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Persian Gulf – Pacific Asia linkages in the 21st century: A marriage of convenience?

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Persian Gulf–Pacific Asia Linkages in the Twenty-First Century: A Marriage of Convenience?

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Abstract
An important new relationship is developing between the six monarchies of the Persian Gulf and the three most industrialized states of Pacific Asia. With little shared modern economic history and enormous political and socio-economic disparities, and separated by great geographical distances, the rapidly tightening economic interdependence between the two regions is a recent phenomenon that deserves considerable attention. This paper dissects this by examining both the hydrocarbon and non-hydrocarbon trades between the two regions before turning to their increasingly bilateral sovereign wealth investments and their cooperation on major construction and infrastructural projects. The paper will then explain the absence of military security arrangements, but will also demonstrate how several other measures are being taken to create stronger non-economic bonds. Finally, a number of future collaborations will be discussed: for the most part these are not only innovative, but also highly symbolic of a more interdependent relationship.

1. INTRODUCTION

An important new relationship is developing between the six monarchies of the Persian Gulf – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) – and the three most industrialized states of Pacific Asia – China, Japan and South Korea. With little shared modern economic history, with enormous political and socio-economic disparities, and separated by great geographical distances, the rapidly tightening economic interdependence between the two regions is a recent phenomenon that deserves considerable attention. What began as a simple, mid-twentieth-century marriage of convenience, based on hydrocarbon exports in exchange for hard currency, has now evolved into a multidimensional, long-term mutual commitment that will not only continue to capitalize on the Persian Gulf's rich energy resources and Pacific Asia's massive energy needs, but will also seek to develop strong non-hydrocarbon bilateral trade, will facilitate sizeable sovereign wealth investments in both directions, and will provide lucrative opportunities for experienced Pacific Asian construction companies, their technologies and – in China's case – its vast labour force.

Although this increasingly extensive relationship does not encompass the Persian Gulf's military security arrangements – which remain exclusively with Britain, France and the United States – and although few attempts have been made by either side to replace or balance these with new Pacific Asia alliances, there is nonetheless compelling evidence that the two regions have also sought to strengthen their non-economic ties. An abundance of state-level visits, often at a much higher level than those with Western powers, and a considerable number of cooperative agreements, gifts, loans and other incentives, are undoubtedly binding these great trade partners ever closer. Moreover, with a number of future collaborations, including 'hydrocarbon safekeeping', civilian nuclear and solar energy projects and the building of a twenty-first-century 'Silk Road', and with a growing realization that the Pacific Asian economies, particularly China, may recover more quickly from the global credit crunch than the Western economies (*Guardian*, 7 April 2009; *Deutsche Presse*, 24 June 2009)[1] – thus signifying a global shift in economic weight from the West to the East – the Persian Gulf's eastward orientation can only intensify (*Arab News*, 7 May 2009, quoting Nicholas Janardhan) and the trajectory of interdependence will continue to accelerate.

Following a brief historical background of relations between the Persian Gulf and Pacific Asia, this paper will provide a comprehensive economic and demographic statistical comparison of the two regions. An examination of their contemporary hydrocarbon and non-hydrocarbon trade links will then be made, before turning to the sizeable interlinking investments between the nine states involved and to the several examples of major construction and labour contracts in the Persian Gulf having already been awarded to Pacific Asian companies. Finally, the efforts to boost diplomatic and other relations will be considered, followed by an analysis of the many recent efforts to explore innovative future avenues of economic and technical cooperation.

2. Historical background

The Persian Gulf's oil trade with the Pacific Asian economies began in the early 1950s, when Japanese oil companies were scouring the globe for resources to fuel Japan's rapid post-war industrialization programme. Most of the Gulf sheikhdoms were off-limits to Japan, as they remained part of Britain's 'Trucial System' – a series of nineteenth-century peace treaties between London and the various sheikhs that guaranteed British protection in exchange for exclusive political and economic relations (Onley 2007). Saudi Arabia, however, was the key

[1] In April 2009 the World Bank predicted that China will secure a growth rate of 6.5 per cent in 2009 and will help pull Pacific Asia out of its recession. In June 2009 the OECD made similar predictions for China and forecast that Japan would return to growth in early 2010.

exception, with Britain having formally recognized King Abdul-Aziz bin Saud's independence in 1932 and being unable to prevent the United States' Standard Oil of California from beginning exploration the following year. In 1953 Japan was able to dispatch freely an economic delegation to Saudi Arabia, and the following year formal diplomatic relations began. By 1956 Japan's Arabian Oil Company had secured a forty-three-year concession to explore and extract Saudi oil,[2] and in 1960 production commenced. The lucrative relationship was then quickly strengthened by the Saudi ruling family, with its first minister for defence – Prince Sultan bin Abdul-Aziz Al-Saud – visiting Tokyo in 1960, and with its third king, Faisal bin Abdul-Aziz Al-Saud, visiting in 1971.

In parallel, non-hydrocarbon trade between the Persian Gulf and Japan was also beginning to flourish, although its origins were rather more circuitous. Dubai, as one of the Trucial States,[3] had long been exploring inventive ways of circumventing Britain's tight economic controls (Davidson 2008: 19), and in the 1950s and 1960s the sheikhdom managed to position itself as the primary re-export hub for goods destined for India. Following the latter's independence and the attempts of its first prime minister, Jawaharlal Nehru, to replicate the Soviet miracle by using the state to plan and protect the economy, a number of restrictive practices were introduced that effectively prevented India-based merchants from meeting domestic demand for their products, especially fabrics. In particular, sasooni cotton from the Nichibo mills in Japan was in great demand, along with cotton latha from the Nishinbo Three Peaches and Toyobo Flying Dragon mills. Dubai played the role of an intermediary, its merchants carefully ordering the necessary materials well in advance so as to overcome the lengthy five-month shipping time from Japan. Similarly profitable was Dubai's trade in sourcing specialist textiles, such as Japan's Tetron for wealthy Indians and Pakistanis resident in both Dubai and the then Bombay, often for use in the manufacture of saris and other garments (Buxani 2003: 109–10, 118; Davidson 2008: 70). By the late 1970s Dubai's trade with Japan had expanded to include electrical goods, with the re-exporting of millions of Hitachi personal stereos to the subcontinent (Davidson 2008: 313),[4] and by 1982

[2] The concession duly ended in early 2000.
[3] Before their independence in 1971 there were nine Trucial States: Abu Dhabi, Ajman, Bahrain, Dubai, Fujairah, Qatar, Ra's al-Khaimah, Sharjah and Umm al-Qawain.
[4] These personal stereos from Dubai were so popular with Keralites that they became known as 'Malbaris'.

thousands of Japanese television sets were being distributed across India and the Persian Gulf (Buxani 2003: 117–19, 121; Davidson 2008: 71).[5]

With Britain's granting of independence to Kuwait in 1961, and with its withdrawal from the Trucial States in 1971, Japan's opportunities for further oil concessions and more formal non-hydrocarbon trade expanded to include all the Persian Gulf monarchies. Formal diplomatic relations were established with Kuwait in 1961, and in late 1971 Japan was one of the first countries to recognise the newly formed federation of United Arab Emirates. The following year relations were also established with Qatar, Bahrain and Oman. The Arabian Oil Company – by this stage 80 per cent owned by Japan and 20 per cent owned by Saudi Arabia and Kuwait – duly signed concessions in Kuwait in 1961 (CIA 2009), and the Japanese Oil Development Company (JODCO) took a stake in an international consortium to exploit UAE offshore oil in late 1972 (Abu Dhabi Marine Operating Company 2009).

Although China was also involved in some of the re-export trade in the Persian Gulf in the 1950s and 1960s, the volume was much lower than that with Japan, and most of the activity took place in Qatar and Kuwait rather than Dubai (China, Ministry for Foreign Affairs 2009). With sizeable domestic hydrocarbon reserves and less momentum behind its industrialization programme, China's interest in an oil trade with the Persian Gulf was also much lower than Japan's. Moreover, during this period China's open support for anti-imperialist, revolutionary movements stymied most opportunities for closer ties with the Gulf's ruling families (Yetiv and Lu 2007: 201), most of which were beneficiaries of the British Trucial System (Davidson 2005: 29–31).[6] Nonetheless, with an eye to the future, the ruler of Kuwait, Sheikh Abdullah Al-Salim Al-Sabah, visited China in 1965, and diplomatic relations were established in 1971. By 1978 circumstances were already beginning to change, as the initiation of a series of Chinese economic and political reforms – the 'Four Modernizations' – that aimed to stimulate economic growth and support modernization (Evans 1995)[7] effectively led to the downgrading of Marxist ideologies in China's external relations (Yetiv and Lu 2007: 201). The door having been opened, Oman immediately established diplomatic relations, while the UAE followed suit in 1984, and the following year

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[5] In 1982 demand for television sets was very high, as many households wished to watch the Asian Games, held in New Delhi that year.

