Repositioning Saudi Arabia and the Gulf Cooperation Council States in the Changing Global Order

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On 2 December 2010 Qatar was awarded the hosting rights to the 2022 FIFA soccer World Cup. This surprise announcement capped the rapid rise of the Gulf Cooperation Council\(^1\) (GCC) states as regional countries with global reach. Their emergence reflected and reinforced an international order in flux amid a weakening of the post-1945 systems of global governance. In particular, the broadening and deepening of political and economic ties between the six Gulf States and Asian partners opened up alternative pathways of global enmeshment. Such diversification of geopolitical and geo-economic interests represents a significant juncture in the internationalisation of the Gulf. This paper examines Saudi Arabia and the other Gulf States' changing enmeshment within the global community. It focuses on issues such as trade, financial flows and foreign direct investment in light of inter-regional realignments, and considers their implications for regional and global structures of governance and security arrangements.

The Global Emergence of the Gulf States

During the first decade of the twenty-first century, Saudi Arabia and the other Gulf States emerged as increasingly visible global actors. Using their energy resources and capital accumulation as leverage, they 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 and debates over the international politics of climate change.\(^2\) Thickening 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)

\(^1\) The Gulf Cooperation Council was formed on May 25, 1981 and currently has six members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

centres of influence, popularised by the BRIC (Brazil, Russia, India, China) acronym coined by Goldman Sachs in 2001.3

Attention also focused on the concept of the “world economic centre of gravity” (WECG) to provide empirical evidence for the redistribution of global economic activity.4 One recent extrapolation of economic growth from 700 locations across the world indicates that the WECG shifted 4800 kilometres 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 kilometres to the east to lie at a point between India and China.5

During the second oil-price boom (2002-8), hydrocarbons reserves and capital accumulation positioned the Gulf States as a pivot around which the 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.6

The Gulf region’s share of global oil and natural gas production is projected to rise from 28% (including Iraqi and Iranian output) in 2000 to 33% in 2020. With most of that increase going to Asian markets, the GCC states will continue to diversify and broaden economic interdependencies.7 China alone accounted for nearly 40% of the increase in global oil consumption between 2004 and 2007, and is forecast to account for another 40% of the increase in world demand for oil through 2030.8 In 2009, moreover, it surpassed the United States in the volume of oil exports from Saudi Arabia for the first time, as surging Chinese demand intersected with a 50% drop in US requirements during the global economic downturn.9 The milestone visibly underscored the internationalisation of the Gulf through the rise of new linkages with emerging

8 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.
economies elsewhere. Although already underway, 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 statement by the Emir of Qatar in March 2009 captured the mood as he said that “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.”

The GCC States and the Changing Global Order

These macro-trends determined the contextual parameters for the Gulf States’ new global profile. They converged with policy decisions on how to deploy the substantial revenues that accrued after oil prices began to rise in 2002. These developments enhanced the international profile of the GCC states within an international system in flux following the 2007-9 global crisis. Gulf-based sovereign wealth funds were important sources of liquidity for Western financial institutions such as Merrill Lynch, Citigroup and Barclays Bank during the initial stages of the crisis. During the autumn of 2008, they accounted for no less than one-third of the emergency funding made available by European governments in their initial response to the crisis. They also acquired high-profile stakes in iconic global brands such as Harrods, Ferrari and Porsche. 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-making.

The rapid rise of sovereign wealth funds highlighted several of the deeper transitions underway in the global economy. Pre-crisis estimates of their value and potential trajectory were overestimations that subsequently have been further eroded by losses sustained during the downturn. Nevertheless they do possess significant holdings and have been perceived to be part of the shift in global economic power from west to east and from the market to the state in the allocation of capital. 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 (so far unfounded) political motivations driving investment decision-making. The most egregious example of this was the visceral reaction to the 2006 Dubai Ports World’s 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 the United States. Policy-makers expressed concern at the inability of US officials to provide them with a list of “national security” no-go sectors for future investment. 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 linkages initially centred around hydrocarbons, with a Strategic Oil Cooperation agreement in 1999 paving the way for Saudi Arabia to become China’s leading oil supplier by 2002. During 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. Also in 2009, a 25-year agreement to provide five million tonnes per year of liquefied natural gas (LNG) was reached between Qatargas and the China National Offshore Oil Company (CNOOC) and PetroChina. This created a long-term interdependency reflecting (in the words of 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 Chinese market.”

