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THE GULF STATES AND THE REBALANCING
OF REGIONAL AND GLOBAL POWER

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The Gulf States and the Rebalancing of Regional and Global Power

The awarding of the hosting rights to the 2022 FIFA World Cup to Qatar on December 2, 2010, symbolized for outside observers the rapid rise of the Gulf Cooperation Council states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) as regional powers with global reach. Their emergence in the 2000s came against the backdrop of an international order in flux as the post-1945 institutions and mechanisms of global governance struggled to maintain their relevance in a polycentric world. Of particular importance is the broadening and deepening of political and economic connections between the Gulf states and Asian partners. These ties have opened up alternative pathways of global enmeshment pivoting around “coalitions of convenience” of groups of major emerging economies. Such diversification of geopolitical and geoeconomic interests represents a significant juncture in the internationalization of the Gulf in the globalized age.

This working paper examines the changing position of Saudi Arabia and the smaller Gulf states, notably Qatar and the United Arab Emirates (UAE), within the global community. It focuses on issues such as trade, financial flows, and foreign direct investment in light of interregional realignments with emerging economies across the world. It also considers the implications of the rebalancing of international power for regional and global structures of governance and security requirements. This is especially relevant in the context of the aftermath of the global financial and economic crisis as well as for the political upheaval across much of the contemporary Arab world. The paper ends by examining implications for the United States as the GCC states develop into assertive regional and international actors with new sets of policy expectations and capabilities.

The Global Emergence of the Gulf States

During the opening decade of the twenty-first century, the Gulf states emerged as increasingly visible global actors. Using their substantive energy resources and capital accumulation during the oil price boom between 2002 and 2008 as leverage, Qatar, the UAE, and Saudi Arabia became more active in global issues. These ranged from reshaping the global financial architecture in the aftermath of the 2007–8 crisis to greater involvement in South-South networks

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and debates over the international politics of climate change.¹ An important case in point is Qatar's hosting of the 18th Conference of the Parties ("COP 18"), marketed as the Doha Climate Change Conference, in November 2012. During the decade of the 2000s, global interdependencies encompassed significant developments taking place at the regional level. Evolving changes to global structures of production, trade, and finance were reflected in the rise of key (non-Western) centers of influence, popularized by the BRIC (Brazil, Russia, India, China) acronym coined by Goldman Sachs in 2001.²

Attention also focused on the concept of the "world economic center of gravity" (WECG) to provide empirical evidence for the redistribution of global economic activity. One recent extrapolation of economic growth from 700 locations across the world indicates that the WECG shifted 4800 kilometers eastward between 1980, when it was located roughly midway in the Atlantic Ocean, and 2010, when it reached a longitude equivalent to Izmir in Turkey or Minsk in Belarus. It further suggests that by 2050 the WECG will have moved another 4500 kilometers to the east, to lie at a point between India and China.³ As oil prices soared in the 2000s, their hydrocarbon reserves and capital inflows positioned the Gulf states as a pivot around which the broader shifts in the global balance of power were taking place. Greater economic linkages with Russia, China, India, and South and East Asian nations shifted the Gulf states' orientation eastward through deepening energy interdependencies and changes in the direction of non-oil trade flows in petrochemicals, plastics, and aluminium with Asian partners.⁴

The Gulf region's share of global oil and natural gas production is projected to rise from 28 percent (including Iraqi and Iranian output) in 2000 to 33 percent in 2020. With most of that increase going to Asian markets, the GCC states will continue to diversify and broaden economic interdependencies.⁵ Already, the majority of oil exported from the UAE goes eastward to Asia, as does a rapidly increasing share of Qatari liquefied natural gas (LNG). China alone accounted for nearly 40 percent of the increase in world oil consumption between 2004 and 2007, and is

¹ K. Coates Ulrichsen, "The GCC States and the Shifting Balance of Global Power" (Georgetown University School

² See J. O'Neill, "Building Better Global Economic BRICs" (Goldman Sachs Global Economics Paper 66, 2001).

³ D. Quah, "The Global Economy's Shifting Centre of Gravity," *Global Policy* 2, no. 1 (2011): 9.

⁴ C. Davidson, *The Persian Gulf and Pacific Asia: From Indifference to Interdependence* (London: Hurst & Co., 2010), pp.107–8.

⁵ F. Halliday, *The Middle East in International Relations* (Cambridge: Cambridge University Press, 2005), p. 264.

