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The Consolidation of Gulf-Asia Relations: Washington Tuned In or Out of Touch?

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To many American policymakers and opinion leaders, the term "Gulf-Asia Relations" is merely an abstraction. To some, it is synonymous with China's rising oil import dependence on the Gulf. The United States, long accustomed to being the predominant external actor in East and West Asia and preoccupied with issues specific to each region, has yet to examine systematically the salience, full scope and implications of burgeoning Gulf-Asia ties, much less to adjust its policies to them.

Over the years, US policy toward the Gulf has derived from a complex set of interests. Strategically, the United States has sought to prevent the domination of the region by hostile powers. Economically, it has striven to ensure unimpeded access to oil. Politically, it has aimed to protect friends and allies in the region through diplomacy and security assistance. By defending these interests, the United States has attempted to serve the additional goals of bolstering its credibility and affirming its status as a superpower. The United States, the preeminent external actor in the Gulf and Asia Pacific for decades, continues to be deeply engaged in both regions.

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However, the United States faces numerous challenges in pursuing its policy objectives in the Gulf. While security in Iraq has markedly improved, the situation nonetheless remains fragile. Iran, profiting from record-high oil prices and the turmoil in Iraq, has withstood economic sanctions, advanced its nuclear program, and expanded its influence in Iraq and elsewhere in the Middle East. The Bush Administration's attempt to line up the Gulf Cooperation Council (GCC) states and others in order to counter Tehran has received a mixed reaction. The US image and reputation throughout the Middle East has plummeted. Meanwhile, American policy-makers are grappling with a host of problems on the domestic front, including a massive crisis that has shaken confidence in the stability of the US financial system.

The consolidation of Gulf-Asia relations is taking place in the midst of these challenges and against the backdrop of the rise of China and India as major economic powers and the resurgence of Russia. One is tempted to infer that the position of the United States in the Gulf is eroding, and that the deepening of Gulf-Asia relations not only reflects this trend but is reinforcing it.

This essay addresses several questions: What are the key features of Gulf-Asia relations? What factors are propelling the growth of inter-regional ties? To what extent are US foreign policymakers, analysts, and academics attuned to these changes? What indication is there of an emerging consensus within the US foreign policy community regarding the policy implications of the further development of Gulf-Asia relations?

GULF-ASIA FUNDAMENTALS

Gulf-Asia relations are bi-directional, multi-faceted, and firmly rooted. During the past two decades, an intricate web of diplomatic and economic ties and military-to-military contacts has developed between the Gulf and Asia Pacific countries. The consolidation of Gulf-Asian relations has proceeded apace in spite of the Asian financial crisis of the late 1990s, as well as the more recent turmoil in Iraq and Afghanistan. Indeed, there is every indication that Gulf-Asia relations are a structural feature of the global system whose importance to the partners and to others with interests in these regions is likely to increase.

There has been steady, incremental progress in the building of personal and institutional relationships — the essential latticework of Gulf-Asia economic interdependence. Over the last decade, Gulf-Asia relations have been nurtured by numerous exchanges of visits by Heads of State, senior officials, and commercial delegations; these visits have been capped by a slew of ambitious cooperation programs and joint ventures.[1] A number of joint efforts to mobilize capital for cross-regional investment are in progress. Underpinning these initiatives is a host of new business relationships, such as the India-Oman Business Forum, established in February 2008 to foster investment in real estate, utilities, energy, telecommunications, mining and minerals, and infrastructure. Dubai International Capital (DIC) has joined forces with China's First Eastern Investment Group in establishing a new fund, China Dubai Capital, to invest in Chinese companies.[2] Multilateral links also have been forged, such as the Asia-Middle East Dialogue (AMED), a forum for exchanging views, sharing experiences, and strengthening cooperation in the social/cultural, economic, as well as political/security spheres. In August 2008, the Gulf Cooperation Council (GCC)-ASEAN Economic Centre (GAEC) — aimed at facilitating inter-regional trade and investment activities — was established in Kuala Lumpur, Malaysia.[3] National tourism boards, airline and hotel representatives, meeting planners, and conference organizers are collaborating to stage training events intended to help boost inter-regional business travel.[4] Negotiations for several free trade agreements (FTA) between the GCC on the one hand, and China, India, South Korea, and Japan on the other, are underway.

Trade in crude oil forms the backbone of Gulf-Asia energy relations. Gulf oil producers export more oil to Asia than to Europe and North America combined. In fact, about two-thirds of Gulf oil exports are channeled to the Asia Pacific market.[5] Asia Pacific countries, individually and collectively, are heavily dependent on oil from the Gulf. Japan sources over 75% and South Korea 67% of their oil imports from the GCC states.[6] After Angola, Saudi Arabia and Iran are China's largest suppliers of crude oil, notwithstanding Beijing's vigorous efforts to diversify sources of supply. The International Energy Agency (IEA) forecasts that China will import 70% of its oil from the GCC by 2015. India is projected to replace South Korea and emerge as the fourth-largest consumer of energy (after the United States, China, and Japan) by that time. The bulk of Indian supplies come from the Gulf; this dependency is expected to change only marginally. As for Asia as a whole, most experts agree that the region is on track to bolster its dominant position in future global demand growth and energy trade (imports). They also agree that the GCC countries, plus Iran and Iraq, will meet the bulk of oil (and to a lesser extent gas) supply growth in the coming decades. Trade in crude oil between the Gulf and Asia thus constitutes a fundamental structural change that is likely to shape future global energy dynamics for many years to come.