[6] Peace treaties signed between Gulf ruling families and the British Empire in the nineteenth century effectively guaranteed the former's security from both foreign aggression and domestic insurgency.

[7] The four modernizations were in the fields of agriculture, industry, technology, and defence. The aim was to make China into a great economic power by the early twenty-first century.

Saudi Arabia held its first official meeting with China on Omani territory. Just days after the 1981 formation of the Gulf Cooperation Council – the loose organization that was to represent the joint interests of the Persian Gulf monarchies – China had granted it recognition (Yetiv and Lu 2007: 202). Significantly, in 1983 China began to import crude oil from Oman as a temporary measure, in order to alleviate the problem of transporting its own oil from its northern provinces to refineries on the Yangtze River. By 1988, as Chinese demand for oil was accelerating rapidly in tandem with its increasing population and intensifying industrialization, the Omani arrangement was made permanent (Ghafour 2009: 87, 89). By 1990 China's presence had extended to all the Persian Gulf monarchies, embassies being set up in Qatar in 1988, in Bahrain in 1989 and in Saudi Arabia in 1990 (China, Ministry for Foreign Affairs 2009).

Although far less proactive than Japan and China during this period, with its major oil companies not being established until the late 1970s[8] and with most of its other trade links to the Persian Gulf also developing more recently, South Korea was nonetheless during the 1960s and 1970s carefully building the foundations of its present strong relationship. For the most part, it established diplomatic relations in the wake of Japan but ahead of China, embassies being set up in Saudi Arabia in 1961, in Oman in 1974, in Qatar in 1974, in Bahrain in 1976, in Kuwait in 1979 and finally in the UAE in 1980 (South Korea, Ministry for Foreign Affairs 2009).

3. Economic and demographic comparison

As their economies and populations continue to expand rapidly, accurate and timely statistics for the Persian Gulf monarchies and the leading Pacific Asia economies are difficult to compile and are soon dated. Nonetheless, a compilation of the presently available data still serves as a useful snapshot of the ever increasing compatibility of the two regions. Most noticeably, over the years since trade links and diplomatic relations were first established between these countries, most of the Persian Gulf monarchies have confirmed their position as the world's leading hydrocarbon exporters, with a plethora of recent discoveries guaranteeing increased export capacity for the foreseeable future. At the same time, a period of careful investing has allowed some of these monarchies to build up the world's greatest sovereign wealth funds, all of which require access to new markets and opportunities.

[8] For example, S-Oil Corporation was established in 1977.

Table 1. Persian Gulf and Pacific Asia economic and demographic overview, 2009.

Country	*GDP ($ trillion)*	*GDP/ capita*	*Resident population*	*Labour force*	*Oil reserves (bn. barrels)*	*Oil consumption (barrels/day)*	*Gas reserves (trillion cubic m.)*	*Gas consumption (bn. cubic metres/year)*
Japan	4.3	$34,200	127 m.	66.2 m.	>0.1	5.0 m. *(100% imported)*	>0.01	100.3 *(96% imported)*
China	7.8	$6,000	1.34 bn.	807.7 m.	16.0	7.9 m. *(58% imported)*	2.3	70.5 *(5% imported)*
South Korea	1.3	$26,000	45.5 m.	24.4 m.	0	2.1 m. *(100% imported)*	0.1	37.0 *(93% imported)*
Saudi Arabia	0.6	$20.700	28.6 m. *(20% expatriate)*	6.7 m.	266.8	1.0 m.	7.2	75.9
UAE	0.2	$40,000	4.8 m. *(86% expatriate)*	3.3 m.	97.8	0.4 m.	6.1	43.1 *(3% imported)*
Kuwait	0.2	$57,400	2.7 m. *(48% expatriate)*	2.2 m.	104.0	0.3 m.	1.6	12.5
Qatar	0.1	$103,500	0.8 m. *(80% expatriate)*	1.1 m.	15.2	0.1 m.	25.6	20.1
Oman	0.1	$20,200	3.4 m. *(17% expatriate)*	0.9 m.	5.5	0.1 m.	0.1	11.0
Bahrain	>0.1	$37,200	0.7 m. *(32% expatriate)*	0.5 m.	0.1	>0.1 m. *(50% imported)*	0.1	11.3

Sources: CIA (2009); International Monetary Fund; World Bank; Organization for Economic Co-operation and Development.

Equally clearly, Japan remains one of the world's largest economies, while China has caught up and overtaken, and South Korea's gross domestic product now exceeds, many Western industrialized economies. At the same time, however, their reliance on hydrocarbon imports has increased drastically and, in China's case, its labour force has mushroomed to several hundred million, making opportunities for overseas employment increasingly vital. As with the Persian Gulf monarchies, Japan's potential to make sizeable foreign investments remains strong, but even more notable is the recent emergence of large state-managed funds in China and South Korea, some of which have already begun to eclipse their Persian Gulf counterparts. In the following tables and throughout the paper, the Persian Gulf monarchies will be listed according to their GDP, beginning with Saudi Arabia and ending with Bahrain. The Pacific Asian economies will also be listed according to their GDP, although for the most part Japan will still be placed ahead of China, given its position of economic pre-eminence until very recently.

Table 2. Persian Gulf and Pacific Asia sovereign wealth funds by assets under management, 2009.

World ranking	*Fund name*	*Country*	*Date of inception*	*Source of wealth*	*Current assets*
1	Abu Dhabi Investment Authority	UAE (Abu Dhabi)	1976	Oil surpluses	$627 bn
2	SAMA Foreign Holdings	Saudi Arabia	1960	Oil surpluses	$431 bn
4	SAFE Investment Company	China	1997	Non-hydrocarbon	$347 bn
5	China Investment Corporation	China	2007	Non-hydrocarbon	$288 bn
7	Kuwait Investment Authority	Kuwait	1963	Oil surpluses	$203 bn
8	Hong Kong Monetary Policy Investment Portfolio	China (Hong Kong)	1998	Non-hydrocarbon	$193 bn
11	National Social Security Fund	China	2000	Non-hydrocarbon	$82 bn
12	Investment Corporation of Dubai	UAE (Dubai)	2006	Oil surpluses	$82 bn
14	Qatar Investment Authority	Qatar	2006	Gas surpluses	$65 bn
20	Korea Investment Corporation	South Korea	2005	Non-hydrocarbon	$27 bn
25	Mubadala Development Corporation	UAE (Abu Dhabi)	2002	Non-hydrocarbon	$15 bn
26	Mumtalakat Holding Company	Bahrain	2006	Oil surpluses	$14 bn
27	International Petroleum Investment Company	UAE (Abu Dhabi)	1984	Oil surpluses	$14 bn
35	State General Reserve Fund	Oman	1980	Oil and gas surpluses	$8 bn

Sources: Sovereign Wealth Fund Institute; Saudi Arabia Market Information Resource and Directory.

4. The hydrocarbon trade

The hydrocarbon trade undoubtedly remains the central pillar in the relationship between the Persian Gulf and Pacific Asia, and could be worth as much as US$192.2 billion per year (table 3). At present, the former produces a combined total of about 16.6 billion barrels of crude oil per day, which is about 19 per cent of the global total. The bulk of production takes place in Saudi Arabia, the UAE and Kuwait. The region also produces about 232 billion cubic metres of natural gas per year, which is about 8 per cent of the global total. The bulk of production takes place in Qatar, Saudi Arabia and the UAE. But, more importantly perhaps, the Persian Gulf monarchies account for 37 per cent of all known crude oil reserves and 25 per cent of all known natural gas reserves (CIA 2009: 2007 and 2008 estimates, author's calculations for totals). Saudi Arabia alone accounts for 25 per cent of global oil reserves (BP 2008) and Qatar 15 per cent of global gas reserves (US Government 2009).