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forecast to account for a further 40 percent of the increase in world demand for oil through 2030.⁶ In 2009, moreover, it surpassed the United States in the volume of oil imported from Saudi Arabia for the first time. This symbolic milestone occurred as surging Chinese demand intersected with a 50 percent drop in US requirements during the global economic downturn.⁷ It underscored the internationalization of the Gulf through the rise of new linkages with emerging economies everywhere. Although already underway before 2008, the global economic crisis hastened this process as Asian economies led the world out of recession and recovered market share at the expense of Western competitors. A blunt assessment by the emir of Qatar in March 2009 captured the mood as he said, “China is coming, India is coming, and Russia is on its way, too ... I don’t know if America and Europe will still be leading.”⁸

The GCC and the Changing Global Order

These macrorends determined the contextual parameters for the Gulf states’ new global profile. They converged with policy decisions on how to deploy the substantial revenues that began to accrue after oil prices started to rise in 2002. These developments enhanced the international profile of the GCC states within an international system in flux. During the financial crisis, Gulf-based sovereign wealth funds were important sources of liquidity for Western financial institutions such as Merrill Lynch, Barclays Bank, and Citigroup. Over the autumn of 2008, they accounted for no less than one-third of the emergency funding that was made available by European governments in their initial response to the financial crisis.⁹ Gulf sovereign wealth funds also acquired high-profile stakes in iconic global brands such as Harrods, Porsche, and Ferrari. Meanwhile, Abu Dhabi and Qatar began to carve out specialist niches to become world leaders in specific fields—such as renewable energy research and diplomacy mediation, respectively—in part through careful leveraging of financial reserves and investment policy.¹⁰

⁶ B. Simpfendorfer, *The New Silk Road: How a Rising Arab World is Turning Away From the West and Rediscovering China* (Basingstoke: Palgrave Macmillan, 2009), pp. 30–32.

⁷ “China’s Growth Shifts the Geopolitics of Oil,” *New York Times*, March 19, 2010.

⁸ “Qatari Emir Warns of Another Iraq if Sudan Sinks into Chaos,” *Gulf Times*, March 31, 2009.

⁹ R. Youngs, “Impasse in Euro-Gulf Relations” (FRIDE Working Paper 80, 2009), p. 1.

¹⁰ C. Davidson, *Abu Dhabi: Oil and Beyond* (London: Hurst & Co, 2009), p. 76; A.H. Gulbrandsen, “Bridging the Gulf: Qatari Business Diplomacy and Conflict Mediation” (master’s thesis, Georgetown University, 2010), p. 75.

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The rapid rise of sovereign wealth funds highlighted several of the underlying transitions in the global economy. Pre-crisis estimates of their value and potential trajectory proved to be overestimations that subsequently were eroded further by losses sustained during the downturn.¹¹ Nevertheless, they do possess significant holdings, and have been perceived to be part of the wider shift of economic leverage from west to east and from the market to the state in the allocation of capital.¹² In the summer of 2012, Qatar Holding's muscular deployment of its shareholding in the international commodity trading and mining company Xstrata during its merger negotiations with rival Glencore was a demonstration of this power in practice.¹³ Moreover, the rise of Russian and Chinese funds, in particular, heightened anxieties over the origin of sovereign investment flows. This contributed to wariness in investment-recipient countries, notably the United States, about the potential for political motivations driving investment decision-making. The most egregious example of this was the visceral reaction to the 2006 Dubai Ports World takeover of a ports management contract in the United States.

The Dubai Ports World case caught the Gulf states in the crossfire of a populist, xenophobic domestic backlash against perceived geopolitical swings against US interests. Policymakers in the Gulf expressed concern at the inability of American officials to provide them with a list of "national security" no-go sectors for future investment.¹⁴ The episode coincided with a substantial warming of commercial and financial ties between the GCC states and Asian partners, led by (but not limited to) the burgeoning Saudi-Chinese nexus. Having only established diplomatic relations as recently as 1990, economic links initially centered around hydrocarbons, with the Strategic Oil Cooperation agreement in 1999 paving the way for Saudi Arabia to become China's leading oil supplier by 2002. In the 2000s, the volume of investment and trade between all GCC states and China surged through initiatives such as the Kuwait-China Investment Company (KCIC, established in 2005) and the revival of interest in a GCC-China free trade agreement (FTA) in 2009.¹⁵ Also that year, a 25-year agreement to provide five million tons per year of LNG was reached between Qatargas and the China National Offshore Oil Company (CNOOC). This created a long-term interdependency, reflecting (in the words of

¹¹ J-F. Seznec, "The Gulf Sovereign Wealth Funds: Myths and Reality," *Middle East Policy* 5, no. 2 (2008): 105.

¹² S. Behrendt, "Beyond Santiago: Status and Prospects," *Central Banking* 19, no. 4 (2009): 76.

¹³ "Qatar to Oppose Glencore-Xstrata Merger," *Financial Times*, August 30, 2012.

¹⁴ Author interview with a Gulf ambassador, Washington, DC, January 2009.

¹⁵ S.A. Yetiv and C. Lu, "China, Global Energy and the Middle East," *Middle East Journal* 61, no. 2 (2007): 5.