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Trade in crude oil has led to more extensive inter-regional cooperation in the energy sector. Trade in refined products and cross-regional investment in downstream and upstream development projects has risen steadily and steeply, especially over the last decade. Several blockbuster oil and gas field development project bids won by Chinese firms in Iran, Saudi Arabia, and most recently in Iraq have claimed the headlines.[7] But China is not the only Asian player in the Gulf, or for that matter in Iran. Indonesia's state oil company PT Pertamina signed a joint venture shareholder agreement with the National Iranian Oil Refining and Distribution Co. (NIORDC) and with Petrofield Refining Company of Malaysia to build a $6 billion oil refinery plant in Banten province. Iran is committed to supplying half of the

1. They include the joint visit of the six GCC Finance Ministers to China in July 2004; visits by Chinese President Hu Jintao to Saudi Arabia in April 2006; visits by Amir (then Prime Minister) of Kuwait Shaikh Sabah Al-Ahmed and King Abdullah of Saudi Arabia to major Asian countries in 2005 and 2006, respectively; the visit by UAE Vice President and Prime Minister Shaikh Mohammed bin Rashid Al-Maktoum of Dubai in to China in April 2008.

2. "Dubai Looking East," *Arab Finance*, April 21, 2008.

3. Deutsche-Presse Agentur, Reported in "Gulf-ASEAN Increase Trade Ties," August 26, 2008.

4. See, for example, efforts undertaken by The Pacific Asia Travel Association (PATA), InterContinental Hotels Group (IHG) and Qatar Airways, reported in "PATA Launches Asia Pacific Training Day for Gulf Corporates," *ArabianBusiness.com*, April 8, 2008.

5. Meena Janardhan, "East Might Cash in on West's Fears of Sovereign Wealth Funds," *The Daily Star*, July 4, 2008.

6. See Dr. Tsutomu Toichi, address to the Middle East & East Asia Energy Summit, Singapore, November 28, 2007; and official statistics of the South Korea Ministry of Foreign Affairs and Trade.

7. In the case of the Iraq deal, CNPC renegotiated terms of a $3 billion oil service contract signed in 1997, replacing the production sharing arrangements of an old deal signed in 1997 to pump oil from the Adhab oilfield with set-fee technical services. This was Iraq's first contract with a large foreign oil company since the fall of Saddam. The contract also requires China to build a major electrical station in the area. Reuters, "Iraq Reaches Oil Agreement with China," August 28, 2008; Amit R. Paley, "Iraq and China Sign $3 Billion Oil Contract," *The Washington Post*, August 29, 2008; Gina Chon, "China Reached $3 Billion Deal to Develop Oil Field in Iraq," *The Wall Street Journal*, August 29, 2008.

refinery's oil needs (i.e., 150,000 barrels per day).[8] In June 2008 Iran signed a $1.5 billion deal with Malaysia's Amona company to develop the Resalat oilfield in the Gulf. Iran signed a $16 billion deal with Malaysia's SKS in December 2007 to develop the Golshan and Ferdows gas fields in Bushehr province. Japanese firms, too, are stakeholders in Gulf projects. Sumitomo Chemical Company and Saudi Aramco joined forces in the Rabigh project, one of the largest integrated refining and petrochemical complexes, which has operating expenses of over $10 billion.

In recent years, substantial public and private capital *from* the Gulf has been channeled *into* the Asian energy market as well. The groundwork laid by Saudi Basic Industries Corporation (SABIC) is a case in point. SABIC's Asia Pacific operation has built an extensive regional sales and marketing infrastructure with offices in Indonesia, Philippines, Vietnam, Hong Kong, Taiwan, China, South Korea, and Japan, and a regional HQ in Singapore. SABIC employs over 2,500 across Asia, half of them in China. Most of SABIC's new petrochemicals capacity is to be allocated to the rapidly expanding Asian market. According to Prince Saud bin Abdullah bin Thinayan Al Saud, SABIC's chairman, "Asia is a region where SABIC not only wants to supply products, but is also a region that regards as a strategically important location for future manufacturing of its products."[9] SABIC is not alone. Kuwaiti investors are building a $5 billion refinery in Guangdong province. Though China is the favored destination for strategic investments from the Gulf, capital is flowing to other Asian countries as well. Qatar's privately held Gulf Petroleum Ltd., for example, won approval from the Malaysian government to develop a $5 billion oil and petrochemical complex in the northern state of Perak — a facility that is intended to serve as a regional hub for the Asia Pacific region.[10] Gulf capital is also flowing to Japan. Saudi Aramco, for example, has entered the Japanese downstream market, acquiring a 15% stake in Showa-Shell Oil Company.

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Gulf-Asian economic relations are multilayered, inclusive, and diverse. To be sure, many important Gulf-Asia economic activities are state-directed and heavily state-supported. However, inter-regional economic cooperation, viewed in its totality, encompasses both the public and the private sectors. It is important to add that *all* of the Gulf and Asia Pacific countries are becoming more deeply enmeshed in inter-regional economic activities. Yet by any metric, China is the locomotive that is driving the expansion of Gulf-Asia economic relations. Insofar as the breadth and scope of Chinese involvement in the Gulf is concerned, the relationship with Iran is unparalleled. Chinese firms are engaged in a wide range of economic activities in Iran, ranging from infrastructure construction (including dam and shipyard projects) to trade and tourism. More than 100 Chinese state companies are operating in Iran; they are developing ports and airports in major Iranian cities, and are engaged in the mining as well as oil and gas infrastructure sectors.

Roles as well as relationships vary. Dubai, Mumbai, and Singapore play key roles as financial hubs or platforms for investment, as trade entrepôts, and as linguistic-cultural bridges. According to Mukesh Ambani, Chairman and Managing Director of Reliance Industries, India's largest industrial conglomerate, "Dubai will be the gateway for our future investment in this part of the world and beyond."[11]

The synergy between the regions is also evident in the emerging pattern of strategic investments in natural resource development, agribusiness, and transportation infrastructure. In the area of natural resource development, the specially targeted direct investments by China's state-run aluminum manufacturer in phosphate projects in northern Saudi Arabia along with its plan to set up a production facility in Jazan Economic City are illustrative. There are also major aluminum smelter expansion projects on the drawing board or underway in Dubai, Bahrain, and Kuwait. Here the steady growth in demand for Gulf aluminum, mainly from Japan and other Asian countries, has meshed with lower pro-

8. "Indonesia, Iran, Malaysia to Jointly Build $6 Billion Refinery," *Jakarta Post*, March 21, 2008.

