIIB or SRF.[637]

These numerous sources of capital, as well as Asia's huge demand for infrastructure investment, especially the low-income countries in South Asia, at first glance suggest a bright future for overall development. Yet, several commentators have criticized the alleged transformational nature, especially that of the Silk Road Economic Belt, stressing the high costs and logistical complications in long-distance trade via rail,

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[635] Any AIIB project so far requires a 75% supermajority. This indeed makes it a clear multilateral institution. Yet, the AIIB's distribution of shares clearly has China as the major shareholder with 26% – so far allowing China to block any investment it does not endorse. Although China's shares are believed to see a necessary reduction in the future, as the bank accepts new members, and this would strip China from its current level of control, Miller still observes that in reality the AIIB is clearly a Chinese project. See: Ibid.: p. 39.
[636] Ibid.: pp. 43-47.
[637] Ibid.: pp. 40-42.

when compared to the much cheaper, usually easier, and established oceanic shipping. Despite the greater speed of trade on land routes via rail, these commentators believe the Belt to be more of a symbolic propaganda stunt.[638] However, it should be beyond doubt that Eurasia's infrastructure integration will have some positive economic impact, especially when considering the often much more important short-distance trade, both within countries, as well as between neighbouring countries. This is especially true for land-locked Central Asia, but also for China's still significantly poorer western provinces. Indeed, a further motivation for China's BRI is the development of those provinces, investing into their infrastructure and connectivity with neighbouring countries.[639]

Nevertheless, a great deal of caution in regard to the BRI's impact in Asia's underdeveloped countries is essential. The problem is not a general lack of funds for infrastructure investment, but often the high levels of risk. Many underdeveloped investment destinations are home to corrupt governments or – for Chinese SOEs especially difficult to comprehend – hostile political oppositions from within active civil societies. Such environments are fraught with political risk for Chinese firms whose projects or demeanour have often sparked local ire.[640] Furthermore, unstable territories, such as areas in the China-Pakistan Economic Corridor like Baluchistan, pose serious security threats to Chinese construction workers, who have been attacked and abducted by militants.[641] Though in this example, Pakistan has promised a special military unit to protect Chinese workers and company employees, insecurity will be an enormous challenge. Miller writes that the future could present the Chinese government with difficult dilemmas, which one day might make a Chinese military involvement in insecure areas a real possibility in order to protect the Chinese companies' workers and assets.[642] In crises, so far, China has responded merely with evacuation of its workers – partly abandoning their companies' investments, be it in Egypt, Libya, Yemen, or Iraq.[643] In an age of China's intended

[638] Holland, T. (2017), 'Puffing across the 'One Belt, One Road' rail route to nowhere'. In: *South China Morning Post*, 24 April 2017 [http://www.scmp.com/week-asia/business/article/2089507/puffing-across-one-belt-one-road-rail-route-nowhere].
[639] PricewaterhouseCoopers (2016), 'China's new silk route. The long and winding road'. *PwC Growth Markets Centre*, February 2016 [https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf], pp. 3-4.
[640] Miller 2017: p. 195.
[641] Ibid.: pp. 177-178.
[642] Ibid.: pp. 242-244.
[643] Xinhua (2015), 'Backgrounder: China's major overseas evacuations in recent years'. In: *China Daily*, 30 March 2015 [http://www.chinadaily.com.cn/china/2015-03/30/content_19954649.htm].

return to superpower status and a growing nationalism at home, this approach will be increasingly untenable if Beijing is serious about protecting its economic interests and geo-political influence.

This is why China's 21st Century Maritime Silk Road project includes geo-political considerations. Beijing is keenly aware of the need for naval access to critical port cities – for potential evacuations at least, but possibly also for military influence and operational bridgeheads in the maritime security environment. It has devoted much attention into these efforts for over a decade now, investing into the development of old and new port cities along the Indian Ocean littoral. Prominent examples include the newly active deeps sea ports in Kyaukphyu (Burma), in Sonadia, near Chittagong (Bangladesh), in Colombo and Hambantota (both Sri Lanka) and in Karachi and Gwadar (both Pakistan).[644] Whilst so far these "Chinese" proxy ports are largely of a commercial/logistical nature, their geo-strategic value is evident for many analysts. The consultancy Booz Allen Hamilton, in a report for the US Department of Defense, famously called this a "String of Pearls", coining a term that has stuck ever since, despite China's Silk Road narrative.[645] The journalist and geo-political analyst Robert Kaplan also captured that dimension by characterizing some of these ports as China's 21st century 'oil-age equivalent of' the British Empire's 19th century 'coaling station[s]' on the same coasts.[646] Although he thinks that 'full-fledged Chinese naval bases in places like Gwadar and Hambantota' are less likely, because they 'would be so provocative to the Indians', and that '"[a]ccess" is the key word, not "bases"', other observers are not so sure.[647] Whereas Kaplan could rather imagine the Chinese to follow the approach of their historic Ming predecessors, seeking 'access through the building of alliances in the form of a tribute system',[648] it is especially many Indian strategists who already interpret the String of Pearls as the groundwork for Chinese naval domination attempts in India's backyard.[649]

So far, the deep-sea port of Gwadar is a seemingly commercial endeavour, but with clear strategic motivations, connecting China's western provinces with the Arabian Sea via the $46 billion-valued construction of the 3,000 km-long China-Pakistan

644 Miller 2017: p. 167.
645 Chellaney, B. (2015), 'China reinvents 'string of pearls' as Maritime Silk Road'. In: *Nikkei Asian Review*, 29 April 2015 [https://asia.nikkei.com/Viewpoints-archive/Perspectives/China-reinvents-string-of-pearls-as-Maritime-Silk-Road].
646 Kaplan 2011: p. 10.
647 Ibid.: p. 290.
648 Ibid.
649 See: Miller 2017: pp. 167-170. The potential for a self-fulfilling prophecy here is also evident.

Economic Corridor (CPEC), a crucial branch of the Silk Road Economic Belt.[650] Although Gwadar does not feature on some of the publicly available OBOR-maps, it clearly lies at the centre of China's New Silk Roads, as it connects both the Belt and the Road in a critical region to boost trade in all directions and gives China another backdoor-option to circumvent the "Malacca-dilemma". For the CPEC plans include not only motor-and railways, but also an oil-and gas-pipelines. Besides dreams of building the next Dubai, the intention for Gwadar meanwhile is to host massive container berths, bulk cargo and grain terminals, and at least two oil terminals and an oil refinery.[651] Miller observes two Chinese incentives for the CPEC and the Gwadar investment: 'to open up an alternative route for oil imports from the Middle East, and to persuade Pakistan to do more to combat violent extremism seeping over its border'. Commerce is unlikely to have been the primary motivation, he concludes, because Chinese '[g]overnment officials [...] privately admit they expect to lose 80% of their investment in Pakistan'.[652] The close partnership between the two countries, as well as Gwadar's geo-strategic location close to the Persian Gulf make these investment uniquely valuable for China, including for the Chinese navy, the PLAN. Though there is no proof yet, that Gwadar will host a Chinese naval base and listening post, Miller echoes Kaplan, highlighting naval access as most important.[653]

However, in light of more recent developments, it does not seem too fanciful to imagine a Chinese naval base in Gwadar, because China has also invested elsewhere abroad in its military infrastructure. The contested artificial islands in the South China Sea, with their naval docking ports and military airstrips have received most press, because of the territorial disputes involved.[654] Yet, outside China's backyard – in which Beijing is acting far more assertively – the Chinese military has recently opened its first overseas base, in no other place than Djibouti.[655] The Arab state's highly strategic location on the horn of Africa and right inside the crucial Bab el-

[650] Ibid.: p. 164.
[651] Ibid.: p. 175. Although these plans were already drawn up by the Port of Singapore Authority (PSA), who previously owned the Gwadar port and only sold the rights in 2012, they are now being implemented by the new post-2013 owners: China Overseas Port Holdings Company, a subsidiary of China State Construction Engineering Corporation (CSCEC). Since Xi Jinping's BRI, the giant Gwadar project has experienced a major boost, with at least $11 billion being kept ready by the Chinese investors.
[652] Ibid.: p. 176.
[653] Ibid.: p. 178.
[654] See: Ibid.: pp. 199-202; Kaplan 2015.
[655] Wood, P. (2017), '20,000 Li Over the Sea: China's Sends Troops to First Permanent Base in Djibouti'. In: *The Jamestown Foundation's China Brief*, 17:10, 21 July 2017 [https://jamestown.org/program/20000-li-over-the-sea-chinas-sends-troops-to-first-permanent-base-in-djibouti/].

Mandab bottleneck, which connects the Indian Ocean to the Red Sea (and Suez Canal and Mediterranean) speaks volumes about China's emerging willingness to wield global military influence where it matters to secure its core interests. Vast amounts of China's trade with the EU passes through the Gulf of Aden and the Bab el-Mandab, where Somali piracy has long been an issue (and against which the PLAN has joint multilateral operations.[656] When considering that Djibouti already hosts major military bases not only of France or the UAE, but also Japan, and, crucially, the United States, the argument that China would shy away from the provocation of setting up camp within rivals' spheres of influence of their operative zones, seems unpersuasive.[657] Peter Wood, Editor of the Jamestown Foundation's China Brief, argues along the same lines:

> 'The Djibouti support base is likely just the first of many as China improves its ability to protect the trade routes that form the vital arteries of its economy. This base, and those that follow should be viewed in the same light as the infra-structure projects China is driving across Asia, connecting it through an expanding web of pipelines, highways and railways to the rest of the global economy.'[658]

Such a policy direction will become increasingly viable as China builds a blue water navy, which is the country's mid-century goal. According to retired US-Navy Captain Bernard Cole, China is about half-way there.[659] This estimation is of course based on the assumption that the country will continue to grow economically and channel enough funds into the PLAN. Neither of the two is a cast-iron certainty, as China's economy and polity face increasing challenges next to its opportunities.

The BRI's overall impact on China itself is also far from a forgone conclusion. China still invests much more in domestic infrastructure expansion and the potential for absorbing the current overcapacity of Chinese construction firms abroad is believed to be exaggerated.[660] Nevertheless, the BRI is here to stay and expand along with China's military spending. The BRI will experience noteworthy successes as well as failures. And given the sizes of both supply and demand in Asia's overall infrastructure investment, it seems unlikely that its impact will not be felt.

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656 Lofaso, V. (2018), 'The Race to the Red Sea: Key Agendas, High Stakes'. In: *International Policy Digest*, 3 January 2018 [https://intpolicydigest.org/2018/01/03/the-race-to-the-red-sea-key-agendas-high-stakes/].
657 China is also risking more than provoking India when assembling troops in Doklam, part of the disputed Himalayan territory between the two countries. Hence, a Chinese naval base in Gwadar or elsewhere is a real possibility.
658 Wood 2017.
659 Cole, B.D. (2016), *China's Quest for Great Power: Ships, Oil, and Foreign Policy*. Annapolis: Naval Institute Press.
660 Miller 2015: p. 52.

The most obvious indicator in that direction is that China's economic rise, its trade and investment abroad, already has had a large economic impact on many countries all over Asia. Both supply and demand of goods and capital point to an interdependent future among many Asian countries whose relations will only intensify in the process. The Persian Gulf region, all of which's states have also become founding members in the AIIB, may be the most important example, as the next section and the remaining chapters show.

As China's economic clout widens the country's zone of influence in all directions, the US-China rivalry also may play out much further away, including in the Persian Gulf. Precisely due to the Gulf's new significance for China, from an American perspective there is an argument for a sustained US commitment to the Gulf, if only because of China's growing presence there. A US pivot to Asia and a strategy geared towards China's containment could very much include the Gulf, as pointed out to the author by John Mearsheimer. Above all other reasons for a continued American military presence in the Gulf, Mearsheimer sees China's increasing interest in the region as the principle future incentive for the United States.[661] Admittedly, other close observers and practitioners do not agree with him, even though their profession demands more diplomatic rhetoric. Philip Parham, UK Ambassador to the UAE, in a further interview by the author stated he saw many important reasons for sustained Anglo-American engagement with the GCC, but not China's regional emergence as a motivator. In light of a renewed British desire to return to a more active military footprint in the Gulf, Parham clearly explains this with Britain's and the West's security and economic interests there, and stressed the active though low-key diplomatic dialogue between the British and Chinese in the GCC.[662]

The process of China's rise has involved a great intensification of China's ties with the Gulf states, especially since the 1990s.[663] Before the necessity of net-oil imports from 1993 onwards drove these relations forward, China's contacts with the Gulf states

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[661] Mearsheimer, J. (University of Chicago), interviewed by the author on 21 February 2015 at the International Studies Association's Annual Convention in New Orleans. See Consent Form attached; a containment of China and a US opposition to a potentially enhanced Chinese role in the Gulf clearly echoes Mearsheimer's offensive realism. This argument is addressed again in the conclusion.
[662] Parham, P. (UK Ambassador to the UAE), interviewed by the author on 27 November 2016 in Abu Dhabi, British Embassy. See Consent Form attached.
[663] Liao, J.X. (2015), 'China's energy diplomacy towards the Middle East'. In: A. Ehteshami, Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*. Oxon: Routledge.

were relatively marginal, and for a brief period before that, even somewhat hostile.[664] Indeed, prior to Mao's death, China's sought to spread Communism around the world including in the Middle East.[665] A fervent supporter of Marxist guerrillas in southern Arabia resulted in China's support for the revolutionary People's Democratic Republic of Yemen. Thus, when the insurgency, which created that regime, spilled over into Oman from the late 1960s onwards, Mao's China with its support of the so-called Dhofar Liberation Front, was actively fighting a Gulf state by proxy. Since the Dhofar Insurgency was ultimately defeated in 1975, and due to the subsequent and complete de-radicalization of China's foreign policy, this ghost no longer seems to haunt the now strong relations between China and Oman and the rest of the GCC.[666]

Although China sold ballistic missiles to Saudi Arabia in the 1980s, an incident discussed briefly in the next chapter, and although China has actively promoted diplomatic ties to Iran, China-Gulf relationships have remained relatively apolitical, as this chapter also shows. Even if diplomatic relations between China and the GCC members have grown closer in the wake of their hugely growing trade flows, business so far clearly trumps politics in these relations – which is no different than with most of China's global diplomacy.[667] The next sections give an overview of China's trade, investment, and construction transactions, and of China's political and strategic ties to the Gulf countries. A necessary regional context is thus provided for the two succeeding case studies and the conclusion, which all address these questions and their implications in more detail. For the latter reason, this section minimizes detailed GCC examples, and focuses more on Iran than proportionality would otherwise demand.

6.1 Sino-Gulf Trade

Over the last 15 years, there has been substantial trade growth between China and the GCC members, as Figure 1 points out, reaching its hitherto peak in 2014, with a value

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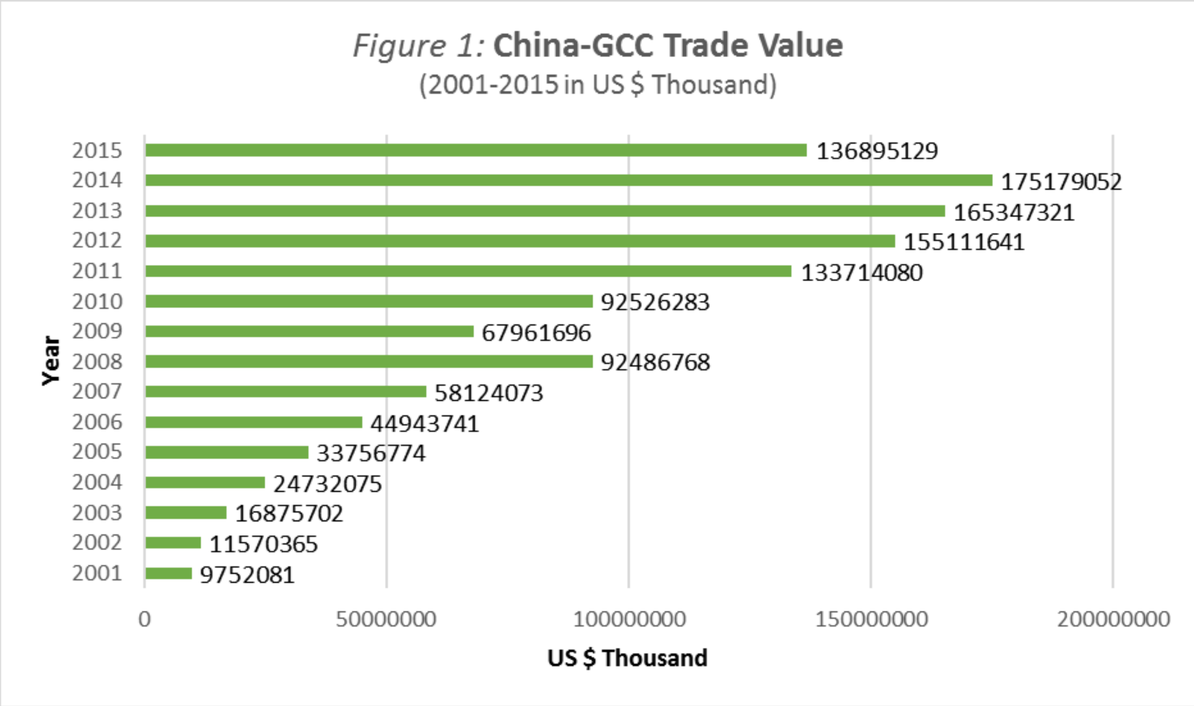
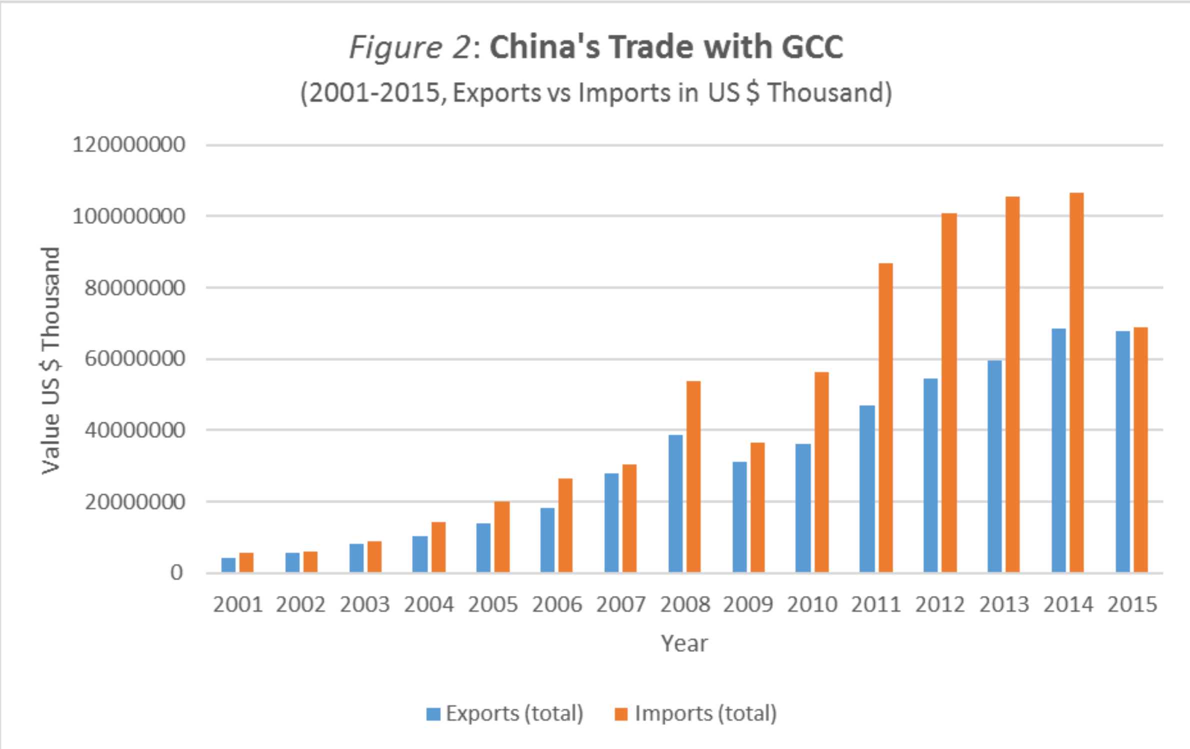
[664] Kemp, G. (2012), *The East Moves West: India, China, and Asia's Growing Presence in the Middle East*. Washington D.C.: Brookings Institution Press, p. 65.
[665] Kissinger 2012: chapters 4-7.
[666] Zambelis, C. (2015), 'China and the Quiet Kingdom: An Assessment of China-Oman Relations'. In: *The Jamestown Foundation China Brief*, 15:22, 16 November 2015 [https://jamestown.org/program/china-and-the-quiet-kingdom-an-assessment-of-china-oman-relations/].
[667] Gjoza, E. (2017), 'Today's Chinese Foreign Policy Is All Business'. In: *The National Interest*, 13 July 2017 [http://nationalinterest.org/feature/todays-chinese-foreign-policy-all-business-21530].

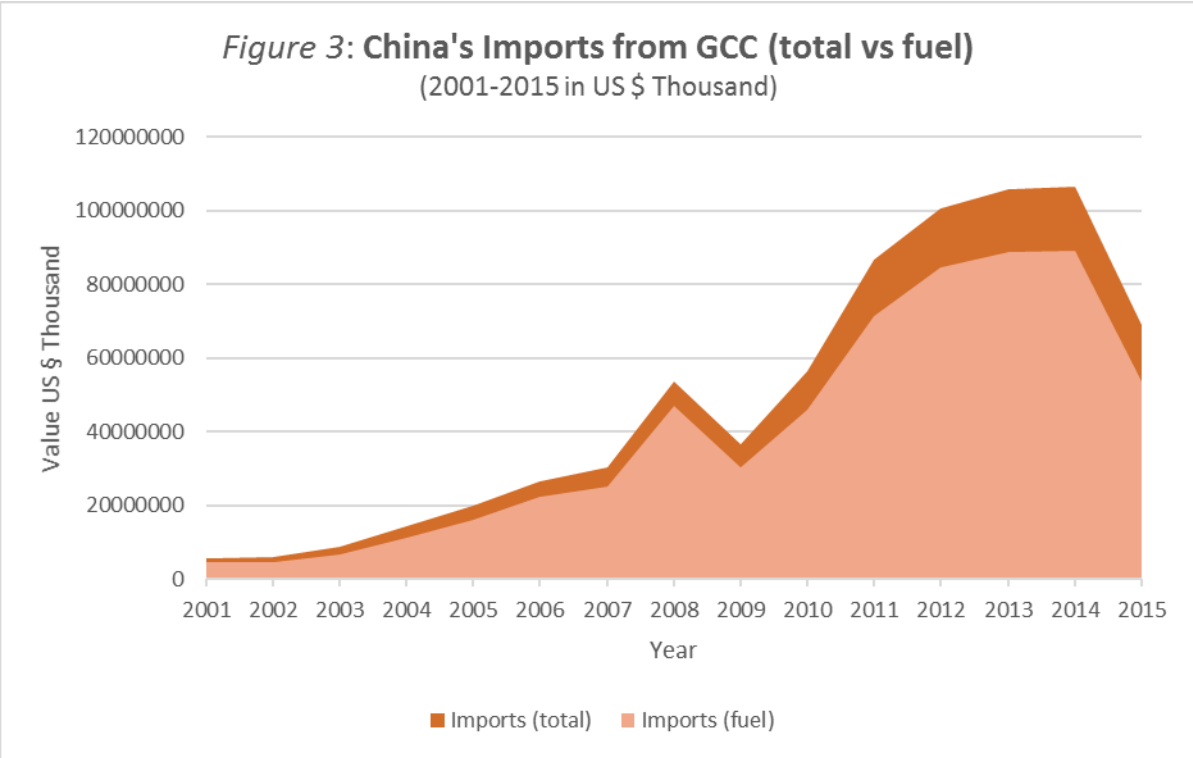
of $175 billion. In Figure 2 it becomes evident that over the last few years, the dominating bulk of that trade consisted of Chinese imports from the GCC. These were again heavily dominated by energy exports from the GCC to China, as demonstrated in Figure 3.



Source: International Trade Centre, Trade Map [MS Excel chart created by author].



Source: International Trade Centre, Trade Map [MS Excel chart created by author].



Source: International Trade Centre, Trade Map [MS Excel chart created by author].

After China's acceptance to the WTO in 2001, its GDP grew even more than it had done so in the preceding two decades. With this came about a growing thirst for energy, especially oil imports, in order to sustain and enhance the industrialization at home.[668] Despite import diversification measures, the Gulf soon reigned supreme as China's most important source region, supplying around half of its oil imports.[669]

The magnitude of China's size, rise, and energy demand becomes all the more impressive when realizing that in that same peak trade year of 2014, China's energy consumption still saw an overwhelming dominance of coal, as Figure 4 shows. Following coal's energy share of 66%, oil came a distant second with 18%.

[668] Simpfendorfer 2011: pp. 1-30.
[669] *U.S. Energy Information Administration* (2014), 'China is now the world's largest net importer of petroleum and other liquid fuels'. 24 March 2014 [https://www.eia.gov/todayinenergy/detail.php?id=15531]; Al-Tamimi 2014: p. 2.

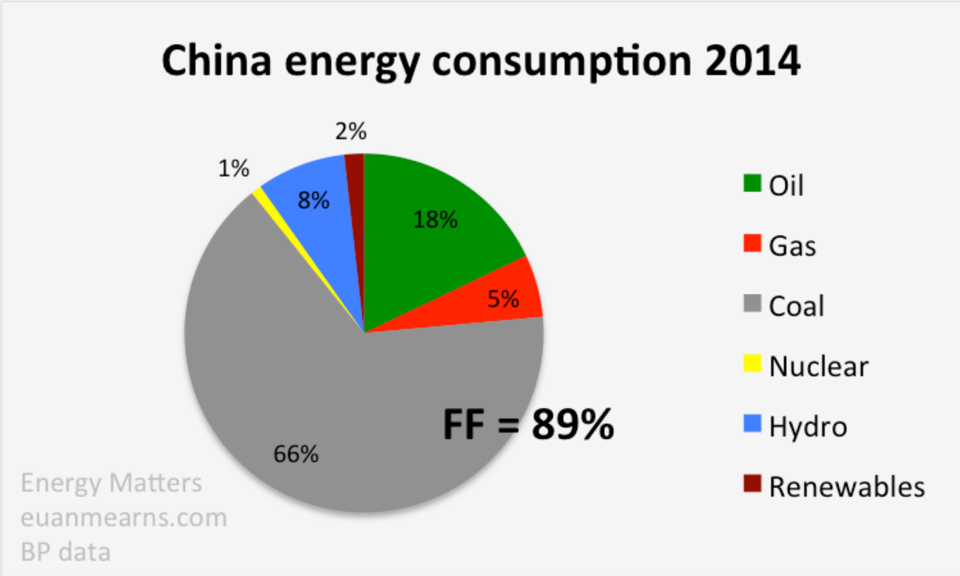


FIGURE 4: *Source*: BP. Available at:
http://www.euanmearns.com/wp-content/uploads/2015/06/chinapie2014.png.

More than half of that 18% of China's energy consumption was imported. As Figure 5 demonstrates, China became a net oil importer in 1993. Since then those imports have strongly outpaced production, rising by eight million barrels per day, whereas production has only increased by less than two. Of China's global crude oil imports, 51% in 2014 were provided by the Gulf, as seen in Figure 6. Looking at individual countries, Saudi Arabia supplied 16%, Oman 10%, Iran and Iraq both 9% respectively, the UAE 4% and Kuwait 3% of China's global oil imports. Since 2014, the value growth of China's oil imports from the Gulf has moderately decreased, due to China's slightly lower economic growth, but especially due to the oil price slump which has mostly endured since then.[670] More will be said in the next two chapters about China's oil trade with Saudi Arabia and the UAE.

[670] Daly, T. (2017), 'China's crude oil imports to exceed 400 million tonnes this year: Sinopec executive'. *Reuters*, 25 July 2017 [https://www.reuters.com/article/us-china-unipec-sinopec-corp/chinas-crude-oil-imports-to-exceed-400-million-tonnes-this-year-sinopec-executive-idUSKBN1AA0EV]; Walker, A. (2015), 'China's slowdown and cheap oil'. *BBC News*, 26 August 2015 [http://www.bbc.co.uk/news/business-34060921]; Wildau, G. (2015), 'China import decline reflects manufacturing weakness'. In: *Financial Times*, 8 December 2015 [https://www.ft.com/content/4a01cc1c-9d60-11e5-bfed-a24713ecdd4f?mhq5j=e5].

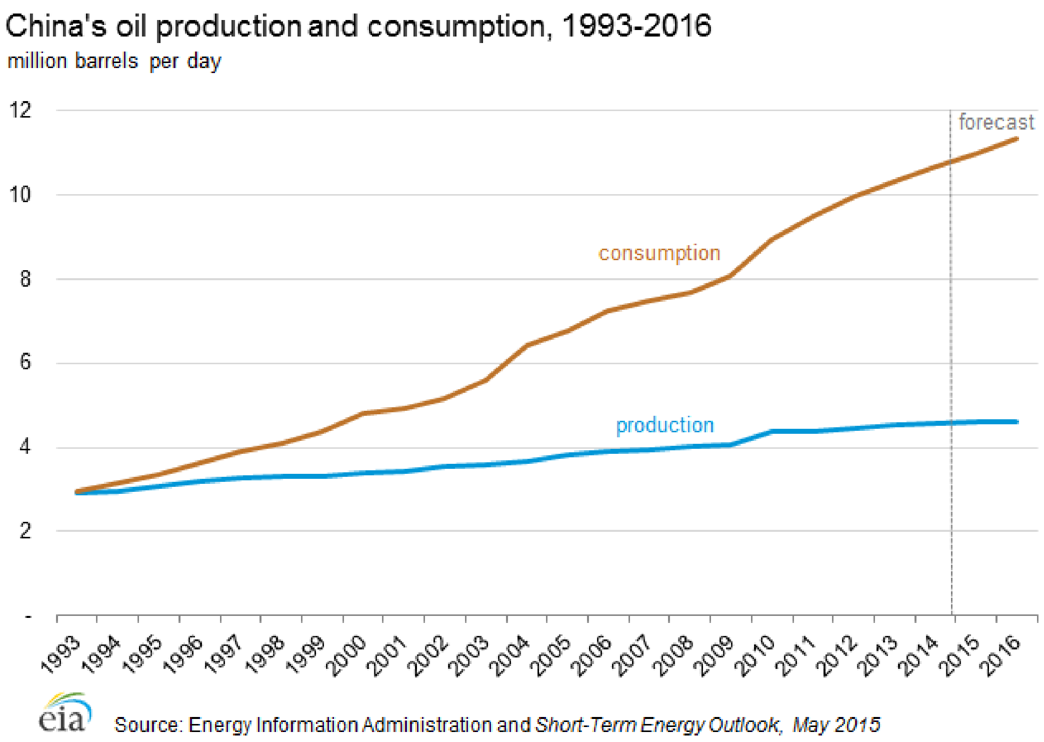


FIGURE 5: *Source*: U.S. Energy Information Administration. Available at: http://www.marcon.com/library/country_briefs/China/pic5.png.

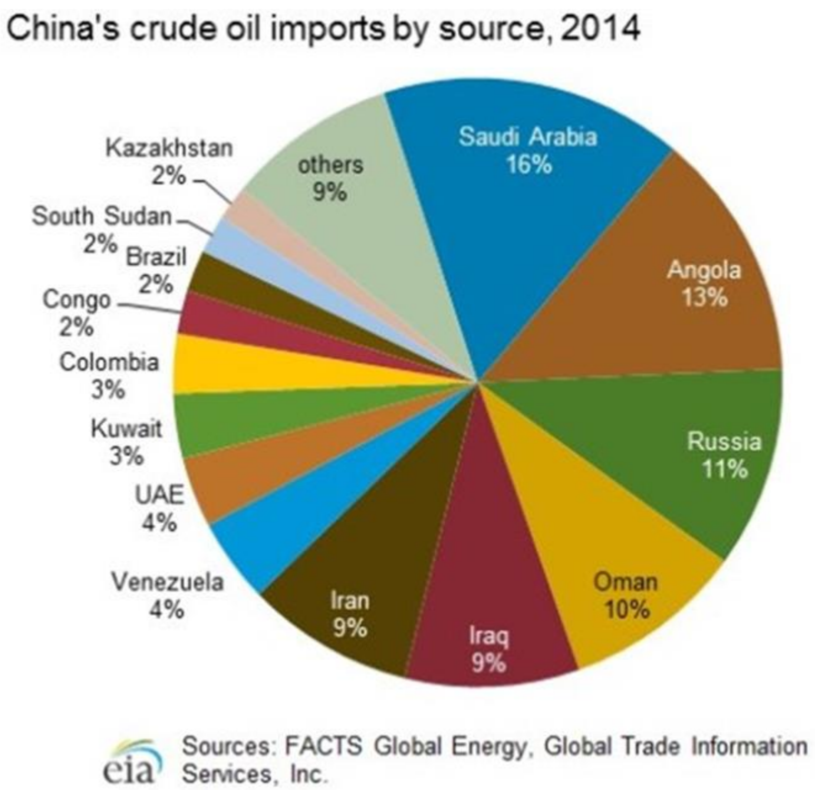


FIGURE 6: *Source*: U.S. Energy Information Administration. Available at: https://www.eia.gov/beta/international/analysis.cfm?iso=CHN.

Iran's share of China's oil imports has been quite large consistently from 1997 onwards, when China's refining industry was made compatible with the high levels of sulphur content in Iranian oil.[671] In late 2000s Saudi Arabia overtook Iranian oil exports to China. And although Iran's share was still quite high compared to the amount of oil other countries imported from it following the US/EU push for sanctions on Iran's energy industry, China had reluctantly conformed to the Western pressure for sanctions compliance as well. Since 2012, it has made significant cuts to its oil imports from Iran.[672] Testifying before the US-China Economic and Security Review Commission, Erica Downs highlighted how this allowed China to escape penalizations:

> 'The National Defense Authorization Act of 2012 prescribes penalties for foreign financial institutions which do business with the Central Bank of Iran, the main clearinghouse for oil payments, but also grants 180-day exemptions to countries that "significantly reduce" oil imports from Iran. China's imports of Iranian crude have fallen from 555,000 b/d in 2011 to 439,000 b/d in 2012 to 402,000 b/d during the period January-April 2013. These reductions earned China exemptions in June and December 2012 and June 2013'.[673]

Nevertheless, China's strong interest in maximizing oil imports from Iran even during the sanctions era has been partly achieved through specialized companies set up precisely for these special circumstances. One of China's ways in oil trade has been the use of the company Zhuhai Zhen Rong which deliberately has no exposure to US-markets, and therefore was not economically affected by Washington's punishment sanctions on it in 2012.[674] Similar to the other Asian importers, much is to be expected in terms of future Sino-Iranian oil trade, after the lifting of sanctions in 2016, even though significant obstacles remain for investment, as will be explained in the next section.

Iraq, as seen in Figure 6, provided as much of China's oil import share as Iran in 2014. Since 2006, China has seen a significant increase in Iraqi oil inflow, growing from then 1 million tons to 3.4 million tons by January 2015. This growth could have been even larger had it not been for Iraq's staggering security breakdown in 2014

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[671] Huang, M., Ji, K. (2013), 'China and Iran: Special Economic Partners'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, p. 193.
[672] Bazoobandi 2013: p. 67.
[673] Downs, E.S. (2013), 'China-Middle East Energy Relations'. *Brookings Institution*, 6 June 2013 [https://www.brookings.edu/testimonies/china-middle-east-energy-relations/].
[674] *BBC News* (2012), 'China angry at US sanctions on oil firm Zhuhai Zhenrong'. 15 January 2012 [http://www.bbc.co.uk/news/world-asia-china-16565563]; Leverett, F., Mann Leverett, H. (2015), 'American hegemony (and hubris). The Iranian nuclear issue, and the future of Sino-Iranian relations'. In: A. Ehteshami, Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*. Oxon: Routledge, p. 145.

following the then rapid expansion of IS, which prevented increased Iraqi oil production especially in the northern Kurdish region. Yet, China's oil imports from Iraq still grew because most of them came from southern Iraq, where most Chinese companies have invested.[675] Iraq's future is highly uncertain though, despite the ongoing pushback of IS and its imminent destruction as a state-like entity.[676] Much of China's hydrocarbon and non-hydrocarbon trade with Iraq depends on its future political stability and security.

Such particular risks and uncertainties have not been exactly relevant in Oman, the Arabian Peninsula's tranquil south-eastern end, beyond the Hormuz bottleneck, where Sultan Qaboos's reign has produced relative stability.[677] These two positive conditions, one political and one geographical, are the main reasons why China has increasingly cherished its bilateral economic ties with Oman. Despite the latter's comparably moderate hydrocarbon resources, China has sought to maximize its imports from there – reflected in the fact that Oman was the first Arab country to sell oil to China and reflected in the still high figure above. This is also significant the other way around, because China for long was Oman's largest oil customer. This substantial oil trade volume will likely remain the case in the short-term future due to the overall closer bilateral relations and bi-directional investment into upstream and downstream oil business.[678]

Yet, Oman's dwindling resources, its political and economic stagnation resulting from the Sultan's age and poor health, and a potential return of political risk and uncertainty over his succession, mean that China's oil imports from Oman are likely going to decrease in the mid-to-long term. This has already happened most recently, although that dip might be of a more short-term nature. The 30% decrease of Oman-China oil trade in January 2017 can be explained with OPEC's recent decision to cut

[675] Tiezzi, S. (2015), 'China and Iraq Announce Strategic Partnership'. In: *The Diplomat*, 23 December 2015 [http://thediplomat.com/2015/12/china-and-iraq-announce-strategic-partnership/].
[676] Trenchard, T., Marrier d'Unienville, A. (2017), 'ISIS is almost defeated in Iraq, but thousands of Christians refuse to return to their homes'. In: *Newsweek*, 27 June 2017 [http://www.newsweek.com/2017/07/07/isis-iraq-thousands-christians-refuse-return-homes-629480.html].
[677] Cafiero, G., Karasik, T. (2016), 'Can Oman's Stability Outlive Sultan Qaboos?'. *Middle East Institute*, 217 April 2016 [http://www.mei.edu/content/can-oman%E2%80%99s-stability-outlive-sultan-qaboos].
[678] Rakhmat, M.Z. (2014), 'Exploring the China and Oman Relationship'. In: *The Diplomat*, 10 May 2014 [http://thediplomat.com/2014/05/exploring-the-china-and-oman-relationship/].

production.[679] If this goes on for longer, it might even extend Oman's export capacity further into the future. Kuwait's oil exports to China have also been long-established, but, considering Kuwait's much larger resources they seem destined to endure for much longer.[680]

The same can be said about Qatar's gas supply for China, although, for now, that energy type has only been used to a relatively moderate extent. As already seen in Figure 5, China's consumption of natural gas accounted for 5% of its total energy consumption in 2014. It became a net importer of natural gas in 2007 and has increasingly relied on those imports – although its import dependency is still much lower than with oil, as seen in Figure 7 below. This moderate gas import dependency seems likely to endure and even expand, because, for environmental reasons, China is seeking to reduce its coal consumption, and does not seem to have immediately accessible domestic gas reserves to the amount that would reduce import dependence.[681]

As evident in Figure 8, China's imports are balanced between natural gas via pipelines, especially from Russia and Central Asia, and via LNG imports by sea. Of these LNG imports Qatar's position is highly dominant, enjoying a third of China's LNG import market share. The other LNG suppliers are located in China's back yard in South East Asia – Australia, Indonesia, and Malaysia. Although Iran has enormous gas reserves, it does not yet have the high-technology to fully develop them. China could be well-placed to change that and unlock huge Iranian resources. Yet, this would not only be very costly, but simultaneously considered unnecessary by China, bearing in mind the world's current excess gas capacity. China has multiple alternative sources that are comfortably sufficient and simply much cheaper to import. For a long time, anti-Iranian sanctions and Iran's pariah status also prohibited Chinese willingness to take potentially high risks in investing into an

[679] Khan, G.A. (2017), 'Oman's oil exports to China fall 30% in January'. *Muscatdaily.com*, 28 February 2017 [http://www.muscatdaily.com/Archive/Business/Oman-s-oil-exports-to-China-fall-30-in-January-4yn4]
[680] Niazi, K. (2009), 'Kuwait Looks towards the East: Relations with China'. *Middle East Institute*, 1 September 2009 [http://www.mei.edu/content/kuwait-looks-towards-east-relations-china].
[681] *Bloomberg News* (2017), 'China's Swapping Energy Independence for Cleaner Air'. 10 January 2017 [https://www.bloomberg.com/news/articles/2017-01-10/smog-choked-china-swapping-energy-independence-for-cleaner-air].

Iranian (gas) energy infrastructure. The latter might have been destroyed by a possible American military strike on Iran.[682]

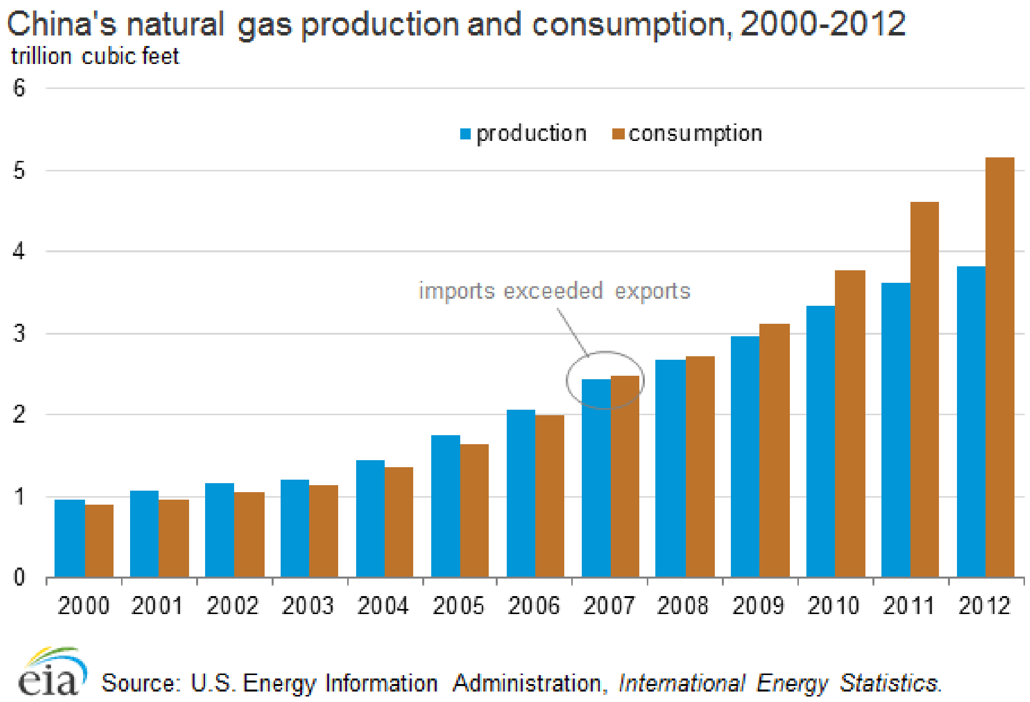

FIGURE 7: *Source*: U.S. Energy Information Administration. Available at:
http://www.marcon.com/marcon2c.cfm?SectionGroupsID=30&SectionListsID=30&PageID=2803

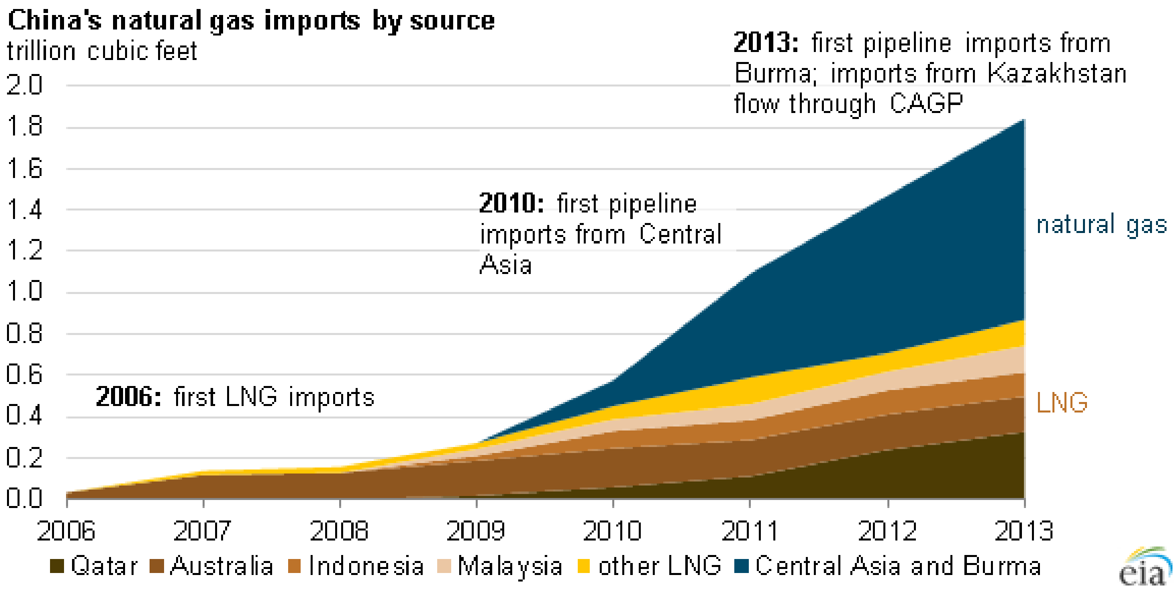

FIGURE 8: *Source*: U.S. Energy Information Administration. Available at:
https://www.eia.gov/todayinenergy/detail.php?id=17591.

[682] Seznec, J.-F. (2011), 'China and the Gulf in 2010: A Political Economic Survey'. In: B. Wakefield, S.L. Levenstein (eds.), *China and the Persian Gulf. Implications for the United States*. Washington, D.C.: Woodrow Wilson International Center for Scholars, pp. 57-58.

China's trade with the Gulf states is in no way limited to energy though. Admittedly, the Gulf states' exports to China are still overwhelmingly dominated by hydrocarbons and at best some related petrochemical products.[683] Yet, the entire region has imported a rapidly growing amount of Chinese manufactured goods, especially electronics, heavy machinery, transport equipment, metals, food, and textiles. This increasingly includes more high-tech products, as stated by Shaojin Chai to the author, a Chinese national employed as a Senior Research Fellow of the Ministry of Culture, UAE and expert on China-GCC relations.[684] The low-and-higher-tech products are in high demand in all Gulf countries and since China enjoys a comfortable comparative advantage in these product categories, they are likely to enjoy continued outlets there.[685] On a side note, although China-Gulf trade is highly imbalanced in favour of the Gulf, this imbalance does not exist when incorporating all OPEC countries. For every dollar China spends on importing oil from OPEC, 64% of value is returned to China due to Chinese manufactured exports to these markets.[686]

Iran also is a vast market for Chinese exports – and has already been for the past decades, although potential is much greater than the bilateral trade to date. Between 1980 and 2010 bilateral trade rose 163-fold, from approximately $180 million to $30 billion.[687] A year later, China became Iran's largest trading partner, whilst Iran became China's second biggest Middle Eastern trading partner back in 2007. Although an increasing and dominating bulk of that trade was composed of Iranian oil exports, Chinese heavy machinery and equipment, as well as cheap-manufactured consumer goods found many tight-budgeted Iranian consumers in a constantly underperforming economy also requiring infrastructure investment and industrial advancement. Huang and Ji have taken a detailed look at Sino-Iranian trade patterns and have identified the most important Chinese products exported to Iran over the last decades: 'tractors, iron and steel products, motor vehicles, power generators, electric motors, building equipment, mechanical equipment, drilling equipment, tubing, phosphate, insecticide, clocks and watches, household appliances, articles for

683 Chen, M. (2013), 'The Economic Relations Between China and the GCC Countries since 2008'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, pp. 174-175.
684 Chai, S. (Ministry of Culture, UAE), interviewed by the author on 24 November 2016 in Downtown Dubai. See Consent Form attached.
685 Ibid.
686 Al-Tamimi, N. (2012), 'China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance'. In: *HH Sheikh Nasser al-Mohammad al-Sabah Publication Series*, 2, June 2012 [http://dro.dur.ac.uk/9683/1/9683.pdf], p. 9.
687 Huang, Ji 2013: p. 191.

daily use, etc.'.[688] Yet, they notice an overall decrease of Chinese exports to Iran in the 2000s, when only exports of textiles grew, but exports of 'mechanical and electrical products and meters' declined. They explain this with Korean, Japanese, and European competition in these sectors.[689] This competitive trend might be cemented in the new post-sanctions era.

Furthermore, the growing Iranian imports of Chinese articles of apparel, and all kinds of other comparably cheaper goods, have been a double-edged sword for the Iranian economy. Whilst they helped the Iranian consumer, they harmed the Iranian producer. Domestic textile business seems to have taken a significant beating, with the Majlis Research Centre reporting the insolvencies of more than 2000 Iranian SMEs in the clothing production sector in 2012 alone.[690] This is merely one recent example of many cases in which Chinese goods flooding the Iranian market have drawn much ire from Iranian business, politics, and the religious establishment.[691] On a side note, it might be interesting to mention that the last time clothes "Made in Persia" were domestically outperformed by Chinese competitors was in the early 18th century, when the influx of Chinese silks damaged Persian producers so much, that it helped cause economic stagnation, and indirectly, the Safavid dynasty's collapse, as seen in chapter two. Sometimes Silk Roads seem to have unintended consequences.

Yet, textiles and other essential goods have been needed in neighbouring and war-torn Iraq, to which China currently mainly exports those goods, and heavy machinery, electronics, metals, chemicals, stone, glass, plastic, rubber, and food products.[692]

Beijing has been highly proactive in facilitating the exports of such goods to all Gulf markets, but especially the GCC, in order to try and reduce its massive trade deficit with these countries, an imbalance clearly illustrated by Figure 2 above. Given China's demonstrated dependency on Gulf oil and to a much lesser extent gas, there does not seem to be much potential for significant further trade imbalance reductions, unless the low oil price falls further and stays as low. All in all, Sino-GCC

[688] Ibid.: p. 192.
[689] Ibid.: p. 194.
[690] See: Bazoobandi 2015: p. 265.
[691] Ibid.: pp. 265-266.
[692] *World Integrated Trade Solution* (2017), 'Product Exports by China to Iraq 2015'. 19 July 2017 [http://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2015/TradeFlow/Export/Partner/IRQ/Product/All-Groups].

trade growth since the millennium resulted in China becoming the GCC's third-largest trading partner in 2009.[693]

The new Sino-Arab trading Silk Roads, and especially China-GCC trade, are as much a story of small-and-medium-sized enterprises (SMEs) trading in both directions as of large SOEs, although, again, it is mostly the Arab world and the Gulf in particular that imports Chinese consumer goods. The Chinese city of Yiwu in Zhejiang province perfectly exemplifies the micro-nature of these new commercial arteries. As Ben Simpfendorfer, the banker-turned-entrepreneur and CEO of the Silk Road Associates consulting firm, observed already in the late 2000s, Yiwu 'claims the world's largest wholesale market for consumer goods and [...] is a Mecca for foreign traders'.[694] Huge numbers of Arabs, mainly individual merchants, not large retail conglomerates, have littered the city market with their small consumer goods, and yet more of them travel there to assess what is on offer and order huge amounts of small and large consumer goods to be shipped to the Gulf. Yiwu has reacted to this phenomenon and built not only many hotels, but also mosques to make it more attractive to Muslims traders.[695] And for those who do not travel, the internet offers its own "Silk Road" connection portal: not the illegal dark web platform, but Jack Ma's all-conquering e-commerce business-to-business company Alibaba – a telling name – now one of highest valued companies in the world. Sino-GCC traders have made enormous use of it.[696] Besides Yiwu, China and Arab states, particularly from the GCC, have also set up a number of trade fora and expos in China's Ningxia Province, which is home to a large demography of Hui Muslims. A proposed free trade zone in and around Ningxia's capital, Yinchuan, is especially targeting Sino-GCC trade in halal food.[697]

As a consequence of all these macro-, meso-, and micro-developments, an overall China-GCC free trade agreement has been under negotiation for over a decade. Its obstacles are primarily believed to lie in the petrochemicals sector, an industry which both China and the GCC-block have championed domestically and over which they

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[693] Körner, K., Masetti, O. (2014), 'The GCC going East. Economic ties with developing Asia on the rise'. In: *Deutsche Bank Research*, 18 February 2014 [ibid. / https://www.dbresearch.com/PROD/DBR_ INTERNET_EN-PROD/PROD0000000000329687/The+GCC+going+East%253A+Economic+ties+with+developing+Asia+on+the+rise.pdf]

[694] Simpfendorfer 2011: p. 7.

[695] Ibid.: pp. 8-15.

[696] Ibid.: pp. 25-26.

[697] Ho, W.-Y. (2013), 'Mobilizing Muslim Minority, Targeting Arab Trade: China's Ningxia as the Islamic Hub for China-Arab Connections'. In: T. Niblock, M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*. Berlin: Gerlach Press, pp. 214-217.

therefore compete.[698] Although China called for a faster conclusion and implementation of a deal in May 2017, new dramatic political obstacles were added only a month later, with the outbreak of the Qatar crisis and the country's new economic isolation at the time of writing.[699]

However, unless the crisis mushrooms into direct conflict, even in absence of a near-future FTA, China-GCC trade volumes are likely to endure and grow further. Besides the demonstrated patterns of demand and supply, the simultaneously growing investment flows, joint ventures, and construction contracts between China and the GCC are further important facilitators of trade.

6.2 Sino-Gulf Investment and Project Contracting

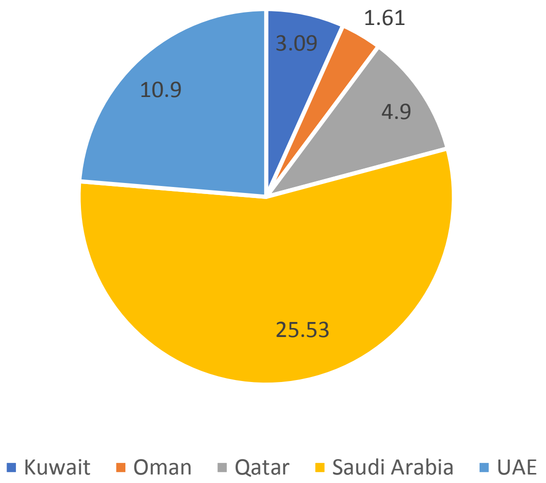
In the past decade, China-GCC capital flows in the form of FDI and EPC have also greatly soared, though on a slower and lesser scale than trade, especially up to the global financial crisis. A significant bulk of FDI and EPC flows between the countries has been conducted by state-owned enterprises (SOEs), often co-facilitated via credit-supplies from their mother countries' large sovereign wealth funds (SWFs), but also between private companies.[700]

Figure 9 and 10 show the distribution of China's outward infrastructure investment into GCC countries between 2005 and 2015. Due to its size and importance as a hydrocarbon source, Saudi Arabia clearly dominates the field, with a Chinese infrastructure investment inflow of approximately $26 billion – representing more than half of the GCC's share. The UAE though follows as a clear second, absorbing approximately $11 billion over the same period, which accounts for roughly a quarter of all Chinese infrastructure investments in the GCC. In the other direction, from the Gulf to China, investment was marginal before 2008, as only around 11% of Gulf investment went to Asia. Yet, especially in China, this share is likely to double by

[698] *Economist Intelligence Unit* (2014), 'GCC Trade and Investment Flows. A report by The Economist Intelligence Unit' [http://www.mmis.co/News/EIU-GCC/eiu-gcc-report.pdf].
[699] Gater-Smith, P. (2017), 'Qatar Crisis Impacts China's Ambitious Foreign Policy'. In: *International Policy Digest*, 13 June 2017 [https://intpolicydigest.org/2017/06/13/qatar-crisis-impacts-china-s-ambitious-foreign-policy/]; *Xinhua Net* (2017), 'China calls for faster free trade negotiation with GCC'. 16 May 2017 [http://news.xinhuanet.com/english/2017-05/16/c_136288477.htm].
[700] Bazoobandi, S. (2015), 'GCC Sovereign Wealth Funds: Aims and Motives'. In: V. Talbot (ed.), *The Rising Gulf. The New Ambitions of the Gulf Monarchies*. Milan: ISPI; Clark et. al. 2013: pp. 105-120.

2020.[701] As with trade, more shall be said about the nature of Chinese investments in the KSA and UAE and their investment in China in the two case study chapters.

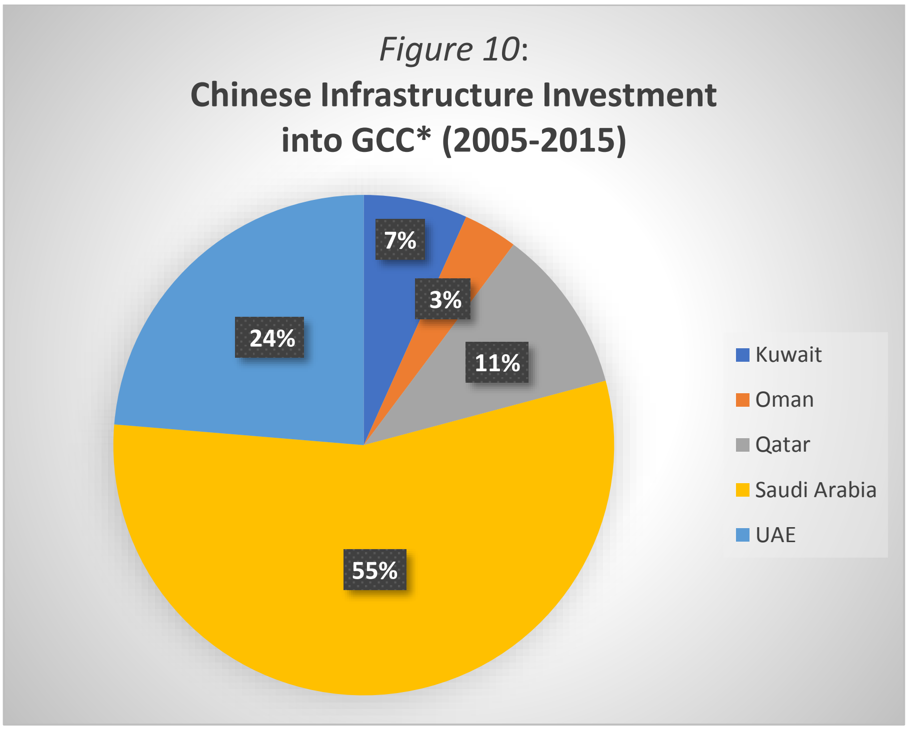
Figure 9:
Chinese Infrastructure Investment into GCC* in US $ Billion (2005-2015)



* excluding Bahrain (no data).

Source: American Enterprise Institute, China Global Investment Tracker [MS Excel chart created by author].

[701] Janardhan, N. (2015), 'Gulf-East Asian relations. From economic interdependence to strategic cooperation'. In: A. Ehteshami, Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*. Oxon: Routledge, pp. 36-37.



* excluding Bahrain (no data).

Source: American Enterprise Institute, China Global Investment Tracker [MS Excel chart created by author].

Though the global financial crisis had an astonishingly marginal impact on China's growth, Sino-GCC investment suffered for at least a year, just like trade. The GCC's financial sectors were heavily hurt, most famously with the burst of Dubai's real estate bubble in 2009, oil prices declined, and Gulf growth depreciated in the wake of several business failures – all of which negatively affected Sino-GCC capital flows. Yet, they rebounded very quickly and grew substantially at the start of the new decade.[702]

Apart from China's and the developing world's continuously growing energy demand and Gulf supply, one of the reasons for their fast recovery and indeed absolute growth was and is the 'complementarity of project contracting' between China and the GCC, according to Chen. Between 2009 and 2013, 'the market for project contracting […] [was] enlarged. GCC project contracting is currently China's predominant market in foreign project contracting'.[703] He observes five reasons on the GCC side: first, the rebounding oil price between 2010 and 2013 and subsequent rents re-booting GCC liquidity; second, native and expatriate population growth together with increased

[702] Chen 2013: pp. 171-172.
[703] Ibid.: p. 175.

urbanization demands. These developments entail all kinds of infrastructure and services expansion in communications, education, housing, hydropower, medical facilities, and transportation, encompassing entertainment, as well as work, leisure, shopping, sports, and worship. Third, the GCC-states' new development strategies necessitate sweeping economic diversification which again requires the respective infrastructure investment for all kinds of services. The fourth factor extends this economic development strategy across borders, urgently connecting the GCC countries which, after all, formed a customs union in 2003. Finally, the GCC-countries' acceptance to the WTO required them to simplify their regulatory environment and remove barriers to inward investment.[704] The combination of these aspects has created many and ever-expanding opportunities for Chinese companies involved in project contracting.

