CONNECTIVITY BETWEEN THE GULF COOPERATION COUNCIL AND ASIA

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The relationship between the Gulf Cooperation Council (GCC) countries and Asian states like China, India, Japan and Korea has long been complementary. Whereas the former have become among the most important and largest producers of oil and gas in the world, the latter have been at the centre of economic growth over the past few decades. The growth of their economies has been sustained by rising energy imports, of which the GCC is a historic and reliable supplier, and contain around a third of known oil reserves.¹

While the focus of the GCC-Asia relationship has concentrated on the energy dimension, it is, however, only one part of what is becoming a more complex set of exchanges. Increasingly, there is a more diverse economic relationship, which includes other forms of cooperation and partnership, from participation in construction and development of energy and non-energy related infrastructure, to ports, roads and other transport links. In addition, the links are becoming more financial as well, with investments in real estate, health care and financial services.

Beyond the economic dimension, there are stirrings within the security field as well. But in contrast to the energy and other commercial dealings between the GCC and Asia, these forms of engagement are less defined and concrete. A key part of this uncertainty is due to the status of the US and its historic position as the regional hegemon and security guarantor for the Arab Gulf states. Over the past decade the US position has come under challenge, both within the US and from others, inside and outside the region, including the Asian states themselves.

To address this point as well as the other general trends which are emerging between the GCC and Asian countries, this paper is broken down into three parts. The first looks at the GCC states, who they are, and the organisation that they constitute.

The second part then examines the economic relationship between the GCC and Asia. It explores the nature of trade and the level of dependence by GCC countries and Asian countries on each other for energy exports and imports respectively. It then considers the role of other forms of exchange beyond energy, with particular attention to the role of GCC sovereign wealth funds (SWFs) and Asian efforts at investment in the region. This includes the level and content of Korean and Japanese assistance as well as the more recent and more ubiquitous case of China’s Belt and Road Initiative. This section concludes with an assessment of the state of free trade talks between Gulf and Asian countries and their prospects.

¹ Al-Tamimi, Asia-GCC Relations: Growing Interdependence.
The third part then offers an overview of the level and degree of security cooperation between GCC and Asian countries. It notes the forms of cooperation and partnership that have taken place to date and the extent to which these developments sit underneath the American security umbrella for the region, as well as the changing nature of the region’s international relations. The GCC states are all allies of the US, although attention is paid to the role of regional threats like Iran as well as the objectives of Asian countries like India and Japan in relation to the region itself in addition to the rising global powers like China. Given the high level of uncertainty, it is perhaps unsurprising that the main strategy adopted by states inside and outside the region has been to keep their options open by hedging, while some – South Korea and Japan – maintain an alliance with the US.

The fourth and final part pulls together the observations made in the preceding sections and sets out some suggestions for the future. Broadly, it assumes that the present trends are likely to continue, with growing levels of economic interaction and commercial exchange taking place with ongoing uncertainty over the state of the region’s international future. What could cause a change in approach might be a change in the regional balance of powers, especially that between its two main rivals in the Gulf: Saudi Arabia and Iran. But it might also come from outside, perhaps from the US in relation to the current Iran crisis or in its other, more global, confrontation with China.

1. What is the Gulf Cooperation Council (GCC)?

Before examining the economic and security dimensions of the relationship between Asian powers such as China, India, Japan and South Korea and the Arab Gulf states, it is important to understand who and what the GCC is. The Gulf Cooperation Council (GCC) was created in 1981. It was originally an organisation focused on collective security for its six Arab Gulf members.

In 1979, the Shah had been overthrown in Iran and replaced by a revolutionary Islamic regime. The new regime caused consternation across the Middle East on both geopolitical and religious grounds. It abandoned its alliance with the US and rejected Western imperialism, claiming to speak on behalf of the dispossessed. More specifically, it claimed to speak on behalf of all Muslims.

The GCC comprised the six Arab monarchies in the region: Saudi Arabia, the UAE, Qatar, Bahrain, Oman and Kuwait. Although initially concerned with security, over time, the GCC began to broaden its remit and cooperate economically. In 2003 the six members established a customs union which included the establishment of a common external tariff of 5% and the elimination of tariff and non-tariff barriers on intra-GCC trade and national treatment for all GCC products. In addition, there is supposed to be free movement across borders and GCC members informally coordinated on matters like health, education, security and knowledge.

Despite the GCC’s efforts to become more integrated, it has faced a number of challenges from within and without. To date, it has failed to establish a full customs union, owing to the non-uniform application of various customs procedures and tariffs. The limited nature of the GCC’s customs union reflects tensions at work between its members: on one side wanting to increase regional integration and acquire the multiplier effect associated with each country being part of a greater whole; and on the other, by competition between GCC states to expand and diversify their economies, so as to gain comparative advantage.