9. "Hong Kong a Key Base as SABIC Grows in Asia Pacific," *South China Post*, September 6, 2007; see also Habib Shaikh, "Saudi Arabia Looks East as It Expands Industries," *The Business Times* Singapore, October 2, 2006.

10. "Gulf Petroleum Gets Not For Malaysian Complex," *Oil & Gas Journal*, May 12, 2008.

11. "Reliance to Expand Gulf Presence," *Gulf News*, December 12, 2007.

duction costs given the Gulf region's cheap labor, proximity to Asian consumer markets, and massive natural gas reserves.[12] One can envisage over the horizon further growth in the exchange of labor-intensive for energy-intensive products.

Led by Kuwait, Saudi Arabia, and the UAE, strategic agribusiness investment has become part of the new landscape of Gulf-Asia relations. The GCC states import all their staple foods. Faced with growing populations, a scarcity of arable land, shortages of water, rapid urbanization, and inflationary pressure from surging food prices that could fuel social unrest, GCC states are seeking secure food supplies abroad.[13] The value of trade in agriculture and processed food between India and the Gulf grew from $5.5 billion in 2001 to $48.6 billion at the end of 2006.[14] In May 2008, a Kuwaiti delegation traveled to Asia, surveying prospects to invest in farmland. Abu Dhabi Group, Abraaj Capital, and Emirates Investment Group reportedly have been exploring investment opportunities in agriculture and dairy sectors in Pakistan. The Qatar Livestock Company and Al Rabie Group of Saudi Arabia have shown interest in the Pakistani agricultural sector as well.[15] Bahrain has turned to the Philippines and Thailand to help secure its needs for imported rice. And private investors from the UAE are looking for opportunities to invest in fish and grain farms, fruits, and vegetables in Philippines.

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The strategic dimension of cross-regional investment — aimed at boosting commercial relations over the longer term — can also be seen at work in collaborative efforts to develop road, railway, and maritime cargo transportation infrastructure. Dubai Ports World (DPW) and Tianjin Port Group Company Limited, for example, have partnered to build a container terminal in Tianjin. Prior to the announcement of this plan in 2006, DPW had already operated container berths at six Chinese ports.

India and Pakistan factor into the mix as well. India is engaged in the building of several overland-maritime transport corridors linking the country with Central Asia and the Gulf. These projects include the development of the Iranian port of Chah Bahar and construction of portions of road network connecting that facility to Afghanistan and from there to Tajikistan. In addition, India has signed a trilateral transportation agreement with Iran and Turkmenistan, and has begun work on building an India-Iran-Russia railway line. Meanwhile, Pakistan has inaugurated a deep-sea port at Gwadar on the Arabian Sea. The port, which was financed mainly by a Chinese consortium and became operational in March 2008, offers a point of access to Persian Gulf ports. A road from Gwadar to Saindak, which is connected to the RCD Highway (N35), provides the shortest route for trade with Central Asia.

The diversification of Gulf-Asia economic relations extends to the real estate development and construction sector. Indian companies, for example, have been cashing in on the construction boom in the Gulf. India's largest private sector company Larsen & Toubro (L&T) has engaged in projects in Oman and Saudi Arabia. Emaar MGF (a joint venture between India's MGF and Dubai-based Emaar) is building the Dubai Mall, slated to be the world's biggest mall, and the Burj Dubai, poised to become the world's tallest building. Chinese firms, too, are engaged with Gulf partners in major building projects. In November 2007, Emirates Building Systems, a subsidiary of Dubai Investments Industries, signed an agreement with China Jingye Construction Engineering Contract Company for the construction of high-rise buildings, stadiums and aircraft.[16] Zhongon Construction Group, in partnership with Fkamber Holdings, plans to invest about $100 million in real estate projects in Dubai; and Dubai's retail sector is expected to receive more than $200 million in investments from Dalian-based retail giant Dashang. Damac Properties, the largest real estate develop-

12. "Gulf States Plan Higher Aluminum Output," *Engineering and Mining Journal*, September 2004.

13. "Gulf States Look to Harvest Food from Investment in Asia," *Agence France Presse*, July 20, 2008; Dalia Merzaban, "Food Imports Top of Agenda on Kuwait's Asia Tour," *ArabianBusiness.com*, August 16, 2008; Meena Janardhan, "Gulf Eyes Oil-for-Food Pacts," *Asia Times*, June 20, 2008.

14. India Eyes GCC Food Market," *The Statesman* (India), September 24, 2007.

15. Muzaffar Rizvi, "Pakistan Farm Sector Eyes Major Share of GCC's $200b Food Imports," *Khaleej Times*, May 3, 2008.

16. N. Janardhan, "UAE-Sino Ties: Full of Energy for Synergy," *Khaleej Times*, November 5, 2007.

ment firm in the Middle East, entered the Chinese market with a $2.7 billion mix-use development in Tanggu district; and the Jumeirah Group secured management rights for hotel development of the HanTang Jumeirah Shanghai.

The oil trade-led expansion of Gulf-Asia economic ties has already had profound economic effects. Public officials and private sector managers in both regions are pressing ahead to capitalize on and cushion themselves against possible disruptions of the burgeoning oil trade. Gulf-Asia trade, which currently exceeds $300 billion, has tripled since 2000. Asia is the destination for half of all Gulf exports, while a third of Gulf imports are from Asia.[17] A 2006 report by the Institute of International Finance (IIF) notes that "a gradual shift in GCC trade relations" has occurred, whereby Asian countries account for a larger slice of overall trade. The IIF report also emphasizes that China accounts for the bulk of the shift in GCC trade relations. China, which has become the world's second largest oil consumer, is also the fastest growing market for GCC petrochemical and metals exports.[18] Trade and investment flows are transforming the geographic area spanning the Gulf and Asia Pacific into a densely interconnected economic space.

