# GCC Investments in Pakistan and Future Trends

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Pakistan has in recent years exhibited a remarkable turn-around in its economic growth which has influenced large-scale inflow of foreign direct investment (FDI). A recent World Bank survey placed Pakistan at 74 on a list of 175 countries most conducive for investments, with India at 134.[1] Pakistan has also taken steps to secure future economic growth by signing a free trade agreement with China during President Hu Jintao's visit to Pakistan in November 2006, which is expected to triple bilateral trade to $15 billion within five years.[2] However, in order to achieve long-term economic growth, stimulated by FDI, Pakistan has to develop the skills of its workforce and also provide jobs by establishing new industrial units. Only such an approach can have a trickle down effect on the economy.

Many of the desired changes are linked to Pakistan further improving its symbiotic economic relationship with the Gulf Cooperation Council (GCC) countries. A large Pakistani workforce in the region accounts for a significant share of the country's annual remittances. Pakistan received a record $4.6 billion in remittances during the fiscal year 2005-06, as compared to $4.17 billion during 2004-05. Of the Middle East's $2.06 billion contribution to remittances, Saudi Arabia topped the list with $750.44 million, followed by the UAE with $716.30 million, Kuwait – $246.75 million, Oman – $130.45 million, Qatar with $118.69 million, and Bahrain – $100.57 million.[3]

In order to assess recent investments by the GCC countries in Pakistan, it is essential to analyze the country's current economic scenario.

### *Economic Policy and Response of Global Investors*

The perception emanating from Pakistan over the last few years has been that of a growing economy in South West Asia and becoming a major regional conduit for energy and trade. Due to wide-ranging structural economic reforms that were introduced six years ago, Pakistan has exhibited a rapid, strong and sustained economic recovery. This has resulted in a stable economic growth rate of 6.6 percent for the fiscal year 2005-06. A series of exogenous shocks have had a negative impact on Pakistan's economy – rising oil prices in international markets, weak agricultural crop, and the fallout from the October 2005 earthquake in which more than 70,000 people lost their lives, with an equally devastating effect on its infrastructure.

However, in the current fiscal year, Pakistan has witnessed a tremendous increase in FDI.[4] This reflects the increased confidence of the global investors in the transparent privatization program that has been followed in recent years.[5] The government has also liberalized its regulations governing foreign investments as an added attraction. According to the State Bank of Pakistan, FDI has more than doubled to $3.52 billion, with an increase of $1.52 billion over last year. These investments were mostly targeted at the communications, energy and financial sectors.[6]

The leadership has actively pursued an investor-friendly policy and given incentives such as tax breaks and even subsidies on leased land in specific sectors. Prime Minister Shaukat Aziz has stated several times that Pakistan is "vying to become the regional hub for trading and manufacture".[7] A Newsweek report on the current economic prospects in Pakistan noted the immense potential for global foreign investors, especially in telecommunications. According to the report, Pakistan has the world's fastest growing wireless market after China.[8] Latest figures have placed

1 "Outlook on Economy," The News (Pakistan), 12 September 2006.
2 "Pakistan-China FTA," The News, 26 November 2006.
3 "Pakistan receives a record $4.6 billion in remittances," Khaleej Times (UAE), 31 July 2006.
4 "Economic survey 2005-06," Ministry of Finance, Government of Pakistan, http://www.finance.gov.pk/survey/sur_chap_05-06/overview.pdf
5 Ibid.
6 Op. cit., The News, 12 September 2006.
7 "Pakistan aims to become trading hub," The News, 12 September 2006.

cell phone users in Pakistan at over 45 million.[9] The next major FDI-based privatization is the $1.4-billion sale of global depository receipts and local shares from Oil and Gas Development Co. Ltd, Pakistan's biggest firm.[10]

Pakistan is presenting itself as one of the world's hottest emerging markets. The fact that China has publicized its intent to invest an additional $50 billion in the port of Gwadar validates this point. The Chinese investment includes the development of a petrochemical complex. Pakistan had initially proposed developing Gwadar as a gateway for Gulf oil and energy exports to China and Central Asian States. Besides energy trading, Gwadar is also slated to serve as a major port for bilateral trade, including agricultural produce and manufactured goods.[11] "The proposed dual purpose rail route and energy pipeline would link Gwadar with Kashi in Xinjiang province. Gwadar can serve China as a base for exporting goods to Gulf States as well as a transit point for Gulf imports that could supply the energy-hungry Chinese market, besides serving other Central Asian markets."[12]

### *Gulf Investments*

In the last few years, there has been an upsurge in investments by the GCC countries in Pakistan. The principal large-scale investments were in the real estate, infrastructure development, steel, shipping and energy sectors. In addition, banking and financial sectors also saw positive developments in terms of Gulf investments in Pakistan and vice-versa.

The largest source of FDI in Pakistan for the year ending June 2006 was the UAE with investments worth $1.42 billion, followed by the US with $517 million, and Saudi Arabia with $278 million.[13] Financial analysts expect the investment base to broaden with the listing of Pakistani companies on the Abu Dhabi and Dubai bourses soon.[14]

The longstanding relationship between the GCC countries and Pakistan has established a comfort zone for cooperation. The privatization of Pakistan Telecommunication Company Limited (PTCL) is a case in point. Even though Etisalat missed the deadline to pay the first installment, they were given the opportunity to pay $1.14 billion upfront instead of $2.59 billion and restructure the remaining payment over five years.[15]

Investments in the energy sector have been influenced by the huge demand for power generation in Pakistan. The abundance of natural resources bundled with an underdeveloped power generation sector, in a rapidly growing economy, have been the key motivating factors for investment decisions.

