

The Rise of the Gulf and Its Influence

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Abstract: *The international relations and political ecology in the Middle East have undergone significant changes after the US-led Iraq War in 2003, which shattered the geo-political balance, the traditional religious patterns and military existence in this region. Of particular note is the "Eastward Movement" of the geo-political center of the Middle East. In other words, the six countries in the Persian Gulf area² are playing a more powerful and more influential role as a regional entity. The influence expansion of the Gulf is driven by the radical changes of the international environment on the one hand and its efforts for stability and development on the other. The rise of the Gulf has an immediate impact on the future development of the Middle East/Arab area. Besides, it will also influence the political stability and economic development of the whole world.*

Key Words: *"Eastward Movement"; Geo-political Balance; Gulf Region*

I

After the Iraq War, the influence of Egypt, a traditional power in the Arab area of the Middle East, declined because of its limited economic strength. The American-British invasion devastated the state apparatus of Iraq and the extended warfare weakened its national strength. Syria was labeled a terrorist state by President George W. Bush and thereby became marginalized in the Middle East. Libya gave up their WMDs and strove to make its own way. While the influence of the conventional political and military powers in the Arab world decreases, the Gulf countries, led by Saudi Arabia, seek a leading role in regional affairs and larger international space by virtue of their strong economic strength. The reinforcement of its overall strength has rapidly lifted their strategic position and influence.

The Gulf countries, with Saudi Arabia as the representative, abandoned their indifferent attitude in diplomacy and played an active part in addressing the "hot-pot" issues in the Middle East so as to suggest their leadership in this region. Saudi Arabia became involved with the Palestine-Israeli conflict as a mediator. To help solve the internal conflict of Palestine, Saudi Arabia invited the two opposing

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² The "Gulf" in this article mainly refers to the Gulf Cooperation Council (The GCC). Established in May, 1981, GCC seeks to strengthen the coordination and cooperation between member states. Council headquarters are in Riyadh, Saudi Arabia. The presidency of the GCC rotates yearly among members. The GCC is an important political and economic organization in the Middle East area. The six member states are all strategically located at the crossroads of the eastern hemisphere and western hemisphere.



parties Fatah and Hamas to Saudi Arabia for face-to-face talks in February 2007. In September 2008, Saudi Arabia attended the international conference on the Palestine-Israeli issue, on which Saudi Arabia criticized Israel in public and promised to give its support to Palestine. In the meantime, it also encouraged all parties in Lebanon to put aside their differences and select the army chief of staff Michel Suleiman as the new president of Lebanon. Saudi Arabia accused Syria and Iran of blocking Lebanese peace efforts. Additionally, Saudi Arabia worked hard and facilitated the contact and negotiations between the US and the Afghan government and Taliban forces, a comprehensive display of its significance in handling regional affairs. Despite being a small country in the Gulf, Qatar has a strong desire to become a regional power. Qatar facilitated the dialogue and the truce agreement between Israel and Lebanon when it served as a nonpermanent member of the UN Security Council from January 2006 to January 2008. Under the intervention of Qatar, all rival Lebanese factions finally reached a peaceful resolution in Doha in May 2008. Moreover, Qatar was also the first Arab state to participate in peacekeeping missions to Lebanon. Of particular note is that Qatar firmly supported the Sudan government and voted against the UN's resolution of sending peacekeeping forces to Sudan against international pressure. Meanwhile, Qatar made great efforts to push forward the internal peace progress in Sudan. Qatar facilitated the dialogue between the Sudan government and the rebelling military forces in South Sudan and invited the "Justice and Equality Movement", the largest rebel group in Darfur, and the Sudan government to Doha where the two sides signed a general framework agreement for peace on February 17, 2008. Emir Sheikh Hamad even presided over the agreement signing ceremony in person.³ With a special concern for the Iraq issue, the United Arab Emirates provided Iraq with numerous humanitarian aids and trained military and police forces for Iraq since the breakout of the Iraq War. Its foreign minister paid a visit to Iraq in June 2008⁴; it was the first visit made by any foreign minister from a Gulf state after the Iraq War. Besides, the United Arab Emirates also cancelled Iraq debt of about \$7 billion and named an ambassador to Iraq.⁵ From then on, Bahrain, Kuwait and other Gulf countries signed agreements with Iraq on reopening their embassies one after another in search of diplomatic advantages in maintaining the stability in Iraq and restoring the security order in the Gulf area.

In order to contain the rapid expansion of the Shiites in the Middle East and maintain the traditional power pattern of the Arab world, Sunni countries in the Gulf, led by Saudi Arabia, tried every means to suppress the political influence of

³ The Economist Intelligence Unit Limited 2008, *Country Profile 2008*, Qatar, p.12.

⁴ "US hails UAE move to name Iraq ambassador," *Washington Telegram*, [http://www.xinhuanet.com\(2008-06-05\)](http://www.xinhuanet.com(2008-06-05)).