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CATALYSTS AND ENABLERS

The development of Gulf-Asia relations has been propelled by several factors, above all the rise of China and India as major economic powers, combined with the continued vitality of the "Asian tigers," the still potent albeit troubled Japanese economy, and the dynamism of Southeast Asia. As it happens, China's increased demand for energy-intensive goods such as phosphate and aluminum, for example, has dovetailed with plans by some of the GCC states to exploit their comparative advantage in the development of these very resources. Similarly, Abu Dhabi-based petrochemicals company, Borouge, opened a marketing office in Shanghai and, allying with the Vienna-based company Borealis, is building a polypropylene facility in China to take advantage of high demand for plastics in the automobile industry. Add to the mix the emergence on the world stage of Asian companies such as Haier, Huawei, Lenovo, Petronas, Ranbaxy, Samsung, and Sterlite Industries — all seeking to expand their market presence in the Gulf and throughout the Middle East.

The second factor is vast cash liquidity in the Gulf spurred by high global demand and resulting high prices for oil. As Gulf sovereign wealth funds (SWFs) have swelled, fund managers have sought to diversify their portfolios — seeking to enlarge their presence in emerging markets, notably in Asia. This is far from inconsequential. GCC sovereign wealth funds are estimated at $1.6 trillion, with the Abu Dhabi Investment Authority (ADIA) alone believed to hold about $900 billion. Indeed, GCC investment funds represent over half of SWF assets globally, including some of the most active funds, with the number of funds and assets they manage having grown at a fast pace since the beginning of the decade. The state-owned Kuwait Investment Authority (KIA), with assets worth an estimated $100 billion, decided in 2005 to increase the Asian share of its portfolio from 10 to 20%. During an eight-nation visit to Asia in August 2008, Finance Minister Mustapha Al-Shamali stated that KIA plans to triple its investments in Japan to $48 billion and exploring ways to increase investment in South Korea.[19]

The third factor is the revision of domestic and outward investment strategies and the liberalization of economic policies in both regions. The GCC states, for example, which have sought to diversify their economies beyond oil exports (mostly denominated in dollars), are using their oil profits windfall to invest in infrastructure, education, informa-

17. Meena Janardhan, "East Might Cash in on West's Fears of Sovereign Wealth Funds," *The Daily Star*, July 4, 2008.
18. Agence France Presse, "Oil 'Windfall' Powering Gulf Economic Boom: Report," August 15, 2006.
19. Dalia Merzaban, "Food Imports Top of Agenda on Kuwait's Asia Tour," *ArabianBusiness.com*, August 16, 2008.

tion technology, and financial services. Project finance activity is booming in the Gulf. Saudi Arabia is leading the way, having embarked on a massive program of downstream development that is aimed at creating jobs in plastics and chemicals production, and in the manufacture of finished goods. As a result, the GCC is becoming an important destination for, not just a source of investment capital. Meanwhile, Asian countries are attracting Gulf capital. By simplifying and rationalizing foreign direct investment (FDI) procedures, India has created a more hospitable investment climate. Speaking on "India's Foreign Policy and India-Gulf Relations: Meeting the Challenges of the 21st Century" at the Emirates Centre for Strategic Studies and Research (ECSSR), External Affairs Minister Pranab Mukherjee, for example, stated that his country needs $500 billion to meet the infrastructure development targets set forth in the 11th Five-Year Plan and needs to greatly expand electric power production.

Fourth, economic conditions in the West and the external policies of Western countries (notably, the United States) have reinforced, albeit indirectly, the consolidation of Gulf-Asia relations. Partly as the result of tight liquidity in Western markets, Gulf firms with major projects underway have sought to attract Asian capital through conventional and Islamic bonds. Politically motivated restrictions on investments by oil-rich countries have intensified in the West, prompting some Gulf sovereign wealth funds (SWFs) managers to explore opportunities in Asia.[20] US-led Western sanctions have succeeded in crimping American and European business ties with Iran, but have had the unintended effect of creating space for the development of Sino-Iranian economic relations.

Fifth, the cross-regional flow of investment capital has been assisted by the growth of Islamic banking services in the Gulf and Asia. According to Standard & Poor's, Islamic financial services now comprise a roughly $1 trillion market worldwide. Links between the Islamic banking sectors of Asia and of the Gulf are fast being forged. The Islamic Bank of Asia (IB, Asia) — a joint venture between DBS, one of the largest financial services groups in Asia (based in Singapore), and 34 investors representing prominent families and industrial groups based in the GCC — is a case in point. Since its establishment in 2007, IB Asia has focused on cross-border transactions with a number of GCC companies, including the Kuwait-based International Leasing & Investment Company, the National Industries Group and the AREF Investment Group; and the Qatar-based Barwa Real Estate Company.[21] In recent years, Malaysia has given out tax breaks and has relaxed rules to attract foreign institutions in the Islamic financial services arena. These efforts have paid off, as financial players such as Dubai Investment Group's Bank Islam, Kuwait Finance House, Asian Finance Bank of Qatar, and Saudi Arabia's Al-Rajhi are engaged in Malaysia. The Petro-Rabigh project, which is one of the biggest oil refining and integrated petrochemicals projects in the world and the largest project financing to date in Saudi Arabia, is also the largest in the region to incorporate long-term Islamic financing.[22]

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Sixth, Gulf countries are seeking to rebalance their relations with the major powers. More specifically, they are seeking to reduce their level of dependence on the United States, as well as their susceptibility to US pressure. There is also a general recognition in the Gulf of the value of building cooperative relations with China and India — nuclear powers with geopolitical and economic heft in their own right.