Multi-billion dollar investment projects proposals with Qatar are under consideration. Pakistan seems to have widened its economic canvas to include the development of trading with the smaller GCC countries like Oman and Bahrain as well. Pakistan-Oman economic relations saw interesting developments in the financial, telecommunications and IT sectors.

A free trade agreement is also on the anvil between Pakistan and Bahrain. In addition, a memorandum of understanding (MoU) between the two countries for the export of manpower is in the pipeline.[16]

### *Saudi Investment*

King Abdullah bin Abdulaziz's visit to Pakistan as part of his Asian tour in early 2006, followed by Crown Prince Sultan bin Abdulaziz bin Saud's visit, and the signing of several important economic agreements, hold significant political and economic implications for the two countries. These visits have generated increased economic development in Pakistan with major Saudi investments in steel and real estate sectors.

Saudi investment in the Pakistani steel sector began with the laying of the foundation stone for the $130-million Tuwairqi Steel Mill being built by Saudi Arabia-based Al-Tuwairqi Group of Companies with an expected

8 Ron Moreau, "Promise in Pakistan', Newsweek International, http://www.msnbc.msn.com/id/11902379/site/newsweek/?rf=nwnewsletter&print=1&displ
9 "45 million cell phone subscribers," Daily Times, 30 November 2006, http://www.dailytimes.com.pk/default.asp?page=2006%5C11%5C30%5Cstory_30-11-2006_pg7_2
10 "Global investors to gain broader access to Pakistan," Daily Times, 21 November 2006.
11 "Economic progress and the challenges," The News, 13 September 2006.
12 "Stonewalled by India, China looks to Pakistan," Daily Times Monitor (Pakistan), 27 November 2006.
13 Op. cit., The News, 12 September 2006.
14 Op. cit., Daily Times, 21 November 2006.
15 Arab News (Saudi Arabia), 30 May 2006
16 Dawn (Pakistan), 26 April 2006.

production capacity of between 1.5-3 million tons at Port Qasim.[17] The same company had also submitted a winning bid of $362 million for a 75 percent stake in Pakistan Steel Mills Corporation, the country's biggest and only integrated steel mill located at Karachi.[18] In the real estate sector, Prince Waleed bin Talal visited Pakistan and announced the construction of two major hotel projects.[19]

The privatization of Karachi Electric Supply Corporation (KESC) was led by a consortium headed by Al-Jomaih Holdings of Saudi Arabia that picked up a 73 percent stake. There are plans to invest an additional $500 million in KESC over the next five years.[20] Further, the Samba Financial Group acquired 68 percent of the Crescent Commercial Bank with an investment of $98 million.[21]

### *Kuwait*

Major Kuwaiti investments include a $1.5-billion oil refinery project at Port Qasim, as well as infrastructure and real estate development projects in Karachi. Pakistan has also indicated to Kuwait that it would welcome more investments in building infrastructure projects at Gwadar port, including oil storage facilities and warehouses.[22]

### *UAE*

The source of the largest share of FDIs and the second biggest source of remittances after the US is the UAE. Mega investments deals in the real estate, shipping, finance sectors materialized following a number of high-level visits by leaders of the two countries. The UAE feels Pakistan's current economic environment is ideal as it aims to diversify its investments abroad. A record amount was invested in the real estate sector by the UAE-based companies such as Emaar – $20.4 billion – and Dubai World, which announced a $10-billion investment plan.[23] Emaar has also entered into a $43-billion joint project with the Port Qasim Authority for developing two-island projects at Bundal and Buddoo near Karachi over a 13-year period.[24]

The Pakistani government recently announced its decision to set up a $4-5 billion oil refinery at Khalifa point near Hub (Balochistan). The project that was initially meant to be put up for open bidding has now been given to a UAE-based company. The International Petroleum Investment Limited, directly owned by the Abu Dhabi government, and Pak-Arab Refinery Limited (a Pakistani government-owned company) would jointly set up this refinery, which is expected to be complete by end-2010.[25]

In the shipping industry, Dubai Ports World signed an agreement for a $211 million project that would create a second container terminal at Port Qasim. The company has already invested $100 million for constructing the terminal and is likely to make further investments of $70 million in dredging.[26] It is also expected that DP World is to finalize an investment of $1.6 billion to develop Gwadar Port.[27]

Other significant developments in the financial sector include the $100 million investment plan by Dubai Bank in Pakistan.[28] Besides, the Dubai Financial Market and the Central Depository Company of Pakistan signed a MoU to boost cooperation in capital markets of the two countries. Around 10 public Pakistani companies have already received approval for listing their shares in the UAE.[29]

### *Future Scenario*

It is expected that Pakistan's close relations with the GCC countries will result in increased economic investments as long as the country can maintain its upward economic swing and exhibit stability in its policies.

17 Khaleej Times, 23 April 2006.
18 Khaleej Times, 1 April 2006.
19 Op. cit., Khaleej Times, 23 April 2006.
20 Op. cit., Khaleej Times, 23 April 2006. Also see, Saudi Gazette, 24 February 2006.
21 "Saudi group to acquire 68 pc shares of Cresbank," Dawn, 20 November 2006.
22 Arab News, 20 June 2006. Also see, Kuwait News Agency, 5 August 2006.
23 Khaleej Times, 1 June 2006.
24 Khaleej Times, 28 September 2006.
25 Dawn, 7 November 2006.
26 Khaleej Times, 19 August 2006.
27 Op. cit., Khaleej Times, 1 June 2006.
28 Arab News, 30 May 2006.
29 Khaleej Times, 21 September 2006.

