The GCC States of the Persian Gulf and Asia Energy Relations

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Executive Summary

Since the 2000s, China’s and India’s needs for hydrocarbons, coming on top of those of older industrialized Asian countries (Japan and South Korea), have considerably strengthened customer-supplier links between Asia in general and the Persian Gulf, in the energy field.

The Asian market plays a major economic role for countries of the Gulf Cooperation Council (GCC). As a group, they export three and a half times as much to the Japanese, Korean, Indian and Chinese markets than to the European Union (EU27) and the United States combined (€203 billion compared to €58 billion, in 2010).

- Japan is both the oldest and most important Asian partner. It is the lead market for oil and the main destination for LNG. Geographically speaking, Asia is also the top destination of LNG produced in the Persian Gulf. At the same time, Japanese companies have strongly contributed to the industrial modernization of the Gulf States through technology transfers. Japan is behind the development of the LNG sector in the United Arab Emirates (UAE), Qatar and Oman. It is also involved in major petrochemical projects, especially in Saudi Arabia. The 2000s witnessed a massive return of Japanese investors in Saudi petrochemicals and Qatari refining, to the great benefit of various partners.

- South Korea is a major market for oil and gas exports from the Gulf. It is the second importer of LNG after Japan: in 2010 it was the third largest importer of Qatari LNG, and Oman’s top importer. Korea was also the first Asian country in which Gulf producers set up downstream projects in the oil sector of their clients (refining). This practice has subsequently spread in the region (especially in China). At the same time, Korean companies have played a substantial role in the Gulf’s industrial modernization. With the new oil boom of the 2000s, they became leaders in EPC (engineering, procurement and construction) markets, in the oil and gas sectors of the GCC countries. These contracts have allowed the latter to modernize at lower cost.
Energy relationships between China and the oil monarchies of the Gulf have grown at an accelerated rate. The GCC countries as a whole henceforth export more oil to the Chinese market than to the United States. They have also started to export LNG to China (notably Qatar). These links will grow considerably in the future, given China’s rapidly expanding gas demands: trade between the GCC and the People’s Republic of China could reach $350-500 billion by 2020, compared to $6 billion at the start of the 2000s. Relations go beyond trade in hydrocarbons. China is Saudi Arabia’s top destination for non-oil exports. Gulf producers are also very present in the Chinese refining and petrochemical sectors. New links are being developed in the other direction, as Chinese companies penetrate the Gulf’s refining sector (for example in Saudi Arabia). The China-Persian Gulf link will be a fundamental dimension of the region’s geopolitics in the 21st century.

During the 2000s, India also considerably developed its energy relations with the countries of the Persian Gulf. In 2010, nearly three-quarters of its oil imports came from the zone. This year, India has imported more oil from the Gulf than China, the European Union or the United States. Only Japan has imported more oil from the Gulf, but given rising demand, India is set to overtake it rapidly. India also imports LNG from the region. Qatar was its top supplier in 2010. This year, India is its most important Asian client in volume terms, ahead of South Korea and Japan. Gas exports from the Gulf to India should also rise in the future, though less quickly than gas exports to China. India has substantial advantages in the region compared to China. It has security ties with the GCC and can count on important local go-betweens (expatriate communities of several million persons). The links between India and the Persian Gulf will also be a fundamental structural dimension of the region’s geopolitics in the 21st century.

Further possibilities are also opening up in the energy sector.

Despite the arrival of new competition (from the USA, Canada, Africa, shale gas, etc.), the outlook in Asia for Gulf producers of LNG (Qatar, Oman, the United Arab Emirates) is promising. Given the Fukushima catastrophe, Japanese LNG imports have risen. Their size in the medium term, however, will depend on Tokyo’s choices concerning nuclear power.
Otherwise, the medium term prospects for gas consumption in Asia, above all in China and India, are very important. Asia will not only remain a leading destination for LNG producers of the Persian Gulf, but will take an ever greater share of Gulf exports. China’s and India’s role in this growth will be predominant.

- Opportunities for advanced Asian countries (Japan, South Korea as well as China) in the nuclear energy sector in the Gulf are also significant, given rising electricity needs, especially in countries like Qatar and Saudi Arabia. Kuwait has ruled out nuclear power, at least temporarily. South Korea made a spectacular breakthrough in the sector in 2009, when the UAE selected a consortium led by the Korea Electric Power Corp. (Kepco) to set up four reactors, rather than the French bid. On the basis of this success, Seoul is henceforth positioning itself in Saudi Arabia. Western companies need to take into account such Asian competition in the future.

- Lastly, new opportunities for cooperation between the Gulf monarchies and their Asian partners exist in renewable energies (solar and wind power). Saudi Arabia, the United Arab Emirates, as well as Kuwait and Bahrain are all interested in such resources. Development schemes and co-investment projects in renewable energies have been tested successfully, especially in Abu Dhabi, with the participation of Asian companies (Japanese firms in this case). Apart from the advanced Asian countries, China too could play an important role in the development of renewable energies in the Persian Gulf, given China’s efforts in this sector.

Despite the growing economic importance of Asia to the GCC countries, the Gulf monarchies still have a clear interest in their relations with their traditional Western partners, especially in terms of investments and technologies. It is in their interests to maintain strong economic links with Europe and the OECD countries in general. In the future, Asian hydrocarbon consuming countries as a whole – as indeed the EU and the USA – will have an interest in the stability and security of the Persian Gulf. Yet a certain degree of rivalry between them may well express itself (for example, between India and China).
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The world is shifting towards Asia, for many reasons. The most fundamental is undoubtedly demographic, along with Asia’s growth rates driven by the rise of the Chinese and Indian economies. Over the last decade, the rising energy needs of Beijing and New Delhi, coming on top of existing demands by Asian countries that have industrialized since World War II, have considerably strengthened links with suppliers, bringing together Asia and the Persian Gulf in the field of energy. The weight of Asia has thus grown considerably in the trade of the GCC states. Economic relations have extended beyond energy, while political links have also expanded. Progress has even been made in the area of security. From an economic point of view, even if relations with the West remain very important, it is possible to talk of an “Asianization” phenomenon in the Persian Gulf. Some authors even evoke the more vivid image of a “new silk road”, given trade flows which have evolved massively between this region and Asia since 9/11.1 While this phenomenon is indeed highly visible, it is not just based on recent developments. The Persian Gulf has had close ties with Asia since time immemorial. From a historical point of view, it was only in recent times that these links loosened, only to re-emerge today. This has been particularly visible in the last decade. However, significant foundations – often unknown to the West – were constructed between the GCC states of the Persian Gulf and Asia during the Cold War. This is especially so in the field of energy. On these foundations, the economic take-off of China in the 1980s and 1990s and or India in the following decade intensified relations between the GCC states and Asia. Today, new possibilities are emerging in energy and other sectors, suggesting that the economic weight of Asia in the Persian Gulf is set to continue to grow in the future, leading to considerable change in global geopolitics.

1 See Ben Simpfendorfer, La nouvelle route de la soie. Comment le monde arabe délaisse l’Occident pour la Chine, Paris, Autrement (coll. Frontières), 2011, 213p
The Persian Gulf and Asia: historical proximity and decline in recent times

It is all-too-frequently forgotten that the Persian Gulf is geographically part of Asia. For Westerners, the Gulf is usually associated with the “Middle East”. But seen from India, Japan, Malaysia or China, this part of the world is actually the western part of the Asian continent. This explains why it is classified as “Western Asia” by many Asian ministries of foreign affairs. In addition to geography, history, culture and religion are all old factors linking this region to vast parts of the Asian continent. Indeed, historically relations between the Persian Gulf and Asia in general are ancient. The Gulf opens into the Indian Ocean and the Asian continent, and has always been a crossroads for trade routes linking the Middle East to India, South-East Asia and China. Relations between the Gulf and the different parts of the Asian continent have certainly varied according to distance and across epochs. They have been less intense with the more distant areas of Asia, and did diminish, even with neighboring regions, in recent times due to Western imperialism, followed by the Cold War. But this overall observation needs to be qualified for certain parts of Asia, especially the Indian Subcontinent. In fact, relations between the Persian Gulf and the Subcontinent have always been close. Right up until the present age, India has been the Gulf’s main trade partner, a market for its goods (pearls, dates and horses) and its main supplier (food products and wood). Even the arrival of Europeans as of the 16th century, which hampered traditional relations with the rest of Asia, did not challenge interactions with India. On the contrary, British domination of the Subcontinent actually linked the Gulf zone (dominated by London until the British withdrawal in 1971) politically and in terms of security with India for a century and a half. 2 It was only when the British left India in 1947 that links between the

2 Apart from Saudi Arabia, which created itself independently of the West (becoming a sovereign state in 1932), London dominated the Persian Gulf through to the 1970s. Kuwait became independent in 1961. But Oman only opened up to the outside world as of July 1970, and the other Emirates of the Persian Gulf remained under British protection until 1971. It was only after the British withdrew “East of Suez” in 1971, after more than a century and a half, that the present-day Qatar, Bahrain and the United Arab Emirates were born.
Subcontinent and the Persian Gulf entered a period of relative decline, due to the weakness of the two newly-independent States (India and Pakistan), and their economic problems.
From the Cold War to the new Millennium: the tranquil rise of Asia in the Persian Gulf

During the Cold War, relations between the Persian Gulf and Asia in general fluctuated significantly depending on the Asian partners involved. The traditional relations between the Gulf and India went through a period of decline for political and economic reasons. Similarly, relations with China were very limited during this period. Generally, the States in the Gulf zone fostered important political, economic, financial, energy and security relations with the West during the Cold War (security ties were most notable with Britain and the United States). However, it is an incorrect perception in the West to believe that Asia was wholly absent from their concerns at the time. In fact, even if it was not particularly visible to Western observers, one of the notable trends of international relations at the time was the early establishment by the GCC states of substantial diplomatic, economic and above all energy ties with the major industrialized countries of Asia. These were allied to the United States, but were also consumers of oil and gas. They included Japan, the Asian “Dragons” (South Korea, Taiwan) and the Asian “Tigers” (Singapore, Thailand, Malaysia, etc.), as these countries took-off (Japan in the 1950s, the Dragons in the 1960s and the Tigers in the 1970s and 1980s). These links were sometimes important, and led the Gulf to turn to Asia as of the Cold War. They also constitute the foundations of the progressive deepening and subsequent diversification of Asian-Gulf relations and facilitated the rise of relations with other Asian states, which could simply follow these well-beaten paths. The growing importance of links between Asia and the Gulf States in the post-Cold War period and since 9/11 is therefore not as unexpected as it might seem at first sight, as its roots go back to the relationships established with East Asian industrialized countries over several decades. The role of these large industrialized Asian countries allied to Washington during the Cold War should be stressed in particular. Their energy needs linked to their economic rise as well as the political and above all economic relations they built up with the GCC

3 Much information in this section is drawn from the various websites of Ministries of Foreign Affairs, Embassies, etc. of the various countries of the Persian Gulf and Asia.
states during this period all contributed to orienting the Gulf towards Asia. This has been especially the case for Japan and South Korea.

The developments of the 1980s and 1990s come on top of these foundations. They stem from China’s entry onto the scene in the field of economics, following the reforms launched by Deng Xiaoping, and the end of the Cold War, which transformed the international context and facilitated the rapprochement of Beijing and the GCC countries. Relations between the Gulf States and the Chinese giant began to emerge during the 1980s, before really taking-off in the 1990s. They paralleled the development of the Chinese economy and its consumption of hydrocarbons, as well as the entry of the Gulf States into the WTO at the end of the 1990s and of China in 2001. Saudi Arabia’s accession to the WTO in 2005 allowed for a further expansion of trade relations with Asia.

The 1990s also saw New Delhi launch its economic reforms and become a member of the WTO (1995), which too increased opportunities for interactions with the GCC countries. Economic relations with India expanded especially at the turn of the Millennium, paralleling the rise of the Indian economy and the growth of its energy consumption (oil and gas).

The general economic expansion of Asia has stimulated energy consumption, including of hydrocarbons by China and India. This in turn has led to higher oil prices and greater revenues for the GCC states. In fact, the 2000s witnessed a new oil boom take place. In this context, the booming Asian economies have provided the Gulf States with investment opportunities that are useful in reinforcing bilateral economic relations, but which also ensure the diversification of their assets in anticipation of when oil output will decline. Asian countries also provide a means for diversifying investments outside Europe and the United States, which had been traditional host countries until then. For the Asian countries, the oil boom of the 2000s in the Gulf provided opportunities for them to strengthen bilateral flows, as well as of investing and participating in the development of local infrastructures.