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CNOOC President Fu Chengyu) the “great complementarities” between the two countries, as “China can guarantee a long-term reliable market for Qatar, while Qatar can be a stable supplier for [the] Chinese market.”¹⁶

India also thickened its web of relationships with the Gulf states. Prime Minister Manmohan Singh visited the Gulf in November 2008 and announced that India viewed the region as an intrinsic part of its regional neighborhood. His visit sealed the reemergence of Indian influence in the Gulf six decades after the decline and fall of the Raj, and following an extended period of frigidity between the 1970s and early 1990s.¹⁷ In February 2010, the Riyadh Declaration upgraded the bilateral relationship between India and Saudi Arabia into a Strategic Partnership. This ushered in a “new era based on economic engagement and emerging opportunities” that covered the security, economic, defense, and energy arenas. It built upon Saudi King Abdullah bin Abdul Aziz’s successful visit to India in 2006 and was, in part, motivated by a strategic reassessment of Saudi regional ties prompted by the common threat to stability emanating from Yemen, Afghanistan, and Pakistan.¹⁸

Russia, too, expanded its political and economic connections with the Gulf in general, and with fellow gas producer Qatar, in particular. President Vladimir Putin’s visit to Saudi Arabia and Qatar in February 2007 was the first by a Soviet or post-Soviet leader since diplomatic relations were restored following the end of the Cold War. The trip was designed to boost joint investment opportunities and cooperation with fellow energy-producing countries. It constituted part of a wider Russian strategic objective to increase its role in the Middle East and become one of the key actors in any new regional security system that might emerge.¹⁹ For Saudi Arabia, it reflected an attempt by King Abdullah to strengthen ties with Russia as part of a general diversification to reduce dependence on the US after 9/11. Russian-Qatari ties coalesced around cooperation in the Gas Exporting Countries Forum and energy-focused bilateral agreements,

¹⁶ “Qatar, China in 25-year Gas Deal,” *The Peninsula*, March 8, 2009.

¹⁷ “Qatar and India Agree to Expand Security Ties,” *Gulf News*, November 10, 2008.

¹⁸ Discussion meeting, “Political Dynamics of Saudi Arabia and Indo-Saudi Relations,” International Institute for Strategic Studies, London, May 21, 2010.

¹⁹ M. Smith, “Russia and the Persian Gulf; The Deepening of Moscow’s Middle East Policy” (Conflict of Studies and Research Centre Paper 07/2, London: Defence Academy, 2007), 5.

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such as one reached in April 2010 to develop Russia's Arctic gas reserves in the Yamal peninsula.²⁰

Significantly, Gulf-Asian relations have moved far beyond the hydrocarbons sector, although that clearly remains important. An example is the substantial rise in Gulf-China capital investments and joint ventures over the past decade. A mutual upstream-downstream interdependence has formed as the GCC states invest in Chinese oil refining and petrochemical industries, and China invests in oil exploration and production in the Gulf states.²¹ Similar to the Kuwait-China Investment Company, the Saudi Basic Industries Corporation (SABIC) drew up a strategic "China plan" intended to create strong supply partnerships and joint ventures that can meet China's rapidly growing demand.²² Other burgeoning bilateral relationships included the proliferation of connections between the UAE and South Korea with the 2009 awarding of the construction of Abu Dhabi's four civilian nuclear power reactors to the Korean Electric Power Corporation (KEPCO) at its core.²³

Region-wide, the GCC as a trading bloc also became more globalized and integrated during the 2000s oil price boom both in terms of level of capital outflows and inflows. Dubai, especially, developed into a regional financial center against stiff competition from Qatar and Bahrain, leveraging its advantageous geographical location to enable it to cover the wide area between the European and East Asian exchanges. Ideationally, too, Dubai, Bahrain, and Kuwait all looked toward and applied elements of the "East Asian model" in their development plans during the 2000s. Officials in all three states/emirates expressed close interest in Singapore's proactive and successful leadership and combination of state guidance with private initiative.²⁴ Interregional linkages also proliferated across a range of other sectors as new ties with Latin American, Southeast Asian, and African states developed over shared interests in energy and food security, with Qatar and the UAE leading the way in creating mutual new interdependencies. Notable examples include major investments by Qatar's Hassad Food Company (a subsidiary of the

²⁰ "Qatar, Russia Agree on Yamal Gas Joint Project," *The Peninsula*, April 20, 2010.

²¹ M. Ghafouri, "China's Policy in the Persian Gulf," *Middle East Policy* vol. 16, no. 2 (2009): 89.

²² Yetiv and Lu, "China and the Middle East," pp. 207-8.

²³ "Abu Dhabi Signs Nuclear Power Deal with South Korean Group," *The National*, December 28, 2009.

²⁴ M. Hvidt, "The Dubai Model: An Outline of Key Development-Process Elements in Dubai," *International Journal of Middle East Studies* vol. 41, no. 3 (2009): 399.

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Qatar Investment Authority) from Australia to Brazil, and Abu Dhabi's Mubadala sovereign wealth fund's build-up of a significant gas portfolio spanning Africa, the Caspian basin, and Asia.²⁵

“Global Governance” versus the “Governance of Globalization”

The global financial and economic crisis hit the GCC states in late 2008. Initial hopes that it might bypass the Gulf proved misplaced as oil prices plunged, project financing dried up, and the real estate speculative bubble burst.²⁶ Individual Gulf states felt the impact in different ways. In Dubai, the crisis exposed the fragility of its economic diversification based on the real estate industry, high-end tourist development, and the financial sector, underpinned by conglomerates such as Dubai World and Dubai Holding relying on continuous foreign direct investment and access to cheap international credit.²⁷ Kuwaiti financial institutions were exposed to a combination of weakening domestic property markets, local equity markets, and the tightening of international credit. Saudi Arabia was hit by a financial scandal involving two of its largest family-run conglomerates (Saad Group and Ahmad Hamad AlGosaibi and Brothers) in May 2009. The dispute over some \$20 billion of “lost loans” sucked in more than 80 domestic, regional, and international banks, including Citigroup and BNP Paribas, as well as the Supreme Court of New York State, the Cayman Islands, and the High Court in London.²⁸