The fact that the GCC countries are developing trade and energy ties with the Indian market has also led to an air of urgency in Pakistan for not only renewing existing ties but also for developing new ones in other neglected sectors. India's growing stature as a major regional power is something Pakistan cannot afford to ignore. Increased dialogue between the two countries includes discussions on transnational energy (oil/gas) pipelines from Iran, Central Asia or the GCC countries. Despite the long-standing historical animosities over Kashmir, it might be possible to achieve middle ground. This can only done by concerned third parties who can play the role of a catalyst in bridging the gap. In this case, the GCC countries can provide the crucial link in the chain by encouraging dialogue and opening channels of economic communication.

The future of FDI by the GCC countries is in the energy sector with the projected Pakistan-China oil pipeline. Plans on inter-connecting Gwadar with Port Qasim in Karachi and establishing a road and rail link to the Xinjiang province in China could double the capacity for trade. Gwadar is also being considered for a Trans Asia-European railway project, which starts from Malaysia and passes via India, Pakistan, Iran, Afghanistan, Central Asia Republics, and finally ends in Europe. This could be an opportunity for providing a quicker overland route for exporting Gulf oil to Far Eastern and Central Asian countries.

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Pakistan, however, needs to secure foreign investments, especially in Balochistan where a volatile situation exists. The government has stressed that the insurgency is restricted to areas that do not have foreign investment. In the event of a renewed or ongoing insurgency, this situation could have a negative impact on investor confidence. In case the GCC countries seek to be a part of the Gwadar-China energy oil pipeline and the proposed trade links, it would be imperative that this security risk is mitigated.

Other areas that the GCC countries could explore in terms of lucrative investments opportunities in Pakistan are the IT, agriculture and mining sectors. Pakistan has had a remarkable growth of tele-density and a rapidly growing IT sector. The current figures indicate that Pakistan has one of the fastest growing telecommunication sectors in the region. Pakistan had only two million connections three years ago, but the current estimates place this at 45 million. There is big scope for Gulf capital in this sector; and the English speaking IT specialists in Pakistan can provide excellent service and training to businesses in the GCC countries.

An example of Pakistan's untapped potential is the mining industry with its extensive coal reserves. Reserves of 200 billion tons of coal in Tharparkar in southern Pakistan could be used for power generation. Any capital investments in this sector could become a good source of returns.

Pakistan also offers immense opportunities in the agricultural sector, which is the mainstay of the country's economy, making up 22 percent of its GDP. Being abundantly endowed with water resources and fertile lands, Pakistan has not been able to fully explore its potential. A poorly organized farm sector and lack of agricultural technology is mainly responsible, which the Gulf countries can neutralize through investments.

In addition, there are also opportunities in the defense sector where joint production of aircraft, battle tanks and other weapons systems can be explored. Pakistan's defense collaboration with China has seen remarkable growth and impressive results. This collaboration has resulted in the indigenous manufacturing of the Al-Khalid tanks in Pakistan and these have already been procured by Saudi Arabia. There is also the possibility of further sales in the Gulf of the Super Mushshak aircraft, which is another product of Pakistan's defense collaboration with China. The GCC countries, by investing in the defense sector, could further strengthen military ties with Pakistan.

For all these to materialize, however, Pakistan needs to improve economic management and its marketing capabilities in the region. The vast potential the different sectors hold for global investors can only be realized if the government is able to maintain political stability and consistent economic policies.

# Dueling Stakeholders in Iran's Energy Projects

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In February 2004, Japan's Inpex Corporation signed a preliminary accord with Iran to develop Azadegan, one of the world's largest oil fields. The following October, the China Petrochemical Corporation (Sinopec) agreed in principle to join forces with the National Iranian Oil Company (NIOC) to develop the massive Yadavaran oil field. Yet, more than two years later, neither of these headline-grabbing deals has been implemented. The twists and turns in bringing these proposed mega-projects to fruition lay bare a tangle of economic and geopolitical issues.

### *Stakes, Stakeholders and State of Play*



The Azadegan and Yadavaran fields are located in the southwestern province of Khuzestan, Iran's major oil-producing region. Output from Azadegan, with proven reserves of 26 billion barrels, is projected to reach 260,000 barrels per day (bpd) when the field is fully operational. Yadavaran, estimated to have about 17 billion barrels of proven reserves, could add 300,000 bpd to Iran's production capacity.

The stakes are high for Japan and China. Japan obtains 14 percent of its oil from Iran. At peak production, Azadegan alone would satisfy about six percent of Japan's total import needs. The proposed Yadavaran deal envisions the export of 150,000 bpd – about half the volume China currently imports from Iran – as well as 10 million tons of liquefied natural gas (LNG) annually over the 25-year period of the contract.[1]

The stakes are arguably even higher for Iran than for its partners. In 2005, Japan (570,000 bpd) and China (284,830 bpd) were, by a wide margin over other customers, the leading destinations for Iranian crude oil. The Azadegan and Yadavaran projects would further consolidate these energy partnerships. The successful implementation of the projects would also help invigorate the moribund Iranian energy industry, which for the past decade has been struggling to sustain output levels from aging fields. The projects would not only bring new oil and gas into the market, but also attract much needed foreign capital and technology. The Azadegan project would entail a $2 billion foreign capital investment. In the case of Yadavaran, China could pay as much as $100 billion for the stake and the purchases over the term of the contract. In addition, Iranian officials view the LNG component of the Yadavaran deal as a key to facilitating long-term marketing of South Pars gas.[2]