At the other extreme, Japan's current hydrocarbon consumption is 5 million barrels of oil per day, all of which it has to import, and 100.3 billion cubic metres of gas per year, 95 per cent of which it has to import. China's current consumption is 7.9 million barrels of oil per day, 58 per cent of which it has to import, and 70.5 billion cubic metres of gas per year, 5 per cent of which it has to import. South Korea's current consumption is 2.1 million barrels of oil per day, all of which it has to import, and 37 billion cubic metres of gas per year, 93 per cent of which it has to import. Respectively, Japan and China have the fourth- and third-greatest oil consumption needs in the world, ahead of Russia, Germany and India, while South Korea has now also entered the top ten. Japan has the fifth-greatest gas consumption needs in the world, ahead of Germany and the United Kingdom, while China and South Korea have now moved into the top twenty (CIA 2009: 2006–8 estimates, author's calculations for totals), and are likely to catch Japan in the near future. Certainly, according to the Organization of the Petroleum Exporting Countries (OPEC), although Japan's demand for oil is likely to fall by 15 per cent by 2030, China, South Korea and other Pacific Asia economies are likely to make up 80 per cent of net oil demand growth over the same period (*The National*, 5 August 2009).

Table 3. Persian Gulf and Pacific Asia: total value of annual hydrocarbon trade, 2008.

	Japan (US$ billion)	*China*	*South Korea*	*Total*
Saudi Arabia	33.0	15.0	21.0	69.0
UAE	47.0	4.5	13.0	64.5
Kuwait	15.0	0.7	8.1	23.8
Qatar	17.0	1.0	7.0	25.0
Oman	2.6	1.5	5.1	9.2
Bahrain	0.4	–	0.3	0.7
Total	115.0	22.7	54.5	192.2

Sources: CIA 2009; BP 2008.

Specifically, Japan currently imports about 1.3 million barrels of oil per day from Saudi Arabia, which is over 31 per cent of its total oil imports and worth close to $33 billion per year for Saudi Arabia (Japan, Ministry for Foreign Affairs 2009). This now makes Saudi Arabia Japan's fifth largest trading partner, and Japan Saudi Arabia's second-largest trading partner (*Saudi Gazette*, 22 July 2009). In close second place, the UAE now exports 800,000 barrels of oil per day to Japan (*The National*, 26 June 2009), with total oil and gas exports from Abu Dhabi – the most resource-rich of the UAE's seven constituent emirates – now worth over $47 billion (Japan, Ministry for Foreign Affairs 2009). Significantly, over 60 per cent of Abu Dhabi's oil exports are now destined for Japan (UAE, Ministry for Finance and Industry 2009), and in early 2009 the Abu Dhabi National Oil Company (ADNOC) strengthened the connection further by granting a twenty-year extension to an existing offshore concession managed by a consortium led by Japan's Cosmo Oil Company (*The National*, 26 June 2009). Similarly, Abu Dhabi's primary gas customer for many years has been Japan, and in particular the Tokyo Electricity Power Company (TEPCO), which purchases over 4 million tons of liquid natural gas annually from Abu Dhabi Gas Liquefaction (ADGAS), a subsidiary of ADNOC (*The National*, 28 July 2009). In 1997 TEPCO even paid ADGAS a one-off fee of $400 million, as Japan sought to stabilize Abu Dhabi's gas revenues during a period of depressed gas prices in the late 1990s (Ministry for Finance and Industry (UAE) 2009). Japan's hydrocarbon trade with the other Persian Gulf monarchies is much less, but still noteworthy, its annual imports from Qatar – most of which is gas – totalling $17 billion, its imports from Kuwait – most of which is oil – totalling $15 billion, and its imports from Oman and Bahrain being $2.6 billion and $0.4 billion respectively (Japan, Ministry for Foreign Affairs 2009).

China's total hydrocarbon trade with the Persian Gulf monarchies is substantially less than Japan's, mainly due to its domestic gas reserves; nonetheless its oil imports have been rising sharply, with $1.5 of imports in 1991, $20 billion in 2004, and nearly $33.8 billion in 2005 (Ghafour 2009: 83–4). Unsurprisingly, during the latter part of this period, China's Tenth Five-Year Plan (2001–5) contained its government's first public acknowledgement that overseas oil supplies needed to be secured if China were to enjoy continued economic growth and modernization (Yetiv and Lu 2007: 199). In the next few years China's imports are likely to double again, with one Chinese official recently stating that 'we need to find oil fast' (*International Herald Tribune*, 2 October 2006) and another commentator explaining that ‘if China’s demand for oil imports was limited to just two or three million barrels per day, most of this could be sourced from Russia or nearby Central Asian republics, but with the huge oil and gas imports predicted for the next decade and beyond, China is compelled to turn to the Persian Gulf’ (Ghafour 2009: 82–3). Certainly, the International Energy Agency (IEA) predicts that China’s imports will grow to over 11 million barrels per day by 2030, more than half of which will have to be sourced from the Persian Gulf (Ghafour 2009: 82).

As with Japan, Saudi Arabia is currently China’s greatest supplier of oil, with about 500,000 barrels of oil per day – or 30 per cent of China’s total oil imports (Ghafour 2009: 83) – being shipped by Aramco to the China Petroleum and Chemical Corporation (Sinopec). This compares with 17.5 per cent of China’s total oil imports in 2005 and just 1.2 per cent in 1994 (Yetiv and Lu 2007: 203). Innovatively, since 2001 some 30,000 of the imported Saudi barrels have been in part exchange for Aramco being allowed to operate 600 petrol stations in China’s Fujian province (Ghafour 2009: 87–8). In 2006, following the signing of five new energy cooperation agreements (Yetiv and Lu 2007: 205), the total Sino-Saudi oil trade reached $15 billion and had witnessed 40 per cent growth year-on-year since 1999. By 2010 Saudi imports will increase to 1 million barrels per day in what has been described by Aramco as ‘one of the most important energy relationships in the world’ (Ghafour 2009: 87–8). This could represent as much as 70 per cent of China’s total oil imports (Yetiv and Lu 2007: 203).

In second place with its hydrocarbon exports has again been the UAE’s Abu Dhabi, with annual oil exports to China having risen from $3.5 billion to $4.5 billion over the past five years. Oman, courtesy of its aforementioned twenty-five-year history of oil exports to China, still remains a significant supplier, its oil trade with Sinopec having risen from $1.5 billion in 2002 to $4.4 billion in recent years. Kuwait, Qatar and Bahrain’s hydrocarbon trade with China has been more modest, but again the trajectory is impressive, Kuwait’s supply of 200,000 barrels per day – currently worth $700 million – being likely to double in the next few years, and Qatar’s gas exports to China having risen in value from under $100 million in 1999 to nearly $1 billion today (China, Ministry for Foreign Affairs 2009).

For South Korea the import pattern is much the same as with its larger neighbours, although, much like Japan, it requires from the Persian Gulf substantial imports of both oil and gas, given its lack of domestic gas reserves. Saudi Arabia is its largest trade partner, supplying about 770,000 barrels of oil per day as part of an annual hydrocarbon trade worth

$21 billion. The UAE is the second-largest trade partner, supplying about 430,000 barrels of oil per day as part of an annual hydrocarbon trade worth $13 billion (South Korea, Ministry for Foreign Affairs 2009). This makes South Korea the second-largest importer of Abu Dhabi's oil after Japan (*The National*, 5 August 2009). Kuwait's total oil and gas exports to South Korea are also sizeable – worth $8.1 billion, while Qatar's are worth $7 billion – almost exclusively gas exports – Oman's are worth $5.1 billion and Bahrain's $0.3 billion (South Korea, Ministry for Foreign Affairs 2009).

5. The non-hydrocarbon trade

Non-hydrocarbon trade between the Persian Gulf monarchies and Pacific Asia is on a much smaller scale than oil and gas. Nonetheless, as demonstrated, there has been an historical precedent for the importing of certain goods from Pacific Asia into the Persian Gulf, especially textiles and electrical goods, and as the latter region's per capita wealth accelerated during the oil era, the demand for such imports has continued to increase, along with new demands for cars, machinery, building materials and many other products associated with the region's oil and construction booms. In total, such imports from Japan, China and South Korea could be worth as much as $32 billion per year.[9] Importantly, there is no longer a complete imbalance of non-hydrocarbon trade between the two regions, as some of the export-oriented industries that have been established in the Persian Gulf – mostly in an attempt to diversify oil-dependent economies[10] – are now among the world's leading producers of metals and plastics. Their export capacity continues to increase, with most of their future surpluses being earmarked for their Pacific Asia customers.