These companies additionally have been and continue to be well-placed to harness that potential. Chen identifies four such factors. First, in the highly dense contract market, China's companies enjoy a competitive advantage vis-à-vis the longer established Western firms or those of the "Asian tigers", regarding labour provision which is not only skilled, but comparably low-cost.[705] Second, China's now 'advanced manufacturing, design and construction technology [...] coupled with lower production costs is advantageous for those industries with large infrastructures'. Thus, China can nowadays for example offer 'technical capability and know-how in new energy technologies, such as nuclear power, solar and wind energy'.[706] Third, Chinese companies have adopted EPC methods to their portfolios, which means they take on complete projects as general contractors, after decades of mere sub-contracting in foreign markets. Fourth, Chinese firms now offer 'complete sets of equipment manufacturing' which enhances their EPC-capability and overall project efficiency.[707]

Sino-GCC FDI flows, though very modest initially, and still trailing far behind trade, have also increased in the last decade. In 2001, global FDI into the GCC stood at $2.3 billion, which accounted for just 0.27% of global FDI. In 2008, the value had grown to $63.4 billion, which represented 4.56% of global FDI. The GCC countries have had an enduring and constantly increasing need for technological development and FDI

[704] Ibid.: pp. 175-177.
[705] Ibid.: p. 177.
[706] Ibid.: p. 178.
[707] Ibid.

inflows and outflows. The commodity boom in that decade and its resulting high oil price provided foreign investor assurance for capital inflows, as well as domestic liquidity for capital outflows. Capital inflows into GCC markets have mostly encompassed sectors such as 'the service industry, finance, transport, communication, real-estate, hydraulic engineering, petrochemical products, and refining'.[708] Especially the energy sector requires FDI, although it is protected by much stricter regulations. This means that most FDI goes into the GCC's downstream industry. Nevertheless, the overall privatization policies in some GCC countries have opened up potential for cross-border mergers and acquisitions (M&A).[709]

Chinese companies have increasingly tapped into these markets, although 'initially the proportion of China's investment in GCC countries was relatively small – under 1% per year of total Chinese investment overseas'. Yet, it has notably increased since the GCC's post-crisis rebound, mostly in the energy and service industries.[710]

In the other direction, the FDI of GCC countries into China also intensified ever since both trading blocs acceded to the WTO, although to a much lesser extent. Given the huge divergence in country sizes and demographics, this is not surprising. In 2003, the GCC's overall FDI into China stood at $790 million, and in 2010 at $7.76 billion. Most of these capital flows came in the form of joint ventures and were facilitated by the GCC's sovereign wealth funds.[711] This state-driven investment is motivated by their recognition not only of China's enormous market size, but also by their intention to deepen China's overall stake in the Gulf – as an instrument to lock it into a long-term energy trading relationship underpinned with the desired diplomatic cooperation. Accordingly, Davidson also attests 'clear political goals in addition to [the SWFs'] stated economic objectives' and discerns that so far disappointingly 'few of the [GCC's] investments are being made by private companies'.[712]

Besides Saudi Arabia and the UAE, as seen in the next chapters, Kuwait and Qatar are two other significant GCC origins and destinations of FDI, FPI, and EPC-flows into and from China. Back in the 1980s, the China National Petroleum Corporation (CNPC) became involved in over 175 larger and smaller infrastructure projects, supplying also more than 20,000 Chinese workers. CNPC was equally responsible for

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[708] Ibid.: p. 179.
[709] Ibid.
[710] Ibid.
[711] Ibid.
[712] Davidson 2010: p. 45.

comprehensive maintenance work on Kuwaiti oil refineries, as well as a $400 million-strong construction of two oil storage depots in the 1990s. In the year 2009, Sinopec signed a deal to construct five new oil and gas stations, all of which 'will boost Kuwait's oil production by over four million barrels per day by 2020'.[713]

Kuwait is China's oldest investment partner in the Gulf, with that connection too reaching as far back as the 1980s. The Kuwait Pacific Finance Company and the Hong Kong Metropolitan Bank, as well as UBAN International were founded as bi-directional investment facilitators. Between 1984 and 1985 the Kuwait Petroleum Company (KPC) acquired a 15% stake in a Chinese offshore gas field and then, together with the Chinese National Chemical Construction Company formed a 60%-40% joint venture, the Sino Arab Fertilizer Company, to develop a petrochemical plant in Shandong Province. By the time two decades had past, Sino-Kuwaiti capital flows had greatly increased. In 2005, KPC's and Sinopec's $9 billion joint venture was launched to co-finance an oil refinery and ethylene plant in Guangdong Province. Kuwait's primary SWF, the Kuwait Investment Authority (KIA), had also steadily grown its portfolio share in East Asia. Now, it is one of the largest foreign shareholders in the Industrial and Commercial Bank of China (ICBC). KIA also holds a 15% stake in the Kuwait-China Investment Company (KCIC), a joint venture to invest in Chinese agriculture from which import-dependent Kuwait will draw food products.[714]

Given its overwhelming oil-dependency and need of economic diversification, Kuwait is, so far, heavily dependent on imports of almost everything to boot. Thus, investing in infrastructure which facilitates connectivity and trade is crucial to its own Vision 2030. The plan includes ambitions to build a "Silk City", the Madinat al-Hareer, over the next decade. First announced in 2008, it had initial plans to not only connect the Middle East to China via railway, spreading out also to Iran, Baghdad, and Damascus, but also to form a metropolis including a 1,001-metre skyscraper and a business-, home-, leisure- and tourism- hub close to the capital.[715] Whilst the Silk City's construction is moving forward, partly co-financed with China's Belt and Road investment vehicles, the railway-plans have stalled and may have gone extinct for now, given GCC-Iran hostility and Syria's and Iraq's raging civil wars and

[713] Ibid.: pp. 57-59.
[714] Ibid.: pp. 48-49.
[715] Bowcott, O. (2008), 'Kuwait plans new £132bn metropolis'. In: *The Guardian*, 23 July 2008 [https://www.theguardian.com/business/2008/jul/23/oilandgascompanies.architecture].

disintegration.[716] Over a hundred years since the Berlin-Baghdad railway project, once again, direct railway connections from the Levant to the mouth of the Persian Gulf are failing to be built due to geo-political turmoil. Nevertheless, the Madinat al-Hareer demonstrates Kuwait's ambitions to compete with Dubai over intercontinental business hub status in the long run. It remains to be seen whether it can succeed and how profitable the Chinese financial support will turn out.

In view of Qatar's recent GCC isolation in the wake of alleged substantial support from government sources to jihadist groups in the Middle East, Qatar's similar business hub ambitions are now far less realistic. Nevertheless, Sino-Qatari capital flows are not likely to be frozen. Already China has invested significantly in Qatari markets, just as Qatari entities have in Chinese markets. The Qatar Investment Authority (QIA), the country's main SWF, has followed Kuwait's example in buying stocks of the Industrial and Commercial Bank of China. ICBC has since also opened a branch in Doha, offering banking to other Chinese companies there.[717] This move into Qatar's financial sector was later complemented by the two states setting up a renminbi clearinghouse in Doha, seeking to solidify trade-and-investment-easing monetary ties.[718] In the other direction, QIA has opened an office in China to expand its portfolio there. Furthermore, in 2009, Qatar Petroleum, allocating a planned $12 billion, entered a joint venture with Petrochina in order to co-finance a petrochemicals plant in Zhejiang Province, as well as 'an oil refinery, an ethylene plant, and a port for oil supertankers'.[719] These are merely the most prominent examples of Sino-Qatari capital flows.

Oman has also been both a recipient as well as a provider in its investment ties to China, though on a lesser scale than the larger Gulf economies. One of Oman's most prominent capital provisions for China came in the form of a huge grant in the wake of the heavy Sichuan earthquake in 2008.[720] Up until 2014, China had invested into Oman's energy and petrochemical industry, and had signed agreements to form joint ventures between the Oman Oil Company (OOC) and the likes of CNPC and Sinopec.

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[716] *Xinhua News* (2016), 'Spotlight: China's "Belt and Road" initiative boosts Mideast development'. 1 January 2016 [http://news.xinhuanet.com/english/2016-01/19/c_135024655.htm].
[717] Davidson 2010: p. 51.
[718] Rakhmat, M.Z. (2015), 'The UAE and China's Thriving Partnership'. In: *Huffington Post* [https://www.huffingtonpost.com/muhammad-zulfikar-rakhmat/the-uae-and-chinas-thrivi_b_7821640.html].
[719] Davidson 2010: p. 51.
[720] Rakhmat 2014.

Beyond oil, Chinese companies have also invested into other Omani energy sub-sectors and have upgraded Oman's water management.[721]

As Oman's much needed economic diversification has more recently seen the country's focus on the expansion of logistics networks, free trade zones and port constructions in order to provide a modern upgrade to its anciently relevant maritime commerce, China has encouraged this with its most recent and possible future investment decisions. Oman's new Logistics Strategy incorporates the construction of an advanced railway network, connecting not only major Omani cities, free trade zones, and ports, but also linking up with the GCC railway network, which is also under construction. Following the announcement of these Omani plans in 2014, the Asian Infrastructure Investment Bank (AIIB) has emerged as a major funding vehicle for this project, agreeing on an instant provision of a $36 million loan – representing a 60% share in the project, alongside the Oman Global Logistics Group's 40% share ($24 million). A specific section of the rail grid will be a network of 'Mineral Lines' – thus representing also an investment into Oman's vast and untapped mineral resources.[722] In another, even bigger, and highly complementary AIIB project, the Chinese-led investment bank almost simultaneously signed an agreement to develop the Omani port and Special Economic Zone of Duqm.

> 'The objective of the Project is to help Duqm Port capture its full economic potential through improved transport efficiency, strengthened logistics services, facilitated mineral exports, and reduced supply chain delivery time and costs for the wide spectrum of industries in the new Duqm Special Economic Zone and its broader port hinterland. [...] The project investment will mainly include the civil works for the construction of port related infrastructure including port access roads, cargo storage, terminal buildings, and operational zone's facilities buildings.[723]

The AIIB will provide 75% of the project's overall EPC costs, a $265 million loan to the Special Economic Zone Authority of Duqm. The latter will contribute with $88.33 million, accounting for 25% of the estimated project costs.[724]

These two AIIB loans to Oman certify that Xi Jinping's Belt and Road Initiative is, at least currently, not bypassing the Arabian Peninsula, as had been speculated.[725]

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[721] Ibid.

[722] *Asian Infrastructure Investment Bank* (2016), 'Project Document of the Asian Infrastructure Investment Bank, Sultanate of Oman Railway System Preparation Project'. 14 November 2016 [https://www.aiib.org/en/projects/approved/2016/_download/oman-railway-system/project-document/approved_project_document_oman_railway.pdf], pp. 1-6.

[723] *Asian Infrastructure Investment Bank* (2016), 'Project Document of the Asian Infrastructure Investment Bank, Sultanate of Oman Duqm Port Commercial Terminal and Operational Zone Development Project'. 8 November 2016 [https://www.aiib.org/en/projects/approved/2016/_download/duqm-port-commercial/document/20161213051938915.pdf], p. 1.

[724] Ibid.

Despite the BRI's alleged overall vagueness, and despite specific doubts on the GCC as a critical and safe regional node in both the Belt and the Road, for now China seems to be more than open into incorporating it. Oman mostly lies outside the strategically sensitive Persian Gulf and, in addition, its territory on the Musandam Peninsula overlooks the Hormuz bottleneck jointly with Iran. Chinese investors appreciate this geographic, and thus geo-political and geo-economic, advantage that Oman enjoys over its GCC allies. This may be one of the reasons for their active investment in Oman and especially Duqm, which is going far beyond the AIIB loans. Also in 2016, Oman Wangfang, a subsidiary of China-Arab Wanfang Investment Management Company, founded in 2015 in Ningxia Province, signed an agreement to build an industrial park in Duqm. The $370 million Chinese infrastructure investment will flow into Duqm's Special Economy Zone, where the industrial park alone plans to attract $10 billion of investment by 2022. Oman Wangfang will finance an 'oil refinery, a cement plant, a factory making pipes for the petroleum industry, an automobile assembly plant, and a 1-gigawatt solar power generation facility' and, additionally to their construction by Chinese companies, will include land leases to the Chinese investors.[726] In spring 2017, the Omani government also turned to China when it requested a $3.6 billion loan to meet budget gaps in the wake of the enduringly low oil price. The mandated banks include the Bank of China, the China Development Bank, and the Industrial and Commercial Bank of China.[727] China's increasing financial importance to Oman is made evident through such requests.

Iraq is in even greater need for any FDI given its civil wars and dire existence as a de facto failed state. Construction opportunities are therefore manifold but involve high risk. Yet, China's energy and construction companies have shown much appetite to take it on, at least after Iraq's temporal stabilization following the US troop surge in 2006. They have invested especially in Iraq's southern region and to a lesser extent the northern Kurdish region, simultaneously taking the biggest share in Iraqi oil

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[725] Niblock, T. (2016), 'Situating the GCC in China's Transforming Roles in Asia'. *Middle East Institute*, 16 February 2016 [http://www.mei.edu/content/map/gcc-and-china%E2%80%99s-transformative-role-middle-east]. Oman is also far from the only case in favour of the BRI's and AIIB's Gulf relevance. As an article by Standard Chartered Bank on the UAE's BRI role seeks to stress, the two should be characterized as 'a natural fit'. See: Salama, M. (2017), 'Belt and Road and the UAE: a natural fit'. *Standard Chartered*, 18 September 2017 [https://www.sc.com/BeyondBorders/belt-and-road-and-the-uae-a-natural-fit/].

[726] *Reuters* (2016), 'Chinese investors to build industrial park at Oman's Duqm port'. 23 May 2016 [http://www.reuters.com/article/oman-china-industry-idUSL5N18K32D].

[727] Jiang, Y. (2017), 'LPC-Oman raising US$3.6bn from Chinese banks'. *Reuters*, 9 May 2017 [http://www.reuters.com/article/oman-loans-idUSL4N1IB3TW].

exports. Alongside investments into Iraqi oil, Chinese companies also became involved in the Iraqi cement industry, as well as real estate.[728] This has caused commentators to declare China the winner of the Iraq War, in which it did not participate, because after Iraq's oil boom from 2013 onwards, China reaped the dividends and has increasingly got its money's worth, albeit relative to low expectations.[729] Yet, the 2014 security breakdown after the IS insurgency exemplified the risk Chinese investment faces in Iraq, although most of its projects were not directly affected at that time.[730] In December 2015, Chinese President Xi Jinping's state visit to Iraq, in which he and Iraqi Prime Minister Haider al-Abadi announced a 'strategic partnership', it was announced that more Chinese companies would invest further into 'energy, electricity, communication and infrastructure'.[731] It remains to be seen how lucrative they can be, given Iraq's highly uncertain future.

Iran's investment risk levels have been less on the security side, but heavily impactful on the political and legal side. Long starved of FDI, Iran's future seems to be brighter following the lifting of UN-sanctions. But even before, Iran was an eager recipient of Chinese investment throughout the last decades, especially prior to the advanced sanctions regimes of 2010 and 2012. Given Iran's size and its relative isolation from impeded and reluctant Western firms, China enjoyed access to a much less competitive market environment there, and "merely" faced intra-Asian competition. As seen above, Japan and South Korea long provided a more sophisticated high-technology transfer in their investments, when China's were more quantitatively impactful rather than qualitatively from a relative point of view.

The American Enterprise Institute has calculated that China was Iran's number one foreign investor between the year 2000 and 2007, accounting for a total FDI value of $101.74 billion. Iran's oil, gas, and petrochemical industry was the overwhelmingly dominant sector for Chinese investment – accounting for $96.7 billion over that period. An additional $3.38 billion flowed into EPC contracts in power, energy, and construction, and a further $1.08 billion into transportation. Beyond energy and

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[728] Fadel, L., Londoño, E. (2010), 'Risk-tolerant China investing heavily in Iraq as U.S. companies hold back'. In: *The Washington Post*, 2 July 2010 [http://www.washingtonpost.com/wp-dyn/content/article/2010/07/01/AR2010070103406.html].
[729] Schiavenza, M. (2013), 'Who Won the Iraq War? China'. In: *The Atlantic*, 22 March 2013 [https://www.theatlantic.com/china/archive/2013/03/who-won-the-iraq-war-china/274267/].
[730] Tiezzi, S. (2014), 'Iraq Crisis Tests China's Foreign Policy'. In: *The Diplomat*, 17 June 2014 [http://thediplomat.com/2014/06/iraq-crisis-tests-chinas-foreign-policy/].
[731] Tiezzi 2015.

infrastructure, Chinese companies also invested $620 million into Iranian banking and trade finance.[732]

Chinese EPC contracts in Iran have partly grown, partly declined, in number, value, and revenue over the last two decades, with the biggest fluctuations occurring since the mid-2000s. Bazoobandi characterizes these Sino-Iranian capital flows as taking 'one step forward and two steps backward', especially due to complications over perpetuated UN-sanctions.[733] On the one hand, in 2009, 62 Chinese engineering contracts in Iran were valued at approximately $11.5 billion. On the other hand, a year later, there were 178 contracts in number, but their value merely accounted for around $1.3 million. In total, revenue has mostly been growing though. In the year 2007 alone, their turnover of Chinese engineering contracts stood at around $1 billion, but had almost doubled by 2010.[734] Admittedly, when taken as a whole, it has to be said that the GCC's inflow of Chinese EPC contracts dwarfs that of Iran's less business-friendly environment. Yet, the visibility of their impact seems much higher in Iran's economy and infrastructure judging by Iran's relative lack of economic globalization. Huang and Ji have broken down China's engineering contracts in Iran into nine categories, highlighting the diversity of China's infrastructure footprint inside Iran:

First, energy, including oil, gas, thermal, and hydropower; second, transportation, both railway and motorway; third, the chemical and petrochemical industries; fourth, communications; fifth, non-ferrous metals like aluminium-, zinc-, and copper-plants; sixth, shipbuilding, ranging from cargo ships to oil tankers and LNG carriers; seventh, water conservancy in the form of dam construction; eighth, metallurgy, including steel factories; and ninth, the construction industry itself, involving cement production facilities.[735]

Huang and Ji's examples of prominent Chinese infrastructure investment in Iran are too detailed to discuss here at length but deserve to be listed and partly quoted or summarized. In Iran's oil and petrochemical industries, Chinese companies like Sinopec, Sinochem, CNPC and CNOOC signed upstream and downstream deals throughout the 2000s for developing Iran's Yadavaran and Azadegan oil fields. The

[732] See: Huang, Ji 2013: p. 195.
[733] Bazoobandi 2013: p. 65.
[734] Huang, Ji 2013: p. 196.
[735] Ibid.

former included a 51% stake acquired by Sinopec. The latter was going to yield a 70% share acquired by CNPC in 2009 – controversially replacing Japan's Inpex Corporation which had initially won the bid, but then showed reluctance in the face of US-pressure, was downsized to from 75% to 10% and finally divested completely.[736] As mentioned above, US pressure caused much frustration among Japan's statesmen and oilmen, and this was compounded by the fact that a Chinese rival had presumably won instead. Yet, even China buckled in 2014 and CNPC had its contract cancelled by Iran.[737] Only recently, in the post-UN-sanctions era, was the venture realistically open for competition again – with Iran launching a tender in Spring 2017, and so far, receiving bids for the field's development by France's Total, Malaysia's Petronas, and, once more, Japan's Inpex. CNPC is said to be interested again, too.[738]

Iran's natural gas reserves in the Pars fields have also attracted Chinese investment, with SINOC inking a $16 billion deal in 2007 to develop the North Pars field and two years later, with CNPC and National Iranian Oil Company (NIOC) entering a joint project to develop the South Pars field and replacing Total in the process.[739] Yet, these ventures stalled as well due to the international sanctions against Iran. The post-sanctions outcome points to a similar trajectory as with the Azadegan oil field, because Total has come out on top again winning a new tender in July 2017. It will invest $4.8 billion into the South Pars field and has acquired a 50.1% interest in the project. Although CNPC has also renewed its participation, it will now "merely" enjoy 30%, with Iran's Petropars holding the remaining 19.9%. The venture is said to produce gas for Iran's domestic consumption by 2021.[740] Though China clearly continues to have its foot in Iran's energy industry, the lifting of sanctions has undoubtedly crowded the market with more technologically advanced competitors from Europe. Yet, it is too early to say what impact the lifting of UN-sanctions will have, because, as already pointed out, unilateral US-sanctions on Iran remain in place for now. These prohibit Iran from access to American finance and therefore

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[736] Ibid.: pp. 197-198.
[737] Paraskova, T. (2017), 'Iran Launches Tender For Azadegan Oil Field Development'. *Oilprice.com*, 29 May 2017 [http://oilprice.com/Latest-Energy-News/World-News/Iran-Launches-Tender-For-Azadegan-Oil-Field-Development.html].
[738] *Reuters* (2017), 'Oil majors submit surveys to develop Iran's Azadegan'. 10 June 2017 [https://www.reuters.com/article/us-iran-oil-azadegan-idUSKBN1910MD].
[739] Huang, Ji 2013: p. 198.
[740] Gilchrist, K. (2017), 'What Total's $4.8 billion investment means for Iran'. *CNBC*, 3 July 2017 [http://www.cnbc.com/2017/07/03/iran-to-sign-new-ipc-gas-deal-with-total-for-south-pars.html].

prohibit dollar-denominated transactions between Iran and any entity listed on US stock exchange. Since most of China's biggest SOE's also have their subsidiaries registered there, they too need to find complicated or costly ways to circumvent their use of US-dollars.[741]

Nevertheless, Iran and its investment and trading partners have often found ways around these barriers via barter deals. China's active investment into Iran, at least until the height of the sanctions era, had a visible impact on Iranian consumers and EPC clients. As mentioned above, Chinese investment went beyond oil already from the 1990s onwards. Back then China's International Trust and Investment Corporation (CITIC) and China's North Industries Corporation commenced construction of the Tehran Metro and an electricity-powered overland express train, launching in the year 2000 and now transporting millions of passengers every day.[742] In 2004, Sinotruk invested into the construction of the Aras Khodro Diesel Automobile Assembling Factory in Tabliz. Between 2002 and 2006, Sinohydro Corporation invested $150 million into the construction of a dam for the Taleghan hydropower and water conservancy project. Then there is Iran's China Town of Commerce in the Anzali free zone near the Caspian Sea, where construction of a giant shopping centre began in December 2006. Alongside these examples, Chinese enterprises have also invested into Iran's agricultural sector and have more recently identified Sino-Iranian tourism as the next sector for capital injection.[743] The post-sanctions future might hold much greater opportunities for Chinese investment in Iran, because it needs to be underlined that out of all of Chinese capital flows into the Iranian economy of the sanctions era, 'only a [relatively] small fraction of those funds [was] invested' in practice.[744]

In the other direction, admittedly, Iranian FDI into China has in no way matched the amount of China's into Iran. According to data from the Chinese government, by the end of 2010 there were 207 firms with Iranian capital, with a combined value of $731.95 million, doing business in China[745]. Strategically most important was the 2009 opening of the NIOC's branch in China and its plan to invest into oil storage

[741] Bazoobandi 2013: p. 66.
[742] Huang, Ji 2013: p. 198.
[743] Ibid.: pp. 198-199.
[744] Bazoobandi 2013: p. 67.
[745] Huang, Ji 2013: p. 199.

facilities on the mainland.[746] As Sino-Iranian economic relations seem set to improve, more Iranian business activity could be expected to at least moderately blossom also in China in the near future. Much also depends on the trajectory of Sino-Iranian, and as a result, also Sino-GCC political relations, which have always affected bilateral trade and investment.

6.3 Sino-Gulf Diplomacy and Strategy

China's diplomatic relations with the GCC states are largely shelved from this section, because a more extensive analysis of Sino-Saudi and Sino-Emirati relations, the most important ones of GCC countries, is undertaken in the next two chapters. To tackle the individual bilateral relations between other GCC states and China, there is not enough space within the confines of this manuscript. Fortunately, they do not differ noticeably besides their relatively lesser prominence. Hence, the focus of this section is on China's political ties to Iran.

China's diplomatic relations with Iraq have intensified and have even been labelled 'strategic' since Xi Jinping's 2015 state visit, but despite Chinese companies' security risk exposure to Iraqi turmoil in the IS insurgency, have not resulted in any kind of military cooperation.[747] Considering Iraq's uncertain future, which is likely to remain highly unstable, it is just as likely that China will not change its course in that respect any time soon.

Sino-Iranian diplomatic relations on the other hand seem to have more room for real strategic cooperation across the board. They have experienced an increasing closeness over the last few decades, albeit with the same fluctuations as in their trade and investment ties. Before Mao's death, before Deng's economic opening, and before the Islamic Revolution, Cold War era relations until the late 1970s between China and the Shah's Iran were somewhat hostile. Henry Kissinger's first trip to China, which launched the later Sino-American cooperation resulted in the Shah's Iran recognizing the People's Republic of China in 1971. However, it was only after the revolutionary establishment of the Islamic Republic of Iran that relations between Beijing and Tehran grew closer, despite China's cooperation with the US by then. Echoing Garver's analysis, Adibelli emphasizes ideological as well as strategic factors for the

[746] Ibid.: p. 193.
[747] Tiezzi 2015; Tiezzi 2014.

Sino-Iranian convergence from the 1980s onwards. 'The Chinese and Iranian revolutions demonstrated a number of parallels that potentially made for similar world views' which inspired Iran's creation of its Revolutionary Guards modelled on China's Red Guards.[748] Yet, because China's revolutionary fever has completely cooled down since those days, ideological sympathy seems to play next to no role in Sino-Iranian cooperation, other than a general tendency towards their shared resentment of an excessive American hegemony. This is more a strategic question though which is why Adibelli's second emphasis is arguably the more important one when identifying the origin of Sino-Iranian political cooperation. The outbreak of the Iran-Iraq War in 1980 incentivized Iran to seek a massive arms-transfer from China. Beijing agreed to this partly for the financial returns, and partly to gain influence in a region it was willing to help shield from the Soviet Union.

> 'China throughout this period sold thousands of tanks, armoured personnel transporters, artillery shells, ballistic missiles and anti-tank missiles to Iran. [...] Most of the arms Iran used on the front were made in China. Also of importance was China's delivery of HY-2 (Silkworm) and C-801 missiles usable against warships. [...] Thus, a close strategic collaboration between China and Iran emerged during the Iran-Iraq War'.[749]

The 1990s saw this collaboration reach new heights when China's growing economy first became dependent on net oil imports and Iran became a major supplier. If the historic US-Saudi relationship is defined as "oil-for-security", then its Sino-Iranian counterpart in the 1990s was a soft version of that, because China not only traded arms (and military technicians) for energy, but even sold nuclear technology (and scientists) to Iran. These deals were forged also by high-level state visits. Yet, whilst China continued to import increasing amounts of Iranian oil right up until the US-led sanctions on Iran's energy industry in 2012, it froze not only its arms exports to Iran, but also its nuclear cooperation already around the year 2000. This happened due to both US-pressure, as well as US-concessions following the Taiwan Strait Crisis of 1995-1996.[750]

Much to Iran's frustration, it became increasingly clear that China was not willing to forge an alliance, which in the recent and current situation would have necessarily been anti-American and anti-GCC. Beijing has mostly prioritized its largely positive economic ties and even mostly political cooperation with Washington over the past

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[748] Adibelli, A. (2015), 'Sino-Iranian relations since the Cold War'. In: A. Ehteshami, Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*. Oxon: Routledge, p. 122; Garver, J.W. (2006), *China and Iran: Ancient Partners in a Post-Imperial World*. Seattle: University of Washington Press, chapter 3.
[749] Adibelli 2015: p. 113.
[750] Ibid.: pp. 113-115.

decades. In Gulf matters, this was underlined on numerous rounds of anti-Iranian UN sanctions, which China joined between 2006 and 2010.[751]

Yet, this Chinese preference for stable relations with America has by no means ever entailed a US-China alliance against the Iranian regime. On the contrary, China's diplomatic relations and increasingly strategic cooperation with Iran have developed to a level that scholars like Robert Pape, and Flynt and Hillary Leverett brand as 'soft balancing'.[752] This includes the Iranian nuclear issue which Beijing never countered as assertively as Washington, despite signing up to UN-sanctions that did not target Iran's energy industry or included a prerogative to militarily target Iran's nuclear facilities. 'As part of its soft balancing strategy, the People's Republic judges it important to keep the nuclear issue in multilateral fora like the [International Atomic Energy Agency (IAEA)] and the [UN] Security Council, where China's influence and its options for restraining the USA – are enhanced'.[753] Moreover, China, together with Russia, repeatedly watered down anti-Iranian sanctions that otherwise would have been much harsher.[754] It thereby firstly protected its own oil interests. Secondly and crucially, it also protected Iran not only from a harsher economic strangulation, but possibly even from a US-led military intervention. In other words, China became increasingly valuable for Iran even without a full-blown alliance.

Other UN-sanctions that China (and Russia) vetoed not only include the harsher ones in the nuclear dispute, but also Western-led sanction-proposals on Iran's primary regional ally – Syria's genocidal Assad regime.[755] A more advanced strategic cooperation of Iran with China and Russia might be taking shape. Iran's post-2005 observes status in the Shanghai Cooperation Organization (SCO) is a potential case in point and has increased in importance. The SCO and China as its leading member, have recently supported Iran's permanent and full membership in the near future, even though they did not grant it yet, possibly thereby appeasing the GCC.[756]

China and Iran are cooperating politically, but despite this potential institutionalization of security cooperation not outright militarily. Such careful, but

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751 Idib.: pp. 116-117.
752 Leverett, Mann Leverett 2015b: p. 139.
753 Ibid.: p. 143.
754 Ibid.: p. 144.
755 Adibelli 2015: p. 117.
756 Fulton, J. (2017), 'China is trying to pull Middle East countries into its version of NATO'. In: *The Washington Post*, 21 June 2017 [https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/21/how-china-is-shifting-toward-the-middle-east/?utm_term=.63c30030a396].

pro-Iranian ‘strategic hedging’ stems from two Chinese motivations: firstly, Iran’s geographic position on the Gulf’s eastern shores opens up an alternative oil-import route over land across Central Asia, rather than sea, which is why China is eager to develop its pipeline connection to Iran. Secondly, and directly linked, a potential future deterioration of US-China relations would not only necessitate such an energy corridor via land, due to the US Navy’s control of the sea lanes, but also require a staunch ally in the oil-rich Gulf from which to draw uninterrupted oil supplies in the first place.[757] On a general basis, Beijing views the US’s unipolar hegemony in the Middle East as detrimental to China’s interests and economic and diplomatic freedom of action there:

‘Iran has [...] become implicated in China’s long-term aim to move from unipolarity to multipolarity. Beijing sees the Middle East as central to US global primacy [unrestrained since the Cold War’s end]. [...] To forestall [US leverage against China in the Gulf], an at least minimally balanced distribution of power is crucial, with a ‘resistance’ camp balancing the Middle East’s pro-US camp [the GCC]’.[758]

Although the Leveretts clearly highlight China’s ‘Persian Gulf dilemma’ – a concurrent reliance on hydrocarbons from two fierce enemies, both Iran and Saudi Arabia, they ultimately observe a Chinese preference for Iran attributable to the two reasons mentioned above.[759] This had already been concluded by sinologist and political scientist Martin Jacques.[760] Yet, this convincing interpretation of China’s answer to its Persian Gulf dilemma only carries potential relevance if either US-China relations or Saudi-Iran relations completely deteriorate. Admittedly, since especially the latter relationship is currently so hostile that even a direct war – besides the already raging proxy wars in Syria, Iraq, and Yemen – cannot be ruled out, the interpretation might indeed become dramatically relevant any time. China would likely to step up its entire Gulf diplomatic engagement to prevent this from happening. As the energy data presented above shows, such an escalation could have disastrous consequences for the Chinese economy – and political stability. As the next chapters will demonstrate, the US and Saudi Arabia are too important for China, and carry too much economic potential, for it to side-line them to Iran’s benefit, should there be no further escalation.

[757] Leverett, Mann Leverett 2015b: pp. 136-149.
[758] Ibid.: pp. 141-142.
[759] Ibid.: p. 142
[760] Jacques 2012: pp. 434-436.

6.4 Chapter Conclusion and Theoretical Assessment

Since China's economic opening in 1978/79, it has become the world's second largest economy by GDP and the world's largest by PPP. It is now the largest trading and investment partner for most Asian countries, contributing to New Silk Roads as a result, but also to a more multipolar world order – thereby gradually bringing about a systemic change. Although China enjoys a deep and interdependent economic relationship with the US, its political relations with the world's current hegemon are turning increasingly icy, especially in the South China Sea. Both these new economic and political conditions are re-shaping Asia, the Gulf, and the world.

One of the outcomes of China's and much of the developing world's economic rise has been a relative global rebalance in financial matters. The economic growth of developing markets and their accumulation of currency reserves has brought about the emergence of new investment vehicles in the form of the sovereign wealth fund. China's and the Gulf's SWFs are a major part of this story. On the one hand, SWFs operate as businesses reacting to market forces. On the other hand, they are state-owned and therefore suspected of succumbing to their mother-countries' geo-political interests.

Hence, arguments can be found for both neo-realism and neo-liberal institutionalism. Neo-realism would point towards the state's attempt to regain the upper hand in the face of economic globalization and unimpeded market forces, in order to hedge what CIT calls vulnerability interdependence. Neo-liberal institutionalism would highlight not only that powerful states are becoming participants in global capitalism as trading states. It would also highlight the corporate management of SWFs and also the rise of a potential new regime in the form of the GAPP – writing the rules for SWFs' legitimate conduct.

Another regime that is being impacted upon by China's (and also the GCC's) economic rise is the global monetary order. China's economic catch-up has been mirrored by the relatively recent promotion of the renminbi as a global reserve currency. The groundwork is being laid for a potential, though not automatic, future monetary regime change from a unipolar dollar-based order, to a more multipolar order in which the renminbi plays a greater role than it does today. Yet, it is still wrong to say a regime change is imminent. The dollar's dominance is still overwhelming. This is why within CIT, Keohane and Nye's third model for international regime change, the issue structure explanation seems to be the most relevant one for now. The other three structures might gain weight in the future though.

The economic process explanation does provide an analytical framework for measuring the necessary economic conditions for political processes that might bring about a regime change. These conditions are the market forces that drive Gulf oil exports to China and Chinese exports to the Gulf. Given the growth of trade it seems natural for monetary structures to react to it over time.

The overall power structure model seems to be helpful when matching the relative rise of China's total global influence with its enhanced monetary power. China's efforts to step into America's global monetary and geo-strategic footprints in the long run would point towards the enduring explanatory power of realism.

Institutions such as the IMF have proven more flexible though than realism would suspect. They have reacted to this development and have begun a moderate policy to adjust the monetary regime. This highlights the explanatory merit of the international organization model, in which elite networks within and among countries and institutions launch a political process for regime adjustment.

However, China's total economic power – derived from being the second largest economy in the world at the time of writing – is arguably not symmetrically matched by its monetary power. The issue structure model predicts this differentiation among issue areas in the distribution of power resources and power as control over outcomes.

Still, this does not entail a future irrelevance of the overall power structure model that is closer to realism, or at least to the realist-liberalist bridge branded hegemonic stability theory. For the moment, these theories would have predicted the US to resist the renminbi's rise in importance, even if within the liberal order of which the IMF is a key part. This has not occurred and therefore would entail that a gradual regime adjustment, tolerated by the current hegemon, the US, is slowly taking place. As Keohane and Nye point out, a change within a regime is very different from a change of regimes. In the case of a more substantial growth in Chinese currency power and overall power, different paths than now might be chosen by both the hegemon and its potential challenger – leaving the door open for the overall power structure model, and realism, to have the "final" word.

An area in which the current hegemon has tried more actively to resist China's growing influence is global development finance in the context of the New Silk Roads. The US did not welcome China's founding of the AIIB, perceived to threaten the Bretton Woods institutions. Anyhow, US lobbying against its allies' AIIB memberships proved futile. Infrastructure finance across the Belt and Road, both multilateral and bilateral, but led by China, is set to have an important impact on Asia's development and, despite serious challenges and risks, is likely to strengthen interdependence. Yet, as China will gain influence, it seems to be doing so via an adherence to the basic rules of the liberal world order in economic matters. Thus, especially with Keohane's regime theory in mind, the AIIB does not look like an institution bringing about an international regime change, but rather a regime adjustment – even backed up by new and complementary institutions. This interpretation would also strengthen neo-liberal institutionalism's emphasis that China's rise has successfully been taking place within the old order. Consequently, US and Japanese resistance to the AIIB, when viewed through the lens of neo-liberal institutionalism, would be counterproductive, especially because all other US partners, including the Gulf states, are supporting China's BRI.

Yet, although the BRI has been greeted with much enthusiasm across Eurasia, even some of its founding members have grave geo-political concerns about it. India especially sees the giant project to have non-commercial motivations. The perception that China is trying to encircle India by land, via the China-Pakistan Economic Corridor, and by sea, via proxy ports in Sri Lanka and Pakistan – the so-called String of Pearls –, is gaining ground. The Arabian Sea port of Gwadar, via which China seeks to circumvent its Malacca Dilemma through an alternative energy land route, and where China's naval activity has increased, has aroused particular ire in New Delhi. Moreover, China has recently opened its first overseas military base in the port of Djibouti, with the intention of guarding its critical Indian Ocean trade routes close to the Middle East. With Gwadar and Djibouti therefore, China is moving closer to the Persian Gulf in an active geo-political sense, eager to acquire more direct influence over much of Spykman's rimland, especially its crucial centre.

Over the last two decades China and the Gulf states have become increasingly interdependent economically. This is predominantly the case due to oil trade. Although less than a quarter of China's domestic energy consumption is covered by oil, half of that consumed oil is imported from abroad, and again half of that imported oil comes from the Gulf. That is indeed not as much as Japan and South Korea import relative to their energy consumption, but China still remains the Gulf states' largest energy export market due to China's sheer size and economic growth over the last decades. The Gulf's share in China's overall energy consumption might seem relatively low at first glance, but again, given the size of China's economy and the absolute size of its imports, a cut-off from that Gulf source would have very serious implications for the Chinese economy. Therefore, one can already characterize Sino-Gulf interdependence at the vulnerable level in CIT. This is also true from the Gulf states' perspective – arguably even more so. The loss of the Chinese oil import market would throttle the Gulf economies especially in the long run. Given that their economies are so dependent on oil exports, it is fair to say that the vulnerability interdependence between China and the Gulf states is asymmetric – with China being slightly less dependent than the Gulf. Yet, this difference and power imbalance in the energy issue area does entail a Chinese power dividend. Its economic prosperity and thus political stability would be under threat without Gulf oil.

China is less dependent on natural gas/LNG imports even on a global basis, but that could change slightly in the future, as China's energy mix diversifies towards cleaner energy. Qatar stands to prosper from this, but therefore would be the first to suffer in a hypothetical loss of China's gas import market. The same could at some stage apply to Iran if the country, before, turns into a major gas exporter to China. Thus, the asymmetric interdependence is even more pronounced in natural gas, with China merely moving towards sensitivity dependence on Gulf gas, but Qatar especially being more vulnerably dependent on the current and especially future Chinese gas market. In terms of non-hydrocarbon trade the mutual dependence between China and the Gulf is not as high, although the region imports vast amounts of Chinese manufactured goods. This trade takes place between large corporations as wells as SMEs and seems likely to grow and diversify continuously.

Consequently, in trade matters, China and the Gulf states are highly interdependent, but mainly based on the importance of energy. However, the multiple large and small trade channels are likely to increase the overall trade interdependence in the long run – lessening the hierarchy of issue areas, though not levelling them. Hence, CIT is already a helpful tool by which to interpret Sino-Gulf trade.

Compared to trade, Sino-Gulf investment flows remain relatively marginal, especially proportional to China's worldwide investment. Among the GCC countries, Saudi Arabia and the UAE have enjoyed roughly three-quarters of China's overall investment into the GCC, between 2005 and 2015. Kuwait and Oman have also seen an increasing amount whilst Qatar and chiefly Bahrain have received the lowest levels. Most of China's investments into the GCC economies have come in the form of EPC contracts, especially in the downstream energy and petrochemical industries, but in general infrastructure too. Iraq absorbed a substantial amount of Chinese investment after 2006, particularly in the energy industry, but only against low expectations and against even less enthusiastic Western competitors. Iran has enjoyed the longest investment relationship with China, absorbing large amounts, especially in the early 2000s in the energy industry and general construction. Even so, many projects stalled or were cancelled due to the UN sanctions. Following the lifting of sanctions, there is much potential for tremendous growth in Chinese investment into Iran. Yet, it is noteworthy that Chinese firms now also encounter a more crowded market with other Asian and European competitors who can often still provide higher quality technology.

Gulf companies have invested increasingly in China notably via their sovereign wealth funds, but many deals remain classified. Clearly, the flow of capital dominates in the other direction. Politically-driven investment ties are growing too, in order to lock in the bilateral energy trade relationships in the long term, confirming again the hierarchy of issue areas and the dominance of state-sponsored commercial ties. This will extend the diversity of multiple channels and flows of capital, goods, and people between China and the Gulf, thereby moving closer to CIT’s ideal type. Yet, it must be said that investment flows alone do not constitute interdependent relationships between China and individual Gulf countries, even though the GCC as a whole is now China's largest EPC contract market.

Chinese diplomacy in the Gulf has so far been constrained deliberately for three reasons. Firstly, China has long sought to maintain largely apolitical, but cooperative relations with its global economic partners, including in the Gulf and the wider Middle East. Principally in this region, China has shown no desire to become involved in the many (geo-)political conflicts, which could hypothetically jeopardize its lucrative business relations. Secondly, the US-China relationship remains paramount for Beijing. For now, the Gulf firmly remains Washington’s primary region of national security interest. China has no interest in upsetting its economically vital relations with America, provided it does not harm China's economic interests in the Gulf. Finally, especially the enmity between Iran and Saudi Arabia and both countries economic and strategic importance for China's core interests involves the Chinese desire to maintain equally strong relations with both states. However, this strategy is only viable as long as US-China relations remain relatively stable and the Iran-Saudi conflict does not escalate. China's traditionally close relations with Iran were de facto downgraded since the late 1990s and particularly since the most assertive UN-sanctions era. Yet, the Chinese have a hedging strategy in anticipation of potential future conflict escalations, in which case Beijing would likely tilt towards Tehran. Given also India's aspirations in regard to its Iranian neighbour, this intensifies Iran's status as the world-island's ultimate pivot state, because, located on the rimland's centre, it is the only Eurasian country with access to the heartland and the sea. Nevertheless, a Chinese choice between Iran or Saudi Arabia would involve heavy sacrifices and costs in terms of oil imports and is thus not a desirable situation and outcome for Beijing.

All in all, structurally, China's emergence as an important actor in the Gulf is the most impactful story in Gulf geo-politics with regard to the emerging multipolar world. As already shown in the previous chapter, Asia-Gulf interdependence has the structural potential to enhance, not reduce, intra-regional rivalry, as Asia's major countries have an increasing stake in the Gulf, but simultaneously have partly rivalrous relationships with each other, such as China and India, or China and Japan. In China's case, the US is added to this equation. Although multilateral cooperation and absolute gains remains the aim for most of the actors, fear of relative losses could incentivize the actors to disregard absolute losses, despite the obvious dangers.

China's hedging strategy can be rightly labelled as soft balancing. Theoretically, this implies that for now neo-liberal institutionalism and CIT are helpful when seeking to characterize China-Gulf relations. Still, the hedging strategy points towards a potential future in which neo-realism becomes the dominant theory for China's political engagement in the Gulf.

In order to assess how these dynamics are playing out, a more detailed analysis of the relations between China and two of the most important Gulf countries is in order.

7. China-Saudi Arabia Relations

Saudi Arabia is the Persian Gulf's third largest country, after Iran and Iraq. It is the GCC's largest country and, measured by GDP, it is the largest economy of the GCC, the Persian Gulf, and the Middle East. Furthermore, it is the de facto leader of OPEC, and the world's largest hydrocarbon reserve holder and exporter.[761] For long the world's largest producer, it has recently fallen behind Russia and is also now hotly pursued in the latter category by the US.[762] For much of the recent decade, as China's oil imports steadily increased, it became China's largest foreign source of crude oil. In the wake of Sino-Saudi hydrocarbon trade, also non-hydrocarbon trade between the two countries increased, resulting in Saudi Arabia becoming China's number one Middle Eastern trading partner over the entire period.[763] The amount of bi-directional FDI and project contracting also increased, especially, again, in Saudi Arabia. Diplomatic relations between the two countries have intensified as a result and have been branded 'strategic' by both Beijing and Riyadh.[764]

Together with the second case study on China-UAE relations, this chapter ultimately contributes to a wider assessment of China's role in the Gulf. Yet, it must be stated, that the Sino-Saudi diplomatic relationship is for now fundamentally driven by economic interests. Given the strategic importance of the energy sector in these interests, market forces have admittedly not determined the exchanges on their own, but have been locked in by diplomatic initiatives. This has not entailed a political alliance though. Hence, trade and investment ties take up an overwhelming share in this analysis of bilateral relations.

7.1 Sino-Saudi Trade

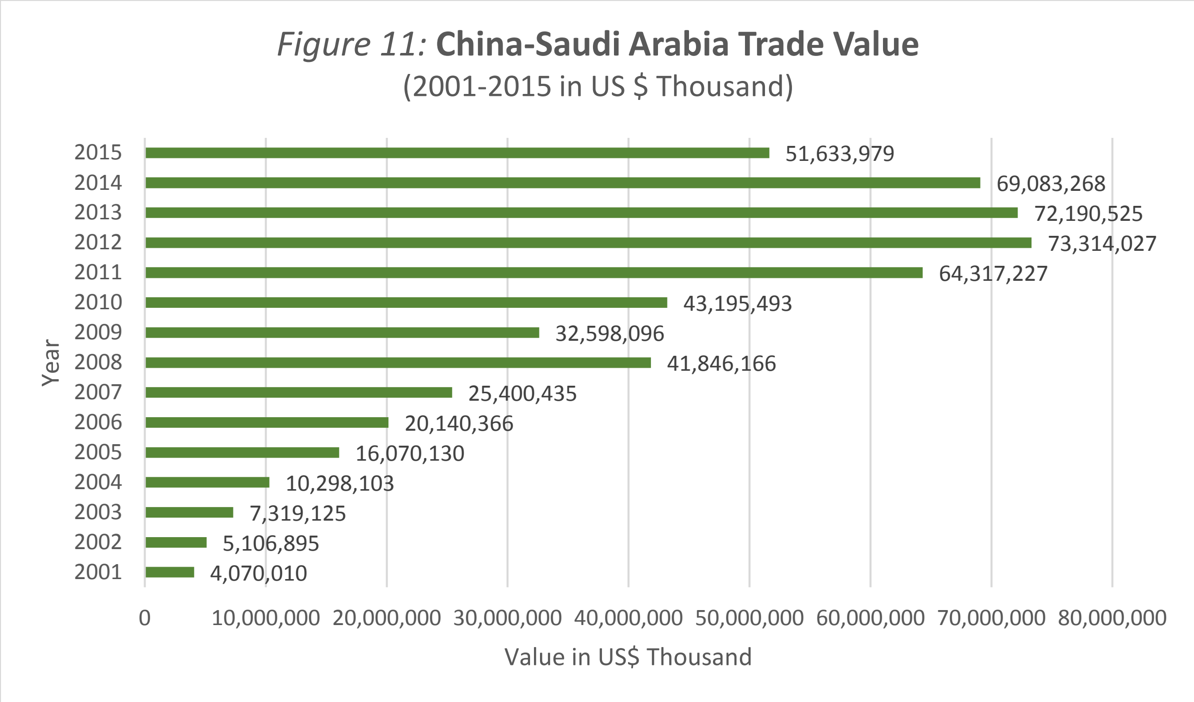
In the year 2000, the Saudi Arabian share of China's global trade stood at a meagre 0.6%, whereas China's share in Saudi Arabia's global trade stood at 2.93%. By 2011,

[761] *Organization of the Petroleum Exporting Countries* (2017), 'Saudi Arabia facts and figures' [http://www.opec.org/opec_web/en/about_us/169.htm].
[762] Carpenter, C. (2017), 'Russia Overtakes Saudi Arabia as World's Top Crude Oil Producer'. *Bloomberg*, 20 February 2017 [https://www.bloomberg.com/news/articles/2017-02-20/russia-overtakes-saudi-arabia-as-world-s-largest-crude-producer]
[763] Al-Tamimi 2014: p. 124.
[764] *Xinhua Net* (2017), 'China, Saudi Arabia agree to boost all-round strategic partnership'. 16 March 2017 [http://news.xinhuanet.com/english/2017-03/16/c_136134528.htm].

the figures had increased to 1.7% and 14.08%.[765] Two observations follow from these numbers. At first glance, especially the Saudi percentage of China's global trade seems very low – and, in relative terms, it is. Yet, on the one hand, its importance for China's economy is not easily quantifiable. On the other hand, that growth from 0.6% to 1.7% nevertheless represents a large sum in absolute terms. The second observation from both sets of figures is a glaring asymmetry in the importance of both economies to each other. China became Saudi Arabia's largest trading partner in 2011, overtaking the United States, but Saudi Arabia is not even among China's top ten trading partners.[766] Yet, again, this is merely true in terms of directly measurable financial value. As will be seen, Saudi Arabia does not only require China's market. China's market too, increasingly requires Saudi Arabia's primary export commodity, oil.

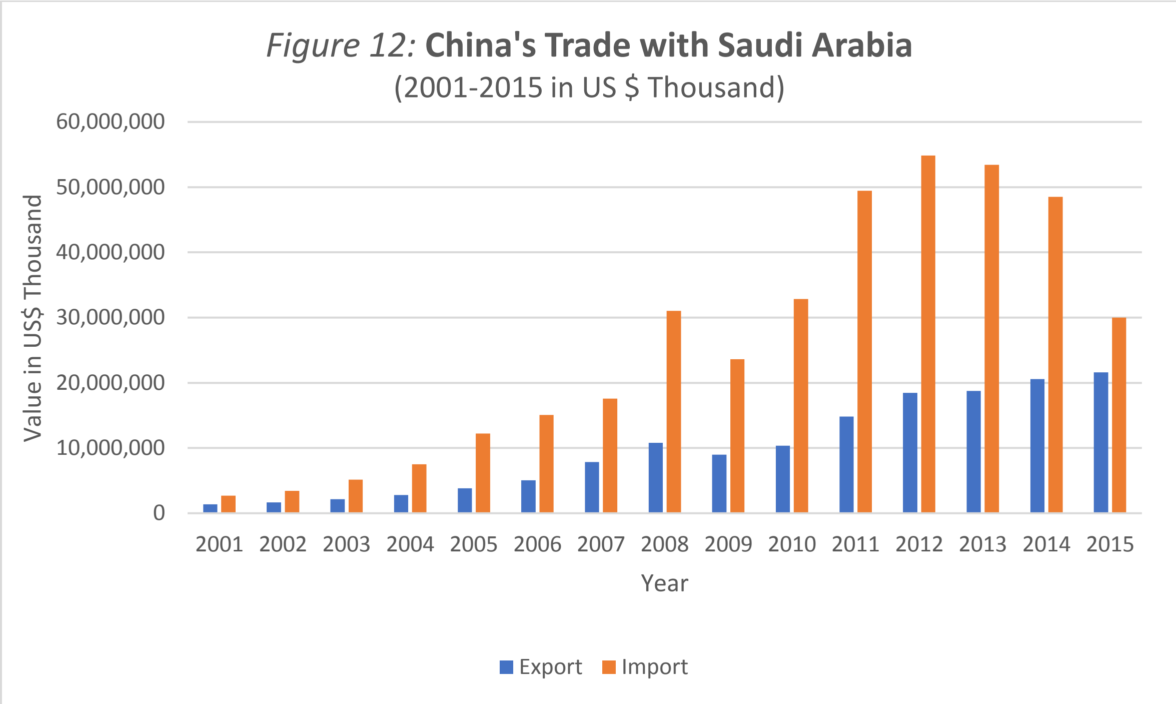
In a first step, the meaning of Sino-Saudi trade growth becomes more evident when examining its actual value. As presented in Figure 11, it skyrocketed from just over $4 billion in the year 2001 to $73 billion in 2012, interrupted only by a dip in 2009 during the global financial crisis.[767] So far, 2012 marked its peak. It has experienced a clearly visible decline since then, especially in 2015, a process that has not yet been reversed.[768] This very recent trade depreciation can be explained not in terms of a fundamental absolute reduction of trade, but with the rapid fall of the oil price since 2014, as explained in the previous chapter. It remains to be seen for how long this condition will continue. Yet, it is crucial to stress that its impact should not be confused with a reduced importance of Sino-Saudi trade relative to market forces.

[765] Al-Tamimi 2014: p. 127.
[766] Ibid.: p. 126; *China Daily* (2014), 'Top 10 trading partners of the Chinese mainland'. 19 February 2014 [http://www.chinadaily.com.cn/bizchina/2014-02/19/content_17290565.htm].
[767] *International Trade Centre*, 'Trade Map' [http://www.trademap.org/Index.aspx].
[768] Chen, A., Meng, M. (2016), 'Russia beats Saudi Arabia as China's top crude oil supplier in 2016'. *Reuters*, 23 January 2017 [https://www.reuters.com/article/us-china-economy-trade-crude/russia-beats-saudi-arabia-as-chinas-top-crude-oil-supplier-in-2016-idUSKBN1570VJ].

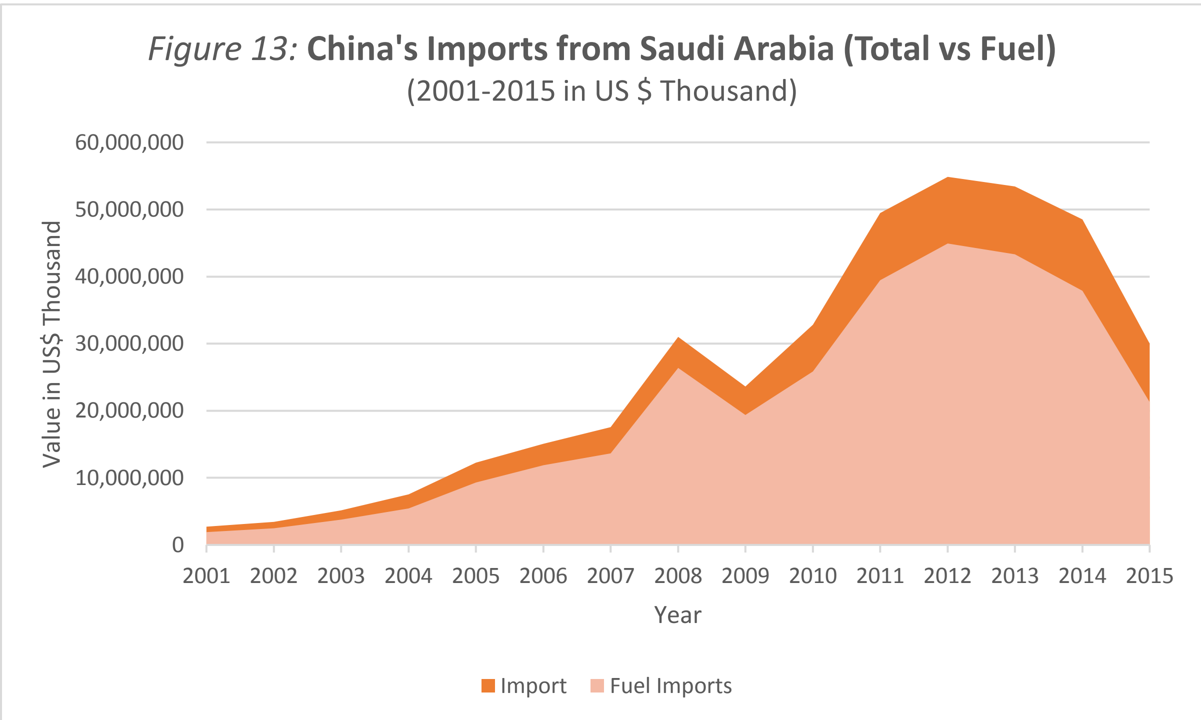


Source: International Trade Centre, Trade Map [MS Excel chart created by author].

Their trade's immense growth since the millennium, as can be seen in Figure 12, has primarily been driven by Chinese imports from Saudi Arabia. Though both imports and exports grew mostly in a synchronised way, China's trade deficit with Saudi Arabia has been constant and substantial, and only saw a significant contraction in 2015 when the oil price had dropped below $50 per barrel. This oil price collapse had such an impact on the Sino-Saudi trade value, because, as shown in Figure 13, an overwhelming bulk of Saudi exports to China are composed of hydrocarbons. This commodity strikingly dominates Sino-Saudi economic relations.



Source: International Trade Centre, Trade Map [MS Excel chart created by author].



Source: International Trade Centre, Trade Map [MS Excel chart created by author].

7.1.1 China's Imports from Saudi Arabia

7.1.1.1 Hydrocarbon Imports

China will not only contribute to shaping the future Middle East. It has already helped to shape the latest Gulf history. From the time when the PRC was admitted to the World Trade Organization (WTO) in 2001 and the country's oil imports surged, the GCC exporters witnessed a massive boost in revenue, which was further compounded by Saudi Arabia's own accession to the WTO in 2005.[769]

China's energy companies simultaneously declared a "go out" policy, an economic and strategic policy shift that was undertaken out of raw necessity. China had already become a net oil importer in 1993, but it was ten years later when its consumption noticeably began to out-pace domestic production.[770] The decade following China's WTO admittance saw the country's GDP increase from around $1.3 trillion in 2001 to around $9.2 trillion in 2013, turning China into the world's largest energy consumer.[771] China's oil demand alone has surpassed 10 million bpd and its net imports have also surged accordingly, reaching the record high of 6.2 million bpd in 2014.[772] Around half of China's oil imports come from the Middle East, approximately a fifth from Saudi Arabia alone in the year 2013, and falling down to 16% in 2014.[773]

Saudi Arabia has been China's most important oil trade partner for over a decade. The Kingdom is the most influential and largest petroleum exporter with a capacity of around 12 million bpd, it is the de-facto leader of OPEC, and a member of the G20.[774] The energy issue area is one in which the Saudis can be considered a global superpower, even in a world of OPEC's relative decline.[775]

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769 Simpfendorfer 2011: pp. 1-30; *World Trade Organization* (2017), 'Saudi Arabia' [https://www.wto.org/english/thewto_e/acc_e/a1_arabie_saoudite_e.htm].

770 *U.S. Energy Information Administration* (2015), 'China. International Energy Data and Analysis'. 14 May 2015 [https://www.eia.gov/beta/international/analysis.cfm?iso=CHN], p. 8.

771 U.S. Energy Information Administration (2014), 'China is now the world's largest net importer of petroleum and other liquid fuels'. *Today in Energy*, 24 March 2014 [http://www.eia.gov/todayinenergy/detail.cfm?id=15531]; *World Bank* (2015), 'China' [http://data.worldbank.org/country/china].

772 *Facts Global Energy* (2015), 'China Oil and Gas Monthly Data Tables'. February 2015 [https://www.fgenergy.com/services/product-types/research-and-analysis/china-oil-service/china-oil-monthly.aspx], p. 2.

773 EIA, May 2015, 'China'; EIA, March 2014, 'China'.

774 *U.S. Energy Information Administration* (2014), 'Country Analysis Brief: Saudi Arabia'. 10 September 2014 [http://www.eia.gov/countries/analysisbriefs/Saudi_Arabia/saudi_arabia.pdf].

775 *BP* (2017), 'BP Energy Outlook'. 2017 Edition [https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017.pdf], p. 25; Meredith, S. (2019, 'OPEC's

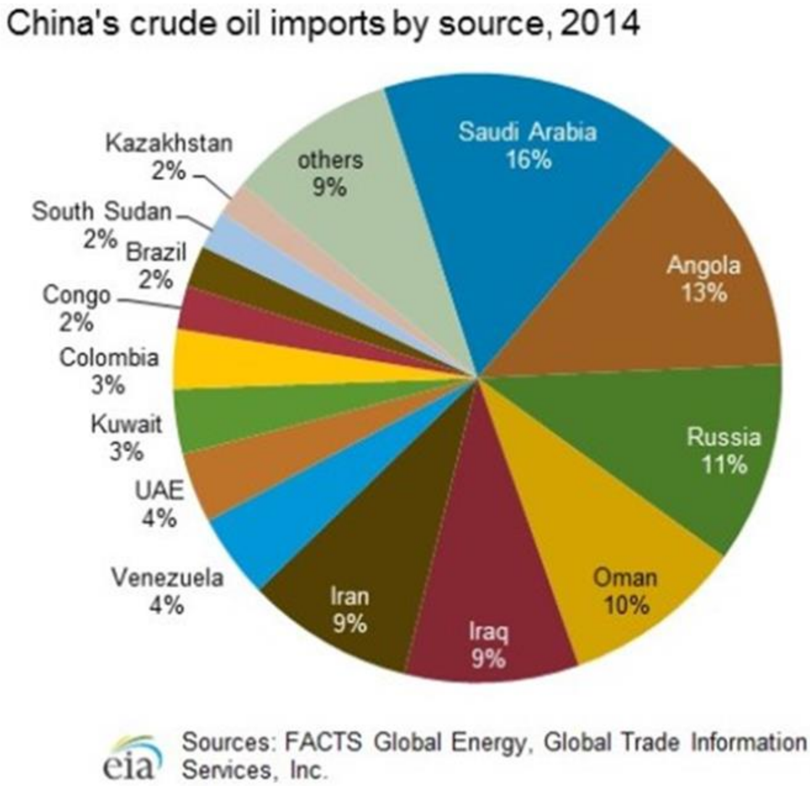

FIGURE 14: *Source*: U.S. Energy Information Administration. Available at: https://www.eia.gov/beta/international/analysis.cfm?iso=CHN.

Oil import figures reflect China's awareness of the Kingdom's vital energy position.[776] This is precisely the reason why Beijing has sought to diversify its energy sources. Given the fact that 2014 saw China's highest amount of total oil imports yet, the reduction of China's imports from Saudi Arabia from 19% in 2013 to 16% in 2014 reflects its risk management strategy.[777]

However, whether China imports 19% or 16% from Saudi Arabia does not change the reality that such a high ratio of imports from one country alone can already be

future not looking so rosy even with extended supply cuts in the offing, says economist'. *CNBC*, 9 May 2017 [https://www.cnbc.com/2017/05/09/opecs-future-not-looking-so-rosy-says-economist.html?view=story&%24DEVICE%24=native-android-mobile].

[776] *U.S. Energy Information Administration* (2014) 'China'. 4 February 2014 [http://www.eia.gov/countries/analysisbriefs/China/china.pdf].

[777] Furthermore, China seeks to spread risk further by extending its control via the asset acquisition in foreign energy companies. See: Tunsjo, O. (2010), 'Hedging against Oil Dependency: New Perspectives on China's Energy Security Policy'. In: *International Relations*, 24: 1, pp. 25-45); Here, it is noteworthy that the major acquisitions and investment overseas, worth $73 billion in total between 2011 and 2013, obtained mainly by the China National Offshore Oil Corporation (CNOOC), but also Sinopec and CNPC, have – with the exception of Iraq – largely been outside the Middle East, predominantly on the American and African Atlantic rim, and concentrated on natural gas, deep-water oil fields, and unconventionals. See: EIA, May 2015, 'China': p. 9.

identified at least as a moderate economic dependency in the long run. This recognition has an even greater significance when all of China's Gulf imports are taken as a whole constituting around half of total imports.[778] As Iranian oil returns to the market after the lifting of UN sanctions, the Gulf region's importance for China will grow even further. Hence, it is advisable to also regard Saudi Arabia as a regional spearhead influencing China's energy consumption from a much bigger regional pool.