However, negotiations on both the Azadegan and the Yadavaran projects have dragged on for more than two years. In fact, Tehran first awarded the Azadegan project to Japan during President Muhammad Khatami's visit to Tokyo in 2000. Four long years of complex and difficult negotiations ensued. In February 2004, it was announced that negotiations had reached a successful conclusion and that work on the field would start a year later. However, the March 2005 target date for commencing the project was extended repeatedly. From the time of the signing of the initial agreement, disputes arose over the amount of capital investment, the price of steel to be used in, and the extent of mine clearance from the vicinity of the project.[3] In October 2006, amidst a swirl of conflicting reports and just a few days after Japanese Chief Cabinet Secretary Yasuhisa Shiozaki and Iranian Oil Minister Kazem Vaziri Hamaneh both insisted that talks on the project had not broken down,[4] Tehran confirmed that Inpex's stake had been reduced from 75 to 10 percent. Thus, operational responsibility was effectively transferred to Iran for the once-celebrated jewel of Japan's efforts to secure overseas supplies and thereby offset the loss in 2000 of operating rights to the Saudi-Kuwait neutral zone.[5]

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1 "China to cooperate with Iran in oil, gas sectors," Islamic Republic News Agency [hereafter IRNA], in FBIS-NES, 27 December 2004.
2 Mehr News Agency, 31 October 2004.
3 Hisane Misaki, "No hurry over Iran oil deal: Meeting target date could have strained US relations," Japan Times, 22 February 2002.
4 "Talks on Iran's Azadegan project continuing: Shiozaki," Mainichi Daily News, 5 October 2006; Fars News Agency, 9 October 2006.
5 "Iran cuts oil Rights to 10%," The Asahi Shimbun, 7 October 2006; Ikuku Kao, "Japan loses control of Iranian oil gem Azadegan," Reuters, 6 October 2006.

Similarly, negotiations on the Yadavaran project have bogged down. The two sides have sparred over pricing for the deal. They have also disagreed about production capacity: while Iran reportedly sought 300,000 bpd of guaranteed capacity, the Chinese side was initially ready to commit to just 180,000 bpd.[6] In December 2005, China and Iran set up three working groups to set forth the modalities of this project and to assist in speeding up the implementation of others.[7] Yet, months later, Sinopec and NIOC were still at odds over the details of the Master Development Plan (MDP) for Yadavaran.[8] Meanwhile, the third participant in the proposed project, India's OVL, has been reluctant to seal the agreement if the price of LNG yielded from the Yadavaran field is significantly higher than what Rasgas (Qatar) is willing to charge. Though Iranian Deputy Oil Minister Hadi Nejad Hossainian insisted that the agreement will be completed by the end of November 2006, another new deadline is awaited.

The headline-grabbing announcements of 2004 have thus receded far into the background. As the protracted follow up negotiations have revealed, the Azadegan and Yadavaran projects are enormously complicated, costly endeavors that require a clutch of technical and financial details to be resolved. These obstacles alone have proven formidable. Geopolitics has added yet another layer of complexity, contributing to the delays, if not threatening to scuttle the projects altogether.

> *A plausible explanation for why China and Japan have seemingly dragged their feet on finalizing and beginning work on the projects is their aversion to risk, including their preference for avoiding a direct confrontation with the United States*

### *Energy Vulnerability and Geopolitical Maneuvering*

The struggles to bring the Azadegan and Yadavaran to fruition have taken place in a complex and shifting global strategic environment. The United States is still the world's preeminent power. No peer strategic competitor or structured countervailing alliance has yet emerged. Nevertheless, America's military forces are over-extended, its economy is experiencing massive trade and budget deficits, and its international credibility and reputation are badly damaged. Meanwhile, China and India – buoyed by their rapid economic expansion – have become more confident and more influential players on the world stage. Similarly, Japan, propelled by economic recovery and bold political leadership, has embraced a more assertive role in regional and international security issues. The United States has responded to these geopolitical developments by adopting cooperative and competitive policies towards China. At least partly in order to prevent China from dominating Asia in the longer term, the US has sought to forge a strategic partnership with India as well as to enhance the US-Japanese security relationship.

The vital interests of all these major powers converge in the Middle East, a region in turmoil, where the strategic position of the United States has weakened while that of Iran vis-à-vis its immediate neighbors has advanced. These circumstances, combined with a tight oil market that recently led world prices to record heights, have conditioned the thinking and behavior of all five states. Particularly for China, India and Japan – whose dependence on energy imports from the Persian Gulf is already substantial and is growing, and whose sense of vulnerability is acute – energy security has leapt to the forefront of the foreign policy agenda. Meanwhile, the current geopolitical situation and state of the oil market have supplied the impetus for Iran to use its energy resources as an instrument of foreign policy, and have somewhat increased its leverage. One can see these currents play out in the diplomatic crisis over the Iranian nuclear program.

With the escalation of the crisis, the United States, which has long sought to isolate the regime in Tehran by discouraging others from engaging in new business, has ratcheted up its pressure on China and Japan not to reward Iran for its intransigence by going ahead with the Aazadegan and Yadavaran deals.[9] Conversely, Iranian officials have sought to finalize the deals and begin

6 IRNA, 17 December 2005.
7 IRNA, 21 December 2005.
8 "Iranian, Chinese MDPs of Yadavaran oil field cause 'prolonged discussions,'" FBIS, Mehr News Agency, 5 February 2006.
9 Guy Dinmore, "US presses Japan over Iran oil deal," Financial Times, 27 June 2003; Kanako Takahara, "US pressure places Iran-Japan oil deal in doubt," Japan Times, 2 July 2003; Hooman Peimani, "Americ ans stymie Japan-Iran oil deal," Asia Times Online, 4 July 2003; and "Editorial: Securing oil while keeping the alliance," Japan Times, 11 July 2003.

project implementation. A plausible explanation for why China and Japan – both of which would prefer to separate business from politics – have seemingly dragged their feet on finalizing and beginning work on the projects is their aversion to risk, including their preference for avoiding a direct confrontation with the United States.