Apart from such essentially economic developments, other factors have encouraged the rapprochement between the GCC states of the Gulf and Asia. These include 9/11 which seriously weakened relations between the United States and Saudi Arabia in the beginning of the decade, not just politically but also economically: the climate in the US (with the adoption of the Patriot Act) was considered by Riyadh and elsewhere in the Gulf as a threat to investments in America. The DP World affair, in which US public opinion picked up by Senators blocked the purchase of P&O by a port management company from the Emirates in 2005, reinforced such worries. Restrictive visa measures adopted in the context of the war on terror by Western countries have also hindered trade and have led
Arab entrepreneurs (including from the Gulf) to look to Asia. The Iraq war has also complicated US-Saudi relations. These events have led Riyadh to turn more to Asia (China and India) to counterbalance Washington’s influence (for example, the highly publicized visit of King Abdullah to India and China).

The issue of Iran’s nuclear technology has in addition encouraged the GCC states both to cultivate links with Asian countries close to Tehran (such as China) and seek support from the other major Asian actors on the international stage (India and Japan).

The economic crisis which began in 2008 has not only reduced the economic weight of the West, but has also led to a loss of confidence by the Gulf States in the Western model. For Beijing, in contrast, the crisis has offered China the possibility of increasing its presence and its economic weight, while at the same time its own economic development model has become more credible.

Lastly, the new context of the “Arab Spring” has both stimulated the interest of certain countries (like Saudi Arabia) in reinforcing its relations with conservative Asian countries (including China), while also temporarily straining bilateral relations, as China’s support for Syria is not appreciated in the region.

This set of factors, along with others, have together transformed Asian-Gulf relations considerably and created new forces for economic and political rapprochement that must be taken into account, in as far as this reality is set to change and consolidate itself rapidly.

4 See the phenomenal success of the Chinese city of Yiwu at Zhejiang which henceforth attracts more than 200,000 retailers from the Middle East, in Ben Simpfendorfer, La nouvelle route de la soie. Comment le monde arabe délaisse l’Occident pour la Chine, op. cit., pp. 17 and Dan Levin, “China’s Return to the Silk Road”, Fast Company, June 22, 2011. Similarly, the dynamism of small Chinese entrepreneurs in the Gulf (especially in Dubai) in Ben Simpfendorfer, La nouvelle route de la soie. Comment le monde arabe délaisse l’Occident pour la Chine, ibid., pp. 36 and elsewhere.
During the Cold War and until the turn of the Millennium, the most important political and economic relationship of the GCC states was with Japan.

Diplomatic relations were established between Tokyo and Saudi Arabia as of 1955. But high level political contacts with the Kingdom did not really start before 1960. Diplomatic relations were also set up with Kuwait when it became independent in 1961, and with Oman, the United Arab Emirates, Bahrain and Qatar in 1972. Given its importance in supplying oil, the Gulf zone was always seen as the most important part of the Middle East by Tokyo in its foreign policy. Its priorities are to ensure the stable supply of oil and to establish stable and friendly relations with these countries. Tokyo’s political positioning is not identical to Washington’s (notably concerning the Israeli-Palestinian conflict).\(^5\) This position has been found elsewhere too, for example in South Korea, to say nothing of China later. During the Cold War, Japan was considered as the most pro-Arab, industrialized country.

Its attitude, however, did not stop Japan from being threatened by the oil embargo organized by the GCC states in the wake of the Yom Kippur war in the autumn of 1973.\(^6\) But this episode did not challenge the bilateral relations with the GCC states overall. On the contrary, it pushed Tokyo to double its efforts to deepen bilateral, friendly political relations in the following decades and even more so after the first Gulf War (1991), when its hesitant attitude was criticized especially by Kuwait. The 1990s saw the successful expansion of high-level diplomatic visits, the most prestigious for Japan being the tour by the Crown Prince of Japan to the Gulf at the end of 1994 (to Saudi Arabia, Oman, Qatar and Bahrain) and in early 1995 (Kuwait, and the UAE).

\(^5\) See Akifumi Ikeda, “Japan’s relations with Israel”, in Japan in the contemporary Middle East, Edited by Kaoru Sugihara and J.A.Allan, SOAS Japan Research Centre and SOAS Centre of Near and Middle Eastern Studies, London and New York, Routledge, 1993, p. 148
\(^6\) Relations with the Gulf oil producers did return to normal in December 1973.
In the 2000s, Japan sided with Washington in the Iraq war (2003) and became worried about China’s rising power. It enhanced its diplomatic contacts with all the GCC states, in order to foster political ties and friendly relations with the States so as to protect its energy interests in the region. Tokyo and its partners increased exchange visits of high-level decision-makers along with political dialogue. Given the rise in contacts between Riyadh and Beijing, Japan has sought to establish a multi-faceted strategic partnership with Saudi Arabia (2006). Japan also reinforced political relations with Kuwait in 2008, by creating a joint committee to promote bilateral relations (first meeting in 2010).

While political relations are important, ties between the various Gulf States and Japan nevertheless remain mainly economic. Due to its economic take-off and the role of oil in its energy consumption, in 1973 oil accounted for 77.4% of Japan’s total primary energy consumption, Tokyo quickly became Asia’s main importer of oil flowing from the Persian Gulf, during the Cold War. Despite the cut in the share of oil in primary energy (42% in 2010) and the rise of other heavy consumers (China and India), Japan still remains the largest importer, taking 3.629 million barrels per day (mbd) from the Gulf in 2010, ahead of India (2.612 mbd) and China (2.383 mbd). Japan will surely yield its place to India and China over time, given the size and energy needs of these two Asian giants. However, Japan, which is now the world’s third largest economy behind China, continues to be the top export market for the Gulf producers. Overall, the Japanese market was even more important for the Gulf Cooperation Council (GCC) countries in terms of oil exports in 2010 than were the US and EU-27 markets combined. The main Gulf suppliers of oil to Japan in 2010 were respectively Saudi Arabia (29.2%), the United Arab Emirates (20.9%), Qatar (11.6%), Iran (9.8%), Kuwait (7%) and lastly Iraq (3%). The Gulf alone accounted for 81.5% of Japanese crude oil imports in 2010 (with the GCC states alone making up 68.7%). Russia was the only supplier outside the region in 2010 (providing 7.1% of Japanese imports).

In 1973, 78.1% of Japanese crude oil imports came from the Middle East, essentially the Persian Gulf. The lowest Japan’s dependency on the Gulf has fallen to was 70.4 in 1985. In contrast, in 2001 it reached 88.4%. The rate then fell to through to 2011, thanks to imports from Russia. Given its massive oil imports from the Gulf, a dependency which Tokyo has been unsuccessful in reducing, Japan has very high trade deficits with the

8 According to BP statistical Review of World Energy 2011, June 2011, p. 18
region. In 2010, total trade flows between Japan and the Gulf States stood at €92 billion, with the Japanese deficit running to €62 billion.

### Japanese trade with the GCC countries (2010)

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<th>Imports</th>
<th>% of total Japanese imports</th>
<th>Exports</th>
<th>% of total Japanese exports</th>
<th>Total</th>
<th>% total trade with the GCC</th>
</tr>
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<tr>
<td>Saudi Arabia</td>
<td>27.04</td>
<td>5.3%</td>
<td>4.9</td>
<td>0.9%</td>
<td>31.94</td>
<td>34.6</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.49</td>
<td>0.1%</td>
<td>0.44</td>
<td>0.1%</td>
<td>0.93</td>
<td>1</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>22.1</td>
<td>4.4%</td>
<td>5.54</td>
<td>1.0%</td>
<td>27.64</td>
<td>30</td>
</tr>
<tr>
<td>Kuwait</td>
<td>7.75</td>
<td>1.5%</td>
<td>1.07</td>
<td>0.2%</td>
<td>8.82</td>
<td>9.6</td>
</tr>
<tr>
<td>Qatar</td>
<td>16.36</td>
<td>3.2%</td>
<td>0.86</td>
<td>0.2%</td>
<td>17.22</td>
<td>18.7</td>
</tr>
<tr>
<td>Oman</td>
<td>3.38</td>
<td>0.7%</td>
<td>2.35</td>
<td>0.4%</td>
<td>5.73</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>77.12</strong></td>
<td><strong>15.2%</strong></td>
<td><strong>15.16</strong></td>
<td><strong>2.8%</strong></td>
<td><strong>92.28</strong></td>
<td><strong>100</strong></td>
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**Japanese historical efforts to enter oil production upstream in the GCC: mixed results**

As of the oil-shock in 1973, Tokyo proposed to participate in oil exploration and production activities in the Gulf, while some countries were beginning to nationalize their oil industries (Saudi Arabia from 1974 onwards, Kuwait in 1975, and Qatar in 1977). Its success was therefore limited, foreshadowing the difficulties which Beijing and New Dehli also faced in penetrating the sector several decades later. Only Abu Dhabi in the Emirates escaped the wave of nationalization which affected the region in the 1970s.

Jodco (the Japanese Oil Development Company, today called Inpex) benefited from this in 1973, by participating in an international consortium to explore an offshore concession off the Emirate’s coast (the Umm Shaif and Lower Zakum fields). At the end of the 1970s and in the early 1980s, Jodco extended its activities in the Emirate, in

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10 See [www.enecho.meti.go.jp/policy/energy/ene01.htm](http://www.enecho.meti.go.jp/policy/energy/ene01.htm) (in Japanese). In 1973, 78.1% of Japanese crude oil imports came from the Middle East, essentially the Persian Gulf. The lowest Japan’s dependency on the Gulf has fallen to was 70.4% in 1985. In contrast, in 2001 it reached 88.4%. The rate then fell to through to 2011, thanks to imports from Russia.
cooperation with the Abu Dhabi National Oil Company (Adnoc) (ADMA block: the Upper Zakum, Umm Al-Dalkh and Satah fields). These developments are continuing presently in order to maintain and increase the production of these fields. In addition, a consortium of Japanese companies (Nippon Oil, Cosmo Oil, Tokyo Electric, Chubu Electric and Kansai Electric) hold 100% of three oil fields off the coast of the UAE and Qatar (Mubarraz, Umm Al-Anbar and Neewat Al Ghalan). In 2011, it renewed the concession for 30 years and won a new concession (the Hail field).

It should be noted that the largest Japanese success in oil in the Gulf, however, dates back to the pre-1973 era, as in the late 1950s, Japan signed separate concession agreements with Saudi Arabia and Kuwait to explore the area off of the "Neutral Zone" (today the "Divided Zone") between the two countries. A mixed company (Arabian Oil Company, or AOC) was created with Saudi Arabia and Kuwait. It discovered and exploited the Khafi field as of 1961 and the Hout field as of 1963. However, Japan lost the rights to Khafi to Saudi Arabia in 2000 and to Kuwait in 2003. Overall, Japanese efforts to enter oil production upstream in the GCC states have therefore met mixed results.

**Development of cooperation in the downstream sector**

While the GCC states in the Gulf have been reticent about welcoming Tokyo in the exploration and exploitation sector, they have acted positively towards Japanese companies in other areas of economic and industrial development, and in training local labor. These companies have participated, for example, in the expansion and modernization or creation of refineries in Saudi Arabia, as of the 1960s (in Djedda and Riyadh, and in Yanbu in 1980). Japanese firms have thus developed a commercial presence in Qatar, Kuwait, and the UAE, as of the 1970s. Some firms like the Chiyoda Corporation are active in the chemical sector (establishing factories producing

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13 For details see http://www.jodco.co.jp
14 "Japan Cosmo Oil wins UAE stake extension, new stake", Reuters, 3 February 2011
15 With the latter, however, when the convention expired in January 2003, the Arabian Oil continued to participate in operations in the field via a technical service agreement reached with Kuwait for five years. This ended in January 2008. Arabian Oil still holds the agreement to purchase oil for 20 years, as of 2003, and which guarantees Kuwait the purchase of 100,000 b/d until 2023.
16 As of the 1950s and 1960s, Dubai became a hub for exports to India. Japanese textile companies benefited from this. Electronic goods destined for the Subcontinent transited via Dubai, in the 1970s and 1980s.
chemical fertilizers in Kuwait, the UAE and Qatar as of the 1970s and 1980s, or in refining (crude oil refineries and distillation units were set up in Kuwait), or petrochemicals (in Saudi Arabia from the 1980s onwards).\(^{17}\)

But Japanese companies play a substantial role above all in the industrial modernization of the GCC states, based on technology transfers. Thus a technology cooperation agreement was signed between Saudi Arabia and Japan in 1975. It favors the transfer of technology in the petrochemicals sector, via the creation of mixed companies in the Kingdom. This cooperation bore fruit in the late 1970s/early 1980s with the establishment of two joint Japanese-Saudi companies: Ar-Razi and SHARQ. The Ar-Razi Saudi Methanol Company was set up in 1979. It is owned equally by the Saudi Basic Industries Corporation (SABIC: established in 1976 and which today is the world’s largest chemicals company by value) and the Japan-Saudi Arabia Methanol Company, a consortium established in 1979 and directed by the Mitsubishi Gas Chemical Company. Ar-Razi was established in the Jubail industrial district, and began producing methanol in 1983 (Ar-Razi I). It was expanded in the 1990s and today runs five production plants: the last being Ar-Razi 5, one of the largest projects in methanol production in the world, with a daily output of 1,700 tonnes, coming on-stream in 2008. Mitsubishi (via the Saudi Petroleum Development Company, SPDC) also set up a joint company with the SABIC in the Jubail industrial district, in 1981: the Eastern Petrochemical Co (SHARQ). This company began trading in 1985, and has gone through two phases of expansion, including most recently in April 2012.\(^{18}\) SHARQ has become the largest plant in the world manufacturing ethylene glycol. The two projects are run by private companies but receive support from the Japanese state, which hopes to reinforce its energy security by setting up “oil in exchange of technology” partnerships. On the Saudi side, such projects have laid industrial foundations which are particularly useful for the future of the petrochemical sector. These two pioneer projects however were not followed up by other massive Japanese investments in the 1990s, a decade which was characterized

\(^{17}\) This company has remained active in the Gulf States in various energy projects and others until today, see for example the list of projects by country http://www.chiyoda-corp.com/project/en/area/middle-east

according to Makio Yamada by real “Gulf phobia” on behalf of Japanese investors due to the problems Mitsui had in Iran.