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 broader neighbourhood. His visit sealed the re-emergence of Indian influence in the Gulf six decades after the decline of the Raj and following an extended period of frigidity between the 1970s and early 1990s. 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, defence, economic and energy arenas. It built upon King Abdullah bin Abdul Aziz’s successful visit to India in 2006 and was, in part, motivated by a strategic reassessment of

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Saudi regional ties prompted by the threat to stability emanating from Yemen, Afghanistan and Pakistan.19

Russia, too, expanded its political and economic linkages with the Gulf in general, and with fellow gas producer Qatar, and Saudi Arabia, in particular. Then-President Vladimir Putin’s visit to the two countries 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.20 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.21 On Saudi Arabia’s side it reflected an attempt by King Abdullah to strengthen ties with Russia as part of a general diversification to reduce dependence on the United States after 9/11. Russian-Qatari ties also coalesced around cooperation in the Gas Exporting Countries’ Forum and bilateral agreements such as one reached in April 2010 to develop Russia’s Arctic gas reserves in the Yamal peninsula.22

Significantly, Gulf-Asian relations have moved far beyond the hydrocarbons sector, although that clearly remains important. A case in point 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.23 Similar to KCIC, 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.24 Region-wide, the GCC as a trading bloc became more globalised and integrated during the second oil-price boom in terms of level of capital outflows and inflows. Dubai, in particular, developed into a regional financial centre (against stiff competition from Qatar and Bahrain) covering the wide area between the European and East Asian exchanges.25 Ideationally, too, Dubai, Bahrain and Kuwait all looked toward, and applied, elements of, the “East Asian model” in their development plans.

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22 “Qatar, Russia Agree on Yamal Gas Joint Project,” The Peninsula, April 20, 2010.
23 M. Ghafouri, “China’s Policy in the Persian Gulf,” Middle East Policy, 16(2), 2009, p. 89.
24 Yetiv and Lu, China and the Middle East, pp. 207-8.
during this period (2002-8), expressing close interest in Singapore’s proactive leadership and combination of state guidance with private initiative.  

“Global Governance” versus the “Governance of Globalisation”

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. 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. 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” involved 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.

Yet the GCC states emerged from the crisis in relatively better condition than many of their counterparts in the industrialised Western economies. 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 the pressure on local banks by investing up to $350 billion in 2008-9. Oil prices rebounded from lows of $30 per barrel in early-2009 to again exceed


$100 per barrel in 2011, although the resulting gains to Gulf economies were offset by inexorably rising budget break-even requirements.\textsuperscript{31} Qatar and the UAE (and Saudi Arabia to a lesser extent) still remained regional and even global leaders in aviation, shipping and logistics.\textsuperscript{32} This left policy makers in a stronger position to re-tap into global trade flows and shifting geo-economic trajectories once the immediate crisis had passed.

Saudi Arabia received international praise for its role in stabilising world oil markets in late-2008 and early-2009. It also used its seat at the G20 and 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 State policy makers expressed their irritation at assumptions that they would unquestioningly contribute to IMF rescue packages. In November, 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 rumours that “we were coming here to pay the bill,” Al-Assaf stated that “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.”\textsuperscript{33} 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.”\textsuperscript{34}

In the run-up to the second meeting of the G20 in London 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 February 2009 and pledged to work with the GCC “with a view to reforming the global financial institutions.”\textsuperscript{35} Shortly thereafter, Saudi Finance Minister Al-Assaf made it clear that the Kingdom advocated an increase in the shares and voting powers in international financial institutions.\textsuperscript{36} The formalisation of coalitions of “middle powers” took a step forward in June 2009 with the creation of the BRIC Forum in Yekaterinburg in Russia. This new annual summit of

\textsuperscript{31} The Institute of International Finance estimates the break-even price for Saudi Arabia has risen from $20 to $80 since 2000 and projects it will reach $110 by 2015; S. Hertog, “The Costs of Counter-Revolution in the Gulf,” \textit{Foreign Policy}, May 31, 2011.

\textsuperscript{32} “Aviation in the Gulf: Rulers of the New Silk Road,” \textit{The Economist}, June 3-9, 2010.