⁵ "UAE cancels Iraq Debt of about \$7 billion, names ambassador to Iraq," [http://www.chinanews.com.cn\(2008-07-07\)](http://www.chinanews.com.cn(2008-07-07)).

the Shiites. In order to prevent the Iranian-supported Hezbollah from seeking political dominance in Lebanon, in May 2008, Saud Bin Faisal Bin Abdul-Aziz, Foreign Minister of Saudi Arabia, advised to send an Arab army to Beirut to disarm the guerrilla force of Hezbollah. In order to prevent the Shiites from seeking political dominance in Iraq and politically marginalizing the Sunnis, Saudi Arabia supported the Sunnis to take part in the political reconstruction of Iraq with both funds and material aids. In order to hold Iran back from developing nuclear weapons and “becoming the most powerful leader” in the Middle East, the Gulf Cooperation Council strongly supported that the international society must take more effective supervision and inspection activities in Iran although it opposed the use of force by US and Israel in Iran. For fear that Iran might, following the example of India, Pakistan and North Korea, make the possession of nuclear weapons an established fact, the Gulf countries decided to “fight fire with fire”; in December 2006, they declared they would launch a joint nuclear program in the Gulf area, in the hope of creating a special “nuclear balance” in the Middle East so as to contain Iran and push the international society to impose greater pressure on Iran.

In regard to the economy, the GCC became the “locomotive” that pushed the economic growth in the Middle East. The economic integration of GCC has developed at a great speed since its foundation in the early 1980s. On January 1, 2008 the Gulf Common Market was officially implemented. It is established that all citizens of the GCC will be allowed to work, reside and invest in each of the six states and they will also be treated as nationals. In 2010, the GCC will launch a common currency, the Khaleeji or the “Gulf Currency”, so as to control the macro economy and increase its ability of resisting financial crises by using a single currency, interest rates and exchange rates as a lever. Besides, in recent years, the GCC Sovereign Funds: Reversal of Fortune has increased its investment in the Gulf area. Between 2002 and 2007, the total investment of Saudi Arabia, United Arab Emirates and Kuwait in Jordan, Egypt, Syria, Tunis and other countries amounted to \$250 billion and GCC will invest another \$20 billion in “Maghrib” by 2010.⁶ “The prosperity of the Gulf area has led to a general economic boom in the Middle East,” according to Professor Abudul from the Economics Department at Cairo University. For another, GCC has conducted numerous trade talks with world powers and important regional groups; its influence keeps increasing in the field of international economic cooperation. With the advancement of economic integration, GCC will draw wide attention of the international society with its unique resource-based economy, strong capital base and stable commodity market. The past decade or so has seen the US, EU, Japan, Australia, Singapore, New Zealand, China, Turkey, India, North European countries and Latin America

⁶ Pamela Ann Smith, “Gulf Investor Focus on Arab & African Neighbors,” *The Middle East*, August/September 2007, p.42.



seeking dialogue with GCC so as to build free trade zones. After years of efforts, mutual talks have made much progress, more or less, in the establishment of free trade zones. The talk between the GCC and US has shifted from separate talks between each country and US to the agreements between the US and GCC as a whole.⁷ As early as 1988, the GCC signed a framework agreement on establishing free trade zones and the official negotiation started later in 1990.⁸ After years of negotiations, both sides agreed on major provisions and items of the agreement in February 2008. Mutual talks will focus on the details of the agreement in the future. It is said that the major obstacle at present is that the European Union insists on attaching human rights clauses to some provisions of the agreement and collecting tariffs on petrochemical and aluminum products from the Gulf. However, driven by the rapid progress of the negotiations between the GCC and other parties, the European Union tends to take a flexible stand and agree on some thorny issues soon for fear that it might miss out on good opportunities. After the Iraq War, the Gulf countries advocated the "eastward policy". As a result, the free trade talks between the GCC and China, India, Japan, South Korea and other Asian countries went on the fast track. In December 2008 the GCC first signed a free trade agreement with Singapore, driving other countries to speed up their talks with GCC.

In terms of politics, first, the Gulf countries promoted dialogue between major religions around the world so as to enhance the international image of Muslims. As the guardian of the two most holy places for Muslims around the world, Saudi Arabia has been claiming the responsibility of carrying out Islam and safeguarding the image of Muslims for ages. After the 9/11 attacks, King of Saudi Arabia Abdullah bore a grudge against the West for disparaging Muslims. So he has been devoted to repairing and enhancing the international image of Muslims. In recent years he has never forgotten to "rectify names" for Muslims on almost all diplomatic occasions. In December 2007 Saudi Arabia held the second dialogue on civilizations within the framework of Sino-Arab Cooperation Forum and King Abdullah met with more than 40 delegates himself. He fully expressed in his speech the Muslim thinking of advocating peace, tolerance and seeking commonwealth of world citizens. In order to eliminate the misunderstanding of Islam in the international society and promote "dialogue between civilizations", King Abdullah initiated in early 2008 to invite delegates of Christianity, Judaism and Islam to Saudi Arabia for the dialogue between three major religions, and, hopefully, to reduce differences, address conflicts, seek for common grounds and realize peaceful coexistence. To fulfill this initiative, King Abdullah paid a visit to

