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Panel 1: Energy, Investment, and Economic Interests
Witness Topic: BRI and the Evolution of Chinese Investment in the Region

China's Trade, Investment and Contracting Relations in the Arabian Peninsula

Madam Chairperson and Members of the Commission, Thank you for this opportunity to share my views and research on the relationship between the Gulf Arab states (Gulf states) and China. I would like to open my remarks with some framing of the geopolitical environment in which the Gulf states operate, and their consideration of Chinese investment and trade relations. I will center my remarks on the Gulf rather than the entire Middle East and North Africa but will draw on some data from my recent book, *Gulf Economic Statecraft: Deploying Aid, Investment and Development Across the Middle East, North Africa, and Pakistan* (MENAP) and some of my previous and forthcoming publications on Gulf-China economic ties.

Introduction and Framing the Gulf-China Geopolitical Relationship[1]

The geopolitics of the current age are more than great power competition between the United States and China; it is a false narrative to limit the role of developing economies of the Global South to aligning themselves with one side or the other. While we may indeed be in some inter-regnum period of heightened risk of conflict, there are broader economic trends that may be more important in the shaping of our future global political economy. And in this new global economy, it is precisely the role of developing countries that will set the pace and geography of trade as well as relationships between new trade partners and intermediaries. New trade routes, investment partnerships, energy demand, and adaptation of technology within and among developing economies will shape new political relationships and build multiple new centers of economic power. The Gulf is not between the US and China, but one center or node of new trade routes and a changing energy demand landscape, new manufacturing locales, each positioning the Gulf Arab states of the Arabian Peninsula (most notably two: Saudi Arabia and the United Arab Emirates (UAE)) as a burgeoning logistics hub and artery of the global economy. There is no fixed center of trade, but rather an eastward shift of intensity.

[1] Forthcoming, Young, K. (2024) "The Gulf as Trade Artery of the World" in *The Reshaping of Global Logistics. Geopolitics, Economics, and Technology Trends,* Italian Institute on International Political Studies (ISPI) and McKinsey & Co.

Gulf Positionality in a New Global Trade Environment

Understanding Gulf positionality in a new global trade environment requires a framing of emerging market economy growth and connectivity. The New Silk Road is one way of describing this geography and burgeoning economic regrouping. Stretching from East Asia to Morocco in North Africa, a New Silk Road grouping encompasses 50 countries and 4.9 billion people, including eight out of the world's top 20 economies. Its share of global gross domestic product (GDP) has risen to 40 percent and consultancy Oliver Wyman estimates this will reach 48 percent by 2040.[2] Global trade is more concentrated among emerging market economies. This transition has been underway for some time. Since 2010, emerging markets have been a global source of export activity, accounting for nearly 45 percent of global exports compared with only 25 percent in 1996 and this growth is not driven solely by China, as researchers at the Federal Reserve demonstrate.[3] Integration into global financial markets is also part of the new geography of trade, and a point of connection at which the Gulf states excel. New Silk Road firms, or those based across emerging markets of Asia and the Middle East, account for 221 of Fortune 500 firms.[4]

The New Silk Road defines the complexity of global supply chains, including the flexibility created by a China+1 trend, in which relocating manufacturing out of China in turn creates opportunities for other developing countries in Asia, as well as external regional investors. The use of financial markets and investment vehicles build a web connecting capital within emerging market economies. Because so much capital is concentrated in the Gulf, there are unique opportunities for Gulf state investment vehicles, many with mandates to invest more in Asia and to allocate towards clean energy projects.

The strength of the grouping will depend on its ability to adapt technology in its manufacturing for renewable energy supply chains. For example, India's ability to ramp up its production of solar panels will integrate it both more with developed markets in North America and Europe, but more likely with the kinds of firms growing in the Gulf to expand solar power production at home and through their state-owned firms building solar power plants across Africa and West Asia. In this sense, it is both trade and investment that are coupling in the Gulf to deploy at scale across a wide geography of increasing energy demand and consumer product demand. To this effect, the Gulf is a hub of both capital and logistics. Its strengths lay in four factors and trendlines discussed below, related to: 1) geography, 2) access to capital and ability to deploy it swiftly, 3) fortuitous access to sites of emerging growth, and 4) a deep expertise in energy product delivery that can serve through an energy transition.

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[2] Adel Alfalasi and Ben Simpfendorfer (2024) "The New Silk Road: Growth, Connection and Opportunity", Oliver Wyman. https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2024/mar/the-new-silk-road-complete-series.pdf

[3] Reyes-Heroles, Ricardo, Sharon Trailberman and Eva Van Leemput (2020). Emerging Markets and the New Geography of Trade: The Effects of Rising Trade Barriers. International Finance Discussion Papers 1278, pp. 4-5. https://www.federalreserve.gov/econres/ifdp/files/ifdp1278.pdf

[4] Adel Alfalasi and Ben Simpfendorfer (2024) "The New Silk Road: Growth, Connection and Opportunity", Oliver Wyman. https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2024/mar/the-new-silk-road-complete-series.pdf

The weaknesses of the Gulf are entirely political, in that its entrepot position both geographically and politically depends on access to US capital markets and a defense umbrella, alongside access to trade and consumer markets across emerging Asia and Africa, with a special relationship to China and India.

Gulf Infrastructure on Call

Indeed, where we find the largest investment and growth in trade infrastructure, especially ports, tends to be in both Asia and the Gulf. MEED reports that current projects in global port infrastructure investment in early 2024 (including early pre-planning stages of announcement and study, through to execution) stand with a combined value of $497bn.[5] Southeast Asia has the highest share of the pipeline value, standing at $84.5bn, followed by the Middle East and North Africa region at $73.2bn and South Asia at $73.1bn. New port construction in the Gulf Cooperation Council (GCC) states in the last year includes plans to build a new terminal at Ras Al Khaimah in the UAE, with a contract awarded to China Harbour Engineering (Chec). Also, in Jeddah Islamic Port, Bahri Logistics began construction on a new logistics and distribution center in March 2024. AD Ports Group (Abu Dhabi government-owned) signed an agreement in partnership with the Red Sea Ports in Egypt. Ports in the Gulf (and Middle East more broadly) often rank as the most efficient ports in the world, according to regular World Bank and S&P Global Market Intelligence container port performance index.[6] The port connections between the Gulf and China include contracting services as well as trade. Chinese contractors are frequently winning awards for port expansions and in collaborations or joint ventures in industrial zones around Gulf ports, and that industrial activity is usually related to the energy sector (e.g., refineries, crude, or refined product storage) or the transport of energy and new energy products (e.g., green steel, critical minerals for EV production, etc.)

To this end, the GCC states own, or are operating, building, and investing in the current set of regional[7] port infrastructure, some with Chinese investment and contracting awards:

1. Port of Jebel Ali (UAE)
Owned by Government of Dubai, operated by DP World.

2. Port of Salalah (Oman)
Owned by Government of Oman, operated by APM Terminals (subsidiary of Maersk Group)

3. Port of Djibouti (Djibouti). Owned by Government of Djibouti, formerly operated by DP World, and after government take-over (2018) now operated by Djibouti Ports and Free Zones Authority.

[5] Middle East Economic Digest (MEED) (2024). "Global Economy Needs More Port Infrastructure." https://www.meed.com/global-economy-needs-more-port-infrastructure

[6] World Bank Group (2022). Middle East container ports are the most efficient in the world," https://www.worldbank.org/en/news/press-release/2022/05/25/middle-east-container-ports-are-the-most-efficient-in-the-world

[7] There are important expansions of Gulf port operators outside of the Gulf region, including East and West coasts of Africa. See work by Eleonora Ardemagni (2023) "One Port, One Node: The Emirati Geostrategic Road to Africa," ISPI. https://www.ispionline.it/en/publication/one-port-one-node-the-emirati-geostrategic-road-to-africa-131893

4. Port of Aden (Yemen)
Owned by the Government of Yemen, operated by multiple firms, including DP World and China Merchants Port Holdings and local Yemeni authorities.