\textsuperscript{35} “China to Boost Relations with GCC: President Hu,” \textit{Arab News}, February 12, 2009.

the four leading emerging economies (which subsequently met in Brasilia in 2010 and Sanya in China—with South African participation—in 2011) created a platform intended to counter-balance perceived US leadership in the global system.\footnote{“BRIC’s Get Down to Business in Yekaterinburg,” \textit{Russia Today}, June 15, 2009.} 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 that would more accurately reflect their weight in the global economy.\footnote{“Saudi Says IMF Reforms Should Not Be At Its Expense,” \textit{The Peninsula}, September 5, 2009.}

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 organisational framework in recognition of the emergence of a multi-polar order in which the West no longer was the sole or even major player.\footnote{“Qatari PM Stresses Rule of Law to Face Challenges,” \textit{Gulf Times}, May 31, 2009.} His intervention was significant as it represented one of the most detailed statements of the objectives that guided GCC states’ policy makers 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 domestic level foreshadowed Qatar’s role in organising Arab support (and critical political cover) for the United Nations Security Council’s imposition of a No-Fly Zone over Libya in March 2011.\footnote{“Libya Conflict Shows Global Reach of Emerging Polities Qatar and Turkey,” \textit{Gulf States Newsletter}, 35(903), June 24, 2011, p. 16.}

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 globalisation than to normative concepts of global governance. Attitudes toward globalisation also diverge, with economic globalisation, being (at times grudgingly) embraced, while its political and cultural dimensions, have been fiercely resisted.\footnote{M. Lynch, “Globalization and Arab Security,” in \textit{Globalization and National Security}, ed. J. Kirshner (New York: Routledge, 2006), p. 188.} This is consistent with complicated and nuanced positions toward globalisation and global governance in primarily post-colonial settings elsewhere. Discourse in both China and India, for example, is deeply sceptical of global governance as an intrusion into sovereignty and coloured by experiences of foreign in-
tervention and colonial control. With this in mind, Robert Keohane has, alternatively, suggested that an effective form of governance of globalisation is more likely to occur through inter-state cooperation and trans-national networks.

There is, additionally, low awareness of the concept of “global governance” in the Gulf States. In December 2008 the 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.” Regional institutions such as the Dubai School of Government and the Hawkamah Institute for Corporate Governance focus 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 reinforce the division between globalisation and global governance in much of the non-Western world.

Nevertheless, as the first part of this section made clear, scepticism 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 emerged as powerful global players during the second oil-price boom. Policy makers have actively participated in practical measures relating to the governance of globalisation, in part by creating coalitions of convenience with other major emerging economies which share an interest in reshaping frameworks of global engagement. In addition to the international financial architecture described above, similar patterns are observable in new structures of 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


44 Author interviews in Bahrain, Kuwait, Qatar, Abu Dhabi and Dubai, October 2009, Kuwait March 2010, Qatar December 2010.


toward the international politics of climate change. These have significant implications for the continuing evolution of international institutions in a poly-centric environment with multiple centres of influence and policy objectives.47

Conclusion—New Challenges, Interlocking Problems

During 2011 a wave of popular protests and intensifying opposition to authoritarian governance began to sweep the Middle East and North Africa. What developed into the “Arab Spring” led to the rapid fall of longstanding presidential regimes in Tunisia and Egypt and posed an existential challenge to leaderships in Yemen, Syria, Libya and Bahrain. Its size and contagious over-spill distinguished the civil uprisings from other expressions of discontent, and demonstrated the magnitude of the socio-economic and political challenges facing the region. They also revealed the narrow social base of support underpinning longstanding authoritarian rulers, and their reliance on the use of coercion or the threat of force.

The Arab Spring breathed new life into demands for political reform in the Arabian Peninsula. Since the beginning of the civil uprisings in North Africa, a series of petitions and calls for meaningful change have rattled the Gulf monarchies. They have also tested the boundaries of permissible opposition in these authoritarian states. Yet the response has been repressive, as regimes have sought to close down political space and de-legitimise the act of dissent. The result has been a polarisation of opinion between advocates of reform and proponents of repression.48 Particularly in Bahrain, the brutal and totalitarian crackdown (facilitated by the deployment of military forces from Saudi Arabia and the UAE and inter-marriage between the Al-Khalifa and Al-Saud ruling families) came at a very high price economically and politically, and shattered social cohesion in a country polarised as never before.49

Gulf ruling families’ legitimacy is rooted in their ability to redistribute oil revenues and co-opt opposition. Its breakdown in Bahrain hints at the difficulties to come when rulers no longer can simply spend their way out of trouble (as Saudi Arabia is presently doing), or rely on resource rents to put off the difficult political and economic reforms necessary to underpin economic transformation into productive and competitive post-oil economies. This inescapable reality drives economic diversification programs in all six

GCC states as rulers attempt to cushion the looming challenges of transition. Officials elsewhere will be absorbing lessons from the Al-Khalifa’s crushing of opposition at the expense of its international credibility, while international policy makers will face new dilemmas in their engagement with strategic partners in the region.

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