⁷ Although the free trade talks between the US and the GCC started early, the GCC ended the collective negotiation with the US as a group in 2006 because some member states had signed bilateral free trade zone agreements with the US. Later, after negotiations within the GCC, the six countries reached an understanding about previous individual talks between the US and some member states. In February 2008, the six countries reopened free trade talks with the US under the name of the GCC.

⁸ EU-Gulf FTA talks continues, Kuwait News Agency, July 11, 2004.

the Holy See, to meet Pope Benedict XVI as the leader of the one billion Roman Catholics in the world in November 2007 and held the “International Islamic Conference for Dialogue” in the sacred place of Islam Mecca. More than 500 delegates from 50 countries, including the US, UK, France and China, attended the conference. King Abdullah held the opening ceremony himself and delivered an important speech, calling for agreement within the Islamic world on holding a “dialogue between religious civilizations”. Later on July 16, 2008, King Abdullah, together with King of Spain, Juan Carlos, held the “Global Interfaith Dialogue” in Madrid, a place where three major religions Judaism, Christianity and Islam coexist. More than 200 clergymen, religious studies scholars and experts on behalf of different religions gathered together to discuss such issues like “social life of mankind, international cooperation, human rights, safety and peace and peaceful coexistence”. Later, the King of Saudi Arabia urged the UN to hold a high-level meeting on “peace through interreligious/intercultural dialogue, understanding and cooperation” in November 2008. About 20 heads of states, including the King of Saudi Arabia, attended the meeting, which called for all the countries in the Middle East to coexist in harmony and tolerance and to work together in advancing the peace and development in this area. Singing high praise for this initiative, the President of Israel Shimon Peres said at the meeting without his notes that he highly appreciated the important contribution that King Abdullah of Saudi Arabia had made to the peace process in the Middle East. Secondly, Saudi Arabia made a point of establishing a peaceful and democratic image within the Gulf area. After the Iraq War, the Gulf, which was once seen as the most conservative “Islamic peninsula,” took on internal political reform under pressure from both outside and inside and the changes have been stunning. In response to the Greater Middle East initiative by the US, Saudi Arabia proposed in October 2003 a democratic reform plan for the Arab world, which received wide support in Arab countries. Then Saudi Arabia implemented political and social reform with great carefulness. First of all, the government approved the establishment of the National Human Rights Organization, the first non-governmental organization in Saudi Arabia in March 2004. The next year, the cabinet decided to establish a National Human Rights Commission. The first municipal election was held in Saudi Arabia in September 2005 and the Consultative Assembly participated more in the discussion of the making of national policies after a smooth reelection. In October 2007, the Saudi government established an independent justice department and stressed the independence of justice from the executive branch. Second, the government took the initiative to improve the status of women. In October 2007, two women were elected to work in Jeddah - Chamber of Commerce and Industry. The Saudi Arabia government also promised to give women the right to vote in municipal elections in 2009. Third, the government encouraged



education of moderate doctrines and revised textbooks, crossing out all that related to the “Holy War” and what might offend Christianity and Judaism. The Education Department also demanded to strengthen the training and education in science and technology. Fourth, the government loosened its control of the media. Apart from opening up cable TV and the internet, the government also gave television stations the green light to broadcast programs containing political content and objective reports on social problems such as crimes, drugs and AIDs.

Qatar was the “vanguard” among the Gulf countries to carry out reforms. Early in 1996, Hamad ordered to shut down its department of public information and lifted its censorship of the media such as television programs and newspapers, giving them the freedom of expression. Additionally, the Emir of Qatar granted \$137 million for the building of the “Al Jazeera” television network. As a landmark news channel of a small country, it pursues objectivity and dependence with considerably coverage not only of Africa, Asia, and the Middle East, but more broadly. With the largest TV audience in the Arab world, it has become one of the most influential television networks around the world especially after its exclusive coverage of the Afghan War, the Iraq War and “Al Qaeda”. Meanwhile, the government vigorously advocated democracy and freedom, supporting the liberation of women and showing respect to women’s right to participate in political affairs. At the end of 1997, Hamad lifted the ban on women drivers. In 1999, he granted women’s right to vote and to be elected against religious objection. The pace of reform in Qatar sped up after the Iraq War. In 2003 Qatar appointed the first female minister in the whole Gulf area. In June 2005 the new constitution officially came into effect. It clearly specified that separation of the executive, legislative and jurisdiction would be adopted in Qatar, which laid a solid foundation for the implementation of the parliamentary system and provided a legal guarantee for the participation in political affairs of the people. In accordance with the first civil rights law of Qatar, a municipal election was held in April 2007, which meant the domestic political environment had experienced significant changes. Besides, Qatar successfully hosted the 15th Asian Games in Doha and the spectacular design and visual effect of the opening ceremony amazed the whole world. The success of the sports meeting took the Qatar government seven years to develop and \$2.8 billion of expenses. An enormous sum of money was spent on the construction of various stadiums and relevant city infrastructure.⁹ After that, Qatar launched its 2016 Olympic bid in the hope of driving the prosperity of the country and elevating its international influence through its “sports modernization”.