5. Port of Berbera (Somaliland, Somalia), owned by the Government of Somaliland and operated by DP World.

6. Port of Aqaba (Jordan), owned by Government of Jordan, operated by Aqaba Development Corporation (ADC), but recently AD Ports Group (Abu Dhabi government-owned) and ADC signed a joint venture (51% stake held by AD Ports Group subsidiary Maqta Gateway) to create an operating company Maqta Ayla to streamline operations at the port and in road trade to Jordan.[8]

7. Port of Duqm (Oman) is owned by the Government of Oman and operated by Port of Duqm Company, a government entity. There is investment in the special economic zone as part of Duqm, including a committed $3.7bn development plan over 30 years from China's Oman Wanfang.[9] That has been slow to materialize. Though an investment from Kuwait to build an oil refinery in Duqm has already paid dividends given its strategic location outside of both the Red Sea and Strait of Hormuz, given recent conflict in the region.[10]

8. Jeddah Islamic Port (JIP) is one of the oldest ports in Saudi Arabia, recently deepened and expanded to more than double container capacity to 6.2 million containers spread over 11 platforms.[11] The terminal facility is operated by DP World.

9. Ras Al-Khair Port (Saudi Arabia) Located in the Eastern Province of Saudi Arabia is part of an industrial zone serving the Ma'aden phosphate and aluminum plants, among other facilities like the Shanghai-based Baoshan Iron and Steel Co. recent $4bn investment in the Ras Al-Khair special economic zone to manufacture steel plates.[12]

10. Dhiba Port (Saudi Arabia) Located near the NEOM project and its Oxygon industrial zone on the Red Sea coast, this port is under expansion plans to handle 3.5-4-million-ton equivalent units (TEUs) by 2030. (For comparison, Jebel Ali has a capacity over 19 million TEUs.)[13] The port is near the Jordanian border and could play an instrumental role in broader Middle East and North

[8] Sambidge, A. (2024, February 16). "AD ports deal to transform Jordan's Aqaba," Arabian Gulf Business Insight. https://www.agbi.com/trade/2024/02/ad-ports-deal-to-transform-jordans-aqaba/
[9] Aguinaldo, J. (2017, April 4). "Chinese investor mobilises for Duqm Project," MEED. https://www.meed.com/chinese-investor-mobilises-for-duqm-project/
[10] Paola, A. D. (2024, February 8). "Duqm oil refinery cranks up output as fuel cargoes avoid Red Sea," Bloomberg. https://www.bloomberg.com/news/articles/2024-02-08/new-oil-refinery-cranks-up-output-as-fuel-cargoes-avoid-red-sea
[11] Hammond, A. (2024, February 16). "Expansion of Jeddah Islamic Port complete," Arabian Gulf Business Insight. https://www.agbi.com/logistics/2024/02/expansion-of-jeddah-islamic-port-complete/#:~:text=The%20project%20to%20deepen%20and,11%20platforms%2C%20a%20statement%20said.
[12] Arab News (2023, May 30). "China's Baoshan Iron and Steel Co. invests $4bn in Ras al-Khair Economic Zone," Arab News. https://www.arabnews.com/node/2312891/business-economy
[13] Nereim, V. (2021, November 25). "Saudi prince's "NEOM" to expand port to rival region's biggest," Bloomberg. https://www.bloomberg.com/news/articles/2021-11-25/saudi-prince-s-neom-to-expand-port-to-rival-region-s-biggest

Africa (MENA) connectivity for Saudi exports, in some ways in an alternative route proposed by the India-Middle East Economic Corridor (discussed below).

11. Yanbu Commercial Port (Saudi Arabia) Located also on the Red Sea coast in the Madinah region, the port is under expansion of berths, terminals, and ability to accommodate larger vessels.

12. Ras al Khaimah (UAE) Saqr Port and the RAK Free Zone and Maritime Zone are all part of RAK Ports. An expansion in 2019 included two deep water Capesize berths at Saqr Port, with annual capacity at 95 million tons, one of the largest dry bulk ports in the world. A 2024 contract awarded to China Harbor Engineering Company (Chec) will support a new steel sheet pile wharf, dredging and widening of the channel.[14]

13. Abu Dhabi Ports Group (UAE) operates 10 ports in the UAE, including the Khalifa Port in Abu Dhabi, in a set of commercial ports and terminals, along with community ports and tourist cruise terminals. Beyond east-west trade, the Khalifa Port and economic trade zone (KEZAD) are home to industrial processing, including a new agreement with Titan to import lithium mined in Zimbabwe to be processed into battery-grade lithium carbonate and lithium hydroxide for battery manufacturers and electric vehicle original equipment manufacturers in KEZAD.[15]
Abu Dhabi Ports Group also wholly owns the Port of Fujairah in the northern UAE, which is the third largest bunkering hub in the world, with more than 10 million cubic meters of crude and oil products storage capacity.[16]

GCC Rail

There has been considerable interest and speculation about the possibilities of a more inter-connected rail system to boost intra-regional trade and to support burgeoning efforts at east-west trade corridors from India to the Mediterranean and on to Europe. The GCC rail project has been a point of discussion for over a decade, when the Gulf Railway project was approved at the 30th GCC summit in Kuwait City in December 2009, with a completion date set for 2018. The steep decline in oil prices in 2016 created the first delay in project awards, but by 2017, the GCC dispute (formally between June 2017- January 2021) between the UAE, Saudi Arabia, Bahrain, and Egypt with neighbor Qatar disrupted all chances of regional economic integration. With the Al Ula agreement, the GCC secretariat in January 2021 effectively restarted the project, though the six member states are in different stages of new tenders and awards. GCC leaders approved the establishment of the GCC Rail Authority in January 2022. That same year, Oman and the UAE established the Oman-Etihad Rail Company to implement a 303-kilometre network, supported by a Mubadala investment. Not for passengers or necessarily consumer products, the utility of the rail network lies in energy and logistics supply chains. Oman-Etihad Rail Company signed a memorandum of understanding (MoU) with Brazilian mining company Vale to explore

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14 Iqbal, Y. (2024, March 5). "Chinese contractor wins Ras Al Khaimah port upgrade," MEED. https://www.meed.com/contractor-wins-ras-al-khaimah-port-upgrade-project
15 Iqbal, Y. (2024a, February 14). "Titan to establish $1.4bn KEZAD Lithium Plant," MEED. https://www.meed.com/titan-to-establish-14bn-kezad-lithium-plant
16 About Us - Trade Logistics Hub. Fujairah Terminals. (2023, March 16). https://www.fujairahterminals.ae/about-us/#:~:text=Wholly%20owned%20by%20AD%20Ports,cruise%20business%20at%20the%20Port.

using rail to transport iron ore and its derivatives between Oman and the UAE, connecting Vale's industrial complex in Oman's Sohar Port and Freezone and a planned hub in Abu Dhabi. Vale is the same firm in which the Saudi PIF and state mining company Maaden recently acquired a ten percent stake. Oman and Saudi Arabia plan to establish a railway link connecting Duqm with Riyadh through the Ibri border, for a planned economic zone in the Al-Dhahirah area.

Inside of Saudi Arabia, the land bridge project has potential for considerable efficiencies and expansion of trade networks. As Saudi Arabia plans to integrate rail with sea and dry ports, the $7bn Saudi land bridge rail project recently began tenders for project management, with an award to US-based Hill International, Italy's Italferr and Spain's Sener in December 2023. The Saudi China land bridge consortium, a joint venture of Saudi Railway Company and China Civil Engineering Construction, reported in November 2023 its final stages of negotiation with contractors for the project.[17] When finished, the six-line railway will connect Jubail and Damman to Jeddah and Yanbu, running east to west across Saudi Arabia with 1,500 km of rail lines. The Red Sea ports of Saudi Arabia have been somewhat shielded by recent attacks from the Houthis on sea transit, as they are based farther north. East-west transit avoids the Strait of Hormuz and has the advantage of Saudi port networks on the Red Sea coast.