Despite these setbacks, the GCC states emerged from the crisis in relatively better condition than many of their industrialized Western counterparts. After weathering the initial shock, regional financial institutions proved more resilient than many had expected. Central banks and sovereign wealth funds (led by the Kuwait Investment Authority and the Qatar Investment Authority) eased

²⁵ “Hassad Food to Invest \$629m Abroad,” *The Peninsula*, May 27, 2012; “Mubadala Targets Gas Portfolios Overseas,” *The National*, June 6, 2013; “Key Partner in UAE’s Food Security Strategy Looks to Latin America,” *The National*, August 4, 2013.

²⁶ “Gulf’s Oil Wealth to Help Cushion Impact of Likely Global Recession,” *Gulf Times*, October 17, 2008.

²⁷ C. Davidson, “The Dubai Model: Diversification and Slowdown,” in M. Kamrava (ed.), *The Political Economy of the Persian Gulf* (London: Hurst & Co, 2012), 214–17.

²⁸ “Family Groups in Gulf Must Embrace Corporate Governance,” *The Peninsula*, June 23, 2009; “Significant Steps in Long-Running Dispute between Al Gosaibi Family and Maan Al Sanea,” *The National*, April 24, 2011.

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the pressure on local banks by investing up to \$350 billion in 2008–9.²⁹ Oil prices rebounded from lows of \$30 per barrel in early 2009 to again exceed \$100 per barrel in 2011–12, although the resulting gains to Gulf economies were offset by inexorably rising budget break-even requirements as governments ramped up welfare and social expenditure in a bid to preempt “Arab Spring” unrest at home.³⁰ Qatar and the UAE (and Saudi Arabia to a lesser extent) still remained regional and even global leaders in aviation, shipping, and logistics.³¹ This left policymakers in a stronger position to re-tap global trade flows and shifting geoeconomic trajectories once the immediate crisis had passed.

Saudi Arabia received international praise for its role in stabilizing world oil markets in late 2008 and early 2009. It also used its seat on the G20 and on the board of the International Monetary Fund to call for changes to the international financial architecture. During the autumn of 2008, Saudi and other Gulf states’ policymakers expressed their irritation at assumptions that they would unquestionably contribute to IMF rescue packages. In November 2008, Saudi Finance Minister Ibrahim al-Assaf rebuffed visiting British Prime Minister Gordon Brown’s suggestion that the Kingdom and other oil-rich nations increase their contributions to the IMF. Dismissing rumors that “we were coming here to pay the bill,” al-Assaf stated, “We are not going to pay more or less than others. We have been playing our role responsibly and we will continue to play our role, but we are not going to finance the institutions just because we have large reserves.”³² One week later, the governor of the UAE Central Bank, Nasser al-Suwaidi, offered a blunter perspective that outlined Gulf states’ interests and motivations: “If they [GCC states] are given more voice then they will provide money maybe. . . . They will not be providing funds without extra voice and extra recognition.”³³

In the run-up to the second meeting of the G20 in April 2009, the contours of a loose new alignment of emerging economies converged around calls to redress a representational imbalance in the international financial architecture. Chinese President Hu Jintao visited Saudi Arabia in

²⁹ M. Raghu, “Future Direction of the GCC Financial Sector—A Specific Look at Banking and Asset Management,” in E. Woertz (ed.), *GCC Financial Market* (Dubai: Gulf Research Centre, 2011), 25–26.

³⁰ S. Hertog, “The Costs of Counter-Revolution in the Gulf,” *Foreign Policy*, May 31, 2011.

³¹ “Aviation in the Gulf: Rulers of the New Silk Road,” *The Economist*, June 3–9, 2010.

³² “Saudi Arabia Not Mulling More Cash for IMF: Minister,” *Reuters*, November 16, 2008.

³³ “Gulf Should Get More Voice for Extra IMF Funds,” *Gulf Times*, November 22, 2008.

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February 2009 and pledged to work with the GCC “with a view to reforming the global financial institutions.”³⁴ Shortly thereafter, Saudi Finance Minister al-Assaf made it clear that the Kingdom advocated an increase in the shares and voting rights in international financial institutions.³⁵ In June 2009, the formation of a BRIC Forum at Yekaterinburg in Russia represented a move toward the formalization of coalitions of “middle powers.” This new annual summit of the four leading emerging economies (which subsequently met in Brasilia in 2010, and, with South African participation; in Sanya, China, in 2011; New Delhi, India, in 2012; and Durban, South Africa, in 2013) created a platform intended to counterbalance perceived US leadership in the global system.³⁶ Ahead of the third G20 meeting in Pittsburgh in September 2009, al-Assaf joined with the BRICs in supporting a proposal to increase emerging economies’ representation in the IMF in order to more accurately reflect their weight in the global economy.³⁷

