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# Gulf's Pivot to Asia:
*Contextualizing 'Look East' Policy*

**Dr N. Janardhan**
Senior Research Fellow, Gulf-Asia Programme

**February 2018**

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Emirates Diplomatic Academy
Hamdan Bin Mohammed Street
Al Hosn Palace District
P.O. Box 35567
Abu Dhabi, United Arab Emirates
http://eda.ac.ae/
research@eda.ac.ae

## Abstract

Since the turn of the century, the relations between Asia's biggest oil producers and consumers have grown manifold. By feeding the energy demands of the Asian economic boom, the economies of the Gulf Cooperation Council (GCC) countries also grew rapidly.

This oil-based 'East-East camaraderie' steadily expanded to boost non-oil trade and strategic cross investments in diverse sectors. As a result, the cumulative Gulf-Asia commercial transaction bill now surpasses that of the European Union and United States combined.

Given the long-term growth potential, Asia is likely to remain a key partner for the GCC countries. Though the relationship has recorded tentative steps to shift beyond oil, trade and expatriates – to explore security cooperation – this paper limits itself to investigating only the Gulf-Asia economic engagement.

**Dr N. Janardhan**
**Senior Research Fellow, Gulf-Asia Programme,**
**Emirates Diplomatic Academy, Abu Dhabi**

With over 20 years of regional expertise, Dr Janardhan analyzes evolving multi-dimensional partnerships between the countries of the Gulf and Asia. His academic publications include – A New Gulf Security Architecture: Prospects and Challenges for an Asian Role (ed., Gerlach, 2014); India and the Gulf: What Next? (ed., Gulf Research Center Cambridge, 2013); and Boom amid Gloom: Spirit of Possibility in 21st Century Gulf (Ithaca, 2011). He is also Honorary Fellow, University of Exeter, and Managing Assistant Editor of the Journal of Arabian Studies (Routledge). With a PhD from Jawaharlal Nehru University, New Delhi, Dr Janardhan's broad-based interests span politics, international relations, media and migration in the Gulf.

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# 1. Introduction

Long before the United States announced its strategic rebalancing policy of 'pivot' to Asia, the Gulf Cooperation Council (GCC) countries had set their eyes and recognized Asia as an ally of the future. Though these ties were rooted primarily in transactional economic activities, they are slowly transforming to become agents capable of impacting geopolitics.

King Salman bin Abdulaziz's long tour of Asia in early 2017 is the most recent high-profile indicator of the GCC's intensifying 'Look East' policy. This month-long visit had an equally prominent precedent in King Abdullah bin Abdulaziz's four-nation tour of Asia after he assumed power in 2006, which made the first grand statement about the evolving dynamics.

However, the defining developments of Gulf-Asia ties lie in the events that occurred, first, at the turn of the century and second, in between the 2006 and 2017 landmark trips by the two Saudi kings.

Invoking US President Bill Clinton's 1992 campaign slogan – "It's the economy, stupid" – best explains the revival of Gulf-Asia ties.[1]

This paper explores and highlights areas of economic complementarity, both in the oil and non-oil sectors, including trade and cross investments. In the process, the paper also compares various dynamics of Gulf-Asia ties in the context of the Gulf countries' relations with the United States and the European Union.

A few equally-important non-economic factors that may have contributed to intensifying Gulf-Asia relations are also discussed. Finally, the paper points out potential areas of future cooperation in an era driven by economic diversification in the Gulf. It ends by arguing that a robust Gulf-Asia relationship should find new 'strategic' political and security avenues to intensify collaboration in the decades ahead.

[1] Michael Kelly, "The 1992 Campaign," *The New York Times*, 31 October 1992.

## 2. Economic Complementarity

The increasing significance of Asia as an ally of the GCC countries occurred at a time when: first, Asia's oil consumption was soaring amid an economic boom; and second, the economies of the GCC countries were robust following high oil prices and needed new avenues to diversify and invest.

### 2.1. Asian Economic Boom

According to the International Monetary Fund, 2013 was the first year in which emerging markets contributed to more than half of global GDP, based on purchasing power. While they accounted for less than a third in 1990, their share of world output grew over a percentage point annually between 2003 and 2011.[2]

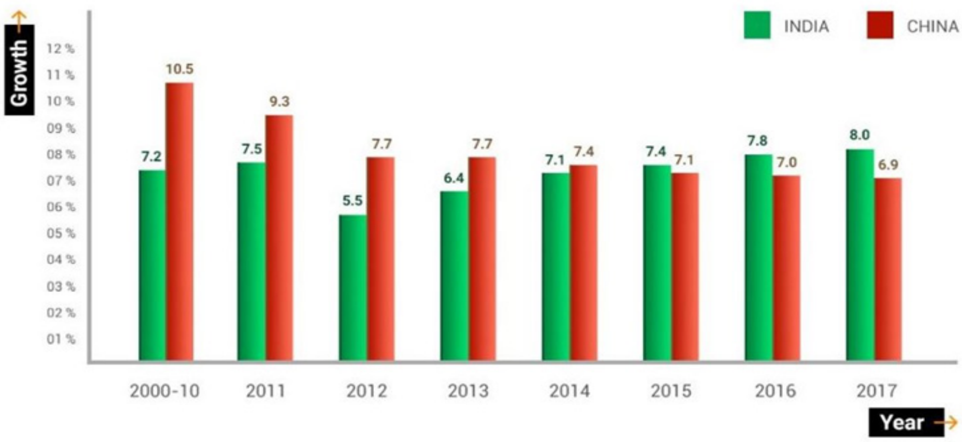
Between 1960 and late 1990s, just 30 percent of developing countries managed to increase their output per person faster than the United States. Thereafter, 73 percent of developing countries managed to outpace the United States. Amongst the leaders of this pack were China and India.

Figures 1 and 2 compare the growth rates in the West with those of China and India during the last two decades. According to the Economist: "The remarkably rapid growth the world has seen in these two decades marks the biggest economic transformation in modern history. Its like will probably never be seen again."[3]

Delving into the Asian growth story, Singaporean diplomat-academic Kishore Mahbubani said: *"For more than 1,800 of the last 2,000 years, China and India were always the two largest economies in the world...The past 200 years have been a major historical aberration...It's perfectly natural for China, India to resume their places...All aberrations come to a natural end."*[4]

[2] "When giants slow down," www.economist.com, 27 July 2013.
[3] Ibid.
[4] "Asian century is here to stay," www.asiaone.com, 31 July 2016.

### Figure 1. Economic Growth of China and India




*Source: Global Economic Prospects, National University of Singapore, June 2015.*

### Figure 2. Economic Growth of United States and Europe


*Source: European Commission Forecast, 2015.*

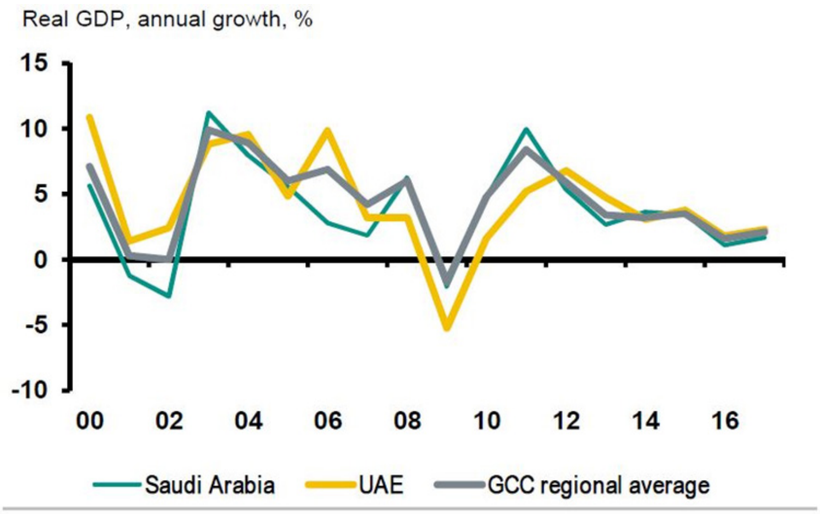
## 2.2. Health of GCC Wealth

The GCC countries were also very much a part of the Asian growth saga. According to the Institute of International Finance, the GCC countries earned about US$2 trillion through oil sales between 2001 and 2007. Further, the bloc's public and private overseas wealth was valued at US$1.5 trillion by the end of 2008, dropping from the earlier estimate of US$2 trillion due to the financial crisis.[5] This was aided by oil prices that rose seven-fold (from about US$20 to about US$145 a barrel) between 2002 and 2008.