The United Arab Emirates pushed forward their reform in a steady way. In January 2006, Khalifa approved, for the very first time, of two women taking ministerial positions in the new government. Later in August, the United Arab

⁹ The Economist Intelligence Unit Limited 2008, *Country Profile 2008*, Qatar.

Emirates issued its new parliament election law, which stipulated that 20 of the 40 members of the Federal National Council should still be appointed by the emirs and the rest should be elected. According to the new regulation, a new parliament was elected in November 2006. In February 2007, Abdul Aziz Al Ghurair was elected Federal National Council (FNC-parliament) Speaker of the United Arab Emirates (UAE), which is considered an important step in UAE's democratic reform. At present, the UAE government is discussing how to give more power to the National Council.

Apart from its consistent stand against extreme religious beliefs, Kuwait has been promoting its social reform. The flooding radical Muslim movement after the Iraq War was a severe threat to the social stability of Kuwait. Therefore, the royal family launched political, religious and cultural reforms in Kuwait, enhanced its democratic system and religious management, rooted out terrorism-linked extremists and gradually improved the rights of women. In 2006, women in Kuwait were granted the right to vote for the first time. Meanwhile, women began to take ministerial positions.

In the military field, the Gulf countries have been increasing their national defense strength and self-defense ability. The Middle East is by far the world's largest arms market, with Saudi Arabia as the largest and UAE the fourth largest national market for arms. After the first Gulf War, a tide of arms purchase appeared among GCC countries. The total national defense expenditure of the Middle East and North Africa amounted to \$53 billion, among which that of Saudi Arabia \$19.3 billion, UAE \$1.6 billion, Kuwait \$3.9 billion and Qatar \$2.1 billion, all surpassing the past.¹⁰ As the largest arms purchaser of the US, Saudi Arabia has spent approximately \$100 billion buying arms from the US.¹¹ Statistics of General Accounting Office show that so far Saudi Arabia has almost completely upgraded its arms storage. In 2007, officials of the US Ministry of National Defense announced that the US would sell arms worth over \$20 billion to six Gulf countries, namely, Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and UAE, in the ten years to come.¹² In January 2008 the US announced that it would sell advanced weapon technology and equipment worth of \$123 million, including the "Joint Direct Attack Munition" system, to Saudi Arabia. It is probable that Saudi Arabia will purchase armored cars, mortars and machine guns worth \$631 million and five sets of airborne early warning systems and command and control systems worth \$400 million. Later in September 2008, Saudi Arabia and the UK signed a contract to buy 72 EF-2000 "Typhoon" aircraft, worth of \$8.9 billion.¹³ Statistics show that between

¹⁰ 1994-2008 China Academic Journal Electronic Publishing House. <http://www.cnki.net>

¹¹ Zugui Gao, "An analysis of the trend of US- Saudi Arabia relation," *Contemporary International Relations*, No. 9, 2002.

¹² Haixia Lin, "Arms sales make the Middle East an arsenal," *China Comment*, Issue 16, August 25, 2007.

¹³ Deal with Saudi Arabia catapults UK to top of last year's world table of weapons sales, Reuters, June 18,



2003 and 2008 Saudi Arabia spent \$31 billion on various types of weapons.¹⁴ In September 2008 UAE also decided to purchase missile defense systems worth about \$7 billion from the US so as to defend against “missile attacks from Iran”. In order to increase their war-fighting capabilities, Saudi Arabia, Bahrain, Kuwait, Qatar and other Gulf countries regularly hold joint military rehearsals together with the US and other western countries so as to increase their defense capabilities.

II

As the energy supply center of the world, the Gulf has been under the political and security protection of the US and other western countries for a long time. Through “oil for security” they have established long-term friendly and co-operative relationship with western countries and have become their most reliable strategic allies in the Middle East. As time went by, the Gulf countries became heavily dependent on western countries in politics and security, being often seen as dependent and defenseless “landlords” and standing “fund sources” of the Middle East and even that of the West. Their political influence has been quite limited around the world. However, the Iraq War and especially the 9/11 attacks caused abrupt changes to the political pattern of the world and international relations and also plunged the Middle East into a historical phase of great division, shake-up and reform. The strategic environment of the Gulf countries also went through significant changes, compelling them to carry out strategic adjustment and social reforms so as to meet with the new changes of international relations. In the process of policy adjustment their power awareness grew stronger and stronger, all making independence and self-reliance the priority of their domestic and foreign strategies.