Japan's greatest non-hydrocarbon trade partner in the Persian Gulf is the UAE, as a function of historic ties to Dubai's entrepôt trade, Abu Dhabi's commitment to building up heavy, non-hydrocarbon-related industries (Davidson 2008: 70–1; 2009: 72–3), and the UAE's high per capita wealth which is now in excess of $40,000 (CIA 2009: 2008 estimate). Their total non-hydrocarbon trade is now over $11 billion per year (Japan, Ministry for Foreign Affairs 2009). Japan's second-largest non-hydrocarbon trade partner in the region is Saudi Arabia, the two countries having begun to sign economic and technical cooperation agreements as early as 1975. Presently, their non-hydrocarbon trade has mushroomed to over

[9] Author's calculations based on subsequently listed country totals.
[10] E.g. for Dubai's diversification see Davidson 2008: 99–135; for Abu Dhabi's diversification see Davidson 2009: 69–94.

$5 billion, most of which is made up of Saudi imports of Japanese cars, machinery and consumer durables, but consisting also of Japanese imports of Saudi metals (Japan, Ministry for Foreign Affairs 2009). Among some of the more innovative recent linkages has been the exporting of Japanese water-related technologies to Saudi Arabia, following the establishment in 2005 by the Japan Cooperation Centre for the Middle East (JCCME) of a Jeddah Water Desk in the Jeddah Chamber of Commerce and Industry (JCCI). Since then 1,500 Saudi trainees have undertaken professional development courses in Japan relating to water treatment, sewerage and irrigation. In 2009 the JCCI further strengthened its links with Japan by setting up a more broadly defined memorandum of understanding on 'finding new means of enhancing economic and trade relations' with the Japanese External Trade Organization (JETRO) (*Saudi Gazette*, 22 July 2009).

Japan's non-hydrocarbon trade with Kuwait, Qatar and Oman is presently about $2 billion, $1.8 billion and $1.7 billion respectively, most of which, again, is made up of Japanese exports of cars, machinery and consumer durables. Although Bahrain remains Japan's least significant trading partner in the Persian Gulf, it is noteworthy that their non-hydrocarbon trade has increased dramatically, from $700 million in 2007 (Japan, Ministry for Foreign Affairs 2009) to nearly $1.3 billion today, and is expected to increase by a further 20 per cent over the following year. With few hydrocarbon exports, Bahrain has been actively seeking new markets for its export-oriented industries; it has been successful in selling aluminium to Japan, which is now Bahrain's second greatest trading partner, after the United States. In summer 2009 the relationship intensified when delegations from Aluminium Bahrain (ALBA) began touring Japan in an effort to consolidate business with existing Japanese customers while also searching for new opportunities. In parallel, a Joint Economic Committee was set up between the Bahraini Ministry for Finance and Industry and the Japan Bank for International Cooperation (JBIC), building on the prior establishment of a Bahrain–Japan Friendship Society in early 2009 (*Gulf Daily News*, 24 and 29 July 2009). Overall, Japanese non-hydrocarbon trade with the Persian Gulf is set to increase even further as negotiations over a free trade agreement (FTA)[11] between Japan and the six monarchies are currently taking place, having commenced in 2006.

[11] A free trade agreement being a measure to link a free trade area of two or more countries that have agreed to eliminate tariffs, quotas and preferences on most (if not all) goods and services traded between them.

China’s greatest non-hydrocarbon trade partner in the Persian Gulf has for many years been Saudi Arabia, a memorandum of understanding on bilateral trade having been signed in 1988 – as described, two years before China had even granted diplomatic recognition to Saudi Arabia. In 1992 a bilateral trade conference was staged and in 1996, under the auspices of a GCC–China consultative mechanism, annual trade meetings began between the two countries, held alternately in Riyadh and Beijing (Yetiv and Lu 2007: 202). Today, it is estimated that their total annual non-hydrocarbon trade is worth $1.7 billion, mostly made up of Saudi imports of Chinese textiles and machinery (China, Ministry for Foreign Affairs 2009), making Saudi Arabia China’s tenth-largest international export destination (Ghafour 2009: 87).

The UAE is presently China’s second-largest non-hydrocarbon trade partner in the Persian Gulf, total trade being estimated at $500 million, again primarily made up of imports of Chinese textiles and machinery (China, Ministry for Foreign Affairs 2009). In 1985 China and the UAE signed an agreement on trade and technological cooperation and followed this up by establishing a Joint Commission of Economic, Trade and Technical Cooperation, which has since convened four meetings. In the near future it is likely that China’s trade with the UAE will increase massively, and perhaps will soon overtake Japan’s non-hydrocarbon trade with that state. Most of this growth is expected to be as a result of Dubai’s strengthening relationship with China, Dubai Ports World stating in 2008 that China was already Dubai’s second-largest trade partner, after Iran, Chinese non-hydrocarbon trade having increased by nearly 50 per cent since 2005 (*Arabian Business*, 31 March 2008). Central to this development has been Dubai Aluminium (DUBAL), the most successful of the Dubai government-backed parastatals since the onset of the global recession, its sales rising by about 5 per cent since 2008, mostly attributed to its Chinese exports (*Gulf Daily News*, 3 August 2009). Launched in 2007, the Dubai Multi Commodities Centre (DMCC) – essentially a precious metals re-exporting operation that builds on Dubai’s historical expertise in gold trading and its impressive port facilities (Davidson 2008: 45, 69–70) – has also been enjoying a strong trade with China. Even though demand for gold in the Middle East and South Asia has fallen by 30 per cent since 2008, Chinese demand has risen by 8 per cent over the same period, making it the world’s second-largest consumer of gold (*The National*, 27 July 2009).

China's non-hydrocarbon trade with the other Persian Gulf monarchies is also growing, annual trade with Kuwait, Oman, Bahrain and Qatar being worth $260 million, $60 million, $60 million and $50 million respectively. These relationships have been facilitated by several agreements similar to those made by China with Saudi Arabia and the UAE, including an agreement on economic and technical cooperation between China and Kuwait in 1989, the setting up of a China–Oman bilateral trade commission in 1989, which has since held five meetings, the signing of a China–Bahrain agreement on trade cooperation in 1990, and the establishment of a China–Qatar bilateral trade commission in 2000.

As with Japan, China intends to increase its non-hydrocarbon trade with the Persian Gulf even further by achieving an FTA with all six of the monarchies in the near future. These FTA negotiations began in 2004 following a visit by a GCC delegation to China (Yetiv and Lu 2007: 206), while simultaneously a China-Arab Cooperation Forum was set up between the Chinese Ministry for Commerce and the Arab League. At meetings of this forum the Chinese Ministry for Commerce predicted that total trade with the Persian Gulf would reach $100 billion by 2010, not all of which would be hydrocarbon trade. Subsequent FTA negotiations were held in 2005 and 2006, by which stage agreements had been reached on tariff reductions. Although the talks have since stalled due to China's unwillingness to lift certain import restrictions on a number of non-hydrocarbon goods from the Persian Gulf, in early 2009 the concept of an FTA was reinvigorated by the president of China, who stated that 'The Gulf FTA is in the fundamental and long-term interests of both sides and will help deepen their mutually beneficial cooperation and achieve common development.' He also pledged that 'China will work actively towards signing the FTA at the earliest date.' In summer 2009 the GCC reciprocated China's sentiments by publishing a White Paper entitled 'Economic relations between GCC member states and the People's Republic of China', which similarly urged the swift conclusion of FTA negotiations (*China Daily*, 30 January 2004; *People's Daily*, 12 February 2009; Gulf Cooperation Council Secretariat 2009). Significantly, if the FTA is completed soon this will make the GCC the first organization – ahead of even the Association of South East Asian Nations (ASEAN) – to conclude an FTA with China.

South Korea's non-hydrocarbon trade with the Persian Gulf is more modest, although as with Japan and China its relationship is strengthening, the Persian Gulf monarchies having collectively become South Korea's second-largest export destination after China (*Zawya Dow*

Jones, 8 March 2009), most of the trade being made up of cars, rubber parts and textiles. Individually, South Korea's non-hydrocarbon trade with Saudi Arabia is about $3 billion, the UAE $2.9 billion, Qatar $800 million, Kuwait $700 million, Oman $300 million and Bahrain $100 million. South Korea has not yet advanced as far as Japan and China with a Persian Gulf FTA; however negotiations did begin in summer 2008, a second round being held in spring 2009. Thus far, tariff-related incentives have been discussed, and the South Korean minister for commerce has predicted that the FTA could be finalized by the end of 2009 (*Kuwait Times*, 8 March 2009).