Qatar’s prime minister and minister of foreign affairs, Sheikh Hamad bin Jassim bin Jabr Al-Thani, went further by suggesting that the international system be “redefined.” Sheikh Hamad called for profound changes to its organizational framework in recognition of the emergence of a multipolar order in which the West was no longer the sole or even the major player.³⁸ His intervention was significant, as it represented one of the most detailed statements of the objectives that guided GCC states’ policymakers in seeking to leverage their influence in changing global institutions and the relative weight accorded within them. Furthermore, his observation that international relations should be based on the rule of law at the global as well as the domestic level foreshadowed Qatar’s role in organising Arab support (and critical political cover and subsequent military support) for the United Nations Security Council’s imposition of a no-fly zone over Libya in March 2011.³⁹

³⁴ “China to Boost Relations with GCC: President Hu,” *Arab News*, February 12, 2009.

³⁵ “Saudi Govt Steps Up Loans to Companies,” *Saudi Gazette*, March 15, 2009.

³⁶ “BRIC’s Get Down to Business in Yekaterinburg,” *Russia Today*, June 15, 2009.

³⁷ “Saudi Says IMF Reforms Should Not Be at its Expense,” *The Peninsula*, September 5, 2009.

³⁸ “Qatari PM Stresses Rule of Law to Face Challenges,” *Gulf Times*, May 31, 2009.

³⁹ “Libya Conflict Shows Global Reach of Emerging Politics Qatar and Turkey,” *Gulf States Newsletter* 35, no. 903 (June 24, 2011): 16.

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Additionally, Qatar joined with Switzerland and Singapore in the World Economic Forum's Global Redesign Initiative (GRI). This organization was set up to channel the views of 28 small- and medium-sized states into the G20 process, and it also spawned a Global Governance Group (3G) as well. Qatar hosted a Global Redesign Summit that took place in Doha on May 30–31, 2010, producing a final communiqué entitled *Strengthening International Cooperation in a More Interdependent World*. This outlined “the parameters of an optimal system of global cooperation as well as a set of pragmatic, actionable steps in specific areas of international cooperation.” Qatar additionally hosted one of the initiative's three supplementary hearings, focusing on energy security governance (the other two hearings were hosted by Switzerland on UN reform and by Singapore on Asia's role in global governance).⁴⁰

It is, nonetheless, important to distinguish between statements in support of reforming the international system and the lack of affiliation to the concept of *global governance* itself. Policymakers in the GCC states are more receptive toward practical measures relating to the governance of globalization rather than to normative concepts of global governance. Attitudes toward globalization also diverge, with economic globalization being (at times grudgingly) embraced, while its political and cultural dimensions have been fiercely resisted.⁴¹ This is consistent with complicated and nuanced positions toward globalization and global governance in primarily postcolonial settings elsewhere. Discourse in both China and India, for example, is deeply skeptical of global governance as an intrusion into sovereignty, and is colored by experiences of foreign intervention and colonial control.⁴² With this in mind, Robert Keohane has, alternatively, suggested that an effective form of *governance of globalization* is likely to occur through interstate cooperation and transnational networks.⁴³

⁴⁰ R. Samans, K. Schwab, and M. Malloch-Brown (eds.), *Global Redesign: Strengthening International Cooperation in a More Interdependent World* (Geneva: World Economic Forum, 2010).

⁴¹ M. Lynch, “Globalization and Arab Security,” in J. Kirshner (ed.), *Globalization and National Security* (New York: Routledge, 2006), 188.

⁴² L-H. Chan, P.K. Lee, and G. Chan, “Rethinking Global Governance: A China Model in the Making?” *Contemporary Politics* vol. 14, no. 1 (2008): 7; T. Schaffer, “The United States, India and Global Governance: Can They Work Together?” *The Washington Quarterly* 32, no. 3 (2009): 72.

⁴³ R. Keohane, “Governance in a Partially Globalized World,” in D. Held and A. McGrew (eds.), *Governing Globalization: Power, Authority and Global Governance* (Cambridge: Polity Press, 2002), 325.

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There is, additionally, low awareness of the concept of global governance in the Gulf states. In December 2008, the then-dean of the Dubai School of Government, Tarik Yousef, acknowledged that the region lacked “a body of literature—knowledge, stories, cases, practices—that has been documented, distilled, and disseminated, and that deals with various aspects of governance in the Arab world.”⁴⁴ Regional institutions such as the Dubai School of Government (which since 2010 has been emasculated) and the Hawkamah Institute for Corporate Governance focused instead on *good governance* and *corporate governance*. While these and other initiatives are raising and deepening regional debates about governance issues, other critical dimensions of the (Western-centric) concept of global governance remain absent. These include issues relating to the dilution and sharing of state sovereignty and engagement with domestic and global civil society, and they reinforce the division between *globalization* and *global governance* in much of the non-Western world.⁴⁵