This feeling is now outdated. The 2000s saw a massive return of Japanese investors in the Saudi petrochemical sector, to the great benefit of both partners. Pushed forward by international competition which has intensified, and to ensure their own competitiveness, Japanese companies henceforth seek to cash in on the competitive advantages of the Saudi petrochemical sector, especially its low production costs, given the use of gas as a raw material rather than naphtha. Riyadh’s accession to the WTO in 2005 has also facilitated things. Several projects have been launched. In 2003, the Japan-Arabia Methanol Company (JAMC), a consortium of Japanese companies led by Mitsui, created a joint company with Saudi International Petrochemical (Sipchem), the International Methanol Company (IMC, 65% of which is owned by Sipchem and 35% by JAMC) for the production of methanol in Jubail. Production began in December 2004.22 In August 2005, Saudi Aramco and Sumitomo Chemical agreed to set up Petro Rabigh, one of the largest, integrated refining/petrochemical plants in the world. The two companies own equal shares in this venture (today 37.5% each, with the remaining shares belonging to 4.5 million Saudi citizens). The total investment of this project has been estimated at $9.8 billion. Construction began in 2006 and production started in April 2009.23 After having signed an agreement in 2009, SABIC and the Mitsubishi Rayon Company (MRC) announced the creation of a joint company in April 2009 (held 50:50), in order to build and run two factories in Jubail to produce methyl methacrylate (MMA) and polymethyl methacrylate (PMMA).24 The project is estimated to cost $1 billion, and it should be completed in 2013. SABIC, Asahi Kasei Chemicals Corporation and Mitsubishi Corporation have also signed a strategic agreement in April 2011 to set up a joint company (the Saudi Japanese Acrylonitrile Company, SHROUQ) to produce acrylonitrile (AN) and sodium cyanide (NaCN) in Jubail. The project is being

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25 A raw material for acrylic fibres, plastics, rubber, water treatment chemicals and a wide range of specialty products.
studied and the final decision is to be taken in 2012. This project should draw on Asahi Kasei’s strategy to become the world leader in the AN market. Output will go to markets in the Middle East and Asia. These mutually advantageous projects allow Japanese companies to benefit from Saudi competitive advantages in petrochemicals, while bringing profits to Riyadh in terms of investments -Japan is Saudi Arabia’s top foreign investor, with $13 billion-, technology transfers, diversification of its petrochemical products and of its trade (petrochemicals have become Saudi Arabia’s top non-oil export), as well as the creation of jobs locally, etc. These projects have considerably strengthened Saudi-Japanese ties. Others may take place in the future with Japanese firms, provided conditions in Saudi Arabia remain favorable. The Japanese example may be followed by other Asian countries with advanced technology (South Korea, Taiwan) which are more complementary with Riyadh in the petrochemical sector than are China and India. The latter two today constitute very interesting export markets and investment possibilities, but could rapidly become competitors in this field. (Other Asian countries may also enter ventures with other GCC states interested in petrochemicals, such as Qatar.)

The role of Japan in the development of the gas sector of the GCC States

Japan’s role as a motor in the development of the gas sector in the GCC states is another area which must be underlined. Indeed, it is Japan’s historical interest in liquefied natural gas which has allowed this industry to take-off in the Gulf, by providing it with a market. This is very important given the major investments needed in this activity. Japan began importing LNG at the end of the 1960s (to be followed soon by South Korea in 1986 and Taiwan in 1990). It began to be the world’s top importer in the 1970s, a place it still holds today. In the 1970s, gas was not of much interest to the GCC states of the Gulf, which were much more focused on oil. But ways of making good use of this resource exist, which is also more interesting for some GCC states that actually do not have large oil reserves (Qatar and Oman). Japan’s need for LNG stimulated the interest of local regimes and the large international oil companies to look at gas and this ultimately led to projects going ahead.

26 Sodium cyanide is used in the production of a range of chemicals and in the recovery of gold. 
27 Japan’s Asahi Kasei, Saudi Arabia’s Sabic in acrylonitrile JV », Platts, April 27, 2011. 
28 On this see Makio Yamada, “Gulf-Asia Relations as ‘Post-Rentier’ Diversification? The Case of the Petrochemical Industry in Saudi Arabia”, ibid, p. 114
The case of the United Arab Emirates
As of the late 1960s, the Japanese trading company Mitsui put forward the idea of setting up an LNG plant on Das Island in Abu Dhabi. The firm Abu Dhabi Gas (AdGas) was established in 1973 (with a 15% stake by Mitsui downstream). It was the first company to liquefy gas in the whole of the region. Mitsui’s contacts with large Japanese electricity production and distribution companies allowed the first contract to be signed in 1972, whereby AdGas supplied the Tokyo Electric Power Company (TEPCO). The contract was renewed in 1990 for first deliveries in 1994, and this agreement, which guaranteed a market for Abu Dhabi, allowed the production of LNG to be launched. The relationship has lasted over time, and TEPCO remains AdGas’s main client (for LNG and LPG). Japan’s role was also fundamental in financing the project, via the Export-Import Bank of Japan (J-Exim), guarantees by the Ministry of Trade and Industry (MITI) and the participation of Japan’s private banking sector.

Lastly, the Japanese firm Chiyoda Corporation built the liquefaction trains at Das Island. The first shipment of LNG left Das Island in April 1977, for an 11,000 km journey to Japan, the longest route between a supplier and trader at the time. Since then, links between with Japan have been unbroken. In 2010, 86% of LNG exports by the Emirates went to the Japanese market, making it the fundamental partner in the sector. This pioneering scheme was considered to be very ambitious at the time, but has been reproduced elsewhere in the Gulf since, transforming the region into a major supplier of liquefied natural gas to the world market and feeding the economic development of certain Gulf States (the United Arab Emirates, Oman and especially Qatar).

The case of Qatar
For Qatar, following the discovery of the world’s largest gas field (the North West Dome, today called the North Field) by Shell off the Qatari coast in 1971, various projects were put forward by the authorities to profit from this resource. They were not however realized. It was Japan’s interest in LNG which finally opened the way to transformation in Qatar into a major player, as at the time it was seeking alternative revenues as oil income was falling due to lower production.29 Today, Qatar is the world’s lead exporter of LNG (about 25.5% of world exports in 2010), and the income from gas exports exceeds that of oil: respectively $142 billion and $74 billion in 2010.30

30 Nadim Kawach, “Qatar’s gas income exceeds oil revenue”, Emirates 24/7 Business, October 27, 2011.
Qatar’s economy has been transformed considerably by its cooperation with Japan. It was hard to imagine this at the start of the 1980s. To exploit the discovery of North Dome, the Qatar General Petroleum Company (QGPC, today Qatar Petroleum), BP and CFP (Total) created a joint company in 1984, QatarGas. Yet little headway was made in that decade, mainly because of the Iran-Iraq war which weighed on the safety of navigation (the tanker war) and low Japanese demand for LNG in the 1980s. Basically, a buyer was lacking to ensure the viability of the LNG export project, which Japan ultimately became. In 1989, contacts were established between Mitsui and the Qatari authorities. Japanese trading companies (Mitsui and Marubeni) joined QatarGas (each taking 7.5%). Once again, thanks to links with electricity producers in Japan, a long term contract (SPA) for LNG was signed with the Chubu Electric Power Company in 1992. The withdrawal of BP in 1992 for financial reasons threatened the project for a while. But the US company Mobil (today ExxonMobil), which has solid experience in the LNG sector and which was looking for new resources took over and ensured the liquefaction operations. The change of power in Qatar in 1995 did not alter things, with Emir Hamad being very favorable to the development of gas.

Once again, the role of the Japanese authorities was vital in the setting up of the project in the financing and construction of liquefaction trains for QatarGas I at Ras Laffan. Tokyo in fact provided a $1.6 billion loan via J-Exim, and $400 million was supplied by a consortium of Japanese banks. Japan had to finance 70% of the project. J-Exim even provided capital for the third liquefaction train of QatarGas I at Ras Laffan. Japan’s Chiyoda Corporation had already been present in Qatar since 1980, and won the construction contract for QatarGas I at Ras Laffan Industrial City in 1994. The gas tankers needed to transport LNG to the Japanese market were built in Japan by Japanese companies (Mitsubishi Heavy Industries, Mitsui Engineering, etc.). The first tanker to leave for Japan set sail from the deep water port at Ras Laffan in December 1996.

Japan’s interest in Qatari gas has not let up since. Tokyo is also present in the second LNG project in Qatar, RasGas, which began operating in 1999. Itochu and LNG Japan in fact have stakes in RasGas’s liquefaction trains 1 and 2. RasGas, however, is more linked to South Korea (several contracts have been signed with Kogas). Other Asian countries also entered into long term supply contracts with RasGas during the 2000s, including India and Taiwan.

Qatar certainly diversified its clients in the 1990s, but in 2010, fully 47% of LNG exports went to Asia (with 13.4% going to Japan alone). The Asian market is therefore as important as Europe, but the situation should evolve in favor of Asia.  

31 See below.
Lastly, Japan also became an important partner of Oman in the 1980s, in energy. The first refinery of the Sultanate was set up by Mitsui in 1980. Japanese companies like Japex and Mitsui are also present in oil and gas exploration. At the beginning of the 1990s, Mitsubishi, Mitsui and Itochu participated along with Royal Dutch/Shell, Total and Partex (before being joined by the Korean LNG company) in the creation of Oman LNG, the largest joint public/private company in the sultanate. In 1998, Oman LNG signed a long term supply contract (SPA) for LNG with Osaka Gas. Deliveries started in 2000. Other SPAs have also been signed with Itochu for Japan. Oman became a supplier of LNG to Japan in 2000, with Japanese companies participating in the setting up of facilities to export LNG from Oman during the 2000s (three liquefaction trains at Qalhat). At the beginning of the 1990s, Japan was Oman’s top trade partner. As the Omani oil minister declared in 1993, “Asia is a natural trading partner for Oman”. In 2010, Japan was the second largest buyer of Omani oil exports, taking 33% of the total, thus lying behind South Korea. Overall, Japan is Oman’s third largest trade partner.

Apart from links with Japan, the GCC states have also forged ties with South Korea, as of the Cold War. Diplomatic relations were set up between Seoul and Riyadh in 1962, but political and economic relations really developed in the following decades. Korea’s President Choi Kyu-hah made a diplomatic visit to the Persian Gulf and was received in the Kingdom in 1980, followed by Prime Minister Yoo Chang-soon in 1982. Then, in 1987 Saudi Arabia's Crown Prince went to Seoul. Contacts between high-level officials proliferated considerably during the 2000s. South Korea established diplomatic relations with Qatar and Oman in 1974, with Bahrain in 1976, Kuwait in 1979 and with the United Arab Emirates in 1980. Aside some exceptions, it was the 1990s and 2000s that saw political relations develop in these cases too, via reciprocal visits by leading officials and the implementation of stronger political dialogues.

As in the case of Japan, economics has dominated bilateral relations between Seoul and the GCC states. They are mainly characterized by crude oil exports to the Korean market, as Korea has no oil resources. The Gulf zone began to take on a vital importance in energy to South Korea during the 1970s, Saudi Arabia becoming its leading oil supplier and principle partner in the region at the time. In 2010, crude oil imports by South Korea reached 2.39 mb/d. This is a substantial market for Gulf oil exporters.

### Korea's crude oil main suppliers in 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>% of crude oil imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>31.7</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>12.1</td>
</tr>
<tr>
<td>Kuwait</td>
<td>11.8</td>
</tr>
<tr>
<td>Iran</td>
<td>8.3</td>
</tr>
<tr>
<td>Qatar</td>
<td>7.4</td>
</tr>
<tr>
<td>Iraq</td>
<td>6.9</td>
</tr>
</tbody>
</table>

34 “South Korea’s 2010 crude imports up 4.5% on year to 872.4 mil barrels”, Platts, February 15, 2011
The Persian Gulf zone provided 78.2% of Korean imports in crude oil in 2010 (63% of total Korean imports from the GCC countries alone). This petroleum supplies the domestic Korean market, but also allows Seoul to position itself in the close-by Asian markets (China, Japan and Singapore) for petroleum products (diesel, petrol/gasoline, kerosene). This trade generated $33.8 billion in 2010 and Seoul is looking to expand it. However, competition with Beijing could rise in the future. As Japan, South Korea has a large trade deficit with the GCC states. In 2010, total trade between the peninsula and the Gulf countries stood at €59.59 billion, while the Korean trade deficit with these States amounted to €40.67 billion.  