6. INVESTMENTS AND JOINT VENTURES

Alongside the booming hydrocarbon and non-hydrocarbon trades, the relationship between the Persian Gulf monarchies and Pacific Asia is been greatly enhanced by a substantial flow of investments between the two regions. Significantly, these investments are being made in both directions and at all levels, and they include massive sovereign wealth investments. Although the majority are still connected to the oil and gas sectors, there is strong evidence that an increasingly diverse range of non-hydrocarbon joint ventures is also being established. In the short term these opportunities are providing the Persian Gulf monarchies with a realistic alternative to the mature Western economies for their overseas investments. Such an alternative was viewed as being particularly necessary following the 11 September 2001 attacks on New York's World Trade Center, after which many Western governments and companies did little to disguise their distrust of Gulf sovereign wealth funds, many arguing that the funds were not merely commercial and that power politics could be involved (*Arab News*, 7 May 2009, quoting Nicholas Janardhan). In the long term these new opportunities will allow an even tighter economic interdependence between the greatest hydrocarbon customers and their suppliers (Ghafour 2009: 83).

Japan is presently the largest foreign investor in Saudi Arabia, over $11 billion of active investments being distributed among twenty-four different projects, including sixteen industrial projects and eight service-sector projects (*Saudi Gazette*, 22 July 2009). In the other direction, Saudi Arabia's Aramco now holds a 15 per cent stake in Japan's fifth-largest oil company, Showa Shell Sekiyu. And in summer 2009 the two countries entered into a $1 billion joint venture, when the Saudi Basic Industries Corporation (SABIC) and Japan's Mitsubishi Rayon agreed to build an acrylics factory in Saudi Arabia, Mitsubishi holding the majority stake. In the UAE, Abu Dhabi's third-largest sovereign wealth fund, the

International Petroleum Investment Company (IPIC), has recently sought a $5 billion package from Japan's Mitsubishi UFJ Financial Group and the Sumitomo Mitsui Banking Corporation. This in turn will allow these Japanese banks to have an interest in some of IPIC's overseas investments, including its purchase of Canada's Nova Chemicals Corporation and its stake in Spain's Compañía Española de Petróleos (CEPSA) (Associated Press, 2 August 2009). In the other direction IPIC has now taken a 20 per cent stake in Japan's Cosmo Oil Company, which, as described, continues to hold a major Abu Dhabi offshore oil concession, thus strengthening further Japan–UAE interdependence. Other notable Japanese interests in the Persian Gulf currently include over $5 billion of investments in five hydrocarbon and infrastructural projects in Qatar, and a total of $260 million of investments in five infrastructural projects in Oman.

In early 2005 the Chinese Ministry for Commerce revealed that Chinese investments in the Persian Gulf monarchies had already reached $5 billion, while Persian Gulf investments in China totalled $700 million (Ghafour 2009: 87). With a flurry of further investments and joint ventures since that announcement, these figures have since mushroomed, and will soon overtake even Japan's interests in the region. In particular, China has sought investments to help build up its oil-refining industries, in which the Persian Gulf economies have sought to have a dominant presence (Yetiv and Lu 2007: 205). At present China's greatest investment partner from the Persian Gulf is Kuwait, in a relationship which strengthened greatly following the setting up of a $9 billion joint venture between the Kuwait Petroleum Corporation and Sinopec in 2005. The two companies will build a 300,000 barrels per day oil refinery and ethylene plant in China's southern Guangdong province. Although the exact location of the facilities has since been changed, due to environmental concerns raised by nearby Hong Kong,[12] the project is still expected to come into operation in 2013 and will be China's largest-ever joint project (Associated Press, 26 June 2009). In 2006 this deal was followed up by the Kuwait Investment Authority (KIA) buying over $700 million in shares in the Industrial and Commercial Bank of China, thereby making Kuwait one of the biggest investors in one of China's first major public offerings. In the other direction, China may soon become heavily involved in Kuwaiti projects, Sinopec currently having a sizeable stake in an international consortium that is bidding for an $8 billion infrastructural

[12] The facilities were originally going to be built at Nansha City, but in 2009 the location was changed to Zhanjiang City.

programme (Ghafour 2009: 89). But the most innovative aspect of the investments between the two countries has been the establishment of the Kuwait–China Investment Company (KCIC) in 2005. Set up by the Kuwait government, the KCIC is 15 per cent owned by KIA and has a capital base of about $350 million, about half of which is held in cash. It has specialized in investments in Chinese agribusinesses, particularly those producing crops with a high export value, such as rice, wheat, corn and sorghum. Significantly, KCIC's investments in China have been defended as being purely commercial and not primarily connected with Kuwaiti or Persian Gulf food security – unlike the recent deals between the Persian Gulf monarchies and Pakistan, which clearly are.[13] In 2009 the managing director of KCIC stated simply that 'we think it is an opportune sector that will help Pacific Asia effectively become the bread basket of the world … we think food security, in the long term, is better served by collaborative investment in Asia as opposed to securing crops exclusively for one country'. He also stated of KCIC's existing collaborations with Chinese agribusinesses that 'our financial skills are paired with agri-sector skills and hopefully both of these skills can help mitigate some of the risks and provide a decent return for the investors' (*Financial Times*, 10 July 2009).

As well as Kuwait, China is also heavily involved with Saudi Arabia, Aramco having taken a 25 per cent stake in a major joint venture with Sinopec in 2001. Close to completion, this has involved the two companies expanding an existing refinery in China's Fujian Province along with building a new ethylene plant. In the near future another joint venture between the two companies may take place, but this time with Aramco taking the majority stake. This could lead to the building of the largest oil refinery in China, and may require as much as $6 billion to complete. Similarly, SABIC has already helped to initiate three petrochemicals projects in China as part of its 'China Plan', which aims to facilitate mutual investments between the two countries, support China's economic development and satisfy its increasing demand as one of its premier suppliers (Yetiv and Lu 2007: 207–8). In the other direction Sinopec has recently embarked on yet another joint venture with Aramco, taking an 80 per cent, $300 million stake in a new oil and gas exploration company in Saudi Arabia (Ghafour 2009: 87–8). Elsewhere in the Persian Gulf, Qatar has recently followed Kuwait's lead and has signalled its intent to purchase $200 million in shares in the Industrial and Commercial Bank of China (Ghafour 2009: 87). And in summer 2009 it was announced that

[13] See, for example, the recent agreements between the UAE and Pakistan (*Gulf News*, 7 October 2009).

Qatar Petroleum would enter into a joint venture with PetroChina worth $12 billion. This would lead to the construction of a new petrochemicals plant in China's Zhejiang province, an oil refinery, an ethylene plant and a port for oil tankers.

The UAE, and more specifically Dubai, is also investing in China, with its government-owned Dubai Ports World parastatal now operating seven terminals in China, three of them in Hong Kong. In the near future it will also open a terminal in China's Qingdao province. It now also operates a terminal in South Korea and, in other parts of east Asia, it has opened terminals in Indonesia, Thailand and the Philippines. In 2009 Dubai Ports World announced that it would take an 80 per cent stake in a joint venture with Vietnam's state-owned Tan Thuan Industrial Promotion Company (IPC) in order to build a new container port – the Saigon Premier Container Terminal – outside Ho Chi Minh City. While Abu Dhabi does not yet have major investments or joint ventures with China or South Korea, it is nonetheless increasingly involved in other east Asian opportunities which could serve as blueprints for future Chinese or South Korean projects. Most notably, in summer 2008 its Mubadala Development Corporation acquired the Indonesia-based Pearl Energy hydrocarbon exploration and production company. This allowed Mubadala to inherit Pearl's portfolio of concessions and production assets in several east Asian countries, including three oilfields in Indonesia, the Jasmine offshore oilfield in the Gulf of Thailand and other resources in Vietnam and the Philippines (Mubadala Development Corporation 2009). In 2008 Mubadala also took a major stake in a joint venture to develop a large residential and commercial real estate opportunity in Malaysia's Medini Iskander Development City, with the aim of securing long term financial and strategic returns for Abu Dhabi. In 2009 this was followed up by Mubadala agreeing to invest $1 billion in a new Malaysian fund managed by 1 Malaysia Development Berhad (1MDB) that would specialize in investments in energy, real estate and tourism projects in Malaysia.