This wealth allowed the GCC countries to continue spending during a global slowdown. They used the surplus to diversify their economies away from oil, especially financial hubs, tourism, real estate, manufacturing, and petrochemicals, among others (which has helped them in the current low oil price era).

In the current scenario, though the price of oil at the end of 2017 was far from the 2014 peak of nearly US$120 a barrel, the combined GDP of the GCC economies was tipped to exceed $1.5 trillion. This compares with US$810 billion in 2007 and about US$1 trillion in 2008.[6] It is important to note that while oil fueled the old GCC growth, the new growth is being powered both by oil and non-oil-driven economic diversification, both gelling well with the GCC and rest of Asia's growth requisites.

**Figure 3. Economic Growth of GCC Countries**




*Source: EIU/ Gulf States Outlook, www.insights.abnamro.nl, October 2016.*

[5] "GCC foreign assets reach $1.47tr by end 2008," *Khaleej Times* (UAE), 5 January 2009.

[6] "GCC's combined GDP may exceed $1.5trn," www.zawya.com, 18 May 2017; and "Combined GDP of GCC states to touch $1.15trn," www.emirates247.com, 7 August 2008.

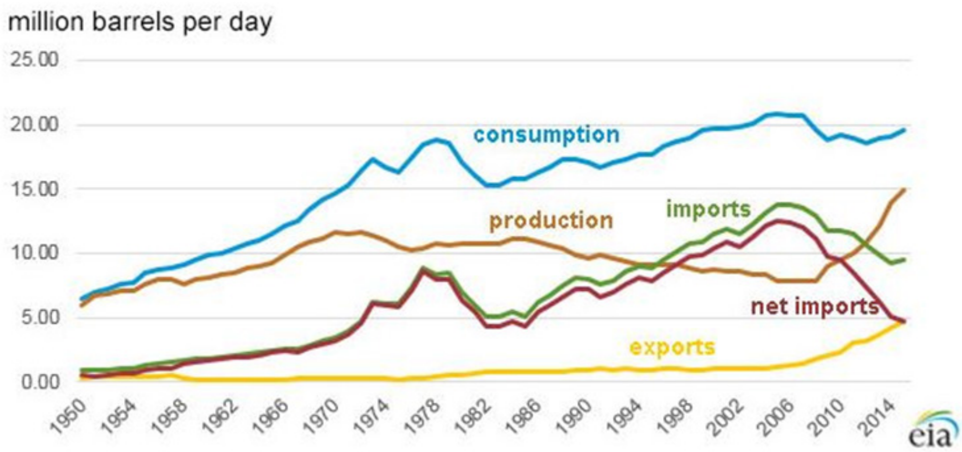
## 2.3. Eastern Energy Tilt

In this context, the Gulf's evolving shift towards Asia was logical. In 2006, for example, Asia accounted for more than 30 percent of the world's oil demand, with most of the supplies coming from the GCC countries. After producing around 18 million barrels per day (mbpd), or 22 percent of global production, the GCC countries exported around 16 mbpd (close to one-third of global oil trade). Two thirds of this (12 mbpd) went to Asia. Given the developments in the GCC gas industry, the 'fuel of the future' also opened a new front for cooperation and business with Asia.[7]

Coinciding with the Asian economic growth since the turn of the century, the West's reliance on the region's energy supply decreased gradually. As part of a concerted effort, especially after 9/11, the United States strived to change its status from being oil dependent to become oil sufficient and eventually, oil dominant. It achieved this partly by first diversifying its suppliers, especially from Africa, and then benefitting from its own domestic shale revolution.

According to reports, while 65 percent of US daily oil demand was met by imports in 2005, it declined to 28 percent in 2015 and is expected to fall further to 11 percent in 2020[8] *(Figures 4 and 5 reflect this).*

**Figure 4. Declining US Oil Imports (1949-2016)**

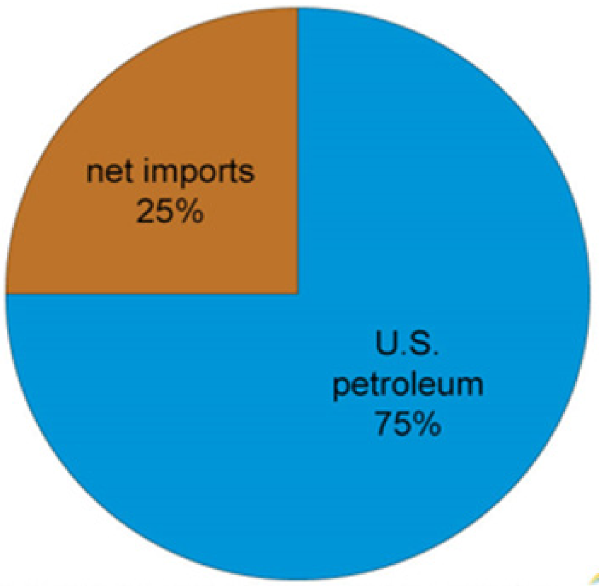



*Source: US Energy Information Administration, 2017.*

[7] Adnan Shihab-Eldin, "GCC- Asia Strategic Relation: Development, Opportunities and Challenges", Background Paper for the International Monetary Fund/World Bank Program of Seminars, Singapore, 16-18 September 2006.

[8] "US energy independence looks 'tantalizingly close'," www.cnn.com, 9 August 2016.

### Figure 5: US Domestic Production and Imports (2016)




*Source: US Energy Information Administration, 2017.*

### Figure 6. Source of EU-28 Oil Imports (2005-2017)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Russia | 119.5 | 137.5 | 156.0 | 171.0 | 186.0 | 189.8 | 192.1 | 189.0 | 181.9 | 176.6 | 181.7 | 177.9 | 176.7 | 168.0 | 150.3 | 153.2 |
| Norway | 114.9 | 107.1 | 101.8 | 104.6 | 106.9 | 97.0 | 87.5 | 83.8 | 85.6 | 79.3 | 71.6 | 63.7 | 58.9 | 58.6 | 64.8 | 63.3 |
| Nigeria | 22.5 | 25.7 | 18.4 | 23.2 | 14.9 | 18.6 | 20.3 | 15.2 | 22.7 | 23.6 | 21.7 | 31.1 | 42.8 | 40.5 | 45.2 | 44.3 |
| Saudi Arabia | 65.1 | 57.5 | 53.1 | 61.6 | 64.5 | 60.7 | 51.2 | 40.2 | 38.9 | 29.9 | 30.8 | 41.1 | 46.2 | 43.3 | 44.2 | 41.7 |
| Iraq | 31.3 | 20.4 | 16.0 | 8.5 | 12.6 | 12.3 | 16.6 | 19.1 | 18.9 | 19.9 | 16.9 | 18.2 | 21.5 | 18.2 | 22.6 | 40.0 |
| Kazakhstan | 9.7 | 8.6 | 12.8 | 14.5 | 19.1 | 25.6 | 26.0 | 25.9 | 27.3 | 28.0 | 28.7 | 29.2 | 26.8 | 28.6 | 31.7 | 34.5 |
| Azerbaijan | 3.7 | 4.6 | 5.3 | 5.7 | 5.2 | 7.3 | 12.7 | 16.6 | 18.1 | 21.2 | 22.9 | 25.0 | 20.2 | 23.7 | 21.9 | 27.3 |
| Algeria | 16.7 | 14.7 | 14.2 | 16.2 | 19.1 | 20.2 | 14.4 | 10.4 | 14.6 | 8.5 | 6.5 | 13.1 | 15.0 | 19.4 | 20.6 | 22.4 |
| Angola | 3.9 | 6.7 | 7.3 | 4.3 | 3.4 | 7.1 | 4.3 | 11.4 | 14.8 | 14.1 | 8.5 | 10.9 | 10.6 | 14.7 | 16.5 | 22.2 |
| Mexico | 9.8 | 9.3 | 9.7 | 8.7 | 8.8 | 10.6 | 8.7 | 8.6 | 8.8 | 6.0 | 6.8 | 7.2 | 9.1 | 9.3 | 10.9 | 13.1 |
| Libya | 45.9 | 44.1 | 39.1 | 46.2 | 50.1 | 50.5 | 51.7 | 54.5 | 56.4 | 47.0 | 53.0 | 14.2 | 42.8 | 28.0 | 16.4 | 12.8 |
| Other countries | 93.3 | 99.3 | 94.4 | 84.4 | 81.3 | 77.3 | 82.5 | 85.8 | 83.6 | 71.9 | 74.4 | 79.6 | 53.7 | 46.1 | 49.2 | 52.0 |
| Total | 536.2 | 535.6 | 528.0 | 548.9 | 571.8 | 576.8 | 567.9 | 560.4 | 571.5 | 525.9 | 523.4 | 511.3 | 524.6 | 498.4 | 494.2 | 526.8 |