Nevertheless, as the first part of the section made clear, skepticism toward theoretical or normative concepts of global governance has not distanced the GCC states from participating in the rebalancing global order. Led by Saudi Arabia, Qatar, and the UAE, the GCC states became influential global players during the oil price boom of the 2000s. Policymakers actively participated in practical measures relating to the governance of globalization, in part by creating “coalitions of convenience” with other major emerging economies that share an interest in reshaping frameworks of global governance. In addition to the international financial architecture described above, similar patterns are observable in new structures of international energy governance, such as the Gas Exporting Countries Forum based in Qatar and the International Renewable Energy Agency headquartered in Abu Dhabi, as well as more nuanced positions toward the international politics of climate change. These have significant implications for the continuing evolution of international institutions in a polycentric environment with multiple centers of influence and policy objectives.⁴⁶

⁴⁴ “Governance Newsmaker Interview with Tarik M. Yousef,” World Bank Governance Newsmaker Interviews vol. 2, issue 5, December 2008.

⁴⁵ F. Halliday, “Global Governance: Prospects and Problems,” in D. Held and A. McGrew (eds.), *The Global Transformations Reader: An Introduction to the Globalization Debate* (Cambridge: Polity Press, 2003), 495.

⁴⁶ K. Coates Ulrichsen, “Rebalancing Global Governance: Gulf States’ Perceptions on the Governance of Globalization,” *Global Policy* 2, no. 1 (2011): 65.

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An important regional dimension to the greater proactivity of Gulf states has been greater diversification in trade, investment, and other financial flows between the GCC states and the Middle East and North Africa. This again is connected to wider global trends whereby total FDI sent by developing countries to other developing countries has accelerated both in absolute and in relative terms. Hence, the growth in FDI from the BRIC countries (particularly to low-income countries in Africa) outstripped the growth in global FDI in the 2000s, before the Arab Spring, rising from less than US\$10 billion in the late 1990s to a peak of almost US\$150 billion in 2008 before falling back to about US\$100 billion in 2009. Over the same period, the BRIC countries' share in global FDI rose from about 1 percent to almost ten percent.⁴⁷ At the same time, the maturation of Gulf financial sectors allowed them to play a greater role in recycling the surpluses generated by the decade-long oil boom that began in earnest in 2003. As Dubai, Doha, and Abu Dhabi joined Bahrain as aspiring financial hubs for a wide region stretching from Europe to East Asia, Gulf-based investment banks, private equity funds, and venture capital proliferated. Simultaneously, sovereign wealth funds (SWFs) belonging to Abu Dhabi, Dubai, Kuwait, and Qatar have accumulated enormous capital portfolios that make them among the largest such investors in the world.⁴⁸

These trends have practical consequences, both positive and negative. Whereas Gulf “petrodollars” accrued during the first oil price boom between 1973 and 1982 were either spent unproductively on unnecessary prestige and “white elephant” projects or channelled through Western banks and financial institution, the emergence of “Gulf capitalism” meant that more of these flows remained within the region during the second oil price boom in the 2000s. Although the core of GCC-based sovereign wealth funds' activities continued to favor low-risk investments in Western economies, greater emphasis nevertheless was placed on identifying and tapping higher-risk strategic investments in emerging and regional markets. Prominent examples of greater “South-South” investments included a 22 percent stake of a subsidiary of the China Investment Corporation by the Qatar Investment Authority and an investment by the Abu Dhabi's Mubadala in Brazilian magnate Eike Batista's EBX Group.⁴⁹

⁴⁷ Linda Lim and Ronald Mendoza, “Global Rebalancing 2.0,” *World Financial Review*, 2013, available online at <http://www.worldfinancialreview.com/?p=2496> (accessed November 26, 2013).

⁴⁸ Sez nec, “Gulf Sovereign Wealth Funds,” 97.

⁴⁹ “Qatar Could Benefit from Dual-Track SWF Model,” *Reuters*, August 10, 2013.

Beyond the Arab Spring: Implications for the United States

During 2011, a wave of popular protests and intensifying opposition to authoritarian governance began to sweep across the Middle East and North Africa. What developed into the “Arab Spring” led to the rapid fall of long-standing presidential regimes in Tunisia, Egypt, and Yemen, and the eventual downfall of Colonel Gaddafi’s mercurial dictatorship in Libya. The upheaval also posed a grave threat to the position of the ruling family in Bahrain and to the regime of President Assad in Syria. Moreover, its size and contagious spillover distinguished the civil uprisings from previous expressions of discontent, and demonstrated the magnitude of the socioeconomic and political challenges facing the region. They also revealed the narrow social base of support underpinning the bases of authoritarianism, whether monarchical or nominally presidential, and the weakness of regime responses that relied on coercion or the threat of force at the expense of genuine engagement with opposition movements or moves toward political reform.⁵⁰

The GCC states took the lead in responding to the unprecedented political and economic changes triggered by the Arab Spring. Saudi Arabia announced generous financial aid packages to Bahrain, Oman, Egypt, and Jordan, pledging \$10 billion aid packages to the first two countries, \$5 billion to Jordan, and significant bilateral assistance to Morocco.⁵¹ Saudi Arabia’s King Abdullah also engineered the surprising offer of GCC membership to Jordan and Morocco in May 2011 before announcing his aspiration for a closer “Gulf Union” at the GCC summit in Riyadh in December. However, despite the Saudi foreign minister fleshing out the proposals for an integrated military and regional security policy, neither an extraordinary mid-year GCC Consultative Summit in Riyadh in May 2012 nor subsequent annual summits in Bahrain (December 2012) and Kuwait (December 2013) were able to reach consensus on the move toward union.⁵²

The case of Egypt is worthy of closer study, not only because it is the largest and most direct recipient of GCC states’ assistance but also because it highlights the complexities and competing

⁵⁰ M. Lynch, *The Arab Uprising: The Unfinished Revolutions of the New Middle East* (New York: Public Affairs, 2012), 10–13.