20. Speaking to this point, see remarks of Dubai International Financial Center (DIFC) Governor Omar bin Sulaiman, quoted in Meena Janardhan, "East Might Cash in on West's Fears of Sovereign Wealth Funds," *The Daily Star*, July 4, 2008.

21. "The Islamic Bank of Asia Taps into GCC's Double Digit Growth," *Middle East and North Africa Financial Network*, April 8, 2008; Brian Bremner and Assif Shameen, "The Ties that Bind the Middle East and Asia," *Business Week*, May 21, 2007; Dominic Barton, Kito de Boer, and Gregory P. Wilson, "The New Silk Road Opportunities for Asia and the Gulf," *Business Recorder*, December 11, 2006.

22. The project's capital of $9.8 billion is divided equally between Saudi Aramco and its Japanese partner, Sumitomo Chemical. The financing package included a $1.7 billion commercial bank facility from 15 banks and a $600 million Islamic financing tranche led by the Islamic Development Bank and including seven other Islamic banks. Sumitomo Mitsui Banking and its European affiliate acted as financial adviser to the sponsors, while HSBC Saudi Arabia, through its HSBC Amana unit, was financial adviser on the Islamic financing.

MINDING THE GAPS

As shown, Gulf-Asia relations are burgeoning. They are not, however, trouble free. Furthermore, fruitful economic partnerships can just as easily engender or intensify geopolitical rivalries as mitigate them.

Labor issues constitute just one set of vexing problems. The six members of the GCC have a total population of 35 million people; about 13 million of these are expatriates, mostly expatriate and contract laborers from Asia.[23] But the future of this relationship is clouded by a number of challenges and uncertainties. Unlike just a decade ago, the demand in the Gulf is less for unskilled labor and more for semi-skilled and skilled professionals. Will such workers choose employment in the Gulf if the Indian economy is able to absorb them? In fact, the gap between wages in the GCC and some robust Asian economies appears to be closing, dampening the appeal of the Gulf market for skilled workers.[24]

If there is a surplus of willing semi-skilled and skilled professionals of Indian or other Asian origin, will they be welcome? The GCC states rely on foreign labor but are somewhat uneasy about its demographic impact. In October 2007, Bahrain's Labor Minister Majid Al Alawi called for a six-year residency cap on foreign workers. Furthermore, there is the thorny question of whether Asian contract laborers who are willing and welcome are well treated or exploited. Only recently has this question received the widespread attention that it is likely to continue to require. In January 2008, for example, representatives from 21 Asian (labor sending) and Arab (labor receiving) countries met in Abu Dhabi to discuss issues related to this matter.[25]

Uneven or imbalanced trade is another nagging problem. For example, China is Dubai's second largest trading partner, and its 12th largest market for exported goods. However, much of the current trade is one-way. Of Dubai's estimated $45 billion of non-oil exports, only around $180 million find their way to China. By contrast, Dubai imports around $19 billion of goods from China every year, and the volume is growing.[26] GCC non-oil exports are constricted by a limited production base, particularly the production of agriculture and manufacturing sectors. Gulf-Asia commercial relations are still plagued by inadequate insurance cover, high tariffs in destination countries, the lack of knowledge about the local market, and the high costs of cargo transportation.

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Public officials and private investors are apt to encounter obstacles to maintaining the momentum of cross-investment in particular sectors. Channeling Gulf petrodollar windfalls into acquiring farmland in Asia (or in Africa) could conceivably backfire as major food producers face constraints of their own. Agricultural growth in India has hit a plateau at a mere average of 2% per year since 2000, due to lack of investment in new agricultural technology and irrigation, price distortions and inadequate storage and transport provisions for perishable products. Pakistan, too, has been hit hard by food inflation. A net wheat exporter until just a few years ago, Pakistan purchased about $800 million worth of wheat from abroad in 2008. In order to mitigate the effects of the food crisis, India and Pakistan have banned the export of certain food items (rice in the case of India, wheat in the case of Pakistan).

The development of some aspects of Gulf-Asia relates could inflame regional rivalries. Given the situation in Iraq

23. For a discussion of the importance of remittances from the GCC states to India and Pakistan, see Talal Malik, "India-Pakistan Trade with Gulf Hits $36bn," *ArabianBusiness.com*, August 14, 2007.

24. Agence France Presse, "Gulf states stress temporary status of Asian workers," January 21, 2008.

25. The meeting occurred in the context of the Asian Regional Consultative Process on Overseas Employment and Contractual Labor, known as the Colombo Process. Set up in 2003, the Colombo Process groups Asian states (Afghanistan, Bangladesh, China, India, Indonesia, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand, and Vietnam) to initiate dialogue on overseas labor.

26. "Dubai Looking East," *Arab Finance*, April 21, 2008.

and other sources of instability in the Gulf and the wider Middle East, Gulf-Asia cooperation entails is a certain inherent level of risk and uncertainty. It is equally important to note that the development of Gulf-Asia relations carries the risk of aggravating intra-regional rivalries. This was evident when China and Japan sought to outbid each other to secure the contract to develop the Azadegan oilfield in Iran. In 2006, under intensifying geopolitical pressure (mainly from the United States), Japan's Inpex reduced its stake in the project from 75% to 10%, opening the door to Chinese competitors. Clearly, Japanese officials are wary of being crowded out by Chinese enterprises. This concern is implicit in the remarks made by Yoshifumi Sato, director of planning at the Japan Cooperation Center for the Middle East (JCCME) during a recent visit to Dubai: "Japan's traditional relationship with Arab countries is based on importing oil and exporting electronics goods. We want to change it."[27]

The interplay between economic and geopolitical rivalry is evident in the case of the Gwadar and Chah Bahar port projects as well. These potential economic hubs are also important strategic footholds — and are regarded as such by India, Iran, Pakistan, and China. In remarks that were widely reported in the Asian press, Indian Naval Chief Admiral Suressh Mehta stated that the Gwadar port has "serious strategic implications for India … Being only 180 nautical miles from the exit of the Straits of Hormuz, Gwadar, being built in Baluchistan coast, would enable Pakistan to take control over the world energy jugular and interdict Indian tankers."[28] The heavy presence of US forces in Central and West Asia caused uneasiness in Beijing, accentuating the sense of acute vulnerability to a possible future American attempt to choke off Chinese energy supplies. Pakistan undoubtedly sought to relieve its own vulnerability to the dominant Indian navy. Iran has been looking for Asian partners to reduce US-led sanctions pressure. Thus neither the geopolitical considerations nor the geopolitical consequences of the investments in Gwadar or Chah Bahar should be discounted.