For the moment, China is still mainly run on coal which accounted for 66% of the country's total energy consumption in 2012, down from 69% in 2011.[779] Yet, despite the continuous rise of its domestic coal production in absolute terms, it seems impossible for China to resist a greater oil dependence in the future. In 2012, petroleum accounted for 20% in China's energy consumption.[780] Calculations by the US Energy Information Administration show that China overtook the US as the world's number one net oil importer in 2013 and China will at some point be the largest oil consumer.[781] China's oil consumption could rise by 77% by 2030 according to BP's 2011 estimates.[782] The oil market has evolved since the days of those predictions, especially in the form of the ongoing oil glut since 2014 – a trend which BP now presumes likely to persist.[783] Yet, despite this fact and China's slightly lower GDP growth in recent years – a slowdown equally probable to persist – and the resulting lower growth in oil demand in relative terms, its absolute oil demand growth over the next two decades seems set in stone, at least in the absence of a wholly transformative energy revolution. Therefore, the somewhat small Saudi share in China's global trade, clouds that small share's importance – comparative to some countries with which China might trade more goods in total. The Chinese economy requires ongoing growth – fuelled by energy consumption – in order to escape the looming middle-income-trap, even as it necessarily seeks to protect its environment and invest in alternative, cleaner energies.[784]

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[778] Daojiong, Z., Meidan, M. (2015), 'China and the Middle East in a New Energy Landscape'. *Chatham House Research Paper*, October 2015 [https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/20151021ChinaMiddleEastEnergyDaojiongMeidan.pdf], p. 1.

[779] EIA, May 2015, 'China'; EIA, February 2014, 'China'.

[780] EIA, May 2015, 'China': pp. 2-3.

[781] Ibid.

[782] *BP* (2011), 'BP Energy Outlook 2030'. January 2011 [https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2016/bp-energy-outlook-2011.pdf], p. 61.

[783] BP 2017.

[784] OECD (2013), 'The People's Republic of China. Avoiding the Middle-Income Trap: Policies for Sustained and Inclusive Growth'. September 2013 [http://www.oecd.org/china/China-Brochure-eng-

Beijing's 'active oil diplomacy of targeting large oil producers' like Saudi Arabia and Iran (number one and two in Gulf sources until sanctions), rather than smaller countries like Oman and Yemen, was launched after 1995.[785] This necessary strategic refocus on Saudi oil highlights how China's dependence on the Kingdom has been increasing in its sensitivity level, though classifying it firmly as vulnerable would overstate one rather small country's importance, especially if Iraq and Iran reach their full export potential.[786] A more recent development has seen Russia's increasing oil provision for China, overtaking Saudi Arabia, at least for the year of 2016. This development might last for the duration of OPEC's recent production cuts – resulting in a temporary reduced market share for Saudi Arabia. Yet, the Kingdom's supply contracts with China are long-term and are therefore not set to be reduced in absolute terms.[787]

The recent historical and long-term projected figures demonstrate the importance of the Gulf, despite China's diversification strategy. Admittedly, some question China's dependency-level on Saudi Arabia and the Gulf. Christopher Lomax, sales consultant for the Chinese oil-equipment providing company Jereh Group, sees the Gulf importance for China as exaggerated and the high figures as strategically insignificant. The global energy supply, including conventional and unconcentional oil and gas, is large enough for China to diversify away from the Gulf in an emergency. As Lomax stated to the author in Dubai, China is merely making use of the cheaper Gulf production costs when importing larger quantities from there.[788] On the other hand, given the huge amount of China's future demand and those lower Gulf production costs, it is hard to see China's economy not suffering a severe hit in case of an oil supply stop from the Gulf, with potentially grave economic and political consequences. Historical figures (and future projections) alone do not account for political uncertainty. Compared to some of its non-Gulf oil suppliers, China greatly cherishes Saudi Arabia's historic reliability as an energy provider, its responsibility in

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September2013.pdf]; Robertson, P., Ye, L. (2016), 'China's greatest challenge will be escaping the middle income trap'. *The Conversation*, 28 January 2016 [http://theconversation.com/chinas-greatest-challenge-will-be-escaping-the-middle-income-trap-53567].

785 Al-Tamimi 2014: p. 54.

786 Daojiong, Meidan 2015; As already seen in the previous chapter, there are several major oil-producing countries in other regions, ranging from Eurasia and Africa to Latin America, from which China purchases oil. The other major oil trade partners so far are all located in the Gulf. See: EIA, May 2015, 'China': p. 11.

787 Chen, Meng 2016.

788 Lomax, C. (Jereh Group), interviewed by the author on 26 July 2015 in Dubai, Tecom. See Consent Form attached.

handling oil prices, and its moderating influence over OPEC and non-OPEC producers.[789] Despite the North American shale revolution and Saudi Arabia's limited ability in harming the unconventionals' profitability, for now, Saudi Arabia remains the world's only swing producer. It is certainly retaining at least parts of its long global domination in the energy issue area. The combination of these virtues cannot be taken for granted from other suppliers.[790] Moreover, the Gulf, and therefore primarily Saudi Arabia, is not only the most important hydrocarbon source due to reserves which account for more than half of the world's total proven. It is also the region with the lowest production costs for oil and China can save considerable sums by prioritizing Gulf petroleum.[791]

With its vast oil reserves, energy is what Saudi Arabia is built on, has depended on and will depend on largely also in the years to come. The revenue the Kingdom collects from oil lay the foundation of its functioning as a modern state. Since the first successful explorations in the early 1900s, oil has funded almost everything inside the country. This seems destined to remain the case, unless Crown Prince Muhammad bin Salman's recent 'Vision 2030' will manage to implement its ambitious diversification plans.[792]

Paul Aarts identified energy as the first of the Kingdom's 'four pillars' on which its relationship to the US is based, with the other three being security, influential moderation in the Arab-Israeli conflict and the country's cultural centrality in the Arab-Islamic world.[793]

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[789] Douglas, J.K., Nelseon, M.B., Schwartz, K.L. (2007), 'Rising in the Gulf: How China's Energy Demands are Transforming the Middle East'. In: *Al-Naklah*, Spring 2007.

[790] Aarts, P., Rijsingen, M.V. (2007), 'Beijing's Rising Star in the Gulf Region: The Near and the Distant Future'. In: E. Woertz (ed.), *Gulf Geo-Economics*. Dubai: Gulf Research Centre Books, pp. 23-58; Al-Tamimi 2014: p. 81; Kemp, J., 2017; Spindle, B. (2016), 'Weak Oil Prices Curbing Production'. In: *The Wall Street Journal*, 12 April 2016 [http://www.wsj.com/articles/crude-rises-on-signs-of-output-cuts-1460505118];

[791] The Chinese can contribute to this by exporting more construction and labour services especially to Saudi Arabia and attracting Gulf investment. See: Shichor, Y. (2006), 'China's Upsurge: Implications for the Middle East'. In: *Israel Affairs*, 12:4, pp. 665-683.

[792] Hutt, R. (2016), 'Which economies are most reliant on oil?'. *World Economic Forum*, 10 May 2016 [https://www.weforum.org/agenda/2016/05/which-economies-are-most-reliant-on-oil/]; *Vision 2030* (2017), 'Our Vision: Saudi Arabia, the heart of the Arab and Islamic worlds, the investment powerhouse, and the hub connecting three continents'. October 2017 [http://vision2030.gov.sa/en].

[793] Aarts, P. (2005), 'Events versus Trends: The Role of Energy and Security in Sustaining the US-Saudi Relationship'. In: P. Aarts, G. Nonneman (eds.), *Saudi Arabia in the Balance: Political Economy, Society, Foreign Affairs*. London: Hurst and Company, pp. 399-429.

Whilst in the 20th century most of Saudi Arabia's oil exports flowed chiefly to Western nations and Japan, this has changed since the dawn of the new century.[794] Rising Asia, spearheaded by China, and still accompanied by Japan and South Korea, is now the main destination of Gulf and Saudi oil. The Saudis branded their reaction to this market shift the 'Look East Policy', which is a reflection of growing interdependence with Asia. Where China requires energy security, Saudi Arabia requires 'demand security'.[795] This vital interest is perpetuated by several simultaneous challenges and opportunities: The North American shale gas and tight oil revolution, a rise in domestic Chinese fuel consumption, as well as Iran and Iraq re-entering the market. As the BP Energy Outlook 2035 confirms, Saudi Arabia's influence over OPEC will be challenged by the latter developments, and OPEC's influence itself will be in relative decline.[796] North America, including the US, is likely to sustain itself and might even be among the energy export giants rivalling the Gulf. To take a simultaneous look at market expectations, almost 90% of Middle Eastern oil exports by that time will flow to Asia.[797]

Asia's general growth and oil demand represents a certain leeway for Saudi Arabia to reduce its export dependence on China. India and the ASEAN countries are growing in China's wake. The KSA has made more than use of these trade opportunities and has – mirroring China's energy import risk management – diversified its export destinations inside Asia, with remarkable success to boot. Saudi Aramco is enjoying dominance in most Asian markets and is the number one oil provider, not only to China, but also to India, Japan, the Philippines, South Korea, and Taiwan.[798] In terms

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794 *About Oil* (2014), 'What does the Future Hold for the Gulf Countries?'. 22 August 2014 [http://www.abo.net/oilportal/interview/view.do?contentId=2289853].
795 Al-Tamimi, 2014: p. 121.
796 *BP* (2014), 'BP Energy Outlook 2035'. January 2014 [https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2016/bp-energy-outlook-2014.pdf].
797 Ibid.; Daojiong, Meidan, 2015: p. 9; Other than some GCC states like the UAE, Saudi Arabia has long been hesitant to open its domestic upstream market to China though. See: Mills, R. (2017), 'China's Big Play for Middle East Oil'. *Bloomberg*, 20 May 2017 [https://www.bloomberg.com/view/articles/2017-05-10/china-s-big-play-for-middle-east-oil]; Saudi Aramco also still relies mainly on American drilling technology. See: *Saudi Aramco* (2017), 'Saudi Aramco signs agreements with American companies to promote bilateral trade and investment between Saudi Arabia and United States'. 20 May 2017 [http://www.saudiaramco.com/en/home/news-media/news/MOU-saudi-US_forum-2017.html]; Yet, it has recently opened R&D centres in China. See: *Saudi Aramco* (2017), 'Beijing Research Center (BRC)' [http://china.aramco.com/en/home/services/beijing-global-research-center.html]; Given the demand dynamics, more such institutional cooperation seems likely to ensue and increasing trust can be built, as Chinese technology and NOC performances improve.
798 *Saudi Aramco* (2017), 'Global presence' [http://www.saudiaramco.com/en/home/about/global-presence.html].

of demographics and resulting economic opportunities, only India will be able to offer Saudi Arabia a comparable market size for its oil in the long run though. India is in fact expected to overtake China as the world's largest energy market in about two decades.[799] Nevertheless, in the short, and mid-term, China remains Saudi Arabia's most interesting market. The Kingdom will be eager to ensure maximum access to China for both its oil exports and investment, as discussed below.

These steps look especially logical as Beijing is eager to diversify its energy consumption as far as possible and reduce risks in energy security. China's own domestic shale oil and gas reserves are a force to be reckoned with, once Chinese NOCs have access to fracking technology – currently still largely monopolized by North American companies, but increasingly acquirable for Chinese firms investing there.[800] In the long-term, Saudi Arabia cannot be too sure about China providing it with high demand security it currently enjoys. Given China's ongoing growth though and the time it would take for China to significantly increase production and consumption of renewables and unconventionals and significantly reduce oil imports, this prospect still seems far away. And finally, just as China is meaningfully dependent on Gulf energy imports as a whole, as shown above, so one can note that Saudi Arabia and the entire Gulf are dependent also on the Asian market as a whole. This is also true for the other, non-hydrocarbon exports of Saudi Arabia, of which there are admittedly few for now.

7.1.1.2 Non-Hydrocarbon Imports

As Figure 15 demonstrates, China's imports from Saudi Arabia are almost completely dominated by hydrocarbons. The International Trade Centre's Trade Map provides the data confirming this.[801] Hydrocarbons are listed under a general product label 'Mineral Fuels, mineral oils and products of their distillation [etc.]'. In Sino-Saudi trade's peak year in 2012, China's hydrocarbon-import-value of roughly $45 billion dwarfed other, partly even industry-related, product categories by an order of magnitude.

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[799] BP, January 2014: pp. 5/26.
[800] BP 2017: p. 33; EIA, May 2015, 'China': p. 9; Gratz, J. (2012), 'Unconventional Resources: The Shifting Geographies and Geopolitics of Energy'. In: D. Mockli (ed.), *Strategic Trends 2012: Key Developments in Global Affairs*. Zurich: ETH Zurich Center for Security Studies, p. 89.
[801] ITC, 'Trade Map'.

Product code	Product label	China's imports from Saudi Arabia						
		Value in 2009	Value in 2010	Value in 2011	Value in 2012	Value in 2013	Value in 2014	Value in 2015
'TOTAL	All products	23620244	32829048	49467520	54861126	53450711	48508026	30021051
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	19351190	25868002	39473289	44925796	43307121	37888902	21257535
'29	Organic chemicals	2709825	4090454	6372920	5894693	5779067	5881387	4786310
'39	Plastics and articles thereof	1334395	2373085	2961898	3414682	3743822	4091948	3294479
'25	Salt; sulphur; earths and stone; plastering materials, lime and cement	156985	326163	457678	430150	268178	331941	405437
'74	Copper and articles thereof	21430	82243	91693	86653	81762	76076	78962
'26	Ores, slag and ash	0	1292	9482	9365	116339	75031	52705
'28	Inorganic chemicals; organic or inorganic compounds of precious or rare-earth metals, ...	2326	63	1964	6384	19848	25253	46948

FIGURE 15: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

The next one on the list, 'Organic chemicals', saw a value of less than $6 billion – though taken on its own, this can be considered a significant sum and points towards Saudi Arabia's specialization and comparative advantage in that particular industry.[802] Indeed, it declined much less in export value in 2015 – just over one billion less – when the oil price collapse dramatically reduced the value of Saudi Arabia's hydrocarbon exports.

A glance at Figures 16 and 17 indicates Saudi Arabia's booming chemicals industry, although again, China's chemicals-import-dependence on Saudi Arabia is lesser than Saudi Arabia's dependence on the Chinese market. Whereas China is by far Saudi Arabia's largest chemicals customer, Saudi Arabia is "only" China's fourth largest foreign chemicals provider, following South Korea, Japan, and Taiwan.

[802] Al-Tamimi 2014: pp. 132-133.

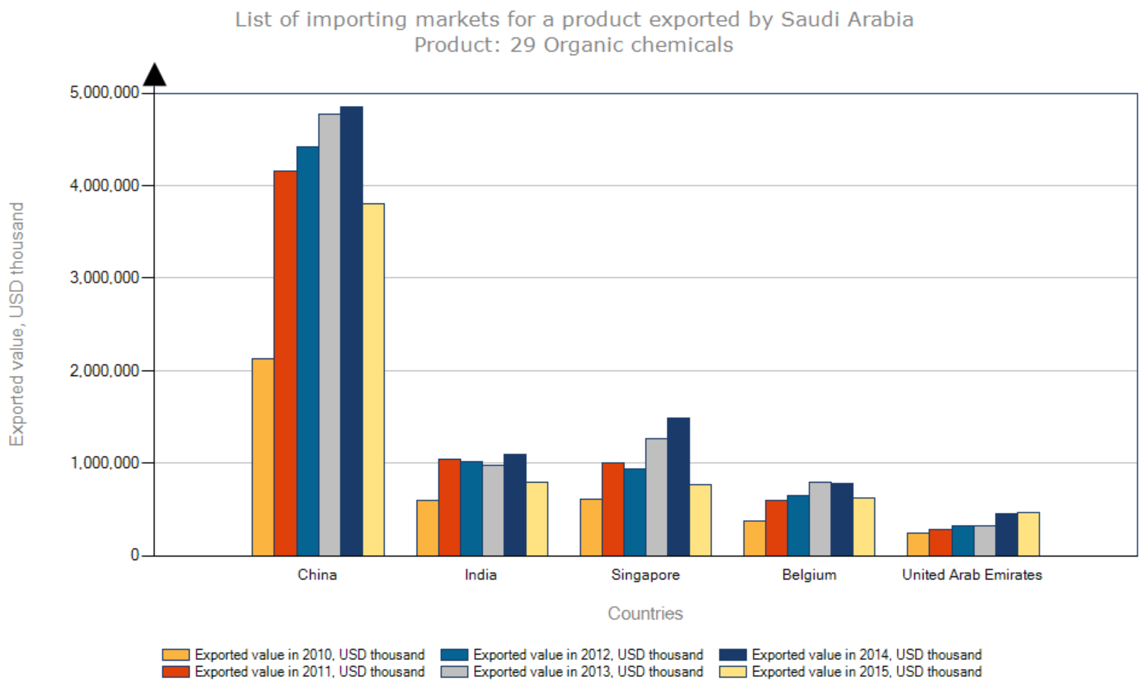


FIGURE 16: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

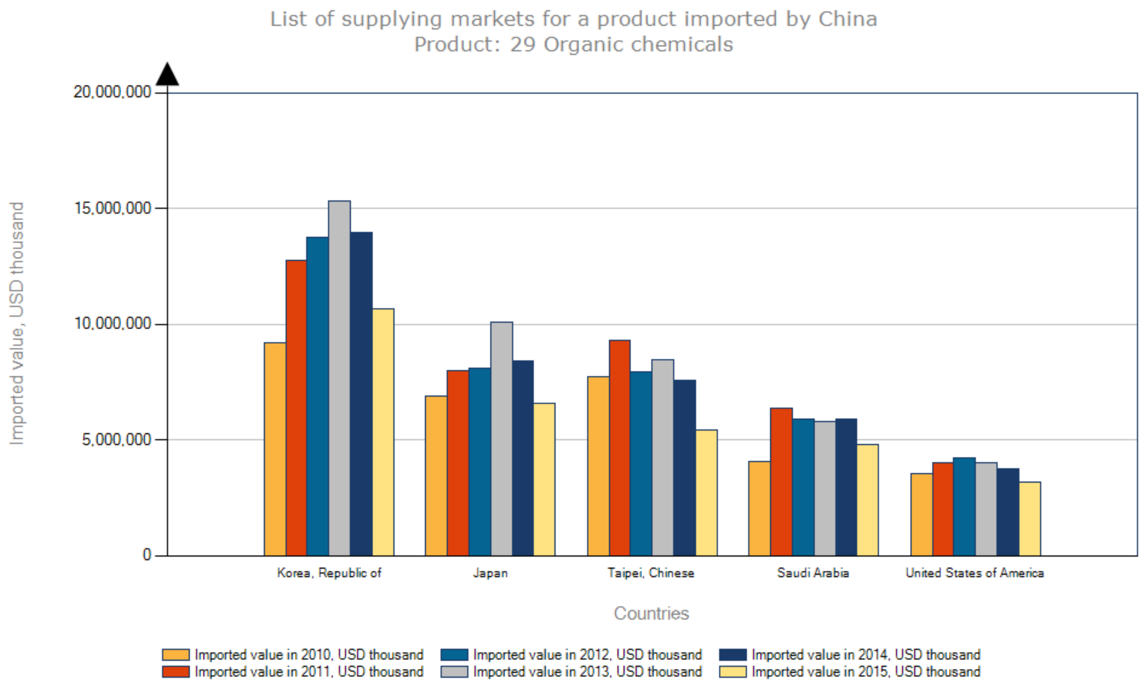


FIGURE 17: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

Among the other product categories of Saudi exports to China only 'Plastics and articles thereof' go into the billions in their annual trade. In its general peak year 2012, Saudi companies exported $3.4 billion worth of plastics to China, rising to $4.1

billion in 2014 and slightly declining to $3.3 billion a year later. Figure 18 again shows the importance of the Chinese market to Saudi Arabia, but also that, with the exception of 2014, China came second behind Singapore in the destination of Saudi plastics. Given Singapore's comparably tiny demographic and territorial size, the clear message that derives from this data is that, despite the Chinese market's importance to Saudi plastics producers, it is also a highly underexploited opportunity.

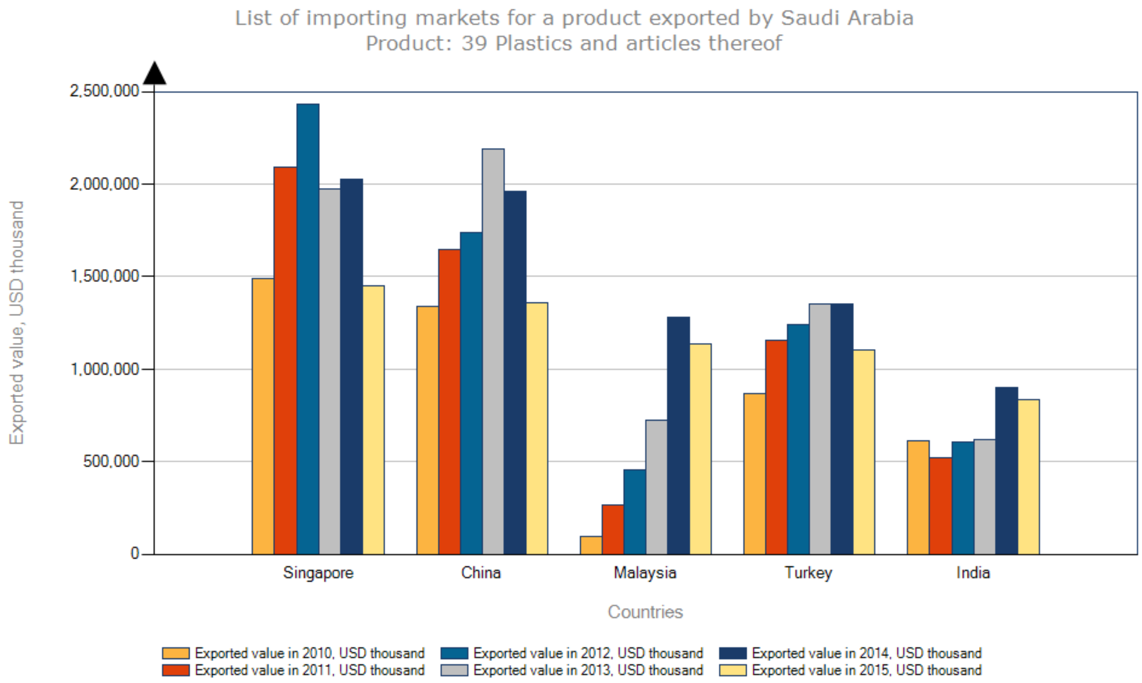


FIGURE 18: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

The other major product categories China imports from Saudi Arabia are listed as 'Salt; sulphur; earths and stone; plastering materials, lime and cement', 'Copper and articles thereof', 'Ores, slag and ash', as well as 'Inorganic chemicals; organic or inorganic compounds of precious or rare-earth metals'. Though they might see a more significant growth in the future, their constantly fluctuating value in dollars for now remains in the millions or even below the hundreds of thousands. All in all, the lack of Saudi Arabia's wider economic diversification is more than reflected in its export mix to China. However, this undiversified trade pattern is less dramatic when considering the other direction of trade: China's growing exports to Saudi Arabia.

7.1.2 China’s Exports to Saudi Arabia

The beginning of this chapter already pointed to the fact that China has run a significant trade deficit with Saudi Arabia ever since the expansion of their bilateral commerce. Apart from this fact, two further phenomena are observable in Figure 12 above. China’s imports from Saudi Arabia surged much faster than its exports to it. However, imports began to decline again noticeably in 2014 and 2015. Yet, this did not happen with China’s exports to the Kingdom. Between the year 2000 and 2015, the only year that experienced a Chinese export decrease was 2009, the year of the financial crisis. Since then it has grown again, and, over the period covered in the given data, was at its highest in the last year of this chapter’s measurement, in 2015. Incidentally, this points towards the oil price collapse as the primary explanation for the reduced Chinese import value, rather than the simultaneously reduced Chinese GDP growth.

This divergent trade pattern since 2013 has resulted in a narrowing of China’s trade deficit with Saudi Arabia, especially in 2015. That year, the value of Chinese exports to Saudi Arabia reached approximately $22 billion, as seen in Figure 19 below, whereas the value of Chinese imports from Saudi Arabia had declined to $30 billion, as seen in Figure 15 above. This mere $8 billion Chinese deficit is very different compared to Sino-Saudi trade value’s peak year in 2012, when that deficit stood at more than $36 billion.

Nevertheless, for as long as the oil price does not rise higher than its pre-2014 level, Sino-Saudi trade has moved closer towards a balance. If China’s exports to Saudi Arabia continue to grow, this process might continue, which would further diversify the picture of Sino-Saudi economic relations.

Product code	Product label	China's exports to Saudi Arabia						
		Value in 2009	Value in 2010	Value in 2011	Value in 2012	Value in 2013	Value in 2014	Value in 2015
'TOTAL	All products	8977852	10366445	14849707	18452901	18739814	20575242	21612928
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1460203	1431884	2271670	2408751	2532650	2975216	3149586
'85	Electrical machinery and equipment and parts thereof...	1222187	1223312	2000012	2292788	2279660	2323737	2385411
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	589570	636680	931661	1642843	1715203	1668563	2059079
'62	Articles of apparel and clothing accessories, not knitted or crocheted	400225	409286	534633	540149	661008	1145284	1185237
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	265851	282947	540830	819497	791597	1071996	1161808
'73	Articles of iron or steel	582361	673497	873128	1015270	1048618	1116962	1076618

FIGURE 19: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

China's exports to Saudi Arabia are much more varied. As Figure 19 shows, there is also less of a value divergence across the dominating product categories. In 2015, the label 'Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof' saw a value of approximately $3.1 billion, having risen from roughly $1.5 billion during the financial crisis. This is just according to the data that China reported to UN COMTRADE and that is visible in Figure 19. Based on the mirror data from Saudi Arabia, the value was almost one and a half times as high, at almost $5 billion, as seen in Figure 20. This chart also shows China's global competitors on the Saudi market for such machinery. The US has consistently been Saudi Arabia's primary supplier, but China comes second, followed by Germany, South Korea, and Italy.

China's significant market share is even higher concerning 'Electrical machinery and equipment and parts thereof'. It has been the number one supplier of these products for Saudi Arabia ever since bilateral trade took off. Although China again reported lower numbers, roughly $2.4 billion in 2015, for its electrical machinery exports to Saudi Arabia, the mirror data values it at roughly $6 billion for that year. Figure 21 shows that China's main competitors, Vietnam, the US, South Korea, and Germany do not even come close.

The same picture emerges with China's third-biggest product category in its primary exports to the Kingdom. Although with this example, the reported values diverge in the other way around, China seems to be heavily dominating the Saudi consumer market for furniture and related products. Whereas China reported a value of more than $2 billion in 2015, Saudi Arabian import data places is at about $1.1 billion for that year, as seen in Figure 22. Nevertheless, even with the latter half the size of China's reported furniture export value, China's closest competitor, Italy, sold items worth less than $300 million, closely followed by the US, Turkey, and the UAE.

The picture of overwhelming Chinese dominance on the Saudi market is repeated when it comes to 'Articles of apparel and clothing accessories', which, according to China's reported data, doubled in 2014 and reached a value of roughly $1.2 billion in 2015. Here, it matches Saudi Arabia's mirror data. Figure 23 demonstrates that China's number one competitor, India, "barely" sold $400 million worth of apparel articles to Saudi Arabia in 2015 and that the other main supply markets, Bangladesh and Turkey sold less than half of India's amount, with Italy less than $100 million. Textiles have long represented a large chunk of China's global exports and Saudi Arabia has been one of many regular customers.[803] The New Silk Roads in these and many other cases, just like the old ones, really can be taken quite literally.

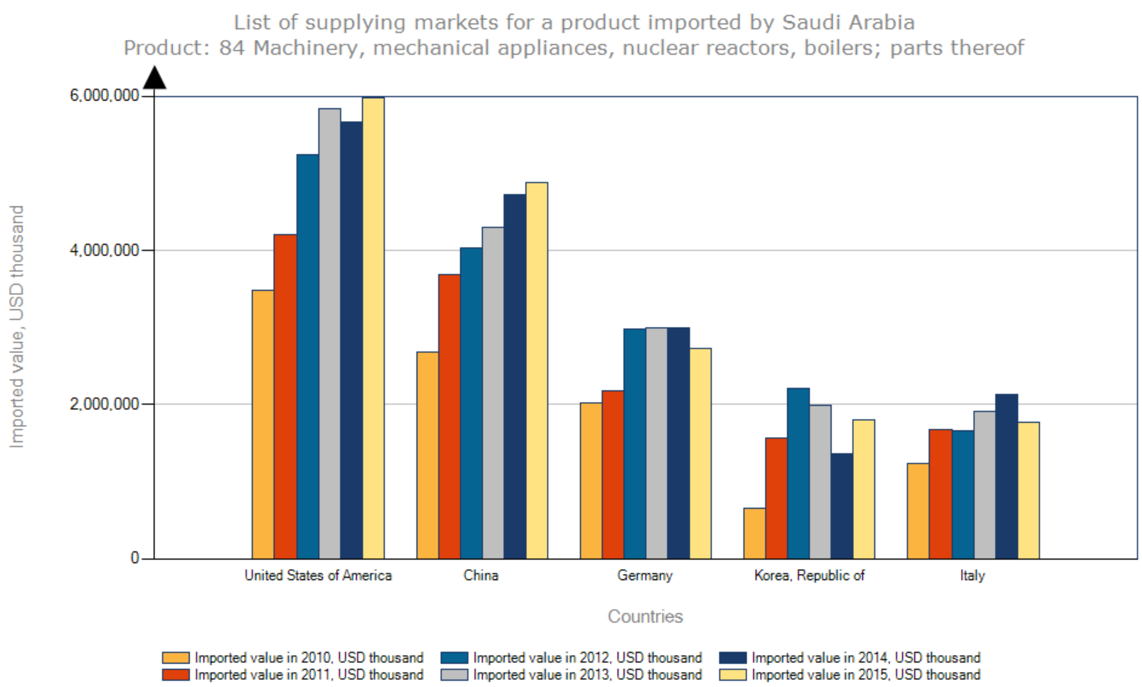


FIGURE 20: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

803 Davidson 2010: p. 40.

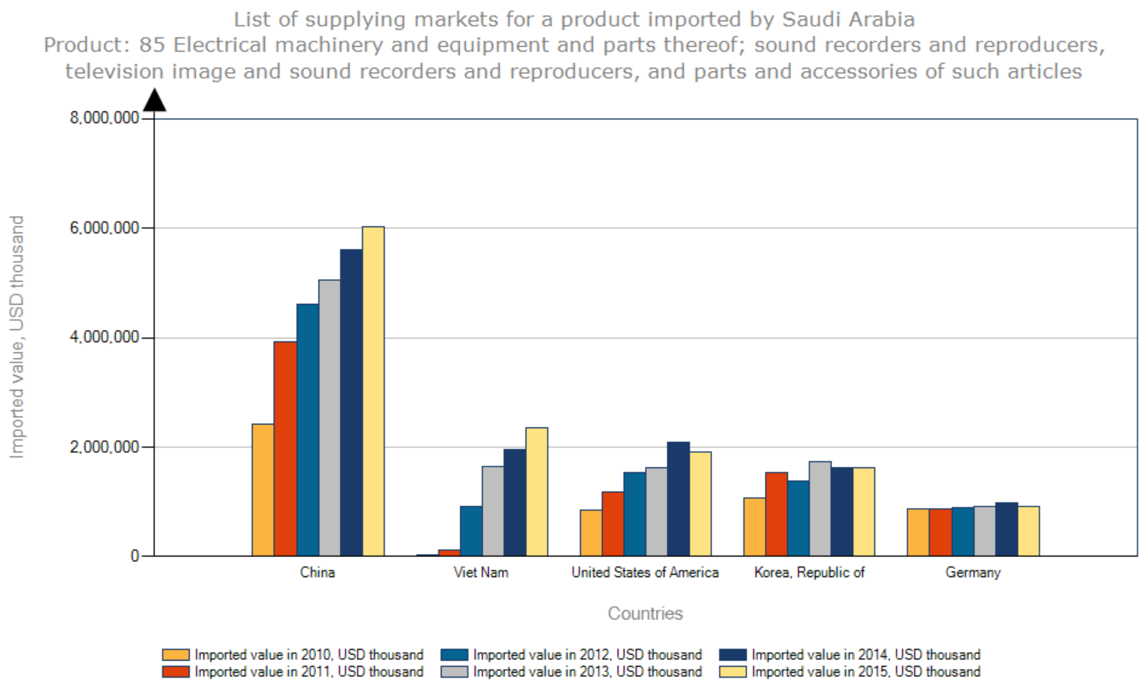


FIGURE 21: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

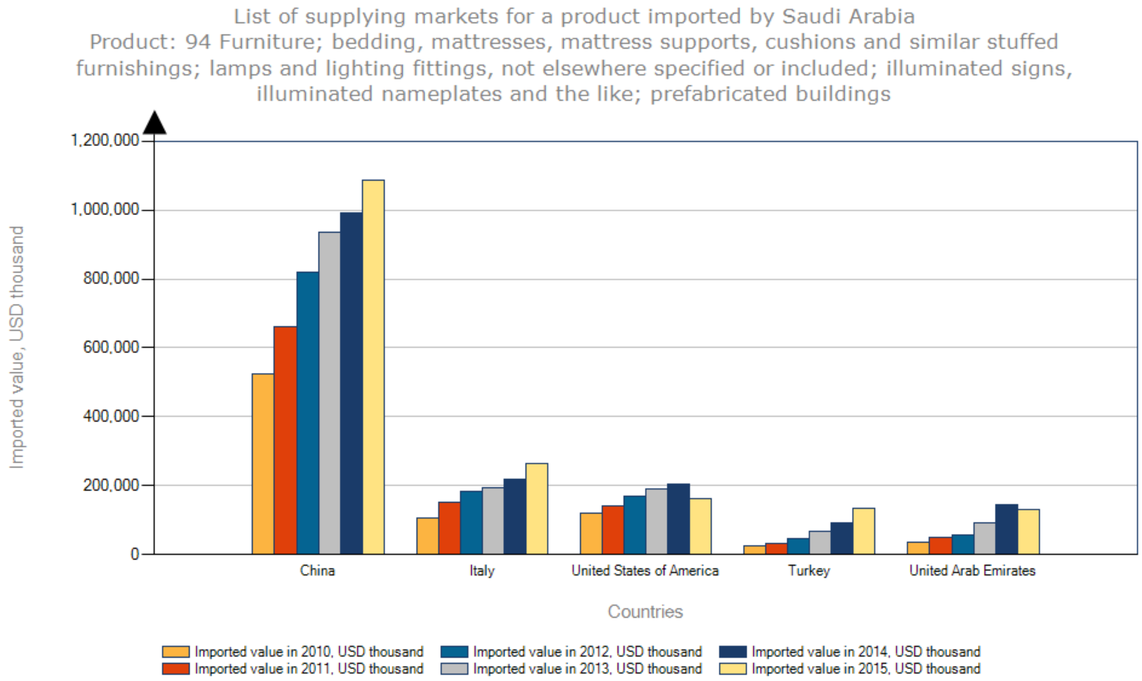


FIGURE 22: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

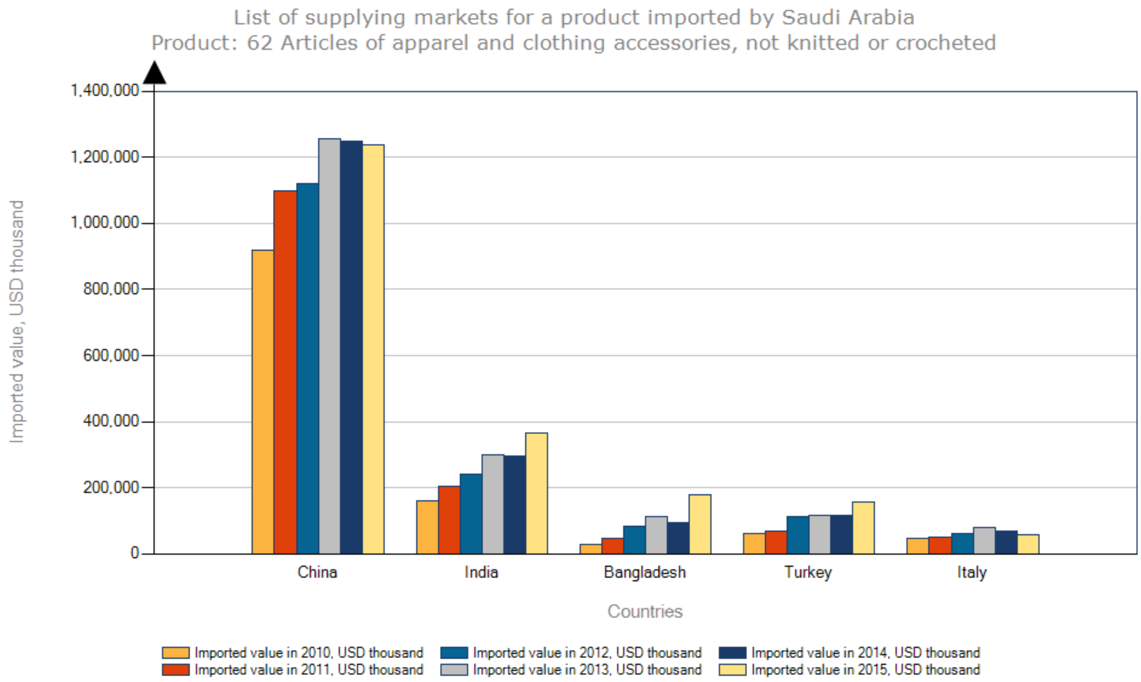


FIGURE 23: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

Among China's further product types in its exports to Saudi Arabia are vehicles and related parts, as well as iron and steel commodities, as seen above in Figure 19. Which categories of all these listed items and others will maintain competitiveness in the Kingdom remains to be seen, as China seeks to move up the value chain of more high-quality manufacturing and exports, and also compete in other categories.[804] The country's efforts to escape the so-called middle-income trap and the attempt to gradually shift to a more consumer-based economy will create new opportunities and open up different Saudi markets, but, as China's labour costs rise, will inevitably cause a loss of market share to other developing countries for more low-tech, cheaply-manufactured goods.[805] So far, the ongoing growth of Chinese exports to Saudi Arabia seem to point out that such a noticeable shift has not occurred just yet in this particular bilateral relationship, which may point towards the Gulf's and Saudi Arabia's relative late-coming to the "Made in China" phenomenon, because in total, China's exports have declined in recent years, but continue to grow in Saudi Arabia.[806] The decade-long, and often stalling negotiations for a China-GCC free trade agreement has not reached a conclusion yet, as mentioned above. Yet, its treaty

[804] Sharma 2016: pp. 294-295.
[805] Ibid.: p. 185.
[806] Ibid.: p. 295.

could provide a cushion against a future depreciation of Sino-Saudi trade. It would further boost the bi-directional flow of capital.

7.2 Sino-Saudi Investment and Project Contracting

So far, the investment of Chinese state-owned and private companies into Saudi Arabia is likely to have been the dominating portion of Sino-Saudi capital flows. As the section will show, Saudi Arabia has also increased its investment into China, with various examples available to discuss. Yet, its investment activity is often classified, especially when its SWFs are the protagonists.

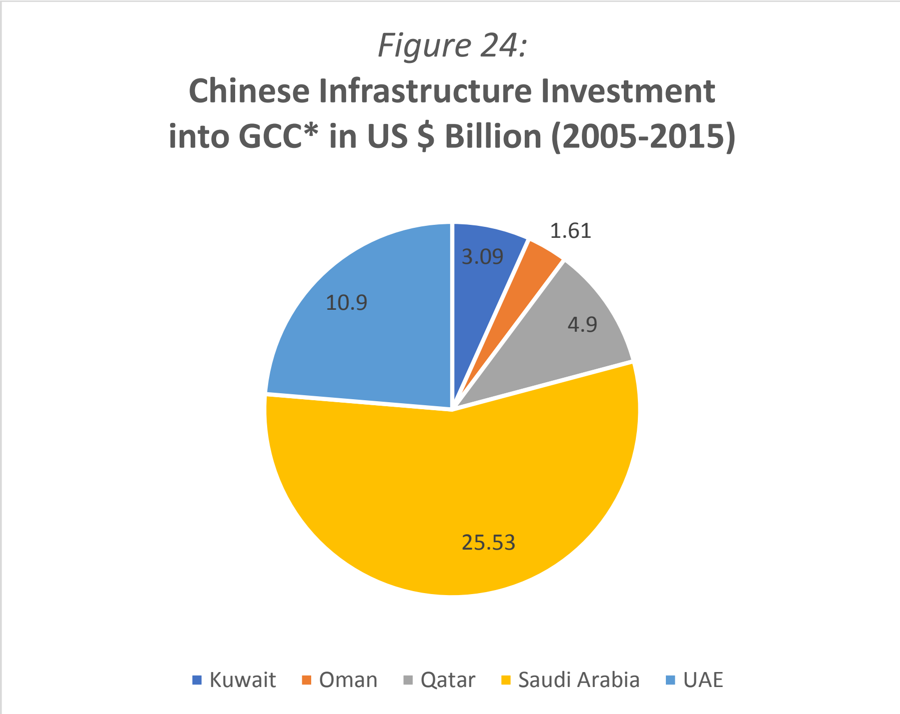
China's investment into Saudi Arabia is much better documented. The most useful database, the China Global Investment Tracker (CGIT), is provided by a joint project between the American Enterprise Institute and the Heritage Foundation.[807] It is important to stress that, like with any database, the CGIT is far from complete, and does not fully cover FDI, and especially not FPI flows – partly because the latter kind of information is not publicly available. The area which is strongly covered by the CGIT, is infrastructure investment, i.e. project contracting for construction and its related fields. This activity, to be grouped together under EPC-contracting, may or may not be accompanied by an actual FDI – the expansion of a domestic company into a foreign market.

Data collected and published by Dhaman – The Arab Investment & Export Credit Guarantee Corporation – differs substantially from the CGIT, due to different definitions of investment and possibly also due to a different level of access to certain information. Other than the CGIT, which covers Chinese outward investment, Dhaman offers data on inward and outward Arab FDI flows and will thus be convenient for the section on Saudi investment into China. However, Dhaman merely offers tailored annual investment reports. It does not offer a database and thus no information on individual investments.[808]

[807] *American Enterprise Institute*, 'China Global Investment Tracker' [http://www.aei.org/china-global-investment-tracker/].
[808] *The Arab Investment & Export Credit Guarantee Corporation* [http://dhaman.net/en/]. Dhaman uses many sources, among them the Financial Times' FDI Intelligence database, to which the author did not have access.

7.2.1 China's Investment into Saudi Arabia

China's investment into Saudi Arabia began to increase in the 2000s, following bilateral trade growth. According to data from the CGIT, its total value accounted for more than $25 billion in the decade between 2005 and 2015. Figure 24 shows Saudi Arabia's clear dominance in capturing Chinese investment into the GCC over that period. Although the database excludes Bahrain, for which no information was available, but where not much Chinese investment is suspected anyway, more than half of Chinese investment into the GCC went to Saudi Arabia.



* excluding Bahrain (no data)

Source: American Enterprise Institute, China Global Investment Tracker [MS Excel chart created by author].

As seen in Figure 25, the CGIT breaks down Chinese investments in Saudi Arabia across a quite diverse set of industries. Though the energy sector is clearly dominant, absorbing almost $10 billion, two other strong sectors are real estate and metals, with both crossing the $5 billion threshold respectively. Both transport and agriculture have also received billions of dollars of Chinese investment, with the chemical industry attracting about half a billion over this period. This section covers the main industries ranked in terms of value.

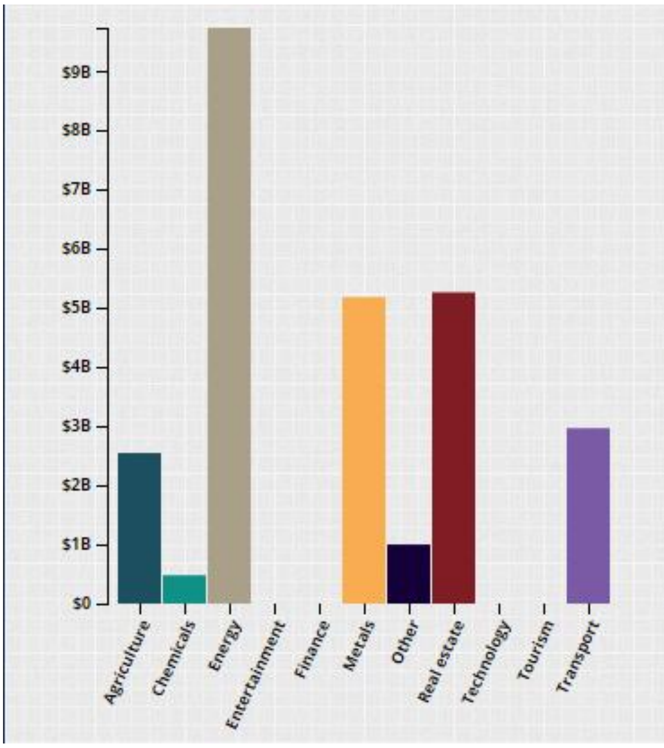


FIGURE 25: Chinese Investment into Saudi Arabia in US $ Billion (2005-2015).
Source: American Enterprise Institute, China Global Investment Tracker.

GREENFIELD INVESTMENTS (IN US$ MILLION)							
Year	**Month**	**Investor**	**Quantity**	**Share**	**Transaction Party**	**Sector**	**Subsector**
2007	November	Chinalco	$ 1.200	40%	Binladin, MMC	Metals	Aluminum
2011	December	Sinopec	$ 3.710	38%	SABIC refinery	Energy	Oil
CONSTRUCTION CONTRACTS (IN US$ MILLION)							
Year	**Month**	**Contractor**	**Quantity**	**Share**	**Transaction Party**	**Sector**	**Subsector**
2005	March	Sinoma	$ 170		Riyadh Cement	Real estate	Construction
2005	September	Sinopec	$ 350		Aker Kvaerner	Chemicals	
2005	December	Sinoma	$ 580		Saudi Cement	Real estate	Construction
2007	April	Sinomach / China Nonferrous	$ 3.990		Western Way	Metals	Aluminum
2007	November	China Communications Construction	$ 230			Transport	Shipping
2007	November	China Communications Construction	$ 230			Transport	Shipping
2008	February	CNPC	$ 560		Ma'aden	Agriculture	
2008	July	Guangdong Overseas Construction	$ 610		King Khalid University	Real estate	Construction
2009	February	China Railway Construction	$ 390	21%		Transport	Rail
2009	February	China Communications Construction	$ 100			Transport	Shipping
2009	February	China Railway Construction	$ 1.160			Transport	Rail
2009	July	Shandong Electric Power / Dongfang Electric	$ 1.650		Saudi Electricity Company	Energy	Oil
2009	July	China Railway Construction	$ 530			Real estate	Construction
2009	August	Sinoma	$ 400		Yanbu Cement	Real estate	construction
2010	May	Shandong Electric Power	$ 1.720	70%	Al-Arrab	Energy	
2010	May	Sinoma	$ 200		Hail	Real estate	Construction
2010	December	Sinoma	$ 140			Real estate	Construction
2011	April	Sinopec	$ 100		Aramco	Energy	Oil
2011	July	Sinopec	$ 200			Agriculture	
2011	August	Sinopec	$ 130		SABIC	Chemicals	
2011	November	China Electronics Corporation	$ 180			Real estate	Construction
2012	June	Sinopec	$ 150		Aramco	Energy	Oil
2012	September	Sinoma	$ 190		Southern Province Cement	Real estate	Construction
2012	September	China Communications Construction	$ 160		Saudi Global Ports	Transport	Shipping
2012	November	Shanghai Electric	$ 990	33%	Saline Water	Agriculture	
2012	November	China National Chemical Engineering	$ 340		SABIC	Transport	Shipping
2013	July	China Communications Construction	$ 500			Utilities	
2013	September	China Communications Construction	$ 390		Aramco	Transport	Shipping
2013	November	China National Building Materials	$ 190		Southern Province Cement	Real estate	Construction
2014	February	China Communications Construction	$ 200			Transport	Shipping
2014	April	Sinopec	$ 190		Aramco	Energy	Oil
2014	May	China Communications Construction	$ 500		Aramco	Utilities	
2014	October	Power Construction Corp	$ 1.290		Aramco	Energy	Gas
2014	November	China Railway Construction	$ 1.980			Real estate	Construction
2014	November	Power Construction Corp	$ 100			Energy	Oil
2015	April	Sinopec	$ 450			Agriculture	
2015	April	China National Building Materials	$ 100		Arabian Cement	Real estate	Construction
2015	June	Sinopec	$ 140			Energy	Oil
2015	October	Power Construction Corp	$ 700		Aramco	Energy	Gas
TROUBLED TRANSACTIONS (IN US$ MILLION)							
Year	**Month**	**Chinese Entity**	**Quantity**	**Share**	**Transaction Party**	**Sector**	**Subsector**
2010	October	China Railway Construction	$ 620			Transport	Rail

FIGURE 26: Chinese Investment into Saudi Arabia in US $ Billion (2005-2015).
Source: American Enterprise Institute, China Global Investment Tracker.

Before moving on to what are mostly construction contracts, it is necessary to briefly cover general FDI figures and the context of inward Saudi greenfield investments. As seen in Figure 26 above, the CGIT counts two Chinese greenfield investments into Saudi Arabia between 2005 and 2015, resulting in a total value of almost $5 billion. This is already one example that shows the occasional incompleteness of the CGIT, because, as Figure 27 below shows, Dhaman’s published data differs considerably. Dhaman not only lists 15 Saudi inward greenfield investments from China, but also calculates their overall value to have been more than $10 billion.[809] Although Dhaman incorporates data from 2003 to 2015, there is no open-source evidence that these differences in project numbers and values could be explained by a concentration of 13 greenfield projects in Saudi Arabia taking place in 2003 and 2004 – before the CGIT database was started.

Inward investment in Saudi Arabia between January 2003 and May 2015					
Rank	Exporting Countries	No. Companies	No. Projects	No. Jobs	Cost (Million $)
1	United States	179	228	30,353	38,488
2	France	44	69	11,365	20,201
3	Japan	37	47	7,519	15,915
4	UAE	135	201	32,140	13,489
5	China	12	15	4,837	10,450
6	Holland	20	37	6,539	7,818
7	India	52	63	7,433	6,270
8	Malaysia	10	14	7,003	5,201
9	Singapore	10	18	6,744	4,239
10	Germany	36	43	6,233	4,029

FIGURE 27: *Source*: Dhaman Investment Attractiveness Index 2015, p. 133.

In greenfield investments, Dhaman lists China as the fifth largest foreign direct investor into Saudi Arabia in terms of value, following the United States – the largest investor –, France, Japan, and the UAE. The Chinese share in Saudi Arabia's overall inward greenfield investment over that twelve-year period equates to 6.8%.[810] Considering that the US share alone was 25.1%, and despite China being fifth on a long list, China's performance can be evaluated as rather modest, given that it was the world's fastest growing major economy over much of that period and has been the world's second largest economy for several years now. However, it is crucial to stress that these Dhaman calculations do not seem to incorporate EPC-contracts, or at least not the ones where the involved Chinese companies do not provide the investment themselves, but are merely hired by Saudi entities who provide the finances for the projects. Altogether, EPC-contracts clearly take up by far the largest chunk of all Chinese "investments" into Saudi Arabia.

[809] See also: *Dhaman* (2016), 'Investment Climate in Arab Countries. Dhaman Index Attractiveness Index 2015' [http://dhaman.net/wp-content/uploads/2016/05/Climate-2015-English.pdf], p. 133.
[810] Ibid.

Among the non-EPC contracting Chinese firms that have invested directly into Saudi Arabia, it is information and communication technology companies (ICT) that stand out.

ZTE (HK), has enjoyed a presence in Saudi Arabia since 2005 as a separate legal entity from its parent in Hong Kong, which at least before 2016, was required by Saudi law. In 2007, ZTE signed a $130 million 'fixed-line framework agreement' with Etihad Atheeb Telecommunication and further updated it in 2009.[811]

In August 2016, Huawei, considered China's most famous and successful tech brand, was granted a licence for 100% ownership of its Saudi branch.[812] Though the company has been present in Saudi Arabia and several other Middle Eastern countries for more than a decade, it was only granted a full investment licence for its retail business in the Kingdom following the announcement of Vision 2030.[813] Hence, this case is an example for the start of successful Saudi regulatory reforms which seek to reduce barriers to inward FDI, as proposed in Vision 2030. In fact, the licence, awarded by the Saudi Arabian General Investment Authority (SAGIA), marked 'the first commercial licence for an IT firm awarded in the country and the first to a Chinese firm'.[814]

Similar future breakthroughs by other Chinese ICT tech firms such as Lenovo or Xiaomi, both of which also have offices in Saudi Arabia, can be expected, as their global demand is growing and also Saudi Arabia's tech-enthusiastic consumers increasingly consider Asian brands.[815] Since China's products are cheaper than their

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[811] China's embassy in Saudi Arabia mentions on its website that ZTE's provision of telecommunications equipment and entry into Saudi Arabia's terminal market has been celebrated as a success. 'The amount of sales of handsets in 2009 has reached [up] to [sic.] US$ 20 million.' See: *Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Kingdom of Saudi Arabia* (2017), 'ZTE (HK) Limited Saudi Arabia' [http://sa2.mofcom.gov.cn/article/shanghui/link/201108/20110807703566.shtml].

[812] Anderson, R. (2016), 'China's Huawei granted 100% ownership in Saudi Arabia'. *Gulf Business*, 31 August 2016 [http://gulfbusiness.com/chinas-huawei-granted-100-ownership-saudi-arabia]; *Trade Arabia* (2016), 'Huawei wins licence to invest in Saudi Arabia'. 31 August 2016 [http://www.tradearabia.com/news/IT_312785.html].

[813] Ibid.; *Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in the Kingdom of Saudi Arabia* (2012), 'Huawei to Explore Smart Phone market in the Middle East'. 18 July 2012 [http://sa2.mofcom.gov.cn/article/shanghui/link/201207/20120708238369.shtml].

[814] Anderson 2016; This means that Huawei will now be able to sell its numerous products, especially smartphones, directly inside Saudi Arabia and will therefore expand its retail presence throughout the country, seeking to employ around 900 Saudis in the process. Before acquiring the licence, the firm had already employed about 1,000. It also intends to establish an IT innovation centre in the Kingdom before 2019 'with the aim of training 4,500 qualified professionals in the sector'. See: Ibid.

[815] *Lenovo* (2017), 'Mailing Address' [http://www3.lenovo.com/sa/en/contact/].

American, European, Japanese, or South Korean counterparts, they should find a Saudi market for instance among low-income construction workers. Saudi decision makers seeking to implement Vision 2030-reforms are actively seeking to ease restrictions on FDI into the country and target diverse Chinese investors in particular. In August 2017, SAGIA hosted a meeting with around 50 representatives of Chinese businesses in Riyadh discussing new opportunities on a much wider spectrum.[816]

Up until now, other than these examples of Chinese companies setting up shop in the Kingdom, most Chinese enterprises there have come in the form of EPC-contractors and their related investments. They will now be covered via the different relevant industries, as seen in the CGIT's database.

7.2.1.1 Energy and (Petro-)Chemicals

Sino-Saudi investment ties began to blossom simultaneously with Saudi Arabia's growth of oil exports to China. As evident in Figure 26, between 2005 and 2015, Chinese companies invested ten times into the Saudi energy industry. Most of these ventures were construction contracts.

China's first major energy investment into Saudi Arabia was launched in 2004, when Sinopec outbid several Western firms in regard to gas explorations in the Rub al-Khali desert. Sinopec and Saudi Aramco signed an agreement to develop a major concession in Ghawar gas fields, "Block B", under the Saudi Gas Initiative 2. A $300 million investment by Sinopec over the course of ten years was to enhance Saudi Arabia's domestic gas consumption capabilities. This contract was built upon in 2006 and 2009 to form a consortium, called BGP Arabia, with Saudi Aramco and China National Petroleum Corporation (CNPC) for further gas explorations in both the Rub al-Khali and the Red Sea, along with seismic data research in those areas, as well as in the Manifa oil field. In 2012, BGP Arabia was awarded another three contracts in order to conduct geophysical studies throughout the country.[817]

[816] *Saudi Arabian General Investment Authority* (2017), 'Chinese Delegation in SAGIA'. 3 August 2017 [https://sagia.gov.sa/en/mediaandEvents/News/Pages/News03082017.aspx].
[817] Al-Tamimi 2014: pp. 152-153.

Since its first agreement in 2004, Sinopec has been the most active Chinese energy company in the Kingdom. In September 2005, Sinopec entered into a joint venture with SABIC, as well as the Norwegian energy firm Aker Kvaerner, in an EPC-contract for a major polyolefins complex in Yanbu, on the Red Sea coast. In this joint venture, Sinopec provided 'detailed engineering and a significant proportion of the skilled labour required for the construction activities'.[818] According the CGIT, Sinopec's investment pledge was worth $350 million. At the time, it marked China's first involvement in Saudi Arabia's chemicals industry.[819]

Sinopec's first major investment into the Kingdom's oil industry was only launched in 2012, when the company signed a landmark joint venture agreement with Saudi Aramco to build an oil refinery, also in Yanbu.[820] The contracting followed a respective memorandum of understanding (MoU) from spring 2011, in which both companies had agreed on a 37.5% share for Sinopec and a 62.5% share for Aramco.[821] This MoU is also registered in the CGIT. Covering 5.2 million square metres, the joint venture, called YASREF, became operational in 2014, with the capacity of refining 400,000 bpd.[822]

The refinery accomplished its first shipment, encompassing 300,000 barrels of refined diesel fuel, from its Marine Terminal in January 2015. It was officially inaugurated a year later in January 2016, on Chinese President Xi Jinping's state visit to Saudi Arabia.[823] During the ceremony Aramco Chairman Khalid al-Falih emphasized the importance of Sinopec and China as a whole in both his company's global investment portfolio, as well as in wider and deeper Sino-Saudi cooperation:

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818 *Rigzone* (2006), 'Aker Kvaerner and Sinopec to Pursue More Mideast Opportunities'. 26 July 2006 [http://www.rigzone.com/news/oil_gas/a/34542/Aker_Kvaerner_and_Sinopec_to_Pursue_More_Mideast_Opportunities].

819 Ibid.; Another deal followed in August 2011, when Sinopec invested $130 million into the construction of a natural alcohol plant near al-Jubail Industrial City. The EPC-contract envisioned an output of 50,000 tonnes of alcohol per annum, in the form of detergents, in order to diversify SABIC's chemicals portfolio. See: Henni, A. (2011), 'Kayan and Sinopec to build natural alcohol plant'. *Arabianindustry.com*, 17 August 2011 [http://www.arabianindustry.com/oil-gas/news/2011/aug/17/kayan-and-sinopec-to-build-natural-alcohol-plant-3824886/].

820 *Sinopec* (2012), 'Sinopec, Saudi Aramco Sign YASREF Joint Venture Agreement'. 15 January 2012 [http://www.sinopecgroup.com/group/en/Sinopecnews/20120117/news_20120117_283180000000.shtml].

821 *Sinopec* (2011), 'Sinopec and Saudi Aramco Inked MOU on Partnership'. 18 March 2011 [http://www.sinopecgroup.com/group/en/Sinopecnews/20110318/news_20110318_577700000000.shtml].

822 *Yasref* (2017), 'Yasref Overview' [http://www.yasref.com/about/overview].

823 *Saudi Aramco* (2016), 'King Salman and Chinese President Xi Jinping inaugurate YASREF Refinery'. 20 January 2016 [http://www.saudiaramco.com/en/home/news-media/news/CooperationAgreement.html].

'Three strategic factors will help to further strengthen the relationship and transform it from transactional supply to a deeper, long-term partnership. First, is the doubling of Saudi Arabia's energy supply to China, coupled with continued downstream investment to support economic growth, both in China and the Kingdom. The second, is implementing His Excellency Xi Jinping's 'One Belt-One Road' initiative that will enable both the Kingdom to become a stronger partner to China, and also increase China's investment in the Kingdom's economic and industrial cities so that the Kingdom is a hub for China to access its Middle East and Africa markets. Thirdly, is the need to continually improve the mutual cooperation between the Kingdom and China in the areas of research, innovation, knowledge transfer, and culture.'[824]

Saudi Arabia's new Vision 2030 is presented as being very much complementary to these ambitions and their rhetoric. Diversified investment ties are the goal.[825] The future is likely to see more greenfield investments by more Chinese companies. Already, it must be said, even just within the energy sector, Sinopec has by no means been the only Chinese company active in Saudi Arabia so far. The Shandong Electric Power Corporation (SEPCO) also stands out as a major Chinese investor in Saudi Arabia's energy sector. According to the CGIT, in July 2009, SEPCO, alongside Dongfang Electric Corporation (DEC), together invested $1.65 billion into the Saudi oil industry, partnering with the Saudi Electricity Company. A comparison of the companies' websites shows that the money went into the construction of an oil-fired thermal power plant in Rabigh, which was completed in 2013.[826]

Further EPC-contracts seem to have been signed and partly completed by SEPCO in Saudi Arabia, according to both SEPCO's website and to the CGIT, even though the latter afterwards lists SEPCO under a different name, 'Power Construction Corp', probably not having realized that it is the same company. In 2016, a 2400MW-strong Combined Cycle Gas Turbine seems to have been constructed successfully in Ras al-Khair, having formed a consortium with Saudi Arabia's Al-Arrab Contracting Company (ACC), which went on to purchase further technology from Germany's Siemens. The contract had been signed in 2010, and, according to the CGIT, absorbed

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[824] Ibid.

[825] The only direct investment by a Chinese company into a greenfield energy project however, took place in the year 2011, when Sinopec, taking a share of 38%, injected $3.710 billion into a new refinery operated by Saudi Basic Industries Corporation (SABIC). Unfortunately, this information, provided in the CGIT's database could not be verified. Neither Sinopec's nor SABIC's annual reports mention this particular venture, and even an advanced search did not produce any results besides other joint projects by the two companies, which do not match the information in the CGIT, because their investment flowed into China, as the next section will show.

