

## INTRODUCTION

A plethora of economic, diplomatic, cultural, and other highly pragmatic linkages are finally making the long-predicted ‘Asianisation’ of Asia a reality.<sup>1</sup> As this book will demonstrate, the powerful and multidimensional connections that are being forged by the very eastern and western extremities of the continent are poised to become a central pillar of this process. Given time, this will finally lead to the emergence of meaningful bilateral ties between non-Western poles of the international system,<sup>2</sup> involving states that up until recently had been considered as peripheral to the global economy<sup>3</sup> and dependent on the advanced capitalist countries for their trade and investment.<sup>4</sup> Most notably, an important new relationship is developing between the six monarchies of the Persian Gulf—Saudi Arabia,<sup>5</sup> the United Arab Emirates (UAE),<sup>6</sup> Kuwait,<sup>7</sup> Qatar,<sup>8</sup> Bahrain,<sup>9</sup> and Oman<sup>10</sup>—and the three most advanced economies of Pacific Asia—Japan, China, 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, late twentieth century marriage of convenience based on hydrocarbon imports and exports has now evolved into a comprehensive, 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 yet encompass the Persian Gulf’s military security arrangements—which remain exclusively

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with the United States, Britain, and France—and although few serious attempts have been made by either side to replace or balance these with new Pacific Asian alliances, this may change soon. Meanwhile, there is compelling evidence that the two regions are seeking to strengthen their other non-economic ties. An abundance of state-level visits, often at much higher levels than 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’, renewable energy projects, civilian nuclear power plants, and the building of a twenty-first century ‘Silk Road,’ the trajectory of interdependence will continue to accelerate. 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<sup>11</sup>—thus signifying a global shift in economic weight from the West to the East<sup>12</sup>—the Eastwards reorientation of the Persian Gulf monarchies can only intensify.

There exists a modest number of academic books, journal articles, and working papers that cover various aspects of this relationship. In 1990, John Calabrese provided an early analysis of China’s potential relationship with West Asia in an article published by *Asian Survey*,<sup>13</sup> and in 1991, his original analysis was updated and extended in a comprehensive book—*China’s Changing Relations with the Middle East*.<sup>14</sup> The following year Charles Davies edited *Global Interests in the Arab Gulf*—one of the first and broadest studies of the region’s international interactions,<sup>15</sup> with chapters by Susumu Ishida<sup>16</sup> and Anoushvaran Ehteshami<sup>17</sup> on, respectively, Japan’s oil and military strategy in the Persian Gulf and the relationship between the newly industrialized Asian countries and the Gulf. At about the same time, the Xinjiang University Press published a book on the Persian Gulf in Chinese, edited by Zhang Baoguo. Entitled *Strategic Studies of Xinjiang’s Opening to the Countries of Western Asia*, the book provided an early insight into possible future Chinese policies—or at least the policies of its most Muslim and most western province—with regards to the Persian Gulf.<sup>18</sup> Writing in 1998, Barry Rubin drew much needed attention to China’s overall emerging Middle East strategy in an article for *China Report*,<sup>19</sup> while Calabrese provided a more specific examination of China’s security and energy needs in the Persian Gulf monarchies in an article published by *Middle East Journal*.<sup>20</sup>

More recently there have been several additional studies on the phenomenon including the UAE scholar Muhammad bin Huwaidin’s highly original book—*China’s Relations with Arabia and the Gulf: 1949–1999*, published in

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2002,<sup>21</sup> and his follow-up article on Saudi Arabia's foreign policy towards China published by the *Journal of Strategic Studies*.<sup>22</sup> In 2004, Ehteshami revisited the wider relationship between the Middle East and Asia with an edited volume—*The Middle East's Relations with Asia and Russia*—in cooperation with Britain's Foreign and Commonwealth Office.<sup>23</sup> This included a chapter on Asian geostrategic realities and their likely impact on the Middle East, including the Persian Gulf,<sup>24</sup> and a specific chapter on China's evolving strategy.<sup>25</sup> In 2007, Henry Lee and Dan Shalmon investigated China's various oil initiatives in the Middle East in their paper published by Harvard University's Belfer Center for Science and International Affairs,<sup>26</sup> while Steve Yetiv and Chunlong Yu provided perhaps the most succinct study to date of China's overall position in the region in their article published by *Middle East Journal*.<sup>27</sup>