Trade between South Korea and the GCC countries (2010)  

<table>
<thead>
<tr>
<th></th>
<th>Imports</th>
<th>% of total</th>
<th>Exports</th>
<th>% of total</th>
<th>Total</th>
<th>% of total trade with the GCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>20.23</td>
<td>6.5</td>
<td>3.46</td>
<td>1</td>
<td>23.69</td>
<td>39.75 %</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.45</td>
<td>0.1</td>
<td>n.a. less than €200 million</td>
<td>Less than 0.1</td>
<td>Less than 0.650</td>
<td>1 %</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>9.19</td>
<td>3.0</td>
<td>4.14</td>
<td>1.2</td>
<td>13.33</td>
<td>22.37 %</td>
</tr>
<tr>
<td>Kuwait</td>
<td>8.17</td>
<td>2.6</td>
<td>0.79</td>
<td>0.2</td>
<td>8.96</td>
<td>15.03 %</td>
</tr>
<tr>
<td>Qatar</td>
<td>9.01</td>
<td>2.9</td>
<td>0.36</td>
<td>Less than 0.1</td>
<td>9.37</td>
<td>15.72 %</td>
</tr>
<tr>
<td>Oman</td>
<td>3.08</td>
<td>1.0</td>
<td>0.51</td>
<td>0.1</td>
<td>3.59</td>
<td>6.02 %</td>
</tr>
<tr>
<td>Total</td>
<td>50.13</td>
<td>16.1</td>
<td>9.46</td>
<td>2.3</td>
<td>59.59</td>
<td>100</td>
</tr>
</tbody>
</table>

It can also be noted that Seoul was looking for new markets as the Korean economy began to develop in the 1960s and 1970s. The Gulf looked like an interesting destination for its products, as well as for developing the activities and broadening the international experience of Korean conglomerates (the chaebols). Korean firms like Hyundai began exporting their products (manufactured goods) to the Gulf in the 1970s, when trade volumes grew strongly. At the time, the Gulf countries were also investing massively in infrastructure following the boom in oil prices. Korean companies like Hyundai, Dong Ah Industrial or Daewoo entered the region, especially in the

construction sector that had been dominated by Westerners until then. Hyundai Engineering & Construction Co. was involved in its first project outside Korea in 1976, with the building of the industrial port at Jubail in Saudi Arabia. The company also worked in Bahrain and in Kuwait as of 1977, participating in the expansion of the port of Shuaiba. This Korean penetration of the region, which contributed to the development of the Gulf economies, was supported by the Korea government via loans, tax cuts, manpower training (including retraining soldiers), political support and contracts with local government. About 1 million Koreans worked on construction sites in the Gulf from 1975 to 1985, before returning home. During the second half of the 1980s, low oil prices limited infrastructural investment in the Gulf, and hence the turnover of South Korean companies. Nevertheless, this experience and without doubt the reputation which Korean firms acquired in the Gulf (for low costs, the capacity for undertaking large scale projects, reliability, etc.) was not totally forgotten.

With the oil boom in the 2000s, Korean companies returned in force to the region, winning important contracts, so that by 2009 they were leaders in EPC (engineering, procurement and construction) markets in the oil and gas sectors of the GCC states, due mainly to their very low costs compared to their European, American and Japanese competitors. Between March 2009 and March 2010, Korean companies thus obtained 38% of $46 billion in EPC contracts signed in the region. In the following year (March 2010 to March 2011), they took 47% of the $48.4 billion of EPC contracts in the Gulf (for pipelines, petrochemical products, refining, oil and gas production, gas processing, LNG). In 2011, 25% of projects in Saudi Arabia, 7% in the UAE, 9% in Qatar, 10% in Kuwait, 9% in Bahrain and 10% in Oman were attributed to Korean companies. These projects have helped cut Korea’s trade deficit with its Gulf partners substantially, allowing the latter also to modernize at a lower cost.

**Downstream sector**

In the 1990s, a new type of relationship was established between the Gulf States and their Asian clients, beginning with South Korea. Indeed, in the energy sector, given the economic difficulties in the 1980s linked to the collapse of oil prices, the Gulf producers sought to

ensure outlets by developing projects in their clients’ downstream sectors. Thus, for the first time in 1991, Saudi Arabia took a $400 million stake in Korea’s most important refining company, Ssangyong oil. In 2001, this was the third largest refiner on the Korean market, with 95% of its oil coming from Saudi Arabia. This was the first experiment with such a strategy in Asia, but was to be repeated elsewhere in the continent during the decade (for example, in the Philippines in 1994 with the acquisition of 40% of Petron Venture; on a smaller scale in China in 1995, prior to the launching of a much more important project after 1999; in India too in 1997 with the Hindustan Petroleum Corp., though this project was subsequently aborted). This downstream investment strategy has been employed by other Gulf producers in Korea: since 1999 the Abu Dhabi’s International Petroleum Investment Co. (IPIC) has held a 50% stake in Hyundai Oil, which in 2001 was the country’s fourth largest refiner.

With such arrangements, the Gulf producers benefit twofold: they provide the raw material and are guaranteed outlets, while also profiting from the sale of petroleum products both in the Korean market and via exports elsewhere in Asia.

GCC States-Korea Gas links

Furthermore, following the Japanese example, links between Korea and the Gulf States were forged in the gas sector during the 1990s. Korea has indeed been importing liquefied natural gas since 1986 (mainly from the Asia-Pacific Basin at first). Today the country is the world’s second largest importer of LNG after Japan.

In the 1990s, the Kogas company (today the largest single buyer of LNG in the world) signed several long term supply agreements (SPAs) with partners in the Gulf, notably with Qatar’s RasGas in 1995, and with Oman LNG in 1996 (first delivery in 2000, and a new agreement signed in 2007). Korea is thus an important partner in the sector, not only as a buyer of LNG (in 2010, Korea was Qatar’s third largest purchaser of LNG, and Oman’s largest), but also by the fact that its companies have stakes in certain projects in the sector, for example Kogas’s share in Oman LNG (5%), or in RasGas (5%). For the Koreans, Qatar and Oman are thus major suppliers of LNG. In 2010, they were respectively the first and fourth suppliers,

41 The agreement was amended in 1997, first deliveries took place in 1999, and two new long term SPAs were signed in 2007 and 2012
accounting for 22.8% and 13.7% of Korea's imports.\textsuperscript{42} The relationship is all the more interesting for Seoul because of its strong energy links with these countries, while it has also become the key supplier of gas tankers. This has both commercial and employment benefits for Korea. Thus a majority of these types of ships, accredited by RasGas and its sister company Qatargas, have been designed and constructed by specialized Korean companies like Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries or Samsung Heavy Industries. By 2010, 54 vessels were delivered to Qatar at a value of $13.5 billion. Yet in this very specialized sector in which Korea is currently the world leader, it may face competition from China in the future.

\textsuperscript{42} According to the BP Statistical Review of World Energy 2011, June 2011, p. 28
China comes on stage

Diplomatic relations

Relations between the People’s Republic of China and the Gulf have a shorter history than do those with Japan and South Korea, as they only really began in the 1980s. Before then, relations were quite limited because of the generally pro-Western leanings of the Gulf monarchies (with some qualifications), the absence of economic take-off in the communist countries, and for China, Beijing’s self-sufficiency in energy at the time (especially in hydrocarbons). It was only during the 1970s, and in opposition to the USSR, that Beijing began to get closer with pro-Western countries like Iran and Turkey in 1971, as well as Kuwait which marked its first official links with the Gulf. Contacts were opened with Oman in 1978. Finally, Beijing set up diplomatic relations with the GCC states in the 1980s (the UAE in 1984, Qatar en 1988 and Bahrain in 1989), ending with Saudi Arabia in 1990. However, with the Saudi Kingdom and despite the absence of diplomatic relations, the PRC cultivated prudence throughout the Cold War, and did not hesitate to seize possibilities of rapprochement on a pragmatic basis. Economic ties thus existed between the two countries, prior to the establishment of diplomatic relations (trade representations were set up two years before embassies). More original still was the sale of arms: including Dong Feng 3 missiles in 1987. But it was during the second half the 1980s, when Beijing undertook economic reforms, and after the end of the Cold War that China began to import ever-greater quantities of oil, and bilateral relations between the PRC and the Persian Gulf really expanded. At first, Beijing focused on Iran and Iraq (during the 1980s until the late 1990s), before making the GCC states its priority, and firstly Saudi Arabia due to the rising importance of energy considerations.

The international diplomatic context in the wake of 9/11 and the cooling of Saudi-American relations, along with Iran’s nuclear program and the war in Iraq provided Riyadh and Beijing an opportunity to draw closer together. Saudi Arabia was looking to diversify its foreign relations to somewhat counterbalance the US influence. Riyadh was also worried about Iran’s nuclear program. Given its rising importance on the international stage and its proximity to Tehran, Beijing became a natural choice for Riyadh, especially as

43 The Emir of Kuwait made his first pioneering visit to China in 1965.
both countries’ energy interests were converging: the rising importance of the Chinese market for Saudi Arabia in terms of demand security and the importance of Saudi oil for Beijing in terms of supply security. At the diplomatic level, reciprocal visits of high-level officials proliferated considerably during the 2000s, and relations deepened. A turning point in Sino-Saudi relations came in 2006 with the reciprocal visits by Hu Jintao to Saudi Arabia and King Abdullah to the People’s Republic of China, the first official visit by a Saudi king to this country. On this occasion, “strategic friendly relations” were established. Vice-president Xi Jinping also visited the Kingdom in June 2008, when a joint declaration on the reinforcement of strategic friendly relations was signed. The Chinese President visited the Kingdom again in February 2009 in the context of the global financial crisis. During this visit, he proposed the establishment of a mechanism for high level political consultations, and from an economic point of view, the promotion of a “global energy partnership”. Several reciprocal visits by political leaders took place in 2010, 2011 and 2012, the last being the visit by Prime Minister Wen Jiabao in January 2012, the first visit by a Chinese premier since the 1990s. During this last visit, Beijing gave note of its intention to reinforce political coordination with Riyadh and to raise the strategic partnership between the two countries to a higher level, to extend cooperation in the energy sector and to enlarge cooperation in trade, investments, infrastructures, high technologies, finance and security. In particular, Beijing is encouraging its companies to participate in the construction of infrastructure in Saudi Arabia (railways, ports, electricity, telecommunications). On the Saudi side, King Abdullah proposed to set up a higher Sino-Saudi committee responsible for supervising bilateral cooperation in the fields of politics, economics, cultural affairs and security. Relations between the two partners have therefore become much more tightly woven in a decade. Beijing and Riyadh have never been so close politically, even if divergences persist: notably concerning Syria, the treatment of Muslims (the Uyghur people) in China and on the issue of Iran’s nuclear program. There have also been some recent trade differences (for example in the petrochemical sector for which Beijing is envisaging adopting tariff protection measures to limit the import of Saudi methanol in 2009/2010). This proximity seems likely to continue in the years ahead, given that the interests of both partners (mainly economic but not only) seem to be convergent.

Elsewhere in the Persian Gulf, Beijing has also amplified its bilateral political relations with all the GCC states (reciprocal regular high level visits of heads of state like the Emir of Kuwait going to  

44 Details of all these visits can be found at: http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/yz/1206_27/xgxw/ (in Chinese). 
45 Peking dropped this in October 2010. See “China will not impose methanol duty”, Reuters, October 30, 2010.
China in 2009, the establishment of mechanisms for political dialogue and regular consultations between ministries of foreign affairs, etc.

**Economic relations**

From an economic point of view, relations between China and the GCC states have become much more interwoven and continue to expand at an accelerated rate. China becoming a very important economic partner of the Gulf States (see Table). An important share of trade is indeed made up by hydrocarbons, but trade goes beyond oil and covers other sectors. China has, for example, become the main destination of non-oil exports by Saudi Arabia (petrochemicals and plastics). Its companies are very present in the Gulf, especially in Dubai. Overall, trade between China and the GCC states rose from $6 billion in 2002 to $92 billion in 2010. According to McKinsey & Co. trade could rise to $350-$550 billion by 2020. Discussions on setting up a free-trade zone between the GCC and China were launched in 2004. But they have not yet reached a result, which some deplore. To facilitate trade and investment flows, certain analysts also consider that the governments of the GCC states should henceforth promote the use of the renminbi. The Chinese currency could thus become the world’s third most important currency after the dollar and the euro by 2015.