[826] *Shandong Electric Power Corporation* (2016), 'International Engineering. Major Projects and Awards'. 25 January 2016 [http://www.sepco3.com/ability_article.aspx?BaseInfoId=55&CateId=147]; *Dongfang Electric Corporation* (2015), 'Project Solution' [http://www.dongfang.com.cn/index.php?s=/home/article/lists/category/63.html].

a $1.720 billion investment by SEPCO and gave the company a 70% share in the consortium.[827]

In another landmark deal in October 2014, Saudi Aramco accepted a $1.3 billion investment bid by SEPCO to contribute towards a gas pipeline construction for Saudi consumers in the country's western provinces. When completed, SEPCO will have built two booster gas compressor stations for the project, ensuring that Saudi Arabia's Master Gas System will provide 9.6 billion cubic feet of gas a day (cfd), up from 8.4 billion.[828]

Saudi Arabia and China are interested in taking Chinese investment into the Kingdom's energy business to the next level. In the wake of Crown Prince Muhammad bin Salman's Vision 2030, one of the latter's aspects is the flotation of a 5% stake of Saudi Aramco in 2018. What could become the world's largest ever initial public offering (IPO) is a novel, and for Saudi standards, relatively radical proposal in order to accelerate the country's urgently needed economic diversification. Among many potential contenders for this portfolio investment are two Chinese state-owned giants, both the China Investment Corporation (CIC) – the country's $814 billion strong sovereign wealth fund – and CNPC. As Bloomberg reports, 'Hong Kong is among markets including London, New York, Singapore and Tokyo that have been identified as possible venues for the sale of 5 percent of the company, which is valued between $400 billion and $2 trillion'.[829] For China, this could be a further way to help safeguard its long-term energy security, just as it is a way for Saudi Arabia to guarantee demand security from the world's future number one economy. This is why King Salman, on his recent state-visit to China in March 2017, and members of his delegation, among them Aramco CEO Amin Nasser, directly encouraged Chinese

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[827] SEPCO 2016; *Siemens* (2011), 'Siemens receives major order from Saudi Arabia
Siemens to supply power plant components at a total value of over USD1 billion'. 21 February 2011 [https://www.siemens.com/press/en/pressrelease/?press=/en/pressrelease/2011/fossil_power_generation/efp201102042.htm]

[828] *Reuters* (2014), 'Saudi Aramco gives pipeline contract to China's SEPCO'. 22 October 2014 [http://af.reuters.com/article/commoditiesNews/idAFL6N0SB48920141022]. According to SEPCO's website, it has not been finalized yet, so the construction is at least half a year behind the intended schedule when the contract was signed in October 2014. See: SEPCO 2016. A year later from then, in November 2015, SEPCO won another bid related to the same project, providing roughly $700 million for its construction of another gas compressor station – which will further enhance Saudi Aramco's Master Gas System to an estimated 12.5 billion cfd in the near future. See: *Reuters* (2015), 'China's SEPCO signs gas booster deal for Saudi Aramco'. 17 November 2015 [http://af.reuters.com/article/commoditiesNews/idAFL8N1372GQ20151117].

[829] *Bloomberg* (2017), 'China, Saudis to Discuss CIC, CNPC Investment in Aramco IPO'. 16 March 2017 [https://www.bloomberg.com/news/articles/2017-03-16/china-saudis-said-to-discuss-cic-cnpc-investment-in-aramco-ipo-j0bynknm].

state-owned giants to make bids for stakes.[830] Both CIC and CNPC have expressed interest, although no agreement has yet been made.

During the state visit, which several analysts believe to have had strong geo-political motivations, in light of a Saudi fear that the GCC, unlike Iran, might be side-lined in China's Maritime Silk Road strategy, several MoUs were also signed between Chinese and Saudi entities.[831] These are said to include pledges amounting to $65 billion, and involve firms like Saudi Aramco, Sinopec, SABIC, and China North Industries Group Corporation (Norinco).[832] Sinopec and SABIC even signed a 'strategic cooperation agreement' on the occasion.[833] If all these potentially big joint ventures were to materialize, and especially if, next year, Saudi Aramco's IPO actually sells stakes to the biggest Chinese investors, then the Saudi fears regarding the BRI's potential evasion of the Arabian Peninsula would seem much less reasonable. The fears are probably overstated already, due to China's very real energy reliance on Saudi Arabia, not least the entire GCC, as shown also in the previous chapter. This reliance has so far been clearly reflected in Chinese investments into Saudi Arabia's energy and (petro-) chemicals industry. Moreover, these two industries have by no means been the only targets of Chinese capital in Saudi Arabia.

7.2.1.2 Real Estate and Transport

China's infrastructure investment in Saudi real estate and transport took up a significant amount in the general figures between 2005 and 2015, according to data from the CGIT. The combined value of real estate construction was more than $5 billion and marked the second largest sector of Chinese investment in the Kingdom, after the energy sector. Transport, the fourth largest, after metals (see next section), absorbed a combined value of approximately $3 billion of Chinese capital. Some of

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[830] Guo, A. (2017), 'China's Sinopec Says Saudi Aramco Invited It to Be Investor'. *Reuters*. 27 March 2017 [https://www.bloomberg.com/news/articles/2017-03-27/china-s-sinopec-says-saudi-aramco-invited-it-to-become-investor].

[831] Niblock 2016; Fulton, J. (2017), 'Why is Saudi Arabia's king spending a month in Asia?'. In: *The Washington Post*, 6 March 2017 [https://www.washingtonpost.com/news/monkey-cage/wp/2017/03/06/why-is-saudi-arabias-king-spending-a-month-in-asia/?postshare=2341488816841587&tid=ss_tw&utm_term=.301fb6126718#comments].

[832] Blanchard, B. (2017), 'China, Saudi Arabia eye $65 billion in deals as king visits'. *Reuters*, 16 March 2017 [http://www.reuters.com/article/us-saudi-asia-china-idUSKBN16N0G9].

[833] *Sinopec* (2017), 'Sinopec and SABIC sign a strategic cooperation agreement'. 27 March 2017 [http://www.sinopecgroup.com/group/en/Sinopecnews/20170327/news_20170327_336026378175.shtml].

these EPC ventures have attracted much attention. Before outlining the most important, it is again necessary to repeat that the CGIT's data is incomplete and can only serve as a sometimes sketchy, but still highly informative and mostly representative orientation.

In the Saudi real estate sector, the most active Chinese company since 2005 has been the China National Machinery Industry Corporation (Sinoma), since it has often been hired for the construction of cement-production plants which are obviously a vital material for most real estate infrastructure. That same year, the firm signed two EPC contracts in the Kingdom. The first, in March 2005, involved a $170 million project with the Riyadh Cement Company to build a cement production line in Riyadh, which was completed in November 2007.[834] The second, in December 2005, involved a $580 million deal with the Saudi Cement Company for a construction of two further cement production lines, this time in Hofuf.[835] Sinoma announced that at the time this deal marked 'the largest engineering project contracted by Chinese suppliers' overseas.[836]

Another Chinese company with construction contracts for Saudi cement production is the Chinese National Building Material Company (CNBM). In November 2013, it signed a deal, also with SPCC, worth $190 million to build a new production line in Bisha's cement plant. The project was partly self-financed, partly external, from an

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[834] *Cemnet* (2007), 'Sinoma fulfills US$170m contract in Saudi Arabia'. 16 November 2007 [https://www.cemnet.com/News/story/137716/sinoma-fulfills-us-170m-contract-in-saudi-arabia.html].

[835] *Cemnet* (2005), 'China's Sinoma signs US$580m cement deal'. 19 December 2005 [https://www.cemnet.com/News/story/142972/china-s-sinoma-signs-us-580m-cement-deal.html].

[836] *Sinoma* (2010), 'Key Events' [http://www.sinoma.com.cn/en/gongsigaikuang/fazhanlicheng]. According to the CGIT, Sinoma signed its next contract in Saudi Arabia with the Yanbu Cement Company in August 2009, providing $400 million for the project. The information slightly differs in other sources, such as Global Investment House's report on Yanbu Cement. This places the agreement a year earlier, in July 2008, and values Sinoma's investment into the construction of a cement production facility at $442 million. See: *Global Investment House* (2009), 'Investment Update. Yanbu Cement Company'. 1 July 2009 [http://up.m-e-c.biz/up/Mohcine/Report/YNCCO_07072009.pdf]. Further deals followed in 2010: one cement production plant in Hail, said to have been worth $200 million, was signed in May 2010 and completed in 2013. See: *Global Cement* (2012), 'Saudi Arabian cement focus'. 17 December 2012 [http://www.globalcement.com/magazine/articles/740-saudi-arabian-cement-focus]. In June 2012, Sinoma also won a bid for the construction of a third production line for the Southern Province Cement Company's (SPCC) Tahama plant in Mecca. Valued at approximately $190 million, these costs were said to have been invested directly by SPCC in exchange for Sinoma's engineering, which was scheduled for completion two years later. See: *Technical Review Middle East* (2012), 'Sinoma wins US$188 million Mecca cement project'. 5 June 2012 [http://www.technicalreviewmiddleeast.com/construction/mining/sinoma-wins-us188-million-cement-project-in-saudi].

unnamed Saudi bank and planned for a construction duration by CNBM of less than two years.[837]

Outside cement production investment, a major Chinese real estate project in Saudi Arabia has been the Guangdong Overseas Construction Group's 2008 contract to contribute towards the infrastructure of the $3.4 billion-valued construction of King Khalid University (KKU) in the country's Asir Province. The Chinese company's investment value was reported to have been $700 million. It flowed into the construction of '16 new buildings and their annexes, consisting of engineering and science and administrative buildings'.[838]

A further Chinese real estate investment connected to Saudi Arabia's education sector was China Railway Construction Company's (CRCC) 2009 contract to build 200 primary and secondary schools for 140,000 pupils. With construction costs amounting to roughly $500 million, in relative terms the investment value and output is admittedly small. Yet, as Davidson points out, the project is worth mentioning due to the novelty of such foreign investments in Saudi Arabia. 'Although this will represent only a small fraction of the 3,500 schools that are now under construction in Saudi Arabia, mostly by Arab companies, this Chinese involvement nonetheless represents a significant departure for the Saudi authorities'.[839] The same can be said for an even more "sensitive" piece of infrastructure: in November 2014, CRCC also inked a contract which assigned the company to build the 'Security Headquarters of Saudi Arabia['s] Ministry of Internal Affairs'.[840] Valued at roughly $1.98 billion, the construction is scheduled to take '1440 calendar days'.[841] These ventures point towards the growing diversity and responsibility of CRCC's investments in Saudi Arabia, because, as its name would suggest, real estate does not mark the company's primary line of business.

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[837] Starling, R. (2013), 'SPCC signs contract for new clinker production line in Bisha'. *World Cement*, 11 November 2013 [https://www.worldcement.com/africa-middle-east/11112013/spcc_signs_contract_for_new_clinker_production_line_in_bisha_399/]. In 2015, the company also reached an agreement with Arabian Cement Company (ACC) to provide and mount two cement mills in ACC's Rabigh plant, at a cost of roughly $100 million, scheduled to fulfil its contract just over a year later. See: *Global Cement* (2015), 'Loesche supplies two vertical roller mills to Arabian Cement Company'. 13 November 2015 [http://www.globalcement.com/news/itemlist/tag/CNBM].

[838] Zendera, Y. (2014), '$3.4bn Saudi university project hits final stages'. *Constructweekonline.com*, 28 October 2014 [http://www.constructionweekonline.com/article-30895-34bn-saudi-university-project-hits-final-stages/]

[839] Davidson 2010: p. 59.

[840] *China Railway Construction Company* (2014), '2014 Annual Report' [http://english.crcc.cn/Portals/4/2015-4-16%202014%20Annual%20Report.pdf], pp. 17/78.

[841] Ibid.

In September 2015, it was announced that CRCC had completed one of its two Saudi prestige projects. It had built the Mashaer Railway in the Islamic holy city of Mecca, which not only expanded, upgraded and diversified the city's public transport – used by millions of annual Muslim Hajj pilgrims – but also connected it to the neighbouring cities of Arafat, Muzdalifa, and Mina. This involved the construction of an 18.5 km-long railway, nine stations and a major parking area.[842]

The contract had been signed in February 2009 and was valued at approximately $1.7 billion. Due to the construction's location in Mecca, a city from which non-Muslims are barred, CRCC hired Chinese Muslim workers alongside already present migrant workers in Saudi Arabia. However, the overall construction project and its labour dimension were everything but a smooth process. In fact, the project ran into some serious obstacles, encompassing 'Saudi bureaucracy, diplomatic considerations between China and its biggest supplier of oil, Saudi Arabia, and the cultural sensitivities of doing business in the holiest Muslim city in the world'.[843]

As the South China Morning Post reported, CRCC's 'operating cash flow collapsed by 99.35 per cent to 48.2 million yuan during the first three quarters, and it flagged that overall losses from the Mecca project could be as high as 4.15 billion yuan', a rough equivalent of $620 million.[844] This projection indeed turned out to be accurate, as also visible in the CGIT's dataset of 'troubled transactions' in Figure 26, which forced CRCC to be bailed out by its parent company, even though it had requested

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[842] Bhatia, N. (2015), 'Chinese contractor completes $1.7bn Saudi railway'. *Constructionweekonline.com*, 10 September 2015 [http://www.constructionweekonline.com/article-35354-chinese-contractor-completes-17bn-saudi-railway/].

[843] Shih, T.H. (2010), 'Mecca light rail construction woes leave China Railways over a Saudi barrel'. In: *South China Morning Post*, 13 November 2010 [http://www.scmp.com/article/730321/mecca-light-rail-construction-woes-leave-china-railways-over-saudi-barrel]. According to CRCC, several Saudi government decisions to demand an increase in the light rail's transportation capacity beyond initial specifications in the contract, to call for more stations than initially agreed, and to insist on foreign-sourced, expensive, non-Chinese designs contributed to a net loss of 1.46 billion yuan, a rough equivalent of $200 million, in the third quarter of 2010. See: Ibid. Conversely, an anonymous European banker in Hong Kong, speaking to Arabian Business, observed a lack of decent preparation on CRCC's side. Its market researchers had apparently failed to properly assess the conditions and requirements, and 'did not have knowledge of the contract details'. See: Roberts, B. (2011), 'Sino the times'. In: *Arabian Business*. 23 January 2011 [http://www.arabianbusiness.com/sino-times-375131.html?_url=%2Fsino-times-375131.html&page=2]. Furthermore though, there were disruptive delays in underground pipeline works, land expropriation, and relocation, due to bureaucratic obstacles. See: Shih 2010. Most dramatically, the project even experienced 'labour unrest' when CRCC allegedly pressured workers to speed up their work in the face of the Saudi demands. These had provoked a reaction from workers, who protested against the harsh working conditions under high temperatures, but low wages. An unnamed analyst told the South China Morning Post that 'managers at the Chinese company found it a challenge to manage non-Chinese workers due to linguistic and cultural differences as well as different work ethics'. See: Ibid.

[844] Ibid.

compensation from the Saudi government.[845] In the end, just as with the project's launch, the Chinese and Saudi government were determined to go through with it for bilateral diplomatic rather than purely business-driven reasons, a view shared by analysts from JP Morgan, Control Risks, and the Risk Resolution Group.[846] Thus, even though it marked a financial loss, the Mecca light rail's completion in September 2015 was branded as a successful project.

The same will likely be said about another major Saudi prestige project CRCC is involved in. The Haramain High Speed Rail construction (HHR) is seeking to connect the holy cities of Mecca and Medina via train. After approval and announcement in 2002 that Saudi Arabia's Public Investment Fund, a major SWF, would finance the project, the government finally awarded the first package of contracts in March 2009 to a consortium, named Al-Rajhi Alliance, composed of CRCC, and two Saudi firms, Al-Arrab Contracting Company (ACC), and Al-Suwailem Company (MASCO).[847] This consortium would undertake phase one of the construction plans, which 'involves all civil works related to the building of the railway, including preparation of the ground, construction of bridges, culverts and tunnels for the laying of the track'.[848] According to the CGIT, CRCC invested around $1.55 billion into the project, taking a 21% share in the consortium.[849] Once completed, the high-speed rail connection will link Mecca and Medina and will include stops also in Jeddah and King Abdullah Economic City (KAEC). The system will have 'a total daily capacity of 160,000 passengers and more than 50 million per year' and will also offer a 'special service [...] during the annual season of Hajj in order to accommodate more than 3 million pilgrims'.[850]

Yet, in 2014 it was reported that the construction had not only been delayed but would also require slightly higher costs than previously calculated. At the time, it was

[845] Ibid.
[846] Ibid.
[847] McElroy, C. (2014), 'Saudi's Haramain rail project delayed until 2016'. *Constructionweekonline.com*, 23 March 2014 [http://www.constructionweekonline.com/article-27225-saudis-haramain-rail-project-delayed-until-2016/]; *The Business Year* (2016), 'Railway to Heaven'. [https://www.thebusinessyear.com/saudi-arabia-2016/railway-to-heaven/focus].
[848] McElroy 2014.
[849] Further contracts, making up phase two of the project were awarded to a Saudi-Spanish consortium, called Al-Shoula, for the 'remaining infrastructure work on the line which includes construction of the track, signal[l]ing [sic.], power, electrification and telecommunications', as well as a joint venture between two British companies for the design and construction of train-stations on route. See: ibid.
[850] The Business Year 2016.

reported that merely 50% of the project had been completed.[851] After facing much pressure from the Saudi government, the HHR is now scheduled for official opening in March 2018.[852]

In any case, even though the Saudis hired European companies for design and some high-tech aspects, CRCC's participation has been considered an important development in terms of China's economic and indeed political standing on the Arabian Peninsula. Indeed, placed into the pan-Asian context of the railway-focused Silk Road Economic Belt, and even into the entire global arena, CRCC and China Railway Group have celebrated numerous prestigious breakthroughs and are considered serious, technologically sophisticated, and especially government-supported players, who successfully take advantage of government subsidies. To categorise CRCC's economic competitiveness and, as an SOE, political clout, the term 'railway diplomacy' has recently re-entered the vocabulary.[853] Nevertheless, it seems to have its limits – augmenting a gradual awakening in China that grand connectivity visions face many obstacles. CRCC's complications in Saudi Arabia are even negligible compared to many failed and loss-making projects all over the world, as a Financial Times investigation unearthed.[854]

Parallel to the "Belt", the other part of China's trans-Asian transport-investment push consists of the "Road" – meaning the New Maritime Silk Road. In that respect, Saudi Arabia has also received substantial Chinese capital inflow over the last decade. The Kingdom's shipping infrastructure has especially been an investment target by China Communications Construction Company (CCCC). Though the CGIT "merely" lists six transactions into 'shipping', besides two transactions into 'utilities' between 2005 and 2015, amounting to roughly $1.6 billion, the company's website mentions '37 construction contracts in Saudi Arabia since late 2007, with a total contract value of

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[851] McElroy 2014. Since CRCC was only involved in phase one, it seems it has at least fulfilled most of its obligations. The latest news updates on the project's delays solely concern Al-Shoula consortium.

[852] *Railway Gazette* (2017), 'Haramain High Speed Rail deal ratified'. 17 January 2017 [http://www.railwaygazette.com/news/single-view/view/haramain-high-speed-rail-deal-ratified.html].

[853] *Reuters* (2014), 'After building China's railways, giant CRCC flexes muscles abroad'. 9 December 2014 [https://www.reuters.com/article/china-railways/corrected-after-building-chinas-railways-giant-crcc-flexes-muscles-abroad-idUSL6N0TM31S20141209].

[854] Kynge, J., Peel, M., Bland, B. (2017), 'China's railway diplomacy hits the buffers'. In: *Financial Times*, 17 July 2017 [https://www.ft.com/content/9a4aab54-624d-11e7-8814-0ac7eb84e5f1?mhq5j=e5].

4,200 million US dollars'.[855] Its website goes on to identify the most representative projects as 'the dredging and reclamation project in Jazan Economic City, the Red Sea Gateway container terminal project in Jeddah, the flood prevention project in Jeddah, [and] the business port project in Jazan Economic City, etc'.[856]

CCCC's subsidiary, China Harbour Engineering Company (CHEC) has been responsible for these projects, strengthening its standing in Saudi Arabia's most important ports in the Red Sea, such as Jeddah, Jazan, and Yanbu.[857] The Red Sea Gate Terminal especially stresses its inter-continental centrality on one of the world economy's most vital trade routes, especially regarding trans-Eurasian maritime commerce.[858]

Given the number of CCCC's/CHEC's construction contracts in Saudi shipping, it necessarily exhausts the confined space of this manuscript. What is important to extract from these investment flows is their strategic value. Here, CCCC specifically links its investments to both China's BRI, as well as to Saudi Arabia's Vision 2030.[859] China's investment into Saudi Arabia's shipping and port infrastructure facilitates the expansion and diversification not only of Sino-Saudi trade routes, but also Sino-Middle Eastern and indeed Sino-European trade routes more generally, because business centres and port cities like Jeddah lie on Saudi Arabia's western coast – outside the geo-politically more sensitive Persian Gulf. Thus, Jeddah and its neighbouring Red Sea ports in Saudi Arabia offer unique geographical advantages among GCC countries. They are potential long-term alternatives – though not replacements – to the Arabian Peninsula's other intercontinental commercial hubs which are all in the Gulf, especially Dubai. These Red Sea locations are certainly Saudi Arabia's best bet in that respect and offer Vision 2030's regional hub ambitions a real opportunity, which is why CCCC's complementary rhetoric carries weight. In terms of China's Maritime Silk Road to Europe, the Red Sea and the Suez Canal are

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[855] *China Communications Construction Company* (2017), 'CCCC signs MOU with RCJY in presence of Chinese President Xi Jinping, Saudi Arabian King'. 16 March 2017 [http://en.ccccltd.cn/newscentre/companynews/201704/t20170414_52135.html]

[856] Ibid.

[857] For a collection of articles on CCCC's projects in Arabia, see: http://www.dredgingtoday.com/tag/arabia/.

[858] *Red Sea Gateway Terminal* (2017), 'About RSGT' [http://rsgt.com/corporate_information].

[859] CCCC 2017.

critical sea lanes through which 80% of their commerce flows and where ports like Jeddah offer critical transit infrastructure.[860]

In short, China's investments into Saudi real estate and transport, and in the latter sector, both land and sea, have not only been – mostly – lucrative business opportunities, but have often also carried a geo-strategic dimension. The last mentioned might be less the case with other sectors, like metals and agriculture. However, the growing diversity of Saudi sectors attracting Chinese investment certainly contributes to the deepening of the bilateral relationship. And this in itself has geo-strategic implications.

7.2.1.3 Metals and Agriculture

Apart from the major sector destinations of Chinese investment into Saudi Arabia – energy, chemicals, real estate and also transport – China has invested into a number of other sectors to varying degrees. Given Saudi Arabia's growing metals industry, this is the country's third biggest industry that has attracted Chinese capital. However, this is only due to the very high value of each Chinese investment, but not due to the number of contracts. In the decade between 2005 and 2015, China has merely invested twice into Saudi metals, yet on both occasions with a large sum. Both investments occurred in 2007. In April that year, China Nonferrous Metal Company and China National Machinery Industry Corporation (Sinomach) agreed to an EPC-contract offer by Saudi-based Western Way for Industrial Development Company. The construction involved 'an aluminum complex with capacity to produce 1.4MTPA of alumina and 660,000-700,000 tonnes of aluminum and power plant with generation capacity of 1,860MW', according to the Construction Intelligence

[860] Sellier, E. (2016), 'China's Mediterranean Odyssey'. In: *The Diplomat*, 19 April 2016 [http://thediplomat.com/2016/04/chinas-mediterranean-odyssey/]. Beyond "East-West" trade, European companies have also spotted the "South-South" trade facilitation opportunities. In terms of Saudi Arabia's and the Middle East's trade not only with China and South-East Asia, but also among Red Sea littorals, shipping services have been expanded. French container shipping major CMA CGM has launched a new service 'connecting Asia and the Red Sea'. See: *World Maritime News* (2016), 'CMA CGM Strengthens Asia-Red Sea Service'. 17 November 2016 [http://worldmaritimenews.com/archives/206765/cma-cgm-strengthens-asia-red-sea-service/]. The service links China, Singapore, Saudi Arabia, Jordan, Egypt, and Djibouti. The latter, as mentioned above, also hosts China's first overseas military base.

Center.[861] Valued at approximately $4 billion, it marked the so far single largest Chinese infrastructure deal inside the KSA. Construction was completed in 2015.[862]

In November 2007, the Aluminium Corporation of China (Chinalco) formed a joint venture with Malaysia Mining Corporation Berhad (MMC) and Saudi Binladin Group (SBG) in order to construct and operate an aluminium smelting facility in Jazan Economic City – a low tariff special business zone. Within the project's total cost of $3 billion, Chinalco's investment was valued at $1.2 billion and was China's first greenfield investment in Saudi Arabia at the time. The company acquired a 40% share – a leading position in the joint venture – with both MMC and SBG holding 20% respectively, and the remaining 20% allocated to other, unnamed entities.[863] The deal attracted much enthusiastic attention when it was signed, and construction seemed to have progressed to an extent in the following years. However, the joint venture ran into some unspecified problems in 2013, which resulted in MMC being ejected from the project.[864] Since no further Chinese investment has flowed into the large Saudi metals industry since 2007, the cancellation of the Jazan Aluminium Smelting Complex might be one of several possible deterring reasons for the lack of any new deals.

A Saudi sector in which Chinese construction business has been more successful is agriculture. Since the late 2000s, China's investment into Saudi agriculture saw a combined value of roughly $2.5 billion – forming the fifth largest Saudi industry in terms of Chinese ventures. In 2008, according to the CGIT, CNPC invested $560 million into a Saudi agricultural project in which the Saudi Arabian Mining Company Ma'aden seems to have been the business partner.[865]

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[861] *Construction Intelligence Center*, 'Project Details. WWIDC – Jazan Aluminum Complex – Jizan' [https://www.construction-ic.com/HomePage/Projects?ReturnUrl=%2FProjects%2FOverview%2F114838%3Futm_source%3Dworldconstructionnetwork%26utm_medium%3DReferral%26utm_campaign%3DWWIDC%2B%25E2%2580%2593%2BJazan%2BAluminum%2BComplex%2B%25E2%2580%2593%2BJizan&utm_source=worldconstructionnetwork&utm_medium=Referral&utm_campaign=WWIDC%20%E2%80%93%20Jazan%20Aluminum%20Complex%20%E2%80%93%20Jizan].

[862] Ibid.

[863] Chen, J. (2008), 'More Ore'. In: *The Nation*, 11 February 2008 [http://www.pressreader.com/thailand/the-nation/20080211/282282430989108].

[864] *Constructionweekonline.com* (2013), 'MMC, SBG removed from Jazan Economic City project'. 9 April 2013 [http://www.constructionweekonline.com/article-21799-mmc-sbg-removed-from-jazan-economic-city-project/]. Since then, according to the Construction Intelligence Center, it seems as if the project has stalled, a development which has not, but should have been recorded in the CGIT's 'Troubled Transactions' dataset. See: Construction Intelligence Center, 'Jazan'.

[865] This information could not be verified though. The only currently traceable connection between CNPC and Ma'aden involves a 2014 deal between the two companies, which conversely is not listed in

In November 2012, a Chinese multinational giant, Shanghai Electric, entered a consortium together with South Korea's Samsung Engineering and Saudi Arabia's Al Toukhi Company, which won a $3 billion bid for the construction of a water desalination plant. Awarded by Saudi Arabia's state-owned Saline Water Conversion Corporation (SWCC), the consortium signed a deal to build a plant in Yanbu.[866] Saudi Arabia has a high demand for water desalination, so this Chinese investment could easily point towards further such deals in the future.[867] The CGIT attributes Shanghai Electric's project investment value to $990 million and its share in the consortium to 33%.

Such ventures point towards the growing diversity regarding China's investment in Saudi Arabia. In order to ease flexibility and capability of its own businesses in Saudi Arabia, there will be an increasing demand also for Chinese financial services in the Kingdom. Indeed, the first signs of this are already appearing.

7.2.1.4 Finance

In June 2015, the Industrial and Commercial Bank of China (ICBC), the world's largest bank by assets, set up shop in Riyadh. It is the first Chinese bank to establish a retail presence inside the Kingdom.[868]

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the CGIT. In this deal, CNPC's subsidiary, China Huanqiu Contracting & Engineering Corporation's Saudi Branch (HQCEC) 'signed an EPC contract on Maaden's phosphate ore dressing project'. See: *China National Petroleum Corporation* (2014), '2014 Annual Report. Major Events' [http://www.cnpc.com.cn//en/MajorEvents2011f/Major_Events-1.shtml]. HQCEC's Annual Report from 2014 values the agreement at $600 million but does not specify HQCEC's own contribution. The report describes the project as 'the largest of its kind in the world, with an estimated capacity to handle up to 13.5 million tons of phosphate ore per year after its completion'. See: Ibid. Given the additional lack of information on the project it is perhaps not surprising that it does not feature in the CGIT. Sinopec's other two investments into Saudi agriculture, one in July 2011 worth $200 million, the other in April 2015 worth $450 million, are listed in the CGIT, but are equally impossible to trace back. The most likely reason for this is that they were connected to Sinopec's above-outlined EPC ventures in the Saudi petrochemical industry. Petrochemical compounds such as ethylene, produced also in Jubail, Yanbu, and Rabigh, are also used in agricultural applications, in which they function as plant growth regulators. See: Arshad, M., Frankenberger Jr., W.T. (2012), *Ethylene: Agricultural Sources and Applications*. Berlin: Springer, p. 8. Some of Sinopec's additional capital inflows are thus likely to have been classified separately from their petrochemical infrastructure contracts.

866 *Reuters* (2012), 'Samsung, Shanghai Electric win $3 billion Saudi water plant deal'. 26 November 2012 [http://www.reuters.com/article/us-saudi-water-power/samsung-shanghai-electric-win-3-billion-saudi-water-plant-deal-idUSBRE8AP0L620121126].

867 Ibid.

868 In the region, ICBC already has a presence in Dubai, Abu Dhabi, Doha, and Kuwait City, making this its fifth overall branch in the Middle East. See: *Reuters* (2014), 'China's ICBC opens first branch in Saudi Arabia'. 4 June 2014 [http://www.reuters.com/article/icbc-saudi-banking/chinas-icbc-opens-first-branch-in-saudi-arabia-idUSL3N0YQ1UR20150604].

The move seems to have come at the right time in terms of conditions in both China as well as Saudi Arabia. Firstly, in light of lower Chinese GDP growth and higher domestic credit risks and the country's incentivization of its state-owned and private companies to boost their global investment, increasingly important economic partners like Saudi Arabia are an obvious target for entities like ICBC. 'While gaining a global footprint, ICBC remains committed to serving Chinese companies to "go global" by closely following China's agenda in trades and investments with countries around the world', the bank's website explains, tagging this strategy also verbally to the BRI's infrastructure investment.[869] Secondly, in light of both Saudi Arabia's Vision 2030 and its desired opening for more inward FDI, as well as the simultaneous constraints on Saudi rentier state expenditure in times of low oil prices, highly liquid lenders like Chinese banks should become increasingly welcome origins of investment in Saudi Arabia. As a joint research briefing by three consultancies calculates, Vision 2030 'aims to increase [Saudi] inward FDI's contribution to GDP from 3.8% to 5.7% and this would require an inward FDI average growth of 21% per year (in nominal terms), resulting in cumulative inward FDI of up to $1 trillion over the next fifteen years'.[870] The World Bank's July 2016 Economic Brief reported that Saudi Arabia's reserves were in danger of being 'wiped out' within half a decade and that therefore bond issues would have to increase significantly.[871]

Consequently, by August 2016, the markets had already experienced many noteworthy reactions. For instance, Bloomberg reported that ICBC provided a $600 million two-year loan to Mobile Telecommunications Company Saudi Arabia, a unit of Kuwait's Zain, with the option of a one-year-extension. ICBC replaced Zain's previous loan from two regional banks, thereby enabling a cost-cutting measure of 175 million riyals, an equivalent of roughly $47 million according to the exchange rate

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[869] *Industrial and Commercial Bank of China* (2013), 'ICBC Escalates Services for Customers around the World'. 21 February 2013 [http://www.icbc-us.com/icbcltd/about%20us/news/ICBC%20Escalates%20Services%20for%20Customers%20around%20the%20World.htm]; *Industrial and Commercial Bank of China* (2016), 'Industrial and Commercial Bank of China Limited Announces 2016 Interim Results'. 30 August 2016 [http://www.icbc-us.com/ICBCLtd/About%20Us/News/IndustrialandCommercialBankofChinaLimitedAnnounces2016InterimResults.htm].
[870] The report has been removed since the author accessed it. However, Group Africa Newsroom has summarized some of the reports key contents, including this quote. See: *Group Africa Newsroom* (2017), 'Informed analysis will be vital to seizing the opportunities presented by Saudi Vision 2030' [https://www.africa-newsroom.com/press/informed-analysis-will-be-vital-to-seizing-the-opportunities-presented-by-saudi-vision-2030?lang=en].
[871] *World Bank* (2017), 'How is Saudi Arabia Reacting to Low Oil Prices?' [http://www.worldbank.org/en/country/gcc/publication/economic-brief-july-saudi-arabia-2016].

at the time of writing. The article also mentions a previous $1.5 million ICBC loan to Saudi Electricity Company, alongside a $950 million loan to the Saudi government. With the latter, ICBC thus contributed almost a tenth to Saudi Arabia's $10 billion bond issue in May 2016.[872]

Such ICBC loans seem destined to increase in Saudi Arabia and this will hand the bank a highly influential position there. Concerning its value, ICBC has already been labelled the 'biggest Chinese player in the region'.[873] Moreover, at least in case Saudi Arabia delivers on its promises to cut red tape on FDI and improve its regulatory environment to a more business-friendly one to foreign firms, it can be expected that more foreign, and thus especially Chinese banks will open Saudi branches.[874]

In terms of portfolio investment, it is impossible to acquire an accurate picture of the situation in Chinese capital flows to Saudi Arabia, as this kind of information is rarely publicized when it comes from small businesses and individual stock and bond traders. It is hardly easier to obtain detailed information on SWF investments, which mostly remain classified. The CIC's possible bid for a share in Saudi Aramco's portfolio, mentioned already above, is a noteworthy exception, due to the publicity of Aramco's planned IPO. In any case, it can be expected that FPI and FDI flows from China to Saudi Arabia will increase. This is also the case in terms of Saudi Arabian investment into China.

7.2.2 Saudi Investment into China

As revealed above, Saudi investment into China is less well documented. Based on open-source information, despite a noteworthy growth in attention, investment activity, and value, Saudi capital flows do not seem to have met either the extent or sector diversity of Chinese capital flows into the Kingdom. Reasons for this, range from the lack of diversification of Saudi Arabia's domestic economy – which results in a general, global imbalance of Saudi inward and outward FDI – to China's inward

[872] Sharif, A. (2016), 'China's ICBC Boosts Saudi Loans With $600 Million Zain Facility'. *Bloomberg*, 16 August 2016 [https://www.bloomberg.com/news/articles/2016-08-16/zain-saudi-switches-regional-riyal-loan-for-icbc-dollar-facility].
[873] *Reuters* (2015), 'China's ICBC opens first branch in Saudi Arabia'. 4 June 2015 [http://www.reuters.com/article/icbc-saudi-banking-idUSL3N0YQ1UR20150604].
[874] Other Gulf states like the UAE, have already welcomed further Chinese financial services, as the next chapter shows.

FDI regulatory barriers. Finally, as also stated before, information on FPI, including SWF activity, is mostly classified.

Saudi Arabia Outwards' Investment between January 2003 and May 2015					
Rank	Hosting Countries	Companies	Projects	Jobs Created	Cost (Million $)
1	China	9	24	8,149	8,024.1
2	Turkey	11	21	7,556	4,889.1
3	UAE	55	61	14,491	4,293.2
4	Jordan	9	16	3,103	2,602.9
5	South Korea	4	7	2,786	2,200.9
6	Egypt	19	41	12,205	2,180.1
7	Lebanon	8	9	4,434	1,835.9
8	South Africa	4	5	385	1,766.8
9	Pakistan	5	8	2,715	1,565.5
10	United States	8	16	4,009	1,322.7

FIGURE 28: *Source*: Dhaman Investment Attractiveness Index 2015, p. 133.

Comparing Dhaman's Figure 27 and Figure 28 points towards an interesting fact. Whereas China, according to Dhaman's data, "merely" came fifth in Saudi inward greenfield investment origins between 2003 and 2015, it came first in Saudi outward greenfield investment destinations.[875] Nine Saudi companies over that period invested a total amount of roughly $8 billion across 24 projects and created over 8,000 jobs in the process. Of all publicly known Saudi outward investments, this translates into 19.4% flowing into China.

Two observations can be deducted from these figures. Firstly, Saudi Arabia's $8 billion greenfield investment value is surprisingly close to China's $10 billion greenfield investment value into Saudi Arabia. Yet, as the previous section has shown, China also invested more than an additional $20 billion into Saudi Arabia outside the greenfield category, in EPC project contracting. Hence, taken together, China's dominance in investment outflow into Saudi Arabia is much more evident.

Secondly, in absolute terms, the large sum that Saudi Arabia has invested into greenfield projects in China is simply the result of sheer market size there. However, given that both China and Saudi Arabia have tough regulatory barriers to free FDI,

[875] *Dhaman* (2015), 'Investment Climate in Arab Countries. Dhaman Index Attractiveness Index 2015' [http://dhaman.net/en/news/dhaman-publishes-investment-climate-report-2015/],

albeit Saudi Arabia at least until recently more than China, both countries' investment inflow prospects almost offset each other. Whereas China's greenfield investment into Saudi Arabia accounted for a 6.8% share of all Saudi inward greenfield investment, the US's for example accounted for 25.1%. In other words, there is a much bigger market in Saudi Arabia that China has not tapped into, whereas Saudi Arabia in its outward greenfield investment clearly prioritizes China – reflected by the 19.4%. Contrarywise, as Figure 28 also shows, the US is only the tenth largest destination of Saudi outward investment. The most important reason for the US's meagre 3.2% share of Saudi outward investment is the relatively sensitive political climate in America towards Middle Eastern and Saudi investment in the post-9/11 security environment, as briefly addressed in the next chapter.

Generally, how are these relative investment imbalances to be explained and interpreted? Do they entail a greater Saudi dependence on China than the other way around? Or does a Chinese competitive disadvantage cause a Saudi preference for other foreign investment sources? These questions will be partly addressed in this section, and partly at the end of this chapter once the picture has been completed.

7.2.2.1 Energy and (Petro-)Chemicals

As a result of China's hugely growing oil imports, especially from the Gulf, these petro-states' accumulated another wave of skyrocketing wealth, in particular from the early 2000s onwards. Historically, these petro-dollars were primarily invested and "recycled" in the long oil-import dependent United States. Since global oil-import demand has shifted increasingly to the East, so have the oil rents been increasingly invested there too. Saudi Arabia is no exception to this.[876]

The first signs for this development appeared in the late 1990s, when China had just become a net oil importer and signed an agreement with Saudi Arabia for a 50-year supply contract of ten million tonnes per annum. In 1998, Saudi Aramco, simultaneously, set up a subsidiary office for sales and marketing in Beijing. A year later, on a state visit to Saudi Arabia, acting Chinese President Jiang Zemin signed an

[876] Simpfendorfer 2011: pp. 29-35.

MoU which 'inaugurated a strategic oil partnership' in which both countries opened their downstream markets for bi-directional investment.[877]

The first joint venture of as Saudi company inside China took place in 2001, when Saudi Aramco and America's Exxon Mobil signed an agreement with Fujian Petrochemical Company to jointly conduct a study to upgrade the Quanzhou refinery in Fujian Province to 240,000 bpd. This was based on a joint feasibility study (JFS) which further incorporated the development of a new ethylene production facility, which was approved in 2002 by the State Council of China. This also coincided with China granting Saudi Aramco the rights to open and run up to 700 petrol stations in Fujian Province.[878]

These successful investments were implemented and further expanded a few years later. In 2004, Saudi Aramco, Exxon Mobil, and Sinopec finalized another round of negotiations – splitting the shares in their Fujian joint venture, the Fujian Refining and Petrochemical Company (FREP), among each other, with Saudi Aramco and Exxon Mobil both taking 25% respectively, and Sinopec holding the remaining 50%.[879] The Fujian refinery's upgrade was completed in 2009, going into operation the same year and 'thereby increasing the province's annual refining capacity from four million to twelve million tonnes'.[880]

One of the other proposed joint ventures discussed by the parties in 2007 concerned the development of another refinery in Qingdao in China's Shandong Province. Sinopec and Saudi Aramco would co-invest into the rapid construction process so that more crude oil from Saudi Arabia could be delivered as soon as possible. Saudi Aramco again was granted a 25% stake in the joint venture.[881] However, negotiations dragged on for years, so by 2009 a detailed agreement had not been reached yet.

[877] Al-Tamimi 2014: pp. 149-150;
[878] Al-Tamimi 2014: p. 150; Ghafour, M. (2009), 'China's Policy in the Persian Gulf'. In: *Middle East Policy*, 16:2, pp. 82-93.
[879] Al-Tamimi 2014: p. 151; Davidson 2010: p. 50. This was again followed by several further project deals announced in 2007. In order to meet China's by then fast growing crude oil imports from the Kingdom, the implementation process of the three companies' previous agreement to 'expand capacity of the Quanzhou refinery in Fujian province from 80,000 barrels per day to 240,000 barrels per day' was started. See: Simpfendorfer 2011: p. 35. Concurrently, hosted by the Fujian provincial government, they held the inauguration ceremony for China's first comprehensive refining, petrochemicals, and fuel marketing operation that had received FDI. Furthermore, the entities celebrated a newly approved contract for two further joint ventures, valued at $5 billion, between them. See: Al-Tamimi 2014: p. 151.
[880] Davidson 2010: p. 50.
[881] *Reuters* (2007), 'Sinopec eyes second refinery deal with Saudi Aramco'. 7 March 2007 [http://uk.reuters.com/article/china-oil-refinery-idUKPEK21329320070307].

Though Sinopec started construction on its own, Saudi Aramco hesitated. Several explanations have been found for the delay. On the one hand, as Aramco's CEO Khalid al-Falih reasoned, his company wanted to first patiently observe the operational performance of the Fujian refinery and 'see if it [was] profitable [...] before [Aramco] would move further to new investments'.[882] Another important consideration was also the 2009 financial crisis fallout, which had forced OPEC to cut production in the face of shrinking demand.[883] Yet, for the time before, it was also said that one of the obstacles revolved around Chinese policies. 'The talks, which began well before the start-up of the Qingdao plant in May 2008, have not resulted in any solid progress, partly because of Saudi Aramco's concerns over China's fuel price controls' at the time.[884] In any case, the refinery had not been expanded via Saudi participation at the time of writing – a decade long delay since the idea was first discussed. The most important reason for this was an overcapacity of oil-refinery products, some of which, such a diesel, even had to be exported by China in recent years due to privately-owned "teapot" refineries flooding the market.[885]

On the other hand, Saudi Arabia requires a huge amount of oil in order to transition towards a more diversified domestic economy. Despite the recent slowdown in oil revenues and refining markets, it sees plenty of opportunity in China and Asia as a whole, at least according to Khalid al-Falih: 'From a demographics and economic standpoint, Asia [is] still below its requirement from refined product supply'.[886]

Despite the company's caution after its first joint venture in Fujian, this clearly did not signify a lack of ambition and long-term planning regarding the Chinese market. In March 2011, Saudi Aramco and PetroChina, a subsidiary of CNPC, inked a deal to jointly develop a further refinery, in China's Yunnan Province.[887] Once completed the

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[882] *Saudi Gazette* (2015), 'Saudi Aramco sees strong potential in China market'. 10 October 2015 [http://64.65.60.109/index.cfm?method=home.regcon&contentid=2009111454443].
[883] Ibid.
[884] *Reuters* (2009), 'Aramco, Sinopec in talks on Qingdao plant investment'. 10 November 2009 [http://uk.reuters.com/article/china-saudi-crude-idUKPEK28208220091110].
[885] *Reuters* (2014), 'PetroChina delays operation of refineries on overcapacity'. 23 January 2014 [http://www.reuters.com/article/china-oil-delay/petrochina-delays-operation-of-refineries-on-overcapacity-idUSL3N0KX1IN20140123]; Raval, A. (2017), 'China strives to reduce capacity of 'teapot' oil refineries'. In: *Financial Times*, 8 September 2017 [https://www.ft.com/content/2b6d92cc-946c-11e7-bdfa-eda243196c2c?mhq5j=e5]. It seems Saudi Aramco's early cautiousness made good sense.
[886] Tani, S. (2016), 'Saudi energy boss says his country has big plans for Asia'. In: *Nikkei Asian Review*. 8 September 2016 [https://asia.nikkei.com/magazine/20160908-THE-FINTECH-EFFECT/Politics-Economy/Saudi-energy-boss-says-his-country-has-big-plans-for-Asia?page=1].
[887] Al-Tamimi 2014: p. 154. Though this plan, just as the Qingdao refinery, was then delayed several times, it was finally set to begin construction in October 2016 following China's re-booted surge in oil

refinery will process 260,000 bpd. It was reported that Saudi Aramco planned to invest between $1 billion and $1.5 billion into the start-up.[888]

There are many examples of Chinese efforts to spread oil-import-relevant risks geographically and through infrastructure investment, some of which are actively supported by Saudi Arabia. Accordingly, a further development in Saudi investment prospects in China's energy industry had also come about during former Saudi King Abdullah's celebrated state visit to China in 2006. One agreement reached during the state visit was a Saudi initiative to support China's construction of an oil storage depot for strategic reserves on Hainan Island in the South China Sea. The facility, once completed, would hold the capacity of storing 100 million tonnes of crude oil.[889] However, the construction stage and Saudi Arabia's investment share in it has seemingly remained classified. In any case, China did not appear to be too rushed with the depot's rapid expansion, presumably in the fear of sparking oil price fluctuations. Both countries are in a position to react flexibly in this regard.[890]

Saudi Arabia is seeking to maximize energy opportunities in China, exemplified by these deals as well as future plans. Since the breakthrough of the Yunnan refinery deal and the slight rise in China's oil imports from Saudi Arabia in 2016 after the three-year oil-price related value decline, the two governments and their major

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imports that year. The delays were also explained by China's recent refining overcapacity, as well as 'tightening environmental regulations [which] forced PetroChina to resubmit approvals for changes to plant configurations'. See: *Reuters* (2016), 'PetroChina to start new refinery in Oct, boost China crude imports'. 24 June 2016 [http://uk.reuters.com/article/petrochina-refinery-idUKL4N19F31A].

[888] Ibid.; Interestingly, China intends to link the refinery to a new oil pipeline that will run through Burma. The pipeline connects China's refining industry to the Bay of Bengal and is therefore a strategically vital infrastructure investment that allows China to import more of its Gulf oil circumventing the Straits of Malacca. Its construction by CNPC though also experienced a long delay due to Burma's new government reviewing the deal. See: Ibid.; hence, China's oil import dependence, already seen in Beijing as being exposed to geo-political maritime risks, was faced with more political risks on land, in a neighbouring country. Only in April 2017 did the two governments finally reach an agreement on opening the oil pipeline which incidentally runs along an already active natural gas pipeline. 'Once fully operational, the pipeline from Made island in Rakhine state can supply almost 6 per cent of China's crude oil imports'. See: Hornby, L. (2017), 'China and Myanmar open long-delayed oil pipeline'. In: *Financial Times*, 11 April 2017 [https://www.ft.com/content/21d5f650-1e6a-11e7-a454-ab04428977f9]. In absolute terms, this is certainly a major achievement. In relative terms of course, this is still no escape from a continued Malacca dependence, at least in absence of the potential future Kra Canal through Thailand, a mega-project that China's Maritime Silk Road builders are enthusiastically promoting in Bangkok. See: Murdoch, L. (2017), 'Thailand's Kra canal plan would link Indian, Pacific oceans, benefiting China'. In: *The Sydney Morning Herald*, 8 August 2017 [http://www.smh.com.au/world/thailands-kra-canal-plan-would-link-indian-pacific-oceans-benefiting-china-20170808-gxrgz1.html].

[889] Al-Tamimi 2014: p. 151.

[890] Kemp points out several options for Saudi Aramco's strategy: 'Saudi Arabia can choose either to sell China oil for its storage facilities or to fill the reserve with Saudi oil that still belongs to Saudi Arabia. The second approach would give Saudi Arabia more flexibility and a large storage facility in the second largest oil market in the world'. See: Kemp 2012: p. 82.

companies signed a further amount of deals, allegedly worth a staggering $65 billion, during Saudi King Salman's state visit to Beijing in March 2017.[891] Saudi Aramco is sensing a new opening of opportunities in China and can now benefit from its already established platform in the country. For that matter, in 2012, at the value peak of China's oil imports from Saudi Arabia so far, the firm had upgraded its permanent presence in China by opening "Aramco Asia" in Beijing.[892]

Moreover, Aramco has not been the only Saudi hydrocarbon firm with a presence in China. The Kingdom's second biggest investor in China's wider energy and petrochemicals industries is SABIC. Already in 1985, it opened a supply branch in then British Hong Kong, long before mainland China's energy mix necessitated huge oil imports from the Gulf and long before China's industrial revolution had reached the stage in which massive oil supplies required processing. Nevertheless, a year later another subsidiary was opened in Shenzhen. In 1996, SABIC set up an Asia Office in Shanghai. Since then, it has opened more than a dozen additional offices in the mainland, following several high-valued projects.[893]

In July 2009, SABIC was awarded a contract by the Chinese government to invest into a $3 billion-valued petrochemical complex in Tianjin. The plant opened production a year later, with SABIC and Sinopec running it in a 50-50 joint venture. The plant's output is said to be over 3 million annual tonnes of petrochemical products, such as various types of plastic.[894] SABIC further expressed interest to

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[891] Blanchard, B. (2017), 'China, Saudi Arabia eye $65 billion in deals as king visits'. *Reuters*, 16 March 2017 [http://www.reuters.com/article/us-saudi-asia-china-idUSKBN16N0G9]. The major agreements include Saudi Aramco's and China North Industries Group's (Norinco) plan for a refinery and petrochemical plant in Liaoning Province to produce an additional 15 million tonnes of ethylene and other chemical products. See: Guo, A. (2017), 'Saudi Aramco Tightens Grip in Top Oil Market With China Refinery'. *Bloomberg*, 17 May 2017 [https://www.bloomberg.com/news/articles/2017-05-17/saudi-aramco-tightens-grip-in-top-oil-market-with-china-refinery].

[892] Al-Tamimi 2014: p. 147.

[893] Ibid.: p. 154.

[894] Ibid.: pp. 154-155. In April 2012, SABIC and Sinopec signed another joint venture to expand their already existing petrochemicals facility with an additional polycarbonate plant, at a cost of $1.7 billion. The exact stakes in this joint venture were seemingly not disclosed. Once fully operational, it will produce 260,000 annual tonnes of plastics. Finally, in March 2017 during King Salman's China visit, SABIC and Sinopec signed another MoU which, according to Yousef Al-Benyan, SABIC's Vice Chairman and CEO, would study 'the establishment of a coal-to-chemicals petrochemical complex with China's Shenhua Ningxia Coal Industry Group'. See: *Saudi Arabia Basic Industries Corporation* (2017), 'SABIC and Sinopec support Saudi Vision 2030 and China's One Belt One Road Initiative By Signing a Strategic Cooperation Agreement'. 16 March 2017 [https://www.sabic.com/en/news/6098-sabic-and-sinopec-support-saudi-vision-2030-and-china-s-one-belt-one-road-initiative-by-signing-a-strategic-cooperation-agreement].

expand its investment into China, eyeing in particular the transport sector, including automobiles and aircraft, and the construction sectors.[895]

Fitting such future ambitions, it is not surprising that SABIC has started to create its first research and development (R&D) centre in China.[896] The plan involves a facility to employ 400 researchers and engineers and was launched in December 2013, at an estimated cost of $100 million. Once completed, it will not only be one of 17 SABIC R&D-facilities around the world but will also pose as the company's new China headquarters, located in Shanghai's Pudong area. 'The center will focus on developing material applications for consumer electronic products, construction, clean energy and medical equipment as well as transport'.[897]

SABIC's aggressive moves into China's petrochemicals market reflects its long-term business interests as well as Riyadh's general strategic rationale, for which the company also initiated the 'China Plan' that spawned these investments. It 'aims to facilitate mutual investments between the two countries by supporting China's economic development and, as its premier supplier of petrochemicals, helping to satisfy its ever-increasing demand'.[898]

The need for Saudi investment into China's downstream industry not only had lucrative financial incentives. The investments can be understood as quite strategic in nature, since Chinese refineries required the technological capacity to process Gulf sour crude oil rather than African sweet crude, the former containing higher levels of sulphur.[899] Consequently, over the years of Saudi investment into China, companies like Aramco and SABIC have upgraded and shaped China's energy infrastructure in order for its refineries to process Gulf sour crude. This had the strategic rationale of seeking to maximize and lock in China's longer-term dependence on Gulf oil.

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[895] Ibid.
[896] Al-Tamimi 2014: p. 155.
[897] *Shanghai Daily* (2013), 'SABIC's R&D hub'. December 2013 [http://www.shanghaidaily.com/business/SABICs-RD-hub/shdaily.shtml].
[898] Davidson 2010: p. 50.
[899] Simpfendorfer 2011: p. 35.

7.2.2.2 Other Sectors

In order to also reinforce the long-term bilateral cooperation and economic profits, Saudi Arabia has sought to go beyond energy and petrochemical investments. However, given the lack of economic diversification at home, there are limits at least on outward FDI diversity in the short-to-mid-term future. Furthermore, China's regulatory framework is not the easiest either to navigate and, in some sectors, more established Chinese or foreign competitors, including those from other Gulf countries such as the UAE, are ahead of Saudi Arabia. Only very limited details can be indicated.

In 1993, Al-Zamil Steel Building Company was awarded a contract to build an air-conditioning plant in Shenzhen's free economic zone, allegedly investing $2 million into the construction.[900] Yet, since then, Saudi construction companies seem to have struggled to gain a foothold in China. This is despite discussions taking place in high diplomatic circles during state visits, during which has been suggested that Saudi companies should assist in China's general infrastructure development.[901] Nevertheless, most EPC-contracts and Saudi infrastructure FDI into China took place in the energy and petrochemicals sector. On the other hand, it is clear that more private investments from Saudi Arabia into China are occurring than meets the outsider's eye. A few examples have made it into the press.

For instance, the major Saudi textile manufacturer Ajlan Brothers and Company seems to run a number of production subsidiaries in China.[902] Al-Sudairi mentions the firm has invested approximately $632 million into at least 20 Chinese textile factories since the year 2000. 'These factories, which are overseen by the main headquarters in Shanghai, are dispersed within a number of Chinese provinces such as Jiangsu, Shandong, Xinjiang, and others, employing altogether some 15,000 workers'.[903]

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[900] Bin Huwaidin, M. (2002), *China's Relations with Arabia and the Gulf 1949-1999*. Oxon: Routledge, p. 234; Simpfendorfer 2011: p. 36.
[901] Alterman, Garver 2008: p. 33.
[902] *Arabian Business* (2017), 'Saudi Rich List. Ajlan & Bros. Group' [http://www.arabianbusiness.com/saudi-rich-list-2009/list?itemid=151035].
[903] Al-Sudairi, M. (2012), 'Sino-Saudi Relations: An Economic History'. *Gulf Research Center*, August 2012 [https://www.files.ethz.ch/isn/156677/Final_Completed_Sino_Saudi_Economic_History_Report_3778.pdf], p. 26. Expansion plans of Ajlan Brothers and Company's factories were announced in September 2016, adding also to a business portfolio composed of 'four wholly-owned companies operating in the fields of cotton products, clothes, Arabian-style scarfs, as well as gift, and wood boxes'.

Another example occurred in 2013, when Saudi Binladin Group opened a $15 million marble factory in China.[904] Also, ACWA Power International, another Saudi global player, has a regional office in Beijing. Though it has not undertaken any projects inside China, it had formed joint ventures with Chinese firms in other countries.[905]

China's financial and wider services sector has seen slightly more Saudi activity, although, as stated above, portfolio capital flows are difficult and often impossible to trace. The prominent royal Saudi businessman and philanthropist Prince Alwaleed bin Talal has been an active investor on the Chinese stock markets, bringing together a group of Gulf investors to bid in the Bank of China IPO in 2006. Al-Aziziyah Investment Company was finally granted a share amounting to $390 million.[906]

Finally, SAGIA, which has invested directly into setting up a branch in Hong Kong, is likely to have been an active portfolio-and-direct-investor in Chinese companies.[907] Other Saudi financial services are likely to follow suit, especially since Hong Kong and Ningxia Province have expressed interest in introducing Islamic Finance to China.[908]

Such joint Sino-Saudi and multilateral pan-Asian investment plans could also go hand in hand with China's BRI. Accordingly, Saudi Arabia is a founding member of the AIIB, contributing roughly $2.5 billion to its 2015 start-up portfolio, an

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See: *Argaam* (2016), 'Ajlan & Bros inks deal to expand affiliate's plants in China'. 4 September 2016 [http://www.argaam.com/en/article/articledetail/id/443210]. The company is also said to have numerous real estate investments on the Chinese market. See: *Thomson Reuters ZAWYA* (2016), 'Ajlan Bin Abdulaziz Al Ajlan and Brothers'. 15 December 2016 [https://www.zawya.com/mena/en/company/Ajlan_Bin_Abdulaziz_Al_Ajlan_and_Brothers-1003189/].

904 Chartered Institute of Building (2013), 'Saudi Binladin Group opens marble factory in China'. In: *Global Construction Review*, 25 September 2013 [http://www.globalconstructionreview.com/news/saudi-binladin-group-opens-marble-factory-china/].

905 *Bloomberg* (2017), 'Company Overview of ACWA Power International'. 18 October 2017 [https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=51941637].

906 Additionally, bin Talal's chaired Kingdom Holdings Company 'also has a presence in China through Citibank which in turn controls sizable stakes – 20 percent and 3.76 percent, respectively – in Guandong and Pudong Banks'. See: Al-Sudairi 2012b: p. 27. Beyond financial services, he has invested millions into diverse Chinese sectors ranging from hospitality to e-commerce, having acquired a 2.5% stake in Jindong, a major Chinese online retailer. See also: Zhang, M. (2014), 'Gulf Investment in China: Beyond the Petroleum Sector'. *Middle East Institute*, 3 October 2014 [http://www.mei.edu/content/map/gulf-investment-china-beyond-petroleum-sector].

907 Simpfendorfer 2011: p. 35.

908 Al-Sudairi 2012b: p. 27; Ho 2013: pp. 209-224. An 'Islamic Corridor' on the financial Silk Roads from the Middle East to China is likely to include enthusiastic and highly liquid Saudi investors. See: Simpfendorfer 2011: p. 66.

equivalent of about 2.7% ownership in the entity.[909] One strategically important BRI-project that Saudi Arabia seems enthusiastic to support is the China Pakistan Economic Corridor.[910]

Hence, Sino-Saudi cooperation and joint business ventures have grown in both directions and in third party countries. Much of this is not only underpinned by market forces, but by high political interests. Both countries have eagerly deepened their bilateral diplomacy and cooperation. But does that entail a political alliance?

7.3 Sino-Saudi Diplomacy and Strategy

In the modern period, China's and Saudi Arabia's first official contact dates back to the year of 1946 when both states signed the Treaty of Amity.[911] However, also due to historical developments in China shortly thereafter, no formal diplomatic relations were established between the countries before 1990.[912] Prior to that year, China's informal diplomatic contact to Saudi Arabia was mostly confined to the issue of facilitating the Hajj of Chinese Muslims to Mecca, at least until 1979.[913]

Nevertheless, formal diplomatic ties to the GCC-organization had been launched from the latter ten years earlier.[914] Those particular official links can be explained by China's strategic pivot towards the US, which in the Middle East translated into a mutual interest of containing Soviet influence in that region.[915]

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909 *Asian Infrastructure Investment Bank* (2017), 'Members and Prospective Members of the Bank' [https://www.aiib.org/en/about-aiib/governance/members-of-bank/].
910 *The Express Tribune* (2017), 'Saudi Arabia keen to invest in CPEC'. 17 August 2017 [https://tribune.com.pk/story/1483720/saudi-arabia-keen-invest-cpec/].
911 United Nations (1948), 'Treaty of Amity between the Republic of China and the Kingdom of Saudi Arabia, on 15 November 1946'. In: *Treaty Series*, 18 [http://treaties.un.org/doc/Publication/UNTS/Volume%2018/v18.pdf], p. 202.
912 Al-Tamimi, 2012: p. 4.
913 Ibid.: pp. 60-62.
914 Ibid.: p. 65.
915 Anderson, S. (2004), 'A Potential Partnership: Sino-Saudi Relations'. In: *Wilson Journal of International Affairs*, 2. Interestingly enough, in the wake of the Iranian Revolution and the US's search for alternative Central Asian bases for signals intelligence (SIGINT) aimed at the Soviets, China offered sites at Qitai and Korla in Xinjiang, from where the US and China jointly operated. See: Frankopan 2015: pp. 460-461. Moreover, China also supported the US and Saudi clandestine alliance with the Mujahedeen against the Soviet occupiers of Afghanistan. See: Khan, M., Yousufi, M. (2014), 'Pak-China-US Triangle vis-à-vis Soviet Union in Afghan War'. In: *Mediterranean Journal of Social Sciences*, September 2014.

Trade too, including the Kingdom's controversial purchase of Chinese CSS-2 Interregional Ballistic Missiles, dates back to the late 1980s.[916] That deal allegedly took place for two wholly disconnected reasons. Since the missiles' technological quality was considered relatively poor and since the missiles only made operational sense when fitted with nuclear warheads – which Riyadh has so far not pursued – their strategic impact was considered negligible. Rather, the Saudis used this purchase as a means to pressure the Reagan administration to lift congressional restrictions on the American export of F-15 fighter jets to the Kingdom. The Chinese motivation presumably revolved around an ultimately successful effort to convince the Saudis to terminate their diplomatic relations with Taiwan and officially switch to the People's Republic of China instead.[917] The switch occurred shortly after in 1990.

From that moment onwards, the bilateral diplomatic focus has been on establishing trade and investment between the countries, particularly in the late 1990s when China's crude oil imports began to grow noticeably, as shown above. As oil constitutes a vital ingredient for both countries' economically globalized and politically stable existence (and regime survival), it is not illogical for China and Saudi Arabia having labelled their relations 'strategic'.[918]

Consequently, China and Saudi Arabia have never directly or dramatically clashed politically. So far, the only issues around which both countries have found each other somewhat opposed, are firstly, the Syrian Civil War since 2011, in which China, alongside Russia, and more importantly alongside Iran, has unflinchingly backed the Assad regime in the UN-Security Council, whereas Saudi Arabia has not only called for Assad's removal, but has actively sought to accomplish that via proxy forces, as mentioned in the previous chapter.