⁵¹ “Kuwait Transfers \$250m to Jordan’s Central Bank,” *ArabianBusiness.com*, October 7, 2012.

⁵² “Summit Fails to Agree on Gulf Union,” *Gulf States Newsletter* 36, no. 924 (May 24, 2012): 5–6.

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agendas embedded within such support. After the 2011 revolution that ousted President Hosni Mubarak, Saudi Arabia and the UAE backed the Supreme Council of the Armed Forces (SCAF) with financial support and diplomatic recognition. Officials in both Riyadh and Abu Dhabi opted for regime-type continuity in a bid to limit the impact of such rapid and unexpected political change. The UAE pledged US\$3 billion in aid to Egypt in 2011, while Saudi Arabia approved US\$430 million in assistance from the Saudi Fund for Development and gave Egypt access to a US\$750 million line of credit to import oil products in June 2012, shortly before the Egyptian presidential election resulted in victory for the Muslim Brotherhood.⁵³ Following the victory of Mohammed Morsi, relations with the UAE and Saudi Arabia abruptly cooled while Qatar stepped in to provide the new Egyptian government with more than US\$7.5 billion in emergency loans, direct financial aid, and shipments of liquefied natural gas.⁵⁴

The sudden removal of President Morsi and the return of military-led rule to Egypt in July 2013 was followed by immediate and large-scale pledges of assistance by Saudi Arabia, Kuwait, and the UAE. Over US\$12 billion was promised in the week after the coup alone, and was quickly disbursed, unlike many pledges of GCC aid in other circumstances. By late October 2013, the UAE had, for example, assembled a comprehensive economic package totalling US\$4.9 billion, consisting of a US\$1 billion grant transferred to the Egyptian government in July, US\$1 billion in petroleum products to help meet Egypt's fuel and hydrocarbon needs, and US\$2.9 billion in aid for development and infrastructure projects designed to revive Egypt's ailing economy.⁵⁵

Gulf provision of aid and development financing (in all its guises) prevented the total collapse of the Egyptian economy amid three years of near-constant political turmoil and steep falls in vital economic sectors, such as tourism. However, seen from an international "good governance" perspective, the aid from GCC states is more problematic in terms of the policy choices it has enabled Egyptian officials to make or, just as importantly, to avoid. In addition to reducing pressure on the government to seek a US\$4.8 billion loan from the IMF, as Morsi had been doing, the Gulf support allowed the Egyptian finance minister to avoid having to raise taxes or cut public spending by utilizing the incoming monies to cut its burgeoning budget deficit. While

⁵³ "Difficult Geopolitical Context," *Gulf States Newsletter* 36, no. 926 (June 21, 2012): 2.

⁵⁴ "Qatar Hails New Egypt Leader in Apparent Policy Shift," *Reuters*, July 4, 2013.

⁵⁵ "UAE Signs \$4.9 Billion Aid Package to Egypt," *Reuters*, October 26, 2013.

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this meant that further volatility could temporarily be avoided by putting off politically sensitive austerity measures, and also resulted in the first post-2011 rise in Egypt's sovereign credit rating, the financial assistance from the Gulf lacked the conditionality associated with IMF support, and was granted without regard for monitoring or implementation procedures, effectively doing away with any notion of tying disbursement to minimal standards of good governance.⁵⁶

Set against this backdrop of greater Gulf engagement in international affairs is the gradual reorientation of US foreign policy away from the Middle East and toward Pacific Asia. While the much-touted "pivot to Asia" is not about to signify a US disengagement from the Gulf or the wider region, it does nevertheless illuminate the trajectory of policymaking within the Obama White House. A major strategic rebalancing is underway that reflects how the Pacific Asia region has emerged as a new geopolitical center of gravity. A recent study on the "pivot" summarized how, "as regional power balances have shifted and US global priorities have changed, Washington's strategy toward the region has likewise evolved." This has encompassed multiple dimensions, including a free trade agreement between the US and South Korea, sustained negotiations to expand and enhance the Trans-Pacific Partnership, participation in the East Asia Summit, and closer military cooperation with the Philippines and the deployment of additional US troops to Australia and Singapore.⁵⁷

Although unconnected with the wider strategic realignment, US relations with its Gulf partners nevertheless have come under unprecedented strain during the Obama presidency. Beginning with the withdrawal of US support for embattled Egyptian President Hosni Mubarak at the start of the Arab Spring and continuing with (muted) American criticism over the security response in Bahrain as the Al-Khalifa ruling family restored order with GCC support, officials in the GCC states began to question US motives as never before. As early as May 2011, influential Saudi foreign policy commentator Nawaf Obaid wrote of a "tectonic" shift in the US-Saudi relationship and lamented that "Washington has shown itself in recent months to be an unwilling and unreliable partner" against the supposed regional threat from Iran. In a sign of the growing autonomy of Saudi and other Gulf States' policy calculations, Obaid warned that "in areas in

⁵⁶ "Egypt to Use Gulf Billions to Spur Economy," *Reuters*, August 21, 2013.