At the strategic level, there is little evidence that Gulf-Asia relations occupy a prominent place in American thinking or planning for the future.

VIEWS FROM WASHINGTON

As previously shown, the landscape of Gulf-Asia relations is being transformed. To what extent is the US foreign policy community concerned about or even cognizant of the full panoply of inter-regional activities and their possible ramifications? A review of several clusters of actors helps form a composite picture of the prevailing views of Gulf-Asian relations within the US foreign policy community.

The US Administration: At the strategic level, there is little evidence that Gulf-Asia relations occupy a prominent place in American thinking or planning for the future. The *National Security Strategy (NSS) of the United States* issued by the Bush Administration in 2006 set as the goal of US statecraft the promotion of "effective democracies" in an effort to "end tyranny." The *NSS* states that in order to create the space and sink roots for this transformation, it is necessary to strengthen alliances geared toward denying terrorists support and sanctuary of rogue states, and to deny weapons of mass destruction (WMD) to rogue states and their terrorist allies. The *NSS* does *not* refer explicitly to the Gulf or to Asia *per se*, much less to Gulf-Asia relations.

Furthermore, there is no indication that the attention given by the executive bureaucracy is commensurate with the scale and complexity of Gulf-Asia relations. In the context of monitoring Chinese military modernization, the Department of Defense (DoD), has kept a close watch for signs that the Peoples' Liberation Army-Navy (PLAN) could be laying a foundation for extending its power into the Indian Ocean and the Gulf.[29] The National Intelligence Council (NIC) has commissioned at least two studies to look at possible future scenarios, one narrowly focused on India and

27. "Japan to Challenge China in the Gulf," *Gulf News*, December 3, 2006.

28. Quoted in "Pakistan Gwadar Port Worries India," *China Economic Review*, February 12, 2008.

29. Col. Christopher J. Person, "String of Pearls: Meeting the Challenge of China's Rising Power Across the Asian Littoral," Strategic Studies Institute, US Army War College, July 25, 2006, available at http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB721.pdf

the Gulf, and the other on China-Gulf relations.[30] The Department of Energy (DoE) has pursued several pathways to cooperation with China on energy-related, though none explicitly dealing with the Gulf.[31] Meanwhile, there is no serious ongoing interagency effort to explore the full sweep of Gulf-Asia relations and their possible ramifications for US interests.

The US Congress: The US Congress has several instruments with which to assess the scope and impact of Gulf-Asia relations and to shape policy. On the analytic side, the Congress can convene public hearings, calling Administration officials and outside experts to testify before committees. Lawmakers also rely upon research and analysis produced by the professional staff of the Congressional Research Service (CRS). Hearings and reporting by congressionally mandated commissions is another potentially valuable asset.

Astonishingly, neither the Senate Foreign Relations Committee nor the House Foreign Affairs Committee has conducted a major hearing or series of hearings on Gulf-Asia relations. Of the numerous and varied *CRS Issue Briefs* and *CRS Reports for Congress*, none has examined Gulf-Asia relations in part or in their totality. On September 14, 2006 the bipartisan US-China Economic and Security Review Commission held a hearing on proliferation to Iran that explored the arms trade dimension of the Sino-Iranian relationship. Similarly, the hearings held on August 3-4, 2006 (on the question of whether China is a "responsible stakeholder") and on March 18, 2008 (on China's expanding global influence) touched on the Sino-Iranian relationship. The 2007 annual report of the Commission discusses briefly China's effort to expand its naval presence and reach into the Indian Ocean (p. 228). However, this is the extent of Congress' work on the subject. On the operational side, Congress' tool of choice has been the imposition and reinforcement of sanctions, principally targeting Iran.

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"Think Tanks" and Policy Research: Think tanks constitute another sector of the Washington policy community.[32] They organize programs and events, conduct research, and produce and disseminate publications aimed at policy-makers and the public. Almost without exception, their professional staffs include former US foreign policy practitioners, some of whom can be expected to reenter government service with a change in administration.

Remarkably, not since the Middle East Institute held a conference on "Gulf-Asia Energy Security" on July 6, 1998[33] has it or any of its peer institutions in Washington[34] held a major event to explore this subject. Similarly, it is stunning how few policy briefs and occasional papers, the standard fare of think tank publications, have been written on Gulf-Asia relations. Virtually all of these works focus on a single bilateral relationship.[35]

30. See "The Middle East and the Rising Asian Powers: Imagining Alternative Futures," prepared by The Henry L. Stimson Center for the NIC 2020 Project Spring-Summer 2004, Section 1 on South Asia-Gulf and available at http://www.stimson.org/swa/pdf/StimsonMiddleEastSouthAsia.pdf and Section 2 on China-Gulf relations, available at http://www.stimson.org/swa/pdf/StimsonMiddleEastChina.pdf.

31. These efforts include the signing in 2000 and five-year renewal in 2005 of the U.S.-China Fossil Energy Protocol, which aims to promote scientific and technological cooperation and the creation of the Oil and Gas Industry Forum (OGIF), a public-private partnership that meets annual to discuss problems and commercial opportunities in the oil and gas sectors. For background and details on OGIF, see http://www.uschinaogf.org/background.html.