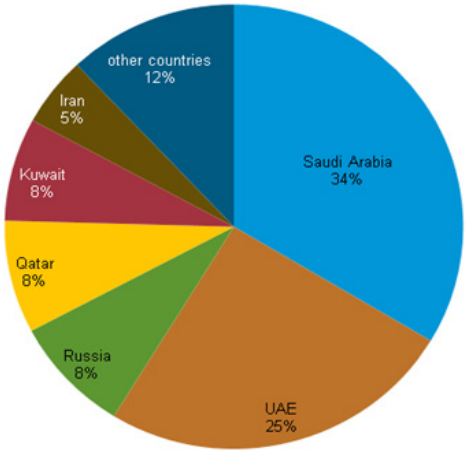
*Source: Eurostat/European Commission, 2017*

Asia replaced the West as the leading buyer of the region's energy sources. For example, the Asian economies – China, India, Japan and South Korea, in particular – received in 2015 more than half the GCC's total exports, primarily energy products (Figures 7-10). During the 2005-2015 period, the region's exports to China and India increased by 30 and 40 percent respectively.[9]

[9] Kristian Coates Ulrichsen, "The Gulf states are turning to Asia in a big way. Here's why it matters," ***Washington Post***, 21 April 2017.

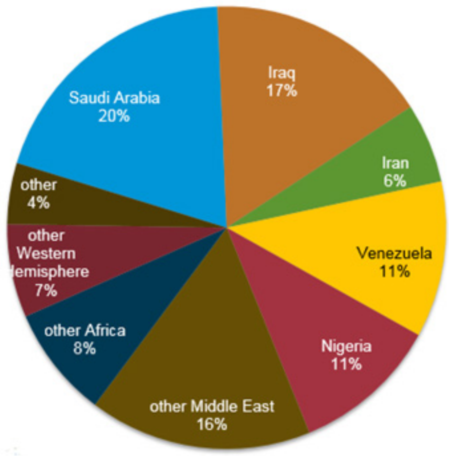
Gulf oil and gas exports to China, India, South Korea and Japan is now three times more than it is to the United States and the European Union, and expected to grow further.[10] Further, the energy demand of Southeast Asian countries, which doubled between 1990 and 2007, is tipped to be thrice the 2007 level by 2030.[11] This factor played a role in expanding Gulf-Southeast Asia synergy *(see Box 3)*.

### Figure 7. Source of Japan's crude oil imports (2015)




*Source: US Energy Information Administration, 2017.*

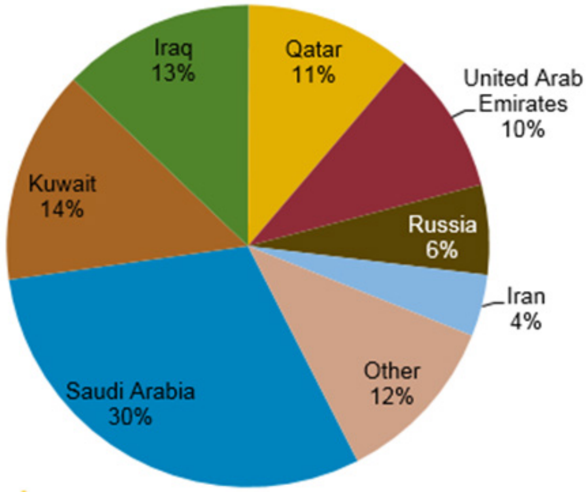
### Figure 8. Source of India's Energy Imports (2015)




*Source: US Energy Information Administration, 2017.*

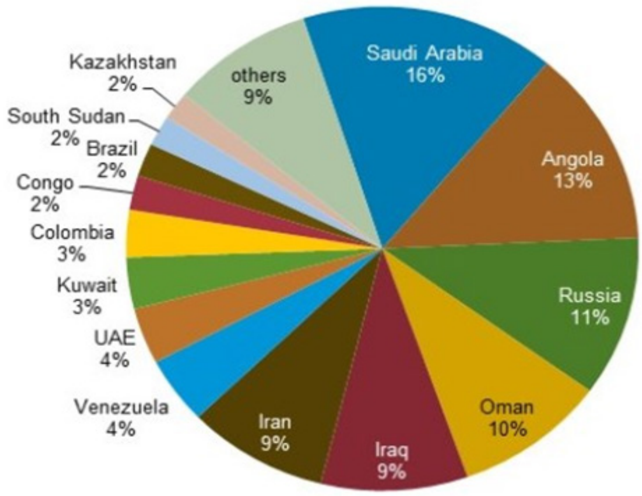
[10] Ibid.
[11] Ibid.

## Figure 9. Source of South Korea's Crude Oil Imports (2015)




*Source: US Energy Information Administration, 2017.*

## Figure 10. Source of China's Crude Oil Imports (2014)




*Source: US Energy Information Administration, 2017.*

The energy sector partnership has developed further. For example, Abu Dhabi awarded in 2017 considerable part of its 40-year onshore oil field concession to Chinese, Japanese and Korean firms. Interestingly, in line with the recent trend, Asian firms replaced Western outfits – Exxon Mobil Corp. and Royal Dutch Shell Plc.[12]

**Table 1. ADNOC Taps Asian Partners**

| Company/country | % share |
|---|---|
| ADNOC (UAE) | 60 |
| Total (France) | 10 |
| BP (UK) | 10 |
| CNPC (China) | 8 |
| INPEX (Japan) | 5 |
| CEFC (China) | 4 |
| GS Energy (South Korea) | 3 |

*Source: Adapted from www.adnoc.ae, 2017.*

The GCC's commercial ties also expanded to Southeast Asian countries. The Abu Dhabi government-owned Mubadala Development Co. has joint ventures in gas exploration with Petronas in Malaysia, and in the development of oil fields in Thailand, Indonesia and Vietnam *(see Box 3)*.[13]

## 2.4. Trade Growth

The GCC-Asia trade also recorded exponential growth during the last decade and a half. About 35 years ago, the GCC bloc conducted 80 percent of its trade with North America and Europe.[14] Now, more than half of the Gulf countries' exports go to Asian countries, while a third of the Gulf countries' imports are from Asia. For example, GCC imports from Asia-Pacific – comprising machinery, manufactured goods and foodstuffs – was about 33 percent in 2015.[15]

All these combined contributed to the GCC's trade with the East surpassing that of the West. The region's trade with Asia totalled US$454.8 billion in 2015, compared to US$395.5 billion with the economies of the European Union and the United States.[16]

[12] "China wins big with stakes in $22 billion Abu Dhabi oil deal," Bloomberg, February 19, 2017.
[13] John Calabrese, "Positioning Malaysia within the global energy landscape," Middle East-Asia Project (American University, Washington), August 19, 2014.
[14] Alan Wheatley, "Gulf, Asia economic links yet to fulfill rich promise," Reuters, 17 October 2011.
[15] "GCC 'reboots' its economic agenda," www.technicalreviewmiddleeast.com, 5 December 2016.
[16] Ibid.