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2 Low and Salazar, “The GCC Customs Union.”
3 Trenwith, “The case for free trade in the GCC.”
4 Habib Kazzi, “Is the Gulf Cooperation Council (GCC) Customs Union a Myth?”
Because of these tensions, subsequent efforts to develop the GCC’s competences have been mixed: it has proposed a common electricity grid in 2009 and 2011, as well as a common currency. But Oman pulled out of the proposed common currency in 2006 and was later followed by the UAE in 2009. More recently, the bloc proposed a GCC-wide VAT scheme, but on the day it was to come into effect at the beginning of 2018, only Saudi Arabia and the UAE introduced it. Other members did not, for fear that it might fuel inflation.5

In addition to the difficulties of aligning domestic interests with regional ones, there have also been strategic and political ones. Perhaps the most prominent is that between Saudi Arabia and Qatar, the former the hegemonic power within the group, the latter a challenger willing to contest the Saudi position. In the decade before and after the 2011 Arab uprising, Qatar used its recently acquired gas wealth to expand its influence in the wider Middle East, including in Lebanon, Palestine, Yemen and Sudan.6

The tension between hegemon and challenger has also been felt in other ways between the two. Differences between Saudi Arabia and Qatar over the role of political Islam saw the former accuse the latter of supporting terrorists, both in 2014 and 2017. While differences in 2014 were eventually patched up, the 2017 crisis has been more profound. It has led to Saudi- and UAE-led diplomatic and economic action against Qatar. Since then, cross-GCC dialogue and activity has been episodic and limited; indeed, it was within this fragmented environment that developments like the 2018 GCC-wide VAT scheme unravelled and effectively collapsed.

2. Economic exchange between the GCC and Asia

Looking further afield to the GCC states’ interactions with other regions and especially Asia, the consensus is that the relationship has steadily grown in recent decades. Trade between the Gulf Arab countries and Asia has increased faster than with other regions of the world, including the US and Europe.7 All accounts suggest that this relationship is set to continue growing. While the focus of the relationship until now has largely been in the energy sector, it has begun to diversify into other forms of commercial contact and exchange, including construction, infrastructure development and investment in property and services. The following sections look at the nature of that economic exchange between Asia and the GCC, from trade to investments by both GCC and Asian countries in each other, and the state of free trade talks between the GCC and its partners.

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5 Dudley, “Is Time Running Out for the Gulf Cooperation Council?”
6 Kamrava, Qatar.
7 Al-Tamimi, Asia-GCC Relations; Quilliam and Kamel, “The GCC-Asian Relationship”; Körner and Masetti, “The GCC going East.”
2.1. Trade between the GCC and Asia

The level of trade is not evenly distributed between the GCC members. Saudi Arabia and the UAE account for around three-quarters of the bloc’s trade with the world, although in recent years, the largest share of trade switched from Saudi Arabia to the UAE.

Of the six members, only the UAE and Qatar saw their share of GCC trade with the world grow in 2000-2018. The UAE increased its share from 29% to 41.9% and Qatar from 6% to 9%. Along with Saudi Arabia, which also contributed for the largest share of trade with the UAE, the other four GCC states provided only a smaller share of growth (Figure 1). In addition, while most of the GCC countries’ principal energy product is oil, Qatar is distinct for being primarily a gas producer.

![Figure 1: Total Trade by GCC Member (%)](source: IMF)

While energy is the predominant export, making up 87% of Qatar’s exports, 84.4% of Kuwait’s, 75.9% of Saudi Arabia’s and 64% of Oman’s, the remaining two – the UAE and Bahrain – stand out. For these two GCC states, energy is not the main export product, amounting to just under half of all exports in 2017, with 48.6% and 43.6% respectively (Figure 2). Gold and diamonds made up nearly 20% of UAE exports that year, followed by raw aluminum.²

Looking at GCC trade with different regions of the world, it is notable that developing countries, especially those in Asia, have been most important for the GCC since 2000. Total trade to emerging and developing countries increased from $123.7 billion to $667 billion between 2000 and 2018. Growth in developing countries as a whole outstripped total trade with advanced economies, which rose from $207.4 billion to $527.1 billion in the same period (Figure 3). The bulk of the trade in developing countries was in Asia, which was larger than in developing countries in Sub-Saharan Africa, the Middle East and the Western Hemisphere.

² Observatory of Economic Complexity, “United Arab Emirates.”
As a proportion of total trade, emerging and developing countries accounted for a growing share, rising from just over a third (35.9%) to over half (52%) while total trade with advanced economies declined from 60.2% to 41.1% (with the EU area standing still). Within these broad categories, GCC trade with emerging and developing countries in Asia grew from 19% to 28.2%, with much of that growth coming from the Asia-Pacific region; the proportions directed to other emerging and developing countries in the Middle East and Sub-Saharan Africa were marginal (Figure 4).
In overall terms, the GCC has done well through trade. It has a trade surplus with much of the world, which has enabled it to build revenues which it has sought to invest (examined in the next section). Its trade surplus, which was already present in 2000, has grown further since then. In 2018, it reached $127.2 billion in emerging and developing countries, of which $86.1 billion was in developing Asia, compared to $101.2 billion in advanced economies (and to $55 billion in the EU zone). Only in the rest of the Middle East and Sub-Saharan Africa does the GCC have a trade deficit (Figure 5).
With much of the GCC’s growth in trade being in developing countries and especially Asian ones, three countries are of particular significance: China, India and Japan. Between 2000 and 2018 GCC trade with China grew five times, from $25.7 billion to $139.2 billion; and nearly four times with India, from $20.2 billion to $77.4 billion. Japan’s trade with the GCC rose from $22.8 billion to $65.4 billion in the period, but like its fellow advanced economy, the US, which saw trade rise from $39.5 billion to $100.5 billion, that growth was slower (Figure 6).

