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.