India-Middle East Economic Corridor[18]

At the September 2023 G20 meeting, host country India along with the United States, the European Union, France, Germany, Italy, Saudi Arabia, and the United Arab Emirates (UAE) signed a memorandum of understanding, a non-binding commitment, to work towards building two separate "corridors", essentially envisioning a political line that is connected by some new and some existing, or already under construction, physical infrastructure. The east corridor envisions connecting India to the Arabian Gulf and the northern corridor connecting the Arabian Gulf to Europe. Its most visible infrastructure project is an old-fashioned railway, as a ship-to-rail transit network enabling goods and services to transit to, from, and between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe. More important is what else would go along the rail line, including the laying of cable for electricity and digital connectivity, and most critically, a conduit for clean hydrogen export from the Gulf to Europe.

The IMEC is part of a larger collaboration among G7 governments, international financial institutions and private (mostly US) infrastructure investors. In a belated policy response to China's BRI, the US government, and partners in the G7 announced a Partnership for Global Infrastructure and Investment (PGII) in May of 2023.[19] The intention is to politically support more blended finance for clean power, transport, health, and climate resilient infrastructure in low and middle-income countries. The IMEC does not neatly fit into the PGII initiatives either,

[17] Foreman, C. (2023, December 7). Firms win Saudi land bridge. MEED. https://www.meed.com/firms-win-saudi-landbridge

[18] This passage draws from Young (2023) "All you need to know about the India-Middle East Economic Corridor," *Al Majalla,* November 4, 2023. https://en.majalla.com/node/303536/politics/all-you-need-know-about-india-middle-east-europe-economic-corridor

[19] The White House (2023) Fact sheet: Partnership for global infrastructure and investment at the G7 summit. May 20, 2023. https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/

as it is not an accelerator of clean energy finance and the countries it connects are not all low or middle income. The IMEC does serve broader energy security goals for European nations and allows the United States to advance a national security goal in supporting regional economic integration by knitting together its strategic partners Israel and Saudi Arabia, at least by rail.

The IMEC corridor is a Western political imagining of balancing in a multipolar system, mainly adding states to its side of the balance sheet in a future conflict with China. The IMEC corridor provides something for all, including China. The Gulf (and the UAE in particular) is already the most important re-export source of Chinese goods in the region. An additional corridor by land would only facilitate that existing capacity from Jebel Ali. The question is, if the new route is any faster, cheaper, or safer than existing sea routes. It still navigates the Strait of Hormuz and depends on another sensitive location at Israel's Haifa, a port now managed by an Indian conglomerate that is backed by Emirati state investment.[20] The UAE is most advantaged in cementing its trade ties with India and growing new investments in strategic infrastructure assets through Israel, the Eastern Mediterranean, and on to Europe. Despite the GCC rail network plan coming back in motion, Oman is not a signatory of the IMEC memorandum of understanding and its new port development on the Arabian Sea at Duqm, much closer to India, would not be part of the corridor.

The Gulf Logistics Thesis

The Gulf central logistics thesis rests on four factors and trends:

1) A central geographical location. The location of GCC countries is an advantage because transporting renewable energy over long distances, whether in the form of electricity or hydrogen, is costly. As the cost of producing renewable electricity and hydrogen continues to decline, transportation's share in the overall cost structure will increase. The GCC countries offer comparatively easy access to large import markets in both Europe and Asia, as well as to developing markets such as those within Africa. The Gulf states benefit not only in the shifts in inter-Asian trade occurring, as manufacturing moves from China into other Association of Southeast Asian Nations (ASEAN) countries, but also in the Gulf's proximity to India. As higher tech manufacturing also moves to India, the evolution of supply chains in renewable energy, especially in EV manufacturing and solar panel components, will benefit Gulf solar companies expanding abroad and new car manufacturing efforts at home, as well as intermediary positions in export to Africa and beyond. As a center of a new energy market, across products from electricity transmission (from solar and nuclear power), green and blue hydrogen fuels, and new energy products, the Gulf has a key advantage.

2) The Gulf states benefit in their geographic location as an intermediary of trade between high growth areas in Africa and the Middle East and Asia, but perhaps as much or more in their role as financial intermediaries and investors in infrastructure, both at home and abroad. While the cost of capital is rising given global inflationary pressures, Gulf governments and their state

[20] Elbahrawy, F., & Shrivastava, B. (2023, January 30). "Adani enterprises FPO: Abu Dhabi's IHC invests $400 million in Adani Share Offer," Bloomberg. https://www.bloomberg.com/news/articles/2023-01-30/abu-dhabi-s-ihc-invests-400-million-in-adani-share-offering

investment vehicles have a plethora of institutions on hand to access capital markets at favorable interest rates compared to other emerging market economies. They can leverage state firms to borrow against and can issue partial privatizations to raise capital; this strategy has been essential to Saudi Arabia's Vision 2030 objectives, including raising the capital needed domestic infrastructure for trade networks. GCC states can deploy capital at scale for infrastructure for the energy transition and in transport systems. The IMF predicts that Southeast Asia, South Asia, and Sub-Saharan Africa will be central to future trade growth. It expects China's influence on global trade growth to wane as trade becomes more diversified across many countries. By 2026, it is expected that emerging economies will account for 45 percent of trade growth. The GCC states are best positioned as investors and operators of major infrastructure projects, from ports to power plants, in these growth areas.

3) Trade growth and density is changing with e-commerce trends, demand for sustainable materials like green steel, materials for low carbon products like EVs, and increasing the volume of trade between China and ASEAN and Silk Road countries. E-commerce trends across developing economies will require additional air cargo. Gulf state carriers are capitalized and expanding. GCC investment can also benefit from the relocation of manufacturing from China into other Asian locations, creating new co-investment opportunities with Chinese firms and new export routes by sea and air cargo for Gulf carriers. Air cargo is a growing market and the ability to finance and run state-owned carriers is a critical advantage. The growing trend of e-commerce, especially in apparel and household goods from Chinese discount retailers, is transforming the air cargo sector. According to the IATA, one in five parcels currently transported has been purchased online, and the figure is set to grow to one in three by 2027.[21] E-commerce within the GCC is also booming, as traditional point of sale retail is increasingly shared by on-line purchases and delivery. In the UAE, the Ministry of Economy finds just 4.2 percent of retail is e-commerce, the largest in the MENA region, with clear room for growth.[22]

As China's lower-end industrial sectors relocate towards ASEAN countries, there are opportunities for more labor-intensive manufacturing for leather, textiles, ceramics, and glass along with companies in solar, electric vehicles and lithium battery assembly processing. And while countries like Vietnam, Thailand, and Indonesia benefit, so too does Morocco, Jordan, and Egypt, as well as India as competitive labor sites. This shift in where consumption on the one hand and manufacturing and assembly happens on the other, is rapidly changing the trade and investment partners of the Gulf. It is an emerging markets story, but also one of geopolitics and sound national investment strategy.

The long-term growth fundamentals for Gulf-Asia trade are robust. In the shorter term, transporting goods to and from China via air, rail and sea continues to grow, driven by Chinese e-commerce sites of fast fashion and discount retail. As China increases its trade with ASEAN and its New Silk Road partners, the demand for logistics increases. Trade will increase as Asia's

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[21] Goldstone, C. (2024, March 14). "A 'tsunami of e-commerce growth' on course for Air Cargo," The Loadstar. https://theloadstar.com/a-tsunami-of-e-commerce-growth-on-course-for-air-cargo/#:~:text=According%20to%20IATA%2C%20one%20out,one%20in%20three%20by%202027.
[22] UAE Ministry of Economy. "Investing in Logistics in the UAE,". https://www.moec.gov.ae/documents/20121/1121099/Logistics+Investment+Heatmap+%282%29.pdf/fd1ee021-917b-b09f-e254-ef9d86769c43?t=1646194073616

economies, middle-class populations and their demand for energy expand over the next decade. The Gulf's efforts to diversify their economies and develop non-oil sectors, especially in sustainability and technology, will further drive cooperation. While the oil and gas trade dominate growth between the Gulf and Asia now, the expansion extends beyond oil. Non-oil sectors, particularly technology sectors that are vital for the Gulf's economic diversification and digitalization, have played a significant role. In 2010, for example, around 42 percent of Gulf trade was with advanced economies, by 2022, advanced economies shared just 34 percent of Gulf trade, with rising shares from Emerging Asia and other emerging markets.[23]