![Figure 6: GCC Total Trade by Destination ($ billion, 2018 dollars)](image)

Source: IMF

Viewed from Asia, of the four largest Asian economies – China, India, Japan and South Korea – the Japanese and South Korean ones are most dependent on oil and gas from the Middle East for energy use. In 2015 their net energy imports were 93% and 81% respectively (i.e. energy use minus production). Japanese dependence is reflected in its having the largest trade deficit with the GCC states, with $17.9 billion, followed by Singapore with $16.2 billion (Singapore also posted net energy imports of 98% in 2014). By contrast, China and India have lower levels of dependence on oil and gas imports, including from the Middle East, at 15% and 34% in 2014 respectively. That is due in large part to domestic coal production in both countries and may explain the more modest trade surplus that GCC countries have with India, falling from $11 billion to $9.1 billion between 2000 and 2018.

China is much less dependent on the Middle East and GCC for oil and gas than before. This is partly evident in the change of trade, from a surplus of $14.5 billion in 2000 to a deficit in 2018 worth $6.7 billion. Only with South Korea do GCC countries have a notable trade deficit in Asia, reaching $8.9 billion in 2018 (Figure 7). China’s declining dependence on oil and gas from the Middle East overall and from the GCC in particular, is evident in the fall in energy imports from the region over the past decade: from around 50% across the Middle East as a whole and around a third from the GCC to 40% and a quarter of Chinese energy imports (China Med). The Chinese action was partly driven by the government’s decision to diversify more of its energy imports and look for alternative sources.

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9 World Bank, “Energy imports, net (% of energy use).”
10 Raval and Kwong, “How China trimmed its Opec dependence.”
2.2. GCC Investments in Asia

The GCC’s economic interests in Asia are not solely limited to exports of oil and gas. The wealth generated by their production and export of hydrocarbons has resulted in substantial sums which cannot be sufficiently absorbed into what are generally small economies. To do so would risk fueling inflation.

Consequently, GCC governments have established vehicles to invest that wealth. The region is home to some of the earliest sovereign wealth funds (SWFs), several of which were set up before the 1980s, while others have been established since 2000. Among the older ones include the Abu Dhabi Investment Authority (ADIA), the Kuwait Investment Authority (KIA), the Public Investment Fund (PIF) in Saudi Arabia, the Oman State General Reserve Fund, which are estimated to be worth $696.7 billion, $592 billion, $320 billion and $22.1 billion respectively. The other, more recently established, SWFs include those from Kuwait and Bahrain. But the largest ones are in the UAE and Qatar. The Mubadala Investment Company was set up in Abu Dhabi in 2002 and is worth $228.9 billion. The Qatar Investment Authority (QIA) was established in 2005 and is worth $320 billion. The Investment Corporation of Dubai (ICD) started operations in 2006 and is currently valued at $239.4 billion while the Emirates Investment Authority was set up in 2008 and is worth $45 billion.¹¹

Historically, GCC SWFs had a preference for more mature and established markets, especially in the US and in Britain. In part, this reflected their preference for investments in equity and fixed income, followed to a lesser extent by real estate and other areas. But slower growth alongside the 2008-09 financial crisis, combined with faster rates of growth in Asia, encouraged them to look towards investments at home and in the Middle East region as well as eastward.¹²

¹¹ Sovereign Wealth Fund Institute.
¹² Boston Consulting Group, Mobilizing the GCC for Sovereign Wealth Funds for Mediterranean Partner Countries; and Bahgat, “Sovereign Wealth Funds in the Gulf – An Assessment.”
Of the three largest SWFs, the Saudi PIF is perhaps the most active and visible in its recent investments. Although it previously focused on domestic investments, ranging from largescale megaprojects like the planned coastal city of Neom to assistance for SMEs, it has begun to take a more active role abroad, especially in the hi-tech sector. This has helped it grow fast, increasing its value four-fold over five years. Chief among these overseas investments is one for $45 billion in a high-tech fund managed by Japan’s SoftBank.\textsuperscript{13}

In Qatar, the QIA has also demonstrated a PIF-like interest in the high-tech sector.\textsuperscript{14} It has also recently expressed interest in building its portfolio of direct investments in North America and Asia, two regions which were previously underrepresented. Should the QIA become more active, this would signal a return to a more active strategy which was curtailed in recent years. In part, this was due to falling energy prices after 2014 and the 2017 Gulf crisis, the latter which prompted the repatriation of $20 billion in overseas deposits to stabilise the domestic situation and ongoing construction of infrastructure ahead of the 2022 football World Cup.\textsuperscript{15}

One of the challenges associated with GCC SWFs is the limited availability of data in their annual reports surrounding their actions. Of the UAE SWFs, the ADIA provides some of the more comprehensive material. According to its annual reports, it targets between 10% and 20% of its long-term portfolio strategy in developed Asia. In 2014 it reported its interest in housing in emerging Asian markets and investing capital in developed markets like Japan, South Korea and Australia.\textsuperscript{16} More recently, it has focused its attention on opportunities in China and India. In 2016, it opened an office in Hong Kong to facilitate contacts and investments in China, thereby joining the KIA which had opened its China office in Shanghai some years earlier, in 2009.

By the end of 2018, the ADIA reported that two of its two key real estate sites in Asia had been completed: the mixed-use Paya Lebar area in Singapore and the One Museum Place office tower in Shanghai. In the same year, the ADIA also announced that it had invested in India’s UPL Corp, the international operating part of the UPL agrochemicals company.\textsuperscript{17}

Beyond the ADIA, other UAE SWFs have also invested in Asia. Mubadala reports investments across China, India, Malaysia, Japan, Singapore, Thailand, Vietnam and Indonesia which are mainly in the petroleum and semi-conductor sectors, while the ICD has 42 major holdings across 54 countries, of which six are in Asia (compared to 14 in Europe and 11 in the Middle East).\textsuperscript{18}

2.3. Asian Investment in the GCC

Just as GCC countries are using the wealth generated from the export of oil and gas, so Asian countries are also looking to take advantage of their growing revenues to diversify and invest economically. Perhaps the one that has captured the greatest amount of attention in the media and among governments and businesses is China’s Belt and Road Initiative (BRI).