Shortly before the Inpex deal broke down, trade minister Akari Amari insisted that the Japanese government had no intention of intervening in the negotiations.[10] True perhaps, but nonetheless disingenuous. Takao Kitabata, deputy trade minister, had stated only a few days earlier that Tokyo would comply with any decision by the United Nations Security Council, even if it included Azadegan in economic sanctions against Tehran.[11] The Japanese press reported that Tokyo had given the United States quiet assurances that it would drop the deal. To execute the pledge to Washington, Tokyo need not have intervened directly in negotiations. A simple admonition would have sufficed: were the UN Security Council to adopt a resolution imposing tough economic sanctions on Iran, the Japan Bank for International Cooperation will extend loans to Inpex. The withholding of these loans would have made it virtually impossible for the company to finance the project.[12] Just two weeks before the Inpex deal fell apart (September 16), the United States and three Japanese banks placed sanctions on Bank Saderat, raising the specter of further actions against Iran. Furthermore, Inpex Corporation (part of Inpex Holdings, Inc.) is a "national policy corporation" whose largest shareholder is the Japanese government. While restructured in 2005 to behave more like a private than a state-owned firm, the government still holds a veto power over company decisions.[13]

*The stakes are arguably higher for Iran. In 2005, Japan and China were the leading destinations for Iranian crude. The projects would not only bring new oil and gas into the market, but also attract much needed foreign capital and technology*

The maneuvering over the proposed oil field development projects in Iran should also be viewed in the context of the Sino-Japanese relationship, which, in recent years has experienced some tension. The head-to-head competition between Chinese and Japanese energy firms to secure overseas oil supplies – a source as well as a consequence of this tension – is evident in their efforts to gain long-term access to Eastern Siberian Russian[14] and African oil. On more than one occasion, Iranian officials have sought to exploit this energy dependence and the rivalry associated with it. In late August 2006, for example, Iranian project partner Mehdi Bazargan reportedly issued an ultimatum to his Japanese counterparts that they have 17 days to start the Azadegan project or risk losing it to the Chinese or Russians.[15]

Indeed, Tehran's use of Iranian energy resources as an instrument of foreign policy extends well beyond seeking to exploit Sino-Japanese rivalry. Iran seems determined to develop a full-blown strategic partnership with China, primarily to counter US pressure.[16] With Western pressure on Iran tightening, Iranian officials, using the country's energy assets as a political lifeline, have sought to draw closer to China. Remarks by Dr. 'Ali Akbar Velayati, former foreign minister and now advisor to Spiritual Guide 'Ali Khamenei, are illustrative: "The Chinese know that both in view of securing a market for their goods, as well as ensuring their supply of energy, they are increasingly linked to the Middle East and the Gulf region...Therefore, if today some of the officials of our friendly country, China, look with suspicion and caution at a comparison and weighing their interests with the West and with the Islamic world, especially with the Middle East and the Gulf region and Iran, [in the future] they will take strategic decisions about their future with greater resolve."[17] China, however, appears mainly interested in commerce and, at least for the time being, in a limited political-strategic engagement.

10 "Tokyo says it has no role in oil field talks," Reuters, 6 October 2006.
11 "Iran Warns Japanese to Act on Oil Deal Soon," International Herald Tribune, 2 October 2006.
12 "Japan to withhold support for Azadegan oil project in Iran," Mainichi Daily News, 30 September 2006; "Japan may block loans for Azadegan project," Kyodo News Service, 30 September 2006.
13 See, for example, Martin Fackler, "Finding oil is Japan's new priority," The Wall Street Journal, 9 March 2005.
14 James Brooke, "Japan and China battle for Russia's oil and gas," The New York Times, 3 January 2004.
15 Mayumi Negishi, "China to swoop on Iran oil field if Tokyo pulls support: Firms," Japan Times, 18 August 2005.
16 On this point, see Bill Savadore, "Tehran seeks allies through energy cooperation," South China Morning Post (Hong Kong), 16 June 2006.
17 See remarks entitled "Iran-China cooperation will strengthen energy security in the region," published in E'temad-e Melli, 25 February 2006, in SWB-ME.

### *Domestic Political Crosscurrents*

The evolution of the proposed Azadegan and Yadavaran project negotiations intersects in important respects with domestic politics also. Early on, METI Minister Hiranuma Takeo reportedly had played a major role in promoting the Azadegan deal. But with the cabinet reshuffle in September 2003, this strong ally of the project was removed from office. His replacement, Nakagawa Shoichi, took a markedly different position: "For us, Iran is on the same level as North Korea. We shouldn't be lost in trying to find an oil field... In light of our national interest, both issues [oil and nuclear proliferation] should be weighed equally."[18] Though the preliminary accord on the Azadegan project was signed in February 2004, the views of Shoichi and the "alliance camp" ultimately seem to have prevailed.

Domestic political pressures in Iran has also influenced the pace and substance of the negotiations on the Azadegan and Yadavaran projects. For more than four months, President Mahmoud Ahmadinejad tangled with parliamentarians over appointing a new oil minister. At issue was not simply the choice for this position but control over the very thrust of the country's energy policy. Here the role of foreign energy companies in Iran's oil development was, as it has been for many years, a major bone of contention. The "buyback" model[19] of awarding contracts – of the kind represented by the Azadegan and Yadavaran deals – was introduced a decade ago to bypass the constitutional prohibition against contracts made on a concessionary basis or direct equity stake. Majlis representative Seyed Nezam Mola Hoveyzeh insisted that the Azadegan project go to local companies.[20] The Majlis Energy Commission's Kamal Daneshyar made the same argument.[21] Eventually, Oil Minister Kazem Vaziri Hamaneh conceded that, "If the Japanese response for development of this oil field is negative, the development operations will start through domestic sources."[22] The National Iranian South Oil Company (NISOC) canvassed for support for its participation in the project. The National Iranian Drilling Company (NIDC) claimed it could implement the project at a fraction of the cost.[23] While Oil Minister Hamaneh seemed to want to keep the door open to participation by Inpex, opponents in the Majlis campaigned for a revocation of the contract.[24] Meanwhile, domestic companies presented a proposal to the Oil Ministry calling for a phased plan whereby initial financing would be provided through the foreign currency reserve account, with costs of the subsequent stages of developed paid by revenue recouped from exports from the field.[25]