**Table 2. GCC Exports and Imports: Share by Region (2015)**

| Country/region | Exports (%) | Imports (%) |
|---|---|---|
| Asia | 59.1 | 39.8 |
| Turkey | 21.9 | 16.6 |
| United States | 5.3 | 10.8 |
| European Union | 7.9 | 25 |
| Other industrialized economies | 1.8 | 4.7 |
| Sub-Saharan Africa | 3 | 0.9 |
| South America | 1.0 | 1.9 |

*Source: Adapted from Technical Review Middle East, 2016.*

**Table 3. GCC's Main Trade Partners (1990-2015)**

| Country | 1990 (US$ b) | 2000 (US$ b) | 2005 (US$ b) | 2008 (US$ b) | 2013 (US$ b) | 2015 (US$ b) |
|---|---|---|---|---|---|---|
| China | 1.3 | 11.8 | 44.9 | 121.4 | 224.4 | 137.2 |
| India | 4.4 | 6.6 | 21.4 | 119.3 | 183.9 | 104.9 |
| Japan | 33.5 | 52 | 103.8 | 176.1 | 171.6 | 91.9 |
| South Korea | 6.1 | 25.6 | 53.4 | 109.7 | 136.1 | 71.9 |
| European Union | 59.9 | 66.7 | 142.5 | 212 | 216.2 | 180.3 |
| United States | 19.1 | 33.9 | 66 | 124.8 | 137.2 | 88 |

*Source: Adapted from IMF/Niblock and Technical Review Middle East, 2016.*

## 2.5. Cross Investments

Given the financial liquidity of the GCC countries, the Asian infrastructure sector – which was greatly lagging – became an attraction with scope for rich returns. The region also stood to benefit immensely from Asia's expertise and investment readiness in the region's key sectors such as desalination, power generation, gas exploration, minerals, air transport, airports, seaports, services and telecommunications.

With Asian countries expressing willingness to invest in the GCC economies, opportunities for cross investment increased. From a low threshold at the start of the century, GCC-Asia investment collaboration has grown significantly.

According to Standard Chartered estimates, Gulf countries invested about US$60 billion in Asia between 2002 and 2006.[17] Reports also indicate that Middle Eastern countries, particularly from the Gulf, accounted for less than 1 percent of US$1.5 trillion of foreign direct investment in American businesses and real estate in 2005.[18] It was also estimated that Middle East buyers snapped up US$18 billion in Asian assets in 2006, with a focus on real estate and industrial companies.[19]

An early sign of developing cooperation was the US$10-billion Japan-Saudi Petro-Rabigh project agreement in 2005, one of the biggest joint ventures in the region at that time.[20]

When 2009 ended with a South Korean-led consortium winning a landmark US$20.4 billion contract to build four nuclear reactors in the UAE, it eclipsed other bidders from France and the United States. While the choice of an Asian company, especially from South Korea, surprised many, Gulf watchers vouched that it was consistent with developments over a decade.

Within months thereafter, the Abu Dhabi Oil Refining Company (Takreer) signed agreements worth US$9.6 billion with four Korean companies to expand its oil-refining capacity in Ruwais.[21]

Kuwait Petroleum Corporation entered into a joint venture with Petramina in Indonesia in 2015 and invested US$9 billion in a joint refinery project in Vietnam the following year, Saudi Arabia invested US$7 billion in Petronas during King Salman's visit.[22]

Barring Bahrain, all other GCC countries became founding members of the Asian Infrastructure Investment Bank in 2015.[23] Further, Chinese and Indian infrastructure companies are involved in constructing the Haramain High Speed Rail link connecting Mecca and Medina in Saudi Arabia, and Riyadh Metro, respectively.[24]

An indication of China's increasing footprint in the Middle East is its foreign direct investment. While it was less than 1 percent of the total in 2009, it grew to more than 5 percent in 2015. Further, China was the top foreign investor in the Arab world in 2016, pledging US$29.5 billion. In comparison, the United States was number two with US$7 billion.[25]

[17] "Trade is booming between Asia and Middle East," www.spiegel.de, 7 November 2008.
[18] "Little Mideast oil wealth is going toward takeovers of US assets," *The New York Times*, 25 February 2006.
[19] "GCC investment in Asia to rise to $30b in 2007," *Khaleej Times*, 29 March 2007.
[20] "$10b Petro Rabigh project to diversify Saudi economy," *Khaleej Times*, 9 December 2007. https://www.supportingsyria2016.com/news/co-hosts-declaration-of-the-supporting-syria-and-the-region-conference-london-2016/.
[21] "Abu Dhabi firm Takreer signs four deals worth $9.6b," *Gulf News* (UAE), 3 March 2010.
[22] "Pertamina, Kuwait Petroleum ink deal," *The Jakarta Post*, September 1, 2015; and "Vietnam's second $9 billion refinery on track to open in Q3 2017," https://e.vnexpress.net, May 7, 2016.
[23] "UAE signs up as founding member of Asian Infrastructure Investment Bank," *The National (UAE)*, April 5, 2015.
[24] "Siemens joins China bid for Saudi rail link," *Financial Times* (London), March 16, 2010; and "L&T consortium bags Riyadh Metro project," *The Hindu* (India), July 29, 2013.
[25] "Oman counts on Chinese billions to build desert boomtown," Reuters, 5 September 2017.

In Oman, Chinese firms aim to invest up to US$10.7 billion to develop an industrial centre in Duqm. This facility is expected to develop into a key constituent of China's Belt and Road Initiative.[26]

According to analyst Theodore Karasik:
*"Deeper GCC involvement and investment in China is seen as contributing to the GCC's economic development with open investment opportunities for Beijing in areas including renewable energy, telecommunications, infrastructure, rail, aerospace, and finance. The GCC sees China's Belt and Road Initiative as a natural partner that helps to facilitate the mutual benefit of foreign and domestic growth policy that focuses on facilitating trade, investment and diplomatic ties in Central Asia. This geopolitical and geo-economic nexus is a great leap forward via the BRI's growth and expansion."* [27]

Moreover, in late 2017, China offered to buy up to 5 percent of Saudi Aramco directly. The proposal by PetroChina and Sinopec came in response to Riyadh's 2016 announcement that it was considering listing about 5 percent of Aramco in 2018 in a deal that could raise US$100 billion, if the company is valued at about US$2 trillion. The initial public offering of Saudi Aramco is the centerpiece of an economic reform plan to diversify the Saudi economy beyond oil.[28]

In a sign of how China is staying ahead of the economic game in recent times, US President Donald Trump tweeted the following message a few weeks after Beijing's proposal: "Would very much appreciate Saudi Arabia doing their IPO of Aramco with the New York Stock Exchange... Important to the United States!"[29]

Further evidence of growing interest in investment opportunities in each other's markets, for example, is Indians being among the top foreign investors in the UAE's real estate sector;[30] and as part of "a strategic partnership in the hydrocarbon sector," Saudi Aramco established a formal business presence in India in 2017.[31] *(More details in Box 2)*.

And, South Korean firms are involved in several projects across various sectors in the region. While Samsung was the primary contractor for the world's tallest tower, Burj Khalifa, in the UAE, projects worth about US$29 billion, many of them revolving around the 2022 FIFA World Cup and a US$12 billion Clean Fuels refinery project in Kuwait have been awarded to South Korean companies.[32]

All these mean "financial globalization is broadening as developing economies – with China at the forefront – become more connected,"[33] which augurs well for Gulf-Asia partnership in the future.