### The place of China in the foreign trade of the Arab monarchies of the Persian Gulf in 2010

<table>
<thead>
<tr>
<th>Countries</th>
<th>Volume and % of total foreign trade (in € billions)</th>
<th>Main partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>31.270 (12.8%)</td>
<td>1° EU27 (15.2%) 2° United States (13.1%)</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.834 (2.7%)</td>
<td>1° Saudi Arabia (8.9%) 2° EU27 (6.7%) 3° United States (4.4%) 4° India (3.1%) 5° Japan (3%)</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>20.704 (8.0%)</td>
<td>1° India (17.8%) 2° EU27 (12.3%) 3° Japan (10.1%)</td>
</tr>
</tbody>
</table>

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### Trade between China and the GCC countries (2010)\(^{48}\)

(in € billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports</th>
<th>% of total Chinese imports</th>
<th>Exports</th>
<th>% of total Chinese exports</th>
<th>Total</th>
<th>% of total trade with the GCC countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>24.86</td>
<td>2.6%</td>
<td>7.88</td>
<td>0.7%</td>
<td>32.74</td>
<td>47.3%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>n.a.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>3.3</td>
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<td>26.81</td>
<td>2.3%</td>
<td>69.27</td>
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</table>

The importance of China in the trade of the GCC states is recent. Prior to the 1980s, links were not non-existent, but they were very restricted, with low trade flows to the Gulf (trade with Qatar, Kuwait and then Saudi Arabia in the 1970s). New opportunities opened up during the 1980s, following the modernization policy of Deng Xiaping. A construction company dependent on the CNPC

(China National Petroleum Corporation) entered the Kuwaiti market for the first time in 1983. It subsequently won a major contract in 1995 for the reconstruction of oil storage facilities in the country. Kuwait has also become important to China in the area of labor exports and the construction sector, two areas in which the Gulf as a whole has played an important role in the Chinese economy since the 1980s. Kuwait also provides China with significant preferential loans (in the order of $620 billion between 1982 and 2001). \(^4^9\) Links with the United Arab Emirates have also been developed since the 1980s (trade missions in 1978 and the use of Sharjah airport by Chinese civil aviation for links to Africa and Europe).

**The importance of the Oil factor**

Beginning in the first half of the 1990s, China started importing crude oil from the Gulf region, given its growing domestic demand linked to economic take-off and the stagnation of its own oil output. This has raised the volume of trade considerably. The client-supplier energy links which began to emerge at this time rapidly became central in relations with the region. Chinese oil purchases in the Gulf countries were at first concentrated on Oman (links were created as of 1983 for oil imports) and on Yemen in the Arabian Peninsular because their oils which are “sweet”, i.e. with low sulfur, were more adapted to the Chinese refining capacities at this time, before extending to other suppliers (Kuwait, the United Arab Emirates, Qatar and above all Iran and then Saudi Arabia) as Chinese needs grew. In the second half of this decade, Beijing began buying Saudi oil. After signing a strategic cooperation agreement covering oil during the visit to the Kingdom by Jiang Zemin in 1999, exports of Saudi petroleum to China rose considerably. A protocol signed in 2006 between Saudi Aramco and Sinopec (China’s largest refiner and the third most important refiner in the world in terms of installed capacity) provided for raising Saudi oil supplies to 1 million bd in 2010. This objective has been respected. Saudi exports to the Chinese market did indeed rise from 50,000 bd in 1999 to 1.01 million bd in 2011, and are set to rise again in 2012. Saudi Arabia has therefore become China’s most important oil supplier within a decade, with sales exceeding shipments to the United States. China, which needed to import 56.5% of its oil in 2011, bought 20% of its imports from Saudi Arabia (nearly twice the quantity of oil shipped from Iran to China that year). Saudi Arabia is also cooperating with Beijing in constituting its strategic oil reserves. In fact since 2004, China has planned to create strategic reserves of 800 million barrels.

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\(^4^9\) Julian Madsen, « China’s Policy in the Gulf : From Neglect to Necessity », *PINR*, October 27, 2006
To cement this fundamental energy relationship between the two partners, high-level Saudi officials have on several occasions given guarantees to Beijing about its reliability as a supplier of oil (especially during the visit of Hu Jintao to Riyadh in 2009). Given the political proximity which has emerged between the two countries during the last decade and the expected rise in Chinese demand, which contrasts with likely demand in the United States, Japan and Europe, the Sino-Saudi oil relationship is set to become even more fundamental in the future, with all the economic and geopolitical consequences this entails both for Saudi Arabia and China.

These trends apply to the whole of the Gulf concerning oil. Together, the GCC states export more oil to the Chinese market than to the United States (respectively 2,383 mbd and 1,729 mbd in 2010). This will strengthen in the future. With demand rising quickly and domestic production declining in the short term, China is forecast to import 7.1 mbd in 2015 and 13.1 mbd in 2030, according to the International Energy Agency. A substantial share of these imports should come from the Gulf (according to Abdulaziz Sager of the Gulf Research Center, one third of oil consumed by China in 2030). Oil links will therefore increasingly connect the Persian Gulf with Asia in general, and China in particular.

**Some progress in the Saudi Gas Sector**

Furthermore, in the energy field, relations with Saudi Arabia extend beyond trade in crude oil alone. Beijing is also interested in gas from the Kingdom. In March 2004, Sinopec thus acquired the right to invest in a natural gas project in Saudi Arabia (SG12). An exploitation and development agreement relating to Section B of the Rub’ al-Khali (the “Empty quarter”: 13,000 km²) was signed between Sinopec, Saudi Aramco and the Saudi Ministry of oil. A joint company Sino Saudi Gas Ltd owned by Sinopec (80%) and Armaco (20%) was founded to conduct these operations. It seems that the terms of the agreement were very favorable to the Saudis, leading some analysts to suggest that Sinopec was more interested in establishing long-term strategic relations with Saudi Arabia than obtaining immediate economic advantages. Either way, exploitation operations do not seem to have borne fruit so far. No (possible) discovery has been exploited yet (one of the major problems seems to be that the price of industrial gas is too low in Saudi Arabia). Sino Saudi Gas Ltd appears nevertheless to have

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50 BP Statistical Review of World Energy 2011, June 2011, p. 18
52 Low discoveries of gas by International Oil Companies in Saudi Arabia are also due to the attribution of less promising fields.
to have decided to restart exploration (end 2011/early 2012). More generally, exploration and production of hydrocarbons in the region is not really open to foreign investments since the 70s, when was nationalized.

**Cooperation in the downstream sector**

More positively for both partners, has been Riyadh’s interest in possible investments in the Chinese refinery sector since 1993, when Beijing was interested in guaranteeing stable supplies and obtaining investment to modernize the sector, especially to adapt it to the quality of oil produced in the Gulf (Saudi oil is “sour”, i.e. it has high levels of sulfur, compared with “sweet” crude from Oman and Yemen).

These complimentary interests helped to establish cooperation in this sector. At the start of 1998, Aramco, Exxon and Fujian Petrochemical Co. signed an agreement on a feasibility study to modernize and expand refining capacity in Quanzhou in Fujian to 80,000 bd. Aramco, ExxonMobil, and Sinopec also started discussions about setting up a refinery with a capacity of 200,000 bd at Qingdao, in the province of Shandong. These various contacts led to project completions in the 2000s. In September 2001, during a visit to Shanghai by the Saudi oil minister, bilateral talks took place about the outlook for investments by Aramco in China's downstream oil sector (refining and distribution). From then on, relations developed in this field before gathering pace after the visit by King Abdullah to China in 2006. In 2006, Aramco began modernization work on the refinery in Qingdao so that it could process not only light crude from the Gulf but also heavy crude. Heavy Saudi crude was delivered to the refinery for the first time in June 2008. Also in 2008, Aramco informed Sinopec that it was ready to invest in the refinery at Qingdao. However, discussions have not progressed much due to Saudi preoccupations about China's control of fuel prices. They were restarted at the end of 2009 and are apparently still going on in 2012. Furthermore, in 2007 Aramco and Sinopec signed a deal with ExxonMobil to triple refining capacity at Quanzhou (henceforth 240,000 bd) which is also aimed at treating heavy Saudi crude. In addition, the project included the joint establishment of a petrochemical complex to produce ethylene, the Sinopec Fujian Refining and Petrochemical Company (FREP), making this the first integrated refining/petrochemical project with foreign capital in China. A joint company to sell fuel was also created, the Sinopec SenMei (Fujian) Petroleum Company Limited, to manage gas stations and a terminal network in the province of Fujian. Thanks to this agreement,
Aramco has been able to enter the protected Chinese retail market. The overall investment in this project will run to $4.96 billion. In 2011, Sinopec SenMei was the most important supplier of processed oil to the province of Fujian. Its activities relate to wholesale trade, retail trade, storage, the transport of processed oil, lubricants and other oil products, the running of gas stations, car cleaning, the replacement of lubricants and other auxiliary services. At the end of 2011, the company was managing 820 gas stations and 11 terminals. It employed about 10,000 people.

The Aramco overseas company, a subsidiary of Saudi Aramco and the PetroChina Co Ltd, a subsidiary of the CNPC, also signed a protocol agreement in March 2011 to set up a refinery with a capacity of 200,000 bd in the province of Yunnan. It will be supplied by Saudi crude. Saudi Arabia is thus henceforth well-established in the Chinese refinery sector. The country has guaranteed itself important outlets for its crude oil while positioning itself on the Chinese market for oil products and developing activities in the petrochemical sector. It may be noted that Sabic is also present in China in this sector, where the market is expanding rapidly. The Saudi company began negotiating with Sinopec in 2006 to set up a petrochemical factory (an ethylene complex) at Tianjin. The costs of this new petrochemical complex have been evaluated at $2.7 billion. In 2009, the two partners created a joint company, the Sinopec Sabic Tianjin Petrochemical Company (SSTPC). The first phase of the project involves the creation of an annual production capacity of 1 million tonnes of ethylene. Production began in 2010. Phase 2 involves producing polycarbonate. The construction of a new production complex started in April 2012. This project is estimated to cost $1.7 billion and should be operational in 2015. The complex is geared notably to providing the Chinese market with chemical resins (components needed in spare parts for cars, the manufacture of CDs, and the manufacture of various consumer goods).

Saudi Arabia is not the only producer in the Persian Gulf interested in this type of project. The Kuwait Petroleum Corp. signed a protocol agreement in 2005 with Sinopec to setup a refinery with a capacity of 300,000 bd, supplied by Kuwaiti crude oil, coupled with an ethylene production unit (1 million tonnes per year) at Zhanjiang in the province of Guangdong. The final agreement was approved in

53 “Aramco, Sinopec, Exxon sign Fujian refinery deal”, Reuters, February 25, 2007
56 “Sinopec and Sabic joint venture for a large scale petrochemical project in Tianjin Saudi Arabia”, AMELnfo.com, April 4, 2012
2011. The total project is estimated at $9 billion. Construction began in December 2011 and production should start in 2015. A partnership was set up with Total (the protocol agreement was signed in March 2012). Qatar has not been inactive either. Qatar Petroleum International (QPI) has also signed an agreement with PetroChina and Shell to establish a petrochemicals complex (refining and the production of ethylene) at Taizhou in the province of Zhejiang. The infrastructure will be fueled with Qatari condensate. In May 2010, PetroChina and QPI did indeed sign a 30-year contract for the exploration and production of gas in Qatar. Shell is an operator (75%) with the CNPC (25%).

The projects are clearly mutually beneficial, as Beijing guarantees the supply of hydrocarbons for these various refineries, while the Gulf producers are assured of significant export quantities (security of demand) while at the same time benefiting from the expansion of Chinese markets in oil and petrochemical products. Such positioning is all the more interesting given that the latter sector in China – as in India – may become a competitor in the future. For the Chinese in the petrochemical sector, Beijing benefits both from technology transfers – companies in the Gulf are more advanced in petrochemicals than Chinese companies – and investments in an area which China holds to be very important for its economic development. From a political point of view, these major projects have consolidated bilateral links.

If the Gulf producers are henceforth active in China's refining and petrochemical sectors, new relations are being woven in the other direction, reinforcing mutual ties between China and the Persian Gulf. Needs for refined products are rising in Asia as well as the Middle East (especially the Gulf) compared to stagnation in the rest of the world (especially Europe). Numerous refineries projects have been announced in Asia (as we have seen in China), but also in the Gulf to supply lucrative markets. This is notably the case for Saudi Arabia and Kuwait. In the face of growing domestic demand and given their ambitions to become suppliers in other regions of Asia, Asian companies have been very active domestically and in foreign countries. These companies include notably Indian firms like Reliance or EssarEnergy and Chinese companies like CNPC and Sinopec, but they also include companies from Malaysia, Indonesia, Vietnam and Singapore. In this context, cooperation in refining has recently been set up between Beijing and Riyadh. Riyadh actually wants to construct four large new refineries with a capacity of 400,000 bd each, aimed mainly at supplying Asian markets.