32. These institutions include the American Enterprise Institute (AEI), Brookings Institution, Carnegie Endowment for International Peace, Cato Institute, Center for American Progress (CAP), Center for Strategic and International Studies (CSIS), Council on Foreign Relations (CFR), New America Foundation, US Institute of Peace (USIP), Washington Institute for Near East Policy (WINEP), and Woodrow Wilson Center for International Scholars.

33. For the edited collection of papers presented at this conference, see John Calabrese, ed., *Gulf-Asia Energy Security* (Washington, DC: Middle East Institute, 1998).

34. On July 18, 2005, the James A. Baker III Institute for Public Policy (Houston, Texas) held a conference on "Energy Security: Implications for US-China-Middle East Relations." See http://www.bakerinstitute.org/publications/energy-security-implications-for-u-s-china-middle-east-relations0/view. On June 10, 2008, the Oil, Gas, and Mining Policy Division of the World Bank hosted a conference in Washington on "The East-East Corridor: The Growing Middle East Asia Energy Relationship and Capital Flows." See http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:21792400~menuPK:2098865~pagePK:64002643~piPK:64002619~theSitePK:223547,00.html.

35. Samir Ranjan Pradhan, "Dubai Inc. in China: A New Vista for Gulf-Asia Relations," *China Brief*, Vol. 8, Issue 9 (April 28, 2008), at http://www.

Over the past decade, issues pertaining to the Gulf and the wider Middle East have dominated the foreign news headlines. During that time, the reporting has centered on Al Qaeda and the "war on terrorism" and the struggle to stabilize Iraq. In the past couple of years, the other leading topic of discussion has been the high price of oil. Looking to the future, the press has tended to focus on the risk of renewed civil war in Lebanon, the possibility of US military action against Iran, and the danger that sectarian violence in Iraq might again flare up, with the added concern that this could lead to a wider regional conflagration.

The Media: On the whole, the mainstream American print media has been tuned out to the development of Gulf-Asia relations. Occasionally, one can find an in-depth treatment of aspects of Gulf-Asia relations, as for example, the June 24, 1994 piece in the *New York Times*, "Oil Forges Gulf-Asia Business Ties," in which Michael Richardson observed — *over 14 years ago* — that the growing dependence of Asian countries on Middle Eastern oil was creating opportunities for new commercial links, including investment in Asian refinery capacity. Since then, reporting on and analysis of this subject has been sparse.[36]

Academic Research: The output of university scholars is no different. There are relatively few academic studies of Gulf-Asian relations by US scholars. A handful of books and articles examine Sino-Middle Eastern relations; most of these focus either on China's relations with Iran or on China's energy ties with the region.[37] The dearth and narrow scope of academic research on Gulf-Asia relations have reinforced the shortcomings of the policy community, obscuring the complexity and dynamism of inter-regional interactions.

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In spite of the scant attention given to the diverse and important developments in Gulf-Asia relations, it is nonetheless possible to make some general observations about the output. First, it is narrowly focused on Chinese involvement in the Gulf. To some degree, this is understandable — justified by the breakneck pace of China's economic growth and associated appetite for industrial inputs, especially its energy import requirements. This attention is justified also by the fact that Sino-Gulf relations are extensive. China — a dynamic economic actor in the Gulf as well as a magnet for Gulf investment and other economic activities undertaken by Gulf entities in the Asia Pacific region — is the engine of Gulf-Asia economic interdependence.

However, the preoccupation in Washington with China's economic involvement in the Gulf also stems from the ambivalence that characterizes American attitudes about China's rise. "China bashing" is a hearty perennial in the US foreign policy community. The view that the United States should make every effort to create incentives for China to act as a "responsible stakeholder" has been ascendant since the beginning of the second term of the Bush presidency. However, the debate over US China policy has never really ended. In the context of Gulf-Asia relations, American mistrust of China is accentuated by what is regarded by many in Washington as Beijing's half-hearted cooperation in the UN Security Council on the Iranian nuclear issue and China's exploitation of the impasse for its own economic

jamestown.org/terrorism/news/uploads/cb_008_009a.pdf; Jon B. Alterman and John W. Garver, *Vital Triangle: China, the United States, and the Middle East* (Washington, DC: CSIS, 2008); and John Calabrese, "China and Iran: Mismatched Partners," Jamestown Foundation Occasional Papers (August 2006), http://www.jamestown.org/docs/Jamestown-ChinaIranMismatch.pdf; John Calabrese, "Saudi Arabia and China Extend Business Beyond Oil," *China Brief*, Vol. 5, Issue 20 (September 27, 2005), http://www.jamestown.org/images/pdf/cb_005_020.pdf; John Calabrese, "The Risks and Rewards of China's Deepening Ties with the Middle East," *China Brief*, Vol. 5, Issue 12 (May 24, 2005), http://jamestown.org/images/pdf/cb_005_012.pdf; John Calabrese, "China and the Persian Gulf: Energy and Security," *The Middle East Journal*, Vol. 52, No. 3 (Summer 1998), pp. 351-66.

36. See, for example, Wayne Arnold, "As Oil Prices Rise, a Sense of Alarm in Asia," *New York Times*, June 10, 2004; Heather Timmons, "Asia Finding Rich Partners in Mideast," *New York Times*, December 1, 2006.