First, after the Cold War, the decline of the Gulf’s strategic value for the West forced the Gulf countries to reassess their strategic positions. For one thing, the disassembly of the Soviet Union meant that the two-polar system was now replaced by one-superpower structure and the disappearance of the two opposing camps. As the former strategic allies of the US and other western countries, the Gulf countries found their position of “Middle East Allies” in the West camp weakened. For another, in order to mold its leader image of the sole superpower in the world, the US, together with the so-called “Justice army”, triggered the first Iraq War in early 1991 under the banner of God and liberated Kuwait from the invasion of Iraq. The US gained wind-spread fame and prestige after the war. Jumping at this opportunity, the US fully activated the Palestine-Israel peace process, bringing both countries back from the frontline to the negotiating table in

2008, <http://www.stnn.cc>.

¹⁴ Saudi Arabia to buy 72 Typhoon aircraft, August 27, 2008, <http://www.china.com.cn>

the hope of furthering the US dominance in the Middle East and implementing its strategy of controlling the greater Middle East comprehensively through its pushing forward the political talks between Palestine and Israel and regional economic growth. With the US policy adjustment in the Middle East and the disassembly of the Arab military power Iraq, the Gulf also saw its function of helping the US to contain the Arab military power obviously fall off. Faced with the radical changes of international and regional situations, the Gulf countries never felt so lost and upset. They began to recollect and adjust their domestic and foreign policies and re-aligned their strategy so as to respond to these changes.

Second, the Gulf's role of the global energy supply center was challenged. After the Cold War, the oil price dropped dramatically on the international market in the late 1990s and the international energy pattern experienced significant changes. The oil production of non-OPEC countries increased vastly and their international market shares kept on the rise while the market share of OPEC (including Saudi Arabia, UAE, Kuwait and Qatar) dropped from about 70% in the 1970s to about 43% in 2007. Due to the challenge to their status in the global energy field, OPEC's energy supply ability and oil price control ability on the international market apparently weakened. In the mean time, major oil consumers adopted policies on diversified energy, further weakening the global strategic position of the oil producers in the Gulf. The conventional advantage of the GCC countries in the global energy field came under serious challenge. All this made the crisis awareness of the Gulf countries even greater. On the one hand they need to strengthen their own survival and development abilities. On the other hand, they need to adjust their strategies for external cooperation and development so as to guarantee their important role and influence in the global energy field.

Third, after the 9/11 attacks, the contradiction and conflicts between the Gulf countries and the US and other western countries came to the surface. One, the 9/11 attacks that shocked the whole world caused severe damage to the traditional alliance between the US and Saudi Arabia and other Gulf countries. The "cruel" fact that 15 of the 19 suspects came from Saudi Arabia astonished the US and other western countries. The disillusioned Americans launched a high-powered anti-terror war across the world and the Middle East became the major concern in the American-led anti-terrorism war. The chronic "democracy deficit" in the Middle East and especially in the Gulf area, Americans argued, was the "hotbed" for terrorism. Therefore, along with the anti-terror war, the US proposed "the greater Middle East initiative," which, hopefully, would completely reform such a most conservative Arab-Islamic country as Saudi Arabia in the political, economic and cultural fields and wipe out the soil on which international terrorism stems and grows. After the Iraq War, the Arab countries in the Middle East, with Saudi Arabia as the representative, came under great pressure of democratic reform from



the US. They had to recollect their political regime and social customs and make proper adjustments and reforms accordingly. Meanwhile, due to the weakening of their alliance with the US, the Gulf countries started to seek cooperation with other powers and vigorously promoted the “eastward policy” for larger international survival space and new strategic cooperative partners. Second, the illegitimacy of the Iraq War, together with the exposure of US soldiers killing the innocent and mistreating prisoners, evoked strong anti-US sentiment among the Islamic people in the Middle East. Encountered with local or domestic anti-US pressure, the governments of all Gulf countries were forced to alienate themselves to a certain extent from the US. Under the domestic pressure of the strong anti-US wave, the Saudi government demanded that the American troops stationed in Saudi Arabia must withdraw from the country by August 2003. Although there are still some American garrisons and bases in some other countries in the Gulf area, most of the Gulf countries have alleged they will not allow American troops to use their lands as military bases to attack other countries in the Middle East. Third, after the Iraq War, the anti-terror war went further in the Middle East. The US and other western powers began to gradually reduce their dependence on the Gulf for oil so as to avoid crises and risks. US oil imports from Saudi Arabia dropped from 22% to 17% in 2008 and European countries also made similar cut in their crude oil imports from the Middle East. The Gulf countries are drifting further away from the West, partly because of changing economics and partly because of ideological reasons.