4) Dominating the Energy Business. The Gulf states are best positioned to continue oil and gas production while at the same time leading investment and innovation in renewable energy production, technology, its export, and renewable project development on a wide inter-regional scale with advantage across emerging market economies alongside their position to be partner investors in clean energy policy incentives, like the Partnership to Accelerate Clean Energy (PACE) between the UAE and the United States.[24]

China and the Gulf: Necessary Partners[25]

The Gulf states are in some ways necessary but insufficient partners in China's political and economic development ambitions. The Belt Road Initiative includes the Persian Gulf in its geographic ambition, but the Gulf is more of an entrepot, a stopover that is not a high population center or high-volume export market for China. For now, China's engagement in the Persian Gulf, from Iran on one side to the Gulf Arab states on the other, has been met with a kind of businesslike acceptance. The oil and gas exporters of the Gulf Cooperation Council find themselves in an unenviable position: China seeks their resources but is less interested in providing or replacing the current US security umbrella. China needs the Gulf (both the Arab Gulf states and Iran) but has other sources of hydrocarbons. The Gulf needs China as an export market, but any political partnership with China carries limited benefits. China will likely need the Gulf states less in twenty years as a source of hydrocarbon resources. And China will also seek to be in some of same businesses that the Gulf states seek to dominate, specifically in renewable energy like solar, but also in contracting or construction businesses for infrastructure development across the Middle East and the Horn of Africa.

There is also substantial variance among the GCC states in their economic linkages with China. Iran's economic ties with China are even more tenuous. Given the restrictions of sanctions over the last decade, more progress has been made in cementing China's economic links to the Arab side of the Gulf. China is neither a monolithic presence across the Middle East, nor an equal partner across the six GCC states. China's leverage as a provider of contracting services and development finance is disparate. And in some cases, even when Beijing has been ready to act as a source of finance, in providing commitments of investment, Gulf states have had second

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[23] Asia House (2023) *The Middle East Pivot to Asia*.
[24] The White House (2022) Fact sheet: U.S.-UAE Partnership to accelerate transition to clean energy (PACE). The White House. November 1, 2022. https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/01/fact-sheet-u-s-uae-partnership-to-accelerate-transition-to-clean-energy-pace/
[25] Young, K. (2023) "China and the Gulf: Necessary Partners" chapter 15 in Yahia Zoubir, ed. *Routledge Companion to China and the Middle East and North Africa*, Routledge: London.

thoughts. Iraq is one example; Iran is another. In 2021, Iraq suspended a potential deal to accept $2 billion for future deliveries of crude oil to China, despite a desperate need for external finance.[26] Likewise, the much-lauded 2021 Iran-China investment memorandum of understanding was large on promises ($400 billion of them over 25 years), but short on specifics, while facing considerable objections in Iranian domestic politics over concerns of a flood of lower priced Chinese goods to the Iranian consumer market.[27]

My remaining testimony proceeds in the following order. First, what does China see as an endgame in the Gulf? What is the longer-term value of political and economic ties to the Gulf states? Second, how do we explain variance in the location and abundance of economic ties with China, from investments and loans to contracting across the Gulf? And what are the various sources of economic ties and what do they tell us about China's ability to partner in the development and economic diversification goals of the Gulf states? From loans to contracting and commitments of foreign investment, how can we measure or compare the depth of China's economic interests in the Gulf? Third and lastly, what are areas of potential roadblocks ahead in Gulf-China ties, specifically on investments in technology and military capability and areas of strategic competition like electricity generation from renewable energy? And how might China's own demographic transition fit into a larger picture of declining or plateaued demand for traditional hydrocarbon exports from the Gulf? I would argue that while China-Gulf economic ties are increasing, they also come at a moment of tremendous change and expected reconfigurations of global trade, energy markets and consumer demand. These ties will not be static and should be considered as part of larger reconfigurations of population growth and economic activity.

China's Outward Vision for the Gulf

China, via its ruling party, has made very clear how the Middle East is just one part of a much larger outward strategy in its foreign policy and economic growth. In January 2021, China's State Council Information Office issued a white paper entitled "China's International Development Cooperation in the New Era," a detailed policy description of China's approach to international development and how to use its state institutions and private citizens and firms to more firmly establish ties, both economic and political, in developing countries.[28] For the Middle East, and for the Gulf Arab states in particular, the Chinese approach to development emphasizes a South-South focus. The rhetoric of a development ideal that is divorced from liberal democratic capitalism and ideals of the West has a certain attraction to the authoritarian capitalist states of the Gulf. There are no impositions on domestic politics, and there is a welcome role for state-related entities, as well as private sector actors in economic development.

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[26] Al-Ansary, K. (2021) Iraq walks away from $2B upfront oil deal with China, *World Oil*, 22 February, Available at https://www.worldoil.com/news/2021/2/20/iraq-walks-away-from-2b-upfront-oil-deal-with-china

[27] Esfandiary, D. (2021) Iran's 'New' Partnership With China Is Just Business as Usual, *World Politics Review*, 22 April, Available at https://www.worldpoliticsreview.com/articles/29593/the-iran-china-deal-isn-t-all-that.

[28] United Nations Development Program (2021) Brief on White Paper on China's International Development Cooperation in the New Era, 5 February, Available at https://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/issue-brief---brief-on-white-paper-on-china-s-international-deve.html.

China formalizes relationships through a hierarchy of partnership agreements. Loosely, these are memoranda of understanding which are not legally binding, but rather aspirational in commitments of investment and levels of diplomatic engagement. From "Friendly Cooperative Partnership" at the lowest level to "Comprehensive Strategic Partnership" at the highest, China engages the Middle East and the Gulf in proportion to its own development objectives.[29] For that reason, the countries with the highest level of "partnership" are those that are most valuable to China as a source of energy products, as geographic locations for re-export with good port infrastructure, and those that are open to awarding Chinese contracting firms opportunities. China has a "strategic partnership", the second highest level of engagement, with at least a dozen Middle East states. But its "comprehensive strategic partnerships" are reserved for a few: Iran, Saudi Arabia, the United Arab Emirates, Egypt, and Algeria.

China and Iran have been slowly socializing a strategic partnership since 2016, also the year China released its "Arab Policy Paper," outlining general areas of trade and cooperation with the Middle East more broadly, making little distinction between Arab and non-Arab regional partnerships. Iran was also the site of a high-level visit by President Xi Jinping in 2016, as was Saudi Arabia.[30] Iran's "comprehensive strategic partnership" with Iran is less a breakthrough about the 25-year, $400 billion investment commitment, which is not binding or real cash on the table now, but about the "sanctions free" nature of the partnership. China has made an interjection in Gulf regional politics based on economic rationale, but that is highly contentious not just with Arab state partners, but also with the United States. China needs Iran as a source (but not its only source) of reliable and inexpensive oil supply. Iran needs China more as a diplomatic wedge to the United States. Iran has feared becoming a dumping ground of cheap Chinese goods; the "sanctions free" nature of the Chinese relationship is what has been necessary to gain Iranian domestic support for the strengthening of bilateral ties.

If US sanctions on Iran's oil exports are lifted or eased as part of a return to the Joint Comprehensive Plan of Action, oil prices may weaken further given a global supply glut.[31] But there is some question of how much impact Iran's exports to China would have on existing market share supplied by Saudi Arabia and other Gulf Arab states: probably not much, though Saudi Arabia will not welcome the return of Iranian oil to markets, especially if Iran has agreed to sell at steep discounts. China is also not likely to stop buying from Gulf Arab partners, given shared co-investments in refineries and petrochemical facilities across the wider region. All have become connected, willingly, or not.

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[29] Fulton, J. (2019) China's Changing Role in the Middle East, *Atlantic Council*, June, Available at: https://www.atlanticcouncil.org/wp-content/uploads/2019/06/Chinas_Changing_Role_in_the_Middle_East.pdf.

[30] Perlez, J. (2016) President Xi Jinping of China Is All Business in Middle East Visit, *New York Times*, 30 January, Available at: https://www.nytimes.com/2016/01/31/world/asia/xi-jinping-visits-saudi-iran.html.