37. Robert Manning, "The Asian Energy Predicament," *Survival*, Vol. 42, No. 3 (2000), pp. 73-88. Gawdat Bahgat, "Energy Partnership: China and the Gulf States," *OPEC Review*, Vol. 29, No. 2 (2005), pp. 115-131; John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Seattle, WA: University of Washington Press, 2007); Jin Liangxiang, "Energy First: China and the Middle East," *Middle East Quarterly* (Spring 2005); Jeffrey Bader and Flynt Leverett, "Managing China-US Energy Competition in the Middle East," *The Washington Quarterly*, Vol. 29, No. 1 (Winter 2005-2006), pp. 187-201; Henry Lee and Dan Shalmon, "Searching for Oil: China's Oil Initiatives in the Middle East," Belfer Center for Science and International Affairs, John F. Kennedy School of Government, Harvard University (January 2007), http://belfercenter.ksg.harvard.edu/files/china%20oil%20h%20lee%202007.pdf; Steve A. Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," *The Middle East Journal*, Vol. 61, No. 2 (Spring 2007), pp. 199-219.

gain. The anxiety about deepening Sino-Iranian ties is reinforced by the threat-based conception of Gulf security that continues to be the dominant mindset within the US foreign policy establishment.

Second, the discussion of Gulf-Asia relations in Washington has tended to be one-dimensional — fixated on the increase of Asian demand for and dependence on oil from the Gulf and on alleged energy mercantilism by some countries, notably China. Over time, some of the concern that China is seeking to "hoard" oil has abated and worst-case scenarios have given way to the growing realization that Chinese companies are likely to be forced to compete to buy oil in the international market since most of the world's oil is owned by state petroleum companies. Nevertheless, there remains a strong undercurrent of mistrust arising from the lack of transparency of Chinese business practices, the belief that the overseas expansion of China's national oil companies (NOCs) is state-driven and centrally controlled, and the suspicion that Chinese energy investments are guided by geopolitical motivations that are inimical to American interests.[38]

The anxiety about deepening Sino-Iranian ties is reinforced by the threat-based conception of Gulf security that continues to be the dominant mindset within the US foreign policy establishment.

In any event, the net effect of the preoccupation with Chinese involvement in the Gulf and with trade in crude oil has been to obscure the growth of Gulf investment and other activities in China, not to mention the many other inter-regional interactions that have taken place in recent years. Thus, Gulf-Asia relations remain a second order priority for the United States if only because their scope and sweep have yet to be fully grasped. That said, it is easier to identify this blind spot than to pinpoint the reason for it. Indeed, it may be the case that a number of factors have conspired to keep Gulf-Asia relations on the margins of US foreign policy.

One contributing factor is structural. The academic landscape, for example, is segmented — the social sciences divided from regional studies, and each in its own right compartmentalized. Mapping the full spectrum of Gulf-Asia relations in order to assess their economic and geopolitical ramifications requires an approach that draws on the expertise, employs the tools, and integrates the insights from an array of academic disciplines. The compartmentalization of academia is replicated in the US government. The executive bureaucracy is simply not organized in a manner that conduces to analyzing systematically, much less to generating integrated policy responses to complex cross-regional phenomena such as the consolidation of Gulf-Asia relations. Interagency processes aimed at better coordination do exist, but have a mixed track record. In any event, no interagency task force is charged with a thorough examination of Gulf-Asia relations. Meanwhile, the US armed forces "unified command" divides responsibility for Asia and the Gulf between Central Command (CENTCOM), whose nerve center is Tampa, Florida and Pacific Command (PACOM), which is based on Honolulu, Hawaii.

Another contributing factor is competing, ultimately overriding priorities. For the past several years, the waging of "three wars" — against al-Qa ʿida and against the insurgencies in Iraq and Afghanistan — along with managing the consequences flowing from these efforts (including the expansion of Iranian influence) have been all consuming in terms of personnel, attention, and resources. Foreign officials and area specialists have repeatedly warned of the hazards of neglecting the affairs of other countries and regions. Nonetheless, the US foreign policy agenda has been dictated by events related to these conflicts. Furthermore, the relegation of Gulf-Asia relations to the margins has been abetted by the excruciatingly long US presidential campaign season, where electoral politics and issues pertaining to the state of the economy have eclipsed foreign affairs in terms of media and public attention.

38. For a good discussion of US views and the "myth of Chinese energy mercantilism," see Erica Downs, "China's Quest for Overseas Oil," *Far Eastern Economic Review* (September 2007), pp. 52-56.

CONCLUSION

Gulf-Asia relations have grown with breathtaking rapidity over the last decade. By any measure, these inter-regional ties, most notably in the economic sphere, are extensive. As a result of the massive flow of trade and investment capital between the two regions, Gulf-Asia cooperation has become an important layer of dynamic activity within the global economy. However, this development in itself does not validate the claim that the United States has been dislodged from its preeminent position in the Gulf and that its influence there has substantially eroded.

For one thing, US-Gulf economic ties remain strong. According to data from the US Census Bureau, US-GCC trade in 2007 amounted to over $72 billion. US (and European) firms still dominate the market in project-management skills — the very skills that are in high demand from firms in China and the Gulf region seeking joint venture partnerships with one another. Even if the US combat presence in Iraq were to be scaled back dramatically over the next one to two years, there is ample evidence of a continuing US commitment to maintain a robust military presence in the Gulf, which is likely to be centered on naval and air power though with a smaller ground forces footprint. Furthermore, the Pentagon has proposed major US arms sales intended to enhance the defense capabilities of the GCC countries and improve the interoperability of their militaries in line with the objectives of the Gulf Security Dialogue.

While zero-sum thinking might be prevalent, zero-sum outcomes are not inevitable.

For another, the very nature of Gulf-Asia relations is such that a diminution of US influence is unlikely to translate into a net gain for any single external actor. There is no evidence that any Gulf country seeks to replace American hegemony with that of another external actor. Furthermore, in the realm of maritime security, there is no indication that China, another Asian country or collection of Gulf-Asia partners has the interest (let alone will acquire the capability) to assume the mantle of US military power any time soon. Thus while zero-sum thinking might be prevalent, zero-sum outcomes are not inevitable.

It is nonetheless disturbing that the US foreign policy community has neglected to examine systematically the changing dynamics of Gulf-Asia relations. For by doing so, it has forfeited the opportunity to assess the immediate and long-term implications of this phenomenon for American interests and thereby generate a rational, realistic, and coherent set of policy responses.