Fourth, the constant upsurges of oil prices on the international market in recent years and the radical income increase of oil producers have greatly inspired the awareness and confidence in the Gulf countries to play an important part in the area and the international society. The soaring of oil prices on the international market since 2003 has provided strong support for the policy adjustment of the Gulf countries. The Gulf countries, with Saudi Arabia as the representative, grabbed the historic opportunity and emerged from the Middle East in seeking development, increasing national strength, establishing national image and opening up cooperation. Between 2002 and 2008, the total oil income of the six countries in the Gulf reached about \$2500 billion and that of 2008 was \$600 billion, up 57% over the previous year. With their GDP doubled, they have become the 13th largest economy in the world and greatly promoted the economic growth wave in the Gulf area. As for the breakout of the latest financial crisis, the value of the major investment projects in construction had reached \$ 2000 billion. Saudi Arabia has decided to invest \$10 billion in the building of King Abdullah University of Science and Technology on the West coast of Saudi Arabia near the city of Jeddah so as to speed up the pace of its education modernization. Today UAE is full of life and newly-built projects can be seen here and there. Dubai has announced the construction of an “Arabian Canal”, an \$11 billion project designed along a 75-kilometer-long canal. The 150-meter-wide and 6-meter-deep canal, once finished,

will be able to accommodate vessels of up to 40 meters long. The project is said to be the largest and most complex engineering work in the Middle East since 1859, when the 163-kilometer-long Suez Canal was built in Egypt. "Dubai Ports World" plans to take over management of six American ports. In order to carry out its plan of building a "Desert Louve" in the capital Abu Dhabi, Dubai has signed a cooperative deal with France. Saudi Arabia has spent \$10 billion to endow a modern university. Besides, the Sovereign Wealth Funds of the Gulf states exploded before the latest financial crisis, amounting to approximately \$2.5 trillion across the world. As of March 2007, UAE and Saudi Arabia had, respectively, the fast and third largest SWFs internationally, and Kuwait ranked the sixth.¹⁵ Their funds, together with those of Qatar, exceeded half of the global amount. Before the break-out of the financial crisis, experts had all estimated that by 2015, the Persian Gulf countries' SWFs could grow to \$5-6 trillion.¹⁶ The abundant oil dollars provide essential economic support for the Gulf states to play an important role in the Middle East and the international arena as well.

III

To sum up, faced with radical changes of the international situations, the GCC has achieved extraordinary accomplishments by making use of its advantages; it takes on an even brighter future perspective with the rapid development of economic integration and the rise of its status and influence in regional and international politics. Although the vigorous developmental trend in the Gulf has been somewhat restrained due to the global financial crisis, the Gulf, relying on its unique resource advantage and strong capital base, may still maintain a general upward developmental trend compared with the West. In the long run, the rise of the Gulf will not only benefit the stability and development of the Middle East but also will play an important role in stabilizing the international energy market and promoting harmony and development in the international community.

First, the Gulf is still able to make further developments against the global financial crisis. Under the shock of the current crisis, the Gulf states cannot avoid "collateral losses". The shrinking of seven major stock markets in Saudi Arabia, UAE and other countries resulted in severe losses of the sovereign wealth funds.¹⁷ It is estimated that one third of their one trillion dollars invested in Europe and the US has gone for nothing. The \$7.5 billion that Abu Dhabi of UAE invested in Citibank of the US reduced to half and the \$5 billion that Kuwait invested in the US

¹⁵ Nimrod Raphaeli and Bianca Gersten, "Sovereign Wealth Funds: Investment Vehicles for the Persian Gulf Countries," *Middle East Quarterly*, Spring 2008, p.45.

¹⁶ Abid, p.47.

¹⁷ "Financial Crisis on the Middle East Stock Market: Oil Producers Not 'Immune'," *The Washington Post*, October 10, 2008.