7. Construction and labour contracts

For some years, construction and labour companies in the Pacific Asian countries have been winning contracts in the Persian Gulf, the China National Petroleum Company (CNPC) having supplied labourers for projects in Kuwait as early as 1983 (Ghafour 2009: 87–9; Yetiv and Lu 2007: 203), and a number of other Chinese companies having supplied labourers for tourism and real-estate projects in Dubai for about six years. However, very recently a large number of major contracts have been awarded to Japanese, Chinese and South Korean companies both to build and supply labour for multi-billion dollar projects in the Persian Gulf. Significantly, in many cases these companies have competed successfully against Arab and Western companies that have had a much longer history of winning contracts in the region and have usually sourced their labour from South Asia. Undoubtedly these new contracts serve to solidify further the economic interdependence between the two regions while also taking advantage of the Pacific Asian companies' experience, technologies and access to abundant labour.

Notably, in summer 2006 Japan's Shimizu Corporation won a high-profile contract to construct the Dubai Marina Residences real-estate project on Dubai's Palm Jumeirah manmade island, defeating several regional competitors. In summer 2009 the China Railway Construction Company (CRCC) won a similarly fierce contest to be awarded a $500 million contract by the Ministry for Education in Saudi Arabia. This will require the Chinese company to build over a period of one year 200 schools to accommodate 140,000 pupils. Although a total of 3500 schools are now under construction in Saudi Arabia, mostly by Arab companies, this Chinese involvement nonetheless represents a significant departure for the Saudi authorities (*Saudi Gazette*, 26 July 2009). Earlier in 2009 China's Sinopec won a similarly lucrative contract in Kuwait, worth $400 million, to build five new oil and gas refineries. Alone, these new Chinese-built installations will boost Kuwait's oil production by over 4 million barrels per day by 2020 (Associated Press, 26 June 2009).

But of the three principal Pacific Asian countries, it has been South Korea that has made the greatest inroads into the Persian Gulf's construction sector. In the UAE, three out of five new gas facilities in Abu Dhabi's Habshan region, to be operated by Abu Dhabi Gas Industries (GASCO), will be constructed by South Korean companies. In 2009 Hyundai Engineering and Construction, GS Engineering and Hyundai Heavy Industries won their contracts, totalling $4.9 billion. Specifically, Hyundai Engineering and Construction's contract is worth $1.7 billion. It will last for four years and will involve building storage and wastewater facilities in addition to power facilities. Hyundai Heavy Industries' contract is worth $1 billion and GS Engineering's contract is worth $2.2 billion, and both will last for five years. The latter will build similar facilities alongside Hyundai Engineering and Construction, and it will be cooperating with Britain's Petrofac as part of a joint venture, but will hold a 55 per cent majority stake in the consortium. Remarkably, Hyundai Engineering and Construction is already believed to be working on nine other projects in the UAE and has recently completed the construction of new gas processing facilities in Saudi Arabia's Khurais field. Elsewhere in Saudi Arabia the company won a $1.9 billion contract in late 2008 to build further gas processing facilities in the Karan field, on behalf of Aramco. And three other major South Korean companies – Daelim Industrial, SK Engineering and Construction, and Samsung Engineering – have won a combined $2.8 billion contract to build a new refinery and petrochemicals plant in Saudi Arabia (*Korea Herald*, 17 July 2009).

8. DIPLOMACY AND SECURITY

Surprisingly, for many observers, there is still no obvious security dimension to the increasingly interdependent relationship between the Persian Gulf monarchies and Pacific Asia. All the former are widely considered to be vulnerable, given their rich energy resources, small national populations and close proximity to major conflicts and other potential threats. Moreover, their reliance on a Western security umbrella is undoubtedly problematic, given the strained relations between the Arab world and the United States, not least over the Arab–Israeli conflict, but also following the 2001 invasion of Afghanistan and the 2003 invasion of Iraq. Equally it would seem to make sense for the Pacific Asia countries to seek a more active role in the security arrangements and defensive shields of their primary energy suppliers.

Part of the explanation is that the Persian Gulf monarchies do not yet see a reliable alternative to the West, as, for all its shortcomings, it was a Western-led alliance that liberated Kuwait in 1991 and it is the Western presence that has been credited with safeguarding the Gulf from Iraqi or Iranian belligerence in the past. As such, with a few exceptions, notably a modest arms trade with China (Nuclear Threat Initiative 2007),[14] almost all the Persian Gulf monarchies' arms imports have been sourced from Western manufacturers. Moreover, although there has been an appreciable increase in China's naval presence in the region – in part due to anti-pirate operations in the Gulf of Aden – there is little projection of Pacific Asian military power in the Persian Gulf itself. Instead there remain a number of well-entrenched US military bases in Kuwait, Bahrain and Qatar, a British base in Oman and a new French base was even opened in Abu Dhabi in spring 2009. Some commentators have argued that the same lack of enthusiasm for a security relationship between the two regions applies in reverse: although it is not ideal that the United States

[14] Both Saudi Arabia and the UAE have, on occasion, purchased Chinese ballistic missiles.

dominates the Persian Gulf, the Pacific Asian countries nonetheless see little alternative to Western-provided security, given that the thousands of miles of shipping lanes between themselves and their hydrocarbon suppliers would be difficult and expensive to protect. Thus far, it has remained more practical and cost effective to rely on experienced Western navies, which have already invested in a multi-billion capability for this purpose and enjoy access to a network of maritime bases in allied states (Yetiv and Lu 2007: 200–1).

Another component of the explanation is simply lingering distrust, despite all the aforementioned economic linkages and converging histories. This is not so much related to Japan or South Korea, which are effectively neutral military powers, but rather to China, which has repeatedly created difficulties for a stronger security relationship. For many of the older generation of Omanis, including their present ruler, Sultan Qaboos bin Said Al-Said, it is still difficult to forget that China helped to sponsor the rebellion in Oman's Dhofar province in the 1960s and 1970s, while Britain played a key role in suppressing the rebels (Calabrese 1990: 867; Ghafour 2009: 89, 91). In the mid-1980s it appeared that China's role in the region would increase, as Saudi Arabia began to buy Chinese CSS–2 East Wind missiles. However, Saudi Arabia was unwilling to go further and purchase Chinese intercontinental ballistic missiles, preferring to keep sourcing its ordinance from the United States. Most seriously, in 1990 China was unwilling to condemn openly Iraq's invasion of Kuwait, and following Kuwait's purchase of nearly $300 million of Chinese howitzers in the mid-1990s a Kuwaiti official later claimed that his government had been pressured into the deal as China was threatening to withdraw its support for future UN sanctions against Iraq (Ghafour 2009: 88–9, 91; Yetiv and Lu 2007: 211). Tellingly, China's Ministry for Foreign Affairs is currently attempting to rewrite this troubled period of history with Kuwait and its neighbours by stating that 'during the Gulf crisis in 1990, China resolutely opposed Iraq's invasion and occupation of Kuwait and demanded that Iraq should withdraw its troops from Kuwait and restore and respect the independence, sovereignty and territorial integrity of Kuwait … both countries share identical or similar views on many major international and regional issues, constantly rendering sympathy and support to each other' (China, Ministry for Foreign Affairs 2009).

Regardless of the various explanations, the present reality is that the Persian Gulf monarchies and their great Pacific Asia trade and investment partners do not yet have a meaningful security relationship. However, this is in no way jeopardizing their current and future closeness, with both clusters of countries now going to considerable lengths to improve other, non-economic aspects of their interdependency. Indeed, there now appears to be a tacit understanding from both parties that their relationship simply need not contain a military security component, at least for the time being. High-level diplomatic visits have, in particular, become central to the strategies of both regions. While economic and trade matters are certainly discussed at these events, they are nonetheless also perceived as valuable opportunities for heads of state and their ministers to meet their counterparts and consider a range of other matters. Often substantial gifts or interest-free loans are granted during these meetings, clearly in an effort to build more sturdy political and cultural understandings, and they undoubtedly generate further goodwill. In recent years the frequency of these visits has greatly intensified, and the seniority of the visitors – especially from the Persian Gulf travelling to Pacific Asia – is significantly high, and likely to now be higher on average than the seniority of visitors dispatched to Western capitals.