This issue is connected to the second and third aspect. China's relations with Saudi Arabia's arch-enemy, Iran, have long been relatively warm, although China ultimately backed at least soft sanctions against Iran's recent nuclear programme, as also discussed in the previous chapter. Yet, China has never declared a diplomatic and economic preference of Saudi Arabia over Iran, and therefore, Saudi Arabia constantly seems to be fearing even the slightest indication of the opposite.[919] Finally,

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[916] Al-Tamimi 2014: pp. 65-68.
[917] Ibid.
[918] Ibid.: p. 68.
[919] Fulton 2017b.

Saudi Arabia's active support for regional and global Wahhabi Islam has also often entailed a support for various Islamist groups. Though this cannot be said directly of China's Uyghur separatist groups or so-called Islamic State, the former's Islamist ideology and the latter's increased terrorist threat to China has been seen in Beijing as an indirect result of Wahhabi Sharia's Saudi home. On the other hand, the Chinese have recently come to appreciate Saudi efforts to contribute towards fighting Islamic State, endorsing Beijing's repression of Xinjiang separatism, and helping to fund the international efforts to stabilize Afghanistan and Pakistan.[920]

Other than these issues, the bilateral story has been one of mutual political interests of a stable Gulf and a stable global economy, based on the secure flow of oil, trade, and capital between the countries. On a secondary basis, cultural and educational exchanges are also increasingly encouraged and actively pursued. These interests have constantly characterized the two countries bilateral interactions.[921]

The first noteworthy high-level meeting occurred in 1998, when then Saudi Crown Prince Abdullah visited China. During the visit, following long discussions on a multitude of issues, the friendly inclinations of both countries populations and governments towards each other was highlighted. Reciprocating the visit, then Chinese President Jiang Zemin came to Saudi Arabia a year later – announcing a 'strategic oil relationship' in the process.[922]

The most attention-grabbing state visits by that time took place in 2006. In January, Abdullah, the then new Saudi King, tellingly chose China for his first overseas state visit – symbolically showcasing China's new centrality in Saudi foreign relations. Moreover, it was the first Saudi visit to China by a head of state. Again, a whole collection of agreements in energy cooperation, trade initiatives, and proposals for

[920] Ibid.; Ramani, S. (2016), 'China and Saudi Arabia's Burgeoning Defense Ties'. In: *The Diplomat*, 16 November 2016 [http://thediplomat.com/2016/11/china-and-saudi-arabias-burgeoning-defense-ties/]

[921] At the beginning, much diplomatic groundwork had to be carried out by ambassadors, diplomats, and special envoys. Underlining the critical government role, for example in trade facilitation, Sun Bigan, Beijing's top emissary to Saudi Arabia, described this work as follows: 'The tasks of Chinese diplomats in Saudi Arabia were many and very important, especially the one to introduce the Chinese to the Saudi royal family and to increase confidence in the Chinese Government. The second task was to establish links with Saudi businessmen and explain to Saudi officials the situation of China in the areas of industry, trade and arranging meetings between officials of the two countries in these two areas, in order to push trade'. Quoted from: Al-Tamimi 2014: pp. 72/74.

[922] Ibid.: p. 74.

joint-training in technological education, was signed between both governments.[923] Hu Jintao, then China's President, visited Saudi Arabia only three months later.[924]

In May 2008, when China's Sichuan Province was hit by a major earth-quake with many casualties, Saudi Arabia responded by donating $60 million for disaster relief and reconstruction. Later that year, Xi Jinping, then still China's Vice President, paid his first official visit to Riyadh, inking a declaration of 'strategic friendly relations'.[925]

President Hu Jintao, in February 2009, embarked on his second visit to Riyadh within three years of his first. Meeting King Abdullah, an MoU for Sino-Saudi strategic and friendly ties was signed, which encouraged initiative at all levels, from political, to economic, and cultural.[926]

Since then, regular high-levels visits by various government ministers have occurred, all producing further agreements. These included visits, for instance, by China's then Prime Minister Wen Jiabao, Chinese special envoy Sun Bigan, Saudi special envoy Prince Bandar bin Sultan, or Saudi Oil Minister Ali Al-Naimi.[927] These missions have constantly been accompanied by large trade and investment delegations. Furthermore, countless trade and investment fora and cooperative institutions, ranging from Riyadh and Beijing, to Jeddah and Yanbu, to Shanghai, Hong Kong, and Yinchuan will likely grow in the wake of diversifying trade, investment, cultural and educational exchanges. None of these growing and diversifying ties in government, business, and education are yet as deep as they often are between Saudi Arabia and the US. Yet, the multiple channels that are being set up, create a transnational network strengthening cooperation – and the maintenance of joint projects that would otherwise not be there, or probably at least not on the achieved

[923] Ibid.: pp. 74-75.
[924] The occasion received all the more attention, because Hu had visited the United States prior to his Saudi stopover, and had been rebuffed by the Bush administration, which had merely characterized his visit as an 'official' one, rather than a state visit. Contrarily in Riyadh, Hu 'was met with full pageantry'. See: Simpfendorfer 2011: p. 34.
[925] Al-Tamimi 2014: p. 75.
[926] Al-Tamimi lists: '([A]) maintain high-level visits and establish a high-level consultation mechanism; (b) take advantage of their resources and markets, promote an all-round energy partnership and expand two-way investment; (c) expand the scale of economic and trade cooperation and raise the level of cooperation. The Chinese government encourages more competent businesses of the country to participate in Saudi Arabia's infrastructure construction and enhance cooperation on project contract and labour; (d) advance exchanges in the fields of education, sports and tourism and expand personal contacts; (e) strengthen communication and coordination in major international and regional issues and safeguard regional peace and stability; (f) enhance cooperation between China and the GCC'. See: Ibid.: pp. 75-76.
[927] Ibid.: p. 76.

scale. 'Mechanisms such as the Entrepreneurs' Conference and Investment Seminar and the conference on Energy Cooperation have provided the two sides with new platforms for practical cooperation'.[928]

In January 2016, China's current President Xi Jinping finally embarked on his first state visits to Middle Eastern countries in his role of president. His regional tour included Saudi Arabia, Egypt, and Iran. The timing as well as the chronology of the visits was noted in the press. His visit to Iran occurred just days after the lifting of UN-sanctions on the country – signifying China's determination to exploit new trade and investment opportunities with Iran. On the other hand, Xi picked Riyadh as his first regional destination, followed by his visit to Egypt and the Cairo-headquartered Arab League, before traveling on to Tehran. Yet, Xi and his entourage made clear, that China had no intention of picking sides in the region's primary conflict between Iran and Saudi Arabia and therefore signalled no deeper interest in assertively mediating between the parties, at least not on a direct and official basis.[929]

Behind closed doors, slightly more Chinese diplomatic activity seems to have been occurring though. Succeeding a previous Chinese effort, in Beijing, to mediate secretly between the Syrian government and some of its opposition forces, China sent its special envoy to Riyadh and Tehran prior to Xi's state visits.[930] Commenting on this move, which aimed to calm both antagonists in an increasingly escalating geo-political issue, Li Shaoxian, vice president of a Chinese government think tank, acknowledged China would have to increase its diplomatic involvement, but stressed a different Chinese approach: 'The Middle East is a touchstone for major powers [...]. Whether it is a graveyard [of empires] depends on whether a country seeks hegemony', emphasizing that China would not.[931]

However, on Xi's state visits, which apparently had been postponed by a year, precisely due to Saudi-Iranian conflict escalations over Yemen, nothing substantial was announced on the political front. In line with China's usual stance, the focus was

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[928] Ibid.: p. 86.
[929] *BBC News* (2016), 'China's President Xi visits Saudi Arabia to improve ties'. 19 January 2016 [http://www.bbc.co.uk/news/world-middle-east-35351391].
[930] Martina, M. (2016), 'China's Xi to visit Saudi, Iran in new diplomacy push'. *Reuters*, 15 January 2016 [http://uk.reuters.com/article/uk-china-middleeast-idUKKCN0UT12O].
[931] Quoted in: Ibid.

very much on the bilateral economic relations and strictly bilateral and politically neutral cooperation in various fields.[932]

In August 2016, the then Deputy Crown Prince, now Crown Prince, Muhammad bin Salman visited China in order to drive home the argument that Sino-Saudi relations needed to boost several aspects of their relationship. First and foremost, it included memoranda in promotion of his Vision 2030 to Chinese investors.[933] Moreover, incorporation of the security issue area into their bilateral partnership was also on the Prince's agenda. He managed to get China's Defence Minister Chang Wanquan to officially confirm that China agreed to elevate military cooperation to a new level.[934]

This and previous discussion on the matter seemed to have had the desired effect, at least to an extent. Two months after bin Salman's visit, in a landmark occasion in Sino-Saudi relations, the first military exercises were held between the two countries. More specifically, their respective special forces units, in the city of Chengdu, conducted counter-terrorism drills and hostage-rescue exercises, as well as training under extreme weather conditions.[935] The nature of the exercises points towards the countries' growing type of security concern. Reuters also explained China's motivation with recently elevated terrorist threats from Xinjiang, neighbouring Central and South Asian countries, as well as the Middle East:

> 'Chinese officials have long been concerned that instability in Afghanistan will spill over into China's western region of Xinjiang, home to the Muslim Uighur people. Hundreds of people have died there in recent years in unrest the government blames on militant separatists. Authorities in bordering Kyrgyzstan said a suicide bomb attack on the Chinese embassy in the Kyrgyz capital in August was ordered by Uighur militants active in Syria.'[936]

Since the days of the Chinese ballistic missile transfer to Saudi Arabia in the 1980s, security cooperation and arms trade between the two countries had not seen any significant developments. Admittedly, between 2008 and 2011, China did export

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[932] In Saudi Arabia, Xi's discussions with King Salman were accompanied by the inauguration of an energy research institute in Yanbu next to the refinery run by the Aramco-Sinopec joint venture. Additionally, both heads of state signed an agreement on the future construction of a nuclear reactor in Saudi Arabia. See: BBC News, 2016, 'Xi visits Saudi'.
[933] *Reuters* (2016), 'Saudi Arabia signs initial deals with China on prince's visit'. 30 August 2016 [http://www.reuters.com/article/us-saudi-china-agreements-idUSKCN1151HT].
[934] *Xinhua Net* (2016), 'China willing to advance military relations with Saudi Arabia: Defense Minister'. 31 August 2016 [http://news.xinhuanet.com/english/2016-08/31/c_135648206.htm].
[935] *Reuters* (2016), 'China holds first anti-terror drills with Saudi Arabia'. 27 October 2016 [http://www.reuters.com/article/us-china-saudi-security-idUSKCN12R0FD]; *Asharq Al-Awsat* (2016), 'Saudi, Chinese Special Forces Conclude their Joint Exercise'. 23 October 2016 [https://english.aawsat.com/theaawsat/world-news/saudi-chinese-special-forces-conclude-joint-exercise].
[936] Reuters 2016, 'China holds first anti-terror drills'.

military equipment to Saudi Arabia. However, compared to the sheer value and technological superiority of US arms sales to the Kingdom, as well as Washington's deep security relationship with the Saudis, these particular Chinese exports cannot be placed in a strategically impactful category.[937] Still, the joint military exercises are likely to see an increasing regularity, although they do not entail a fully-fledged alliance between China and Saudi Arabia. Too many variables stand in the way of the latter. Particularly China is not interested, for the moment, in fundamentally overhauling its global strategy of "business first" and its sought distance from political issues and security threats abroad, which Beijing does not see itself inclined or equipped to tackle militarily.[938] Joseph Nye incidentally interprets this Chinese reluctance through a realist lens, stressing China's relative lack of military capability vis-à-vis the US. He sees this as the most important reason for China's free-riding and, in an interview with the author, stated that no immediate change in that regard is likely, provided the US maintains its Gulf presence. Saudi Arabia is continuously dependent on US strategic decisions, even when it comes to Sino-Saudi relations.[939] Although both sides celebrated their boosted security cooperation, the same Chinese hesitancy could be observed in the latest Sino-Saudi high-level meeting.

King Salman's first visit to China, as already mentioned above, occurred in March 2017, as part of a month-long tour to six Asian countries, including also Japan, Indonesia, and Malaysia. On top of economic interests, the tour had a significant political and military dimension. Not only did Salman seek to bolster Saudi Arabia's newly created Islamic Military Alliance, which includes Indonesia and Malaysia. The coalition had been incentivized by an increasingly perceived Saudi necessity to battle Islamic State's global affiliates on a multilateral Muslim basis. The Saudi Monarch also sought to lure China into a deeper security relationship with upgraded military

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[937] Wang, J. (2016), 'China and Saudi Arabia: A New Alliance?'. In: *The Diplomat*, 2 September 2016 [http://thediplomat.com/2016/09/china-and-saudi-arabia-a-new-alliance/].

[938] *China Daily* (2016), 'Expert: China military intervention in Middle East unlikely'. 22 April 2016 [http://www.chinadaily.com.cn/world/2016-04/22/content_24752327.htm]; *International Crisis Group* (2017), 'To Intervene or Not? China's Foreign Policy Experiment in South Sudan Raises Questions'. 2 October 2017 [https://www.crisisgroup.org/africa/horn-africa/south-sudan/intervene-or-not-chinas-foreign-policy-experiment-south-sudan-raises-questions]; Jacques 2012: pp. 526-533; Shambaugh 2013: p. 271; For a comprehensive analysis of Chinese geostrategic energy interests, especially along the SLOCS, and Chinese foreign and military policy, see: Cole, B. (2016), *China's Quest for Great Power: Ships, Oil, and Foreign Policy*. Annapolis: Naval Institute Press. For a technical and doctrinal analysis of China's military capabilities, see: Cliff, R. (2015), *China's Military Power*. Cambridge: Cambridge University Press.

[939] Nye, J. (Harvard University), interviewed by the author on 21 February 2015 at the International Studies Association's Annual Convention in New Orleans. See Consent Form attached. Despite coining CIT, Nye also acknowledged realism's enduring relevance in Middle Eastern matters.

cooperation.[940] Though Xi's China agreed to cooperate more actively in solving Middle Eastern conflicts, Salman's four-day visit again did not produce any game-changing, publicized results in the matter. However, the South China Morning Post reported numerous Chinese government officials and analysts acknowledging China's growing role in a region that is perceived to experience a decline of American power, especially in times of uncertainty over the Trump administration's long-term regional strategy.[941]

Again, an emphasis was laid on economic agreements and transactions though and substantiated by a Saudi delegation of around 1000 businessmen signing deals worth $65 billion with their Chinese counterparts.[942] If implemented, the overall size of those investments would be more than double the size of all Chinese infrastructure investments in Saudi Arabia between 2005 and 2015, according to the CGIT's value figures. Such deals, in addition to China's pledge towards more military cooperation also served to calm Saudi fears over a Chinese political and economic pivot towards Iran, in times of sanctions relief and growing Belt and Road investments on the other side of the Gulf.

All in all, Sino-Saudi diplomatic relations have intensified across various economic and partly also political fields. Yet, in terms of bilateral relations beyond economics, it is primarily Saudi Arabia, faced with future economic, political and security challenges, which is seeking a deeper relationship. This is primarily due to its incentives to hedge against a potential future American disengagement from both the Kingdom and its region. The possible development of these interrelated issues will be addressed in the conclusion of this thesis.

7.4 Chapter Conclusion and Theoretical Assessment

China and Saudi Arabia, as this chapter has shown, are increasingly interdependent in an economic sense. This has primarily manifested itself via their skyrocketing trade, especially since the millennium. Though their bi-directional trade does not

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[940] *Reuters* (2017), 'King Salman ends Asia tour, returns to Saudi Arabia: agency'. 18 March 2017 [https://www.reuters.com/article/us-saudi-asia-idUSKBN16P051].
[941] Shi, J. (2017), 'Saudi king's visit puts Beijing in Middle East spotlight'. In: *South China Morning Post*, 14 March 2017 [http://www.scmp.com/news/china/diplomacy-defence/article/2078696/saudi-kings-visit-puts-beijing-middle-east-spotlight].
[942] Reuters 2017, 'King Salman ends Asia tour'.

constitute a very large share of their respective global trade value, it has grown immensely in absolute terms. More importantly, their primary trade commodity, oil, constitutes a vital ingredient in both their economies. Since the year 2000, Saudi Arabia has been China's most important foreign source of oil. China's imports from the Kingdom are therefore heavily dominated by hydrocarbons. Yet, Saudi Arabia has also imported an increasing portion of Chinese manufactured goods – which diversifies their overall bilateral trade to an extent, although, at least until very recently, China has run up a large trade deficit with Saudi Arabia.

Bilateral economic interdependence arguably only exists so far within the energy issue area, whereas all other product categories in Sino-Saudi trade are "merely" marked by what Keohane and Nye would call interconnectedness. Interdependence in oil trade has increased, but only on a sensitivity level. Vulnerability interdependence only exists between China and the Gulf as a whole, and would only be reached with Saudi Arabia alone, if China were to be cut off from other major foreign oil sources in an absence of an energy revolution at home. Yet, a small, but important asymmetry in Sino-Saudi energy interdependence can be detected. Although Saudi Arabia has many large oil customers, in particular in Asia, and is thus vulnerably dependent on Asia as whole, the Chinese economy is ultimately too big for Saudi Arabia to lose out on. Furthermore, Saudi Arabia is sensitively dependent on Chinese oil market share, but, in the long run, specifically in times of low oil prices, would become increasingly vulnerable.

Bi-directional investment between China and Saudi Arabia has also increased, though on a lesser scale than trade. Most of Chinese investments into Saudi Arabia have come in the form of EPC contracts, mainly in Saudi Arabia's energy and petrochemical industries, but additionally in real estate and transport. Metals, agriculture, and other sectors have also been the target of Chinese investment. EPC, FDI, and FPI flows, and the role of Chinese financial services are likely to surge as both countries seek a deeper and more diversified interdependence. This too accounts for Saudi investment into China, which has also grown, though to a lesser extent than capital flows in the other direction, and significantly so in China's energy and petrochemicals industries, which Saudi Arabia has targeted in order to cement its long-term market share in oil exports. Neither of the two countries is yet heavily interdependent in bi-directional investment though. Nevertheless, they are attempting to change that by, for instance, stressing the complementarity of China's BRI and Saudi Arabia's Vision 2030. This is occurring even as both countries seek to maximize energy trade diversification in order to cushion against their respective reliance on each other in energy trade matters. Neo-liberal institutionalism would stress overall interdependence and the mutuality of interests in the cooperation in a globalized world and a resulting diversity in multiple channels connecting both societies.

This has been taking place via diplomatic initiatives on both sides. The high number of state visits, facilitating business deals and deeper institutionalization of relations proves this mutual desire. Generally, the dominance of Saudi oil exports in bilateral trade though points towards a clear hierarchy of issue areas for now, a condition not matching CIT's ideal type. Still, neither does military security nor does China's overall relative power dominate Sino-Saudi relations, which is what realism would predict. On the contrary, the two countries' general power asymmetry is not reflected by at least a similar level of asymmetry of interdependence.

However, from a Saudi perspective this apolitical status quo is insufficient in the long run. Saudi Arabia has shown strong interest in China playing a more active political role in the region, also hinting at defensive realism driving the Kingdom to hedge against its total security dependence on a US which might one day downgrade its alliance and reduce its regional role. Although China has voiced a cautious willingness to step up its political footprint in the region, for instance as a mediator, and although China and Saudi Arabia recently conducted their first joint military exercises, imminent strategic change is not evident yet. China continues to resist more political responsibility and largely pursues its business interests. Its overall relative power vis-à-vis Saudi Arabia enables it to do so for now.

Despite this caution, it needs to be underlined that China's stake in Saudi Arabia could increase not only due to growing oil imports alone, but also for geo-strategic reasons. As the full viability of China's BRI across Eurasia is still in question, the countries that China will have to rely on more than on others will only completely reveal themselves over time. It is especially the land route – the Silk Road Economic Belt – that has been viewed with scepticism due to costliness, and due to the political and security risks inside Central Asia, Mackinder's heartland. If this scepticism turns out to be justified, then the BRI's oceanic branches – the 21st Century Maritime Silk

Road and China's String of Pearls – will rise in importance even more than they are doing anyway. The more China continues to rely on trade by sea, the more Saudi Arabia will matter, because of its geographical location not only in the Indian Ocean's north-western extremity, but also because of its combined coastal position between both the Persian Gulf and the Red Sea bottlenecks. As this chapter has demonstrated, China's investments on the Kingdom's commercially vibrant Red Sea coast are telling in that respect. Saudi Arabia is the south-western edge of the centre on Spykman's rimland. Furthermore, the Red Sea is geo-politically less volatile, paradoxically due to its more multipolar waters, which are regionally relatively uncontested, at least when compared to the Gulf. Already, China, alongside many others, has a military base in Djibouti, and a visible economic presence in Saudi port cities like Jeddah, Jazan, and Yanbu, which may one day look like something of a Chinese "back-door-entry" into a Gulf country.

Yet, due to political sensitivity, a Chinese military base would not seem likely for now, nor even necessary. Furthermore, the lack of issue area-linkage so far, has less to do with interdependence prohibiting this, but rather with the fact that China's energy security has, until now, not required China to do so. This is partly due to the ongoing US-Gulf security umbrella, on which China has been free-riding – a possible strategy incorporated by hegemonic stability theory. Such an interpretation though points towards hidden realist dynamics and constitute an aspect that will be addressed in the conclusion.

8. China-United Arab Emirates Relations

The overall impression of the New Silk Roads connecting East and West Asia is that energy trade is the driving force. Indeed, looking at the previous chapter, the case study on China-Saudi relations has again demonstrated a clear dominance of energy trade over all other areas. The second case study, on China-UAE relations has two rationales: Firstly, among GCC countries, the UAE is the second most important Chinese economic partner, in trade and investment value, as already briefly demonstrated in Chapter 6. Secondly, Sino-Emirati connections are the most diversified among China's Gulf partners so far. Hence, an assessment of the level of that diversification has important consequences for the answer of the research question and the validity of its theoretical framework. In other words: just how far do the new Sino-Gulf Silk Roads go beyond energy and how does the answer to that question influence China's regional interests, strategy, risks, and opportunities?

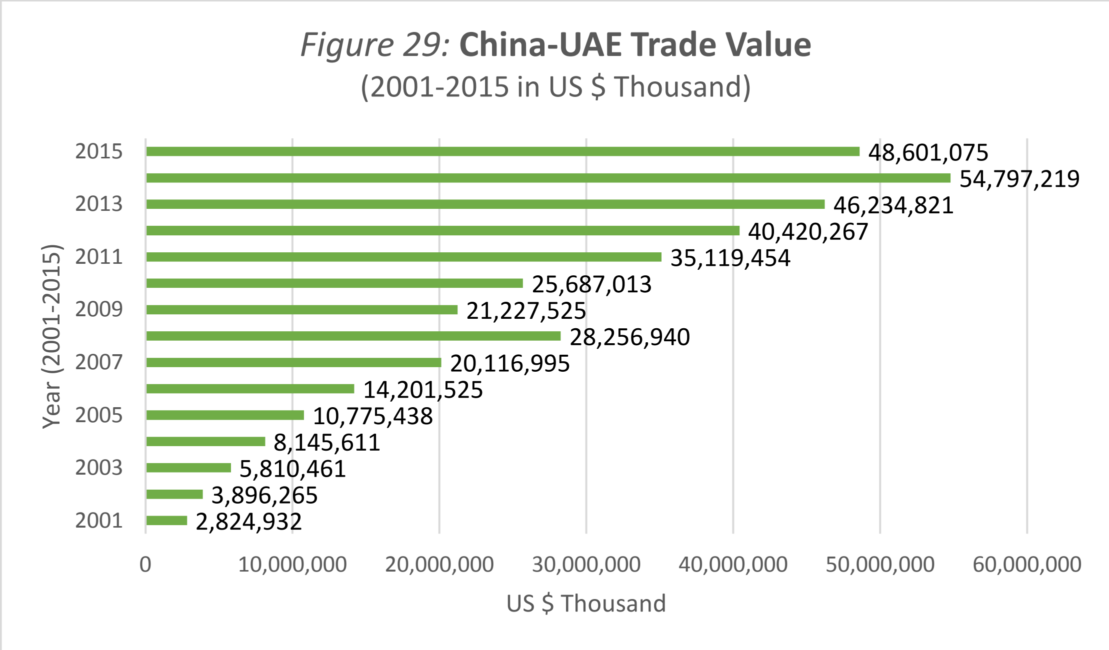
Sino-Emirati trade grew noticeably at about the time, around the year 2000, when Sino-Saudi trade also developed. Though the UAE has also exported much oil to China, its small territorial size has not been the only reason for a radically different trade pattern. Unlike the case with Saudi Arabia and all other Gulf states, China runs a trade surplus with the UAE. Investment flows are also more diversified than with Saudi Arabia, as this chapter shows. Finally, Sino-Emirati diplomatic relations have grown very close as a result of their booming and diverse economic interactions.

8.1 Sino-Emirati Trade

As seen in Figure 29, bilateral trade has grown significantly since China's joining of the WTO in 2001. From roughly $2.8 billion total trade value that year, it reached approximately $55 billion – its hitherto pinnacle – in 2014. In other words, within a timeframe of one and a half decades, it grew by a staggering 1,840%. The story of consistent trade growth has merely been interrupted in two of the last 15 years. As the global credit crunch hit the Emirates by bursting Dubai's real estate bubble in 2009, bilateral trade between China and the UAE was reversed by almost the entire previous year's value.[943] Yet, it recovered instantly the following year. More recently, in 2015, China's slight economic slow-down, its relatively low GDP, and fall of stocks,

[943] *Reuters* (2013), 'Gulf cash replaces debt to fuel new Dubai property boom'. 9 October 2013 [http://www.reuters.com/article/dubai-property-idUSL6N0HZ1UQ20131009].

as well as the simultaneous low oil price negatively affecting the Gulf economies, resulted in the first dip in Sino-Emirati bilateral trade since the financial crisis, falling back to roughly $48 billion.[944]



Source: International Trade Centre, Trade Map [MS Excel chart created by author].

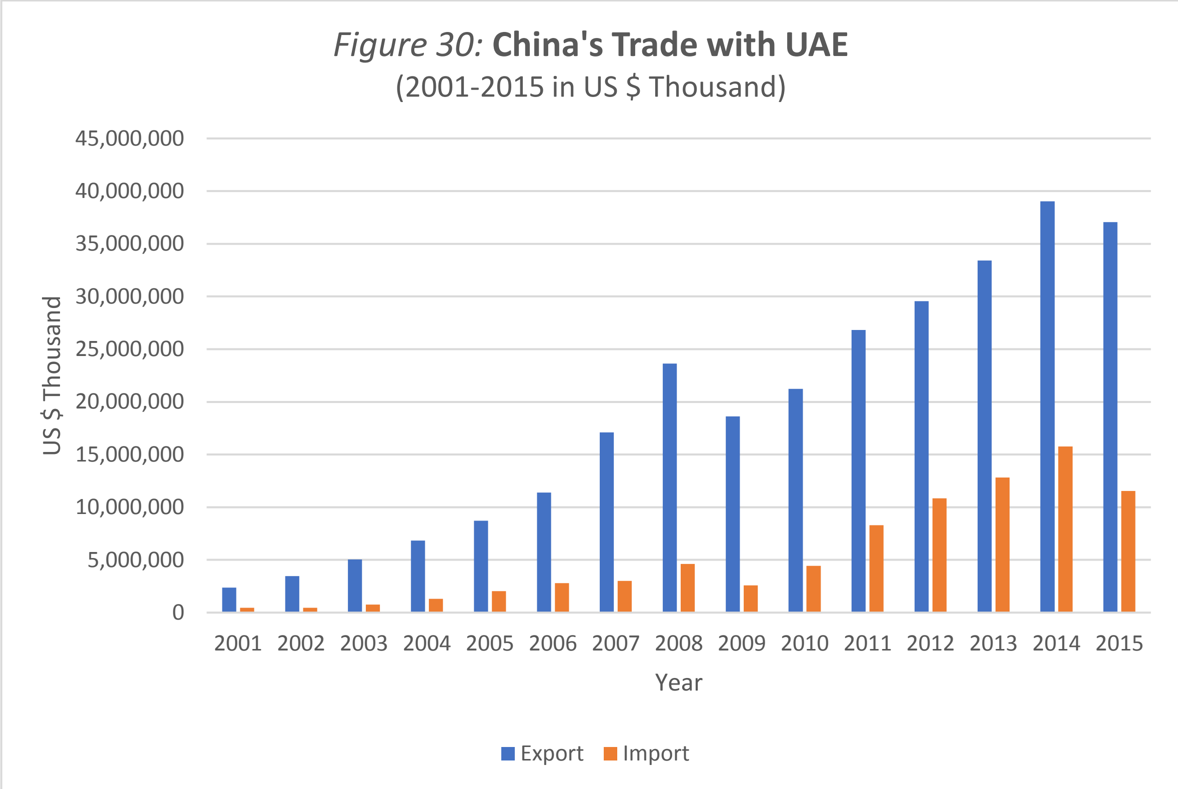
Despite the recent slow-down in trade growth – which is suspected to be due to China's domestic economic challenges – such fast and dramatic growth in trade value in a relatively short period of time highlights the extensive interconnectedness at least.

8.1.1 China's Exports to the UAE

Figure 30 demonstrates a striking difference to Figure 2 towards the beginning of Chapter 6. Whereas overall China-GCC trade has been and continues to be greatly dominated by Chinese (energy) imports – translating into a 2014 Chinese trade deficit of nearly $38 billion with the GCC – China's trade relations with the UAE show the opposite picture. In that same year, China exported goods worth nearly $40 billion to the UAE and enjoyed a bilateral trade surplus of around $23 billion. This pattern has endured. Since the advent of China-UAE economic relations, China has

944 Tiezzi, S. (2016), 'China's trade slows'. In: *The Gulf Time*, 24 February 2016 [http://emirates-business.ae/chinas-trade-slows/].

constantly exported roughly between half to two-thirds more to the UAE than it imported from that country. China is now number one exporter to the UAE, having recently overtaken India and the United States.[945]



Source: International Trade Centre, Trade Map [MS Excel chart created by author].

Before laying out and scrutinizing the nature of products imported by the Emirates from China, it is necessary to explain why their value is so high, given the comparatively small demographic and territorial size of the UAE.

8.1.1.1 China's Gulf Trade Hub

The staggering overall numbers seen in Figure 30 are likely due to the fact that more than half of the UAE's imports from China are not consumed domestically but are re-exported to third parties. This phenomenon is mostly not recorded by customs officials as exports from the originating country. However, as a rough guide, it has been calculated that about 60% of China's exports to the UAE are re-exported into

945 *International Trade Centre*, 'Trade Map' [http://www.trademap.org/Index.aspx].

third countries.[946] The importance of particularly Dubai as a hub for Chinese regional and global business and trade, not only serving the wider Gulf and Middle East, but also the African and European markets.[947] In order to evaluate the centrality of the UAE for China's Middle Eastern and trans-continental trade, it is necessary to ask whether the UAE is hypothetically replaceable in this role by one or more of its Gulf neighbours.

Dubai is one of the world's biggest trading hubs and the third largest re-export centre in the world, following Hong Kong and Singapore.[948] Such hubs exist, because it is easier to transport massive volumes of manufactured goods there, and then re-load them onto smaller ships destined for numerous and specific individual locations. Dubai's strategic location at the crossroads of three continents is one of the necessary geographical preconditions for this privileged position. It need not be exceptional in this case though, as all other Gulf states would fulfil this geographic criterion as well. Although the UAE's Arabian Sea coast in the Fujairah Emirate gives the country the opportunity to circumvent the potentially vulnerable Strait of Hormuz – an advantage that only its neighbours Oman and Saudi Arabia (on the Red Sea coast) share – the reasons for the UAE's and especially Dubai's role as a hub are more institutional, rather than merely geographical.

The emirate's legal framework and economic policies have encouraged the city to become what it is today. The friendly business environment was a prerequisite for the city to become a global hub in business, finance, and trade. The fact that the UAE, especially through Dubai, has managed to escape its dependency on oil by what OPEC

[946] Cafiero, G., Wagner, D. (2017), 'What the Gulf States Think of 'One Belt, One Road''. In: *The Diplomat*, 24 May 2017 [http://thediplomat.com/2017/05/what-the-gulf-states-think-of-one-belt-one-road/; footnote]. This at least is a far more credible interpretation of this number than a whole chain of claims that in fact 60% of China's entire global exports go through the UAE. See: Kamel, M., Quilliam, N. (2015), 'The GCC-Asian Relationship: From Transaction to Strategy'. In: *East Asia*, 32:3, September 2015. Heidelberg: Springer, p. 325; Trenwith, C. (2013), 'China-UAE trade: Enter the dragon'. In: *Arabian Business*, 10 March 2013 [http://www.arabianbusiness.com/china-uae-trade-enter-dragon-492242.html]; Rakhmat 2015a. It is immediately obvious that this constitutes a dramatic and probably just sketchy miscalculation. China's annual global export value is in the lower trillions of dollars, whereas even the highest valued year in Chinese exports to the UAE, in 2014, was "barely" $40 billion. This includes re-exports. See: *The Observatory of Economic Complexity* (2017), 'China' [http://atlas.media.mit.edu/en/profile/country/chn/].

[947] Cafiero, Wagner 2017; Olimat, M. (2015), *China and the Middle East: From Silk Road to Arab Spring*. Oxon: Routledge, p. 163-164.

[948] Kumar, R. (2013), 'The UAE's Strategic Trade Partnership with Asia: A Focus on Dubai'. *Middle East Institute*, 19 August 2013 [http://www.mei.edu/content/uae%E2%80%99s-strategic-trade-partnership-asia-focus-dubai].

has calculated as 60%, is not only due to Jebel Ali Port's infrastructure.[949] A business-friendly and free-trade-orientated mentality merged with investment in services, tourism, leisure, and entertainment plays a major part. No income tax duties, no corporate taxation, no currency restrictions, general import duties of 5% outside free zones, minimum government control of the private sector, as well as competitive freight charges are part of an efficient regulatory framework and infrastructural environment. The World Bank ranked the UAE number 31 in their Ease of 'Doing Business Report 2016'.[950]

The establishment of over two dozen economic free zones, do not only encourage FDI, but also offer an exemption from customs duties for imports destined for the free zones, such as Jebel Ali or the Dubai Multi Commodities Center (DMCC). Furthermore, Dubai is a world leader when it comes to multi-modal logistics capabilities. Over 170 shipping lines and over 120 airlines contribute to this substantial trade-enabling infrastructure.[951]

It is the whole "Dubai package" that is hard to copy and would be impossible to move quickly, i.e. in the direct short-term future, to another Gulf location. Other GCC members could compete and are doing so and will continue to do so, in specific issue areas. But since offering all conditions together would take a long time to set up, and since Dubai and the UAE are seen to be 'decades ahead' – it is difficult to imagine an alternative location for now.[952]

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[949] *Organization of the Petroleum Exporting Countries* (2017), 'UAE facts and figures' [http://www.opec.org/opec_web/en/about_us/170.htm].

[950] The World Bank (2017), 'Ease of Doing Business in United Arab Emirates'. *Doing Business* [http://www.doingbusiness.org/data/exploreeconomies/united-arab-emirates/].

[951] Kumar 2013.

[952] Qatar may be working on its attractiveness of living standards, it is a major exporter of liquefied natural gas (LNG) to China, may promote educational exchanges to build its diversified knowledge economy, and may have established a Renminbi clearing house in Doha. See: Rakhmat, M.Z. (2015), 'China, Qatar, and RMB Internationalization'. In: *The Diplomat*, 6 June 2015 [http://thediplomat.com/2015/06/china-qatar-and-rmb-internationalization/]. Kuwait may be able to plan a "Silk City", as seen in Chapter 6, or remind China of its identity as Beijing's first official diplomatic relationship in the Gulf and point to close political relations and history of cooperation. See: Niazi, K. (2009), 'Kuwait Looks towards the East: Relations with China'. *Middle East Institute*, 1 September 2009 [http://www.mei.edu/content/kuwait-looks-towards-east-relations-china]. Oman may provide the politically most tranquil domestic environment for now, it may indeed be able to challenge Dubai at some point in offering a major free port and spacious logistics facilities outside the Strait of Hormuz. See: EIU 2014: pp. 5/11. Saudi Arabia may have similar geo-economically transformative visions for 2030, which would greatly promote trade and investment connections to China, as seen in the previous chapter. Iran at some point might experience a successful integration into the global and regional economy after the lifting of UN-sanctions – and China would be the first to have its foot in the door and build on its historically close ties to Tehran, as described in Chapter 6. Finally, Bahrain might have just seen the opening of Chinamex's second Middle Eastern megamall – the Dragon City in Muharraq – seeking to rival Dragon Mart in Dubai (see below). See: Birkenthal, S.

Rajesh Kumar, Associate Professor at Dubai's Institute of Management Technology, points to the duration and pioneering capacity of Dubai's development and reputation. The relative backlog of the other Gulf states in providing the same framework and services, as well as the higher risks in some of these countries would additionally make China reluctant to switch away from the UAE as its central export hub. He observes that 'Dubai is today and is poised to remain the linchpin of Middle East-Asia economic interaction'.[953]

One of the most potent infrastructural investments and symbols demonstrating the UAE's value for Chinese exports to the country, the Middle East, and Africa is Dragon Mart, a giant Chinese shopping mall in Dubai's International City. In terms of retail business, China has had a significant impact not only on the UAE's consumers, but also on regional shopping-tourism and indeed transcontinental wholesaling. Dragon Mart Dubai is China's largest mall outside the mainland and is also a wholesale hub for the wider Middle Eastern and African market. It hosts hundreds of Chinese SMEs and also larger corporations stacking their goods in countless warehouses and selling them in shops and on order to re-export to other countries. Goods include electronics, furniture, art, textiles, and food products. Initiated by China's Ministry of Commerce, financed by the Chinamex Middle East Investment and Trade Promotion Centre, and built by Nakheel, it has recently seen an expansion – demonstrating the huge demand. Many of the products are competitively priced. Together with the lesser distance to Middle Eastern and African countries which brings China closer to its millions of customers, it has thereby also enabled SMEs and individuals in those markets to afford certain purchases that would otherwise be more expensive.[954]

It seems highly unlikely for China to ship the bulk of its Middle Eastern, African, and even European exports to any other Gulf state any time soon. The advantages are too substantial, the backlog and diverse risks in most of the other candidate countries only too visible to not threaten the status quo hub-preferences.

(2016), 'Bahrain's Dragon City. China's Megamall Ambitions in the Middle East'. In: *Foreign Affairs*, 5 May 2016 [https://www.foreignaffairs.com/articles/china/2016-05-05/bahrains-dragon-city]. However, Dubai and the UAE's package seems impossible to match any time soon.

953 Kumar 2013.

954 *Chinamex* (2015), 'Dragon Mart Dubai' [http://www.chinamex.com.cn/english/show2.asp?id=479]; Molavi, A. (2015), 'The United Arab Emirates, China, and the new "Triple-South"'. *SAIS Foreign Policy Institute,* 22 December 2015; Olimat 2013: p. 167.

8.1.1.2 Sectors and Products

As evident from the data illustrated in Figure 31 below, provided by the International Trade Centre, the bulk of goods so far shipped from China to the UAE have been from three product areas: electrical and electronic equipment, heavy machinery, articles of apparel (i.e. textiles), and generally, much in line with the older stereotype of the nature of Chinese exports, cheaply-manufactured consumer goods. Further products include motor parts, chemicals, foodstuffs, but also increasingly high-tech equipment such as solar technology.[955]

Product label	China's exports to United Arab Emirates				
	Value in 2011	Value in 2012	Value in 2013	Value in 2014	Value in 2015
All products	26812848	29568343	33411295	39034356	37069274
Electrical, electronic equipment	4573556	4977314	5455125	7385974	7247414
Machinery, nuclear reactors, boilers, etc	5112592	5495118	5669303	6778213	5677881
Articles of apparel, accessories, knit or crochet	2166843	2782931	3038621	2875055	3404919
Articles of apparel, accessories, not knit or crochet	1121757	1329264	1549601	2092921	2291272
Furniture, lighting, signs, prefabricated buildings	1027884	1706699	2278478	2316972	1954989
Footwear, gaiters and the like, parts thereof	678885	842036	1122518	1198617	1395433
Articles of iron or steel	1125779	1066805	1136763	1316692	1266469

FIGURE 31: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

As mentioned above, China has now overtaken India and the United States as the number one source of total UAE imports. China's share in the UAE's overall imports now lies at 12%.[956] Given China's status as the likely number one economy in the world in a few years to come, the country's position in trade is substantial. In terms of imports, the UAE would be at least as sensitive to a potential bilateral trade breakup as China would. If the dominating sectors and product labels are viewed individually, as shown below in Figures 32 to 35, China's dominance, and hence the UAE's import dependence, becomes even more obvious. The UAE's import values in these figures differ from the values in Figure 31, because the ITC's data is based on several sources that often do not match. Just as in the preceding chapter on Saudi Arabia, China's mirror data differs. Thus, it must be emphasized again that all the data should be

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955 Olimat 2013: p, 165.

956 *The Observatory of Economic Complexity* (2016), 'Where does the United Arab Emirates import from?' [http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/are/show/all/2016/].

viewed with a healthy dose of scepticism towards their accuracy. It is best to acknowledge them as a rough guide.

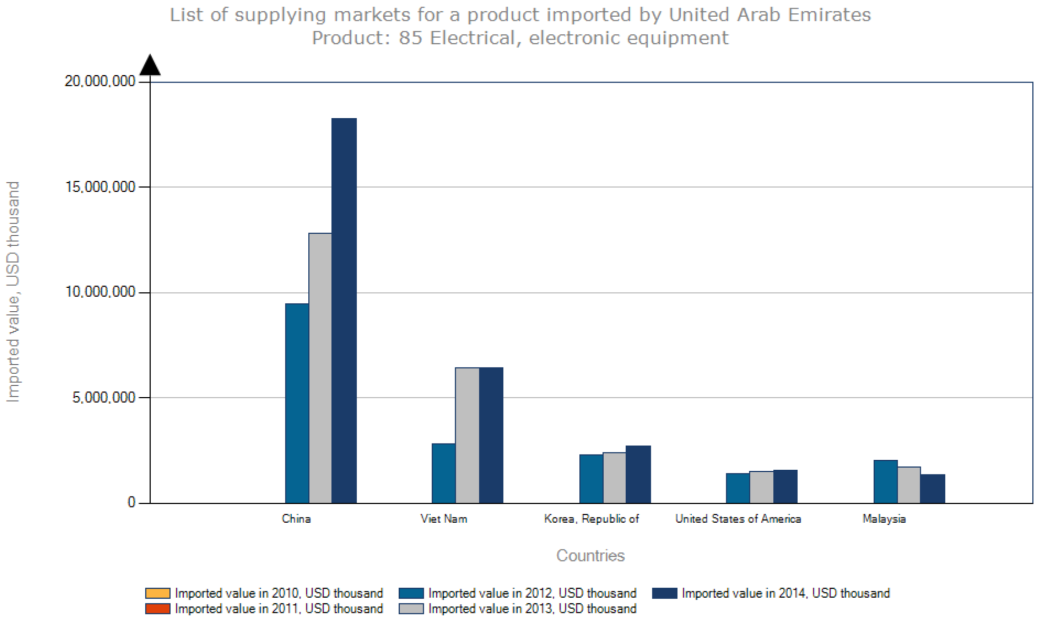

FIGURE 32: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

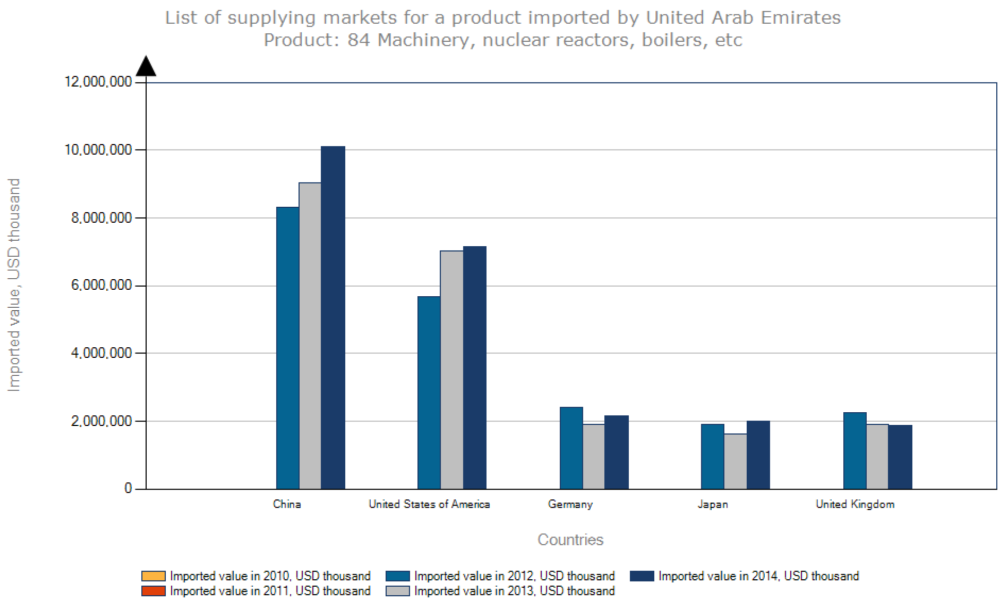

FIGURE 33: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

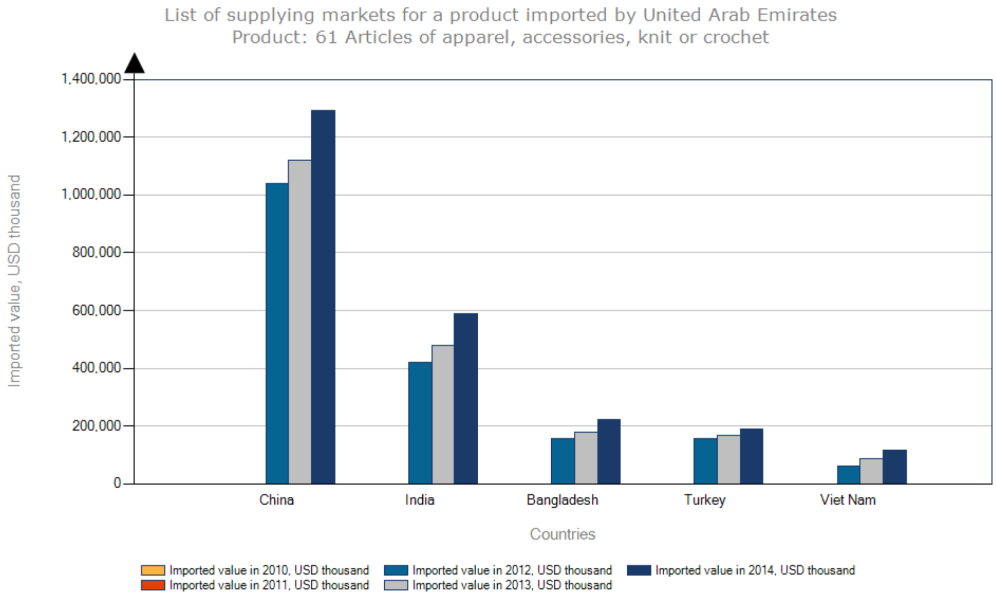

FIGURE 34: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

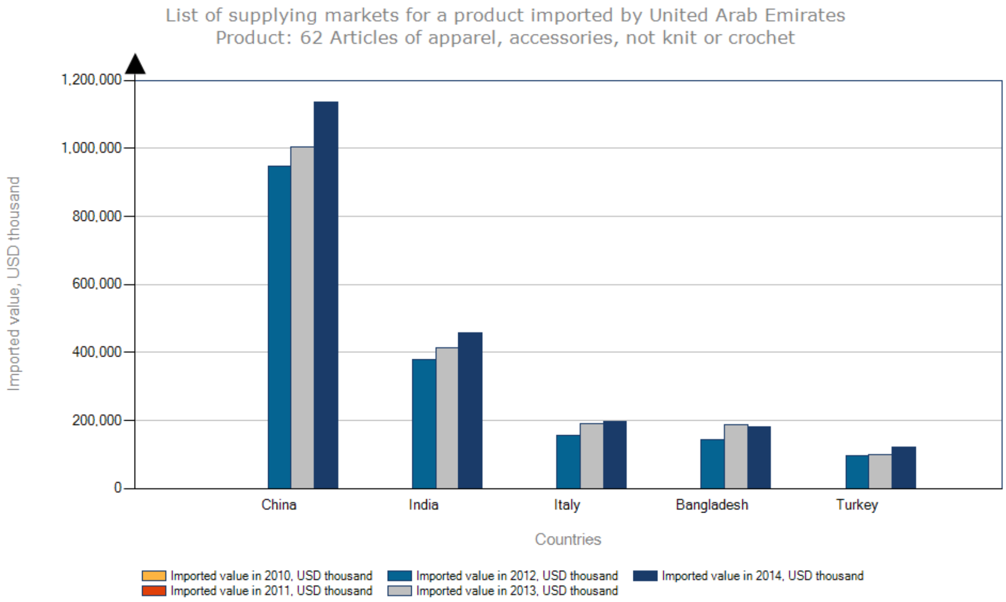

FIGURE 35: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

With the exception of the ITC's 'Product Label 84' classified as 'Machinery, Nuclear Reactors, Boilers, etc.', where the US's export value's second place "merely" falls short of China's by roughly a quarter, China's export dominance in these high valued sectors is considerable. Germany, Japan, and the UK, are not within striking distance of the US and China in this sector.

'Electrical and electronic equipment' sees China in a clear first position, with Vietnam coming a distant second. Since Vietnam, an important frontier market, is increasingly becoming one of Asia's key powerhouses of cheap-manufactured goods, as China's living standards and labour costs rise, it could be possible that the gap between China and Vietnam in the UAE's imports of electrical and electronical equipment will narrow over time.[957] South Korea, the US, and Malaysia are, placed third, fourth, and fifth, are far behind Vietnam and are seeing little indication of growth, relative to China and Vietnam.

Asia's overall dominance is evident in Product Label 61, 'Articles of apparel, accessories, knit or crochet'. China again plainly leads the race for Emirati imports, India reaches second position, Bangladesh, Turkey, and Vietnam follow far away given their much smaller country size. The picture is similar in Product Label 62 which also covers textiles. 'Articles of apparel, accessories, not knit or crochet' sees Italy in the mix, reaching third place. Bangladesh and Turkey come fourth and fifth.

Thus, it is no understatement to observe that the UAE is visibly meeting its consumer needs by importing various goods from China primarily. Though it would be wrong to talk of dependence in the light of products that are being manufactured all over the world, the sheer amount is also guaranteed by China's huge size. At least in the short run, the UAE would arguably lose large amounts of manufactured goods for its own consumption and large amounts of cash yields in re-exports. To assess the bilateral asymmetry, the next section will now briefly focus on the other side of the relationship: China's imports from the UAE.

8.1.2 China's Imports from the UAE

As already seen in Figure 30, UAE exports to China mirror Chinese exports to the UAE in terms of growth. Regarding value though, it is evident Emirati exports trail far behind. While the latter's growth rate between 2001 and 2014 lies at a stunning

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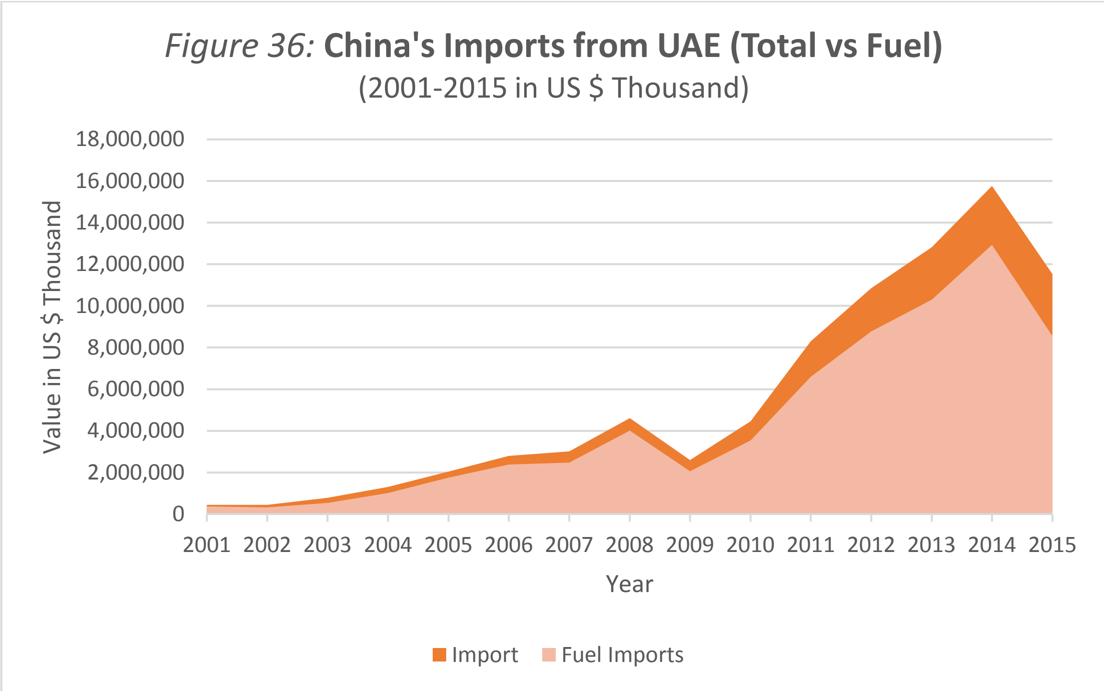
957 Zhen, S. (2016), 'Manufacturers step up search for low cost alternative to China'. In: *South China Morning Post*, 11 May 2016 [http://www.scmp.com/business/companies/article/1863709/manufacturers-step-search-low-cost-alternative-china].

3,422%, its total value at the pinnacle in 2014 lies at approximately $16 billion, compared to China's $39 billion.[958] This equates to an Emirati trade deficit with China of roughly $23 billion. This can be firstly explained by the UAE's small country size. Secondly, it does not export many non-hydrocarbon products.



Source: International Trade Centre, Trade Map [MS Excel chart created by author].

Indeed, a brief glance at Figure 36 instantly gives the clearest of answers. Rather unsurprisingly, given China's energy demand, its fuel imports from the UAE overwhelmingly drown all the others. Nearly 80% of the UAE's exports to China are hydrocarbons.

6.1.2.1 Hydrocarbon Imports

As seen again in Figure 37 below and in the two preceding chapters, in bilateral terms, China has managed to significantly diversify its oil import sources by country. In 2014, China drew 4% of its total oil imports from the UAE, which has been a relatively constant share over the recent years. Compared to a 16% share of Saudi

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958 The author's calculations (data derived from ITC, Trade Map).

Arabia, a 13% share of Angola, an 11% of Russia, a 10% of Oman, and a 9% of both Iraq and Iran, the UAE's importance in this field is relatively modest.[959]

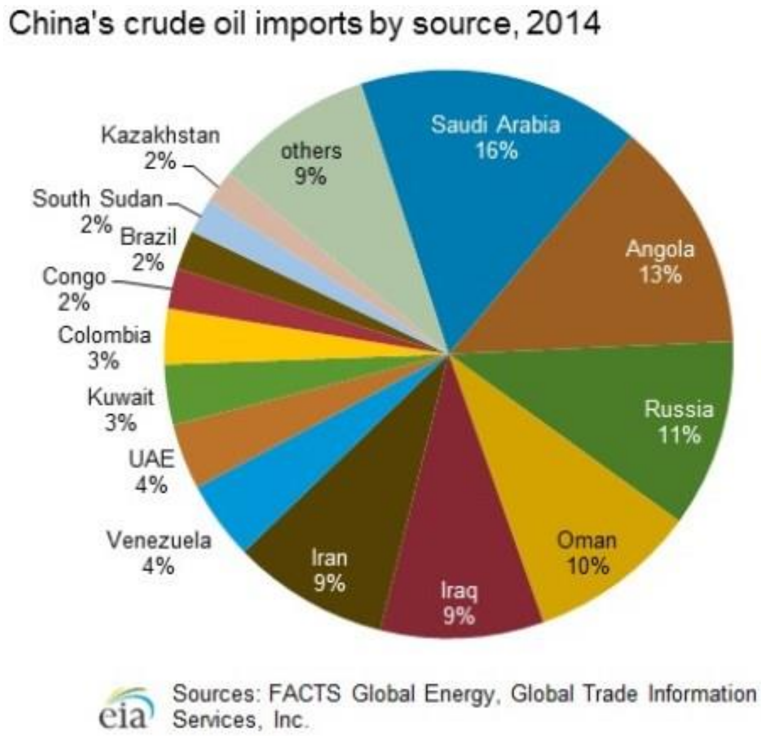

FIGURE 37: *Source*: U.S. Energy Information Administration. Available at: https://www.eia.gov/beta/international/analysis.cfm?iso=CHN.

Given the UAE's limited size of (resource holding) territory compared to these other countries, 4% nevertheless constitutes a noteworthy Emirati share. Since the fall of the oil price towards the end of that year, the value of China's oil imports from the UAE has declined considerably, albeit so has that of all other suppliers. In 2016, Russia became China's largest provider of foreign oil, with the UAE coming tenth, supplying oil worth $3.9 billion.[960] To talk of a Chinese energy dependence on the UAE, incidentally, would take the argument too far in any of the last two decades. As

959 EIA, May 2015, 'China': p. 11.

960 Workman, D. (2017), 'Crude Oil Imports by Country'. *World's Top Exports*, 29 May 2017 [http://www.worldstopexports.com/crude-oil-imports-by-country/]. This is merely down to the low oil price, not a fall in import quantities. On the contrary, China's oil imports have steadily grown until the time of writing, primarily due to Chinese "teapot" refineries faced with no import quotas, and China's strategic decision to make use of the low oil price in order to stock up its oil storage tanks for a rainy day. See: Sheppard, D., Raval, A., Liu, X. (2017), 'Traders nervously eye China's strategic oil imports'. In: *Financial Times*, 18 August 2017 [https://www.ft.com/content/608fb1ce-83fa-11e7-94e2-c5b903247afd].

even evident with the oil export giant Saudi Arabia, described in the previous chapter, Chinese oil import dependence on Gulf states is strategically more significant at the regional level. Despite Russia's recent first place, the Gulf as a whole is the most important source of Chinese oil imports. It would be wrong to get distracted by the low price – which merely effects the reduced profits for Gulf states like the UAE, but saved costs for China. On its own, the UAE's significance to Chinese energy consumption and short-term demand is inevitably marginal in relative terms.

However, the other way around, it is important to ask how dependent the UAE is on the Chinese energy market share? It is unfortunately impossible to answer this question satisfactorily since the UAE does not de-classify its exact hydrocarbon export data by individual destination. Merely regional export flows are published. And here, once again, the interdependence at the regional level becomes apparent. An overwhelming 96% of UAE crude oil exports went to Asia in 2014.[961] Owing to the fact that China is the largest market and, according to BP, seems destined to remain so for the next two decades, it should not be too adventurous to assume a reasonable Chinese share of Emirati oil exports.[962] Thus, the UAE is likely to be more dependent on the Chinese energy market than China is on UAE energy supplies. A similar picture becomes evident when observing the UAE's non-hydrocarbon exports to China.

8.1.2.2 Non-Hydrocarbon Imports

Figure 38 demonstrates again that China's non-hydrocarbon imports from the UAE are negligible relative to its hydrocarbon imports. This hydrocarbon dominance is even compounded by the fact that most of the UAE's produced and exported goods directly derive from the hydrocarbon industry.

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[961] *U.S. Energy Information Administration* (2015), 'United Arab Emirates. International energy data and analysis'. 18 May 2015 [http://www.eia.gov/beta/international/analysis.cfm?iso=ARE], p. 5.
[962] BP, January 2014.

Product code	Product label	China's imports from United Arab Emirates				
		Value in 2011	Value in 2012	Value in 2013	Value in 2014	Value in 2015
TOTAL	All products	8306606	10851924	12823526	15762863	11531801
'27	Mineral fuels, oils, distillation products, etc	6592189	8773877	10295027	12931229	8552789
'39	Plastics and articles thereof	1062070	1212498	1245622	1500026	1680760
'29	Organic chemicals	121208	49274	180594	412641	344316
'99	Commodities not elsewhere specified	282	212	66549	205983	242258
'25	Salt, sulphur, earth, stone, plaster, lime and cement	84588	219896	153833	74299	228937
'74	Copper and articles thereof	124093	150981	248840	180980	165875
'76	Aluminium and articles thereof	46381	67188	64887	66393	53446

FIGURE 38: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

In terms of value, only one of the ITC's product labels stands out compared to the following five. 'Plastics and articles thereof' have been the only products above the one-billion-dollar mark in recent years. They even grew modestly in 2015, despite the overall trade value's downturn – spearheaded by a slump in UAE oil export values – in the pinnacle year of Sino-Emirati trade in 2014. The UAE export sectors producing products for the Chinese market are 'Organic chemicals', other natural commodities, and aluminium and related articles.

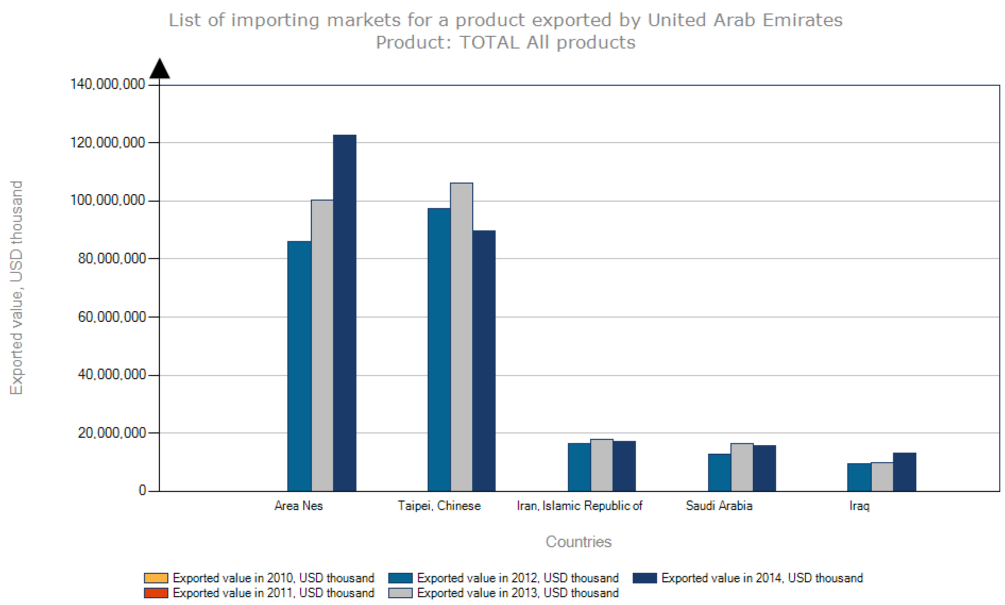

FIGURE 39: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

Even though the UAE's non-hydrocarbon exports are relatively marginal, it is still necessary to look at which are the UAE' major export destinations in the relevant product categories. Again, a significant bulk of data is classified, as Figure 39, above, demonstrates. Following the 'Areas Not Elsewhere Specified', Taiwan interestingly features as a major Emirati non-fuel export destination. It is followed by neighbouring Gulf countries primarily. The picture is clearer in the destinations of the product label 'Plastics and articles thereof', evident in Figure 40. Here, China's staggering market is highly visible.