[31] Gordon, M. (2021) Iran oil sanctions relief expected in months if Vienna talks result in deal, *S&P Global*, 6 May, Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/oil/050621-iran-oil-sanctions-relief-expected-in-months-if-vienna-talks-result-in-deal.

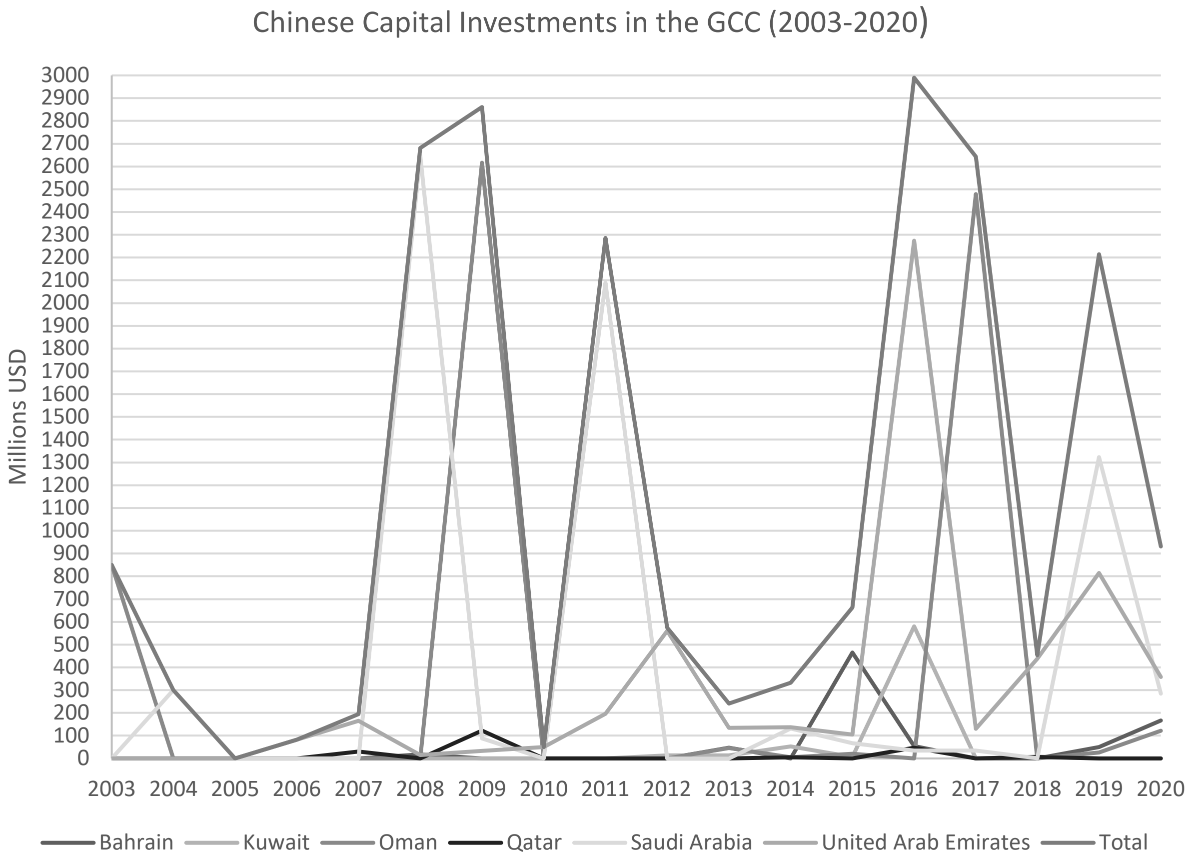
For the United States, China's ability to be an economic and political actor across the Persian Gulf can be threatening. The problem with viewing China as a great power competitor in the Middle East is that China is competing in entirely different mechanisms than the United States. The goal for China is not to be a security umbrella, a regional alliance or solely to gain a market for exports. China is after energy resources and strategic locations for its trade and transport security, which means it is invested in certain choke points in the Middle East, Horn of Africa, and Indian Ocean. And China has made relationship-building a priority, as these "comprehensive strategic partnerships" signify.

Variance in China-Gulf Economic Ties

Iran is not nearly as attractive as an investment destination to China as the Gulf Arab states can be. There is an energy imperative to China's investments and partnerships in the Gulf, mostly concentrated in Saudi Arabia and the UAE for now. Interestingly, new partnerships and co-investments include areas of potential competition, as the Gulf Arab states develop expertise in renewable, especially solar energy production, and as Gulf national oil companies begin a diversification strategy to privatize some pipelines and state port facility assets. Trade and finance have come second in importance, though China has steadily increased the presence of its banking sector in the United Arab Emirates and increased its ability to win contracting awards for its construction companies working in the Gulf Arab states.

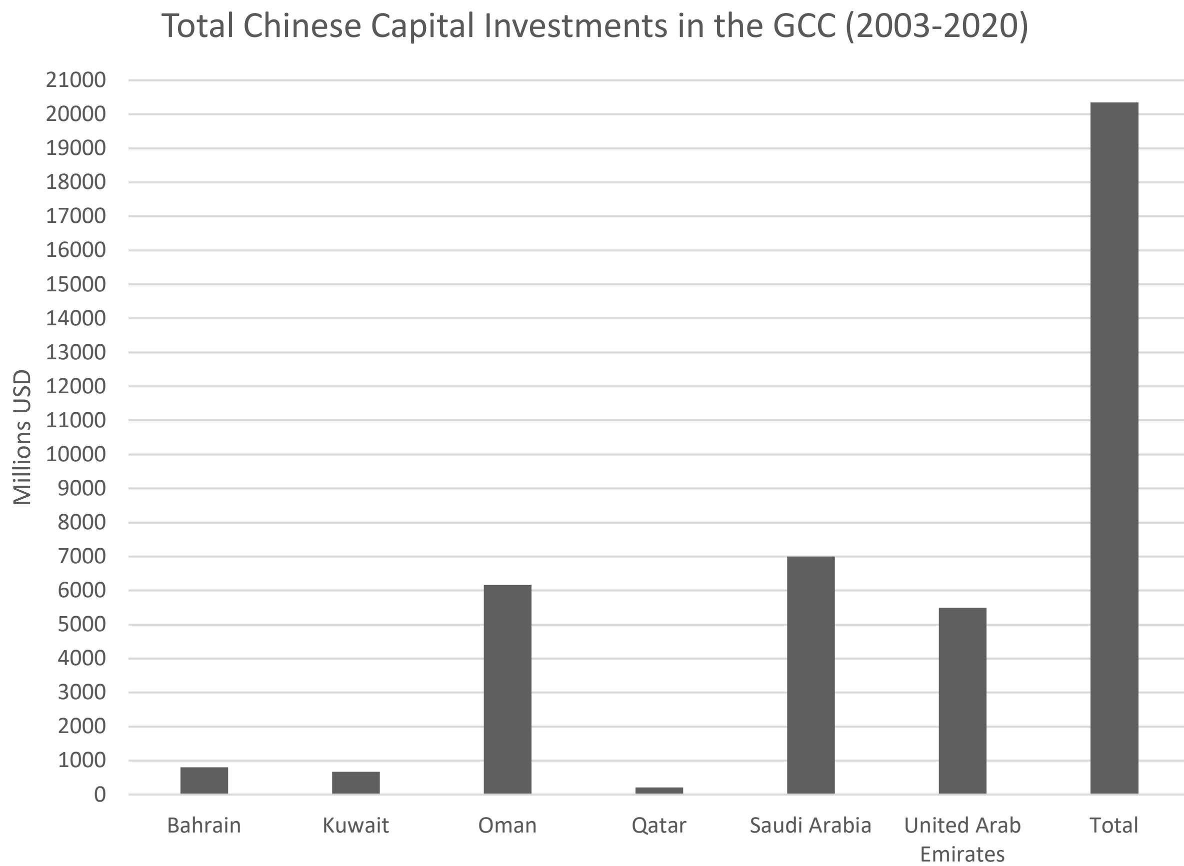
In data collected by fDi Markets, a Financial Times company, the stand-out recipients of Chinese foreign direct investment from 2003-2020 are three states in the Gulf Cooperation Council (GCC): Oman, Saudi Arabia, and the United Arab Emirates.