Of these four projects, two (Jubail and Yanbu) involve foreign oil companies associated with Saudi Aramco: especially Total in Jubail; and at the start of the second project ConocoPhillips (an

57 “Europe’s refiners face bleak future”, Oil and Energy Trends, June 2011, p. 13
American company). ConocoPhillips however withdrew in April 2010, an opportunity Beijing has seized. In March 2011, Sinopec, which is the world’s largest buyer of crude oil from Aramco, decided to replace ConocoPhillips. It acquired the shares of the American company in this refinery project (37.5%) based in Yanbu on the Red Sea (Red Sea refining company) and destined to process heavy Saudi crude to make fuels (mainly diesel and gasoline) for the domestic and international markets. A new joint company renamed Yanbu Aramco Sinopec Refining Company (YASREF) was created in May 2012. The project’s cost is estimated at $8.5 billion. It should be operational in the second half of 2014.58 This is the first time Sinopec has committed itself to building a refinery abroad and it is the most important investment by Sinopec in Saudi Arabia, constituting a new step for the company as well as for Sino-Saudi relations.59 According to the president of Aramco, Khalid Al-Falih, the agreement represents “a strategic partnership in the refining industry between one of the main energy producers in Saudi Arabia and one of the most important customers in the world”. For the president of Sinopec, Fu Chengyu, this development reinforces the “strategic cooperation between two companies in petroleum and petrochemicals” and contributes to consolidating the “strategic partnership” between Saudi Arabia and China, while enhancing economic links between the two countries.60 Chinese leaders suggest that trade between Saudi Arabia and China may reach $60 billion in 2015.61 A new threshold seems therefore to have been crossed in bilateral relations.

It should be noted that China is not the only Asian country interested in refining projects in the Persian Gulf. Already in 2006, Japanese refiners together with large trading companies (Mitsui and Marubeni) invested for the first time directly in a refining project overseas (in this case in Qatar). Idemitsu Kosan and Cosmo Oil have in fact each acquired a 10% stake in the Qatari refining project of Laffan (Laffan Refinery Co.) situated at Ras Laffan in Qatar, for the treatment of condensate. This is one of the largest refineries for processing condensate in the world. Its refining capacity is 146,000 bd, and it began operating in 2009. The refinery uses condensate produced by the installations of Qatargas and RasGas. Its expansion by adding a second refinery with the same capacity is planned for

58 “Saudi Aramco and Sinopec agree on US$ 8.5 billion joint venture”, Saudi Aramco, January 17, 2012
Furthermore, Kuwait has recently decided to relaunch the al-Zour project to supply the domestic Kuwaiti market (the electricity sector) and to increase its export capacity in finished products for the Asian market. With a capacity of 615,000 bd, this project is estimated to cost $14.5 billion and scheduled for completion in 2017. The international calls the tender are to be put out in June 2012. It will be interesting to observe the reaction of Asian companies.
India’s Come Back

**Political relations**

The rise of political ties between India and the Gulf States was hampered for a long time by: the ideological leanings of New Delhi which was close to Moscow as the GCC states chose the Western camp; the conflict with Pakistan – notably the question of Kashmir – and the existing proximity of Islamabad to the monarchies of the Gulf; but also the economic development model chosen by India and the stagnation which followed.

During the Cold War, political relations with the most powerful Gulf States, including Saudi Arabia, were chilly despite a good start in the 1950s and an attempt at rapprochement in the early 1980s. The latter, despite its failure because of divisions between the two countries on the issues of Kashmir and Afghanistan, nevertheless permitted an important advance in the field of economics with the creation of a joint Indo-Saudi commission for economics, trade, scientific, technical and cultural cooperation (JCM). This bore fruit in the following decade. Political relations began to improve with the visit of Manmohan Singh, who was then India’s finance minister, to the Kingdom in 1994. High level reciprocal visits proliferated during this decade before relations really took off after 2001, with King Abdullah going to New Delhi in 2006 and the Indian Prime Minister Manmohan Singh visiting Saudi Arabia in 2010.

Elsewhere in the Persian Gulf, India’s political relations with the other monarchies varied on a case-by-case basis during the Cold War, but were never really intensive. From a political point of view during this period, the most remarkable relationship was without doubt the proximity which emerged between India and Oman, after the signing of the friendship, trade and navigation treaty in 1953, which also set up diplomatic consulates. Despite the isolation of this state until the 1970s, India maintained a diplomatic presence there. Another original bilateral relationship came with the signing in 1972 of a military protocol for the use of Indian navy personnel in the Omani navy. Apart from the specific case of Oman, it may be noted that, as with Saudi Arabia, it was in the 1990s and even more so in the 2000s that political relations proliferated with other monarchies in the Gulf,
as reciprocal high-level visits became more regular and very numerous.\textsuperscript{62}

\textbf{Security Cooperation}

An important step was taken during the 2000s with the development of links concerning security between India and the GCC states of the Gulf.

For example, since the signing of the protocol agreement on defense cooperation (June 2003) and the setting up of the joint committee for defense cooperation, a regular dialogue has taken place between New Delhi and the United Arab Emirates on defense. The fourth meeting of the joint committee took place in Abu Dhabi in April 2011. The first joint military air exercise took place in September 2008, on the airbase of Al-Dhafra in Dubai. Goodwill visits by the Indian navy have taken place – including an exercise in “naval diplomacy” – to the United Arab Emirates (for example in March 2011).

The Indian navy also carried out exercises with the navies of Kuwait, Oman, Bahrain and Saudi Arabia. A protocol agreement covering defense cooperation was signed with Oman in 2005. Areas of cooperation include joint military exercises, military training, the exchange of observers and official visits. A joint air exercise with Oman was organized in 2009 to increase the inter-operability between the Omani and Indian air forces. India also signed agreements on defense and security cooperation with Qatar in 2008. These agreements relate to cooperation on terrorism, piracy and maritime security, money-laundering, drug trafficking and transnational crime. These agreements are important also because they allow the Indian navy to operate in the region, to ensure the safety of maritime routes. New Delhi has not yet signed a defense cooperation agreement with Riyadh, but the “Delhi declaration” signed in 2006 during King Abdullah’s visit has provided the basis for the development of cooperation on security issues. Contacts have expanded, and in 2012 the two partners decided to set up a mixed committee on defense cooperation, to explore in particular the possibility of concluding an agreement in this field. Even if they remain limited compared to the role of Westerners in the security and defense of the Persian Gulf, these developments nevertheless constitute a very interesting evolution in recent years. Compared to other Asian countries, especially China, India has a substantial lead over Beijing even if numerous obstacles exist to deeper cooperation). This is all the more so as these developments seem to suit

\textsuperscript{62} For details of this period see Kemp, Geoffrey, \textit{The East moves West: India, China, and Asia’s growing presence in the Middle East}, Washington D.C., Brookings Institution Press, 2010, pp. 37-51
Washington, which remains the most influential actor on security issues in the zone.

**Economic Relations: the Oil factor**

While political relations were rather strained at first, before developing considerably in the post-Cold War period, from an economic point of view, substantial relations were set up between New Delhi and the Persian Gulf as of the Cold War. In terms of energy, India rapidly became dependent on hydrocarbon imports to guarantee supply, due to weak domestic production and rising domestic consumption: oil rose from 39.6% of primary energy consumption in 1953/1954 to 50% in 1974/1975. Imports of crude oil and petroleum products rose respectively between 1970 and 1987 by 54% at 11.67 million tonnes to 17.98 million tonnes, and by 277% going from 0.9 million tonnes to 3.66 million tonnes. Oil is a very important part of Indian imports (8% of the total import bill in 1971 but 42% in 1980-1981 and 28% in 1991). India was therefore linked to the Persian Gulf as of the Cold War by substantial oil relations. At first, its main suppliers were Iran and Iraq for political reasons. Due to the Iran-Iraqi war (1980/1988), New Delhi turned more towards Saudi Arabia and the GCC states. This trend continued in the 1990s, a period during which Saudi Arabia became India's top oil supplier, ensuring about a quarter of supplies. Kuwait and the United Arab Emirates also played an important role during this period. Despite attempts by the authorities to develop domestic resources and to diversify supplies geographically, the proximity of the Persian Gulf to India meant that this region became India's "natural" oil supplier. This was a situation which became even more explicit during the 2000s, given India's economic growth. In 2010, India imported 3.538 million bd of which 73% came from the Persian Gulf (essentially Saudi Arabia, Iran, Kuwait, Iraqi and the United Arab Emirates). In that year, India actually imported more oil from the Gulf than China, Europe or the United States. Only Japan imported greater quantities of oil from this region, according to BP. Given its economic development and the growth in consumption, India's demand for oil will continue rising in the future while its own production will fall. According to the IEA, India will need to import 3 mbd in 2015 and 6 mbd in 2030. Its dependence on oil imports will rise from 70% in 2007 to 92% in 2030. This trend will obviously reinforce oil links between clients and suppliers.

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64 According to the BP Statistical Review of World Energy 2011, June 2011

The development of LNG trade

Apart from oil, New Delhi began looking at the possibilities of importing liquefied natural gas (LNG) to supply its market, in the 1990s. In 1997, the Indian government created the Petronet LNG Ltd company with the participation of the four largest Indian oil and gas companies (IOC, ONGC, GAIL and BPCL), in association with Gaz de France (which has much experience in carrying out LNG projects). Links were established with gas producers in the Persian Gulf to supply India's first LNG terminal at Dahej (Gujarat). In addition, a long-term supply contract (SPA) was signed with Qatar in 1999, relating to the supply of 5 million tonnes of LNG per year by RasGas (a figure raised to 7.5 million tonnes in 2006). The first delivery of Qatari LNG arrived in India in 2004. Doha thus became a major supplier to India during the 2000s, reinforcing economic links between India and the Persian Gulf. In 2010, Qatar was India's top supplier of LNG, providing 87% of supplies. For Qatar, India is an important market taking about 14% of its LNG exports. For that year, India was its largest Asian client in volume terms, ahead of South Korea and Japan. The importance of gas for India should also rise in the future. The IEA “gas scenario” forecasts Indian demand for gas to rise from 42 billion m³ in 2008 to 234 billion m³ in 2035, with domestic output estimated to be 135 billion m³. This would oblige India to import about 100 billion m³ of natural gas (40% of its consumption). This is an impressive quantity, but much less important than China’s import needs (in the order of 330 billion m³). Indian import demand will however grow mainly after 2020. Two supplementary LNG terminals are already under construction (compared to 6 for China).66

Peculiarities of the trade links

During the Cold War, links were also fostered in the non-oil sector with the Persian Gulf, which was considered as a non-negligible market for Indian exports. These links developed with the rise of local economies following the oil boom in the region after 1973. They experienced marked progress during the 1990s when New Delhi liberalized its economy. Indian exports to the GCC countries went from $1.3 billion in 1991 to $3.8 billion in 2000. At that time, the United Arab Emirates were India's main trade partner in terms of exports to the region (two thirds of all Indian exports to the GCC countries in 2000). Thanks to the importance of these exports, in 2000, India balanced its trade with the Gulf energy suppliers, as all bilateral trade with GCC countries reached about $7 billion that year, including $3.7 billion in Indian exports in exchange for $3.2 billion in imports from these countries. The rise in trade became more marked with the GCC countries in the 2000s, when India really “returned” politically and economically to the region. But they are less favorable to India due to the rise of its demand for energy (oil and gas) and higher prices for hydrocarbons. For the year 2010-2011, total trade between India and the GCC states stood at $118 billion, 16 times higher in value than a decade earlier. Exports to the region ran to $44 billion, an in eleven-fold increase in 10 years. But the Indian trade deficit with the region also widened (notably because of the high price of hydrocarbons which make up the main part of its imports from the Persian Gulf). The deficit stood at about $11 billion dollars in 2010-2011. The United Arab Emirates continue to be India's main partner in the Persian Gulf, with trade flows running to $67 billion for this year, equivalent to 56% of total trade between India and the GCC countries. Next come Saudi Arabia, then Kuwait, Qatar, Oman and lastly Bahrain. Overall the UAE (essentially Dubai) took 78% of Indian exports to the Gulf in 2010-2011. In fact Dubai has historically acted

68 In the 1990s, products included essentially: tea, rice, wheat, milk products, fresh vegetables, fruit juices, meat, rubber products (excluding shoes), paper and wood products, plastic products, etc.
like a redistribution centre, a role it plays today for Indian exports destined for numerous countries in western Asia (Pakistan, Afghanistan, Iran, Iraqi, Saudi Arabia, Yemen) and beyond (Central Asia but also East Africa). This role may strengthen in the future, given the present promising outlook. Exports to the UAE have indeed opened up an enormous regional market for Indian products. India exports mainly petroleum products, precious metals, stones, gemstones and jewellery, other minerals, food products (cereals, sugar, fruit and vegetables, tea, meat and seafood), textiles (clothes, clothing, synthetic fibers, cotton, and thread), machines and chemical products to the United Arab Emirates. India imports oil and petroleum products (the United Arab Emirates were its fifth source of oil in 2010-2011) along with precious metals and chemical products. The UAE are also the 10th largest investor in India with direct investments estimated at $1.8 billion and concentrated mainly in five sectors: energy (19.1%), services (9.3%), computer programming (7.8%), construction (6.8%), as well as tourism and hotels (5.6%). Companies from the Emirates like DP World, EMAAR, RAK etc. have also invested considerably in various sectors of the Indian economy. Several Indian banks and companies in the public and private sectors are also present in the United Arab Emirates.70

To expand trade further, the possibility of creating a free trade area between India and the GCC countries has been put forward since 2004. A framework agreement on economic cooperation was signed in August 2004 between New Delhi and the GCC. The aim is for parties to examine the ways and means of extending and liberalizing trade, as well as beginning discussions on the feasibility of a free trade area. Several rounds of negotiations have taken place but without an agreement being concluded. It seems that India's demands to exempt petrochemicals from the agreement and its insistence on questions relating to labor have become real stumbling blocks preventing the conclusion of an agreement. Until now, Singapore has been the only Asian country which has succeeded in signing a free trade agreement with the GCC. In the absence of an agreement with the GCC, the possibility of signing a free trade agreement between the United Arab Emirates and India is henceforth being discussed.71

70 Information taken from “India-UAE Relations”, Indian Embassy in Abu Dhabi, February 29, 2012
71 Saifur Rahman, “Free trade agreement will help boost UAE-India economic ties”, Gulf News, July 22, 2011
Indian trade with GCC countries (2010/2011)\textsuperscript{72} 
(in $ billions)

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**Indian Labor in the Gulf Countries**

Lastly, an important specificity of relations between India and the Gulf countries stems from the presence of many Indian workers in the Gulf states, who provide labor which is irreplaceable in these countries’ economic development. It is a major advantage in relations between India and the Gulf States, other Asian countries, notably China, do not have.