⁵⁷ A. Denmark, "Regional Perspectives on U.S. Strategic Rebalancing," *Asia Policy* 15, no. 1 (2013): 2.

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which Saudi national security or strategic interests are at stake, the Kingdom will pursue its own agenda.”⁵⁸

As Gulf states’ frustrations with vacillating US policy toward the Arab Spring mounted in 2012 and 2013, declaratory and policy pronouncements became shriller. The failure to take military action against the Bashar al-Assad regime in Syria following the August 21, 2013, use of chemical weapons in Ghouta was greeted with dismay in GCC capitals, as were the signs of a rapprochement between the US and Iran following the election of Hasan Rouhani as president in June 2013. Saudi Arabia’s decision to turn down one of the ten rotating, nonpermanent seats on the United Nations Security Council weeks after snubbing the annual meeting of the UN General Assembly revealed the depth of regional alarm at the direction of US policy in the Middle East. The extent of unease became abundantly clear in a characteristically blunt interview given by billionaire Saudi businessman Prince Alwaleed bin Talal Al-Saud to the Wall Street Journal in November 2013 when he stated that the Kingdom was exerting “maximum pressure now on the United States not to succumb to the president of Iran’s soft talk” and added belligerently, “The US has to have a foreign policy. Well-defined, well-structured. You don’t have it right now, unfortunately. It’s just completely chaos, confusion.”⁵⁹ Shortly after the November 24 breakthrough at Geneva, which produced an interim agreement on Iran’s nuclear program, the former Saudi ambassador to the US Prince Turki al-Faisal Al-Saud told an audience at the European Council on Foreign Relations, “How we feel is that we weren’t part of the discussions at all, in some cases we were—I would go so far as to say we were lied to, things were hidden from us.”⁶⁰

Going forward, the challenge for policymakers in the US is to ensure that the long-standing political and security relationships with the Gulf states survive both the temporary setbacks described above as well as the rebalancing of geoeconomic power across the world. The US maintains significant reserves of “soft power” with its partners in the Gulf. Many decision-makers in GCC states spent their formative years at American universities and retain a deep

⁵⁸ “Leading Saudi Researcher Warns West of a Newly Assertive Saudi Arabia,” *Gulf States Newsletter* 35, no. 901 (May 27, 2011): 8.

⁵⁹ Simon Henderson, “No One in the Region Will Sleep,” *The Atlantic*, November 25, 2013.

⁶⁰ “Iran and P5+1 Sign Breakthrough Nuclear Deal,” *Gulf States Newsletter* 37, no. 959 (November 28, 2013): 3.

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affection for US culture, and schemes such as the King Abdullah Scholarship Program are renewing this bond with a new generation of students. The value of such ties should not be underestimated in a sociocultural context in which personalized networks and relationships of trust continue to play a central role. Yet, over the Obama presidency, the perception has arisen among many senior officials in the Gulf that the administration is far less willing to invest time and effort in maintaining the networks that have for decades underpinned US-Gulf ties.

Any reduction in high-level contacts is particularly significant at a time when much of the Arab world is undergoing delicate processes of political and economic transition. As the section above made clear, the Gulf states have led the regional response to the pressures triggered by the Arab Spring. The emergence of the Gulf states as visible global actors predated the Arab Spring but accelerated and acquired a potent regional dimension once the initial shock of the upheaval had subsided. The past three years therefore have witnessed the matching of Gulf states' *growing capabilities* with a far more expansive *policy intent*. As the GCC states become more assertive in the international arena, it is important to identify and bridge any gaps that may open up between established and emergent regional players. Syria offers a salutary example of the difficulties that can arise when the international community is divided and external actors pursue unilateral policies that follow competing or even confrontational lines.

US officials and their international counterparts also must acknowledge that the changing architecture of world politics means that contemporary power and influence is dispersed among a greater number of active participants spread across a wider political and economic spectrum. The normative foundations of the international system—governance and political reform as well as transparency and accountability—increasingly are seen through a prism that diverges from what may be termed the “Western-centric” lens that characterized the post-1945 institutions of global governance. For states in transition in the Middle East as well as for major emerging economies across the world, this opens up new possibilities with regard to the political and economic choices facing policymaking communities. As Gulf states' foreign policies become more assertive in shaping the regional and global order, their rise will test the adaptive capacity of existing frameworks to expand the mechanisms of multilateral cooperation as attention turns to the intricate—and long-term—challenges of stabilizing the Middle East.