The BRI was launched in 2013 by President Xi Jinping and was soon followed by a sea-based Maritime Silk Road counterpart. Both the BRI and Maritime Silk Road constitute a broad and ambitious vision which combines a number of complementary objectives. One is to encourage Chinese state and private firms to expand and look for new markets. Another is to develop the

\textsuperscript{13} Economist, “Gulf states are becoming more adventurous investors”; Public Investment Fund, The Public Investment Fund Program (2018-2020).
\textsuperscript{14} Knecht and Azhar, “Qatar Investment Authority has accelerated investments in technology: CEO.”
\textsuperscript{15} Financial Times, “Qatar’s sovereign wealth fund back in the hunt for deals.”
\textsuperscript{16} Abu Dhabi Investment Authority, 2014 Review.
\textsuperscript{17} Abu Dhabi Investment Authority, 2016 Review; 2018 Review.
\textsuperscript{18} Mubadala, “Interactive Portfolio”; Investment Corporation of Dubai, “Portfolio Breakdown by Geography.”
poorer Chinese periphery and the nearby Central Asian neighbourhood as a source for Chinese products and as a transit route towards more developed markets to the west. Consequently, a significant part of the BRI is geared towards investment and construction in infrastructure projects, such as roads, railways, ports across Asia, to help facilitate trade and stimulate economic development.

The BRI has proved popular for many governments in lesser developed countries, who see the opportunity to invest in infrastructure projects and make use of Chinese financial assistance, which is less conditional than that offered by institutions like the World Bank or IMF. The availability of such funds has caused some consternation, especially among critics in the West. They have pointed to the opaque nature of much BRI financing, the above-market costs associated with using Chinese construction firms and labour and the risk of indebtedness that may result. Perhaps the most notorious instance in recent years was Sri Lanka’s grant of a 99-year lease on one of its ports in order to avoid defaulting on its loans to China.¹⁹ At the same time, against these criticisms, there are other observers who point out that Chinese firms and officials are not unaware of the risks and dangers and are actively seeking to reduce them and establish effective standards and outcomes.²⁰

Despite such concerns, countries are keen to become part of the BRI. More than 60 countries have expressed an interest in participating in the scheme, including all the GCC countries as well as other countries in the Middle East, like Egypt, Iraq, Iran, Turkey, Jordan, Yemen, Israel and Palestine.

A key appeal of the BRI is its expansive nature, which is both geographic and temporal and so consequently indeterminate. The broadness associated with it has also meant that other projects, including those which began before it was launched are sometimes bound with it, thereby making it hard to establish which are BRI-specific projects and which are not. Because of this, it perhaps makes more sense to examine Chinese investments more generally rather than to consider the BRI in isolation. To that end, data from the American Enterprise Institute (AEI) is especially useful in this regard; it has tracked Chinese investments, contracts and troubled transactions since 2005. Globally, it estimates that the

¹⁹ Balding, “Why Democracies Are Turning Against Belt and Road;”
²⁰ Zhou, “Challenges in Belt and Road Construction”; Pitlo, “The strengths and pitfalls of China’s Belt and Road Initiative, six years in.”

In 2016, it opened an office in Hong Kong to facilitate contacts and investments in China,
total amount invested by China so far is almost $2 trillion. In the Middle East alone, the figures are $183 billion, or 9.2% of the total.

It is worth keeping this figure in mind, especially in light of President Xi’s decision to allocate $23 billion of loans and credit to support development projects and humanitarian assistance in the Arab world during China’s most recent summit with Arab countries in Beijing in July 2018.21

Looking at the AEI data in more detail, almost half of the Chinese investments have been in the energy sector ($83.9 billion), followed by investments in transport and real estate deals ($36.6 billion and $32.4 billion respectively). Many of those investments took place before the financial crisis in 2008-09, which along with the political upheaval unleashed via the Arab Spring in 2011, led to a retrenchment and several collapsed deals, mainly in Libya and Syria (Figures 8 and 9).

Since 2011, Chinese investments have begun to grow again. The Gulf is a key destination, with Saudi Arabia and the UAE among the largest recipients of Chinese investment. Oman has also become an important destination for Chinese investment, most notably in the development of the port at Duqm. When complete, China expects to have invested around $10.7 billion in related projects.22 Duqm is of particular interest, since its location on the eastern side of the Strait of Hormuz means that tankers filling up there can avoid the more volatile shipping lanes in the Gulf.

Figure 8: Chinese investments and contracts in the Middle East, 2005-2018 ($ billion)

[Graph showing Chinese investments and contracts in the Middle East, 2005-2018]

Source: American Enterprise Institute

Besides China, other Asian countries also have important investments in the Middle East and especially the GCC – although not with the same strategy or vision as the Belt and Road Initiative. Countries like Japan and South Korea have probably shown the most sizeable investments in the Arabian Gulf countries, along with India. But whereas India has primarily been a supplier of migrant labour, much of it in the construction industry, Japan and South Korea have both been

21 Zhou, “China pledges $23 billion in loans and aid to Arab states as it boosts ties in Middle East.”
22 Castelier and Muller, “Oman’s Duqm, a new port city for the Middle East?”
Figure 9: Chinese investments and contracts in the Middle East by Country, 2005-18 ($ billion)

Source: American Enterprise Institute

financiers as well as builders of infrastructure in the region. Furthermore, using data from government agencies like the Export-Import bank of Korea and the Japan Bank of International Cooperation, it is possible to chart the level of interest and destinations for these state-backed financial institutions.