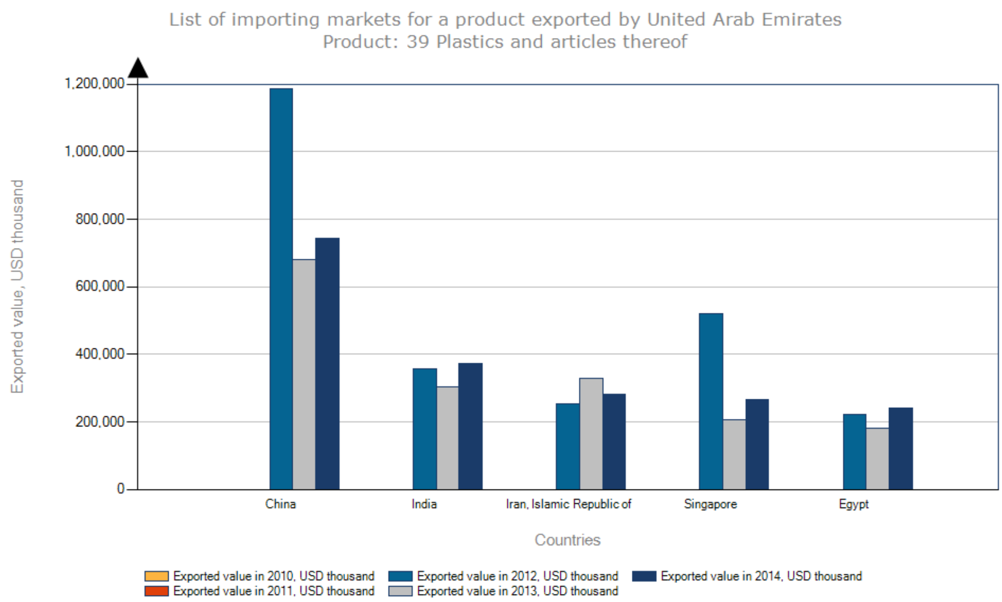

FIGURE 40: *Source:* International Trade Centre, Trade Map [Unit: US $ Thousand].

Hence, whilst the UAE seems to be significantly dependent on the Chinese market also for its marginal amount of "non-hydrocarbon" exports, this entails that the overall Emirati GDP dependence on them is not very high either. It goes without saying that China, the world's second largest economy, would notice a hypothetical absence of these Emirati products even less.

To summarize, China-UAE trade is significantly imbalanced in China's favour for three reasons. Firstly, the UAE's small size necessarily places it at a structural disadvantage. Secondly, the UAE's role as a regional and trans-continental trade hub draws in large amounts of Chinese goods which are then re-exported to other countries. The absence of this hub status would greatly reduce the trade value even further. This would have the effect of balancing Sino-Emirati bilateral trade, but it would also strip the UAE from its re-export revenues. Finally, the UAE economy is not a major goods producer except for hydrocarbons. Besides oil, it is largely an exporter of capital, even as it absorbs ever more amounts of foreign direct investment – including China's.

8.2 Sino-Emirati Investment and Project Contracting

In the past decade, China-GCC and China-UAE capital flows in the form of FDI and EPC have also greatly increased, though, especially in terms of value, on a much slower and lesser scale than trade. A significant bulk of FDI and EPC flows between the countries has been conducted by state-owned enterprises (SOEs), sometimes co-facilitated via credit-supplies from their mother countries' large sovereign wealth funds (SWFs), but also, though to a lesser value, between private companies.[963]

Accurate data on FDI flows is usually much harder to find, than on trade. Often the information is not publicly available, and databases often contradict each other due to different definitions and categorizations. Though the Sino-Saudi FDI values are higher than Sino-Emirati ones, it seems the latter are composed of smaller, but more numerous projects. There are more Chinese companies in the UAE than in Saudi Arabia, and more Emirati businesses in China than Saudi ones. The investment balance in the China-UAE case seems to be narrower. According to Dhaman, as this chapter shows below, there seems to be a higher value of Emirati greenfield investment in China than Chinese greenfield investment in the UAE. In EPC contracts, Chinese companies are much more active in the UAE though, even if their number and total value is lower than in Saudi Arabia, as the CGIT shows.

8.2.1 China's Investment into the UAE

Figure 41 again shows the distribution of China's outward infrastructure investment in the form of EPC contracts into GCC countries between 2005 and 2015, according to the Heritage Foundation's and American Enterprise Institute's China Global Investment Tracker (CGIT).[964] Due to its size and importance as a hydrocarbon

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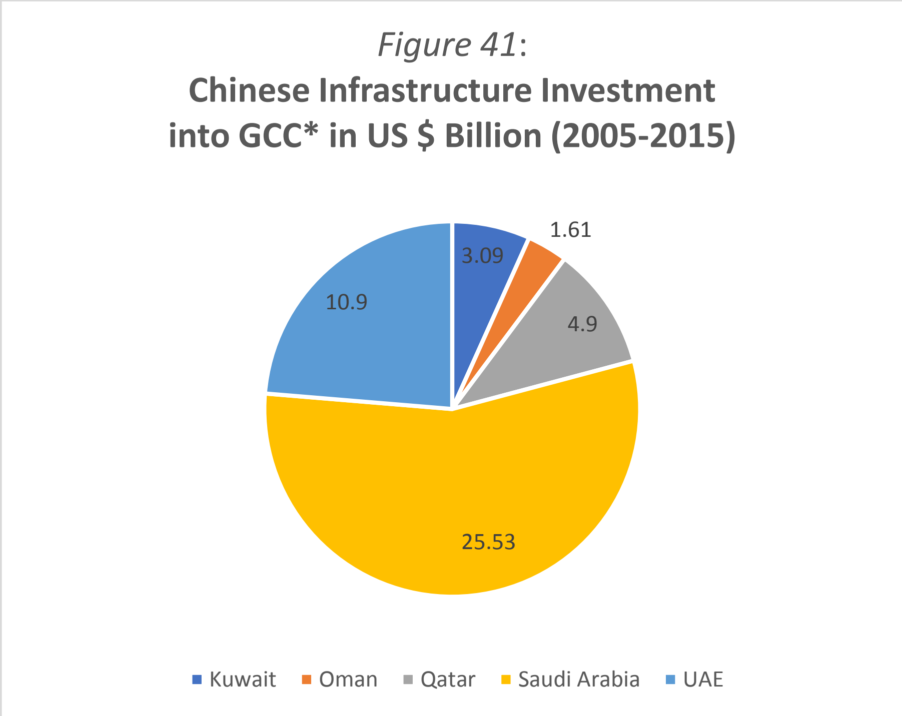
[963] Bazoobandi 2015; Davidson 2010: p. 45.
[964] *American Enterprise Institute*, 'China Global Investment Tracker' [http://www.aei.org/china-global-investment-tracker/].

source, Saudi Arabia clearly dominates the field, with more than half of the GCC's share, as seen in the previous chapter. The UAE follows as a clear second, absorbing approximately $11 billion over the same period, which accounts for roughly a quarter of all Chinese infrastructure investments in the GCC.



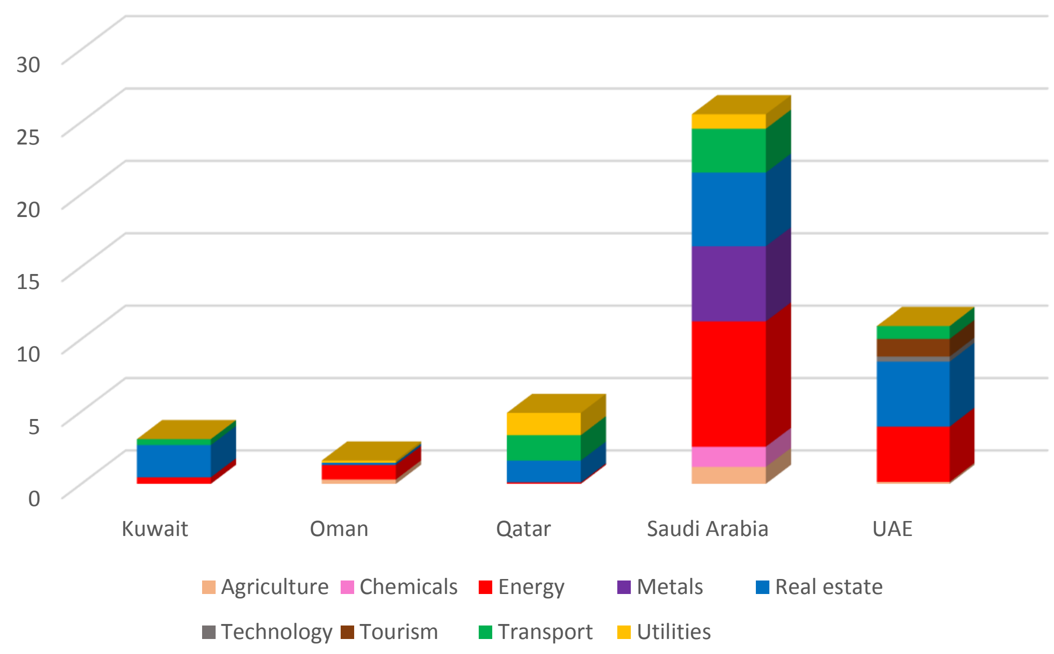
* excluding Bahrain (no data)

Source: American Enterprise Institute, China Global Investment Tracker [MS Excel chart created by author].

Figure 42:

Chinese Infrastructure Investment into GCC* by Sectors

in US $ Billion (2005-2015)



* excluding Bahrain (no data)

Source: American Enterprise Institute, China Global Investment Tracker [MS Excel chart created by author].

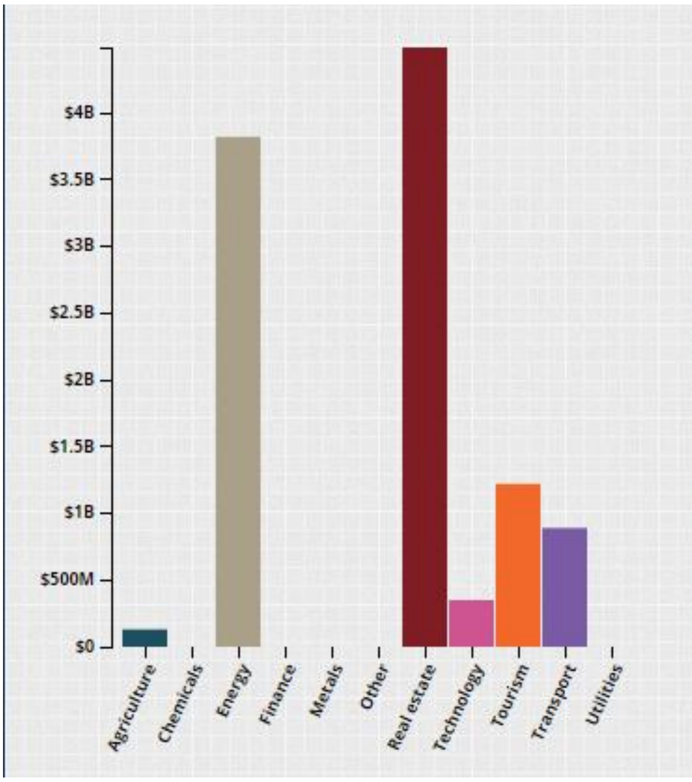


FIGURE 43: Chinese Investment into UAE in US $ Billion (2005-2015).
Source: American Enterprise Institute, China Global Investment Tracker.

Figures 42 and 43 break down those Chinese infrastructure investments into six Emirati sectors, encompassing agriculture, energy, real estate, technology, tourism and transport, with energy and real estate seeing a strong dominance. Compared to Saudi Arabia, there is slightly less sector diversity in Chinese EPC-contracts, but more compared to other Gulf states. As seen in Figure 43 above and Figure 45, further below, total proven investment value for construction contracts in the decade between 2005 and 2015 in the Emirati energy sector reached $3.82 billion, trailing just behind the real estate sector, which saw a value of $4.49 billion.

The following sections will address the major EPC projects. Before turning to them, it has to be noted again that, as with Saudi Arabia in the previous chapter, the CGIT does not cover the bulk of Chinese FDI flows into the UAE. Yet, there have been thousands of cases, often relatively small and therefore possibly disregarded in the CGIT. Yet, China's investment into the UAE also incorporates a presence of several large and established Chinese commercial tech-brands such as China Mobile, China

Telecom, Huawei, and Lenovo which the CGIT also does not incorporate.[965] Another major example is the above-mentioned Chinamex investment to establish Dragon Mart, which hosts thousands of Chinese SMEs. Other than China's large companies which are mostly state-owned, Dragon Mart incorporates the highest amount of private Chinese businesses. Tong Wu, who runs the China Desk at Citibank's branch in Dubai, explained this to the author with Dubai's hub status which also attracts SMEs from China.[966]

More than 4,000 Chinese enterprises are said to be listed in the UAE.[967] By the end of 2016, 230 of them had been registered in Jebel Ali Free Zone (JAFZA). China maintained its top position there the following year as well.[968] With its companies being relative newcomers to the country and the region, more can be expected soon.

Inward investment in UAE between January 2003 and May 2015

Rank	Exporting Countries	No. Companies	No. Projects	No. Jobs	Cost (Million $)
1	India	273	339	38,257	25,065
2	United States	724	880	53,007	21,121
3	United Kingdom	551	644	31,998	11,720
4	Germany	193	243	23,172	7,691
5	Japan	95	106	8,222	7,373
6	Kuwait	44	62	21,138	7,039
7	South Korea	30	41	14,137	6,480
8	France	166	215	17,089	6,051
9	Australia	62	68	10,261	4,602
10	Singapore	38	47	10,400	4,545
11	Saudi Arabia	55	61	14,491	4,293
12	Switzerland	98	123	14,304	3,475
13	Holland	64	81	6,487	3,017
14	Canada	56	69	7,450	2,796
15	Belgium	27	33	3,097	2,521
16	Italia	84	100	9,703	2,425
17	Spain	80	85	5,455	2,068
18	China	37	47	2,354	1,448
19	Pakistan	14	18	6,420	1,354
20	Bahrain	19	23	4,743	1,179
21	Lebanon	20	25	3,297	1,169
22	Hong Kong	31	39	2,906	1,078

FIGURE 44: *Source*: Dhaman Investment Attractiveness Index 2015, p. 113.

965 *China Mobile* (2016), 'Contact Us' [https://www.cmi.chinamobile.com/index.php?lang=en&Itemid=216]; *China Telecom* (2017), 'About China Telecom Middle East FZ-LLC' [http://www.chinatelecomglobal.com/subsite/arab_Introduction.html]; *Huawei* (2017), 'Branch Office' [http://e.huawei.com/ae/branch-office]; *Lenovo* (2017), 'Contact Lenovo. General Information' [https://www3.lenovo.com/ae/en/contact/].
966 Wu, T. (Citibank), interviewed by the author on 17 August 2015 in Dubai, DIFC. See Consent Form attached.
967 Rakhmat 2015a.
968 *Gulf News* (2013), 'Jebel Ali Free Zone trade hit $80.2b in 2016'. 13 August 2013 [http://gulfnews.com/business/economy/jebel-ali-free-zone-trade-hit-80-2b-in-2016-1.2073414].

In terms of greenfield investments, Dhaman offers a slightly bigger picture than the CGIT. Yet, although more than 4,000 Chinese companies are present in the UAE, Dhaman was merely able to account for 47 conducted Chinese greenfield investments in the country between January 2003 and May 2015, which nevertheless is much more than the CGIT suggests. As Figure 44 shows, these were conducted by 37 companies, created 2,354 jobs, and generated roughly $1,448 million. Crucially, this meant that China was merely ranked the 18th largest foreign greenfield investor in the UAE. Given China's global economic importance and especially its high liquidity, this is an underwhelming performance. Though Hong Kong is listed separately, and also conducted 39 greenfield investments by 31 companies in the UAE, worth $1,078 million, and thereby coming 22nd, counted together, China would still be only ranked 15th, below Canada. Conversely, around 40% of foreign greenfield investment into the UAE was undertaken by Dhaman's top three countries, the UK, ranked third, the US, second, and, interestingly, India, first.[969] Hence, most of Chinese FDI into the UAE lies in the realm of joint venture projects classified as acquisitions. Furthermore, even in M&A, China's priorities are Europe and North America, where it seeks to gain access to high technology via FDI.[970] Last but not least, it is important to highlight again, that China, despite its four-decade long industrial revolution, has only very recently become a net capital exporter and a major force in outward FDI and still needs to catch up, whereas the US and UK have long been established investors abroad.[971] It was especially during and after the financial crisis that China's newly encouraged "go out" policy was made visible by the retreat of suddenly cash-strapped Western firms.[972] In the coming years, a bigger Chinese FDI impact, motivated further by the BRI, can be expected. Despite the modest relative value so far, Chinese EPC contracts in the UAE have been growing and diversifying over the years.

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[969] Dhamam 2016: p. 112. As mentioned in Chapter 5, this is almost certainly due to a looser definition of what constitutes FDI, with Dhaman incorporating businesses set up by independent Indian expatriates in the UAE.

[970] Alon, T., Hale, G., Santos, J. (2010), 'What Is China's Capital Seeking in a Global Environment?'. *Federal Reserve Bank of San Francisco*, 22 March 2010 [http://www.frbsf.org/economic-research/publications/economic-letter/2010/march/china-capital-seeking-global-environment/].

[971] Hellström, J. (2016), 'China's Acquisitions in Europe. European Perceptions of Chinese Investments and their Strategic Implications'. *FOI*, December 2016 [file:///C:/Users/Philip%20GS/Downloads/http___webbrapp.ptn.foi.se_pdf_39d4c651-1562-4864-8554-7d7310408250.pdf], pp. 11-19.

[972] Ma, D. (2017), 'How will countries respond to China's shift from global exporter to investor?'. In: *World Politics Review*, 19 January 2017 [https://www.worldpoliticsreview.com/articles/20945/how-will-countries-respond-to-china-s-shift-from-global-exporter-to-investor].

8.2.1.1 Energy

Figure 45 shows that China National Petroleum Corporation (CNPC) has invested large amounts into two UAE energy projects between 2005 and 2015. In 2008, it signed an EPC contract worth $3.29 billion to construct the Habshan-Fujairah oil pipeline. This single 380 km long piece of energy infrastructure, initiated by Abu Dhabi's International Petroleum Investment Company (IPIC), and installed jointly by CNPC and the China Petroleum Bureau, would ensure that the UAE could export more than half of its oil exports circumventing the Persian Gulf. The UAE's constituent emirate of Fujairah lies on the shores of the Arabian Sea, beyond the strategically sensitive Strait of Hormuz – an advantage the UAE had long sought to utilize and which the energy security-dependent China had also quickly recognized. Now pumping 1.5 million metric barrels per day, it has the capacity for 1.8 million in the future. Although completion of the pipeline was delayed briefly due to technical problems and late payments, it was finally completed in March 2011, reaching its full capacity by June 2012. It is operated by the Abu Dhabi Company for Onshore Operations (ADCO).[973]

[973] *China National Petroleum Corporation* (2008), 'CNPC and IPIC sign EPC contract of crude pipeline project'. 12 January 2008 [http://www.cnpc.com.cn/en/nr2008/201211/2f05be63d3e14b8188531efa383bb4b9.shtml]; *China National Petroleum Corporation* (2012), 'Abu Dhabi Crude Oil Pipeline becomes operational'. 17 July 2012 [http://www.cnpc.com.cn/en/nr2012/201211/6a40a138c83d45138dc2af66cf4ac9ee.shtml]; Pamuk, H. (2012), 'UAE ships first oil via Fujairah as Iran threats escalate'. *Reuters*, 15 July 2012 [https://www.reuters.com/article/us-uae-fujairah-pipeline/uae-ships-first-oil-via-fujairah-as-iran-threats-escalate-idUSBRE86E07N20120715]; Sharma, G. (2016), 'UAE's Oil Storage Hub Of Fujairah Taking On Established Ports'. In: *Forbes*, 6 October 2015 [https://www.forbes.com/sites/gauravsharma/2015/10/06/uaes-oil-storage-hub-of-fujairah-taking-on-established-ports/#697c6cb76e3f].

Year	Month	Contractor	Quantity in Millions	Transaction Party	Sector	Subsector
2006	January	**State Construction Engineering**	$300	Dubai Properties	Real estate	Construction
2007	January	**State Construction Engineering**	$350		Real estate	Construction
2007	January	**State Construction Engineering**	$160		Transport	Autos
2007	December	**Sinohydro**	$140		Tourism	
2008	December	**CNPC**	$3.290	International Petroleum Investment	Energy	Oil
2008	December	**State Construction Engineering**	$260		Transport	Autos
2009	January	**State Construction Engineering**	$440	Al Tamouh Investment	Real estate	construction
2009	January	**State Construction Engineering**	$230		Technology	Medical
2010	January	**China Communications Construction**	$130		Agriculture	
2011	January	**State Construction Engineering**	$450	Abu Dhabi Services	Real estate	Construction
2012	May	**China National Chemical Engineering**	$2.950		Real estate	Construction
2012	October	**Shanghai Electric**	$200	Utico	Energy	Coal
2013	January	**State Construction Engineering**	$160		Transport	Aviation
2013	March	**State Construction Engineering**	$120		Technology	Medical
2014	April	**State Construction Engineering**	$110		Transport	Autos
2014	April	**State Construction Engineering**	$100		Transport	Aviation
2014	May	**State Construction Engineering**	$100		Transport	Shipping
2014	August	**State Construction Engineering**	$330	Skai	Tourism	
2015	February	**State Construction Engineering**	$170	Arenco	Tourism	
2015	May	**CNPC**	$330	ADCO	Energy	Oil
2015	July	**State Construction Engineering**	$130	Damac Crescent	Tourism	

FIGURE 45: Chinese Investment into UAE in US $ Billion (2005-2015).
Source: American Enterprise Institute, China Global Investment Tracker.

In April 2014, CNPC, encouraged by the successful finalization of its Fujairah pipeline project and determined to build a reputation beyond "easier" downstream projects, wrote a new chapter in its relations with Abu Dhabi by acquiring a share of 40% in a joint venture with the Abu Dhabi National Oil Company (ADNOC). Under the name of Al Yasat Company for Petroleum Operations, both NOCs sought to boost Abu Dhabi's output further to the reach the goal of 3.4 mb/d by 2017.[974] It is understood that Al Yasat was assigned to riskier and underdeveloped oil fields in the Emirate, rather than participating in already highly productive ones.[975]

The joint venture is part of a wider Chinese strategy to secure upstream production rights abroad. A year later, CNPC won a $330 million bid to secure a contract with ADCO to develop Abu Dhabi's Mender oil field. Current projections estimate a daily output of 20,000 barrels once fully developed.[976]

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974 Kerr, S. (2014), 'China's CNPC signs UAE oil deal'. In: *Financial Times*, 29 April 2014: [http://www.ft.com/cms/s/0/cefe2f3e-cfb0-11e3-9b2b-00144feabdc0.html#axzz48Bgv9dEp].
975 Yee, A. (2014), 'China strikes deal with Adnoc on Abu Dhabi oil exploration'. In: *The National*, 29 April 2014 [https://www.thenational.ae/business/china-strikes-deal-with-adnoc-on-abu-dhabi-oil-exploration-1.598245].
976 McAuley, A. (2015), 'China state oil company wins Abu Dhabi oilfield contract'. In: *The National*, 18 May 2015 [http://www.thenational.ae/business/energy/china-state-oil-company-wins-abu-dhabi-oilfield-contract].

CNPC's first success stories in Abu Dhabi quickly raised speculation that it might acquire a stake in ADCO itself, after the latter's previous 40-yearlong concessions expired in January 2014, having had solely included established Western companies. France's Total was the first to win a new stake, acquiring 10% in January 2015, with Japan's Inpex taking 5%, and South Korea's GS Energy winning 3%. BP followed in December 2016, also taking 10%. Given that ADNOC holds 60% stakes of ADCO, there were 22% left and open for biddings for an entire year. In February 2017 it was finally announced that two Chinese oil companies would take the remaining 12% - making China the biggest foreign shareholder in ADCO. CNPC was awarded with 8%, whilst Shanghai-based CEFC China Energy Company acquired 4%.[977] Sultan al-Jaber, the UAE's Minister of State, had claimed before that ADNOC and ADCO were 'keen to work with all those who appreciate the value of long-term collaboration aimed at delivering benefits for both partners'.[978] The fact that two Chinese companies were then awarded with the final shares points towards how much trust in long-term commitment and technological know-how in upstream engineering Chinese firms already have earned themselves in the Emirates. Furthermore, the fact that China is now ADCO's largest foreign shareholder, ahead Japan and South Korea, and, more crucially, ahead of the historic Western Emirati partners, underlines China's new centrality in the UAE's energy interests.

Outside oil, further Emirati energy infrastructure projects have received Chinese investment. In October 2012, Shanghai Electric, the world's largest coal power company, signed a contract with Utico Middle East, the Gulf's major private full-service utility provider, for a joint project to build 'the world's greenest coal-fired power plant' in the Emirate of Ras Al-Khaimah. Seeking to meet Ras Al Khaimah's growing energy demand to power its marine and port industry, the Global CCS Institute reports that the 'facility will be located in the RAK Maritime City, Khor Khowir, which is growing fast as a major industrial hub with marine facilities and Al-Saqr Port, the Middle East's largest dry bulk port'.[979] Hence, Chinese investment into Emirati energy is going beyond oil. As the UAE at least officially seeks to champion

[977] Dipaola, A., Habboush, M. (2017), 'China Wins Big With Stakes in $22 Billion Abu Dhabi Oil Deal'. *Bloomberg*, 19 February 2017 [https://www.bloomberg.com/news/articles/2017-02-19/abu-dhabi-awards-china-s-cnpc-stake-in-main-onshore-oil-deposits].
[978] *Reuters* (2016), 'ADNOC says "door is still open" for UAE oil concession talks'. 4 April 2016 [http://www.reuters.com/article/emirates-oil-concessions-idUSL5N1770HB].
[979] *Global CCS Institute* (2012), 'Utico and Shanghai Electric launch Dhs1.5bn clean coal power plant in RAK'. 4 October 2012 [http://www.globalccsinstitute.com/institute/news/utico-and-shanghai-electric-launch-dhs15bn-clean-coal-power-plant-rak].

green technology and China's companies are busily establishing R&D on that front, it seems reasonable to suspect that both will form further such joint ventures in the UAE in the years to come. Outside the energy sector, Chinese construction companies have run numerous UAE real estate projects.

8.2.1.2 Real Estate and Other Sectors

As shown in Figure 45, one company – State Construction Engineering (CSCEC) – is clearly dominating in terms of quantity of projects, especially in the Emirati real estate sector. Between 2005 and 2015, according to the CGIT, CSCEC invested a total value of $3.41 billion into the UAE. As in the preceding chapter, it needs to be emphasized that the CGIT again is not entirely complete. However, this section will largely utilize the CGIT's data as a means to give a relatively representative overview of Chinese investment and project contracting in Emirati real estate and other sectors.

In January 2006, CSCEC signed a contract with Dubai Properties to build 275 villas and 42 apartments in Dubai's Mirdif area, and finished the project, worth $300 million, within 19 months.[980] A year later, the company was hired by National Bonds Corporation to build the Skycourts Towers, a luxurious apartment complex on the Dubai-Al-Ain Road. Under a contract value of approximately $350 million, construction was completed 27 months later.[981] Simultaneously, CSCEC began work on the comprehensive improvement of the two Parallel Roads, for a distance of 33 km, worth around $160 million.[982]

In 2009, the company secured its next two UAE projects, worth $440 million for the construction of a complex of towers and $230 million for a hospital. Hired by Al Tamouh Investment LLC, CSCEC launched construction of one office tower and four residential towers named the City of Lights. It will soon reach completion. Sheikh Khalifa Specialist Hospital has already been finalized.[983] In 2011, CSCEC won a further bid for participation in a 39 km^2 mega size housing project operated by Abu

[980] *China State Construction Engineering Corporation* (2017), 'China State Construction Projects' [http://www.chinaconstruction.ae/all-projects/]
[981] Ibid.
[982] Ibid.
[983] Ibid.

Dhabi General Services Company PJSC. The construction, valued at approximately $450 million, is scheduled to end within a 48-month period.[984]

In February 2015, the company was awarded a $170 million contract by Arenco Real Estate to complete the Five Star Resort Hotel on the Crescent of Palm Jumeirah.[985] The same year in July, DAMAC Properties hired CSCEC for a third time. The creation of a four-tower block hotel is valued at $130 million.[986]

These are just some examples taken from CSCEC's website of the kind of construction contracts undertaken by the company in the UAE. Being China's largest construction company and included in the Global Top 500 of Fortune Magazine in 2012 and keeping in mind China's increasing focus on the UAE and the GCC, it seems more than likely that CSCEC will extend its investment activity there even further in the coming years.[987] In June 2013, the company announced its first ever acquisition of shares in an Emirati business. In addition to a 45% ownership, CSCEC set up the joint venture, Assas, with SKAI Holdings, a Dubai-based real estate investment firm, in order to undertake construction of the Viceroy Palm Jumeirah hotel resort, worth $1 billion, in one of Dubai's most prestigious locations for tourism and leisure.[988] In January 2014, Industrial and Commercial Bank of China (ICBC) unlocked a further $203 million funds to SKAI. By September 2015, SKAI had secured investment from

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984 Ibid.

985 *China State Construction Engineering Corporation* (2015), 'Five-Star Crescent Resort Hotel on the Crescent of Palm Jumeirah' [http://www.chinaconstruction.ae/cscec-middle-east-l-l-c-awarded-5-crescentresort-hotel-on-the-crescent-of-palm-jumeirah/].

986 *China State Construction Engineering Corporation* (2015), 'CSCEC awarded new contract by DAMAC'. [http://www.chinaconstruction.ae/cscec-middle-east-l-l-c-awarded-artesia-at-akoya-by-damac/].

987 Maceda, C. (2013), 'China ramps up investment in the Middle East'. In: *Gulf News*, 25 June 2013 [http://gulfnews.com/business/sectors/general/china-ramps-up-investment-in-the-middle-east-1.1201837].

988 *SKAI Holdings* (2013), 'China State Construction Engineering Corporation to invest in SKAI Holdings AED3.67bn (US$1bn) Viceroy Dubai Palm Jumeirah'. 26 June 2013 [https://static1.squarespace.com/static/592be69e59cc6892f6090e01/t/593328acb8a79b65b0ae799e/1496524973459/0613+China+State+to+invest+in+Viceroy+Dubai+Palm+Jumeirah.pdf]. Comments by Yu Tao, President and CEO of CSCEC Middle East, highlight the magnitude of his company's deal, which he sees as representative of both CSCEC's and China's growing appetite for investment into the UAE and the wider region: 'We are thrilled to be partnering with SKAI Holdings to develop this exciting new project, which we believe will become one of the region's most sought-after resorts. This is CSCEC's first investment in a development project in the Middle East and marks a significant milestone in our growth in the region. […] Dubai's strategic location between Asia, Europe and Africa together with its burgeoning real estate sector is set to become a vital area of growth for Chinese investment'. See: Ibid.; His counterpart, Kabir Mulchandani, CEO of SKAI Holdings, echoed these sentiments: 'We are extremely pleased to be partnering with the world's largest contracting firm for our Viceroy Dubai Palm Jumeirah project. CSCEC's investment not only confirms its commitment to the region but also ensures that we are able to work in synergy to complete what is set to become one of Dubai's most prestigious hotel projects on time and to the highest possible standard'. See: Ibid.

seven banks in total, four of them Chinese: the Abu Dhabi Islamic Bank, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Minsheng Banking Corporation, Invest Bank and Arab African International Bank.[989]

Though this specific project stands out in terms of direct investment alongside the construction contract, as well as in terms of the attention it has attracted in the Emirati media, other Chinese companies have signed EPC contracts in Emirati real estate. Based on information from the CGIT, in December 2007, Sinohydro agreed to invest $140 million into the Emirati tourism sector. This seems to have flowed into the building of the Novotel and Ibis Hotel in Abu Dhabi, although this information could not be fully verified.[990] In May 2012, China National Chemical Engineering announced it had signed a contract with the Dubai Government's Construction Department, the Engineer's Office (EO) to build a large housing complex worth $2.95 billion over a period of 60 months. Once completed, this would be the largest non-energy related real estate project by a Chinese company in the UAE.[991]

Another Chinese infrastructure project in the UAE in 2010 is worth highlighting, as it was China's first investment in Emirati agriculture. China Harbour Engineering Corporation (CHEC), a subsidiary of China Communications Construction Corporation (CCCC), signed a $130 million contract with the Abu Dhabi Investment Company, a SWF, to design and build a strategic grain reserve in Fujairah.[992] This project is another example of the UAE's position as a regional hub: 'The purpose of the project [was] not only to provide sufficient grain reserves for the UAE but also to provide an important grain transfer hub for other countries in the Arabian Gulf'.[993]

For geographical, i.e. geo-strategic advantages, the project also underlines Fujairah's emerging contribution to the UAE's global and regional hub status. Mirroring the above-mentioned Chinese constructions of both the Abu Dhabi-Fujairah oil pipeline, and the coal power station, the location of this grain storage facility was carefully chosen for the same reasons. Fujairah marks a strategic location inside the UAE and

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989 *Construction Intelligence Center*, 'SKAI/CSCEC – Viceroy Dubai Palm Jumeirah Mixed-Use Development – Dubai' [[http://bit.ly/29sH3jF]. According to the Construction Intelligence Center, as of May 2016, 85% of construction has been completed.

990 Sinohydro's website became inaccessible at the time of thesis submission [www.sinohydro.com].

991 *REIDIN* (2012), 'CN Chemical Engineering secures RMB 18.64-bln deal in Dubai'. 30 May 2012 [http://www.reidin.com/News/view?ipcode=sg_ck&pubcode= sgck&date=20120530&sequence=1].

992 *China Harbour Engineering Corporation* (2015), 'Strategic Grain Reserve in Fujairah, UAE'. 22 January 2015 [http://www.chec.bj.cn/zg/tabid/896/InfoID/6311/Default.aspx].

993 *Fujairah in Focus* (2011), 'Strategic Grain Terminal in Fujairah—Latest News'. 6 October 2011 [http://fujairahinfocus.blogspot.co.uk/2011/10/strategic-grain-terminal-in.html].

the wider Gulf region, as it lies outside the Strait of Hormuz. This not only enables the UAE to compete with Oman and Saudi Arabia, the only other GCC countries with that geographical advantage. It also enables China to make use of any investment opportunity that can help reduce its trade exposure to the bottleneck problem, as highlighted several times above. Other than Oman and Saudi Arabia, the UAE already is a well-functioning regional hub, with Fujairah now adding another competitive layer to it. From an investment point of view, Chinese businesses see all these layers as a great risk mitigation for their capital injection into the Gulf.

8.2.1.3 Finance

China's outlook on investment in the UAE is also highlighted by the growing number of Chinese banks there. In October 2008, Industrial and Commercial Bank of China set up shop in its first Middle Eastern country. It chose the UAE, both Abu Dhabi and Dubai, in the former's Al-Bateen Area and the latter's Dubai International Financial Center (DIFC), as the location for its regional headquarters. On ICBC's website, it outlines its reasoning:

> 'This enables ICBC to become the pioneer of China-owned banks in the Middle East region, and will, on the basis of its advanced market position, excellent client base, multiple product structure, strong innovative ability and prominent brand value, allows ICBC to support various infrastructure financing demands in the United Arab Emirates, Qatar and the greater Middle East, and comprehensively provide various financial services including international trade, domestic guarantee and oversea[s] credit, project financing, to become the economic bridge and channel between China and the Middle East region'.[994]

Seeking to focus on commercial banking, development investment, and asset management, ICBC acquired its operating license from the UAE's Central Bank a year later.[995] DIFC itself was quickly keen to stress its interest in Chinese banking expansion in the UAE and to promote increased investment on China's New Silk Roads across Asia, adopting the OBOR buzzwords in the process and portraying the economic compatibility via a new abbreviation. Whereas for long the Gulf saw itself part of the MENA region (Middle East North Africa), it now talks about MEASA (Middle East Africa South Asia).[996]

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994 *Industrial and Commercial Bank of China* (2008), 'Abu Dhabi Branch' [http://www.icbc-ltd.com/icbcltd/about%20us/global%20websites/abu%20dhabi%20branch.htm];
995 Ibid.
996 *Dubai International Financial Centre* (2007), 'DIFC Aims to Further Increase Growing Commercial Ties Between the Middle East and China'. 4 September 2007

Other Chinese banks have followed. In November 2012, Bank of China (BOC) opened its regional branch, and first regional entity, in Dubai, also seeking to provide trade finance between China and the UAE and the wider Middle East and also infrastructure finance on the Belt and Road, including from Dubai. The exact status of BOC Middle East in DIFC meanwhile is unclear. Although the author could not acquire any information from the media, DIFC's website, whilst still listing BOC, also claims that its status has been 'dissolved' since 8 August 2017.[997]

In 2013, the Agricultural Bank of China also opened its first regional branch, likewise in Dubai.[998] Additionally, in November 2015, China Construction Bank (CCB) registered in DIFC. From the start, CCB's Emirati investment purpose was to closely align itself with China's BRI, which Xi Jinping had announced just a year before, and marketed itself accordingly:

> 'Following China national strategy of 'One Belt, One Road', combined with Dubai's advantage as center of cross-border trade and finance in MENA, CCB DIFC provides comprehensive financial service to Chinese customer with "Go Abroad" strategy and extends CCB's advantage to local high quality customers, acting as bridge connecting China, Middle East and North Africa'.[999]

With its Category One DIFC authorization, CCB products and services include lending to corporate and other institutional customers (except local Dirham-denominated business) in the form of deposits, trade financing, project financing, aircraft financing, as well as financial consulting for bigger investment deals.[1000]

[https://www.difc.ae/newsroom/press-releases/difc-aims-further-increase-growing-commercial-ties-between-middle-east-and-china]; *Dubai International Financial Centre* (2015), 'DIFC Concludes Visit to Shanghai and Beijing; Highlighted New Investment Opportunities to the Chinese Financial Community and Investors'. 12 September 2015 [https://www.difc.ae/newsroom/press-releases/difc-concludes-visit-shanghai-and-beijing-highlighted-new-investment-opportunities-chinese-financial-community-and-investors].

997 Rahman, F. (2015), 'Bank of China to have major presence in the UAE'. *Gulf News*, 8 July 2015 [http://gulfnews.com/business/sectors/banking/bank-of-china-to-have-major-presence-in-the-uae-1.1547238]; *Dubai International Financial Centre* (2017), 'Bank of China Middle East (Dubai) Limited' [https://www.difc.ae/public-register/bank-china-middle-east-dubai-limited].

998 *Agricultural Bank of China* (2017), 'Branch Profile' [http://www.ae.abchina.com/en/about_us/]. Comprising seven departments, and building on a multinational network, it now delivers various financial services, ranging from loans, deposits, and trade finance to large and medium-sized enterprises – international, Chinese, and Emirati, both inside the UAE, as well as in the wider region, and furthermore to Emirati and Middle Eastern funded businesses in China.

999 Similar to other Chinese companies' websites, CCB's also proved inaccessible at the time of submission, possibly due to the China Communist Party's (CCP) simultaneously ongoing congress, during which internet censorship was heightened. See: *Bloomberg* (2017), 'China's Internet Crackdown Isn't Going Away'. 19 October 2017 [https://www.bloomberg.com/news/articles/2017-10-19/a-stronger-xi-means-no-letup-in-china-s-internet-restrictions]; The information on CCB's investment in Dubai is normally found here: http://ae.ccb.com/dubai/en/gywm.html.

1000 Ibid.

These examples of relatively novel Chinese financial penetration of the Emirati and Middle Eastern business world seem destined to be the launching pad for an even greater range and scope of such investment activities in the future. In an interview with the author, Citibank's Tong Wu recalled that in just over two years his China Desk received 50 new Chinese clients, all active not only in the UAE, but the wider region, cash-pooling in DIFC and investing in several West Asian countries.[1001] At the time of writing, the Emirates and the wider Gulf are feeling the impact of a dramatic three-year oil price plunge, whilst China's GDP in 2015 marked its lowest growth rate for decades, and its wobbly stock market experienced vast capital flight, as mentioned in previous chapters. It is therefore remarkable how very little impact these simultaneous developments have had on financial transactions between Chinese banks and UAE-registered businesses. In fact, the opposite seems to have been occurring. According to an article in the UAE's Khaleej Times in March 2016, the recent history of China-UAE trade growth has caused 'Chinese banks in DIFC [to double] their balance sheet in the last 18 months'.[1002]

> 'According to [DIFC]'s 2015 full year Operating Review results, China's top four state-owned banks - Bank of China, Agricultural Bank of China, ICBC and China Construction Bank - have combined total assets of $21.5 billion. The four banks, representing 26 per cent of the total assets booked in DIFC, have additionally upgraded their licences at DIFC to Category 1, expanding their presence from subsidiary to branch status'.[1003]

Arif Amiri, CEO of the DIFC Authority, also highlighted China's BRI to be of profound importance to the Center's global strategic outlook:

> 'Contributing to a large portion of our business activity, we envisage an increasingly significant role for Chinese firms as we seek to become a leading global financial hub. [...] As China continues to invest in emerging economies across the region, DIFC's conducive and supportive framework acts as a gateway for companies looking to expand their business interests and investments in these markets. Linking Asia to Africa and Latin America, Dubai is emerging as a crucial hub along China's New Silk Road'.[1004]

Once again, Dubai's, and therefore the UAE's, central role becomes apparent. So does the diversity, not only in trade, but also in construction, investment, and finance, as this section has shown. Particularly the latter's fast growth in DIFC could become the harbinger for much more Chinese business in the UAE in the near future. Many industries have not been tapped yet and the Chinese do not yet enjoy the same overall exposure as for example Westerners or Japanese, as Mark Cooper, General

[1001] Wu, T. (Citibank), interviewed by the author on 17 August 2015 in Dubai, DIFC. See Consent Form attached.
[1002] John, I. (2016), 'Rising UAE-China trade spurs growth in DIFC'. In: *Khaleej Times*, 1 March 2016 [https://www.khaleejtimes.com/business/local/rising-uae-china-trade-spurs-growth-in-difc].
[1003] Ibid.
[1004] Ibid.

Representative of the insurance market Lloyds of London in Dubai, stated to the author. Lloyds does not seem to have many Chinese clients in Dubai, but neither has Cooper observed an emergence of Chinese competitors in his industry.[1005]

However, as this section has shown, Chinese investment into Saudi Arabia has grown rapidly and is likely to continue and diversify further, as the UAE's hub status acts as a magnet for regional and inter-regional business. The next question addresses how far this importance is matched or exceeded by the UAE's investment into China.

8.2.2 The UAE's Investment into China

Generally, the UAE is a very active and diversified outward investor. According to UNCTAD, in 2014, the UAE's FDI abroad accounted for approximately $3 billion in total – representing around nine percent of Arab outward FDI. In terms of outward FDI balances, the UAE's were worth $66.3 billion by the end of the same year.[1006] Drawing also from the Financial Times' FDI Intelligence database, the 2016 report published by the Arab Investment and Export Credit Guarantee Corporation (Dhaman) mentions that between January 2003 and May 2015 '2456 projects [...] [abroad were and] are being implemented by Emirati companies [...] [with e]stimations reveal[ing] that overall investment cost of those projects, which employ some 572.3 thousand workers, is close to 297.4 billion dollars'.[1007]

[1005] Cooper, M. (Lloyds of London), interviewed by the author on 22 November 2011 in Dubai, DIFC. See Consent Form attached.
[1006] Dhaman 2015: p. 112.
[1007] Ibid.

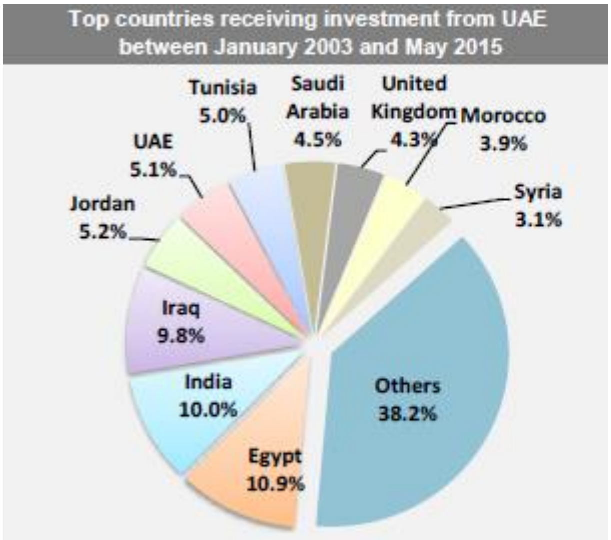

FIGURE 46: *Source*: Dhaman Investment Attractiveness Index 2015, p.113.

The data in Figure 46 shows that the UAE's outward investment is mostly focused on its Arab neighbourhood despite the high level of political and security risk relative to other regions. Between 2003 and 2015 almost half of Emirati FDI recipients were Arab countries. The two largest non-Arab recipients were India (10%) and the UK (4.3%).[1008]

China followed third in this list (3.05%), attracting approximately $9 billion from the UAE in terms of investment cost. Its overall place on the list is number 11. According to the Financial Times and Dhaman, these figures translated into 42 involved Emirati companies investing in China. These were again involved in 66 projects, all together creating 18.484 jobs, as seen in Figure 47. Given the size of China's economy and inward investment potential, this must be said to be a rather modest performance.

[1008] Ibid. p. 113.

UAE Outwards' Investment between January 2003 and May 2015					
Rank	Hosting Countries	Companies	Projects	Jobs Created	Cost (Million $)
1	Egypt	64	99	44,827	32,378
2	India	135	354	101,083	29,692
3	Iraq	33	48	17,445	29,135
4	Jordan	39	59	22,490	15,447
5	UAE	25	26	11,561	15,280
6	Tunisia	14	16	4,295	14,839
7	Saudi Arabia	135	201	32,140	13,489
8	United Kingdom	55	169	15,410	12,658
9	Morocco	25	46	21,120	11,693
10	Syria	17	21	22,388	9,275
11	China	42	66	18,484	9,074
12	Qatar	100	135	21,609	7,897
13	Indonesia	14	19	10,886	7,897
14	Lebanon	44	53	18,509	7,308
15	Pakistan	28	60	15,831	7,202
16	Bahrain	71	104	16,353	6,582
17	United States	47	69	12,897	5,395
18	Turkey	24	26	11,013	5,184
19	Oman	81	127	19,013	3,036
20	Nigeria	14	17	4,459	2,957
21	Australia	15	33	4,303	2,754
22	Kuwait	57	79	10,027	2,620
23	Russia	14	18	7,851	2,204
24	Malaysia	25	34	8,837	2,068
25	Spain	14	22	3,594	1,943
26	Germany	17	26	4,358	1,930
27	Peru	1	2	3,836	1,850
28	Senegal	5	7	4,814	1,743
29	Djibouti	4	4	2,545	1,695
30	Georgia	7	12	5,353	1,383
	Others		504	74,965	30,759
	Total		2,456	572,296	297,365

FIGURE 47: *Source*: Dhaman Investment Attractiveness Index 2015, p.113.

As stated above, investment relations between the GCC and China are still trailing behind the level of trade relations, especially considering GCC hydrocarbon exports, as well as Gulf imports/re-exports of Chinese manufactured goods. GCC and Emirati FDI into China has been growing, but not as much as had been expected. Especially in the growing Gulf petrochemical industry, the number of GCC projects in China is hardly overwhelming. The UAE for instance has no running project in China's petrochemical industry, unlike Saudi Arabia, whose slightly greater success could be explained with its much greater relevance as a long-term major oil exporter to China. Generally, the GCC's modest access to the Chinese petrochemicals industry is most likely due to the fact that the UAE and the other GCC states are China's low-cost competitors in this area – believed to be one of the major obstacles in the China-GCC free trade negotiations.[1009] Speaking to the Economist Intelligence Unit, Silk Road Associates' CEO Ben Simpfendorfer admits there has been some confusion over this, and adds that both China as well as the GCC have different priorities for the time being.[1010]

Portfolio investment is also moderate, at least relative the GCC's and the UAE's vast sovereign liquidity and per capita income.[1011] China's restrictions on foreign entities buying stocks in the mainland seems to be the principal reason for this relatively moderate level of (publicly known) portfolio investment, because the picture is different when it comes to Hong Kong.[1012] The most prominent portfolio investors can be found among the GCC's and UAE's sovereign wealth funds, which have been awarded "qualified investor" status, but have still found lower barriers there.[1013]

A sector in which highly regarded and solvent UAE companies could have profited immensely would have been Chinese real estate. However, the Chinese real estate market is mostly closed to foreign investors. Even where companies manage to get in, they face numerous regulatory issues. Additionally, as China's real estate bubble has greatly inflated land prices, the best times seem to belong to the past, at least for now. Emaar, one of Dubai's primary real estate developers had to learn this the hard way and saw itself forced to close down its operations in China after just three years.[1014]

Yet, opportunities remain and could increase as China gingerly reduces barriers for portfolio investment and FDI. Within the real estate sector, Nakheel, one of Dubai's flagships in the industry, and a subsidiary of Dubai World, has recently been in talks to invest directly for the first time into three Asian countries – China, Pakistan, and Vietnam.[1015] As a means to spread risk, diversify and stabilize its portfolio (and thereby Dubai's economy), it is telling that China and other Asian countries are among Nakheel's primary targets, despite the regulatory challenges and uncertainties.

[1009] Trenwith, C. (2015), 'The case for free trade in the GCC'. In: *Arabian Business*, 28 August 2015 [http://www.arabianbusiness.com/the-case-for-free-trade-in-gcc-604126.html].
[1010] EIU 2014: pp. 10-11.
[1011] Ibid.: p. 3.
[1012] Ibid.: p. 11.
[1013] Ibid.
[1014] Zhang, M. (2014), 'Gulf Investment in China: Beyond the Petroleum Sector'. *Middle East Institute*, 3 October 2014 [http://www.mei.edu/content/map/gulf-investment-china-beyond-petroleum-sector#_ftnref8].
[1015] Evans, J. (2016), 'Dubai property developer Nakheel in talks over push into Asia'. In: *Financial Times*, 15 March 2016 [https://www.ft.com/content/dc71b4a4-eab8-11e5-888e-2eadd5fbc4a4].

For UAE companies, tourism and the hospitality sector in China are potentially lucrative ventures. Dubai-based luxury hotel-chain Jumeirah Group, for instance, has signed contracts to build eight new resorts in China. Beside its already existing Jumeirah Himalaya's Hotel in Shanghai's Pudong District, the new resorts are being built in Sanya, Guangzhou, Haikou, Hangzhou, Macau, Nanjing, Qiandaohu, and Wuhan.[1016]

Another example for Emirati FDI into the Chinese leisure sector is Dubai's Meydan Group, which announced a strategic partnership with Chengdu Municipal Government in 2013. This UAE luxury resort and sports developer is specialized in horse-racing and aims to build up and then conquer the Chinese equestrian market. Since the announcement, there have been a series of annual Chengdu-Dubai International Cups in Chengdu from 2014 onwards.[1017]

In the retail and agricultural sector, Al-Futtaim Group, one of Dubai's largest conglomerates run by one of the city's most prominent merchant families, has considered investing into Chinese farmland. Participation in megaprojects such as the development of the Jilin Modern Agricultural Food Zone is thought to be planned via joint ventures with Singaporean companies who have more experience in the Chinese market.[1018]

Generally, different Emirati companies are gradually investing in diverse Chinese sectors, although much lower than expectations might have suggested.[1019] Yet, it has

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[1016] *Jumairah Group* (2017), 'Hotels and Resorts in Asia Pacific' [https://www.jumeirah.com/en/jumeirah-group/development/future-plans/hotels-and-resorts-in-asia-pacific/]. This marks the highest figure of the firm's foreign projects. A statement also to the Economist Intelligence Unit, by Jumeirah Group's CEO Gerald Lawless explains this focus on the extensive number of large Chinese cities that will, over time, move from a secondary to primary status. See: EIU 2014: p. 10.

[1017] *Gulf News* (2015), 'Meydan to partner Chengdu race day on April 3'. 8 March 2015 [http://gulfnews.com/sport/uae/horse-racing/meydan-to-partner-chengdu-race-day-on-april-3-1.1468402].

[1018] Sathish, V.M. (2011), 'UAE eyes investment in Chinese agriculture sector'. *Emirates 24/7*, 11 March 2011 [http://www.emirates247.com/business/economy-finance/uae-eyes-investment-in-chinese-agriculture-sector-2011-03-11-1.366765]. So far, no other potential projects have been publicly contemplated or announced. Yet, Chinese agriculture would seem to have a future in UAE investors' search for opportunities. Cities with a notable track-record and growth potential in primary industries, such as Yinchuan, which are less saturated than China's richer coastal provinces but still already enjoy direct flight connections to Dubai should be promising candidates for Emirati capital injections.

[1019] Furthermore, the reported numbers are conflicting. According to Rakhmat, 2013 saw UAE investments in China at a value of $1.5 billion, with around 650 Emirati projects contributing to this number. See: Rakhmat 2015a; Rakhmat's data can be traced back to the Chinese Ministry of Commerce. However, this contradicts the secondary data that Dhaman has published, as seen above. It is either incomplete, or the Chinese Ministry of Commerce is inflating the number. If neither of these explanations are true, then at least different definitions seem to produce quite different results.

enormous potential, and furthermore, this seems likely to be exploited once not only a China-GCC free trade pact is signed, but also once the AIIB and the SRF expand their projects and the UAE sponsors BRI-projects in China and also across Eurasia. So far though, only a few examples of prominent companies and projects, prior to the BRI, mostly in the transport sector and finance have attracted attention.

8.2.2.1 Shipping: Maritime Silk Road Builders

One of the most distinguished Emirati companies which has invested heavily in China is Dubai Ports World (DP World), with ports and logistics-centre operations in four Chinese cities, Hong Kong, Tianjin, Qingdao, and Yantai.[1020] Three of those ports had already attracted investment by DP World's predecessor, the British Peninsula and Oriental Steam Navigation Company (P&O), which Dubai Ports Authority and Dubai Ports International acquired in 2006 – to form DP World.[1021]

As if to symbolize the shift in the world's economic centre of gravity from West to East, the birth of DP World was accompanied by a headline-grabbing political scandal in the US that same year. Six American ports had previously been owned and operated by P&O. In the post-9/11 political climate, an Arabian-led company controlling American ports was a perceived security risk and too much for Congress to bear – despite President George W Bush's and Homeland Security's best efforts to support DP World. After much controversy, DP World was barred by 62-2 votes against.[1022]

Meanwhile, DP World's operations in China have largely been marked by success. In Hong Kong, DP World manages Container Terminal Three (CT3) located in the city's Kwai Chung port. Highlighting its role as a key maritime and logistics hub for Chinese and wider Asian trade, the company's website points to CT3's growing volumes:

[1020] Ibid.
[1021] Clark, A. (2006), 'Dubai's DP World wins battle for P&O with 520p-a-share bid'. In: *The Guardian*, 11 February 2006 [https://www.theguardian.com/business/2006/feb/11/1].
[1022] Sanger, D.E. (2006), 'Under Pressure, Dubai Company Drops Port Deal'. In: *The New York Times*, 10 March 2006 [http://www.nytimes.com/2006/03/10/politics/under-pressure-dubai-company-drops-port-deal.html]; Simpfendorfer 2011: pp. 57-59.

‘[T]he terminal is providing the necessary service to support its customers’ expansion needs. The terminal’s facilities are complimented by the ATL Logistics Center, the world’s first and largest intelligent multi-storey drive-in cargo logistics center’.[1023]

China’s north-east hosts DP World’s three other ports in that country. Qingdao’s role as a hub for Chinese exports from China’s third most productive province – Shandong – is demonstrated by the existence of several economic free zones in and around it. DP World-operated Qingdao Qianwan Container Terminal (QQCT) is therefore strategically placed to tap into these various export markets. Having transformed into one of China’s main seaports, it’s infrastructural connections have engendered smart logistics.[1024]

A similar strategic location is offered further to the north with Tianjin Port. Tianjin Orient Container Terminal has been run by DP World for several years now, and for good reasons. Located in Bohai Bay, the man-made port is mainland China’s biggest – with access to the Pacific Ocean and Tianjin’s river-and-canal-system. Further transportation links connect the port with the wider Tianjin and Hebei Province and with the capital Beijing 160km to the southeast.[1025]

The importance of China’s north-eastern coast is exemplified by the relative proximity of these two ports and the third one, located in Yantai. The volume of trade to and mostly from these littoral provinces has created extensive demand for port-expansion. Yantai forms Shandong Province’s second largest industrial hub. Its road and rail infrastructure link it with Yantai Port. Its cargoes mainly include cement, coal, iron ore, and fertilizer. Forming a joint venture with China Shipping and Yantai

[1023] *Dubai Ports World*, ‘Hong Kong – CT3’ [http://web.dpworld.com/our-business/marine-terminals/asia-pacific-indian-subcontinent/hong-kong-ct3/].

[1024] This is explained in detail by DP World’s website: ‘QQCT is located on the western bank of Jiaozhou Bay, inside the Economic & Technology Development Zone and next to the Bond Area. The terminal is only 68km away from Qingdao city, connected through the Jiaozhou Bay Expressway. QQCT serves mainly the hinterland of the Shandong province and offers the most convenient and economical access for Huangdao and the western hinterland. The facility offers excellent road access with Jinan-Qingdao highway, Yantai-Qingdao Highway and 308 National Highway connecting outside cities and has efficient rail links with the Jiaozhou-Huangdao Railway inside the terminal and Jiaozhou-Jinan Railway going outside’. See: *Dubai Ports World*, ‘China – Qingdao’ [http://web.dpworld.com/our-business/marine-terminals/asia-pacific-indian-subcontinent/china-qingdao/].

[1025] ‘The port facility includes a 5 km squared Free Trade Zone within the port area, which transformed Tianjin into an important transport hub as well as an industrial centre. The main industrial sectors in the area include petrochemical industry, textiles, car manufacturing and mechanical industries’. See: *Dubai Ports World*, ‘China – Tianjin’ [http://web.dpworld.com/our-business/marine-terminals/asia-pacific-indian-subcontinent/china-tianjin/].

Port Group, DP World (formerly P&O) has managed Yantai International Container Terminals – the port's principal container terminal, since 2003.[1026]

Additional to these established operations in China, DP World also announced further investment into China as a result of Sheik Mohammad bin Zayed's state visit to China in December 2015 (see also below). At the time, DP World confirmed it would invest a further $1.9 billion in Chinese port terminals by 2020.[1027] These examples of DP World's eastward flows of capital and expertise highlight the bi-directional character of what is now fashionably to call the 21st century Maritime Silk Road.[1028]

Yet, it would be wrong to see China or Asia as DP World's main investment destination, especially in the near-to-midterm future. As a DP World-analyst Ali Al-Gergawi explained to the author, his company is increasingly focusing on higher growth emerging markets – Africa and South America.[1029] As a result of a related re-shuffling of assets towards these markets, and due to an increasingly saturated environment in Hong Kong, DP World even decided to divest from there in 2013.[1030]

Nevertheless, vast and untapped areas of the Eurasian landmass might do offer DP World such opportunities too. As mentioned above, Xi Jinping's BRI offers numerous openings to co-invest into trade-enabling infrastructure. Indeed, DP World's previous and future investment into Kazakhstan's Khorgos Eastern Gate Special Economic Zone and into the Caspian Sea Port of Aktau should be read in this light – as also DP World chairman Sultan Ahmed bin Sulayem's rhetoric confirms:

[1026] 'DP World provides the terminal facility with operational management, global sales and marketing and the industry expertise [...]. Complementing the port is a contiguous export processing zone for warehousing and a logistics park'. See: *Dubai Ports World*, 'China – Yantai' [http://web.dpworld.com/our-business/marine-terminals/asia-pacific-indian-subcontinent/china-yantai/].

[1027] Reuters (2015), 'Dubai's DP World, partners set to invest $1.9bn in China'. In: *Arabian Business*, 15 December 2015 [http://www.arabianbusiness.com/dubai-s-dp-world-partners-set-invest-1-9bn-in-china-615459.html]

[1028] Given its similar scope of investment into other Asian countries, like South Korea, the Philippines, Indonesia, Vietnam, Thailand, and India, China is – as with so many Silk Road components – merely one part of the wider Pan-Asian story. See: *Dubai Ports World*, 'Marine Terminals' [http://web.dpworld.com/our-business/marine-terminals/].

[1029] Al-Gergawi, A. (DP World), interviewed by the author on 7 June 2015 in Dubai, Jumeirah. See Consent Form attached; double-digit growth there ensures higher and faster returns. Hence, those two continents are and will be prioritized over Asia. Logistics is a big business in Africa, because of infrastructural underdevelopment. As Al-Gergawi explained, DP World wants to use that not only in terms of infrastructure, but also with regard to consulting, efficient management, and customer service.

[1030] *Reuters* (2013), 'UPDATE 2-DP World sells Hong Kong assets for $742 mln'. 7 March 2013 [http://www.reuters.com/article/dpworld-hk-sale-idUSL6N0BZ14B20130307].

‘We already have a fruitful relationship with the government of Kazakhstan that we are looking to build on and will work with them on projects which support the flow of goods and enable trade across the region […] it remains an attractive market for us with huge long term growth prospects. […] Trade corridors such as the New Silk Road […] connect supply chains capable of remarkable global economic importance and as a global trade enabler, investment in infrastructure and developing that capability is part of our focus. […] We look at trade and logistics solutions, transport links and connectivity to the hinterland and how we can help improve efficiency for the benefit of economies’.[1031]

Thus, it can be observed, the UAE, in this case DP World, is not only an important bilateral economic partner to China. DP World seems here to endure as a player on the BRI’s maritime and land corridors, and in wider “South-South” trade and investment as such investments show and as the company is consciously pursuing.[1032] But also the third dimension in these corridors – aerospace – is being conquered by eminent UAE entities.