Indian workers have been present in the Gulf since the 1930s in Bahrain, where they contributed notably to the rise of the oil industry. Their number rose from about 145,000 in 1975 to 2.85 million in 1999\textsuperscript{73} These expatriate Indians are an important share of the populations of certain GCC states, and they are employed in very many areas including in unskilled jobs or semi-skilled jobs (about 70% of all Indian workers in the Gulf in 2000). They also include highly skilled workers (doctors, engineers, architects, bankers, accountants, etc.) and even public sector workers (in public

\textsuperscript{72}“India - GCC Relations”, Indian Embassy in Riyadh, February 1, 2012 http://www.indianembassy.org.sa/Content.aspx?ID=708

enterprises and even in some government departments). Apart from their participation in rising economic ties – trade – these workers also contribute substantially to the development of the Indian economy via remittances (7% of Indian GDP in 1991). India thus received $58 billion in 2010 and $61 billion in 2011 in remittances. Indian workers in the Gulf have contributed about 30% of these sums (according to Indian media 3-4% of Indian GDP since the turn of the millennium).

The presence of large Indian communities has also contributed to maintaining contacts between the Persian Gulf and the Subcontinent, during the Cold War and since. It is further reinforced by the fact that some large Indian business families have taken root in several emirates and forged close links with the powers that be. This is a card which India will surely be able to play in the future.

According to figures by the Indian authorities, 32% of the population in the United Arab Emirates, 24% in Qatar in the same year, 20% in Bahrain, 15% in Oman, 13% in Kuwait and 7% in Saudi Arabia. In the latter country, Indians make up the largest non-resident community: 1.5 million people in 2001. Figures quoted in “The Gulf Region”, ibid, p21.

Quoted in Kemp, Geoffrey, The East moves West : India, China, and Asia’s growing presence in the Middle East, op. cit., p. 27

“Gulf remittances up 30% as rupee slips”, The Economic Times, September 22, 2011
New perspectives in the energy relations between Asia and the Gulf

The case of LNG

At present, Asia as a region plays a leading role for the LNG producers of the Gulf (first Qatar with 15% of world gas reserves, but also Oman and the United Arab Emirates), since Asia took 57% of their total exports in 2010. In terms of the geographic breakdown of exports, Asia is the leading market for LNG produced in the Gulf. The industrialized Asian countries (Japan and South Korea) still play a lead role in this relationship as they absorb 39% of total exports by the Gulf and 67.8% of exports to Asia. Although India is already a substantial market, attracting 11% of all Gulf exports, China was still only played a marginal role in 2010. However, the situation could change rapidly. In fact, in 2007, the IEA forecast that China's LNG import needs would rise to 12 billion m³ in 2010, to 28 billion m³ in 2015, and to 128 billion m³ in 2030. These figures were revised upwards five years later (see below).

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<table>
<thead>
<tr>
<th>Country</th>
<th>Total quantities exported (in billions of m³)</th>
<th>Quantities exported to Asia (in billions of m³)</th>
<th>Share of Asia in general in LNG exports</th>
<th>Breakdown by client in Asia, as a % of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>75.75</td>
<td>36.2</td>
<td>48 %</td>
<td>India (13.9 %) Japan (13.4 %) South Korea (13.4 %) Taiwan (5 %) China (2.1 %)</td>
</tr>
<tr>
<td>Oman</td>
<td>11.49</td>
<td>10.41</td>
<td>90 %</td>
<td>South Korea (53.2 %) Japan (33.1 %) Taiwan (3.4 %)</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>7.90</td>
<td>7.61</td>
<td>96 %</td>
<td>Japan (86.8 %) Taiwan (5.3 %) South Korea (3.1 %) China (1 %)</td>
</tr>
<tr>
<td><strong>Total Gulf</strong></td>
<td><strong>95.14</strong></td>
<td><strong>54.22</strong></td>
<td><strong>57%</strong></td>
<td>% in total Gulf Japan (21.9 %) South Korea (17.4 %) India (11 %) Taiwan (4.9 %) China (1.8 %) % in total Asia Japan (37.3 %) South Korea (30.5 %) India (19.4 %) Taiwan (8.6 %) China (3 %)</td>
</tr>
</tbody>
</table>

Seen from Asia, the Gulf producers play a variable role in supplying gas to different customer countries. India is most dependent on the Gulf, obtaining 86.7% of its gas supplies from this region. Presently, the Gulf provides China with 10% of its gas needs, but this situation is set to change quickly given the growth of Chinese demand.

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78 According to the *BP Statistical Review of World Energy 2011*. 
The importance of Persian Gulf producers for Asian consumers in 2010\(^7^9\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total gas imports (LNG + pipelines) (in billions of m(^3))</th>
<th>Quantities imported from the Gulf (in billions of m(^3))</th>
<th>% of total imports of these countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>93.48</td>
<td>20.81</td>
<td>22.3 %</td>
</tr>
<tr>
<td>South Korea</td>
<td>44.44</td>
<td>16.52</td>
<td>37.2 %</td>
</tr>
<tr>
<td>India</td>
<td>12.15</td>
<td>10.53</td>
<td>86.7 %</td>
</tr>
<tr>
<td>China</td>
<td>16.35</td>
<td>1.69</td>
<td>10.4 %</td>
</tr>
<tr>
<td>Taiwan</td>
<td>14.90</td>
<td>4.67</td>
<td>31.4 %</td>
</tr>
</tbody>
</table>

The outlook for LNG producers in the Gulf (Qatar, Oman and the United Arab Emirates) in Asia is very encouraging. This situation contrasts with Europe where demand is limited by weak economic growth, the high price of gas and the rapid growth of renewable energies, while in the United States the revolution in producing shale gas (through hydraulic fracturing or “fracking”) has eliminated the need for imports. Worse still for LNG producers in the Gulf, the United States had built LNG terminals in anticipation of rapid growth in imports, given the demand for gas and the severe decline in local production. These terminals are now being converted for exports. Eight requests for conversion have been filed with the Department of Energy, and the Federal Energy Regulatory Commission (FERC) has approved the construction of a first plant to export LNG at Sabine Pass in Louisiana, in 2012. If these infrastructural developments take place, the United States could become a net exporter of LNG in the short term, bringing a new large competitor back onto the market. There is however opposition in the US Congress to these projects and the American administration is planning to assess the possible consequences of LNG exports on the price of gas, the creation of jobs and on US trade, prior to authorizing new projects.\(^8^0\) US export capacities could indeed be bigger than those of Qatar, which is the leader in the field today.\(^8^1\) Given the high price of gas in the Asian market ($18 per MBtu in May 2012 compared to $2.5 in the United States), these new American projects could be interested in Asia (which they already are).\(^8^2\) This is the case of Sabine Pass.

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\(^7^9\) According to BP Statistical Review of World Energy 2011.  
\(^8^0\) “US DOE delays release of broad LNG export study until late summer", Platts, March 26, 2012.  
\(^8^2\) This is not a novelty, the first shipment of LNG arrived in Japan in 1967, coming form Alaska.
ConocoPhillips, ExxonMobil and BP have also recently announced a joint venture to market LNG produced in Alaska, with Asia as the destination market. Other American companies like Sempra Energy or Dominion Resources Inc. are also seeking to obtain export licenses to Asia. Given the fall in US gas needs, Canada is also henceforth interested in the possibility of exporting its gas to Asia. Overall, a dozen projects have been announced in North America.

Asian customers in turn are very interested in these prospects. In the United States four long-term supply contracts (SPAs) have already been signed by Sabine Pass. Two of these are with large Asian countries: South Korea with Kogas (3.5 mtpa) and India with Gail (India) Ltd. (3.5 mtpa). Prospects for American exports of LNG to Japan are also emerging. Japanese companies have indeed recently accelerated their efforts to negotiate and guarantee supplies of LNG from the United States. American gas could also find its way to China. Projects are also emerging concerning Canada. Japan Oil, Gas and Metals National Corporation (JOGMEC), Chubu Electric Power, Tokyo Gas and Osaka Gas have accepted to take part in this project, to develop natural gas which is being conducted by Mitsubishi in the Cordova Bassin of British Columbia. This project focuses on shale gas and the possibilities of LNG exports to Japan. In May 2012, Shell also announced the launch of an LNG terminal for exports to the Asian markets from the deep water port of Kitimat in British Columbia (Canada). This is the largest of the three LNG export terminals planned in Canada. It should be completed by the end of the decade. Again, the three large Asian countries are already present, since PetroChina Co., Kogas and Mitsubishi Corp. each have a 20% stake in the project.

Despite these developments, some nevertheless believe that the outlook of American LNG exports to Asian markets is limited. This would be good news for producers in the Persian Gulf. The latter

84 “Two more North American LNG export projects planned”, Reuters, May 15, 2012
87 This is especially the case as a pilot program is underway, linking gas prices to oil prices in Guangdong and Guangxi. It could be extended everywhere in China in two or three years time. Gas is five times more expensive in these two Chinese provinces than in the United States. See Ken KOYAMA, “Japanese companies stepping up efforts to secure U.S. LNG exports”, IEEJ, May 2012 (http://eneken.ieej.or.jp/data/4327.pdf)
should however be very attentive to this new variable. The negotiating power of Asian consumers will rise as new competitors emerge in North America, but also rapidly in Australia, Russia and East Africa. The price mechanisms negotiated with these new suppliers could also have consequences for producers in the Gulf. In terms of supply security, given the volatility of the Gulf zone, certain suppliers may appear to be “safer” to Asian buyers (the USA, Canada, Australia, etc.). Competition therefore risks intensifying considerably in this sector. On the other hand, Gulf producers may also benefit from new opportunities. Qatar seems to have understood this well. In May 2012, its sovereign fund, the Qatar investment authority (QIA), for example acquired about 3% of Shell, which is active in the LNG sector in North America.

In any case and despite uncertainties, the Asian market holds out very important growth prospects in the gas sector which could benefit producers in the Gulf. In the short-term, it should be noted that Japanese imports of LNG – as in fact its imports of oil – have risen since the Fukushima catastrophe in March 2011 and the (temporary) closure of these reactors (Tokyo has in fact closed Japan’s 54 reactors) has benefited Qatar, with Qatargas increasing sales of LNG to Japan.\(^9^0\) In the medium term, Japanese imports will continue to increase, but the size of such increases will depend on decisions made by Tokyo concerning nuclear power. If uncertainty continues concerning the future of Japanese nuclear power, the growth outlook for consumption of gas in Asia, and especially China and India, is substantial. The choices made by Tokyo will have consequences for the consumption of gas in Japanese electricity generation and the increase of LNG imports. They will therefore influence the scale of links in the gas sector between Japan and producers in the Persian Gulf, essentially Qatar.