South Korean investments in the GCC have grown between 2000 and 2018, with a surge between 2014 and 2016. The current period outstrips earlier South Korean investment, which began in the 1970s and which ebbed and flowed in line with rising energy prices in the Gulf. After 2000, it began a steady rise, during which the most notable development was a 2009 agreement with the UAE to develop a nuclear power project that could be worth up to $40 billion by its end. In the following years, South Korean investment expanded, especially as the uncertainty associated with the Arab uprisings in 2011 receded.

By 2011 there were just under 450 joint ventures between South Korean and GCC firms, with most of them based in Saudi Arabia and the UAE. Both countries have also been the largest recipients of South Korean finance, receiving $612.7m and $154.7m respectively over the period. While the overall amount allocated to the GCC has tended to be small, at around 1% of South Korean global investment, it peaked in 2014-16. During these years, Saudi Arabia received its largest share of FDI, at $118.9m in 2014 alone. The vast majority of these investments was in the construction sector, with mining and quarrying activities in the UAE somewhere behind (Figure 10). Oman has also been a beneficiary, including investments in refinery and other power-related projects which may reach $15 billion.

23 Lee, “Korea and the GCC”; Calabrese, “Bridge to a Brighter Future? South Korea’s Economic Relations with the Gulf.”
24 Levkowitz, “Korea and the Middle East Turmoil.”
25 Al-Sudairi, South Korea-GCC Economic Relations.
26 Graves, “South Korean firms look to sweep US$7 billion in contracts for Omani refinery.”
Although South Korean firms have gained much in the construction sector recently, there is no certainty that the situation will continue. South Korean firms face growing competition from other businesses seeking to enter the market, especially Chinese and Indian companies. In addition, domestic pressures may limit South Korean opportunities. Among these are the large state-supported chaebols, which dominate the South Korean economy and exert significant political influence; they have opposed efforts at structural reform which would weaken them and increase opportunities for SMEs. Another is the government’s priorities, which are focused more on economic cooperation with North Korea than on the Gulf.27

**Figure 10: South Korean Investments in the GCC, 2000-18**

![Graph showing South Korean investments in the GCC, 2000-18](image)

Source: Korea Exim Bank

In contrast to South Korean activity, Japanese investments have fluctuated in both size and proportion of the whole over the past decade and a half, ranging from nothing in 2013 to almost half of all investments in 2007. From 2002 to 2017 the main beneficiary of Japanese investment has been the UAE, receiving $17.6 billion in loans and finance, followed by Saudi Arabia ($8.1 billion) and Qatar ($6.1 billion). Outside of the Gulf, only Turkey has seen regular levels of investment, which amounted to $3.6 billion over the period (Figure 11).

Like South Korean activity, the bulk of Japanese state investments in the Gulf have been in the construction and development of water and power plants. These include ones which have been financed in Kuwait, Oman and Saudi Arabia as well as in the UAE. Japanese investment has also been involved in equity participation in Dubai’s water management company. In recent years, Japanese financing has also been directed towards the development of utilities in Qatar, steel pipe welding in the energy sector in the UAE and exploration of onshore oil fields in Abu Dhabi.28

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27 Calabrese, “Bridge to a Brighter Future? South Korea’s Economic Relations with the Gulf.”
Finally, India occupies an important space in the Arabian Gulf. From the 1930s, but especially following the oil boom of the 1970s, it has been an important source of migrant labour in the region. Their proximity, along with increasing demand in the Gulf countries for workers and the financial benefits offered to them, led to significant growth in the Indian diaspora across the GCC. In 2018 a total of 8.5 million Indians lived in the region: 3.1 million Indians in the UAE, followed by 2.8 million in Saudi Arabia, 930,000 in Kuwait and 690,000 in both Oman and Qatar (outstripping the native population in the latter).29

The vast majority, around 70%, of the Indian diaspora is unskilled and works in sectors like the construction industry. But around a quarter also work in skilled and semi-skilled sectors, including in the region’s bureaucracies as well as in private business. Their labour contributes significantly to development at home: in 2018 remittances from Indian workers around the world reached around $79 billion, much of it coming from those based in GCC countries and up from $64 billion in 2012.30

In addition to remittances, Indian business investment in the GCC has grown over the past decade. Following the Arab uprisings in 2011, the amount of Indian investment in the GCC rose from $1.4 billion to $2.9 billion between 2011 and 2016; an increase of the proportion of Indian investments overall from 4.7% to 16.2%. In contrast to the other Asian powers, those investments were spread across a number of different sectors, including in food processing, health care and education, as well as energy and infrastructure.31

2.4. GCC and Asian free trade negotiations

While energy exports and and investment between the GCC and Asia has grown over the past few

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31 Economic Times, “Indian investments into GCC touching $3 billion.”
decades, the only grey cloud that is present on the horizon is over the issue of a free trade agreement (FTA) and its prospects. For now, the prospects for more free trade between the GCC and the Asian powers is somewhat uncertain.