Given their relatively long history of economic relations it is not surprising that the Persian Gulf's closest political links to Pacific Asia are still with Japan. In the last twenty-year period there have been twenty Japanese state visits to Saudi Arabia, including the prime minister on no fewer than five occasions: in 1990, 1995, 1997, 2003 and 2007. In the other direction and over the same period there have been twenty-one Saudi state visits to Japan, including Crown Prince Abdullah bin Abdul-Aziz Al-Saud in 1998 and the current crown prince, Sultan bin Abdul-Aziz Al-Saud, in 2006 – forty-six years after his first visit, mentioned above, in 1960. Japan has also dispatched nearly a thousand technical advisors to Saudi Arabia over this period – often *pro bono* – to assist in various Saudi projects. Relations between Japan and Kuwait have been similarly strong, six Japanese state visits having been made to Kuwait since 2004, including the minister for foreign affairs in 2006, and with five Kuwaiti visits to Japan over the same period, including visits from the prime minister, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, in 2004, and his successor, Sheikh Nasser Al-Muhammad Al-Ahmad Al-Sabah, in 2008. Moreover, Japan is presently providing in excess of $30 million in low-interest loans to Kuwait and nearly $1 billion of technical cooperation aid. Although there have been far fewer state visits between Japan and the UAE, the seniority of these visits are nonetheless impressive and significant. There have recently been six Japanese state visits to the UAE, including the prime minister in 2007 and two former prime ministers in 2001 and 2009. In the other direction there have been three UAE visits to Japan, including the crown prince of Abu Dhabi, Sheikh Muhammad bin Zayed Al-Nahyan, in 2007, and the minister for foreign affairs, Sheikh Abdullah bin Zayed Al-Nahyan, in 2009.

Over the past twenty years there have been eleven Japanese state visits to Qatar, and although most of these were below ministerial level, Japanese prime ministers have nonetheless paid two visits, in 1988 and 2007. Over the same period there have been a remarkable thirty-six Qatari state visits to Japan, most of which have taken place since Qatar began exporting natural gas to Japan. These visits have included three by Qatari rulers – in 1988, 1999 and 2005 – two by the ruler of Qatar's wife, Sheikha Moza bint Nassar Al-Misnad – in 2001 and 2005 – and one by the crown prince, Sheikh Tamim bin Hamad Al-Thani – in 2009. In addition, Japan has provided Qatar with about $25 million in disaster relief and about $100 million in technical cooperation aid. Between Japan and Oman there have been eleven Japanese state visits to Oman over the same period, including the prime minister in 1990 and the vice-president of JBIC in 2004. In the other direction there have been fourteen Omani state visits to Japan, including the deputy prime minister, Sayid Fahd Mahmoud Al-Said, in 1997 and repeated visits by the sultan's special advisor, Omar Abdur Munin Al-Zawawi, in 2002, 2004 and 2007. To smooth relations further, Japan has provided Oman with $1.4 billion in technical cooperation aid and $100 million in other grants. Between Japan and Bahrain the picture is again similar, though on a lesser scale. There have been sixteen Japanese state visits to Bahrain over the past twenty years, including the minister for foreign affairs in 1991 and 2006; while in the other direction there have been thirteen Bahraini state visits to Japan, including the crown prince, Sheikh Salman bin Hamad Al-Khalifa, in 2008. In recent years Japan has also provided Bahrain with nearly $18 million in technical cooperation aid and other grants.

Although, as described, China was initially much slower to establish broader ties with the Persian Gulf monarchies, in recent years, or at least since formal relations began, the Chinese relationship with the Persian Gulf has become almost as strong as Japan's. Notable has been the flow of aid between the two regions: with China having much lower per capita wealth than Japan, the opportunities for the Persian Gulf monarchies to provide grants, loans and gifts to China has been much greater. Since the US invasion of Iraq in 2003 and the attempted export of Western-style democracy to the Persian Gulf, it has also been claimed that the surviving monarchies have become much more comfortable with China, as the latter is thought to be less likely to criticize their autocratic political structures, human rights abuses and repression of minorities.[15] In summer 2009 China even launched China Central TV in Arabic, known as CCTV-Arabic, which has been interpreted as a strong effort from China to play a more interventionist role in the Middle East, and most specifically the Persian Gulf, where the Chinese government intends to create a better impression of China's politics and culture for its major economic partners (*The National*, 1 August 2009).

China's ties with Saudi Arabia have mushroomed over the past twenty years, China having made seventeen state visits, including the minister for foreign affairs in 1990, and even, in 1999, the president, who used the occasion to announce a new strategic partnership between China and Saudi Arabia (Ghafour 2009: 87–8). In the other direction there have been over twenty Saudi state visits to China, including the minister for foreign affairs, Prince Saud Al-Faisal Al-Saud, in 1990 and Crown Prince Abdullah bin Abdul-Aziz Al-Saud in 1998. In 1997 Saudi-Sino friendship societies were established in both countries, and in 2006 Abdullah returned to China to sign several new agreements that would 'write a new chapter of friendly cooperation with China in the twenty-first century'(Ghafour 2009: 87–8). As a gesture of goodwill he also agreed to grant China a substantial loan in order to build infrastructure in the oil-rich Xingjiang province (Ghafour 2009: 87–8). Notably, this was Abdullah's first international trip as the newly installed king of Saudi Arabia, and the president of China declared that the visit would 'write a new chapter of friendly cooperation between the two countries in the new century' (Yetiv and Lu 2007: 205). Relations between China and the UAE are becoming similarly close, with a number of key highlights. There have been eighteen Chinese state visits to the UAE over the past twenty years, including visits from the minister for foreign affairs and the deputy prime minister in 1989 and 1996. In the other direction there have been ten UAE state visits to China, including, most notably, that by the ruler of Abu Dhabi and UAE president, Sheikh Zayed bin Sultan Al-Nahyan, in 1990; the ruler of Sharjah, Sheikh Sultan bin Muhammad Al-Qasimi, in 1991; and the ruler of Dubai and UAE vice-president, Sheikh Muhammad bin Rashid Al-Maktum, in 2008. On meeting the president of China the latter was told that he was 'an old friend of the Chinese leadership and people … and he had played a major role in enhancing bilateral ties' (*Arabian Business*, 31 March 2008). Most recently, in summer 2009 Abu Dhabi's crown prince, Sheikh Muhammad bin Zayed Al-Nahyan, made a three-day visit to China. During his

[15] See, for example, Yetiv and Lu's discussion of Saudi Arabia's repression of its Shia minorities and its similarities with Chinese repression (Yetiv and Lu 2007: 202).

1990 visit Sheikh Zayed made several large donations to China, including grants to establish an Arabic and Islamic Studies Centre at Beijing Foreign Studies University and to expand the printing factory of the China Islam Association. Sheikh Zayed also took the opportunity to grant China permission to set up UAE branches of the Xinhua news agency and the *People's Daily* newspaper.

Between China and Kuwait there have been a number of comparable state-level visits, with eleven Chinese visits to Kuwait in recent years, including the president in 1989 and the minister for foreign affairs in 1990 and 2000. From Kuwait there have been thirteen visits to China, including the crown prince, Sheikh Saad Al-Abdullah Al-Sabah, in 1995 and two rulers of Kuwait on three separate occasions, in 1990, 1991 and 2009. Sheikh Jabah Al-Ahmad Al-Sabah's 1990 visit was made during his period of exile following the Iraqi invasion in order to try to strengthen Chinese support (China, Ministry for Foreign Affairs 2009), while Sheikh Sabah Al-Ahmad Al-Sabah's summer 2009 visit was made in support of the aforementioned $9 billion joint venture between the two countries, first set up in 2005. During this latter visit Sheikh Sabah stated that 'these joint ventures and agreements will push Kuwait-China relations to an even higher level' (China, Ministry for Foreign Affairs 2009). Kuwait has also historically been the most generous supplier of low-interest loans to China, the Kuwait Fund for Arab Economic Development having provided China with over $600 million in loans since the mid-1980s, in addition to several large gifts including a disaster relief package in 1998 following a period of serious floods in China.

Like Japan's, China's relations with the other Persian Gulf monarchies have been less substantial, but again there is strong evidence that the relationship is taken very seriously by all parties and is undoubtedly strengthening. Since diplomatic relations began, there have been nine Chinese state visits to Qatar, including the minister for foreign affairs in 1990. In the other direction there have been thirteen Qatari state visits to China, including the minister for foreign affairs in 1993, the ruler of Qatar's wife, Sheikha Moza bint Nassar Al-Misnad, in 2001, the prime minister, Sheikh Khalifa bin Hamad Al-Thani, also in 2001, and the crown prince, Sheikh Tamim bin Hamad Al-Thani, in 2008.

There have been 19 Chinese state visits to Oman over the past twenty years, including the president in 1989 and the minister for foreign affairs in 1993 and 2009. From Oman there have been twenty-three visits to China over the same period, including six separate visits from the minister for foreign affairs, most recently Yousef bin Alawi in 2009. Symbolically, in the early 1980s a 'ship of friendship' – the *Sohar* – was sailed from Oman to China, and subsequent diplomatic missions have frequently made reference to this. More recently a monument to the *Sohar* was erected in Guangzhou in southern China, and in 2001 Sultan Qaboos bin Said Al-Said donated $200,000 to assist the Guangzhou Museum of Overseas History build a new Arab and Islamic exhibition room.