[26] Ibid.
[27] Theodore Karasik, "The GCC's new affair with China," www.mei.edu, 24 February 2016.
[28] "China offers to buy 5 percent of Saudi Aramco directly," Reuters, 16 October 2017.
[29] "Trump backs New York in bourses' battle for Saudi Aramco listing," Reuters, 4 November 2017.
[30] "Indians are biggest investors in UAE real estate market," *Khaleej Times*, 23 March 2017.
[31] "Saudi Aramco expands in India," Reuters, 8 October 2017.
[32] Ibid., "GCC 'reboots'...".
[33] "The new dynamics of financial globalization," McKinsey Global Institute, August 2017.

## 2.6. Energy in Future Synergy

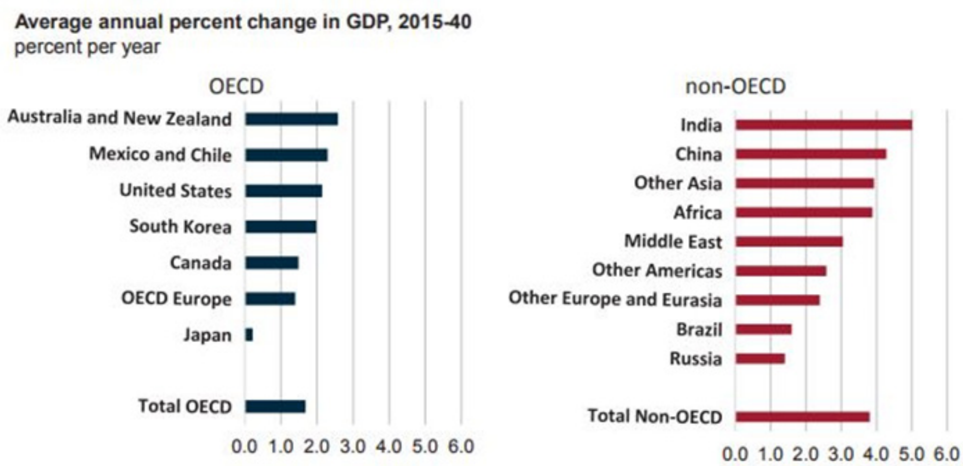
The prospects for long-term Gulf-Asia synergy in the energy sector is positive too.

Asia continues to be the global growth engine. In 2017, for example, China and India grew at about seven and six percent, respectively. On the other hand, the economies of the United States and the European Union struggled to hit the three percent mark.[34]

In the longer term, the average GDP growth in China and India during the 2015-2040 period is forecast to be about four and five percent, respectively (*see Figure 11*). During the same period, the GDP of the United States and Europe is tipped to grow at about two percent on average.

As a result, according to 2017 forecasts by the United States Energy Information Administration, world energy consumption is expected to rise 28 percent between 2015 and 2040. Further, in the Reference case, Asia accounts for most of the increase in energy use,[35] thus pointing to continued synergy with the Gulf countries.

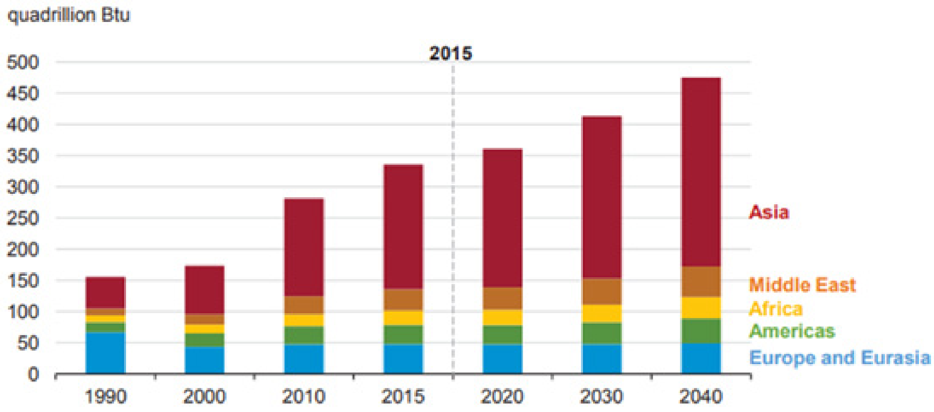
**Figure 11. Economic Growth in OECD and Non-OECD regions**




*Source: International Energy Outlook 2017, US Energy Information Administration.*

[34] "India Vs China: A comparison of economic growth," www.zeenews.india.com, 5 September 2017; and "Euro zone growth, eclipsing US economy, set to be best in decade," Reuters, 14 November 2017.
[35] International Energy Outlook 2017, US Energy Information Administration.

## Figure 12. Asia Tops Non-OECD Energy Consumption




*Source: International Energy Outlook 2017, US Energy Information Administration.*

### Box 1: From Recipient to Donor of Expertise

While Asian expatriates in the UAE were perceived to be contributing to the process of 'building' the nation, the UAE, for example, is now currently involved in airport, seaport, real estate and energy projects in several Asian countries, including India, Pakistan, the Philippines and Indonesia, to name a few. DP World now operates or supports marine and inland terminals in 40 countries in six continents, including six key container terminals in India. In the aviation sector, for example, Etihad and Jet Airways of India became strategic alliance partners in late 2013.

While several rags-to-riches stories among Asian expatriates in the Gulf are well publicized, a new trend is that the wealth generated by expatriates in the UAE is now being ploughed back into their countries of origin. For instance:

- The Indian-owned Lulu Hypermarket chain – the largest Asian brand in this sector in the Gulf, with about 125 outlets across the GCC region, Egypt, Malaysia and Indonesia – established its first mall in India in 2013 and is eyeing major expansion.
- Aster – which pioneered hospitals for the middle class and pharmacies in the UAE and the Gulf – now manages several hospitals in India.
- In the real estate sector, Sobha and ETA Star companies have taken the south Indian real estate market by storm after incubating and making a mark in the UAE and the Gulf.
- And, with its origins in the UAE, KEF Holdings is now involved in infrastructure, healthcare, metals and investments in India.[36]

[36] N. Janardhan, "The UAE – Donee to donor of expertise", ***The Gulf Today*** (UAE), 22 June 2016.

**Box 2: UAE's Forays in India and China (2015-2017)**

- An umbrella agreement on elevating bilateral ties to a Comprehensive Strategic Partner ship was among 14 agreements signed between the UAE and India during Abu Dhabi Crown Prince H.H. Sheikh Mohammed bin Zayed Al Nahyan's visit to New Delhi in January 2017.

- The Indian Strategic Petroleum Reserves Limited and Abu Dhabi National Oil Company (ADNOC) signed a deal on storage and management of oil at strategic facilities in India. This is the third storage facility ADNOC has access to in Asia after Japan and South Korea, enabling the company to become more competitive in meeting market demand across Southeast Asia.

- The two countries signed MoUs in the fields of defence manufacturing, maritime transport and security, as well as space and cyberspace technology transfer.

- They agreed to expand cooperation on countering terrorism and extremism; and thwart the financing of terrorism and radicalisation.

- During Indian Prime Minister Narendra Modi's visit to the UAE in 2015, the two countries announced a US$75 billion joint infrastructure fund that would invest in India's infrastructure development.

- Following up on this, the National Investment and Infrastructure Fund (NIIF) of India signed an investment agreement worth US$1 billion with the Abu Dhabi Investment Authority (ADIA) in October 2017. This makes ADIA the first institutional investor in NIIF's Master Fund and a shareholder in National Investment and Infrastructure Limited.[37]

- During H.H. Sheikh Mohammed bin Zayed's visit to China in December 2015, Mubadala, Abu Dhabi's strategic investment company, announced it will launch a US$10 billion UAE-China Joint Investment Cooperation Fund with China Development Bank Capital and China's State Administration of Foreign Exchange.