> *More than two years after the preliminary agreements were reached, the projects to develop the Azadegan and Yadavaran oilfields in Iran remain on the drawing board. No money has flowed. No work has begun yet*

### *Energy Rivalries and Synergies*

The proposed Azadegan and Yadavaran projects demonstrate that energy consumers are seeking to satisfy their import requirements by means of both self-help and cooperation. Thus, energy rivalries as well as energy alliances are features of the new global energy market.

China, India, and Japan have each crafted national energy policies that resemble each other in important ways. By now, most observers are familiar with the term "Go out strategy," which refers to China's effort to attain security at the wellhead. This approach has drawn a great deal of attention and criticism in Washington. Some simply note that it drives up prices and is bound to fail. Others are concerned that this hard-nosed neo-mercantile approach will lead to even more pernicious behavior by China. Yet, in some respects, Japan and India have followed suit. Japan's New National Energy Strategy, for example, calls for strengthening relations with resource-rich countries and securing energy resources abroad through the fostering of more powerful domestic energy companies.

18 Tomoko Otake, "Cabinet interview: Nakagawa's farm trade background brings mixed bag to METI portfolio," Japan Times, 27 September 2003. For a good analysis of domestic political alliance in favor, see Michael Penn, "The battle of Azadegan: Japan, oil and independence," by Japan Focus, 27 August 2005, http://japanfocus.org/products/details/1590

19 The buyback model is one where the funds invested by the contractor are recovered by allocation of a share of future production for a fixed term, at which point operational control is transferred to NIOC.

20 "MP calls for cancellation of Azadegan contract with Japan," Fars News Agency, 1 October 2006.

21 "MP calls for handover of Azadegan oilfield project to local contractors," IRNA, 1 October 2006.

22 "New Iran warning to Japan over oil project talks," Gulf Daily News (Bahrain), 28 September 2006.

23 Mehr News Agency, 17 October 2006.

24 "Majles deputy says revocation of Japan's oil contract serves Iran's interests," Fars News Agency, 6 October 2006.

25 "Domestic companies submit plan to develop Azadegan oil field," Mehr News Agency, 7 October 2006.

It also calls for boosting to 40 percent by 2030 from the current 15 percent the ratio of "Hinomaru oil," that is oil developed overseas and imported through Japanese domestic producers.[26] The efforts by Inpex and Sinopec to clinch the Azadegan and Yadavaran projects are thus vivid examples of this competitive dimension.

However, there is a cooperative dimension as well. Chinese and Indian energy companies are teaming up in Canada, Colombia, Syria, and Sudan; they are currently discussing doing the same in Kazakhstan.[27] In the proposed Yadavaran project, Sinopec (a 51 percent stakeholder) is partnered with India's Videsh Ltd. (OVL), an arm of the state-owned Oil and Natural Gas Corp (ONGC), which has a 29 percent interest. These individual firms have not ceased to vie with each other. In fact, they are as fiercely competitive, even predatory, in dealing with their own domestic rivals as with foreign firms. Yet, they are nonetheless keenly aware of the benefits of containing costs and reducing risk. Experience has shown that the eventual winner will pay substantially more when energy companies bid directly against each other.

The firms are also aware of the possible synergies that can result from joint development of overseas fields. Take for example the geologically complex Azadegan field. Even had Inpex gone ahead with the deal, the company has little previous experience in upstream projects of this magnitude. In terms of advanced energy technology, Chinese entities are well behind their Western counterparts. In fact, Chinese and Iranian partners are looking for third-country firms to join them, especially in complex LNG operations such as the one contemplated in the Yadavaran project. Indeed, there are few international contractors able to build the required facilities. In sum, joint bidding and cooperation are not just buzzwords but increasingly common practices.

*The evolution of the proposed project negotiations intersects in important respects with domestic politics also. METI Minister Hiranuma Takeo reportedly had played a major role in promoting the Azadegan deal. But he was removed from office in 2003*

### Conclusion

More than two years after the preliminary agreements were reached, the projects to develop the Azadegan and Yadavaran oil fields in Iran remain on the drawing board. No money has flowed. No work has begun. When the projects were originally conceived, the participants were operating from the common assumption that the development of the fields would well serve their respective interests. Viewing the projects strictly as vehicles for the participants to capitalize on their complementary energy needs and assets, this assumption was, and still is valid.

But the negotiations to resolve the differences over technical and financial issues have proved to be exasperatingly difficult. Compounding the difficulty has been the intrusion of domestic political and geopolitical pressures. The principal stakeholders in the projects are states and firms, i.e. energy enterprises that are partially if not completely state-owned and controlled. As such, strategic motivations have influenced company behavior and ultimately the struggles to implement the projects. Yet, the cases of Azadegan and Yadavaran reveal that the behavior of Iran's foreign partners has also been guided by commercial considerations – calculations of profit, business risk, and technological limitations. Thus, they cannot be regarded simply as instruments of state power. Nor can the nature and extent of their involvement in the projects be regarded merely as manifestations of foreign and security policy.