First, as previously observed, the GCC has struggled to achieve a consensus among its members to integrate fully. Although it established a customs union in 2003, its performance and implementation has been patchy to date. In part, this was down to leaders prioritising national interests over common ones. Indeed, despite the relatively benign international environment for such deliberations during the 1990s and after 2000, some governments elected to go their own way: both Bahrain and Oman agreed unilateral FTAs with the US in 2006 and 2009 respectively. Second, in contrast to the earlier sunnier climate, the past decade has been more adverse for free trade talks and agreements. While talks took place between the GCC and several of its partners after 2004, including with China, India, Japan, Australia, South Korea and Pakistan, they all ground to a halt in 2009. The uncertainty unleashed by the financial crisis at the end of 2008 played a big part, with some economies, like Dubai’s, more exposed to international financial markets and therefore vulnerable.

Uncertainty was compounded by regional instability in the wake of the Arab uprisings. Although they did not directly affect the Gulf in the same way or the same extent as in Libya, Syria or Yemen, it did lead to some pause by outside parties. When talks did restart, the GCC focused on two which were especially important: the EU and China. But in both dialogues, a key stumbling block was the question of tariffs on petrochemical products, as it had also been for India in earlier talks. The GCC wanted to see them removed while both the EU and China wanted to keep them in place. A further issue for the EU was over the issue of human rights, which was of lesser concern for China. Other GCC talks for an FTA with South Korea also struggled over tariffs for petrochemicals, along with electronics and automobiles.

Although China and the GCC restarted dialogue during 2016, they were unable to reach a resolution by the end of the year. When they stopped at the end of 2016, officials publicly stated that the two sides were close to agreement, which could be achieved in 2017. But then in June the Gulf crisis happened, freezing all further talks.

Alongside the internal division among GCC states is an increasingly international one which separates free trade advocates on the one side and those pressing for greater protectionism on the other. This is perhaps best exemplified by the present trade war between the two largest economies, the US and China, but is also present within Europe, between liberals and the populist left and right.

So far, the GCC’s only FTAs pre-date the current divisions and are with Singapore and the EFTA. They were signed in 2013 and 2014 respectively. The GCC’s FTA with Singapore was its first with a non-Middle East country and covered both goods and services. GCC imports would have zero tariffs, which would benefit Singapore, since one-third of its imports come from the GCC. As for the FTA between the GCC and the EFTA, its range and scope is not comprehensive. Although it included references to trade liberalisation in services and provisions for mediation of disputes, its references to democracy, labour standards and protection of investments were limited.
3. Security cooperation between the GCC and Asia

Much of the focus on GCC-Asian relations has been on the economic side. But those developments have also had an effect in other points of contact, including in the area of security. Several Asian countries have begun to court some of the GCC states, by establishing closer diplomatic and security ties. In part this has been helped by the perception of a declining US. At the same time though, neither the GCC members nor Asian countries have sought to challenge or replace the status of the US as the principal and hegemonic power in the region yet. This is due in large part to the transactional nature of the relationship that has developed between GCC states and Asian countries to date. But it is also due both to the persistence of the American security alliance for all Gulf Arab countries as well as the fact that some of the Asian countries in question are close US allies as well, like Korea and Japan.37

First, current perceptions are that the US is in strategic retreat from the Gulf and the wider Middle East. Following several decades of post-Cold War hegemony, American influence was undermined by their failure to subdue insurgencies in Afghanistan after 2001 and Iraq after 2003. That weakness was compounded further by the 2008 financial crisis which encouraged then President Barack Obama to step back from his predecessor’s bellicosity. That approach has been followed to some extent by his successor as president, Donald Trump. At the same time though, Trump has alternated a wish to reduce American responsibility for providing security with confrontation. In the Gulf, this has most notably manifested itself in the current crisis with Iran.

In 2018 Trump decided to withdraw from the Joint Comprehensive Plan of Action (JCPOA) which had been agreed under Obama and froze sanctions against Iran in exchange for it halting its nuclear programme. While American allies like Saudi Arabia and the UAE approved of the US re-imposition of sanctions last year, the situation has since worsened over the summer and making it clear that the US cannot solve the present crisis on its own.38 Iran has increased tensions, detaining Western shipping and was suspected of being behind attacks against several tankers in the Gulf, as well as attacks on Saudi pipelines and the Abqaiq production facility in September 2019 – the latter which reduced the country’s production by half in one instant. One response by Trump has been to establish a multinational naval taskforce in the region and encourage other countries to contribute protection for oil tankers in the area.39

37 Quilliam and Kamel, “The GCC-Asian Relationship.”
39 BBC, “US to enlist military allies in Gulf and Yemen waters.”
Second, perceived American decline has coincided with increasing multipolarity within the region. Competition is occurring among the Middle East’s strongest states, including Saudi Arabia, Iran, Turkey and Israel to enhance their regional influence. The instability generated by the 2011 Arab uprisings provided opportunities for them to do this, especially in those states most affected and weakened by domestic unrest like Libya, Syria and Yemen.\(^{40}\) In the Gulf especially, this led to an intensification of rivalries, between Saudi Arabia and Iran at one level and between Saudi Arabia and the UAE on one side and Qatar and Turkey on the other.\(^{41}\) Among the most notable of these is arguably the Yemen war, following Saudi and UAE intervention in 2015 to restore the UN-backed national government and contain the Houthis, a religious and cultural group aligned with Iran. Similarly, the Saudis and the UAE also backed militia groups which were opposed to the government in Syria’s civil war, which was backed materially by the Iranians. Further afield, competition has followed wherever Gulf Arab states have a presence, for example in the Horn of Africa. There, countries like Somalia and Djibouti were pressed to choose sides following the 2017 Gulf crisis.\(^{42}\)

Yet despite assumed American weakness and growing competition and rivalry across the Gulf and the Middle East, the GCC’s Asian partners show little inclination to step up and take a greater role in providing security to enable stability. The reasons for this are three-fold.