- "The launch of this strategic, commercially driven fund represents the next stage of our partnership as we seek to work more closely in developing our economies and contributing to global growth," Sheikh Mohammed said.[38]

- Chinese President Xi Jinping added: "This fund will also play a critical role in supporting the One Belt, One Road initiative, as we work towards improving connectivity and cooperation with our regional partners across Eurasia."[39]

[37] "NIIF, ADIA sign investment agreement worth $1 billion," Press Trust of India, October 16, 2017.
[38] "UAE, China to set up $10bn joint strategic investment fund," *The National*, 14 December 2015.
[39] Ibid.

### Box 3: Saudi-Asia Engagement in 2017

- King Salman bin Abdulaziz's Asian odyssey, which took him to Malaysia, Indonesia, Japan and China, was aimed at bolstering the Kingdom's status as the principal oil supplier to these coun tries at a time when prices are relatively low and the market is most compet itive.

- Aramco's strategy is to expand its role in the downstream sector by investing in the region's refinery projects. This means assured oil supplies from Aramco to the refineries concerned and an influential position in the region's products and petrochemicals sectors, with attendant marketing and distribution roles as well. These investments would also have a positive impact on Aramco's valuation when it makes the world's largest public offering, possibly in 2018.

- Saudi Arabia and China signed deals worth US$65 billion. While energy figured prominently in the discussions, the kingdom's interests go beyond oil to investments, technology and logistics. For example, Saudi Arabia has approved a Chinese proposal to set up a drones manufacturing facility in the country. Riyadh sought a larger political role by Beijing in the Middle East.[40]

- In Malaysia, Aramco signed a US$7 billion agreement with Petronas oil company, making it the single largest investor in the US$27 billion project.

- In Indonesia, ten MoUs were signed, including ones helping build cultural and religious projects, promoting educational exchange and intensifying trade. Together with Pertamina, Saudi Aramco has committed to expand Indonesia's biggest refinery in Java. The total value of the agreements was about US$4 billion.

- In Japan, Saudi Aramco, which is being partially privatized, sought a share listing on the Tokyo Stock Exchange. Separately, Saudi Arabia's sovereign wealth fund and Japanese telecoms provider and energy company Softbank have joined forces in setting up a US$25 billion private fund for technology investments.

- With an eye on translating its Vision 2030 development plan, the kingdom signed 15 preliminary agreements with China – ranging from house-building in Saudi Arabia to water projects and oil storage – during a visit by Deputy Crown Prince Mohammed bin Salman in August 2016.

[40] "Saudi Arabia, China sign deals worth potentially $65 billion," Reuters, 16 March 2017.

**Box 4: GCC's First-Ever FTA, with Singapore**

The GCC bloc signed its first-ever collective free trade agreement (FTA) with Singapore in 2008, which became effective in 2013. The deal covers trade in goods, trade in services, investments, rules of origin, customs procedures, government procurement, electronic commerce, and economic cooperation. It grants tariff-free access for about 99 per cent of Singapore's domestic exports. All GCC goods entering Singapore also get tariff-free access.

The FTA allows Singapore-based companies and Singapore Permanent Residents to hold majority stakes in key sectors of the GCC markets. In particular, Singapore gained enhanced access in the UAE and Saudi Arabia for construction services, computer services, environmental services and professional services.[41] In return, GCC firms got similar treatment in legal services and integrated engineering services, as well as in advertising, retailing and transport services.

The deal underscored four factors:

1. At a time of financial crises, it signalled the intention to expand international economic relations. According to Singapore Premier Lee Hsien Loong: "We are tackling immediate problems but at the same time, we are also putting in place measures which will be beneficial to our economies in the middle- to long-term, and this FTA is one example of that;"[4]

2. The deal not only denoted a breakthrough in the GCC's quest for FTAs, but also underlined the importance of free trade just when the spectre of protectionism was threatening to rear its ugly head in the West due to economic slowdown;

3. It sent a clear signal to both the United States and the European Union, which were also discussing FTAs with the GCC, not to mix politics with economic reforms; andThe pact served as an encouragement for the GCC bloc to pursue FTAs with other Asian countries.[43]

## 3. Non-Economic Factors

While the GCC Chambers of Commerce and Industry prioritised economic cooperation with Asia as part of its 'Look East' policy in the first few years after 2000, countries like China and India followed suit by adopting reciprocally complementary 'Go Outward' and 'Look West' policies, respectively, which led to an "East-East opportunity".[44]

While this bonhomie was primarily rooted in economic factors, there were a few other issues that contributed to intensifying the relations.

[41] "First GCC trade accord signed with Singapore," *Gulf News*, 15 December 2008.
[42] "Singapore, Gulf states sign landmark trade pact," *The Strait Times* (Singapore), 16 December 2008.
[43] N. Janardhan, "GCC-Singapore FTA offers hope amid crisis," *Arab News* (Saudi Arabia), 5 January 2009.
[44] Khizar Niazi, "Kuwait looks towards the East: Relations with China," The Middle East Institute Policy Brief (No. 26, September 2009); Sanjaya Baru, "Look West policy," *Business Standard* (India), 21 January 2013; and "Arab investors turn focus on India," *Khaleej Times,* 2 December 2006.

## 3.1. Post-9/11 Suspicion

The fallout of the events of 11 September 2001, in which GCC nationals were designated perpetrators – especially Western suspicion about the region and its financial dealings – played a role in the GCC countries shifting their interests towards Asia.

None explains this better than the Dubai Ports World's 2006 decision to sell off its US operations after a rift between the Republican Party and the White House over news of the UAE company's proposed plan to manage six American ports.

DP World's purchase of the British company P&O and its US subsidiary had led to an acrimonious debate in the US Congress because of fears that the GCC company might compromise the security of US ports. The deal had to be dropped despite US government officials stressing that it would not affect the safety of the ports, and that the UAE was a key ally in the region.[45]

This sentiment was partly conditioned by the post-9/11 sentiments, which included anti-Islam slur in the West and the US-led war against terror. Several US senators, as well as the US media, accused Saudi Arabia, for example, of not doing enough in the war against terror. Denying such accusations, Saudi Arabia called it a "smear campaign inspired by hatred of Islam". [46]

In fact, 9/11 continues to haunt relations between the GCC countries and the West. For example, Saudi Arabia continues to face a US$6 billion lawsuit by insurers attempting to hold it responsible for business and property damage caused by 2001 attacks. Riyadh had immunity against such lawsuits in the United States. But in late 2016, Congress negated a veto by President Barack Obama and adopted the Justice Against Sponsors of Terrorism Act (JASTA), which allowed filing of such lawsuits.[47]

Riyadh threatened to sell up to US$750 billion in United States Treasury securities and other US assets if the JASTA bill is passed.[48] The issue continues to be a sticking point in Saudi-US ties.

[45] "Arab-owned firm bows to pressure to sell off US port operations," *The Guardian* (UK), 10 March 2006.
[46] "Saudi Arabia slams Western media," www.bbc.co.uk, 25 October 2001.
[47] "Saudi Arabia faces $6 billion US lawsuit by Sept. 11 insurers," Reuters, 24 March 2017.
[48] "Families of 9/11 victims to sue the Saudi government," www.opendemocracy.net, 25 October 2017.

## 3.2. Political and Strategic Security Outlook

The GCC's 'Look East' policy in the economic domain may have also been motivated by the long-term calculation that the shift in economic power to the East could impact the West-dominated global political and security order, with wider implications for the region.

A combination of US-led 'misadventures' in Afghanistan and Iraq, and the US failure to reign in Iran and resolve the Arab-Israeli row (all in the early 2000s) made the GCC countries begin a search for alternative political and security arrangements. While there were several statements from GCC leaders indicating this changing sentiment, one of the earliest voices was that of then Saudi Crown Prince, Abdullah bin Abdulaziz, in 2002:
*"Starting from today, you're from Uruguay, as they say. You [Americans] go your way, I [Saudi Arabia] go my way. From now on, we will protect our national interests, regardless of where America's interests lie in the region."*[49]

This sentiment gained traction as the theatre of conflicts expanded in the Middle East to include Syria, Libya and Yemen, and Washington announced its 'Pivot to Asia' under the Barack Obama administration, which was construed as possible US disengagement from the region. Cumulatively it reflected a feeling of 'fatigue about the US in the region' and 'US fatigue about the region'.[50]

## 3.3. Religious Affiliation and Economic Pragmatism

Tracing the evolution of Gulf-Asia relations indicates how religion was possibly both a factor and a non-factor in shaping cooperation. Either way, it seems the GCC countries believed that 'economic sense is common sense'.