The complicated tales of the Azadegan and Yadavaran projects graphically illustrate that global geopolitical and energy market conditions are in flux. The current environment is one where energy-resource nationalism and transnational energy cooperation are being practiced simultaneously. It is an environment marked by conflicting trends and impulses – the pull of market forces where energy business is insulated from politics/geopolitics and the push of strategic imperatives where energy resources are employed to achieve geopolitical objectives. And it is an environment where, not surprisingly, the winners and the losers in the struggles over Azadegan and Yadavaran, as in the broader struggles for energy security and geopolitical advantage, have yet to be determined.

26 "Japan and China race for African oil," by Hisane Masaki, Japan Focus, 19 August 2006 http://japanfocus.org/products/details/2198
27 Siddharth Srivastava, "India, China work out new energy synergies," Asia Times, 26 September 2006, available online at www.atimes.com

# Was the 'Tumor' of Azadegan Malignant for Japan?

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Literally translated into Japanese, Azadegan, where several Iranian oil fields are located, is "tumor" or "cancer". In the past several years, Azadegan has been a symbol of Japanese energy security policy based on its search for national interest, which is not completely in tune with the policies of the United States.

But the tumor generated great concern among many Japanese analysts from the beginning, especially after the failure of Japan's Arabian Oil Co., to renew its rights to drill in the Khafji field in 2000.

One of the primary concerns was that the decision to switch to Azadegan was made in a hasty manner by a small group, including Takeo Hiranuma, then minister of economy, trade and industry (METI). The reason, in hindsight, was based on a questionable assumption that, under the détente between US and Iranian presidents Bill Clinton and Mohammed Khatami in the late 1990s, many international oil companies would rush to sign new oil deals with Iran like in the pre-1979 period.

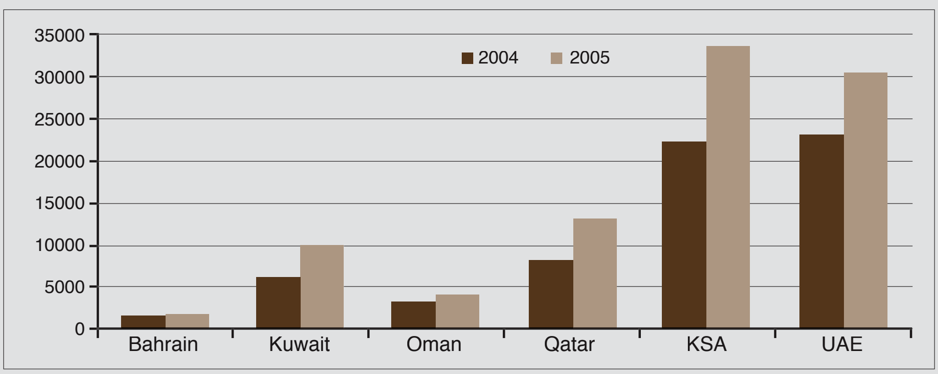
The second concern was if Azadegan was as good a bargain as the Iranians and some Japanese officials advertised it – "one of the largest oil fields in the Gulf region." Though some estimated that Azadegan could be holding the world's second-biggest single oil reserve, no convincing data on the nature of the field was supplied either by Iran or INPEX, the Japanese private oil company run by some influential former METI officials. It appears that the Japanese ignored a Scottish company's negative report about the commercial value of the field.

The third concern was geographical. Azadegan field sits on the disputed border area with Iraq, and it is no secret that the area was one of the main battlefields between the two countries in the 1980s, which resulted in several million landmines being left behind. Further, there is no clarity about the international borderline between Iran and Iraq now that Saddam Hussein has been ousted. With the current situation in Iraq turning from bad to worse, new border negotiations may have to resume in the future. The status of Azadegan, therefore, awaits a tacit approval from the Iraqi side.

With the issue of Iran's nuclear program causing diplomatic confrontation rather than cooperation with the EU and the US, Japan found itself on shaky ground.

The METI officials initially insisted that oil and nuclear issues were separate matters, and, therefore, Japan should not give up cooperating on Azadegan with Iran. However, as the United Nations Security Council started talking about possible sanctions against Iran, the Japanese government made it clear that its top priority was nuclear non-proliferation, which has been the mainstay of the country's foreign policy after becoming

**Trend in GCC-Japan Bilateral Trade**
*(Value in US$ million)*




**Notes:** 2004 — Two-way trade — US$ 63.65 billion
2005 — Two-way trade — US$ 88.54 billion (increase of 39.1%)
*Adapted from Japan External Trade Organization (JETRO) statistics*

the only country to suffer the consequences of atomic bombs during World War II.

This affirmative policy announcement coincided with a last-minute press conference held by Kunihiko Matsuo, Chairman of INPEX Holdings Inc., the sole Japanese oil company that invested in Iran after all the companies, including Shell Oil, quit the initial consortium. Matsuo said that INPEX decided to cancel the oil exploration contract with a subsidiary of National Iranian Oil Company (NIOC), keeping only 10 percent share in the project. Reports reveal that it originally had a 75 percent stake.

The deal, originally signed in February 2004, reportedly targeted production of 260,000 barrels per day from Azadegan, which has an estimated 26 billion barrels in reserve. Work was due to start on the oil field by March 2005.

It is worth noting that INPEX hardly reveals any information about its dealings related to Azadegan. The only person authorized to brief the media is Matsuo, who is a former government official and still keeps good ties with his old METI colleagues. This relationship characterized by some as "bureaucratic dictatorship" caused much resentment among other private oil companies in Japan.

One company board member said, "INPEX is a spoiled child operating under the METI umbrella. It is hard to call it a fair game and it is not serving the best national interests of our country."