First, contrary to initial impressions, the US is not as diminished or disinterested as it would appear. Despite Trump’s more isolationist tendencies, the US shows little willingness to abandon the Middle East and the Gulf. Since 2000, the US has moved from being an energy importer to a key producer and has continued to maintain a military presence alongside its economic one. That it does so is less to ensure the ready supply of oil and gas for itself and more to prevent any disruption to Gulf supplies or spikes in oil prices. This reflects the highly integrated nature of the global oil market.\(^{43}\) As the recent Abqaiq attack showed, global oil production fell by 5% and oil prices surged by 20% in the immediate aftermath.

In addition, despite being individually less reliant on Gulf Arab oil, the US (and the wider West) shows little inclination to withdraw from the Gulf. The persistence of the US presence during the current crisis with Iran is testimony to that. The American and Western presence in the region is not solely instrumental. There are long-established and durable ties which sustain the alliance between individual GCC countries with the US and other Western countries. Successive GCC leaders have had close relationships with their counterparts in Washington and other Western capitals; their courtiers and children attend American and European schools and universities.\(^{44}\)

Second, Asian countries also benefit from the American presence, regardless of whether they are an American ally. Both Japan and South Korea are American allies and have welcomed the stability that the US security umbrella has provided, ensuring regular and reliable supplies of oil and gas and so enabling successive governments to focus on domestic economic growth and development. Indeed, only with some reluctance, has the South Korean government increased its military presence in the Middle East in the past two decades, sending troops to Iraq in 2004 and Lebanon after the 2006 war.\(^{45}\) Japan similarly sent troops to Iraq after 2004 but more recently has avoided any actions which might make it too visible in the region.\(^{46}\)

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\(^{40}\) Kamrava, “Multipolarity and Instability in the Middle East.”

\(^{41}\) Gause, Saudi Arabia in the New Middle East; Lynch, The New Arab Wars.

\(^{42}\) Wilson and England, “Middle East’s power struggle moves to the Horn of Africa.”

\(^{43}\) Noel, “Securing Middle East Oil.”

\(^{44}\) Quilliam and Karmel, “The GCC-Asian Relationship.”

\(^{45}\) Levkowitz, “Korea and the Middle East Turmoil.”

\(^{46}\) Boduszynski, Lamont and Streich, “Japan and the Middle East.”
For China, a principal American rival, the American presence in the Gulf has been similarly advantageous. Chinese state firms have taken advantage of the economic opportunities that have presented themselves. The case of the GCC has been documented in these pages, but it has also been apparent elsewhere in the wider Gulf, like Iraq. At one point, Obama accused China of “free-riding” on the back of American security. Yet, that China did so was probably inevitable. US involvement in protecting the region by previously providing security to shipping and security guarantees to energy producers is a public good; it is therefore impossible to exclude others from the benefits associated with it.47

Third, the exchanges taking place between GCC and Asian countries should therefore be seen as less the emergence of a new security arrangement and more a form of hedging. Moreover, it is hedging that is between different sides, both within the region and between the US and its opponents in the region. This seems evident in the various measures taken in relation to security-related matters in recent years and the current Gulf crisis between the US and Iran. In short, a more transactional security arrangement is taking place between GCC countries and Asian powers, as opposed to the more rooted and enduring relationships that exist between GCC leaderships and the West.48

Despite the American security umbrella, some Asian powers have adopted a more robust stance. India signed a comprehensive strategic partnership with the UAE in 2017, after which the two engaged in joint naval exercises. In early 2019 India and Saudi Arabia institutionalised their relationship through a Strategic Partnership Council.49

China has established formal relationships which involve some form of formal security ties and interaction. In the past decade it has established a series of partnerships across the Middle East, which covers five of the GCC members. For Kuwait, Oman and Qatar, China has agreed strategic partnerships while with Saudi Arabia and the UAE it has comprehensive strategic partnerships – which reflect China’s perception of these two states as the most important powers in the Arab Gulf. In addition to these two countries, China has also signed comprehensive strategic partnerships with several other regional states:

47 Noel, “Securing Middle East Oil.”
48 Quilliam and Karmel, “The GCC-Asian Relationship.”
Algeria, Egypt and Iran. Of these three, the most challenging is that with Iran, since Beijing has to balance its interests between Iran and Saudi Arabia, both of whom possess a strong antipathy towards each other. To that end, China has carried out defence exercises, including naval ones with Iran and anti-terrorism drills with Saudi Arabia.

China’s balancing between Saudi Arabia and Iran is also apparent in relation to the US in the Gulf. Since 2009 China’s military presence in the region has grown, but it has been at pains to make clear that it is not directed at challenging American power. In 2009, it dispatched two warships to participate in the UN-sanctioned multinational effort to end piracy off the coast of Somalia – the first time its navy had operated beyond home waters since 1949. Later, it established its first overseas military base in Djibouti in 2017. To counter American claims of growing Chinese militancy, some have pointed out China’s more “soft military footprint” in the Middle East: unlike the West, China is not focused on aggression or imposing its will on others in the region.