More than 60 percent of the world's Muslims live in Asia.[51] Indonesia, India, Pakistan, Bangladesh, and Malaysia, among others, are examples of a few countries beyond the Gulf and Middle East with huge Muslim populations. Apart from their improving economic prowess, some of these countries were also seen as being potentially influential in the political and military spheres.

While seeking new markets and economic partners, the GCC governments also sought to identify 'model' Islamic countries with a 'modern' outlook. This was available in parts of Southeast Asia – especially Malaysia and Indonesia. This helped in Gulf Arabs investing in Islamic banking and Takaful markets. Apart from business, these countries also offered culturally-sensitive opportunities in the fields of education, leisure and medical care.

This religious-influenced shift to the 'Orient' between 1996 and 2011 may have contributed to GCC-Malaysia trade increasing from US$1.6 billion to US$14.5 billion, and from US$2.3 billion to US$5.9 billion in Indonesia. Further, financial companies from the Gulf — such as Al-Rajhi Bank, Islamic Development Bank, Kuwait Finance House, Abu Dhabi National Energy and Gulf Investment, among others – expanded their business in Southeast Asia.[52]

[49] "Saudi leader's anger revealed shaky ties," *Washington Post*, 10 February 2002.
[50] N. Janardhan, "Fatigue in GCC-US ties?" *Khaleej Times*, 1 March 2013.
[51] "World's Muslim population more widespread than you might think," www.pewresearch.org, 31 January 2017.

In 2009, the Bin Laden Group announced a US$4.3 billion project to develop 2 million hectares of land in Indonesia to grow rice, and Oman's GFIH Global Financial invested US$335 million in rice and palm oil in Indonesia. In 2011, Saudi Arabia's Dubai Saudi Telecom invested US$1.2 billion in Indonesia's Axis mobile phone company.

In terms of cross investment, between 2007 and 2010, Malaysian companies invested $4.5 billion in Saudi Arabia, secured contracts worth US$2.5 billion in 2022 World Cup projects and a US$5.6 billion contract for the Jabal Omar project to improve housing for Mecca pilgrims.[53]

On the other hand, in an indication of flexibility to transcend the 'communal' in favour of 'commercial' interests, the GCC countries were also willing to set aside religious solidarity. For example, in August 2004, the GCC signed a framework Agreement on Economic Cooperation with India to explore the possibility of a free trade agreement. By offering the same terms to India, as it did to Pakistan, and warming up to China, the GCC countries put economic pragmatism ahead of religious ideology.

Having come to terms with the need for greater liberalization, they positioned themselves to take advantage of a globalized business environment. The partnership with Asia served as a platform to convey their determination to break the conservative stereotype attached to them in the international milieu and showcase their new relentless march on the path of reform and progress.

## 3.4. Other Plausible Enablers

a) Beyond the oil and trade dynamics is the human element. Approximately 70 per cent of the GCC workforce is made up of expatriates, the majority of them Asians.[54] It was estimated that expatriates sent more than US$100 billion in remittances in 2014, which is more than six percent of the combined GDP of the GCC bloc.[55] This contributed to enhancing the comfort levels and facilitating better Gulf-Asia cooperation.

[52] Sean Foley, "Re-Orientalizing the Gulf: The GCC and Southeast Asia," Middle East Policy (Volume XIX, Winter, Number 4, 2012).
[53] Ibid.
[54] Onn Winckler, "Labor migration to the GCC states: Patterns, scale and policies," www.mei.edu, 2 February 2010.
[55] "Remittances from Gulf soar to $100 billion," *Khaleej Times*, 11 June 2015.

**Table 4. Top GCC Remittance Destinations (2015)**

| Country | US$ billion |
|---|---|
| India | 36 |
| Egypt | 14 |
| Pakistan | 12 |
| Philippines | 9 |
| Bangladesh | 8 |
| Indonesia | 5 |
| Nepal | 5 |
| Sri Lanka | 4 |

*Source: Adapted from Migration and Remittances Fact Book, World Bank, 2016.*

b) There was the profitability of business ventures too. With factors of production being cheaper than elsewhere in the world, some of the Asian countries sold their ideas to the GCC countries as 'more value for your money', thus dangling, for example, the prospect of better returns on GCC investment in Asian infrastructure projects.[56]

c) The GCC countries, perhaps, also realized that solutions to many of their problems – including unemployment, need for better education, economic diversification, advancement in the field of science and technology, and so forth – partly lie in linking up with Asia. As part of 'a new age of Arab-Asian cooperation',[57] for example, some of the GCC countries included Japan, Singapore, India and Malaysia as the new non-Western destinations to collaborate with in the higher education arena, which was identified as key to indigenous development by linking economic diversification with the knowledge economy.

d) This 'shift' in approach reflected the comfort levels of the GCC countries in dealing with Asia, because it carried no political agenda (*see Box 4*). Asia was and continues to be uninterested in linking political reforms in the region to economic ties. In fact, the UAE-US and GCC-EU FTA negotiations were suspended in 2006 and 2008, respectively, due to differences over this issue.[58] Further, Asia's criticism of Washington's anti-terror campaign in the Middle East was definitely in sync with the GCC countries.[59]

e) While the ties signalled a win-win situation based purely on complementarity of economic interests, the GCC countries could have also had a political-economic motive in intensifying cooperation – ensuring that Asian growth had a permanent stamp of GCC contribution through uninterrupted energy supply; and, perhaps, a calculated move to entice some of the principal Asian powers to tilt away from its ideological opponent Iran, which was and still is still a key energy supplier to and business partner of several key Asian countries.

56 Ibid., Foley, "Re-Orientalizing..."
57 Saudi Crown Prince Sultan bin Abdulaziz's remark during a visit to Japan – "Sultan affirms look-East policy," ***Arab News***, 12 April 2006.
58 "No political price for FTA, says UAE," ***Bahrain Tribune***, 4 June 2006; and "GCC suspends EU free trade talks," ***Arabian Business*** (UAE), 24 December 2008.
59 "A region inflamed: Allies criticise US over the war in Iraq," ***The New York Times***, 9 December 2003.

## 4. Conclusion – What Next?

The crux of oil diplomacy rested on promoting cooperation between energy exporters and importers. Asian countries took the lead to strengthen 'security of supply' by building emergency oil supplies and expanding renewable fuels to ward off energy being used as a political lever in international affairs.[60] They continue to search for new reserves, augmenting supplies from traditional suppliers and sealing new acquisition deals around the world.[61]

A recent example of such diversity in suppliers of oil to Asia is India importing a shipment of 2 million barrels of oil from the United States in late 2017, at prices lower than global benchmarks. This tie-up, despite the distance, could expand to clean energy technology and even electric mobility in the medium and long terms.

In another indication of the competition in the traditional energy sector, Russia and Angola supplied more oil to China in 2017 than Saudi Arabia.[62]

Thus, energy issues are likely to both influence the long-term political economies of the GCC countries, their relations with Asia and shape global affairs in the coming decades.

### 4.1. Non-energy Sectors

Moving forward, while Gulf-Asia ties will continue to grow deeper roots in the energy domain, including renewables, it is also certain to expand rapidly beyond energy, signs of which are already evident. For example, the GCC countries would find greater investment opportunities in telecommunications, real estate, Islamic finance, food markets, and infrastructure markets, among others, in Asia.

Simultaneously, Asia would be keen to get more involved in the region's construction, shipping and manufacturing sectors. The 2020 World Expo in Dubai and the FIFA World Cup 2022 offer opportunities for collaboration, indirectly boosting the tourism and services sector.