Citibank and Merrill Lynch also shrank heavily. As the demand dwindled down on the international oil market, oil prices went down steeply day by day so the revenue of oil producing states decreased dramatically. The credit squeeze of international banks hindered the financing of a large number of on-going projects of the oil producing states in the Gulf. These countries had to live within their means so the development of the real economy slowed down. The International Monetary Fund scaled down the Middle East's growth projections for 2009, with Saudi Arabia's down 1.6%. The low degree of globalization in the Middle East, the capital accumulation over the years and the continuous oil income in the future, estimated by important financial institutions such as Morgan Stanley, will ascertain the Sovereign Wealth Funds of the GCC maintain a considerable size even if the oil price slump continues. So the West regards the Gulf as a financial power and one of the major forces that can "rescue markets". After the break-out of the financial crisis, Saudi Arabia has been invited to the Global Financial Summit twice, urging it to contribute more capital to "rescue the market". In order to attract more investment from the Gulf countries, the West also lifted the various limits on the global investment of the Sovereign Wealth Funds. At present, although the Gulf countries have reduced their investment and even shut down or suspended some on-going projects, their economy and finances remain basically sound and afloat. To deal with withdrawal of foreign capital and stabilize domestic market, the governments of these countries have injected emergency capital with a promise of launching infrastructure projects worth about \$100 billion. The Saudi Arabia government has granted banking and credit \$93 billion in emergency capital repair.¹⁸ Saudi Arabia Monetary Association announced to lower the deposit-reserve ratios of domestic banks and the inter-bank borrowing rates. The central banks of UAE and Kuwait have invested \$30 billion and \$22.4 billion respectively on the financial markets so as to boost investor confidence. In October 2008, the central banks of UAE and Kuwait adjusted their interest rates, which went down 1.25% and 2% respectively. UAE decided to provide a guarantee to domestic bank deposits and a three-month-long guarantee to foreign-funded banks and to produce regulations on restraining the entry and exit of short-term investment capital into the stock market. In addition, Abu Dhabi has given Dubai a helping hand so as to help it out of the current economic predicament which developed in 2008. With its confidence recovering, the Gulf can expect more development in the future through corresponding policy and program adjustment. A recent report by the respected Saudi-based Samba Financial Group suggests that the Arab oil producing countries of the Gulf may earn a staggering \$24 trillion from exports of crude oil and gas over the next 20 years¹⁹, that is to say, the

¹⁸ Associate Press Dubai, *Telegram*, September 16, 2008

¹⁹ Pamela Ann Smith, "Gulf Investors Focus on Arab & African Neighbors," *The Middle East*, August/September 2007, p.38.

economic strength of the Gulf continues to expand over time. In August 2008, Abu Dhabi Investment Authority of UAE purchased the landmark Chrysler Building.²⁰ In March 2009, a government-investment fund in Abu Dhabi decided to purchase 9.1% stake of Daimler AG (the largest truck manufacturer in the world). This investment fund will spend 1.95 billion Euros (about 2.66 billion dollars) buying additional shares of this manufacturer to be the largest shareholder. Since the breakout of the financial crisis, Kuwait Investment Authority has injected \$3 billion and \$2 billion in Citibank and Merrill Lynch respectively.

Secondly, the cooperation between the Gulf and Asia is likely to take the fast track. Faced with a crisis of confidence on the West's markets, all governments of the Gulf area adjusted their foreign cooperation pattern, strengthening their efforts in the "Eastward Movement". Saudi Arabia kept a low profile in their response to the "rescuing the market" request of Western powers. On his visit to Saudi Arabia, UAE and Qatar in August 2008, British Prime Minister Brown urged them to inject capital in international load funds. Although they expressed their willingness to participate in international financial cooperation, they were rather cautious about detailed issues such as investment and unwilling to make any definite commitments. Saudi Arabia even reiterated that the biggest priority at present is to carry out financial system reform, indicating no intent to "pay the bill" for the crisis in the West. The "Dubai Group" announced that it would increase its investment ratio in the start-up markets to 30% of its total investment. Minister of Finance of Kuwait Mustafa Jassim Al Shamali said neither the Kuwait Investment Authority nor Kuwait Sovereign Wealth Funds had any intent to invest in American housing mortgage bonds. Instead, he added, Kuwait was looking at more investment in Asia, especially in China, Japan and India. Secretary-General of the GCC, H.E. Mr. Abdul Rahamal Attiy said the six countries of GCC would invest \$250 billion in Asia within five years. For the GCC, Asia is not only a rising market of magnitude or an enormously potential energy cooperative partner but also a reliable force that can help reduce their dependence on and pressure from the West. Therefore, apart from political issues, trade and energy cooperation, the foreign investment strategy of the GCC will also "move eastward". The Investment Authorities of Saudi Arabia, Kuwait, UAE, Qatar and other Gulf states have recently set up investment institutions geared toward promoting investment in China. Since 2006, the six countries have been increasing their investment in China, first in the fields of energy and infrastructure and later, step by step, financing, real estate, hotels, etc. The investment increase of Saudi Arabia in China is of particular note. Today Saudi Arabia has direct investment in more than 50 companies in

²⁰ "Saudi Arabia General Investment Authority to Position Saudi Arabia among the Top Ten Most Competitive Nations," *Ekonomia*, January 7, 2009.