Figure 1: Chinese Capital Investments in the GCC (2003-2020)
source: fDi Markets



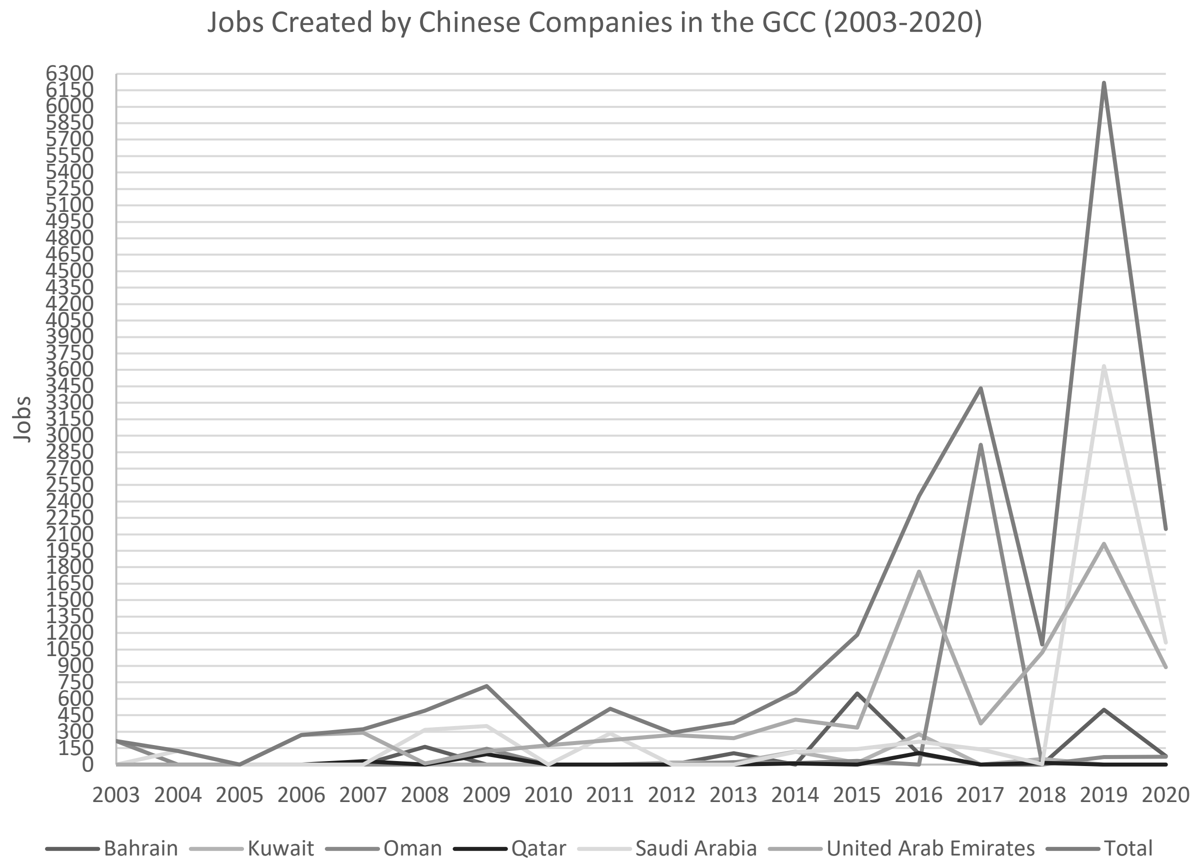
In terms of job creation, these same three states are the most intense sites of Chinese investment intervention in the GCC, but not necessarily in creation of jobs for nationals, as low wage foreign workers account for most of the construction sector.

Figure 2: Total Chinese Capital Investments in the GCC (2003-2020)
Source: fDi Markets



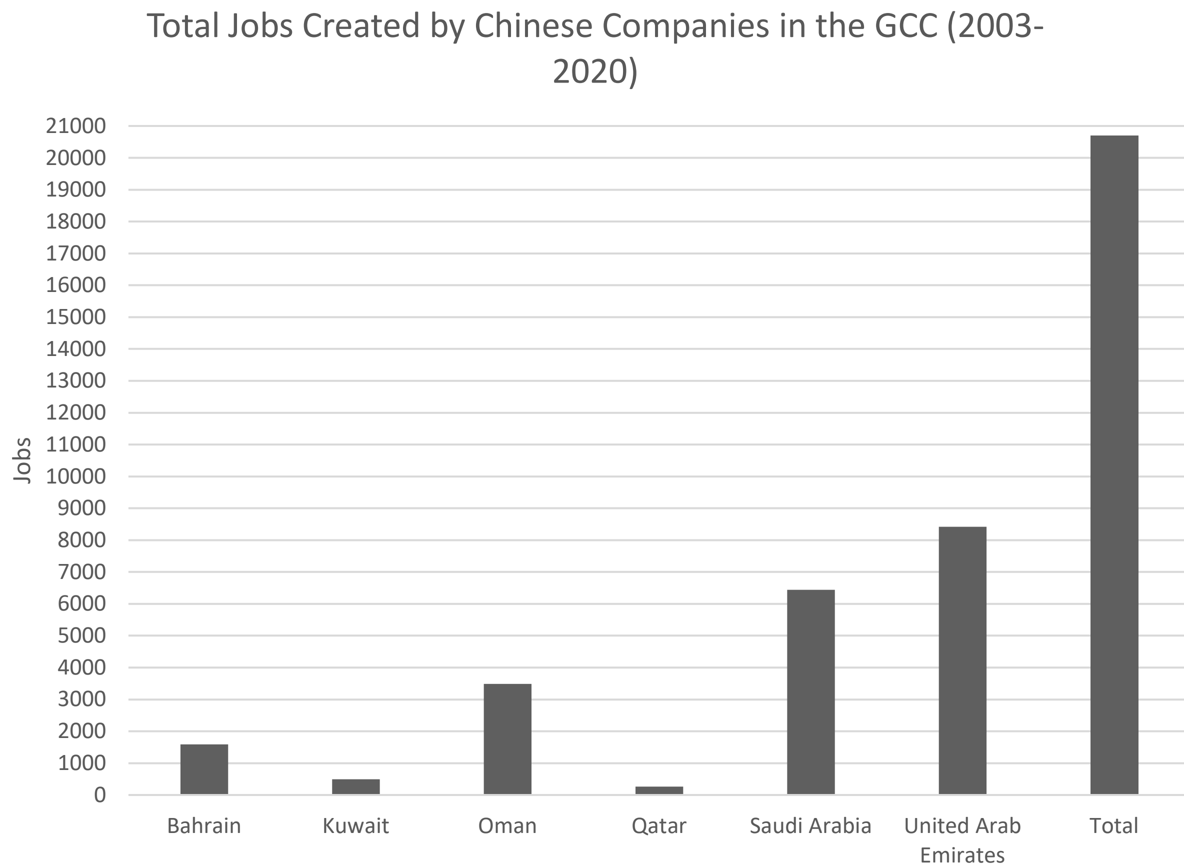
In terms of the variability over time in Chinese job creation in the GCC, the sharp increase job creation after 2016 is most evident, pointing to more contract awards in the construction sector.

Figure 3: Chinese Job Creation in the GCC (2003-2020)
Source: fDi Markets



In terms of Chinese capital investment flows to the GCC between 2003 and 2020, we see at least three periods of spikes or sharp increases, in the period around 2008, 2011 and 2016. The other trendline that emerges is the variability in those states most "favored" by China in its economic linkages.

Figure 4: Total Jobs Created by Chinese Companies in the GCC (2003-2020)
Source: fDi Markets



The UAE is certainly emergent in that trend now, though competition between Gulf national oil companies in attracting investment partners in partial privatizations means China also has a bit of new leverage.