In 2008, the Japanese scholar Yukiko Miyagi reintroduced Japan to the discussion in her innovative English language book—*Japan's Middle East Security Policy*.<sup>28</sup> In 2009, as interest in the linkages between the two regions continued to intensify, the Iranian scholar Mahmoud Ghafour provided an overview of China's policy towards the Persian Gulf in his article for *Middle East Policy*<sup>29</sup> while Calabrese published a timely and thought-provoking policy brief for Washington DC's Middle East Institute entitled *The Consolidation of Gulf-Asia Relations: Washington Tuned in or Out of Touch?*<sup>30</sup> Also in 2009, David Adam Stott introduced the topic of nuclear cooperation to the scholarly debate in his article on Japan and the UAE for the *Asia-Pacific Journal*,<sup>31</sup> while the Royal Bank of Scotland's chief China economist, Ben Simpfendorfer, published his landmark book *The New Silk Road: How a Rising Arab World is Turning Away from the West and Rediscovering China*.<sup>32</sup> Not only did this study examine the many physical manifestations of the reinvigoration of this ancient trade route, but the polyglot Simpfendorfer also provided a unique portrait of the many cultural and political connections that are fast developing on both the periphery and at the core of the new China-Middle East relationship.

What few of these academic texts and policy briefings have provided, however, is a concise and specialized overview of the very specific, yet multi-polar relationship that is evolving between the Persian Gulf monarchies and the three principal Pacific Asian economies. Most of the above studies have focused on the entire Middle Eastern region, rather than distinguishing the Persian Gulf monarchies and their particular economic, social, and political characteristics from neighbouring Arab states or Iran. Moreover, with a few exceptions, the bulk of research on the East Asian side of this subject is either too broad, with little distinction being made between Asian countries that are

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developing at either very different paces or in very different directions, or the research is overly China-centric. Although China is undoubtedly becoming the driving force behind Asia's economic development and any future Asianisation of the continent, Japan nonetheless remains a major economic power and partner for the Persian Gulf monarchies while South Korea—as this book will demonstrate—has in some cases even overtaken its larger Pacific Asian neighbours to become the primary economic partner of certain Gulf states. A wave of recent think tank and consultancy reports have tried to address the subject, but even though many of these are highly informative, the majority are very narrow bilateral studies or are also too broad. Also, by their very nature and given the fast moving nature of the emerging Persian Gulf-Pacific Asian relationship, most are quickly outdated or become little more than brief snapshots of what is really a long-running process.

### *Structure of the Book*

The first chapter examines the initial points of significant contact, at least in modern times, between the Persian Gulf monarchies and the Pacific Asian economies. Following a discussion of Britain's role in the Persian Gulf and its largely inhibiting effect on its various protectorates with regard to building relationships with other states, the chapter then considers Japan's historic ability to penetrate Saudi Arabia's oil industry and its increased involvement in the region's re-export trade, especially in Dubai. China's early role in the Persian Gulf is then examined, with an emphasis on re-exporting activity with Kuwait and Qatar, followed by a discussion of China's first major international oil imports in the early 1980s from the Sultanate of Oman. The second chapter continues to build up the background to the contemporary analysis by providing a brief economic and demographic comparison between the two regions. The various gross domestic products of the featured states are discussed along with their population sizes, their labour force sizes, and their respective hydrocarbon production capabilities or, in the case of the Pacific Asian economies, their increasing hydrocarbon import needs. Moreover, the principal sovereign wealth funds of both the Persian Gulf monarchies and the Pacific Asian economies are listed, along with their estimated values.