8.2.2.2 Aviation: Silk Roads in the Sky

Whilst the goods of 21st century trade are predominantly still shipped across the seas, people travel across the skies. Travelers on the New Silk Roads are no exception.

Ever since the ascendancy of air travel in the mid-twentieth century, the UAE, and again in particular Dubai, have extended their roles as a maritime hub to intercontinental aviation hub.[1033] Dubai International Airport (DXB) and its own aviation company, Emirates, have met competition also from Abu Dhabi with its own brand, Etihad Airways. Next to Qatar Airways, these two are building the new aviation empires circling the globe.[1034] The Persian Gulf’s and the UAE’s geographic position at the crossroads of three continents and within an eight-hour flying distance

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[1031] *Seatrade Maritime News* (2016), ‘New Silk Road riches secures DP World an audience with Kazakhstan President’. 20 June 2016 [http://www.seatrade-maritime.com/news/asia/new-silk-road-riches-secures-dp-world-an-audience-with-kazakhstan-president.html]. Bin Sulayem was stating these objectives following an audience with Kazakhstan President Nursultan Nazarbayev in June 2016, on the side-lines of an economic summit in St. Petersburg. Referring to DP World’s 2013 investment into Kazakhstan, he announced an investment expansion there. In 2013 his firm had entered a joint venture with Kazakhstan’s national rail company KTZ, to offer consulting services regarding the Khorgos SEZ’s and its inland container port’s management. Similar advisory roles were provided to rejuvenate the Port of Aktau as a Caspian Sea trading hub. These projects are now set to be expanded to further enhance Kazakhstan’s planned multi-modal transport system.

[1032] Mayenkar, S.S. (2014), ‘UAE’s contribution to China’s new Silk Road’. In: *Gulf News*, 14 May 2017 [http://gulfnews.com/business/economy/uae-s-contribution-to-china-s-new-silk-road-1.2026975].

[1033] The groundwork was laid by Imperial Airways (later BOAC – the forerunner of British Airways) and the construction and decade-long centrality of Sharjah Airport as a refuelling stop in trans-Asian travel – before it was gradually and then overwhelmingly out-performed by Dubai. See: Ghazal, R. (2010), ‘When Sharjah ruled the skies’. In: *The National*, 25 June 2010 [http://www.thenational.ae/news/uae-news/when-sharjah-ruled-the-skies].

[1034] *HSBC Global Connections* (2015), ‘Sky’s the limit for GCC’s aviation sector’. 22 December 2015 [https://globalconnections.hsbc.com/uae/en/articles/skys-limit-gccs-aviation-sector].

of now 80% of the world's population are the powerful hard facts that merely needed to be exploited by Emirati entrepreneurship and investment, in the wake of independence.[1035] This has happened in every sense of the word, resulting in DXB snatching Heathrow's long-held crown as the world's busiest airport in terms of flights.

> 'Traffic at the airport for passengers flying outside Dubai surged to 69.9m, overtaking Heathrow's 68.1m. [...] By 2020, Dubai authorities expect its main airport to welcome 98.5m passengers. Its aviation industry is projected to account for 22pc of the emirate's employment and more than a third of GDP'.[1036]

In addition to the growth of DXB, Dubai has embarked upon building a second airport – Al Maktoum International – close to Jebel Ali Port, its existing maritime counterpart. This will bring some of Dubai's industry and maritime trade closer to the whole world via air-cargo capability. It 'will be able to accommodate 160 million flyers a year after it's completed in 2020' and especially 'find itself operating the world's largest air-freight facility, capable of handling 12 million tons of freight a year'.[1037] This means it will overtake Hong Kong International Airport as the world's busiest air-cargo hub.

So far, DXB and Emirates Airline are the main protagonists in Dubai's aviation story. Therefore, Emirates is also a major player in conquering Asian airspace. It's impact on China-UAE and China-Gulf relations is of a direct and material nature as it carries people and freight between these countries. Emirates has invested heavily into the wider Asian and especially the Chinese aviation market for over a decade now. The company prides itself with being 'the first airline to establish non-stop connectivity between the Middle East and mainland China, launching freighter operations to Shanghai in 2002, followed by passenger services to the city in 2004'.[1038] Direct connections to Beijing were added in 2006 and Guangzhou in 2008.

[1035] Ibid.; Robehmed, N. (2014), 'How Dubai Became One Of The Most Important Aviation Hubs In The World'. In: *Forbes*, 4 June 2014 [http://www.forbes.com/sites/natalierobehmed/2014/06/04/how-dubai-became-one-of-the-most-important-aviation-hubs-in-the-world/#769f9e406875].

[1036] Anderson, E. (2015), 'Dubai overtakes Heathrow to become world's busiest airport'. In: *The Telegraph*, 27 January 2015 [http://www.telegraph.co.uk/finance/newsbysector/transport/11372616/Dubai-overtakes-Heathrow-to-become-worlds-busiest-airport.html].

[1037] Forbes 2014, 'Dubai Aviation Hub'.

[1038] *Emirates Group* (2016), 'Emirates & China. April 2016 marked the 12th Anniversary of Emirates' passenger services to China' [https://cdn.ek.aero/downloads/ek/pdfs/fact_sheets/Emirates_and_China_factsheet_English_version_Apr16_2.pdf].

Following these destination offerings Emirates announced an expansion of its direct connection services to Yinchuan and Zhengzhou in December 2015, on the side-lines of Sheik Muhammad bin Zayed's state visit to China. The four weekly flights to these fast growing and self-proclaimed New Silk Road hubs were launched half a year later in May 2016.[1039] Zhengzhou, the capital of the central Henan Province, is a major technology and business hub. Heavily Muslim-populated Yinchuan, the capital of Ningxia Province, brands itself visibly as China's cultural, educational, and trade gateway to the New Silk Roads with Arabian destinations. Chairman and Chief Executive of Emirates Airline and Group Sheik Ahmed bin Saeed Al Maktoum emphasized this in a statement after the agreement was reached:

> 'With the opening of these new strategic routes, Emirates looks forward to contributing to the enhancement of China's trade links with the rest of the world, in particular with the UAE and Arab world. We believe the new international air links that we are launching will help create tourism and trade opportunities for Chinese business and leisure travellers that may not otherwise exist. [...] With our established network across Africa, Europe and the Middle East, Emirates is a ready-made connector of people and trade, and we look forward to further developing aviation links with China in a mutually beneficial way'.[1040]

The services will provide a Boeing 777-200LR aircraft, including 266 seats and an additional capacity of 14 tons of cargo composed of goods such as electronics from Zhengzhou and agricultural products from Yinchuan. These trade-enabling investments pay direct homage to China's BRI-project with Emirates seeking a major financing and transportation role in the name of Dubai, UAE, Gulf, and pan-Asian interests. Emirates' website directly emphasizes that the company currently serves '54 cities in 30 of the 65 countries identified as part of the Belt and Road Initiative', congratulating itself on its unique position 'to support China in advancing its trade and investment links with these countries'. Further investment and expansion into the Chinese aviation market are already being planned in the form of daily services to Hangzhou and Chongqing.[1041]

The frequently high number of passengers on Emirates' existing flight connections to China seem to justify this optimistic planning. 'In 2015, Emirates carried more than 1.3 million passengers and 106,000 tonnes of cargo on its China services.'[1042] Once again, Dubai's role as both a destination and a hub becomes apparent.

[1039] *Emirates Group* (2015), 'Emirates Expands Network in Mainland China'. 14 December 2015 [https://www.emirates.com/english/about/media-centre/2850628/emirates-expands-network-in-mainland-china].
[1040] Ibid.
[1041] Ibid.
[1042] Emirates Group 2016.

'Emirates' passenger traffic out of China is highly diversified. Thirty four percent of Emirates' China traffic travels to the UAE and Middle East. This increases to 56% when combined with Africa. But, far from simply being a stopover point, Dubai is an increasingly important destination for business and tourist passengers, with Chinese visitors to Dubai increasing by 29% in 2015 to 450,000'.[1043]

These figures explain why Dubai's Department of Tourism and Commerce Marketing (DTCM) has teamed up with Dubai Duty Free and Ctrip, one of China's main online travel agencies, to draw even more consumption-happy Chinese tourists.[1044] Abu Dhabi is set to compete with Dubai for attracting their growing numbers.[1045]

The UAE capital is poised to do well if the success in catching up in aviation via its Etihad Airways is any sign. Yet, compared to Emirates Airline, Abu Dhabi's premier carrier is still noticeably behind its Dubai rival when it comes to successful investment into the Chinese aviation market. Alongside Hong Kong, so far, at the time of writing, Etihad only offers direct connections to three mainland cities from Abu Dhabi: Beijing, Chengdu, and Shanghai.[1046] In June 2016, Etihad announced expansion plans in China by targeting secondary cities.[1047] A further contributing factor could be other growing Chinese markets catering for Emirati and Abu Dhabi-based businessmen inside China. Again, Dubai companies dominate the landscape. This is becoming particularly evident through the growing number of Emirati banks in China and specifically the growing sector of Islamic Finance.

8.2.2.3 Finance

At the time of writing there are known to be three UAE banks with branches in mainland China. The first one to be awarded that licence by the China Banking Regulatory Commission (CBRC) to open a representative office in Shanghai, in 2008, was Union National Bank in 2008.[1048] The contract was signed with the intention of supporting the growth of bilateral trade and investment.

[1043] Ibid.
[1044] Graves, L. (2016), 'Dubai adds partnerships to bring in more Chinese visitors'. In: *The National*, 29 October 2016 [http://www.thenational.ae/business/travel-tourism/dubai-adds-partnerships-to-bring-in-more-chinese-visitors].
[1045] Scott, A. (2016), 'Abu Dhabi seeks large rise in Chinese tourists'. In: *The National*, 7 November 2016 [http://www.thenational.ae/business/travel-tourism/abu-dhabi-seeks-large-rise-in-chinese-tourists].
[1046] *Etihad Airways* (2017), 'Book your flight with Etihad Airways' [http://flights.etihad.com/en-us/].
[1047] Al-Ghazzar, S. (2016), 'Etihad Airways plans expansion in China and Africa'. In: *The National*, 1 June 2016 [http://www.thenational.ae/business/aviation/etihad-airways-plans-expansion-in-china-and-africa].
[1048] *Union National Bank* (2017), 'China' [https://www.unb.com/en/information/about-us/subsidiaries/China].

The National Bank of Abu Dhabi (NBAD) had similar motives when it opened its first branch in Mainland China in May 2012, next to its office in Hong Kong, established in 2009. This came at a time when UAE-China trade had already rapidly recovered from the global credit crunch and was nearing its 2014 record. Its business decision and Chinese officials' authorization were reached with the intention of going beyond mere bilateral trade and investment. Also via Shanghai, NBAD seeks to provide a bridge for wider China-GCC and China-Middle Eastern business ventures.[1049] A third UAE bank, Emirates NBD, followed this path a few months later and announced its new international expansion plan to incorporate a branch in China. It chose Beijing as its first location. Hesham Abdulla Al Qassim, vice chairman of Emirates NBD, emphasized the bi-directional potential for the growth of China-UAE and MENA trade and investment as a rationale.[1050]

These only very recent establishments by Emirati banks in China are reminder that at least this bilateral component of the New Silk Roads is a mere start of what seems likely to grow much further. Besides the UAE's SWFs, it is also the Islamic Finance industry which has captured recent business headlines in China and beyond.

So far, the expanding global footprint of Islamic finance has not reached mainland China yet. However, provinces such as Ningxia have recently launched initiatives to create a future Islamic finance hub in cities like the above-mentioned Yinchuan within the next decade. This would leverage not only the growing China-UAE trade and investment ties, but specifically also the already stirring networks blossoming between Ningxia and the Middle East.[1051]

[1049] 'The Representative Office supports NBAD group customers with their interests in China, providing liaison, consulting services and market insights, whilst building relationships with local correspondent banks. […] It also assists local Chinese companies who are interested in conducting business in MENA in identifying and introducing them to potential counterparties in the region'. See: *National Bank of Abu Dhabi*, 'NBAD China'[https://www.nbad.com/en-cn/business-banking.html]; *National Bank of Abu Dhabi*, 'About NBAD Hong Kong' [https://www.nbad.com/en-hk/about-nbad/overview.html].

[1050] 'Over the last decade, China has emerged as one of the Gulf's most important trade partners, both as a leading energy importer and as the world's largest exporter. […] Indeed, the Chinese business base in the UAE has witnessed considerable expansion, giving rise to a sizeable Chinese business and resident community. […] We believe this is the opportune time to expand our banking operations into China, and create a liaison point to support businesses operating in these two key markets'. See: Sambidge, A. (2012), 'Emirates NBD opens first office in China'. In: *Arabian Business*, 11 September 2012 [http://www.arabianbusiness.com/emirates-nbd-opens-first-office-in-china-472640.html].

[1051] Alam, N., Lee, C.G. (2015), 'How Islamic finance could be about to take off in China'. In: *The Conversation*, 5 May 2015 [http://theconversation.com/how-islamic-finance-could-be-about-to-take-off-in-china-40785].

All in all, merely about 2% of China's population is Muslim. Though this still equates to roughly 23 million people, which represents a potentially significant market size in its own right, analysts have underlined the eventual necessity to advertise Islamic finance as a means for transaction going beyond Muslim participation. This message has not yet been successfully delivered to the wider Chinese population. Consequently, Islamic finance requires a decade-long time-frame as a strategy for the industry to 'gain a larger foothold in the country'.[1052] Therefore, economists such as Nafis Alam and Chew Ging Lee recommend that 'Ningxia's initial focus should [...] be on developing a wholesale Islamic capital market, including Islamic bonds, equities and funds and making sure it is seen as a real alternative to the conventional market'.[1053] The province should turn to expertise from neighbouring countries such as Malaysia, Singapore, and Indonesia, where the industry has boomed in recent years, in order to receive fruitful consulting regarding the necessary Sharia-compliant institutional and legal reforms.

There is plenty of interest, especially in solvent Gulf states like the UAE. The Chinese government is very aware of this and is keen to support initiatives by big Islamic banks especially into its global financial hubs, such as Hong Kong with its lauded regulatory framework, but also the Shanghai Free Trade Zone.[1054] Once major Emirati banks open up branches there, they could utilize Islamic finance mechanisms when investing in major infrastructure projects inside China and beyond.[1055] China's new AIIB has been looking into such moves and has held talks with the Saudi-based Islamic Development Bank, which also incorporates the UAE as a member, to sell sukuk bonds for the BRI project.[1056]

Another example involves the Shariah Advisory Group who is advising HNA Group, a major Chinese conglomerate, in order to finance the development of a high-speed railway project in Shandong Province via a sukuk bond worth 30 billion yuan ($4.7

[1052] Ibid.
[1053] Ibid.
[1054] For Hong Kong's current and potential future role in Islamic Finance, see again: Ho 2014.
[1055] Alam, Lee 2015.
[1056] *Reuters* (2015), 'China-led AIIB studying use of Islamic financing'. In: *South China Morning Post* [http://www.scmp.com/news/china/policies-politics/article/1798725/china-led-aiib-studying-use-islamic-financing].

billion).[1057] Since Islamic finance operates interest-free, the major incentive for the potential Chinese borrowers would be to save money.

As a result of this growing interest, Beijing hosted a conference on Islamic finance with Chinese and Emirati government institutions and banks in May 2016.[1058] All in all, it seems reasonable to assume this industry will at some point see at least a moderate breakthrough in China. Once that happens, UAE financial services seem well-placed to be among the major participants.

8.3 Sino-Emirati Diplomacy and Strategy

Mirroring most of China's GCC relations and trade, its ties to the UAE are also a recent phenomenon. After China-UAE relations experienced an awkward delay in the 1970s, comparable to most of China's relations with GCC members, the two countries finally set up official diplomatic ties in 1984.[1059]

Bilateral trade was soon launched with a series of agreements between the two governments in the following years. Cooperation in economic and scientific research, an air cargo agreement, an initiative against double taxation and a trade promotion protocol, as well as a framework for investment and technical collaboration, were part of these first steps, which set the stage for what is now a deep, commercial relationship. Since the early 2000s China and the GCC have had several rounds of talks on a possible FTA, as mentioned above.[1060] Its successfully conclusion would also boost China-UAE trade, further enhancing the commercial role played by the UAE for China's Gulf trade.

In July 2011, on a visit to the UAE, then China premier Wen Jiabao and his trade delegation signed numerous agreements, reaching from a contract between CNPC and ADNOC, an energy cooperation protocol, a protocol on sports projects, as well as a contract removing visa-requirements for diplomatic passport holders (after general

[1057] Bernardo, V. (2015), 'China's is using Islamic finance to expand its new Silk Road'. In: *Business Insider*, 22 September 2015 [http://uk.businessinsider.com/r-china-turns-to-islamic-finance-to-expand-economic-clout-2015-9].
[1058] *The Gulf Today* (2016), 'Beijing to host 1st China-UAE meet on Islamic banking'. 18 May 2016 [http://gulftoday.ae/portal/1e5036bb-7e1b-433a-aab8-9da02207215c.aspx].
[1059] Olimat 2013: p. 163.
[1060] Ibid.: p. 164.

visa policies had already been eased in 2009).[1061] Furthermore, accompanied by a currency exchange swap, the UAE Central Bank and the People's Bank of China signed a pact on financial supervision and information exchange.[1062]

Half a year later, in early 2012, high-ranking officials from both states signed a joint communiqué for a comprehensive bilateral strategic partnership in trade, together with political cooperation, energy and construction, and cultural exchanges and tourism.[1063]

In February 2015, on an official visit to the UAE, Chinese Foreign Minister Wang Yi and his counterpart Sheik Abdullah bin Zayed Al-Nahyan announced an expansion of the bilateral partnership. Courting the UAE and its "Look East" policy for participating in President Xi Jinping's BRI, the meeting helped pave the way for a whole series of heads-of-state visits the same year.[1064]

Zhao Leji, a member of the Politburo of the Chinese Communist Party (CCP) Central Committee and Head of the CCP Organization Department, met Sheik Mohammad bin Zayed Al-Nahyan, Crown Prince of Abu Dhabi in May 2015.[1065] Shortly after, representatives from DIFC were hosted in Beijing, as part of 'Dubai Week in China', where they boldly advertised DIFC's competitiveness and attractiveness as a place for Chinese banks and other firms abroad, serving the wider Middle Eastern, African and European markets.[1066] High-level government officials and business elites of both countries were present.

In December 2015, on a state visit to China by the UAE's Sheik Mohammad bin Zayed and a large entourage, a substantial number of agreements was signed between the two countries. Dr Sultan Al-Jaber, UAE Minister of State, characterized the visit as a 'paradigm shift in this whole relationship'.[1067] In his supplementary role as head of

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[1061] Thafer, D. (2013), 'After the Financial Crisis: Dubai-China Economic Relations'. *Middle East Institute*, 15 September 2013 [http://www.mei.edu/content/after-financial-crisis-dubai-china-economic-relations].
[1062] Olimat 2013: p. 163.
[1063] Ibid.
[1064] Scott, E. (2015), 'China's "One Belt, One Road" Strategy Meets the UAE's Look East Policy'. In: *The Jamestown Foundation China Brief*, 15:11, 29 May 2015 [https://jamestown.org/program/chinas-one-belt-one-road-strategy-meets-the-uaes-look-east-policy/].
[1065] Ibid.
[1066] *Khaleej Times* (2015), 'UAE, China well poised to take relations to new level'. 16 May 2015 [http://www.khaleejtimes.com/article/20150516/ARTICLE/305169879/1037].
[1067] Cited in: Malek, C (2015), 'Sheikh Mohammed bin Zayed to meet Chinese president'. In: *The National*, 9 December 2015 [https://www.thenational.ae/uae/government/sheikh-mohammed-bin-zayed-to-meet-chinese-president-1.102395].

Mubadala Development Company, Al-Jaber and CNPC President Wang Yilin signed a strategic agreement for cooperation in oil exploration and production.[1068]

The most noteworthy MoU concerned a renewal of a renminbi swap agreement between the two countries, crucially, the establishment of a renminbi clearing house in the UAE, and the UAE's inclusion in China's RMB Qualified Foreign Institutional Investor scheme.[1069] As stated above, China has been active in the UAE to facilitate the growing internationalization of its currency. The specific deal permits the UAE Central Bank to lend 35 billion yuan (at the time of writing an equivalent of approximately US $5 billion) for bilateral trading. Even though these will probably not be used to a significant extent, and, according to Mark Williams, senior China economist at London's Capital Economics, might 'just remain an agreement on paper', this is still a necessary first step for the UAE to turn into a regional trading hub for yuan-denominated capital flows.[1070] For Dubai's (DIFC's) ambitions to compete globally with the financial centres of London, New York, Hong Kong, and Singapore, it will necessarily have to lay the groundwork to accommodate the possible 21st century realities of a more multipolar monetary order. Given for example Qatar's establishment of a renminbi clearing house earlier in 2015, Dubai also has regional competitors when it comes to ambitions to growing a regional financial hub for world trade, although DIFC's financial status and Qatar's recent isolation from most GCC countries and markets will further increase the UAE's competitiveness. It can therefore be expected that the Emirates will continue to intensify their China-friendly monetary openness, including their possible future embrace of what Flynt and Hillary Leverett have called the petroyuan.[1071]

Even though the dollar remains the world's leading reserve and transaction currency, including for energy trade, the fact that most Gulf oil exports now go to Asia, with

[1068] Further contract highlights from the state visit included a MoU mutually recognizing national driving licenses in each other's countries; memoranda for space research cooperation and for the field of meteorology; a protocol for diplomatic training and information exchange between diplomatic agencies and political science departments of key universities of both countries; an agreement on cooperation in higher education, as well as student exchanges; plus a cooperation protocol on archiving between both countries' national archives. See: *Gulf News* (2015), 'UAE and China sign agreements, MoUs'. 14 December 2015 [http://gulfnews.com/news/uae/government/uae-and-china-sign-agreements-mous-1.1637205].

[1069] *Reuters* (2015), 'UAE to set up Chinese yuan clearing centre'. 26 December 2016 [http://www.reuters.com/article/emirates-yuan-clearing/uae-to-set-up-chinese-yuan-clearing-centre-idUSL8N14F0AF20151226].

[1070] Bouyamourn, A. (2015), 'UAE renews renminbi swap deal with China'. In: *The National*, 14 December 2015 [https://www.thenational.ae/business/uae-renews-renminbi-swap-deal-with-china-1.104179].

[1071] Leverett, Mann Leverett 2015a.

China taking the largest share, and that most of China's foreign oil sources lie in the Persian Gulf, creates increasing incentives to conduct this trade in renminbi (yuan).

China's strategy is to internationalize its money also via currency-swap agreements with Gulf states and to facilitate RMB-denominated transactions. These have been growing in recent years, driving competition with the US and the dollar.[1072] This means that the renminbi 'for all intents and purposes [is] functioning more widely as a reserve currency', implying a long term policy orchestrated by Beijing to 'lay[…] the ground for a multipolar international monetary order'.[1073] For emerging markets, this new order would provide flexibility and choice, making them less dependent on developed-market currencies. Given that trade in commodities and manufactured goods is still a major driving force for economic growth in emerging market countries, this will strengthen their geo-economic clout and their voice in the global monetary institutions by simultaneously saving dollar-convertibility costs. The renminbi's sudden rise to global significance in the last half-decade represents the flagship of this change.

It is therefore only logical that Chinese-funded development and infrastructure projects across Asia, boosted by Xi Jinping's BRI, will also increasingly utilize the renminbi.[1074] As the Leveretts highlight, a wider Chinese monetary strategy goes beyond mere economic advantages and is fundamentally strategic in its nature.

> 'Chinese policymakers have watched Washington's increased propensity to cut off countries from the American financial system as a foreign policy tool. […] Chinese officials calculate that the renminbi internationalization helps mitigate China's potential vulnerability to such pressure. More broadly, Chinese policymakers understand the importance of dollar hegemony to America's capacity for unilateral global power projection. By chipping away at the dollar's relative standing as the world's premier transactional and reserve currency, Beijing can constrain what it sees as excessive US unilateralism in international affairs'.[1075]

In the Persian Gulf, China has been promoting its currency and is increasingly aiming at using it when exporting to trading partners such as the UAE, but also to purchase Gulf oil with renminbi. Gulf central banks stockpiling renminbi will give these the option to increasingly invest those reserves directly back into China. 'Promotion of [this emerging] petroyuan lets China expand the financial, monetary, and strategic

[1072] Ibid.: p. 125.
[1073] Ibid.
[1074] Howell, M. (2016), 'How China is taking the Silk Road to financial dominance'. *CapX* [https://capx.co/the-financial-silk-road/].
[1075] Leverett, Mann Leverett 2015a: p. 126.

options available to major energy producers'.[1076] These have several incentives to intensify the use of the petroyuan, including monetary, economic, and political ones.

The latter especially involves the potentially uncertain future of US security provision to the Gulf states. The Gulf Arab states see the necessity to diversify their global political partners, diplomatic allies, and ultimately their security guarantors. Turning themselves into trustable and reliable partners for China by acting within Beijing's core interests, could not only help ensure Chinese political neutrality between the Iranians and the Arabs. It could also lay the groundwork for a much deeper kind of partnership, possibly even an alliance in the future, if the circumstances allow it.[1077] This is also what Wheatley and his co-authors speculate, pointing towards enduring historic linkage-incentives of monetary and military power. China, they say, is likely to go down the same route.[1078]

None of these developments are likely to create a watershed in the region any time soon. The change is more gradual and subtle, but potentially dramatic, as the Leveretts emphasize.

> 'Of course, these are just opening skirmishes in the battle between the petrodollar and the petro*yuan*. [...] But just as surely, China will continue working to expand its influence in the region. And by promoting the petro*yuan*, Chinese policymakers calculate that they can slowly erode America's longstanding hegemonic dominance in the Gulf without firing a shot'.[1079]

It remains to be seen when and how these highly political monetary issues will develop. Sino-Emirati monetary cooperation though was also complemented by financial cooperation only a month after bin Zayed's December 2015 state visit. It was followed by the attendance of Mohammad Saif Al-Suwaidi, Director General of Abu Dhabi Fund for Development, in the opening ceremony of China's AIIB in Beijing, in January 2016. Having declared UAE participation already in April 2015, the UAE will contribute to the AIIB, funding construction projects across Asia, with a value of $237 million to be transacted over the next five years.[1080] Given the UAE's simultaneous embrace of the renminbi, the country has declared itself an important financial and monetary contributor to China's Gulf role, China's Belt and Road and China's rise.

[1076] Ibid.
[1077] Yet, it is important to stress differences between GCC members. Other than the UAE and Qatar, Saudi Arabia is not yet willing to promote the petroyuan, although this could quickly change with shifting monetary, economic, and political developments that affect Saudi Arabia. See: Ibid.
[1078] Wheatley 2013: pp. 152-155.
[1079] Leverett, Mann Leverett 2015a: p. 127.
[1080] *Gulf News* (2016), 'Uae participates in the opening of Asian Infrastructure Investment Bank in China'. 16 January 2016 [http://gulfnews.com/business/sectors/banking/uae-participates-in-the-opening-of-asian-infrastructure-investment-bank-in-china-1.1654671].

As the examples of high-level institutionalization of bilateral diplomatic relations demonstrate, China-UAE trade and investment connections are already wide and deep and seem set to intensify over the coming years. If current mutual objectives and estimations prove accurate, the UAE, at least in terms of business diversity and relative diplomatic harmony, could become the most important Gulf state in China's regional interests and in its wider New Silk Roads. Alongside energy interests, these diverse New Silk Roads will themselves help determine how far the 21st century will be China's.

8.4 Chapter Conclusion and Theoretical Assessment

The substantial growth of Sino-Emirati trade just over just over the past 15 years has been fast and large enough to go beyond CIT's label of interconnectedness, and the use of the word interdependence.

The fact that the UAE represents a regional trade hub for many of China's exports to the GCC, the wider Middle East, and to Africa, leads to the exact opposite balance of trade China conducts with the GCC. Contrary to the hydrocarbon-based Chinese trade deficit with the GCC, China enjoys a substantial trade surplus with the UAE – exporting for example cheaply-manufactured goods, electronic and electrical equipment, heavy machinery, textiles and food products. China would therefore be sensitive to a hypothetical trade cessation with the Emirates. It is primarily Dubai's identity as a regional and trans-continental trade hub – the "geographic sweet spot" – which is so far relatively unique in the Gulf, making the UAE not only more important to China than the rest of the smaller Gulf monarchies, but making it China's most important strategic business location in the centre of Spykman's rimland.

The UAE would surely feel an impact of a hypothetical suspension of its imports from China – both in terms of its own consumption, and of its re-export revenue from Chinese products. Its globally integrated economy would be sensitive, although not vulnerable to a loss of this.

In consideration of the Emirates' exports to China, its dependence on hydrocarbons is nearly total, even though the UAE's economic growth is not export-driven. Yet, China's market is the second biggest in the world, and in with regard to oil imports and consumption has recently caught up, if not overtaken the developed world's. Here, the UAE would not only be sensitive to a hypothetical stop to Chinese fuel imports, it would be vulnerable towards loosing that market at least in the mid-term future, despite its far more successful economic diversification vis-à-vis other Gulf states. Yet, the other way around, the UAE's small size entails that China cannot be called dependent on Emirati fuel imports. An asymmetry of interdependence is visible in this issue area.

All in all, though, these two asymmetries in trade relations – China's use of the UAE as a trading hub, and the UAE's dependence on the Chinese oil market – reduces what would otherwise be a highly asymmetrical interdependence between two overwhelmingly different-sized countries in their overall trade relations.

Investment flows in the form of FDI and EPC have been following the growing trade flows, however on a much lesser level so far. In CIT categorization, Sino-Emirati bi-directional investment does not go far enough to talk of recent or current interdependence, but rather, of mere interconnectedness. Moreover, much of the investment has come from SOEs, partly underwritten by SWFs. Such conditions are far away from CIT's ideal type.

Nevertheless, there are now thousands of small, medium, and large Chinese enterprises in the UAE, and markedly more than in any other Gulf country, which again demonstrates the UAE's relative competitiveness, and diversification and business hub status. Furthermore, the overall value of Chinese project contracting in UAE construction is the second highest in the Gulf after Saudi Arabia. Sectors include real estate and the energy industry. Remarkably, unlike in Saudi Arabia, Chinese oil firms have recently won several upstream development contracts in the UAE, including a major concession and the construction of an oil pipeline between Abu Dhabi and Fujairah. The latter location has also received several further Chinese investments, because it lies outside the Strait of Hormuz – connecting the UAE to the Indian Ocean and to China's 21st Century Maritime Silk Road, whilst circumventing the most sensitive strategic bottleneck in the world. Dubai's hub status, and all these further considerations have also resulted in the expansion of China's largest banks into the UAE, having an immediate financial impact in DIFC.

The other way around, some Emirati banks have established branches in China and many are eager to promote the expansion of Islamic Finance, first in Hong Kong, but also in Muslim-populated Ningxia Province. SWFs are thought to be active portfolio investors, particularly in Hong Kong. Prominent Emirati investments in China lie in the transport sector, both shipping and aviation – literally helping to build New Silk Roads. On the other hand, the investment that has not happened is at least as obvious. Chinese real estate has been invested into by some of Dubai's companies, though on a relatively low scale due to Chinese barriers. Neither have Emirati petrochemical producers found footholds in China so far.

All in all, FDI between the two countries, when incorporating EPC contracts, is mostly flowing in the other direction – creating an investment asymmetry. Generally, the scope of capital flows between China and the GCC and thus the UAE is still proportionally marginal compared to their investments elsewhere. Therefore, a hypothetical freeze would not have the highest of costly effects for the time being. This could change in the near future though from the UAE's point of view. Whilst a halt to Emirati investment in China would seemingly have next to no impact there, a stop of Chinese companies' expansion into Emirati free zones would be felt. So would Chinese banking in the UAE have a noticeable, and increasingly painful impact, given DIFC's recent, rapid and vast absorption of Chinese capital. If these developments intensify, which seems likely, the UAE will be not only be connected to China via multiple channels but will be increasingly dependent on what seems destined to become the world's largest economy. CIT would thereby become more helpful to Sino-Emirati investment matters than it is at the time of writing.

Ergo, it will become helpful to interpret Sino-Emirati monetary ties. As already pointed out in Chapter 6, there are signs that change in international monetary affairs is slowly occurring. China's economic rise has been mirrored by the relatively recent promotion of the renminbi as a future global reserve and transaction currency. The Sino-UAE relationship is beginning to have a potential influence on these wider matters. The UAE and some other Gulf states are contributing to the adjustment of the international monetary regime (as well as the closely connected producers' and consumers' oil-trade regimes) to mirror the gradual change in the distribution of power in the international political economy. China's establishment of a renminbi clearing house in the UAE and a bilateral currency-swap agreement might be cosmetic for now but could theoretically help prepare a future in which Sino-Emirati trade, even their oil trade, could be conducted with the renminbi. Unlike Saudi

Arabia, the UAE seems to be showing more pragmatism in these matters, at least for now.

The birth of a petroyuan would fundamentally re-distribute power towards China in the global monetary order and therefore also in geo-political matters. It would significantly elevate China's overall power in the Gulf. Still, a transformative level of issue area-linkage, in which China underpins Gulf and Emirati security in exchange for petroyuan-recycling in China is highly improbable in the near future, meaning also that a regime change is not (yet) taking place. Hence, neo-liberal institutionalism's assumptions of flexible regimes guaranteeing mutual gains remains the most accurate theoretical interpretation. Realism would only gain the upper hand in Sino-Emirati monetary relations if the two states formed an alliance against the dollar and against US Gulf military presence. Under which conditions this could or could not occur will briefly be touched upon in the conclusion.

In any case, China-UAE diplomatic relations have grown much closer over the years as a result of the advanced economic ties. China sees its most important Gulf partner in the UAE in a multitude of areas, if not in oil. Though the relations remain largely apolitical for now, both have a certain stake in each other's success and are enthusiastically cooperating and conducting state visits accordingly. The UAE is fully embracing China's rise, even as Abu Dhabi remains firmly allied to the US. This has not stopped it from joining China's AIIB and from supporting the BRI. Both therefore place great value on the creation of wider New Silk Roads.

The diversity in Sino-Emirati relations has spawned various fora and institutions for numerous areas of bilateral cooperation, creating multiple channels that connect both societies in government, business and beyond. The UAE is clearly the GCC state with the weakest hierarchy of issue areas in relations to China, making it also the closest Gulf case to CIT's ideal type, next to the structurally more weighted Saudi Arabia. Yet, as stated before, China-Gulf interdependence lies at the regional level rather than vulnerably on a bilateral level. Despite this argument, realism is even less equipped to describe the current state of Sino-Emirati relations, but could find much greater relevance also when viewing the region and China's role in it as a whole.

Conclusion and Outlook

The research question of this manuscript centred on the economic and geo-political impact of China's growing commercial ties to and diplomatic relations with the Persian Gulf states, illustrated especially by a focus on Saudi Arabia and the UAE. More broadly, it considered whether China is going to be the next dominating outside power in the Gulf region. Recent history and the present situation have seen the US fulfilling the role of Gulf hegemon. Given that China and the Gulf States are becoming more economically important to each other, at the same time as the Gulf states are becoming relatively less important economically to the US, it is necessary to ask whether the actors involved will facilitate or prohibit a changing of the guard. If the US followed incentives to withdraw militarily from the Gulf, would China fill the likely ensuing power vacuum there? This question is future-orientated, but nevertheless underpinned the motivation for this thesis. Its main body of work was not composed of future speculations, but presented an assessment of historic, recent, and current structures, situations, and developments that are relevant for an evaluation of China's and the Gulf states' recent and current impact on each other. Only when this information is provided, is it possible to engage in some informed speculation about the future.

In order to answer the research question, several methods and steps were utilized. The underlying task was not merely to give an overview and analysis of the nature and scope of China-Gulf relations, but also their contextualization – without which there would be little substance for an assessment of their impact.

The conclusion now seeks to bring the manuscript's various threads together to reply to the research question. The author starts by summarizing his basic findings on the nature and scope of China-Gulf relations, including the two case studies. This is undertaken via an evaluation of the problem which of the two theories, neo-liberal institutionalism or neo-realism, best captures the subject matter more accurately, or rather, which of the three hypotheses, two based on the two theories and one based on their synthesis, falls closest to reality. This is complemented by the same evaluation regarding the Gulf region's economic ties and diplomatic relations with Asia's other three major economies, Japan, South Korea, and India, to bring the inter-regional context back into play.

In the next step, the author taps into the historical context chapters' empirical insights and their theoretical interpretations and demonstrates their relevance or otherwise in assessing China's recent and current role in the Gulf. Finally, in two wider steps that first capture the recent and contemporary situation, and second, extrapolate its essence, the author presents the argument why he believes his neo-neo synthesis, regional hegemonic stability, is for now the most accurate concept for answering the research question, but also how the future may change this and produce another theoretical "winner". The three hypotheses were the following:

H1 (*neo-liberal institutionalism*): China-Gulf, Asia-Gulf, US-Gulf, and US-Asia interdependence prevents direct, hard great power rivalry in the Gulf region, incentivizing all actors to institutionally cooperate, with military security provided collectively, but playing less and less of a role the more interdependence grows.

H2 (*neo-realism*): China's, the US's, and other Asian outside powers' strategic interests in the Gulf makes geo-political great power rivalry there inevitable, leading the US to adopt a strategy that seeks to prevent China from playing a military security role in the region and leading China to a revisionist Gulf strategy.

H3 (*regional hegemonic stability*): The Persian Gulf region's centrality to global affairs promotes both diverse interdependencies and geo-political insecurity simultaneously, intensifying the need for Asia-Gulf-US cooperation, but reducing its likelihood, should economic flexibility and the American-led military stabilizing force not be maintained.

Nature and Scope of China-Gulf Relations

Trade between China and the Gulf states only began in earnest in the 1990s and only took off on its skyrocketing trajectory from the new millennium onwards, after China had joined the WTO. It was mostly due to China's increasing need for oil imports, which have dominated the Sino-Gulf trade ever since. As a result, China runs a substantial trade deficit with the GCC-bloc, covering half of its total oil imports from there, which again cover half of its oil consumption, which again covers over 20% of its overall energy consumption. With CIT categories, this makes China already vulnerably dependent on Gulf oil. Saudi Arabia has been China's most important Gulf oil provider and therefore most significant regional partner since the early 2000s.

The Kingdom is thus the biggest contributor to China's dependence on the Gulf. The same can be said the other way around. The Gulf economies are still heavily reliant on the export of their hydrocarbons, though in some cases at varying degrees. This is true for most of the small Gulf monarchies plus Iran and Iraq, but it is especially true for Saudi Arabia, which has become completely accustomed to its reliance on oil for everything. Simultaneously, the GCC and Saudi Arabia alone are therefore vulnerably dependent on market share in the world's largest oil importing countries. China has recently reached first position in that respect, will likely remain in it for the next two decades, and will have a growing oil demand.

Hence, a disruption of Gulf-China oil trade would have serious and costly reciprocal effects. Yet, the vulnerability interdependence between China and the Gulf is slightly asymmetrical. Whereas several Gulf economies, including Saudi Arabia, would be in danger of eventual collapse after a loss of the Chinese market, and although China's economy would also seriously suffer, it is easier to imagine a relatively faster Chinese recovery after some painful and costly adjustments in its energy mix. Nevertheless, the Chinese price to pay would be too high for this slight power-asymmetry in the energy issue area to translate into a usable Chinese power dividend.

China's imports of natural gas from the Gulf have been less important for now, relative to China's energy mix. Yet, they are growing and have much more potential in the future, because China is seeking to reduce its dependence on oil as much as possible. Qatar is already a large LNG supplier to China, making them interdependent, however asymmetrically, as long as China's economy does not rely more on gas, or Qatar diversifies economically. Iran is a future gas exporting candidate after the lifting of UN-sanctions, and could even supply China via pipeline, but its industry will take many years of upgrading first.

The China-Gulf non-hydrocarbon trade is almost entirely composed of Chinese exports to the Gulf, which come in the form of competitively priced manufactured goods, for example electrical and electronic equipment, heavy machinery, and textiles. They find large consumer markets in the Gulf, but relative to China's global exports, the region's importance merely reaches CIT's level of sensitivity interdependence. However, it can be placed in the former category, because many of China's exports to Africa and Europe enter Gulf ports and markets first, before they are re-exported. The UAE serves as the regional and trans-continental trade hub for this business, making it China's most important Gulf partner in that respect. This is proven by the fact that, contrary to China's trade deficit with the GCC-bloc, China enjoys a trade surplus with the UAE.

Hence, in trade matters, China and the Gulf states are highly interdependent, although Gulf energy exports are an issue area that overwhelmingly dominates so far. Despite such hierarchies of importance – faraway from CIT's ideal type – the Sino-Gulf energy interdependence is high enough for this neo-liberal institutionalist theory to be a useful tool.

This is less the case with regard to Sino-Gulf investment ties, which have trailed behind trade value and are not as diversified yet as might have been expected. Compared to the GCC states', but especially China's, worldwide investment, both blocs take up a noticeably lower share in each other's investments than is the case with trade. Though Iran is one of China's oldest investment destinations in the region, many projects stalled or were cancelled from the mid-2000s onwards, due to international sanctions on Iran. In Iraq, Chinese energy and construction companies have invested substantial amounts, but, for instance, Iraqi oil output has taken long to recover and is still in constant security risk exposure. Among GCC countries, Saudi Arabia and the UAE clearly dominated as China's capital destinations. Increasing numbers of Chinese firms have a presence in both countries. The UAE, as the business hub that it is, hosts far more of them for now, although Saudi Arabia's Vision 2030 is seemingly encouraging and partly already succeeding in enticing more Chinese FDI. Major Chinese banks are beginning to follow their non-financial counterparts. Via EPC-contracting, Saudi Arabia takes up more than half of China's infrastructure investment into the GCC, with the UAE taking around a quarter. The dominating sectors are real estate, transport, and energy. In Saudi Arabia's case, the latter sector has so far been confined to Chinese downstream investment, but the UAE has recently awarded upstream contracts to Chinese companies. This points towards long-term energy trade interests.

The other way around, Gulf investments into China are likely to be lower in general FDI and in EPC. Yet, many FDI, and especially FPI-flows, are classified or at least not reported in the press, making it impossible to provide a clear picture beyond a few noteworthy examples. Private investors seem to be particularly rare, and the SWFs, other than reporting their presence in the country, do not publish their specific portfolio-elements. Saudi Arabian energy companies have invested into China's petrochemicals industry in order to lock in China's long-term Saudi and GCC oil imports. Emirati investment into China has its most prominent cases in transport and "Silk Road" connectivity, both in shipping and aviation, and in the future possibly also in transport infrastructure on land. Furthermore, Gulf states have been enthusiastic supporters for building a trans-Asian Islamic Corridor – with Islamic Finance in China being seen as an untapped opportunity.

However, for bi-directional China-Gulf investment flows to date, the use of the interdependence label would be an exaggeration. CIT would describe the current state of affairs in this issue area as merely interconnected, even though connections are rapidly growing and could in the future add further layers to Sino-Gulf (energy-)trade interdependence.

Given the latter, governments of the states involved are deliberately seeking to help bring about such deeper and more diverse ties. Although Sino-Gulf diplomatic relations have become closer only over the last twenty years, this was primarily in reaction to the growing trade. Since the 2000s, numerous visits by heads of state were undertaken in both directions, each time accompanied by large business delegations producing new trade and investment deals. Towards the end of the decade, various institutional fora had been created and large conferences now take place on a regular basis in China and the Gulf. Moreover, diplomatic initiatives have gone beyond the facilitation of economic transactions, and have increasingly incorporated scientific, educational, and cultural exchange agreements. The rhetoric is very much focused on bilateral cooperation across the board.

Therefore, the same rationale that drives CIT is driving the actions of China and the Gulf states. Multiple channels connecting their societies are forming both state-driven, but also independent private networks. These will increasingly contribute to a condition described by CIT, even though its ideal type is faraway.

Nevertheless, it has to be emphasized that China-Gulf diplomatic relations so far have remained largely apolitical. On the one hand, CIT would underline that therefore no destructive politicization, i.e. issue-linkage, has taken place – thereby leaving the lucrative and important trade and investment ties undisturbed. On the other hand, a lack of politicization and a creation of a mutual strategy dealing with issue areas beyond the strict bilateral relationships also means that the deeper diplomatic cooperation has not created what realists would characterize as an alliance.

There are largely three reasons why China has constrained itself on the foreign policy front. Firstly, Beijing's mainly business-focused, apolitical foreign engagement, with the only exception of its direct neighbourhood, applies all around the world, not just in the Middle East, although China's direct neighbourhood in which China clearly acts with geo-political motivations is expanding especially via the Belt and Road Initiative. In Pakistan in particular, China's investments have a strong geo-political underpinning which is merely cloaked by the commercial rhetoric of the China-Pakistan Economic Corridor. However, the highly insecure and unstable Greater Middle East region, with its many political and violent conflicts, seems to give China an extra determination not to get directly involved. Beijing fears that political meddling in the Middle East, including the Gulf, would threaten its mutually stable and lucrative economic relations with all and the most important regional states.

The most sensitive and risky case is the enmity between Saudi Arabia and Iran, with their regional proxy wars on the Gulf's periphery. On balance, both countries are of equal importance to Beijing, even though Saudi Arabia has provided more oil over the last decade than Iran, due to sanctions. As Iranian oil re-enters the market, that picture seems likely to adjust though. If that were the case, China would continue to refuse to pick sides in the conflict and would aim to maintain equally strong relations with both. It can only do so with a hands-off approach, albeit the possibility exists that Beijing will step up its neutral mediation efforts. Indeed, there have already been a few signs that Beijing has been pressured into accepting such a role, but only to a very moderate degree so far.

Finally, the US is a crucial variable in China's apolitical Gulf approach. Beijing has clearly prioritized its most important economic relationship – and that is with Washington. This has meant that China has refrained from upsetting US political and security interests in the Gulf, a region that is firmly within America's prioritized sphere of influence. With the exception of condemning the US's Iraq invasion of 2003 and by supporting Bashar Al-Assad's Syrian regime, via UN-resolution-vetoes in the country's ongoing civil war, China has so far not clashed with the US in the Middle East. Beijing was less alarmed about the recent Iranian nuclear programme and based on economic and strategic interests resisted the harshest American-proposed sanctions. Nevertheless, it largely joined the international community in the attempt to sanction Iran and then help bring about the 2015 JCPOA. This multilateral cooperation in which globally networked states converge in institutions to solve problems collectively by separating sensitive issue areas, engaging in reciprocal compromises, and legally seeking to enforce accepted international regimes – in this case the WMD non-proliferation regime – is a prime example for an interdependent system and neo-liberal institutionalist dynamics.

However, it is necessary to highlight China's efforts to constantly water down each sanctions-resolution in the preceding years. This has been interpreted as a soft balancing strategy against the US and therefore against anti-Iranian Saudi sabre-rattling. Indeed, this points towards a Chinese hedging strategy for the Gulf. China's current and favoured approach of equally strong relations with both Saudi Arabia and Iran is much less likely to work if US-China relations deteriorate, and the Saudi-Iranian enmity escalates into direct war. For the eventuality of both those things happening simultaneously, China is more likely to tilt towards Iran for geo-strategic reasons: Iranian oil (and gas) can be pumped to China through pipelines on land, away from the Gulf, and outside the immediately US-dominated sea lanes. On a more comprehensive scale, Iran is the ultimate economic and geo-political prize for China's Silk Road Economic Belt, connecting China to the central rimland's only outlet to both the sea and the heartland, areas that have also seen large Chinese infrastructure investment even prior to the announced BRI.

All in all, for now, neo-liberal institutionalism including CIT, is the more accurate theoretical interpretation of China-Gulf relations, despite shortcomings. Up until now, the story has been one of cooperation, and a deeper institutionalization of multiple connections following and facilitating ever expanding trade interdependence and investment interconnectedness. Although energy is the underlying motivation for almost all of this, and the fact that there is thus a clear hierarchy of issue areas, so far, these issue areas have not been linked either constructively via an alliance with any Gulf state, or destructively via a rebuff of any one either. Yet, if the two most important bilateral relations in this equation, Saudi-Iranian and US-China relations deteriorate, China's strategy is likely to face a heavily undesired, but possibly necessary change and could turn from multilateral cooperation and occasional soft balancing to some form of hard balancing – suddenly making neo-realism the more relevant theory.

As these considerations show, a sole bilateral analysis of China-Gulf relations and a more polarized interpretation via either neo-liberal institutionalism or neo-realism does not suffice to interpret strategically relevant structures and developments regarding China's Gulf role. First, other outside actors, including China's Asian competitors in the Gulf need to be included into the discussion.

The Inter-Regional Context and China's Asian Competitors in the Gulf

China and its companies not only compete with their Western counterparts, but also with other Asian ones. The New Silk Roads have many origins and destinations and all of their participants have strong mutual interests, despite economic competition. This condition is heavily influenced through growing economic interdependence both among Asian countries and with the Gulf states. The free flow of oil and other goods gives all these states strong incentives to pursue cooperation under the motivation of absolute gains, closely resembling neo-liberal institutionalist assumptions. These include the absence of destructive issue-linkage and the separation of various issue areas which are governed by international regimes.

Japan and the Gulf region are characterized by ongoing, slightly asymmetrical vulnerability interdependence in energy trade, with the Gulf states being heavily dependent on the large Japanese oil market, but with Japan even more dependent on Gulf oil. In FDI and EPC ventures, the Gulf states, particularly pre-1979 Iran and post 1991 GCC, have received high amounts of Japanese investment and have also moderately invested in Japan. However, these capital flows are reduced to mere interconnectedness rather than real interdependence and this may further entrench itself as Japan faces tough intra-Asian competition. Whereas South Korea has recently overtaken Japan in high technology transfer to the GCC, China is by far the largest lower-tech investor.

Japan's diplomatic relations with the Gulf states have firmly followed the US's regional alignments. The alliance between Tokyo and Washington encompasses American security provision for Japan, both at home in East Asia, as well as in Gulf energy security. However, Japan is beginning to act in a more realist manner as it amends its Peace Constitution, intensifies diplomatic cooperation with the GCC and makes use of its recently opened naval base in Djibouti, also to counteract China's growing geo-political involvement there and in the wider Indo-Pacific.

South Korean-Gulf energy and non-energy trade can be characterized as sensitivity interdependent in the short run, but possibly vulnerability interdependent in the long run. The reliance on each other in energy trade is high but not as high as between Japan and the region. Furthermore, South Korea is a small country compared to China, India, and even Japan – making the impact of a potential breakup less severe. Yet, South Korea's exports of high tech and other goods to the Gulf have significantly grown and have been followed by increased FDI and EPC projects, especially in the GCC. There, the Gulf and South Korea are moving from interconnectedness to asymmetrical interdependence, with South Korea being able to offer the GCC much more than the other way around.

These economic ties, the most diversified between an Asian country and the GCC, have been accompanied by closer diplomatic and even military cooperation in recent years. Yet, South Korea's small size makes it unlikely to have a noteworthy geo-political impact on the region. Even more so than Japan, South Korea would only contribute to Gulf security within a more meaningful alliance of an outside power, currently the US, and the GCC.

This, one day, may be different with regard to India and the Gulf. India's geographic proximity and demographic impact on the GCC especially, is unique, and places the region in India's back-yard and traditional sphere of influence.

Between the Gulf and India, a relatively symmetrical trade interdependence exists, with energy clearly dominating the ties, as well. India is one of the largest oil markets in the world and could even overtake China in two decades. Next to China, India will be the most important economic partner to the GCC as well as Iran, even if just for its sheer size.

Indian expatriates contribute massively to the GCC economies. However, the figures don't make it into official Indo-Gulf trade and investment statistics, because there are often no micro-economic links to the "motherland" other than the substantial amount of remittances. Official Indo-Gulf FDI does not yet reach the level of other Asian countries in the region.

Nevertheless, Indo-Gulf diplomatic cooperation is intensifying at multiple levels, although it is still without a great strategic impact that it seems destined to have in the future. The contours of India's potential future roles are already visible though as India is courting both Iran and the GCC into close cooperation. India is motived not only by energy security, but also by raw national security, because the Gulf is its backyard, and the Sino-Pakistani alliance and China's BRI is fanning India's fear of strategic encirclement. Hence, increasingly realist incentives are guiding India's interests and behaviour.

Many different variables can influence America's and China's, and other Asian countries' grand strategy and their capabilities. The overall situation and Gulf conditions at the time of writing clearly point towards critical elements from both theories being in play simultaneously, as the Conclusion has so far demonstrated. Indeed, the elephant in the room is that both theories to a significant extent seem to depend on each other. Before addressing the three hypotheses, it is necessary to complete the contextualization by returning to Gulf outside power history in search for patterns, differences, and possible analogies that can help illuminative current and future Gulf affairs.

Historical Contextualization of China's and America's Gulf Role

Plenty of historic cases where the Persian Gulf has experienced the influential regional involvement of one or more outside powers can help to illuminate the meaning and consequences of China's emergence as one of the Gulf states' most important, if not the most important economic partners. They too, offer insights into the behaviour of established Gulf outside powers, as well as of course the Gulf states themselves. On a very general scale, four historical analogies seem interesting to apply to recent and current China-Gulf relations, albeit to different degrees.

In the first half of the 20th century, when US foreign policy was still very much checked by an isolationist strategy, American businessmen were everything but isolationist. Saudi Arabia and Persia enthusiastically opened their gates to American companies like Standard Oil. In the shadow of the British Gulf security system, American oilmen were simply there for business and could ultimately offer more investment and trade capacity than their British counterparts, whereas to the locals, American diplomats seemed genuinely interested in neutral mediation and in fostering development, rather than imperial and military domination. Though the Americans did not desire a British withdrawal from the Gulf, since they were free-riding on its military security umbrella, their businessmen did compete with the

British, and their diplomats formed independent political alliances, first with Ibn Saud's Saudi Arabia, and then additionally with Mohammed Reza Shah's Iran.

Chinese businesses have also entered the Gulf with sheer competitiveness, financial capability, and a large demand for Gulf oil. This is more than the established Gulf hegemon, the US, can offer at the time of writing, at least in terms of oil demand, trade, and infrastructure investment. Though the Chinese are also free-riding on the US Gulf security umbrella, they are simultaneously forming close diplomatic partnerships with both Iran and Saudi Arabia – possibly envisaging their own loose version of the former American "twin pillar" strategy with both those countries. At times, the Chinese also show the same soft balancing approach against the US, that the Americans adopted against Britain's dominating role in those countries. In any case, these are hints at a potentially more realist strategy by the Chinese in the future.

The second analogy can be found in the late 19^{th}- and early 20^{th}-century Gulf history, an era in which the British Empire's regional domination came under a perceived threat by another economic and geo-political rival. Imperial Germany's industrial and military rise was clearly also felt in the Greater Middle East, including the immediate Gulf neighbourhood. Aflush with revenue, German prospectors and businesses entered the Middle East in search for raw materials and to invest into the region's infrastructure. Most prominently, the Hejaz Railway and the Berlin-Baghdad Railway – also actively encourage by the German Emperor's propagandistic branding enthusiasm – sought to connect the underdeveloped Middle East with European markets, and especially with Germany itself. Although the Berlin-Baghdad Railway construction was only completed decades later, having been decisively interrupted by World War One, and never came to fulfil its grand promises, it clearly rang alarm bells in Britain upon the construction's launch. Although the financial, logistic, geographic, and geo-political obstacles were enormous, London saw its construction and Germany's new economic presence in the Middle East as a threat to the British Empire's sphere of influence in the centre of Eurasia's strategically vital rimland. This was all the more important to Britain, because the Gulf region was part of its informally ruled buffer zone that shielded off British India and the British-controlled Suez Canal – a highly realist strategy. Furthermore, Germany had entered an alliance with the Ottoman Empire, a regional power that, despite its decline at the time, thereby turned into a British enemy and threatened *Pax Britannica* on the Red Sea coast and the upper Gulf. Hence, Britain half-heartedly began to sabotage Germany's and the Ottomans' expansion of influence there, for example by successfully pressuring the parties to not extend the rail to the Gulf port of Basra. Although World War One did not originate in the Middle East, this new, more multipolar situation there, resulted in a large theatre of conflict in the region when war broke out.

China's late 20^{th}- and early 21^{st}-century rise in the era of *Pax Americana* has often been compared to that of Germany's in the era of *Pax Britannica*, one hundred years before. As evident from this brief description, the comparison also finds its relevance in today's heartland, rimland, Middle East, and Persian Gulf. Similar to the Germans in the early 1900s, Chinese businesses and prospectors are eager in their hunt for raw materials and large infrastructure deals in the region itself and in Central Asia. China's BRI, its rail-constructions, and its investments in the Gulf, promoted by President Xi Jinping with similar fervour as by Kaiser Wilhelm I, have been met with the region's enthusiasm and by simultaneous American opposition to the founding of the AIIB, despite its potential global economic promise. Arguably, an American embrace of the BRI would have conformed to the absolute gains logic of neo-liberal institutionalism, especially due to the AIIB's subsequent cross-institutional efforts; America's political opposition though clearly resembles neo-realism's relative gains focus. Though Washington has so far refrained from sabotaging China's plans and regional interests in the Gulf, a future in which US-China relations may deteriorate could theoretically suck this strategic region into a political or even military conflict.

The Gulf region has seen a great power clash on more than one occasion. The third relevant historic analogy lies back further in time. In the aftermath of Portugal's Gulf exit and the English East India Company's relatively small presence, the Dutch East India Company came to dominate business with Persia and Oman. The company's sheer competitiveness in spirit and, more importantly, in financial power, provided the Safavid rulers, and local merchants with what they were seeking: A massive expansion of trade with Europe, but also with all parts of Asia. Throughout the 17^{th} century the VOC by and large managed what the Portuguese before had only held onto over various short periods of time: an intra-Asian trading monopoly. The Dutch business partners in the Gulf not only appreciated the VOC's financial capability, its purchasing power, and the supplies of and demands for various goods. Crucially, they appreciated the VOC's pure focus on business and its complete detachment from domestic politics in Persia and Arabia.

Keeping in mind the obvious difference between an early-modern, armed trading company and a 1.3 billion-large 21st century nation-state, this VOC philosophy at least is not so different from China's current Gulf strategy. China's gigantic economic clout and at the same time its huge demand for Gulf goods, in this case oil, has the potential to dominate business in the Gulf states and much of the Indian Ocean littoral. As China builds its 21st Century Maritime Silk Road and a network of proxy ports along the vital sea lanes, the so-called String of Pearls, this echoes the VOC's 17th century strategy. In a post-Arab Spring world, China's refusal to meddle in the domestic affairs of the Gulf states is highly appreciated by all of these regimes, especially when compared to the occasional habits of their American ally.

This is one of the reasons why they seem eager to persuade China to play a bigger role in Gulf security, just as the Safavids appreciated the VOC's naval protection, which was about nothing more than securing the maritime trade routes. So far, China has not matched the VOC's 17th century relative naval dominance. Yet, China is trying to build a blue water navy and has not only participated in counter-piracy patrolling around the Horn of Africa, acquiring docking rights in several ports, including in the Gulf, but has recently also opened its first overseas military base in Djibouti. It does not seem farfetched that this is the shape of things to come elsewhere in the Indian Ocean, too. The gun has followed risk, and the flag has followed trade before.

Even if the Chinese one day wield a blue water navy across the global commons, this is far from a complete insurance policy though. The major problem the VOC encountered with its apolitical strategy was that when Persia and Arabia stagnated economically and then disintegrated politically into violent anarchy, the company was in no position to protect its regional business and thus decided to exit the Gulf. In the absence of continuous free-riding on an American security umbrella, the same fate could befall the Chinese if the region encountered similar instability again. So far, when security crises impacted Chinese regional businesses, such as in Libya, Yemen, or Iraq, Beijing's only answer has been evacuation and divestment. The VOC arguably never fully recovered from this and other setbacks, and so too, would China face an enormous economic challenge at home if oil dependency were not massively reduced.

China has of course often implemented radical economic and political changes at home in reaction to foreign or domestic developments. A fourth set of historical analogies to contemporary and future affairs lies in China's own distant history with the Indian Ocean and the Middle East, although it seems only moderately useful when compared to the first three. In the pre-modern era, there were several phases that saw intense trade connections between China's Han Empire and Persia's Parthian Empire or between China's Tang Empire and the Islamic Abbasid Empire which formed the vital arteries of the old Silk Roads across land and sea. Although a brief military clash between the Abbasids and the Tang in Central Asia was followed by a short alliance between the two that pacified the Eurasian trade corridors for a while, and despite regular diplomatic exchanges, the pre-modern Eurasian trade system was of course no match to today's age of hyper-globalization and growing interdependence. Even the height of China's 15th-century Ming Dynasty and its unique maritime explorations across the Indian Ocean and the Gulf by Admiral Zheng He simply had soft power motivations rather than commercial or colonial ambitions. China was seeking to informally expand its neighbouring zone of tributary states and to exercise influence through displays of civilizational prowess. When these missions were then considered too costly, China fatally set its fortune on isolationism, although it only came to realize its mistake centuries later when the globalizing West had forged ahead.

China's global economic clout today, and the increasing geo-political influence that comes with it is historically novel, despite the Middle Kingdom's millennia-old civilization. Hence, there are few analogies in Chinese history that can help illuminate possible futures. Nevertheless, China's ancient concept of a tributary neighbourhood kowtowing to its cultural and commercial superiority and political power in exchange for economic opportunity has been a relatively constant feature among its various dynasties. The legacy of this self-image, diplomacy and statecraft though can still be observed in China and its neighbourhood today. As this neighbourhood is more and more being absorbed by the country's economic gravity and as that expands beyond East Asia via the New Silk Roads, China's tributary-model could, at least to an extent, one day apply even to Gulf polities, if the region's dependency on Chinese markets grows and diversifies further. Whether such a non-military approach will suffice to secure the investments and trade routes is another question.