China's direct economic gains in the wider Middle East relied mostly on winning contracting awards from Gulf governments, including a recent award in Etihad rail in the UAE (Bhatia, 2020). As part of strategic partnerships, there is also equal interest from the Gulf side to become a part of the China One Belt One Road initiative. The appointment of Chinese contractors to Gulf infrastructure projects is a complementary Gulf state policy objective, as evidenced by Dubai Silk Road strategy, which comprises 9 initiatives and 33 projects aimed at enhancing the emirate's trade and logistics capacity.[32]

After Saudi Crown Prince Mohamed bin Salman's state visit to China in 2019, investors signed $28bn worth of MOUs for projects in Saudi Arabia, including construction sector agreements with China State Construction Engineering Corporation (CSCEC), including an agreement to

[32] Oxford Business Group (2019) Dubai Silk Road strategy to capitalise on logistics infrastructure and global connections, Available at: https://oxfordbusinessgroup.com/analysis/sleek-strategy-dubai-silk-road-strategy-outlined-mid-2019-aims-capitalise-emirate%E2%80%99s-trade-and.

build housing units (worth $667m) for the Saudi National Housing Company.[33] CSCEC has completed $7.8 bn worth of projects in the Middle East in the last 15 years and has $19bn worth of contracts according to MEED Projects. In 2019, there were $520bn worth of pre-execution phase projects in Saudi Arabia alone.

By 2021, Chinese solar firms had gained contract awards to help Saudi Arabia reach its ambitious solar electricity generation goals, in partnership with ACWA power, a firm partly owned by the Saudi sovereign wealth fund, the Public Investment Fund, including a co-ownership with China's Silk Road Fund in ACWA's renewable energy holding company.[34] Outside of oil and gas, renewables have also been a focus of Chinese investment in the Gulf. In 2017, Abu Dhabi awarded a contract to a consortium led by Japan's Marubeni Corporation and China's Jinko Solar to develop a 1,177 MW PV solar independent power project at Sweihan, the world's largest single-site solar project.[35]

China imported $6.7 bn (or 2.8 percent) of its total oil requirements from the UAE in 2018. But more than a key export market, China is increasingly an active investor in Gulf oil and gas infrastructure, including recent co-investments in Abu Dhabi National Oil Co (ADNOC) onshore concession and new offshore concessions. In the summer of 2020, for the first time a dedicated Chinese offshore oil and gas company has joined ADNOC offshore concessions. ADNOC pointed out that PetroChina holds a 10-percent interest in the Lower Zakum concession as well as 10 percent of the Umm Shaif and Nasr concession. With the agreement, CNOOC will hold four percent interest in Lower Zakum and Umm Shaif/Nasr, with PetroChina holding the remaining six percent.[36]

Total trade between the UAE and China totaled $50bn in 2017, and 60 percent of Chinese goods imported into the UAE are re-exported to the Middle East and Africa, making the UAE more central to China's trade ambitions and networks regionally. (Non-oil trade between the UAE and China exceeded $72 billion by 2023.)[37] Chinese financial institutions are also making inroads in the Gulf finance sector. The UAE's federal government-owned development bank (Emirates Development Bank-EDB) issued its first bond in 2018 (after a decree allowing federal debt issuance), in which the $750m five-year bond was arranged by Emirates NBD Capital, Industrial and Commercial Bank of China, and Standard Chartered. China’s largest state-owned commercial banks—Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of China—have been increasing their market share in the

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[33] Yiu, K. (2019) Saudi prince's trip to China highlighted by $10 billion petrochemical deal, *ABC News*, 22 February, Available at: https://abcnews.go.com/International/saudi-princes-trip-china-highlighted-10-billion-petrochemical/story?id=61233563.

[34] Aguinaldo, J. (2018) Chinese contractors are becoming a dominant force, *MEED*, 5 December, Available at: https://www.meed.com/chinese-contractors-relentless-pursuit-bears-fruit/.

[35] AP News (2020) JinkoSolar Sells Its Stake in Abu Dhabi Sweihan Power Station, 27 November, Available at: https://apnews.com/press-release/pr-newswire/business-brazil-corporate-news-latin-america-and-caribbean-north-america-2401d0ed5f0c5eadbb392ed7b8f71e42.

[36] Saadi, D. (2020) UAE's ADNOC adds CNOOC of China as new partner in two offshore concessions, *S&P Global*, 27 July, Available at: https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/072720-uaes-adnoc-adds-cnooc-of-china-as-new-partner-in-two-offshore-concessions.

[37] UAE Ministry of Economy (2023) https://www.moec.gov.ae/en/-/uae-and-china-discuss-investment-opportunities-in-new-economic-sectors-trade-transportation-technology

Middle East. With their first foothold established in the Dubai International Financial Center (DIFC), each of the Big Four have opened operating branches in the Middle East and North Africa (MENA) region since 2008. From their branches in the DIFC, these banks run major regional operations and continuously expand their activities. As of March 2019, the Big Four contributed a quarter of DIFC's collective balance sheet for banking.[38]

China is quickly becoming a major contender in large project development in the Middle East. Because Chinese contractors can often bid on awards with state-backed financing, they are able to assess and win projects with higher risks in new and less established markets. Chinese financing has played a significant role in a railway network in Iran and other projects in Iraq, Algeria, and Saudi Arabia, according to research by MEED in its "The Future of Middle East Energy" report (2018). These four countries, along with the UAE, accounted for 75 percent of the total estimated value of projects awarded to Chinese contractors in 2000-2017. China's total share of contracts awarded across the region was almost 13 percent, and Chinese contracting is expected to grow further. The UAE was a prime destination for Chinese policy lenders in the last two years, with $2.3 billion in loans, including financing towards the expansion of both Dubai International Airport and Al Maktoum Airport. Jordan came in second, with total lending valued at $1.7 billion, followed by Saudi Arabia with $977 million and Egypt with $890 million.

Looking towards new projects, Chinese firms are aggressively bidding on MENA infrastructure. They bid to build part of a railway in the UAE, a rail network already linked to Huawei technology products. MENA governments have encouraged Chinese firms to bid and often award contracts because they are the most price competitive, given their ability to rely on state banks for financing for projects that relate to the Belt Road Initiative. The linkages of technology to infrastructure projects have created a sensitive collaborative model, in which companies like Siemens agree to partner with Chinese contractors to win participation in these large projects.[39]

Competition and Transition: The Future of Gulf-China Economic Relations

Export-oriented growth now includes the provision of finance as a service. The Chinese strategy of port development, large-scale construction services and the provision of state-backed finance instruments is gaining traction in the Gulf, but it is also inspiring Gulf states to emulate this strategy, sometimes in the same places where China is engaged. As these forces combine, their incentives to create opportunity and development in recipient countries will differ sharply from traditional multilateral sources of development finance.

The synergy now created by both Chinese economic statecraft and Gulf states' increasing orientation eastward is a powerful force that will affect patterns of investment in emerging markets, but also practices of development finance, of post-conflict reconstruction, and ideas about appropriate governance of markets of the Middle East. Much of this relationship involves Gulf supply of China's seemingly insatiable demand for energy, but China is also eying the Gulf

[38] Xueqing, J. (2019) BOC unit to ramp up services in Middle East, *China Daily*, 29 March, Available at: http://www.chinadaily.com.cn/a/201903/29/WS5c9d85daa3104842260b34a7.html.

[39] Siemens (2018) Siemens awarded high efficiency steam turbine modernization and upgrade project in China, 27 March, Available at: https://press.siemens.com/global/en/feature/siemens-awarded-high-efficiency-steam-turbine-modernization-and-upgrade-project-china.

for its own industries and investment. China and Arab Gulf states are likely to use their capacities a financiers, contractors and developers to increase ties and exert regional influence at a time the United States signals a desire to be less engaged in the Middle East.

The future of growth for the Gulf states will rely on the control of ports and transit waterways (of the Red Sea corridor, Arabian Sea, and Indian Ocean), of export markets for energy products in Asia, and favorable access to the largest economies in the Middle East and Africa. Trends in urbanization and energy demand map closely to where the Arab Gulf states are now investing their political and economic resources. Chinese investment is symbiotic to Gulf security and economic objectives; though they are competing for many of the same projects, they are at times cooperative rivals.