**Primary demand for natural gas by China and India (IEA “gas scenario” 2011)**\(^9^1\) (in billions of m\(^3\))

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>Change compared to the “NPS” scenario 2035**</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>85</td>
<td>247</td>
<td>335</td>
<td>430</td>
<td>535</td>
<td>634</td>
<td>7,7%</td>
</tr>
<tr>
<td>India</td>
<td>42</td>
<td>81</td>
<td>104</td>
<td>134</td>
<td>176</td>
<td>234</td>
<td>6,5%</td>
</tr>
</tbody>
</table>

* Average annual growth rate

** “New Policies Scenario” envisaged by the IEA (WEO 2010)

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Natural gas production in China and India (IEA “gas scenario” 2011)\(^92\)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2008-2035*</th>
<th>Change compared to the “NPS” scenario 2035**</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>80</td>
<td>137</td>
<td>185</td>
<td>222</td>
<td>264</td>
<td>303</td>
<td>5.0%</td>
<td>119</td>
</tr>
<tr>
<td>India</td>
<td>32</td>
<td>67</td>
<td>88</td>
<td>102</td>
<td>119</td>
<td>135</td>
<td>5.5%</td>
<td>34</td>
</tr>
</tbody>
</table>

* Average annual growth rate
** “New Policies Scenario” envisaged by the IEA (WEO 2010)

According to the *International Energy Outlook 2011*, China and India alone should account for half the world's growth in energy consumption between 2008 and 2035. China is already the world's largest energy consumer, and in 2035 it is forecast to consume 68% more energy than the United States. China's demand for gas reached German levels in 2010, and according to the International Energy Agency it should require as much gas as the whole of the European Union in 2035. In the *Medium-Term Gas Market Report 2012* by the IEA, China is set to double its consumption of gas in the next five years alone. With the aim of diversifying energy sources and reducing pollution, Beijing plans to increase the share of gas substantially in its overall primary energy consumption, according to the new five-year plan (the 12th Five-Year plan, 2011-2015). The share should therefore rise from 3.8% in 2008 to 8.3% in 2015, equivalent to an annual demand for gas of 260 billion m\(^3\) in 2015. China could become one of the world's biggest gas producers in the years ahead by developing its probable shale gas resources, but according to the IEA China will still have to import half of its gas needs in 2025.\(^93\) The “gas scenario” of the IEA forecasts a rise in natural gas imports from 20 billion m\(^3\) in 2010 to 110 billion m\(^3\) in 2015, of which at least half will be LNG and hence of interest to Gulf producers. By 2035 gas imports are expected to be 330 billion m\(^3\). The IEA considers that China will then be the world's largest importer of natural gas. Even if the Middle East

\(^{92}\) Idem, p. 27.
is expected to be a large consumer, there is some optimism about the prospects of gas exports from the Gulf zone to China, as output in the zone is also forecast to rise especially from Qatar. Qatar should be the world’s fifth largest gas producer in 2035, according to the IEA. As for India, the demand for gas should quadruple compared to 2010 (55.7 billion m³). The recent “gas scenario” by the IEA expects India to shift from being a “small importer” with 12.15 billion m³ in 2010 (a little less than Taiwan) to 100 billion m³ in 2035 (i.e. more than Japan in 2010). This would be equivalent to a little more than 40% of India’s total gas consumption. India’s import demand will therefore be significant after 2020. Elsewhere in Asia (Japan and South Korea) LNG imports should continue to rise according to the “gas scenario” but more slowly, rising from 130 billion m³ in 2010, to 280 billion m³ in 2035. Given its rising demand, Asia as a whole will remain the top destination for LNG producers in the Persian Gulf, perhaps even taking a greater share of their exports. China and India will dominate this growth. These trends will therefore strengthen economic ties between these two countries and their partners in the Gulf and will undoubtedly consolidate political and maybe even security ties between them. Given the mistrust and rivalry which characterizes Sino-Indian relations, despite the growth of economic links between them, the Persian Gulf could emerge as a zone of competition between China and India. Both countries have a vital interest in the stability of the zone, which is good news for these countries. But the Gulf States could find themselves in a delicate position depending on the state of relations between China and India.

**Nuclear power and renewable energies**

Economic opportunities between advanced Asian countries (Japan, South Korea and even China) and the oil monarchies are also important in the nuclear sector. Since the 2000s, the monarchies of the Persian Gulf have envisaged developing this sector to meet their rising electricity needs. Contracts were established between the GCC and the International Atomic Energy Agency in 2007 to examine whether it would be economically viable for the GCC States to invest in nuclear energy. The conclusion seems to have been positive as prior to the Fukushima catastrophe, Kuwait had planned to build four reactors between 2010 and 2022. However, the nuclear accident did lead (perhaps temporarily) to choices being revised in July 2011. Qatar also seems interested, signing a nuclear cooperation agreement with France in 2011.

95 Tsuyoshi Inajima and Yuji Okada, “Kuwait Plans To Build Four Nuclear Reactors As It Seeks Alternative To Oil”, *Bloomberg*, September 10, 2010.
96 “Kuwait abandons nuclear power option”, *UPI*, February 23, 2012
agreement with Russia in November 2010.\textsuperscript{97} Although Oman has at present no plans to construct any nuclear reactors, it did establish contacts with the United States in 2010, to discuss potential future cooperation in the field of nuclear technology, having previously signed a protocol agreement with Russia relating to nuclear cooperation in June 2009. For its part, Saudi Arabia set up the “King Abdullah” City in April 2010, for nuclear and renewable energies (KA-Care). Despite Fukushima, Saudi Arabia announced its intention in June 2011 to build 16 nuclear reactors by 2030, at an investment cost estimated at more than $112 billion. This makes Saudi Arabia one of the world’s most important potential markets (behind China, India, Russia and the United States).\textsuperscript{98} This nuclear program would allow Saudi Arabia to meet one fifth of its electricity output, to supply its water desalination plants.\textsuperscript{99} Numerous contacts and discussions relating to nuclear power took place between the Gulf States and their Asian partners during the 2000s. Looking at concrete results, the breakthrough into the sector by South Korea in 2009 must be noted. Indeed South Korea has nuclear expertise – its first power station dates from 1978. Specialized Korean companies are interested in opportunities in the Persian Gulf which would constitute another way for Korea to balance its trade deficit with the region (alongside EPC contracts). Proof that South Korea is a serious competitor for Western companies in the international nuclear energy market came at the end of 2009 when the Emirates’ Nuclear Energy Agency selected a South Korean consortium led by Korea Electric Power Corp. (Kepco) to build four reactors. The consortium includes Samsung, Hyundai, Doosan Heavy Industries, the US firm Westinghouse, and a Japanese subsidiary of Toshiba, and was chosen in preference to French suppliers. The four reactors are estimated to cost $20.4 billion, and constitute the first tranche of a project which could run to $40 billion.\textsuperscript{100} The contract was signed in the presence of the president of United Arab Emirates, Sheikh Khalifa Al-Nahyane, and his South Korean counterpart, Lee Myung-bak, who was on a visit to Abu Dhabi in December 2009.\textsuperscript{101} Despite the Fukushima catastrophe, the construction of a future nuclear power station at Braka was inaugurated by the South Korean president in March 2011. The first reactor should be operational in 2017. Drawing on this success, Seoul is henceforth seeking to position itself in Saudi Arabia.

\textsuperscript{97} “Russia, Qatar to cooperate in nuclear field”, The Voice of Russia, November 2, 2010

\textsuperscript{98} According to figures by the World Nuclear Association, see “World Nuclear Power Reactors & Uranium Requirements”, April 2012 (http://world-nuclear.org).

\textsuperscript{99} “Saudi Arabia plans to build 16 nuclear reactors by 2030”, Reuters, June 1, 2011

\textsuperscript{100} See World Nuclear Association, “Nuclear Power in the United Arab Emirates”, April 2011 (http://world-nuclear.org)

\textsuperscript{101} “La France perd un méga-contrat nucléaire aux Émirats”, Le Figaro, Décembre 27, 2009
Concretely in November 2011, the “King Abdullah” City for nuclear and renewable energy (KA-Care) signed an agreement relating to research and development cooperation, including the establishment of nuclear power stations and research reactors with the Korea Atomic Energy Research Institute (Kaeri). It should be noted however that similar agreements were signed by Argentina and France and also with China in January 2012. The latter is seeking to position itself in the nuclear field in which it wants to excel in the years ahead (thanks to technology transfers and training by Westinghouse). Discussions were also being held with Russia in February 2012. Cooperation between Asian countries and the oil monarchies clearly also include nuclear energy, and Western companies should henceforth expect competition from Asia.

Lastly, new opportunities for mutually beneficial cooperation exist between the oil monarchies and their Asian partners in the field of renewable energies. This is especially the case for solar energy and wind power. China has enormously invested in clean energies in recent years. It could find important markets for its technologies as well as investment opportunities in the Gulf countries having solar and wind power resources and which are interested in making better use of their oil and gas. Saudi Arabia, the United Arab Emirates but also Kuwait and Bahrain are especially interested in renewables to produce electricity, for which output is growing permanently (around 10% per year). They are also looking to reduce production costs related to the desalination of sea water. China could play a very important role in the development of solar and wind power in the Gulf, providing technology at a lesser cost than Western competitors. The Gulf countries could equip themselves at less cost and at the same time release non-negligible quantities of oil or gas for export. Wen Jiabao, the Chinese Prime Minister, toured the Gulf in January 2012 (Saudi Arabia, Qatar and the United Arab Emirates). During his visit he did not miss visiting Abu Dhabi to attend the 5th World Summit on future energies, and praised the Emirates’ project of building the city of Masdar, stressing the common interests linking China and the UAE in the field of renewable energies. Furthermore, development schemes for projects and co-investments in the renewables sector have already been successfully tested in the Gulf, especially by Abu

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102 “Saudi Arabia, South Korea in nuclear cooperation deal”, *Reuters*, November 15, 2011
104 The Gulf States use significant quantities of oil and gas to produce electricity and these could be replaced by solar energy and wind power, allowing better commercial use to be made of oil and gas (e.g. by exporting).
106 “China seeks Gulf partnership to push renewable energy”, *Xinhua*, January 16, 2012.
Dhabi (the Shams 1 electric power station, which will be completed at the end of 2012, which French and Japanese banks participated in financing). Links may also be set up with Beijing or other Asian countries interested concerning investments in this sector. They would contribute to diversifying Asia-Gulf relations which are currently booming, and so would further contribute to “Asianizing” the Persian Gulf.
Conclusion

Energy relations linking the monarchies of the Persian Gulf to Asia began during the Cold War, and developed in parallel to the economic expansion of the major industrialized, oil-consuming countries, which were allied to the United States: first Japan, which rapidly became the Gulf's top customer for oil, and then South Korea. Customer-supplier relationships based on oil at first linked the Persian Gulf to Asia, but these were subsequently extended to liquefied natural gas (LNG), given Japan’s and South Korea’s energy needs. Japan also played a lead role in the setting up of the LNG sector in some Gulf States (the United Arab Emirates, Qatar and Oman). It also has had much influence in the development of other sectors (such as Saudi refining), through its investments and technology transfers. In general, economic relations between the Gulf and Asia’s industrialized countries have spread beyond the hydrocarbon sector.

Gulf-Asia relations gained new momentum during the 1990s and 2000s, following China’s economic take-off, and more recently India’s. Economic relations – with an emphasis on hydrocarbons – have strengthened with these two countries, and are beginning to diversify (LNG, and the non-oil sector). During the 2000s, diplomatic and political relations with all Asian countries also grew strongly, including in the field of security with India. India had historically been the main trade partner with the Persian Gulf, through to the first half of the 20th century. It was also linked to the region in security matters, via the British Empire. The weight of Asia in the trade of the oil Gulf States is impressive today. Trade with Japan, South Korea, China and India is twice as important in volume terms as with the EU27 and the USA combined. Given the prospects of new possibilities for mutually beneficial cooperation in the fields of LNG, nuclear power, and renewable energies, the economic weight of Asia in the Persian Gulf seems set to increase.

In the short term, the European debt crisis and the recession affecting Western economies are pushing down demand for oil and gas products from the region, whereas the potential growth of the Asian economies – especially giants like China and India – is far from exhausted. This situation is leading the Gulf further towards Asian customers of hydrocarbons. The trend towards increased trade with Asia is set to be further enhanced with consequences for change in global, geopolitical balances.
That said, despite the growing weight of the Asian economic zone, the diversification of economic links beyond hydrocarbons and new investment opportunities in Asia for GCC countries, the monarchies of the Gulf still have clear interests in their relations with traditional, Western partners. These relate especially to investments and technology, as indeed the 91st session of the GCC recalled. It is in their interest to retain strong economic links with Europe and the OECD in general. Furthermore, while economic links are bringing (and will continue to bring) the Persian Gulf zone and Asia together, the region also remains linked to the West in terms of security, especially the United States. Military relations with Asian countries are still very weak, even if they have been growing post-9/11, especially with India. No Asian state is capable, nor shows the willingness today of taking on Washington’s role. While the GCC countries – especially Saudi Arabia – have an interest in deepening political links and diversifying their security links with Asian countries, such developments are complementary to relations with Washington, rather than being in opposition to them. In the future, all Asian hydrocarbon consuming countries, as with the European Union and the United States, will have an interest in the stability and security of the Persian Gulf. Yet the expression of a certain rivalry between some Asia countries (for example, India and China) is not to be excluded.
Annex 1: Map of Chinese Administrative Provinces

Source: University of Texas at Austin
Annex 2: The development of Asian refining capacity

Source: IEA 2011