The third chapter takes a more detailed look at the hydrocarbon trade between the two regions. Following an overview of the Persian Gulf monarchies' share of global hydrocarbon production and the Pacific Asian economies' share of global hydrocarbon consumption, each of the three Pacific Asian

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states' linkages with their hydrocarbon suppliers are analysed. In particular, the various concessions and agreements that underpin these relationships are considered, along with the factors that may shape the future hydrocarbon trade between the two groups. Similarly, the fourth chapter addresses the growing non-hydrocarbon trade and provides data on the current levels of non-hydrocarbon imports and exports. Along with the various government-level agreements, both bilateral and multilateral, that are being put in place to facilitate this dimension of the strengthening relationship, the chapter also details the numerous other initiatives that are being introduced to improve this trade.

The fifth chapter provides a comprehensive analysis of the massive investments that are now being made—in both directions—between the Persian Gulf monarchies and the Pacific Asian economies. The chapter begins by explaining the increasing attractiveness of such an investment relationship for both groups of countries before then turning to each of the three featured Pacific Asian economies and detailing both the sovereign wealth investments and private investments that are being made, and the various joint ventures that are being set up with their Persian Gulf partners. The sixth chapter builds on this discussion by studying the increasing interdependence between the two regions in the field of construction and labour. It is demonstrated that the Pacific Asian construction companies, despite having a much shorter track record in the region than their Western or Arab competitors, are nonetheless winning an increasing share of contracts in the Persian Gulf, with South Korean companies having been particularly successful. The chapter also considers the impact of the credit crunch on the construction industry—especially in Dubai—and how this may have affected the relationship between the various Persian Gulf and Pacific Asian partners involved.

The seventh chapter tries to answer the puzzling question of why there is still no security dimension to the otherwise tightening relationship between the two regions. Following a brief discussion of earlier Pacific Asian involvement in the Persian Gulf's security arrangements, including the various political obstacles that have had to be overcome, the chapter proceeds to detail the continuing Western military presence in the region, before explaining why—despite a few recent indications of change—the Pacific Asian economies for the most part remain either unable or unwilling to modify the existing situation. The eighth chapter is also, in some ways, an answer to this question, as it demonstrates that even though a military security arrangement between the two regions does not yet exist, there is nonetheless increasing evidence of an extensive range of other non-economic linkages forming. Most notably, the

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chapter identifies the increasing frequency and seniority of state-level diplomatic visits between the Persian Gulf monarchies and the Pacific Asian economies, along with the various aid packages and cultural and educational exchanges that have only recently begun to take place.

The ninth and final chapter, which is perhaps this book's most original contribution, is a study of some of the most notable future initiatives and collaborations that are soon likely to take place between the two groups of countries and will certainly increase their interdependency even further. In particular, it is shown how some of the Pacific Asian economies will begin to serve as proxy hydrocarbon reserves for their Persian Gulf partners: a mutually beneficial arrangement that has significant economic, logistical, and security implications. The chapter then demonstrates how the Pacific Asian economies will soon assume a leading role in the fast growing renewable energy sector in the Persian Gulf, before discussing how the physical trade links between the two regions are likely to improve following the construction of new pan-Asian highways and deep water ports. Finally, the chapter examines the greatest and most symbolic future partnership that is developing: South Korea's winning of a massive contract to construct and maintain the United Arab Emirates' nuclear power plants over the next several decades. With at least some of the UAE's Persian Gulf neighbours also considering setting up civilian nuclear industries, the opportunities for further Pacific Asian involvement will be enormous.

### *Further Notes*

In the various charts and tables featured throughout this book, the six Persian Gulf monarchies will be listed according to their gross domestic product, beginning with Saudi Arabia (with the highest GDP) and ending with Bahrain (with the lowest GDP). The three featured 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 longer history of ties with the Persian Gulf and its position of economic preeminence until very recently. Undoubtedly if this book were being written in 2012 rather than 2009, then China would have been placed ahead of Japan. This book also contains a number of words that have been transliterated from Arabic, Japanese, Chinese languages or Korean. These are mostly place names and the names of various businesspeople, politicians, or other dignitaries. These have been transliterated according to their most popular spelling in English; however I apologise in advance for any minor inconsistencies that may result.