China is a source of finance, a competitor in infrastructure projects, and a constant reminder of the power of alternative economic organization to the West. The growth in financial flows is compelling, but it requires constant feeding from its state-backed forces. Both China and the Gulf states use state-owned firms, including financial entities and banks, such that constant expansion of projects and financing serves a domestic objective on balance sheets as well. Some scholars term the expansion of Chinese state-backed lending as "debt book diplomacy" as the expansion serves a political goal of the Belt Road Initiative, but also gives commercial purpose to a growing financial sector. Lending, however, is not as substantial as the gain from contracting awards and co-investments in the energy and transport sectors.

Both Saudi Arabia and the UAE are courting Chinese investment in shared energy projects, encompassing traditional oil production to renewable capacity and energy storage. State-owned enterprises Aramco and SABIC aim to partner with China's Sinopec and China North Industries Corp, creating a synergy of government firms. In the UAE, these projects include a contract worth $1.6 billion between ADNOC and the China National Petroleum Corporation (following an earlier $1.17 billion investment in Abu Dhabi's offshore fields).[40] In addition, there is a partnership and investment agreement between Dubai's Electricity and Water Authority (DEWA) and China's Silk Road Fund to create the world's largest solar energy plant.[41] In November 2018, ADNOC signed a new agreement for the sale of liquified petroleum gas (LPG) to Wanhua Chemical Group of China, owner of the world's largest underground LPG storage facility.[42] According to research by Qamar Energy, there are at least ten current energy projects planned or active in the GCC with Chinese investment, from traditional and solar electricity generation, to pipeline development in the UAE, methanol production in Oman, and uranium exploration in Saudi Arabia.[43]

[40] Gulf News (2018) Adnoc awards $1.6b contract to China's CNPC, 19 July, Available at: https://gulfnews.com/business/energy/adnoc-awards-16b-contract-to-chinas-cnpc-1.2254117.

[41] Halligan, N. (2018) China's Silk Road Fund to invest in Dubai solar project, *Arabian Business*, 22 July, Available at: https://www.arabianbusiness.com/energy/401242-chinas-silk-road-fund-to-invest-in-dubai-solar-project.

[42] Bridge, S. (2018) UAE's ADNOC signs major LNG sales deal with China's Wanhua, *Arabian Business*, 12 November, Available at: https://www.arabianbusiness.com/energy/407837-uaes-adnoc-signs-long-term-lng-sales-deal-with-chinas-wanhua.

[43] Mills, R., Ishfaq, S., Ibrahim, R. & Reese, A. (2017) China's Road to the Gulf: Opportunities for the GCC in the Belt and Road initiative, *emerge85*, October, Available at: https://emerge85.io/wp-content/uploads/2017/10/Chinas-Road-to-the-Gulf.pdf.

The recent growth in ties is based in China's demand for energy and the Gulf's ability to provide an important and growing market. China requires energy, especially to supply its infrastructure and construction boom as it builds new cities. Automobile sales in China quadrupled between 2008 and 2016, and transportation needs have also increased petroleum and related product demand. As China seeks to shift its own energy mix away from polluting coal-fired power plants, its demand for gas has multiplied. The most important factor driving global gas consumption in 2017 was the surge in Chinese gas demand, where consumption increased by over 15 percent, accounting for nearly a third of the global increase in gas consumption (BP, 2018). It may create some leverage for Gulf major gas producers to shift China's attention their way in the first phase of a post-oil transition, as liquified natural gas is considered a bridge fuel to more renewable sources.

The Gulf states are competing to secure China as an export market for their energy products beyond just oil and gas. The proliferation of downstream energy products in petrochemicals, including the construction of new refineries and chemical plants, is both a diversification strategy and a new product arena (and profit maker) for Gulf state energy companies. Despite this synergy of interests, there is already conflict in third party states, as evidenced in the dispute over control of shares of the Doraleh Container Terminal in Djibouti between DP World, the Dubai-based port management company, and the Djibouti Ports Authority (PDSA). Djibouti forced DP World out of the site by nationalizing the terminal; notably, the government partner of the port authority, the Hong Kong-listed China Merchants Port Holdings Company Ltd, a company overseen by Beijing’s State Assets Supervision and Administration Commission, holds a 23.5 percent ownership stake in the terminal. Effectively, the government of Djibouti made a choice of prioritizing ties to China as an investor, over its commercial ties to DP World.

Yet, there is a demographic dilemma in China, and it could acutely affect the oil exporters of the Gulf. It poses the most serious threat to the political economy of the region, and that includes the legitimacy of ruling families. A report from the investment bank Natixis finds that population aging in China will be fast and furious, with a steep decline on economic growth rates, from 6 percent a year in 2010 to 2.5 percent by 2030, with real impacts on global potential growth.[44] As domestic demand falls with an ageing population that is not replenished, that commodity demand will fall. Saudi Arabia may still pump the last barrel of oil, but it will almost certainly be the cheapest barrel and one that fewer consumers in China will need.

But the idea of a forced choice between superpowers, in a Cold War scenario between China and the United States, is not realistic for the Gulf states or the Middle East. There are states that are more vulnerable in their need for access to finance, which China might serve as an alternative, though the provision of development finance continues to diminish. And there are states that are simply serving their export markets and seeking longer-term investment partners. And there are states that have few other options. The problem in pitting the US versus China in each of these situations is ignoring a larger universe of investment sources and partners, both private, multilateral and state-supported in nature. The GCC states themselves are equally, if not more

[44] Cheng, E. (2021) China’s aging population is a bigger challenge than its ‘one-child’ policy, economists say, *CNBC*, 28 February, Available at: https://www.cnbc.com/2021/03/01/chinas-aging-population-is-bigger-problem-than-one-child-policy-economists.html.

important as China in the Middle East as sources of capital investment and job creation, not to mention fewer formal sources of aid and bilateral government support.

When it comes to foreign direct investment, aid, capital expenditure and job creation, China is often characterized as the investor of choice in the Middle East. It is often erroneously labeled as the region's most important source of FDI. Certainly, China is a major source of FDI in a few places, especially in the GCC. When Chinese investment does arrive, it usually targets the energy sector and large government contracts. China's investment can be volatile, with surges and then declines. When compared with American and European private investment efforts, China spends less and creates fewer jobs in most of the Middle East, North Africa, and West Asia.[45] Indeed, the GCC states have higher capital expenditure and create more employment across the Middle East and North Africa than China—and that's not counting remittance flows, aid, financial intervention such as central-bank deposits, and in-kind oil and gas transfers. China is active as a regional investor and contractor where private capital doesn't want to go—places like Iran, Syria and, to a degree, Turkey. One notable exception is the United Arab Emirates, where Chinese investment and contracts have surged since 2016. This skews the data and inflates China's reputation as a regional investor and source of capital. The view that China is the largest investor in the Arab region overlooks the fact that Beijing has invested inconsistently over time, and picks and chooses its engagement in the broader region, from Morocco to Pakistan. The assertion also fails to mention that the GCC is a major source of FDI in that same geography, and in the Horn of Africa.

China and the Gulf are linked and will continue to rely on each other for trade, investment, and partnerships in the years ahead. But their partnerships are in no ways cemented on any ideological basis or political or security pact. And as the energy exporters of the Gulf seek to diversify their own economies and become more engaged in the production and expertise of renewable energy, China could become less of a customer and less of an active local investor.

US Policy Recommendations

Instead of centering concern on China-Gulf or China-Middle East relations, we might better frame the challenge as how to engage emerging market economies in their trade, energy, and development needs, and to bridge policy and development finance options to support those changes. A change in tone to recognize the vitality and centrality of growth outside of advanced economies might also be a diplomatic advantage to the United States. There is also mutual benefit to encouraging the growth of China+1 manufacturing and industrial capability across emerging markets in Asia, Africa, and the Middle East.

Thank you for this opportunity and I look forward to addressing your questions.

[45] Organization for Economic Co-operation and Development (2018) FDI in fragile and conflict affected economies in the Middle East and North Africa: trends and policies, 4 December, Available at: https://www.oecd.org/mena/competitiveness/ERTF-Jeddah-2018-Background-note-FDI.pdf.