As yet, it seems, China does not see itself in the position to address it, because its military capabilities do not suffice just yet. Crucially though, Gulf security is still heavily underwritten by the US Navy's Fifth Fleet and US Army and Air Force personnel stationed on military bases in all GCC states. This order saw its origins in the wake of the British withdrawal from east of Suez. America's first approach, the Nixon Doctrine, or the Twin Pillar strategy, only lasted for a decade. After the fall of the Shah, the Soviet Union's invasion of Afghanistan, and the Iran-Iraq War, Washington's new strategy was introduced by the Carter Doctrine which called for a more direct military role in the region. It was only implemented another decade later with the military ousting of Iraq's invading forces from Kuwait, in Operation Desert Storm. The preceding two decades had marked a short and violent interregnum, after which America finally emerged as the inheritor of Britain's Gulf mantle. Though the US-Saudi "oil-for-security-deal" and the petrodollar system, which, in a highly realist manner, linked the issues of Gulf security to the dollar's global hegemony, had been forged decades earlier, *Pax Americana* had its own historic analogy. It closely resembled and still resembles the 19th century era of *Pax Britannica*.

Determined to protect its economic and geo-political interests, the US used its Gulf military presence to dominate the region and create a buffer zone to prevent the regional powers, Iran, Iraq, and Saudi Arabia, from clashing and thereby potentially destabilizing the oil-price-sensitive global economy. Essentially, it had already before succeeded in excluding another superpower, the USSR, in the Cold War. With the establishment of *Pax Americana* in the Gulf it seemed that no other American peer competitor would emerge, even though the Carter Doctrine clearly emphasized this as its primary objective. This closely resembled the British Empire's 19th century strategy and the Trucial States system, when Britain maintained relative regional peace and open trade routes, but also excluded its great power rivals, ranging from Napoleonic France to Czarist Russia. In the 20th century too, it sought to do the same with Imperial and then Nazi Germany, although it took two world wars to stop Germany's strategic influence also in the Greater Middle East.

Yet, Britain itself was ultimately forced to withdraw from the Gulf, through a combination of domestic political motivations and financial necessities. Though unwelcomed by the small and vulnerable Trucial States, Britain's withdrawal from east of Suez had been preceded by a growing number of British political and security setbacks in the Greater Middle East – similar to America today. As a result, Britain de facto passed the buck to its American ally in 1971.

As an untarnished China emerges as the region's new major economic partner, it is unclear which of the two strategies America will adopt. Will it follow the British

Empire's earlier examples and seek to deter China from playing a geo-politically active role in the region? Or will Washington instead accept China's greater regional interests and invite China to participate in Gulf stabilization efforts, if not militarily then at least politically? Moreover, it is feasible that China will continuously see the benefits of free-riding, maintaining its apolitical strategy. Much of the answer to this question clearly also lies in exogenous variables: general Gulf conditions, global energy technology, American and Chinese capabilities and their political intentions, as well as, crucially, the US-China relationship itself.

History points towards the desirability of Gulf stability. The 18th century interregnum, in which no outside power was present as a hegemonic stabilizer, is a case in point, even though the situation was too complex to attribute an order of causality. Economic stagnation and political collapse in Safavid Persia and Yariba Oman was followed by a century of several violent conflicts in the region. This deterred outside power involvement at least as much as outside power absence contributed to a power vacuum that helped to fan it. Only when new regional dynasties in Persia and Oman emerged relatively uncontested and when the British Empire helped to quell the remaining Qasimi-piracy and Saudi-Wahhabi jihad did the region enter a new period of relative stability and "prosperity".

Even the short, two-decade interregnum between 1971 and 1991, when the British had largely abandoned Gulf security provision and after which the Americans belatedly became more directly involved, is an example for the curious correlation between outside power absence and regional conflict. Pahlavi Iran's invasion of several disputed Gulf islands was the less dramatic symptom. Yet, the Shah's reckless over-spending on American arms – Washington's buck-passing and offshore balancing strategy that replaced Britain's former regional security role – is said to have contributed to both the Iranian economy's crisis and the Iranian population's hostility to his regime. This partly resulted in the Islamist Revolution of 1979, which again partly resulted in the eight-year-long Iran-Iraq War – the Middle East's most violent conflict since World War Two. Additionally, the Iran-Iraq War influenced Saddam Hussein's invasion of Kuwait. It is futile to speculate with certainty whether a continued British presence in the Gulf or an earlier American deterrent would have prevented these or other conflicts. However, it is important to note such correlations when addressing the issue of Gulf security.

Nevertheless, on top of that, history also points towards the possibility that Great Games and hegemonic exclusion strategies not always bode well either and could therefore be the cause as much as the result of regional violence or of a potential future US-China conflict. Gulf outside power access ultimately depends on the Gulf states themselves and their interests. The Portuguese Empire's Gulf fate demonstrates that it is very laborious, possibly futile, for an established outside power not only to maintain an economic monopoly, but to maintain geo-political control if market forces go in the other direction. When this happened, the Safavids quickly abandoned their Portuguese ally and trading partner in favour of a new one, the VOC, who better served Persia's economic and political interests.

This realization potentially limits American freedom of action in the face of China's Gulf emergence. Since the region's primary economic interests are now shifting towards China and Asia in general, an American strategy that harms these Gulf interests could at some stage result in not only an Iranian, but also a GCC policy that prioritizes China and Asia at the expense of the American regional role that the GCC currently supports completely. And, just as Portugal's early anti-Islamic clash-of-civilizations attitude and its active religious-missionary zeal hardly reinforced regional and local support, so did America's forceful and failed democratization attempt in Iraq hardly strengthen its wider regional legitimacy.

Despite the very general comparisons, America's Gulf strategy is of course fundamentally different from Portugal's 16th century version. The US has underwritten regional security by invitation of the GCC governments. Evidently, it has not sought to prohibit these countries' global economic transactions and partnerships either. On the contrary, even more so than its British predecessor, the US is strongly supportive of an open Gulf trade system. This openness, protected by the US-security umbrella, has brought in, rather than excluded, outside powers like China, Japan, South Korea, and India – creating a system of what the author calls regional hegemonic stability.

This is why, at least for recent developments and the status quo, neither Hypothesis 1 (neo-liberal institutionalism), nor Hypothesis 2 (neo-realism) are satisfactory. Rather, the concept of Hypothesis 3 (regional hegemonic stability) is superior to both, at least when describing current situations. The author now demonstrates how and why this is the case.

Neo-Neo Synthesis: Regional Hegemonic Stability

Hypothesis 3 was enabled via a neo-neo synthesis centred on the concept of regions and how it can influence the interplay of neo-liberal institutionalism and neo-realism by also incorporating the attribute of geography that had previously not been officially integrated into the neo-neo debate. The region-centred concept, represents the first of five interlocking elements – with the following four being extracted from both theories, but being analysed through the regional prism. These five elements feed on each other and thereby create a theory of regional hegemonic stability:

1. Strategic Regions

2. Complex Interdependence

3. International Regimes

4. Offensive Realism

5. Defensive Realism

The author now presents the merits of Hypothesis 3 for the recent and contemporary situation regarding the Gulf's interaction with outside powers via these five steps.

1. Regions matter greatly to international relations also in a non-institutional way. Grand strategy has always been heavily influenced by geography which again is a key attribute to different regions. For positivist theories in the IR discipline, such as neo-realism or neo-liberal institutionalism, both of which are structural, system-level theories, the concept of geography is a difficult one, because it exists independently from the man-made bureaucratic and material structures of the international system and does often not conform to the political borders of states. Nevertheless, the distribution of geographical properties across the systems units does not destroy the structural nature of both theories and can therefore be integrated.

Many geo-political thinkers have demonstrated geography's and regions' criticality to international relations and grand strategy. Mahan's emphasis on sea power, on the world's maritime trade- and conflict highways, such as the Indian or Pacific Oceans, is explained by the fact that it enables great powers to flexibly move commercial and military capabilities in ways that they cannot on land. Oceanic powers can thereby try to intervene on land more or less wherever they wish, if capabilities are strong enough. Crucially, they seek to control the SLOCs and the world's strategic bottlenecks.

Mackinder on the other hand, when he carved up the world map into various zones stressed the Eurasian super-continent, the "world-island", as the most important geo-strategic space, since most of humankind lived there and thus engaged in the most impactful economic and political interactions. A great power which ruled Central Eurasia, the "heartland" of this world island, would thereby rule the world.

It was Spykman who combined the insights of both grand strategists by inventing the concept of the world island's "rimland" – a gigantic coastal or near-coastal crescent semi-circling the heartland, from Europe, via the Middle East and South Asia, to East Asia. Not only was this the most heavily-populated part of the world-island and where most of history's civilizations existed and exist, but it also represented the crucial middle space or buffer zone between the heartland and the sea – thereby connecting to both, influencing both, and being influenced by both.

Acknowledging these three authors' influential insights, several later thinkers and practitioners, such as Brzezinski and Kaplan have convincingly demonstrated their utility for the late 20th and early 21st centuries. What they all have in common though is that they do not specify a hierarchy of importance within the various proclaimed zones. Regions such as Europe, East Asia, and the Middle East are treated as equally important strategically. Upon merging the arguments of all these thinkers, the author of this thesis on the other hand has reasoned that the Persian Gulf is indeed the most important region of the world, in a geo-political sense, at least with regard to involvement with the great powers of the day. In a wider sense, the Greater Middle East lies at the heart of three continents with power flowing to it and from it in all directions, an insight provided by many historians and geographers across the ages. However, it is the Persian Gulf sub-region that, in the geo-political jargon, is the only area inside this geographically central region, that has access to both the sea and the heartland.

Consequently, the Gulf region enjoys a superior and more flexible connectivity-potential to various trade- and invasion routes – key determinants of global strategic affairs. This is reflected by history, from the dawn of civilization to the present day. The old Silk Roads and pre-modern Indian Ocean trade routes made it a crucial hub, just as the Western age's littoral system in modernity constantly made it strategically vital to control for the great powers of the day. Especially from the 1500s onwards, there has often been a curious correlation between global great power status and control of the Gulf. Its importance was compounded from the early 20th century onwards by the fact that the Gulf holds the lion's share of the world's oil (and gas) reserves – literally fuelling the global economy and the great powers' military conduct. This helps explain the respective presence of the British Empire and later of the American hegemon – both great sea powers – in this region. The latter has remained in place to this very day.

Now, the great global economic re-convergence has engendered the re-emergence of Asia and especially the rise of China and also India on the world's economic, diplomatic, and geo-political scene. Following the Gulf region's own simultaneous explosive and ongoing economic development and diversification, its centrality to world affairs is being elevated even further, because its established energy provision to the world, including especially to rising Asia is presently being accompanied by a revival of Asia's Silk Roads. Once more, these old and new trade and investment arteries connect to the Gulf by land and sea, a process that has only just begun, but that has already had a significant impact in growing interdependence.

2. This thesis and the first part of this conclusion has thus far demonstrated the merit of several elements of neo-liberal institutionalism's main sub-theory, complex interdependence. As evident throughout this thesis, interdependence between China and the Gulf and wider Asia has been growing significantly – making certain aspects of CIT relatively accurate for these cases. As interdependence grows further and becomes more diversified the theory will be even more helpful to describe developments, cementing the status quo.

Hitherto, the story of Asia's New Silk Roads to and from the Persian Gulf has been one of not only bilateral, but de facto multilateral cooperation. The Gulf states, excluding Iraq and Iran, have seen their interests realized, just as China, India, South Korea, and Japan have. Arguably, so has the US, again, at least with regard to the GCC in global economic matters. In CIT terminology, China and the other Asian states have managed to maintain a de-linkage of issue areas, not politicizing relations in ways that may risk lucrative and harmonious relations with all regional states – including both Saudi Arabia and Iran. Since China wants to avoid becoming implicated in Middle Eastern conflicts, it has an interest in the status quo, as do all the other Asian countries. These incentives are strong. Therefore it could be easily imagined that the GCC states, the US, China and its Asian competitors, continue to uphold the status quo or even deepen their cooperation out of an absolute-gains-rationale. Until today, the Gulf has not seen a serious US-China clash, and both have plenty of other worries in their bilateral relationship and in East Asia. The same can be said about China and India, or China and Japan. Hence, so far, these states are not willing to open potential new problematic issues over the Gulf, when until now, their fundamental interests there have not been imperilled.

However, this CIT interpretation leaves a gaping hole that the theory cannot fill: military security still overwhelmingly dominates Middle Eastern and also Gulf issue areas, a condition that the theory would negate. The main reason why China and other Asian countries have managed to maintain a de-linkage of issue areas in their relations with Gulf states lie outside CIT's explanatory power and are addressed by the author in the fourth and fifth step of this section, below. First, it is necessary to merge CIT with the concept of regions and underline the actual or potential outcome of this, before also briefly examining the means of multilateral cooperation that suit the wider neo-liberal institutionalist theory.

The concept of regions and their strategic attributes and conditions has an important impact on CIT. The very real conditions of Middle Eastern and Gulf insecurity are coexisting with the Gulf's growing economic interdependence with the world, including Asia. Furthermore, throughout East- and South Asia, economic interdependence is also present and growing among those states, but simultaneous conditions of inter-state rivalry are clouding the picture. China-Japan and China-India relations, to name just the great power examples, are somewhat antagonistic. Consequently, these actors who are well aware of their own and each other's dependence on the Gulf region view each other suspiciously in that respect too – one not wanting to be outperformed by the other in terms of influence there. These are geo-strategic concerns that Keohane and Nye – in their assumption that gains mainly matter absolutely – have not addressed, with potential diametral consequences. Although all contenders would benefit from absolute gains, fear of relative losses could trump the fear of absolute losses. In other words, inter-regional interdependence may spark competitive intra-regional rivalry, which leads back to neo-realist dynamics.

Up to now though, trans-Eurasian alliance politics, resembling realism, have not taken over. On the contrary, as this section has shown, economic and diplomatic coexistence of Asian countries in the Gulf region have prevailed. One of the reasons, is the entrenched utility of multilateral cooperation and international regimes corresponding to globalization.

3. Robert Keohane has illustrated how the condition of interdependence groups issues into issue areas constructively and "governs" them productively and cooperatively via international regimes. The increasingly globalized Asian economic giants and their smaller counterparts in various regions, including the Gulf are integrated into this system and actively make use of it. The open trade regime and the free flow of commerce at sea, the global monetary regime and also its associated oil trade regime, as well as the WMD non-proliferation regime have found the support of most Asian and Gulf states and have not seen a serious and immediate attempt at overthrow.

Even though this might change in the future, so far, China, for example, has supported the US dollar as a global transaction and reserve currency, including in the energy trade which generated the "Petrodollar", by conducting most of its energy and non-energy trade in dollars, and by buying trillions worth of US Treasury securities and hording vast amounts of corresponding currency reserves. These incidentally are also used by the sovereign wealth funds of China and the Gulf states in their global investments – thereby intensifying the interdependence between this crucial US-Gulf-China-triangle. Furthermore, the relatively novel institution of the SWF has itself engendered the multilateral creation of a set of rules – the Santiago Principles – which may mutate into a rigorously governed new regime itself. The AIIB too can be viewed as a complementary multilateral institution for development finance that can be integrated into the (at least formerly US-led) liberal world order, even though it is the US itself that nowadays often appears as a spoiler of its own system. Then, in the Gulf, the WMD non-proliferation regime meanwhile had celebrated a success as well, by seeing Iran, Germany, and the five permanent members of the UN Security Council, including the US and China negotiate and sign the JCPOA. By deliberately separating the nuclear issue from other sensitive ones associated with Iran, such as its regional support for various terrorist groups, the international community managed to tackle the nuclear issue constructively. The JCPOA prohibits Iran from acquiring nuclear weapons in the short- to mid-term at least, even though this also might again be a called into question.

What makes this multilateral cooperative system work is the certainty that regimes spread – to the appreciation of most participants, who see the benefits of productive, diffuse reciprocity at work. Keohane's iterated prisoners' dilemma, where rational-acting and egoistic states choose the long-term interests that spawn absolute gains can be a representative model for this system.

However, he points to the problem of free-riding – when at least one member of the system invests more than it reaps in returns, whilst other members invest less and get away with it, because punishment may cause a chain reaction of bad-for-bad reciprocity. This is correct also in the case of Gulf affairs and China's and Asia's engagement in the region. Yet, since Keohane and neo-liberal institutionalism in general do not account for the reality of certain unstable and insecure regions existing simultaneously to their global interdependencies, his theory misses a key ingredient that keeps the system alive in the first place: military security provision – the issue area that CIT had assumed as irrelevant, but which in fact, in the Gulf, is not.

4. According to the logic of John Mearsheimer's offensive realism, the United States, since the end of the Cold War, has been the world's only superpower. All the same, since then, the world has become more visibly multipolar again due to the rise of China primarily, and to a lesser extent the rise of India and the resurgence of Russia. Nonetheless, offensive realism would define the US as a hegemon. Despite the West's relative decline over the past two decades, Mearsheimer specifies that US dominance is to be defined as regional hegemony – meaning that the US dominates its own backyard, the Americas, and is therefore free to roam worldwide, because it need not fear another great power directly threatening it in its own region. Furthermore, the US's freedom to roam has enabled it to selectively engage in the world's other strategic regions that are of critical importance to American interests – and dominate them either via offshore balancing or via a direct military presence there.

In that respect, Mearsheimer acknowledges Europe, East Asia, and the Persian Gulf, as those kinds of regions. For reasons outlined above, the author of this thesis argues that geo-politically the Gulf is indeed the most important region of the world and that therefore, Mearsheimer does not go far enough, because he "merely" sees oil, and not wider geo-strategic factors as the determinant.

Either way, the American military presence in the Persian Gulf has far-reaching consequences, not only for the region, for US security interests, and for US overall power, but for the entire oil-dependent global economy – and thus for rising, energy-hungry Asia and China. Admittedly, the existence of American military bases in all GCC states and the constant patrolling of the US Navy's Fifth Fleet through Gulf waters and the Hormuz bottleneck has created serious political and security problems in their own right, both for the region and the US itself. Al-Qaeda's 9/11 terrorist attacks, as well as the recent Iranian nuclear programme were the most impactful ills "produced" by American regional domination. However, given the insecurity of the Greater Middle East and Persian Gulf, momentarily especially the enmity between Saudi Arabia and Iran, the US military in the Gulf represents a vital buffer zone between the regional antagonists. Simultaneously, America thereby polices the world economy's most critical sea lanes in what otherwise would likely be a major security vacuum. Oil prices have long been respondent to regional geo-political conflict or tranquillity accordingly. It can be stated that the Gulf region's conditions hold global energy markets, and thus the global economy as a whole, hostage. US security provision in the Gulf is arguably the all-important stabilizing force that enables the very phenomenon of growing economic interdependence between the Gulf and China and Greater Asia.

CIT, regime theory, and neo-liberal institutionalism more broadly were too quick to dismiss the explanatory power of hegemonic stability theory, especially in certain regions. The New Silk Roads between the Gulf and Asia that increasingly resemble certain conditions of complex interdependence by seeing China maintaining a de-linkage of issue areas and a largely apolitical Gulf strategy, are doing so not because the entire theory is accurate. Rather, US security provision in the Gulf has allowed China to free-ride and not contribute to the security of the region and its sea lanes. In effect, the US has linked the issues of (energy) trade and security "for" China and others. In this region, at least for now, CIT is thus merely helpful for some aspects, because offensive realism has filled neo-liberal institutionalism's gaping hole.

Ironically, with American power and military policing of the Gulf, offensive realism in this case may be preventing its "usage" by other actors. Since neither China nor India nor Japan have had to worry in the short term about Gulf security due to their own free-riding, they could all afford to not worry about their own lack of military capability just yet. They have thus not even tried to become major geo-political forces in the Gulf in order to insure their vital interests, even though, crucially, that would have been highly difficult if not impossible at this stage of their military capability anyway. However, serious diplomatic engagement seeking to solve regional problems has also been almost completely absent from China's, India's, and Japan's regional role. This fortunate reality has possibly had the effect of excluding their very own rivalry from that region. As shown above, inter-regional interdependence has the potential to perpetuate intra-regional rivalry. This dynamic has only moderately shown itself so far, also because the US-led regional hegemonic stability in the Gulf has sent out stabilizing ripples across a much wider geography, containing a potential intensification of intra-Asian rivalry in the Gulf and beyond.

Neo-liberal institutionalists would argue that free-riding frustrates the public goods provider. This might be so, and recent American administrations have indeed begun to demand more support from allies to shoulder the burden. Even offensive realism points towards the desirability of offshore balancing, rather than direct military presence in critical regions as long as that is possible. Yet, Mearsheimer seems to underestimate the level of Gulf importance for the very distribution of global power in a much wider sense, as this thesis has shown. Hence, the Gulf region's centrality should lead to the realist insight that a rival's free-riding is a price worth paying for the hegemon. The overall power dividends that come with being the world's policeman are out of question and the Gulf's importance should not make continued US military presence there surprising.

However, the delicate balance created between both theories via the concept of regional hegemonic stability depends not only on American power, but also on American restraint. The New Silk Roads between the Gulf and China are themselves a crucial variable for America's strategic freedom in the Gulf. There is still one missing element for the contemporary utility of regional hegemonic stability theory.

5. Stephen Walt's defensive realism can be viewed as the other side of the realist coin. He shows that states in general only tend to bandwagon to a powerful and aggressive state when its threat is so great that balancing would not save them, owing to the

unavailability of allies. If allies are available, states favour balancing against a stronger side rather than bandwagoning, because it elevates their relative power in their coalition and therefore their self-preserved security.

The US is, first and foremost, an “empire by invitation” by most regional states who see a use in their alliance with Washington. Most of the Gulf states, especially the coastal Gulf monarchies, and even Saudi Arabia, consider themselves too small and relatively weak to defend themselves from conventional regional insecurity. Consequently, they see a need for a more powerful ally from outside. This is because defensive realism convincingly demonstrates that weaker regional states, or any states for that matter, perceive a greater danger by geographically proximate threats than by distant states, even if the latter hold more aggregate power.

This balance of threat theory is highly accurate in regard to the Gulf region, where historically Iraq, but in the past two decades, Iran has been considered the greatest threat to the GCC countries. Hence, the US serves as a patron to the GCC, whose member states are its regional clients as long as they cannot guarantee a regional balance of power in their favour. This gives the GCC strong incentives to keep the US military in the Gulf, at least in the short-to-mid-term, because for now, no other outside actor has the capability or will to replace the Americans.

However, as that might change over the next few years and decades, an American-dominated Gulf is in no way set in stone. The delicate balance between neo-liberal institutionalist and neo-realist dynamics that, via the concept of strategic regions, have formed a relatively accurate neo-neo synthesis will experience gravitational pulls in both directions. It is far from clear whether regional hegemonic stability will last.

Pax Americana or Interregnum Redux

Since the future is unknowable, the best hope for the scholar, lies in extrapolating recent and current trajectories and pointing towards potential variables that may upset them. Enriched with historical analogies, the theoretical framework represents a guideline to formulate trajectories and the imaginable reactions to them by the relevant actors.

The Conclusion has so far demonstrated the merit of several elements from both neo-liberal institutionalism and neo-realism, but especially, has shown the superiority of Hypothesis 3, based on the concept of regional hegemonic stability. Thereby, the Persian Gulf's geographical, economic and geo-political centrality to global affairs in the 21st century has produced both economic interdependence and insecurity simultaneously, intensifying dynamics captured by neo-liberal institutionalism and neo-realism but making both sets of dynamics feed on each other. A system has been created where trade, investment, and cooperation between the Gulf states and its outside partners, including in Asia, is to a great extent dependent on American security provision in the region. Yet, this system depends firstly on most influential actors in the Gulf and Asia accepting this order, secondly on them not being capable and willing to replace it, and thirdly on enduring American capability and will to function as the hegemonic stabilizer. In short it depends on the current structure of the international (and regional Gulf) system, which is admittedly already highly multipolar, but which can still be characterized as relative American hegemony.

If China and India were not to continue to economically grow at an impressive level, but the US would at least remain economically and politically stable, and if therefore the structure of the international system would not change dramatically in the following decades, the most likely outcome for the Gulf would be a continuation of the status quo in terms of outside power presence. Enduring regional hegemonic stability underwritten by the US military in the Gulf would have the same motivations and explanations that have recently mattered to all relevant participants of that regional system. Although it comes with compromises for some actors, it has been the least of all evils for them. So, if, for whatever reason, China and India stagnate economically and thus diplomatically, they would continue to trade with the region, but would not be in the best position to realistically transform the current Gulf order – nor would they be more willing than they are today, if their energy imports declined together with their GDP. Hence, inside such a scenario, the only imaginable reasons for an end to American-led regional hegemonic stability would be changing conditions in the Gulf, in the US, in global energy technology, or in completely exogenous variables not discussed in this thesis.

A US withdrawal might come about due to various imaginable incentives: financial priorities shifting the Pentagon's lion's share of the budget to other theatres considered more vital for national security and economic stability; a US default on its debts for example due to another financial crisis and great depression in concert with a further widening fiscal deficit; a spill-over of violence and instability into the Gulf's rich petro-states creating a situation the US cannot efficiently handle without dramatically breaching its core values; a greatly reduced US appetite for political and military involvement in a conflict ridden Middle East seemingly guaranteeing nothing but US blunders and anti-Americanism; an outright failure of *Pax Americana* due to reduced capabilities; a dramatic decline of US foreign policy's legitimacy in the eyes of not only Gulf populations and their governments, but also Americans themselves; also less dramatic developments that do not seem fanciful, such as either a US energy self-sustainability empowering neo-isolationists in Washington or indeed a global transformation in energy technology and consumption significantly reducing global oil demand.

Such developments are purely hypothetical and should be treated with caution. Yet, that does not mean they can be discarded. Historically, there is nothing unusual about eroding hegemony or sudden imperial retreat due to shifting interests. After all, the British withdrawal from the Gulf in 1971 had been announced only three years beforehand and it occurred under comparable circumstances – the UK's decline in overseas power and illegitimacy of empire, a military prioritization towards the UK's own back-yard, growing insecurity in the Middle East, political pressure due to the Labour Party's ideological motives, as well as economic troubles and financial priorities shifting inwardly.

If, for whatever reason, the US decided to greatly reduce its Gulf security provision or even withdraw its troops in the near to mid-term future, this move would likely perpetuate many of the region's geo-political risks. Though Iraq has more recently been taken out of the equation for the time being, the enmity and power competition between Saudi Arabia and Iran is currently as dramatic as it has ever been. Without the de facto buffer zone created by the US military's regional presence, it is entirely credible that the Saudi-Iranian conflict could take on a more direct character. Furthermore, the Greater Middle East's current turmoil in places like Syria and Iraq, but also Afghanistan, Yemen, and Libya, almost all of which feature the Saudi-Iranian and Sunni-Shia conflicts by proxy, would have a higher chance of spilling over into the hitherto stable GCC-countries. This threat would be even more pronounced in a post-American Gulf security vacuum – having potentially dangerous local, regional, and global economic consequences with political ramifications. There would even be dangers for the GCC alliance to completely disintegrate, because already, its members seem to put more trust into their US protector than into each other. The recent Qatar crisis is a dramatic, but only the latest proof of this.

All in all, under a different global and regional trajectory from what has been happening over the past two decades (China's and India's relative catch-up), a continuation of the status quo, US-led regional hegemonic stability is the most likely development. However, if the current trajectory of China's and India's growth continues, then the international system will develop into a different structure than today's. It would propel an even more visible re-balance towards a truly multipolar world – in which US hegemony necessarily declines relatively. This is more likely than unlikely to transform also the regional order in the Gulf, thereby challenging US-led regional hegemonic stability. The last sections of this Conclusion now make clear how and why and follows the same five theory-guided interlocking steps that had created the current Gulf order.

The Sino-Indian Great Game

Over the coming years, China will experience the same geo-strategic incentives as previous great powers to maximize its connection to and overall power in Eurasia's heartland, much of its rimland, and at sea. Hence, the Persian Gulf, where all these zones meet to form the centre, will be the most important region for China outside its immediate periphery. The BRI and its slightly older, non-sloganized predecessor projects have already moved China in this direction. China's infrastructure investments and trade expansion into Central Asia, which it now calls the Silk Road Economic Belt, is penetrating the heartland economically and thereby, indirectly, geo-politically. The same has happened on much of the rimland, where Chinese investments into port infrastructure has started to create a String of Pearls.

Although the Gulf region had already developed some crucial port infrastructure before China's Indian Ocean initiatives, there is still potential in that respect, for instance on Iran's coastline. In Kuwait, where Chinese investments seek to contribute to a new "Silk City", in the UAE's Fujairah, where numerous strategic Chinese construction projects have taken place, and in Oman, whose own port, rail, and trade-enabling logistics infrastructure is being modernized by the AIIB, China's new impact is already becoming visible. The same can be said about China's investments into

Saudi Arabia, especially on the Red Sea coast – a more open, multi-polar "back-door" to one of the most important Gulf countries. On the Arabian Peninsula's direct periphery, the Pakistani port of Gwadar is a de facto Chinese proxy port with much economic and geo-strategic potential, including Chinese naval access. Then, China's first overseas military base in Djibouti within just a few miles of the Arabian Peninsula is the most dramatic example of China's intended geo-political expansion and Indian Ocean security architecture for the future – and may be the shape of things to come also elsewhere in the wider area.

Japan and South Korea, having enjoyed even longer trade- and investment ties to the Gulf region at the highest level throughout the last decades, will also continue to trade, invest, and cooperate heavily in and with Indian Ocean littoral states, including the Gulf. Yet, their geo-strategic impact, despite recent initiatives to play a larger military role in the Arabian Sea (Japan) and Persian Gulf (South Korea), does not have the same potential for the future as does China's. Both countries are simply too small in size to compete as great powers, if China and India continue to grow impressively.

India, crucially, is trailing behind China in its economic, diplomatic, and military development, which puts it at a disadvantage, but nevertheless will seek to also maximize its connectivity and influence in the Gulf. A new Great Game is unfolding. From a security viewpoint moreover, India's incentives are not only driven by energy security, the way China's are, but also by national security, because the Gulf is part of India's back-yard. Considering particularly China's alliance with India's arch-rival Pakistan and the planned CPEC, India will go to great lengths to pull not only Afghanistan further into its geo-political orbit, but also Iran and the GCC. New Delhi's alliance with Kabul and India's courting of Tehran especially is motivated by two things: commerce, in order to build trade corridors to Central Asia, Russia, and Europe, to rival China's Silk Road Economic Belt; and geo-politics, to maximize the number of important allies in its back-yard. India's ideal type situation in the future would thereby mirror something of the subcontinent's 19th century history, when it was governed by the British, and was protected by an eastern, northern, and western buffer zone which shielded off rivals and also gave it access to the rimland's Gulf outlet and the heartland. The China-Pakistan partnership and China's economic head start though, makes this a difficult if not impossible Indian goal, with profound influences also on India's Gulf role vis-à-vis China.

Nevertheless, if both countries continue to grow, so will their interdependence not only with each other, but also with many of the Gulf states, provided at least these are spared from the same kind of turmoil which is currently haunting the likes of Syria and Yemen.

The Asianization of the Persian Gulf

This interdependence has been growing significantly over the past two decades, as both China and India have imported increasing amounts of Gulf oil. As trade diversified further, especially with large amounts of Gulf imports of Chinese and Indian manufactured goods, but also Chinese infrastructure investments and Indian services, diplomatic and wider institutional interconnectivity at multiple levels has been the result. Continuing the current trajectory, this would entail ongoing oil and gas flows from the Gulf to China and India, increased upstream and downstream investment into Gulf countries especially by China, but, crucially, a much greater diversification in the constant flow of goods, capital, and people between the Gulf and these two Asian giants. The "Asianization" of the Gulf will be highly visible and deep institutional ties will spawn diplomatic cooperation across a variety of issues, reducing, but not levelling the current hierarchy of issue areas which is highly weighted on oil.

These conditions will move closer towards the CIT ideal type, even if they are very unlikely to ever match it. Yet, as the China-Gulf networks grow denser and more diverse, it will be even more complicated for China to link issue areas that, in the Gulf, almost demand to be linked. China's answers to these political pressures are likely to be two-fold, at least as long as they seem to suffice: firstly, China will increasingly tend to use its economic power, already profound now, but possibly all-dominating in the future, to coerce Gulf states into the desired direction that suit China's overall interests. Secondly, given the existing and possibly lasting antagonisms between the GCC and Iran, and as China sees the need to maximize trade and investment with both, it will also be less and less able to avoid mediating between Iran and Saudi Arabia. If China's economic power by then is profound enough that neither of those two Gulf states can really do without China, such a strategy of economic coercion and diplomatic mediation stands a not too small chance of success. Despite the Gulf region's centrality in China's energy demand and the power symmetry between the Gulf as a region and China as a market will continue to be surprisingly even, China can nevertheless use the overall power asymmetry between itself and individual Gulf states in its favour in order to get the outcomes it wants. Divide and rule is the quintessential imperial strategy that China, often in subtle but effective ways, has historically been no stranger to.

India will face similar incentives to China's, but even with its current trajectory, its lagging behind China will constrain it in the Gulf when compared to China's likely economic impact there. That being said, India may be able to cushion its looming underperformance relative to China's, through two structural advantages: firstly, India's geographic proximity to the Gulf reduces its energy insecurity, because it "merely" faces a "Hormuz dilemma" and not China's additional "Malacca dilemma" and thus makes it relatively easier for India to intervene in one way or the other in the Gulf, should its diplomatic influence and military capability be high enough at the time. Furthermore, the geographic proximity has, over the decades, centuries and even millennia created a much closer cultural proximity between India and the Gulf than China ever enjoyed and will enjoy with that region. The Mughal Empire for instance was heavily influence by Persian culture and people. The recently renewed Indian migratory dominance in the smaller GCC countries will not go away, but will only intensify, creating ever stronger links at all levels with the motherland, and the political cooperation that such demographic and economic interdependence demands.

The second possible Indian advantage over China is Delhi's potential future alliance with the current Gulf hegemon, the United States, an issue discussed further below. Yet, it would tie into what may become another, unintended consequence of the growing inter-regional interdependence between Asia and the insecure Gulf region, as outlined above: intra-regional rivalry, especially between China and India, but also between China and Japan. An outbreak of direct geo-political rivalry in the Gulf, though, could not only pose serious threats to all of these states' regional interests there, but could also threaten conflict, a scenario that none of them find appealing anyway, but especially not in a condition of increasing vulnerability interdependence. Continued multilateral and respective bilateral cooperation will be desired by all actors and would deepen multiple ties and create denser networks at all levels, and thereby generate less uncertainty over each other's intentions – which is the ultimate realist ghost. This in turn would lessen the incentive for a relative-gains-rationale and strengthen appreciation of the absolute-gains-rationale, in line with CIT's assumptions. Appropriate international regimes though would seem necessary for this new Asian world.

China's International Regime Change and the Gulf

The need for multilateral cooperation between Asian countries and the Gulf will be even more urgent in the future. Efforts to work together via established international regimes would follow from an even higher level of interdependence. However, as the Western-dominated 20th century becomes more and more distant and Asia returns to its historic place of economic dominance, at least across many spheres, the urge and necessity to update or change the current regimes will be hard to avoid.

The international monetary regime is one example. For now, and for the immediate future, the dollar's near-unipolar dominance as the international reserve and transaction currency seems unlikely to be replaced. Yet, the first signs of a potentially more multipolar monetary order for the future have appeared, as China's renminbi has been upgraded into the A-list of currencies in the IMF's basket, as China is looking for different options than its traditional purchase of US government bonds, and as China is pushing for Belt-and-Road investments in its own currency.

The most dramatic game-changer in that respect would be a future initiative to conduct oil trade – for long a dollar-domain – in renminbi. This would create the emergence of the so-called "petroyuan" and would fundamentally alter the balance of global monetary and geo-political power in China's favour. Given its own dependence on lower interest rates which are partly connected to the world's use of the dollar, America's monetary, fiscal, financial, and economic dominance could experience an earth-shaking disruption – with all the global power reduction that would accompany it. Its reduced leverage over Gulf politics would merely be one example. This is why Washington will do whatever it takes to prevent such a scenario. For now, it does not need to fear it just yet, because many prerequisites in China's economic readiness and the world's incentives seem faraway from such a profound shift. Yet, since energy trade is of monumental importance to the global economy and since a scenario of ongoing Chinese growth will entrench China as the world's largest energy consumer, the Gulf states will search for the most cost-effective way to export their oil and gas. Furthermore, if Iran continues to be isolated from access to the dollar, it would be the first Gulf state to push for the petroyuan. Even though the UAE and Qatar recently opened renminbi clearing houses on their soil and seem more open to a different system in the future, what is holding them back is their alliance with and security-dependence on the US military. As long as American-led regional hegemonic stability represents the only viable option, such regime changes in oil and money are not really on the table. Still, just a few decades from now the range of options may also have changed.

A more informal and never uncontested regime in global finance that has prevailed since the dawn of American global dominance post-World War Two, is the so-called Washington Consensus in international development finance. Tagging conditionality of not only economic but also political liberalization to loans by developing countries has long been the IMF's and the World Bank's mantra. Non-democratic China – disinterested in the domestic political institutions of its business partners – has already been a spoiler in that respect in many countries around the world. Most Gulf states, still aflush with their oil rents, are in no need for development finance, although in the next few decades that might change for some, like Oman. Iran and Iraq also, despite their hydrocarbon-wealth require huge volumes of infrastructure- and other foreign direct investment. And for many other countries along the Belt and Road and in Africa, China's pure focus on business and blind eye to human rights issues have already been highly cherished by many autocratic regimes, even as this approach often creates local resistance. The AIIB has been viewed as a dramatic example of China building new mulitlateral institutions that suit its interests. The argument can be made that the AIIB does not contradict the rules-based international order, but in fact complements it. What also counts though is China's accepted dominance of the AIIB. This erosion of Western financial power may be compounded once China's economic power is so overwhelming that it creates its own set of conditionality, including political support for China's policies in contested areas in East Asia, for instance. Such a strategy will also increase China's global power.

Another regime with tremendous importance to Gulf geo-politics is the WMD non-proliferation regime. Though it has recently seen a successful enforcement with the JCPOA, curtailing Iran's alleged pursuit of nuclear weapons, and although China is supportive of the regime and participated in those negotiations, Beijing has never been as invested in it to the same degree as the West. China has no interest in seeing a WMD-proliferation cascade, including in the Gulf. This seems likely to continue.

However, under certain circumstances, it is imaginable that China will not move against a potential future nuclear weapons acquisition by Iran. Should China's hedging strategy for the Gulf one day result in Iran falling fully into China's geo-political orbit, a nuclear armed Tehran would not pose a threat to Beijing but would potentially serve as an asset. The same way Pakistan's nuclear status gives that country a certain security and flexibility and extends China's geo-political power vis-à-vis India, Iran's nuclear safeguard, together via an alliance with China would give China a considerable power boost in the Gulf, vis-à-vis the United States. Admittedly, other regional countries, especially Saudi Arabia would see this as the ultimate security nightmare, endangering Beijing's relations with and oil imports from Riyadh. Yet, if China by then enjoys an even greater amount of economic importance to the Kingdom, China and Pakistan could reassure the Saudis by providing them with a nuclear deterrent of their own – resulting in a new, but nuclear-armed and Beijing-led "Twin Pillar" order that could keep Riyadh and Tehran from each other's throats and would ensure ongoing Chinese energy imports from both.

It is clear that as long as US regional hegemonic dominance in the Gulf prevails, such a nuclear scenario is far-fetched. Still, if the future sees a much greater Chinese economic and overall power and a simultaneous Chinese willingness to give Iran and Saudi Arabia nuclear security guarantees, it is not impossible. For Beijing to go down that road though, a serious escalation of Sino-American relations would be the only imaginable circumstance that could propel it onto this risky course. Unfortunately, such a development is everything but far-fetched.

Unbalanced Multipolarity in Asia and the Gulf

The type of institutional and regime changes that China may push for whilst it continues its growth trajectory are likely to be resisted by the US, wherever possible. Washington's and Japan's AIIB-boycott was the first hint. America's AIIB-resistance has not occurred because the bank breaks the rules-based international order, but because of structural stress on the international system that China's rise produces. Irrespective of proclaimed intentions, the US and China will see an increasingly intense rivalry, according to Mearsheimer's theory of offensive realism, because, if China continues to grow, relative US hegemony will erode, and the emerging structure of the international system will be characterized by unbalanced multipolarity. According to Mearsheimer, this is the most unstable, uncertain, and most fear-generating type of systemic structure for two reasons. Firstly, the imbalance, which is in favour of the hegemon, causes frustration among the other, increasingly capable great powers who could form alliances against it. Secondly, new emerging alliance-formations are unpredictable in this system, because the increasing number of great powers allows for various alliance options – intensifying the uncertainty, thereby the fear, and thereby the security dilemma and relative-gains instinct.

Russia is still a great power, India may become one, Japan is a great power in an economic sense, but China may turn into a potential *superpower* in the not too distant future. Washington has so far succeeded in preventing the emergence of a peer competitor in other regions of the world, including in East Asia. Such a peer competitor would be dominating its own back-yard and would be free to roam beyond its own region. The US will therefore go to great lengths to continue to dominate East Asian waters and to contain China within its own region. American military presence there, intended for an upgrade since former President Obama announced an American pivot to Asia, is contributing to this containment just as the first signs of a potential future anti-Chinese balancing coalition between the US, Japan, South Korea, Taiwan, the ASEAN countries, Australia, and India are visible. Given that China's neighbours greatly fear a complete Chinese dominance and given that many of the them are more than uneasy of playing a role akin to China's ancient tributary vassals, the balancing coalition stands a chance of success, but only under two circumstances: firstly, China would have to aggressively overplay its hand, rather than merely offer investment and trade. Beijing is faced with a difficult dilemma in that respect. On the one hand, it is keen to restrain itself because it knows about the dangers of disgruntlement. On the other hand, in the South China Sea disputes, it has failed to re-assure many of its neighbours, because it also wants what its neighbours fear. China is structurally compelled to dominate its own back-yard according to the logic of offensive realism. It is aiming to exclude the US from East Asia, become a hegemon there itself, break through the first- and second-island chains, and mutate from a one-ocean power into a two-ocean power. Japan and India, but also the smaller nations in East Asia are as eager as the US to prevent this from happening. Here lies the second necessary circumstance for a Chinese containment: the US regional military presence and alliance-preparedness.

Yet, such an outcome is far from certain. As both Mearsheimer and Walt show, forming a multilateral alliance faces numerous challenges, such as different degrees of motivation, lack of capability, and the dynamics of free-riding, buck-passing, or bandwagoning that could make the future East Asian map look far more diversified in terms of alliance structures than the still hypothetical image of a clean balancing coalition might suggest. Again, if China continues to grow impressively, and if the US continues to refrain from signing or ratifying multilateral free-trade-agreements in the Asia-Pacific, many of China's smaller neighbours may have no other choice than to bandwagon towards China in the face of economic necessity.

For now, such an alliance has not been formed and basic global cooperation among Asian countries and great powers has endured due to the still substantial power-imbalance between the US and China, but also due to growing interdependence. This has allowed China to accept ongoing free-riding on its main rival's Gulf security provision.

For if the US truly pivots to Asia in order to contain China, this grand strategy is likely, to include an enduring US military presence in the Persian Gulf – precisely because the Gulf will become "Asian" and because it thus serves as a possibly decisive element in an anti-Chinese containment strategy. China's immediate concern remains its own back-yard in a geo-political sense, simply because there are few alternatives. Without becoming a regional hegemon in East Asia first, China will not be free to roam beyond its region. Consequently, China's worries over US presence in East Asian waters could even result in a mid-term Chinese preference for American prioritization of the Middle East, provided it does not directly upset China's energy security. Hence, as long as this has not happened, the possibility of a Chinese military dominance in and around the Gulf region is remote at best.

Nevertheless, the BRI is motivated as a long-term hedging strategy which already seeks to maximize China's influence in the heartland, rimland, and sea in geo-political terms. In that respect China is following its millennia-long strategic philosophy of filling vacuums in order to encircle and possibly outmanoeuvre rivals, and winning competitions without having to confront them directly and fight. From much of Africa to Djibouti, to Gwadar and Duqm, from Central Asia to Burma, China's strategic infrastructure investment and String of Pearls architecture has occurred in less contested but highly strategic spaces all around the Gulf region and along the Indian Ocean's increasingly multipolar SLOCs. A Chinese military base inside the Gulf would be a more provocative move, although in an age of increasing Chinese economic and diplomatic importance to many Gulf states, it is not an impossibility even whilst China is not (yet) free to roam. For instance, the lesser degree of anti-Iranian hostility in GCC states like Oman or even the UAE may offer potential candidates for such a future decision, if by then China is the most important economic partner to them. A far more provocative location for a Chinese base in the Gulf would be Iran itself – not only to the GCC, but also the US. Admittedly, any stationed Chinese military assets in the Gulf would be highly unwelcomed by Washington. Yet, in a world of Chinese economic dominance it is less clear whether the US would be in a position to prevent any Gulf state from agreeing to what would be presented as simply another brick in the desired multilateral security wall.

If the US-China rivalry and Saudi-Iranian rivalry escalates though, a scenario in which China sacrifices its interests in Saudi Arabia and completely shifts to Iran could be a possible outcome. In that situation the US and China may one day be facing each other across the Gulf via two antagonistic clients in a Cold-War-like manner. As stated above, China would identify Iran as the ultimate pivot state for geo-strategic reasons. If the Silk Road Economic Belt receives enough investment and security, China would try to maximize the potential to pump Iranian and Caspian Sea oil home via pipeline rather than via oil tankers from the Arabian Peninsula. Together with the intended pipelines through Pakistan, from Gwadar to Kashgar, and the already existing pipelines from the Bay of Bengal through Burma into Yunnan Province, and even a potential Kra Canal through Thailand, China would seek to reduce its Hormuz- and Malacca dilemmas as much as possible.

For now, this is not a viable option which continues to make China vulnerable to a potential US-naval blockade of its energy imports. Whilst there are few if any indications for now that a general US-China rivalry is likely to escalate over potential Gulf issues, as explained above, other issues could bring this about much more easily. These range from the already serious US-China rivalry in East Asia, to destructive issue-linkage in trade, financial, or monetary matters, to fundamental disagreements over a handling of any potential crisis. If this happens the already significant realist dimensions in the US-China relationship could easily dominate. The more dramatic the conflict, the more probable would be its comprehensive spill-over into the world's strategically vital regions and issues. Since the Gulf is a region of paramount importance to the US and China, it is entirely possible that both seek to outdo the other in strategic control.

China would try to form bilateral anti-Western alliances also with regional and peripheral powers. At the moment, Iran and Pakistan would be the most likely candidates. If the escalation were to turn so serious that a military confrontation was possible, either via proxy or even directly, then Washington could seek to set up a military blockade on China's oil imports. The US Navy by and large controls all the relevant SLOCs, including bottlenecks such as the Strait of Malacca, the Strait of Hormuz, and the Bab Al-Mandab. Though it would be highly difficult to uphold such a blockade for a longer period, China's odds are not yet in its favour. Without a blue water navy of similar proportions China's hands would be tied in this scenario, and the country would likely suffer a significant economic hit at least. Even if China by then had a military base in the Gulf, as it now has in Djibouti, its strategic utility would firstly be inferior to the US's capabilities in the Gulf, and secondly, it would also be in danger of a cut-off from reinforcements. As offensive realism underlines, a great power can only become a globally intervening superpower if it becomes a hegemon in its own region before. China's aim is to become one and dominate East Asia the way the US dominates the Americas, but it has not achieved this, due to the US military presence in China's backyard, and due to the potential anti-Chinese balancing coalition in East and South Asia. Hence, in Mearsheimer's words, China, unlike the US, would not be free to roam in the Gulf without establishing East Asian hegemony first.

Consequently, due to the current distribution of military capabilities across the great units of the international system, the US would stand a bigger chance than China to come out on top in a potential near-future escalation. In the longer run, if China's economic and growing military capabilities increase, such American tactics will be much harder to implement.

Yet, another variable in this equation would be India's growth to become a stronger economic and military power. If this happens, the US is not China's only obstacle. As stated above, a fusion of complex interdependence with both Gulf insecurity, and intra-Asian rivalry is likely to perpetuate that rivalry and create a realist power competition between China and India throughout Asia and the Gulf. There are already signs signalling such potential future dynamics taking over across Asia.

Whereas the China-Pakistan de facto alliance has sparked Indian fears of encirclement, particularly since China's announced BRI and the String of Pearls, the new strategic India-Japan partnership has echoed similar concerns in China. The Gulf region has not yet been pulled into this dynamic, but may be so in the future, as both China and India are courting both Iran and the GCC into close bilateral partnerships.

It remains to be seen how this will play out. Contrary to the GCC, Iran has long craved the absence of any outside power. Though the GCC-states desire a greater Asian involvement in regional security, they do not seem to favour any country over another, provided it can uphold mutual interests and contribute to stability. Consequently, the Gulf states will look dispassionately to both the intensity of their economic and political ties to China and India and compare their raw military capabilities.

Stephen Walt has underlined that international alliances often resemble chessboards according to the logic of one state aligning with its neighbour's neighbour. This logic would see Iran pivot to the India-Japan axis, and Saudi Arabia to the China-Pakistan axis. Yet, this "smooth" order on the map, despite having many incentives, also has many obstacles, not least America's crucial part in the equation. Though the future could see a US-Iranian rapprochement, it does not seem likely in the absence of a new Iranian revolution. At the same time, China's rise is not only pushing India closer to Japan, but also closer to the US. A potential Indo-American alliance, as part of an anti-Chinese balancing coalition, could credibly include the US military sharing the burden of Gulf security provision with India, the region's large neighbour, or could even see Washington pass the buck to Delhi. For the latter to happen, the US would need to feel the urgency to shift most of its assets to the East Asian theatre. And, crucially, India would require not only the will, but enough military capabilities to take on such a role.

For the short-to-mid-term future however, these requirements are simply not given. China's economic and military head start vis-à-vis India are likely to see China to be more powerful than India even decades from now. Furthermore, China's increasing military assets on the contested Indo-Chinese border in the Himalayas may force India to provide a greater budget for its non-naval capabilities which are already the priority on its border with Pakistan. Simultaneous to this development, the PLAN's increasing Indian Ocean presence will not find the biggest of obstacles in the Indian Navy. And in a scenario where China wins the East Asian security competition against the US and becomes free to roam, its head start, and the unviability of a comparable "Indian Monroe Doctrine", may be decisive in the question of outside power competition in the Gulf. The US would remain as China's primary obstacle in becoming – with or without forces there – the next dominating Gulf outside power. Or would it?

The Gulf's Pivot to Asia

In a potential US-China rivalry that spills over into the Gulf theatre, the military balance is not the only relevant variable. Precisely due to the Gulf's vulnerability interdependence with the world's major economic powers, the prospects of destructive issue area-linkage would harm all countries involved, including the GCC states. Since it is particularly China and other Asian markets that are and will be relatively more important to the Gulf's oil exporting countries, a potential anti-Chinese US strategy in the Gulf would be highly unwelcome even among America's GCC allies. The security issue area clearly dominates in the region, yet, the GCC's, and especially Saudi Arabia's domestic political security, stability, and regime survival depend to a significant extent on economic growth, which in turn continues to depend largely on energy exports. The GCC's demand security and China's energy security would incentivize GCC states and China to firmly cooperate in order to prevent a disruption of their vital commodity trade. In the short run, the Gulf's requirements of the US security umbrella, which the US can threaten to dismantle, admittedly could dominate GCC fears. However, if a potential crisis is long or severe enough to critically harm Gulf economies and their domestic stability, it is imaginable the GCC states could pivot towards China, just like Iran. This would either mean that the US backs down and refrains from oil-blockades, or it would mean that it ignores the GCC's wishes. In the latter case, no actor of course would be in any position to oust the US militarily. In the longer run though, it is difficult to imagine a de-legitimized US maintaining its Gulf hegemony only by its military power, and without producing serious harm to its standing and to the global economy. Moreover, if China by then is free to roam, it would present a much more formidable military challenge to the US than it would be under current circumstances.

Still, it needs to be highlighted that even if India's lagging-behind puts China at an overall power advantage, the Indian Ocean and the Gulf are likely to be multipolar, if India continues to grow simultaneously to China. If the GCC-Iran rivalry or any other new intra-Gulf rivalry prevails too, then the GCC or any weaker regional coalition will choose the outside power that is more willing to guarantee regional stability. Any candidate, including India, would either face the choice between the Gulf blocs or have enough capability and credibility to impose restraint on the regional actors. Another possible outcome could be that an antagonistic China and India acquire opposing clients in the region – with potentially destabilizing, not stabilizing consequences.

In any case, all these imaginable developments contain defensive realist elements when describing potentially new, interest-based alliance formations out of a balance-of-threat-rationale. On the other hand, the overall Asia-centric scenario equally enables a neo-liberal institutionalist interpretation, because the vulnerability interdependence on the Gulf's New Silk Roads could ironically be the cause of a regional change of guard. If the US found itself incapable of preventing a Chinese or generally Asian Gulf dominance, because military power alone would not suffice to do so, then most of CIT's assumptions would turn out to be very accurate. China need not even station troops in the region in order to be the next dominating Gulf outside power but could succeed by political alliances – new regional "pillars". It could threaten to abandon each simply by adopting trade protectionism against the spoiler as a penalization.

Yet, a largely non-securitized order would depend on a more tranquil Gulf environment. Otherwise, it seems unlikely Beijing could afford to resist the opening of Chinese military bases in the Gulf and a strong naval presence there, even if it did not want to initially. If India's military capabilities by then are not sufficient to pose as a serious Chinese rival in the Gulf, then such a development could be the dawn of *Pax Sinica* and therefore a revival of regional hegemonic stability – provided by China. This would truly end the West's global dominance, because it would entail China controlling its back-yard and, crucially, the geo-politically most important region in the world – sending strategic ripples far beyond the Middle Eastern periphery.

However, it necessitates a substantial Chinese military upgrade, a blue water navy, high-technologized amphibious and air force capabilities, and the kind of full-spectrum dominance that currently only the US enjoys. Inside a trajectory where China continues to grow impressively, this would be imaginable. Thus, *Pax Sinica* is clearly a long-term scenario, if it indeed were ever to occur, and depends on many, highly sensitive and potentially conflict-ridden prerequisites.

The international system's structure that would follow from the China/India-growth trajectories though, together with ongoing US capability does not point towards a clearly unipolar Gulf order through any candidate. Whether complex interdependence is strong enough to produce a Sino-American agreement on spheres of influence, or even produce a multilateral pan-Asian security order including in the Gulf, the multipolar structure makes this highly difficult to achieve.

The most important, defensive realist insight from these extrapolations, is the that the Gulf regional states are the ultimate arbiter in which direction power flows. The tail can wag the dog by threatening realignment to a new outside power patron who seems least threatening, but most useful to the regional clients – as many centuries of Gulf history demonstrate.

In the end, reality could see a mixture of some of these eventualities. Though the current structures and conditions point towards the superiority of Hypothesis 3, two things are clear. Firstly, American-led regional hegemonic stability is likely to come under increasing pressure not in the short term, but in the mid-to-long term. Secondly, history rarely operates in a linear fashion. Accidents, surprises, and contingencies happen frequently and have the potential to suddenly disrupt current and future trajectories.

So, is China going to be the Persian Gulf's next dominating outside power in a geo-political sense? In the short run, this is unlikely. Yet, although in the longer run it is much more likely than is generally assumed, it is also not predetermined. For now, China, the US, and others, enjoy different types of power in the Gulf. Although only the US dominates geo-politically, China is close to dominating economically. In history, the latter has often led to the former, particularly in this central region of the world.

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ATTACHMENTS

Durham University

School of Government and International Affairs

Shaped by the past, creating the future

1st July 2015

To whom it may concern,

I am writing in order to fully support the field research objectives of one of our Doctoral students, Mr Philip Gater-Smith.

A member of Durham University's Faculty of Social Sciences and Health and its School of Government and International Affairs, Mr Gater-Smith is currently in his third year conducting research on a very topical issue. His preliminary thesis title reads 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism'.

Setting his bilateral case studies into the context of wider China-Gulf relations, his field research will be mainly focused on the United Arab Emirates, covering the areas of China-UAE energy trade, non-energy trade and business, investment and joint ventures, as well as political relations between the countries.

Hence, Mr Gater-Smith is aiming to interview individuals from institutions part of and relevant to these areas. Examples would include the UAE Government, energy companies, chambers of commerce, financial services, and diplomatic circles, particularly institutions directly connected to China.

For these field interviews, Mr Gater-Smith has formal approval from Durham University's Ethics Committee. He is offering complete confidentiality to his interviewees should they express that wish.

Not only does Mr Gater-Smith share Durham University's determination to be at the forefront of cutting-edge research, I further believe his PhD thesis could be beneficial to UAE institutions and companies dealing with China.

I herewith endorse Mr Gater-Smith's field research objectives wholeheartedly and would be grateful for all the support you are in a position to provide.

Thank you for your attention in this matter.

Yours faithfully,

Prof. Emma Murphy

Head of School

Durham University The Al-Qasimi Building Elvet Hill Road DH1 3TU

Durham University
School of Government and International Affairs

Shaped by the past, creating the future

15 November 2016

Dear Philip,

Philip Gater-Smith

Please accept this letter as formal ethical approval of your project: ***'The New Silk Roads' Impact on Gulf Geopolitics: Neo-Liberalism vs. Neo-Realism in China's Relations with Saudi Arabia and the UAE'***

You should print it out and keep it for your records.

Please note the following restriction:

The approval relates only to the project proposal and questions that you have submitted for approval.

If you wish to change the project, for example to widen the scope of enquiry or substantially expand the scope of the questions then you MUST reapply to the Ethics Committee for further approval.

If you have any questions that you want to raise concerning your approval, please contact your supervisor or Dr. Lorraine Holmes lorraine.holmes@durham.ac.uk.

We wish you well with your fieldwork and your research.

Yours sincerely

Dr Lorraine Holmes
Research Administrator

Durham University

TEMPLATE CONSENT FORM

Title of Project: 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism.'

Name of Researcher: Philip Gater-Smith

	Please initial box
1. I confirm that I have read and understand the information sheet dated 13/05/2015 & 10/09/2014 for the above project	
2. I have had the opportunity to consider the information and ask any questions	
3. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason	
4. *I understand that the interview will be audio recorded and that the recordings will be stored securely and destroyed on completion*	
5. *I understand that my data will only be accessed by those working on the project* (Philip Gater-Smith (PhD researcher), Dr Christopher Davidson / Prof John Dumbrell (supervisors); Prof Anoush Ehteshami / Prof John Williams (both unofficial advisers to the PhD project)	
6. *I understand that my data will be anonymised prior to publication*	
7. *I agree to the publication of verbatim quotes/ photographs*	
8. *I agree to the transfer of my data to countries outside the European Economic Area*	
9. *I am willing to be contacted in the future regarding this project/ future projects*	
10. I agree to take part in the above project	

Name of Participant Signature Date

[illegible]

Name of Researcher Signature Date

Philip Gater-Smith P.Gatersmith 20/07/2015

Version 1 - November 2010

Durham University

TEMPLATE CONSENT FORM

Title of Project: 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism.'

Name of Researcher: Philip Gater-Smith

	Please initial box
1. I confirm that I have read and understand the information sheet dated 13/05/2015 & 10/09/2014 for the above project	A. G
2. I have had the opportunity to consider the information and ask any questions	A. G
3. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason	A. G
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10. I agree to take part in the above project	A. G

Name of Participant	Signature	Date
Ali Algagawi	Ali [signature]	7-6-15

Name of Researcher	Signature	Date
Philip Gater-Smith	P. Gater-Smith	7/6/2015

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Durham University

TEMPLATE CONSENT FORM

Title of Project: The New Silk Roads' Impact on Gulf Geopolitics: Neo-Liberalism vs. Neo-Realism in China's Relations with Saudi Arabia and the UAE.

Name of Researcher: Philip Gater-Smith

	Please initial box
1. I confirm that I have read and understand the information sheet dated 01/11/2016 for the above project	✓
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9. I am willing to be contacted in the future regarding this project/ future projects	✓
10. I agree to take part in the above project	✓

Name of Participant Shaojin Chai **Signature** **Date** 11-24, 20

Name of Researcher Philip Gater-Smith **Signature** **Date** 24/11/16

Durham University

TEMPLATE CONSENT FORM

Title of Project: The New Silk Roads' Impact on Gulf Geopolitics: Neo-Liberalism vs. Neo-Realism in China's Relations with Saudi Arabia and the UAE.

Name of Researcher: Philip Gater-Smith

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Name of Participant	**Signature**	**Date**
Marck Courtra		22-11-16.
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P Gater Smith	22/11/16

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TEMPLATE CONSENT FORM

Title of Project: 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism.'

Name of Researcher: Philip Gater-Smith

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9. *I am willing to be contacted in the future regarding this project/ future projects*	CL
10. I agree to take part in the above project	CL

Name of Participant	Signature	Date
CHRISTOPHER LOMAX		26/07/15
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P.G-Smith	26/07/2015

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Durham University

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Title of Project: 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism.'

Name of Researcher: Philip Gater-Smith

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Name of Participant	Signature	Date
Professor John Mearsheimer	John J Mearsheimer	21 Feb 2015

Name of Researcher	Signature	Date
Philip Gater-Smith	Gater-Smith	21 Feb 2015

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Title of Project: 'The New Silk Road's Impact on Gulf Security. China's Relations with Saudi Arabia and the UAE and Neo-Liberal Institutionalism.'

Name of Researcher: Philip Gater-Smith

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1. I confirm that I have read and understand the information sheet dated DD/MM/YY (version.........) for the above project	JSN
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9. I am willing to be contacted in the future regarding this project/ future projects	JSN
10. I agree to take part in the above project	JSN

Name of Participant	Signature	Date
Professor Joseph Nye	JSNye	
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P.Gater-Smith	18 Feb 2015

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Durham University

TEMPLATE CONSENT FORM

Title of Project: The New Silk Roads' Impact on Gulf Geopolitics: Neo-Liberalism vs. Neo-Realism in China's Relations with Saudi Arabia and the UAE.

Name of Researcher: Philip Gater-Smith

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9. *I am willing to be contacted in the future regarding this project/ future projects*	✓ PP
10. I agree to take part in the above project	✓ PP

Name of Participant	**Signature**	**Date**
PHILIP PARHAM	P Parham	27/11/16
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P. GaterSmith	27/11/16

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Durham University

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Title of Project: The New Silk Roads' Impact on Gulf Geopolitics: Neo-Liberalism vs. Neo-Realism in China's Relations with Saudi Arabia and the UAE.

Name of Researcher: Philip Gater-Smith

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10. I agree to take part in the above project	JWS

Name of Participant	**Signature**	**Date**
JONATHAN SIKES	[signature]	23 NOV 16
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P.Gater-Smith	23/11/16

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Name of Participant	Signature	Date
Tong Wu	吴彤	17/08/2015.
Name of Researcher	**Signature**	**Date**
Philip Gater-Smith	P.GaterSmith	17/08/2015

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