Since China began relations with Bahrain there have been fourteen Chinese state visits to Bahrain, including the minister for foreign affairs in 1990, while there have been seventeen Bahraini state visits to China, including the minister for foreign affairs in 1990, the prime minister, Sheikh Khalifa bin Salman Al-Khalifa, in 2002, and the king's wife, Sheikha Sabika bint Ibrahim Al-Khalifa, later the same year.

South Korea is on much the same trajectory as its larger neighbours for improving its relations with the Persian Gulf monarchies. Although there is less evidence of loans, gifts and other donations, this is likely to increase, as already the level of senior diplomatic activity is intensifying. Over the past twenty years South Korea has made six state visits to Saudi Arabia, including the president on two occasions, most recently in 2007, and the prime minister on two occasions, most recently in 2005. In the other direction Saudi Arabia has made seven state visits to South Korea, including the crown prince, Abdullah bin Abdul-Aziz Al-Saud, in 1998. With the UAE there has, if anything, been even more diplomatic activity, South Korea having made no fewer than 15 recent state visits, half of them in the last five years, undoubtedly in support of the described South Korean construction contracts in the country. These visits have included the president in 2006 and the prime minister in 2001, 2005 and 2006. From the UAE there have been five state level visits over the same period, including the vice-president and ruler of Dubai, Sheikh Muhammad bin Rashid Al-Maktum, in 2007, and the crown prince of Abu Dhabi, Sheikh Muhammad bin Zayed Al-Nahyan, in 2006.There have been twelve South Korean state visits to Kuwait since relations began, including the president in 2007 and the prime minister in 2006. In the other direction Kuwait has made ten state visits to South Korea, including the minister for foreign affairs in 2002 and the prime minister, Sheikh Sabah Al-Ahmad Al-Sabah, in 2004. South Korea has made seven state visits to Qatar in recent years, including the president in 2007 and the prime minister in 2001 and 2005, while Qatar has made fourteen state visits to South Korea, including the ruler, Sheikh Hamad bin Khalifa Al-Thani, in 1999, and the crown prince, Sheikh Tamim bin Hamad Al-Thani, in 2009. Over the same period South Korea has made seven state visits to

Oman, including the prime minister in 2001 and 2005, while Oman has made nine state visits to South Korea, although none have been above ministerial level. Between South Korea and Bahrain there have been far fewer such visits, reflecting the lesser extent of economic interdependence between the two countries, although in 2007 Bahrain's minister for foreign affairs, Sheikh Khalid bin Ahmad Al-Khalifa, did travel to Seoul on a diplomatic and fact-finding mission.

9. FUTURE INITIATIVES AND COLLABORATIONS

With the noted exception of military security arrangements, the relationship between the Persian Gulf monarchies and the three principal Pacific Asian economies will continue to strengthen and broaden for the foreseeable future, provided that the former remain able to balance their existing relationships with the Western powers and Pacific Asia, especially China (Moran and Russell 2008).[16] Thus far, such geopolitical competition would seem to have been avoided, given the primary emphasis on bilateral economic linkages, which for the most part have had little direct impact on the Persian Gulf's dealings with the West. Indeed, as this paper has demonstrated, the hydrocarbon and non-hydrocarbon trade between the two regions has been rapidly rising in volume and value, and is projected to continue to do so. Similarly, it has been shown that the flow of bilateral investments between the two regions continues to rise, and a substantial number of construction and labour contracts are being signed with ever greater frequency. These trajectories are all being enhanced by improving non-economic ties, especially at the diplomatic level, and, as discussed, it is likely that these linkages will grow even tighter in the near future. Furthermore, the relationship will also be enhanced by several new initiatives and collaborations between the two regions, all of which augment existing economic bonds, while some have implications for future non-military security arrangements, and others are highly symbolic of this twenty-first-century partnership.

In spring 2009 the UAE's ADNOC began discussions over establishing an Abu Dhabi crude oil reserve on Japanese territory in cooperation with Nippon Oil. It is intended that ADNOC will begin such storage in late 2009 by using one of Nippon's existing reserve bases in Kagoshima in southern Japan. This agreement will provide the UAE with an alternative outlet for its crude oil sales, not only to Japan and its neighbours, but the entire east Asia

[16] See Moran and Russell (2008) for a discussion of potential energy rivalries between the United States and China.

region. Such an outlet would prove vital if the Strait of Hormuz – the entrance to the Persian Gulf – was closed in the event of an emergency. From Japan's perspective the agreement is equally beneficial, as it would provide Japan with direct access and a pre-emptive right to purchase crude oil in such an emergency. Tellingly, ADNOC's spokesperson stated that the arrangement would 'contribute to enhancing Abu Dhabi's relationship with Asian markets generally and Japan particularly, and guarantee the flow of crude oil supplies to these markets in emergencies' (*The National*, 26 June 2009).

The future energy sector is another likely area of collaboration, with countries from both regions actively seeking to set up solar and nuclear joint ventures. In spring 2009 Japan's Showa Shell Sekiyu announced that it was considering operating solar power plants in Saudi Arabia in cooperation with Aramco, which, as described, is now one of its principal shareholders. Showa intends to build small pilot plants in Saudi Arabia by 2010 to test its technologies, and should these prove successful then a joint venture with Aramco may be set up (Associated Press, 25 June 2009). With the UAE committed to a path of diversifying its energy sources and building up a civilian nuclear programme based on imported technologies from the United States, its government has repeatedly turned to Japan and South Korea for advice and assistance. In early 2009 the UAE signed a nuclear cooperation memorandum of understanding with Japan, and in summer 2009 the UAE signed a similar agreement with South Korea. A twenty-strong UAE delegation was promptly sent to South Korea – at the invitation of the Korea Electric Power Corporation (KEPCO) – to survey its nuclear facilities, especially its safety procedures and mechanisms. Significantly, should the UAE secure the US technology, then the contract for the construction of the UAE's nuclear facilities could be awarded to one of two consortia with a major Pacific Asia involvement: one consortium includes Japan's Hitachi, while the other is made up of KEPCO, the Korea Hydro and Nuclear Power Corporation and Hyundai Engineering and Construction Company. So lucrative could this contract prove to be to South Korea that the South Korean president visited the UAE in autumn 2009 in support of the KEPCO bid.

Perhaps most emblematic of the many new developments that will strengthen the link between Pacific Asia and the Persian Gulf in the near future is China's attempt to reconstruct the old Karakoram Highway. This will effectively connect China to the Persian Gulf by a land route that follows the same path as the ancient Silk Road. To do so, China will build the world's highest altitude motorway in cooperation with the Pakistani government, which will not only involve a massive investment and working in difficult terrain, but will even require the pacifying of local tribes in remote areas beyond the control of the Beijing and Islamabad governments (*The National*, 6 August 2009). On completion, this new highway will connect with deep-water ports in Pakistan, most notably the port at Gwadar, in Baluchistan, which has direct access to the Gulf of Oman and lies just 250 miles from the entrance to the Persian Gulf. China has already invested $200 million in Gwadar, the port having first opened in 2005 with three berths; China intends it to expand soon to ten berths with a new bulk-cargo terminal (Ghafour 2009: 83).

10. Broader findings

The intensifying connection between the Persian Gulf monarchies and the Pacific Asian economies has several wider implications. As has been described, as yet there is little military collaboration between the two groups, thereby allowing the United States to continue in its role as the protector of the Gulf states and the guarantor of the international oil industry's most strategic shipping lanes. Thus far this has kept to a minimum any tension between the United States and China, which is regarded by many observers as the most militaristic of the Pacific Asian states. The absence of any significant new hard security arrangements in the Persian Gulf has also allayed fears within the oil industry that any superpower struggle for mastery over the world's greatest hydrocarbon reserves is about to take place. However, the many other linkages between the Persian Gulf and Pacific Asia, including the various economic and diplomatic bonds, and perhaps especially the new initiatives and collaborations described above, will undoubtedly prompt the United States to pay more attention to the new relationship. This increased attention, if mishandled and too heavy-handed, may in turn reduce trust between the Persian Gulf monarchies and their Western allies and partners, thus providing a fresh wave of opportunities for Pacific Asian governments and companies to win lucrative contracts and continue to increase their influence.

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