China, with an annual growth of 20%²¹ and a total amount of about \$10 billion. At present, the total investment amount of Saudi Arabia in petroleum and gas industries of China reached over \$6 billion.²² In April 2008, investment institutions of Qatar promised to invest \$50 billion in real estate in China within five years.²³ Predictably enough, Asia, with China as the representative, will grow to be a rising large market for investment from the Gulf. Moreover, the Gulf suffers from a rather simple economic structure, which means that most commodities that the Gulf needs rely on imports except petroleum and petrochemicals. Its annual import and export trade volume amounts to several hundred million dollars. In recent years, however, the oil tycoons who have long been accustomed to buying western brands have turned to Asian commodities especially Chinese commodities. The market shares of Chinese textile, electromechanical and durable products on the Gulf market are on the rise. Saudi Arabia has become the largest trade partner of China in the Middle East. Mutual trade volume increases with years, over \$20 billion in 2008. The Qatari daily *Asharq*, drawing on figures from the Gulf Cooperation Council, suggested that "GCC countries have invested \$250 billion in China, primarily in service and real estate sectors."²⁴ This on-going financial crisis further aggravates this developmental trend. Asia, particularly China, will become an important choice in foreign economic and trade cooperation of GCC.

Third, the rise of the Gulf will generate plenty of radiation effects. One, it is beneficial for the stability and development of the Middle East area. Although globalization harvested rapid growth over the past decade or so, the Arab world is lagging far behind because of its long time political turmoil. It is even becoming a marginalized continent. However, the rise of the GCC has created new hope for political stability and economic growth in the Middle East. A new Gulf with considerably strong economic strength and political influence will, no doubt, become an important force for resolving such hotspot or thorny issues as the Palestine-Israel conflict, Iraq, Afghan and Lebanon issues and an economic backup for the post-war reconstruction of relevant countries. The comprehensive development of the Arab world led by the Gulf is by no means impossible. Second, it is beneficial for safeguarding the stability of the international energy market. The six countries in the Gulf are all important oil producers with proven oil reserves that take up 45% of the world's total reserves. Among them Saudi Arabia has the largest oil reserves, with approximately 265.1 billion barrels, 25% of the world's total reserves, UAE the third, with 98 billion barrels, about 10% of the world's reserves and Kuwait the fourth, with 96.5 billion barrels, about 9.6% of the global reserves.

²¹ Investment of Saudi Arabia increases fast in China, *Riyadh Daily*, February 16, 2008.

²² *Ibid.*

²³ The Economist Intelligence Unit Limited 2008, *Country Profile* 2008, Qatar.

²⁴ Nimrod Raphaeli & Bianca Gerstein, "Sovereign Wealth Funds: Investment Vehicles for the Persian Gulf Countries," *Middle East Quarterly*, Spring 2008, p.52.

The natural gas reserves in the Gulf are about one quarter of the world's total reserves. The natural gas reserves of Qatar amounts to 8.88 trillion cubic meters, the third largest in the world. Among the six countries in the Gulf, Saudi Arabia, Kuwait, UAE and Qatar are all members of OPEC, which means that the Gulf plays a vital role in the field of international energy. With the expansion of the integration of the Gulf and the development of globalization and modernization, the Gulf will undoubtedly play a significant part in stabilizing the international energy market.

Third, it is beneficial for increasing the influence of the Arab-Islamic world. The six countries in the Gulf are all conventional Islamic countries. What is more, the two major sacred places Makkah and Madinah are both located in the region. The Gulf should be seen as the heart of the Muslims around the globe either in the geographical sense or the religious sense. Therefore, the rise of the Gulf in politics and economy will definitely enlarge the influence of the Arab-Islamic world. Of particular note is that the Gulf has been a representative of the moderate Islamic force which opposes Islamic extremism and terrorism and advocates peaceful coexistence of different religions. Besides, it pursues handling international crises together through consultancy and cooperation in diplomacy. All this helps alleviate the conflict between the Islamic world and the West and improve the international image of Islam. Moreover, the Gulf states dedicate themselves to the anti-terrorism war and international anti-terrorism cooperation, which helps maintain the harmony and stability of the world. Judging from a more macro prospective, the rise of the Gulf as an Islamic and energy economy will become an important driving force for developing countries to build a fair and reasonable new international political and economic new order.

However, it must be noted that the overall rise of the Gulf still faces many difficulties. In order to fulfill its goal of establishing a regional economic community similar to the European Union, the GCC cannot afford to neglect those internal and external restraining factors. For instance, its poor economic complementarity, the lacking of trade between member states, single product economy, large gaps in economic development, high birth rate, among others. To make matters worse, in the neighborhood of Iraq and Iran, the Gulf can hardly avoid turmoil for a long period of time in the future. Since the 1980s, the Gulf has undergone three regional wars, the Iran-Iraq War, the Gulf War and the Iraq War, which devastated the political stability and economic development in the area. In a sense, it was war that seriously postponed the development of the Gulf. At present, the anti-terror war, the Iran nuclear crisis and the situation of Iraq after the withdrawal of American troops are all potential threats to the sustainable development of GCC. Yet the rise of the Gulf seems even more valuable under this adversity. Taking into consideration of the Gulf's growing awareness of self-development, its unique advantages and hard working, the international



community should be confident in the future of the Gulf.