Non-confrontation with the US has also been the watchword for other Asian powers in the Gulf. Along with China, South Korea, India and Japan were all granted waivers in relation to US sanctions against Iran when it first left the JCPOA in 2018. But when the waivers ran out in May 2019 and were not renewed, all reduced their imports from Iran. Japan’s Prime Minister Shinzo Abe has also attempted what turned out to be a failed attempt at mediation between the US and Iran in June 2019. More recently, Japan and South Korea have both joined the US-led naval taskforce to protect ships in the Gulf, albeit with some reluctance on the Japanese part, for fear of damaging its relations with Iran; but also because constitutionally, Japan is more constrained than other countries from adopting a military stance. By contrast, India has similarly dispatched naval ships, but has chosen to operate independently, thereby demonstrating its concern while not aligning with one side or the other. Finally, Saudi Arabia asked South Korea for assistance in its air defence system following the an attack on its oil facilities in September.

4. Conclusions and Looking to the Future

The overall picture of relations between Asia and the GCC is one of growing economic and commercial exchange. Looking ahead, the current state of affairs is likely to continue. GCC and Asian states like China, India, Japan and South Korea will continue to pursue those developments which are mutually advantageous; namely, the regular and reliable export of energy from the Gulf to Asia alongside additional investments in other sectors, from infrastructure to property to financial and hi-tech services. They will seek to minimise any risks and threats to those arrangements insofar as it is possible.

Should this be the case, then it is likely that some GCC countries like Saudi Arabia and the UAE will continue to be at the forefront of this process. Qatar will also continue to make advances, so long as it is able to evade Saudi/Emirati diplomatic and economic actions and its customers continue to purchase its exports. The other, smaller GCC members will also continue to benefit from trade, although perhaps not to the same extent or degree. At the same time, several of the countries

50 Fulton, China’s Changing Role in the Middle East.
51 Reuters, “China holds first anti-terrorism drills with Saudi Arabian special forces”; Ng and Huang, “China and Iran carry out naval exercise near Strait of Hormuz as US holds drill with Qatar.”
52 Sun, “China’s Military Relations with the Middle East.”
53 Marlow, Li and Chaudhary, “Saudi oil shock could unite India, China amidst tensions in the Middle East”; Reuters, “South Korea to send naval unit to Strait of Hormuz”; Efe-Epa, “Japan, Iran foreign ministers discuss Persian Gulf tensions.”
54 Miglani, “Indian warships to stay longer in Persian Gulf, but won’t join U.S. coalition.”
among the GCC and Asia remained exposed. Oman’s dependence on China for its energy exports is especially high, with 78.5% of its exports destined for there. Only Bahrain follows it in terms of dependence on China, but at 15.9% of its exports, it is a long way behind. From the other end of Asia, Japan and South Korea are more reliant on the GCC for energy, with India and China being less dependent, owing to their continuing heavy use of coal.

Despite the variations in level of dependence by consumers, GCC countries are aware of their own exposure and reliance on oil and gas to provide the revenues that their economies and governments need. As the fall in oil prices showed after 2014, they are vulnerable to sharp price changes. Consequently, there is a recognition that they need to insulate themselves against such volatility. In recent years several countries have begun to envisage plans for a post-oil and gas future: in 2016 Saudi Arabia launched its Saudi Vision 2030 Plan while in the UAE the Abu Dhabi Economic Vision 2030 and the Dubai 2021 Plan have been announced and in Qatar a National Vision 2030 has also been proposed. Broadly, all seek greater economic diversification alongside investment in education and employment opportunities for their citizens, whilst keeping their economies as open and competitive as possible, so as to attract foreign business.

Should many of the proposals in the plans get out of the prospectus and drawing boards and be fully enacted, they may well transform the domestic environments of the GCC countries. Instead of periods of economic boom associated with rising energy prices followed by decline when they fall, the business cycle could become more stable and varied. If that happens, then the character of Asian economic exchange may change. To some extent that has started to take place in relation to South Korean activity: South Korean firms, including smaller and medium sized enterprises as opposed to the larger chaebols, have taken a more active role in GCC diversification efforts, including involvement in training and developing the domestic workforce.

If economic relations between the GCC and Asian powers look potentially transformative in the years to come, it is not clear that the same is the case in the security field – at least for now. In terms of the Gulf’s security, the US will continue to be the dominant presence. Although Asian

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57. Lee, “Korea and the GCC.”
powers will become more visible and cooperate with GCC members, the heavy lifting will likely be done by the US. As the present crisis with Iran demonstrates though, there will be scope for Asian powers to participate; and they may well do so if the framework is multinational rather than associated with a sole superpower. Some will be more likely to contribute towards such efforts, especially those with formal alliances with the US, like Japan and South Korea. Others, like India and China, may be more ambivalent. While they welcome stability in the region, they do not necessarily see the US as the principal provider of security. Indeed, they are likely to see it as a contributor to current instability. Yet, even so, it is unlikely that they will seek to challenge the American position too directly: whatever security the US offers to oil markets is a public good shared by all.

What could change the balance, and both Asian and GCC countries’ calculations, could come from either within or without. Internally, should a shift in the present balance of power take place – between Saudi Arabia and Iran or between the rival Gulf Arab states after 2017 – that could prompt a re-evaluation and a move away from the present hedging strategy adopted by Asian powers. Externally, should the US adopt a more confrontational stance, whether towards Iran in the current crisis, or even China, this could force American allies in the GCC and Asia alike to consider their options. During the current Iran crisis, the US has oscillated between confrontation and offers to talk. Although some Gulf states like Saudi Arabia and the UAE initially welcomed the hardline stance, there has been reassessment in recent months, with the UAE for one, favouring de-escalation.58

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