Since economic diversification, as envisioned in Saudi Arabia's National Transformation Plan, for example, is gathering speed, Gulf-Asia ties are bound to expand their basket of interaction further to include transfer of knowledge in the high technology sector. Given the new global emphasis on artificial intelligence, there is room for Gulf-Asia synergy in this and in space, cyberspace, biotechnology, biogenetics and pharmaceutical domains too.[63]

China has already expressed interest to see 'oil-plus' trade relations with a focus on innovation and long-term strategic cooperation. In the last few years, both China and India have signed strategic agreements with some of the GCC countries, which explicitly mention facilitating collaboration in non-energy sectors, including maritime security and defence manufacturing *(Boxes 2 and 3 highlight such deals)*.

[60] For more, see N. Janardhan, "What Oils the Wheels of GCC-India Cooperation", ***The Daily Star*** (Lebanon), 12 August 2005; and Stein Tonnesson and Ashild Kolas, "Energy security in Asia: China, India, oil and peace", International Peace Research Institute (Oslo), April 2006.
[61] "US starts crude oil shipment to India with a discount," www.livemint.com, 30 September 2017.
[62] "Russia, Angola top Saudi Arabia as biggest oil suppliers to China," ***The National***, 24 October 2017.
[63] "These three countries are winning the global robot race," www.money.cnn.com, 21 August 2017.

Another interesting and developing area of engagement is Asian investments in the region's debt capital market. According to Henrik Raber, global head of capital markets, Standard Chartered Bank:

Both Dubai Islamic Bank and Investment Corporation of Dubai issued their benchmark US$1 billion deals during the first two months of 2017 with strong Asian investor participation...Data points to more than US$ 9illion of US dollar paper from the GCC was placed with Asian investors in 2016, almost twice that of 2015...Another gauge of Asian interest is the quantum of local Asian currency issuances by GCC issuers. Korean won paper has dominated the space in recent years, with 43 percent share (or US$1.3 billion equivalent) of such Asian local currency paper since 2015. The offshore renminbi market is also key with US$796 million equivalent. The space grew by more than 25 percent year on year 2016. Year to date, it is seven times that of the same-period volumes in 2015...It is clear the GCC will continue to attract more foreigner investors, and increasingly from Asia, as the investment links become stronger.[64]

There are also the major transnational transport corridor plans in the pipeline that seek to link Asia with Europe, throwing up several opportunities for Gulf-Asia cooperation. While China's Belt and Road Initiative has made headlines in recent years, India's North-South Transport Corridor is slowly getting off the blocks too.

Both initiatives are, no doubt, designed to promote the Asian giants' domestic growth and international standing. But they also bear the potential to promote infrastructure, business ventures and economies of all the countries falling in and around the projects' paths, including the Gulf.

## 4.2. Scope for Security Partnership

Moving forward, a robust Gulf-Asia relationship should look beyond the dynamics of oil, trade and expatriates. The new paradigm should hinge on strategic political and security dimensions as well. The common political and security concerns on both sides provide an ideal platform to engage in peace and stability initiatives.

In this milieu, there is an increasing call for the Gulf region to act independently, take stock of the situation, and design future security arrangements, without leaving everything for the United States to formulate. While the GCC's ties with Asia (and Europe) are expanding, there appears to be no other international actor that can replace the United States in the short- or medium-term future of the region.

While both Gulf and Asia countries have expressed their concerns about the regional security environment, neither has shown any concrete sign yet of investing in the required hard security mechanisms. But that could change during the next couple of decades.

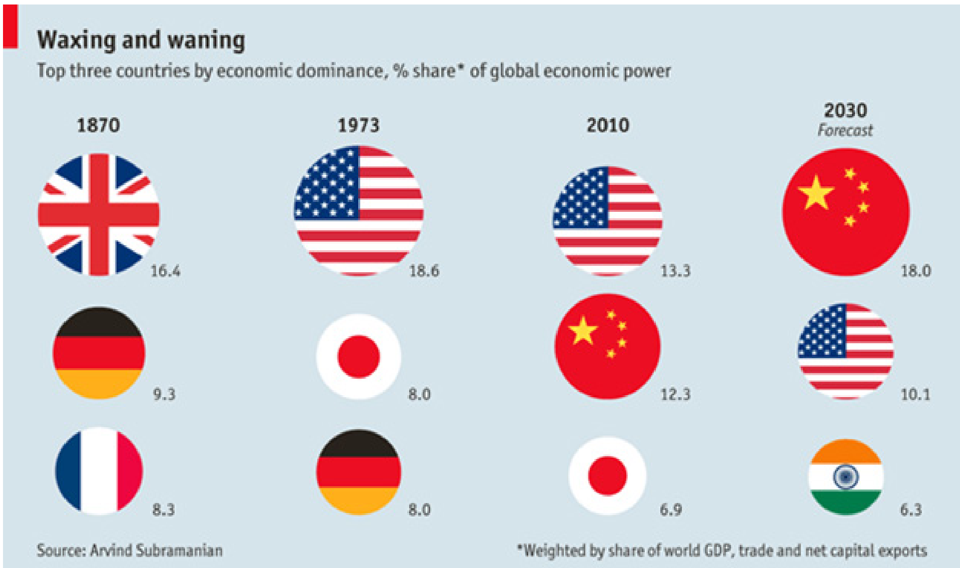
[64] "GCC debt draws Asian investors," *The National*, 2 March 2017.

This assessment is based on the following premises:

**a.** a mere buyer-seller or transaction-based Gulf-Asia relationship is unsustainable in the long run;
**b.** the GCC countries would take Asia seriously only if it is willing to be involved beyond trade;
**c.** diminishing US interest and influence in the region – as demonstrated by the 'Pivot to Asia' and 'America First' pronouncements – mandates the need to explore alternative scenarios for Gulf security, to protect the interests of both the producers and consumers;
**d.** growing military capabilities of Asian powers, especially Chinese and Indian navies, could be tapped as alternatives, if required, as part of a larger collective security architecture that could include the United States, Russia and European powers; and
**e.** since many of the GCC's principal partners in Asia are also strategic partners with Iran, they may be able to play a constructive role in any future attempt at GCC-Iran rapprochement, thereby holding the possibility of contributing to peace and stability in the region.

In this milieu, along with economic diversification, the GCC countries also diversified their diplomatic and strategic ties beyond the traditional security guarantor in the region – the United States – during the last 15 years. Without putting all their eggs in one basket, it appears that they have considered the possibility that if the nineteenth century belonged to the British and the twentieth to the United States, then the twenty-first century could belong to Asia.

**Figure 13. Global Economic Power Shift**




*Source: The Economist (September 2011).*

As a result, the GCC countries' engagement has acquired 'strategic' dimensions with a spectrum of nations in Asia. In this context, the 'Look East' policy should not be construed as a replacement for the United States. Instead, it should be seen as a policy of 'omni-balancing' that has helped the bloc see beyond the 'exclusive' GCC-US framework of the past.

This argument assumes importance because the "shift in power and wealth from the West to Asia," is "transforming the international balance of power." While China is "challenging America's supremacy," the other Asian powers like Japan and India, among others, bear the potential to shake the whole world."[65]

According to US former diplomat Chaas Freeman:
*"There is broad scope for cooperation between the nations of East, West, and South Asia in the re-sculpting of the decaying international order. They share an interest in the managed and orderly replacement of the remnants of the American 'unipolar moment' that followed the Cold War with new arrangements more reflective of their interests. The current crisis of global governance affects these interests and demands the redesign and rebuilding of a wide range of international institutions, organisations and practices."*[66]

The challenge, however, is if any Asian-promoted collective security architecture would be able to succeed in contributing to stability, security, cooperation, and growth.

Either way, there is no doubting the continued robustness of Gulf-Asia economic engagement in the next few decades.

[65] Gideon Rachman, ***Easternization: Asia's Rise and America's Decline from Obama to Trump and Beyond*** (Other Press, New York, 2017).
[66] Chaas Freeman, "Gulf-Asia engagement: Past, prospects and problems," International Institute for Strategic Studies seminar, Bahrain, October 2011.

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