In Japan, the bitter memory of the much-advertised and disappointing project of Bandar Khomeini (Iran Japan Petrochemical Company) still haunts many. The Mitsui trading company lost more than $60 billion due to heavy damage to the facilities of the giant petrochemical project during the Iran-Iraq War.

According to some officials of Japan Bank for International Cooperation, a quasi-governmental bank handling export/import credit and loans, the primary loan of $2billion to INPEX for the Azadegan project had not been wasted because the Iranians pledged to pay back in the form of crude oil.

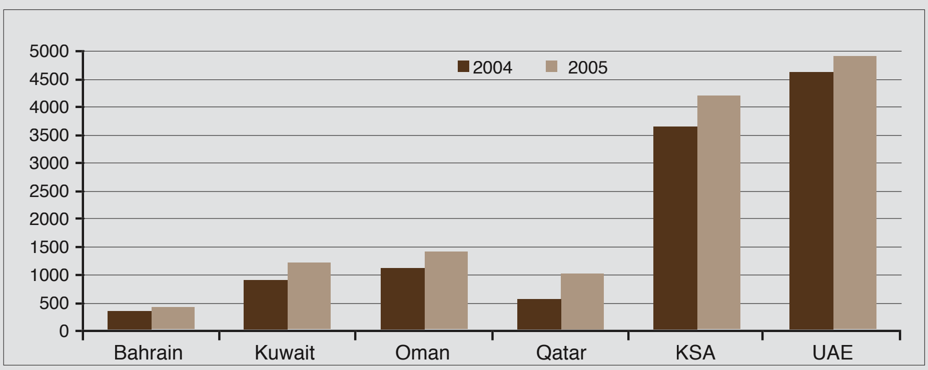
> *Azadegan field sits on the disputed border area with Iraq, and it is no secret that the area was one of the main battlefields between the two countries in the 1980s, which resulted in several million landmines being left behind*

### *So, what next on Azadegan?*

Iranian newspapers reported high-ranking officials saying that they were "ready to develop the oil field themselves." Not many, however, believe that the Iranians are capable of doing this on their own because of lack of sophisticated technology. Some estimate that the current equipments in operation are at least two generations old. It is possible that the Iranians may invite the Chinese to take over the task of pumping heavy oil from Azadegan. But again, many Japanese analysts doubt if the Chinese have the skills that even INPEX did not have. Without the help of Euro-American companies – Shell or Total, for example – Azadegan will not become a profitable oil field, is the opinion of most Japanese analysts.

How does Japan make up for the Azadegan loss? What happens to the new energy security policy objective announced in May 2006, which propagates increasing the percentage of oil produced by Japanese companies at their upstream sources from 15 to 40 percent in 10 years?

**Trend in GCC's Imports from Japan**
*(Value in US$ million)*




**Notes:** GCC imports grew by 15.4% to US$ 13 billion in 2005 compared to US$ 11.35 billion.
GCC experts surged by 44.32% in 2005 to 2005 to US$ 75.48 billion.
*Adapted from JETRO statistics*

Japanese analysts are cool about the change of ground realities over Azadegan. The oil field's estimated production capacity is a mere five percent of Japan's total annual oil imports. The above mentioned 40 percent target is seen as just a policy announcement that many, including METI officials, doubt is achievable in the near future. Furthermore, Japanese oil companies are relieved that the burden of processing Azadegan's heavy crude oil has been lifted. The decreasing oil prices also help them not to unduly worry about oil shortage in the short term.

### *Has the bilateral relationship between Iran and Japan witnessed strain?*

The answer seems to be an emphatic "No." Japanese tourists are still visiting the Persian country as if nothing has happened. The Iranian ambassador keeps smiling to Japanese businessmen at "cocktail parties" in Tokyo. So, it is business as usual.

### *Are United Nations sanctions possible against Iran?*

It is unlikely that the Bush administration will attempt any new adventure, especially after the way the Republicans fared in the midterm Congressional elections in November, which is a reflection of the American public opinion on Iraq. Moveover, even if sanctions of some kind are put into place, the Japanese business community in the Gulf knows very well, just as many Europeans do, that without the full-fledged participation of the UAE in implementing the sanctions regime, there will be little impact on Iran. Some 200 Japanese companies in Dubai are happily dealing with the Iranian market because they know that the US government can do little to exercise its influence against an internationally recognized free trade zone.

Thus, in the eyes of many Japanese, the "tumor" they identified in Azadegan turned out to be benign, not malignant.

# Gulf Investors' Chinese Dream

*Dr. Eckart Woertz*
*Program Manager,*
*Economics*
*Gulf Research Center*

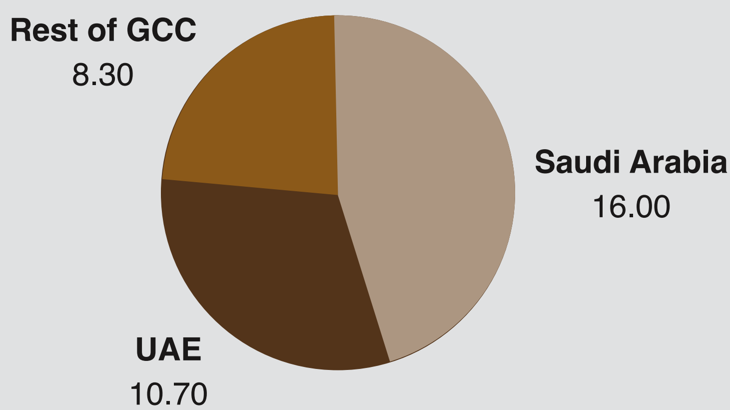
The IPO of China's biggest lender, the Industrial & Commercial Bank of China (ICBC), at the end of October 2006, once again highlights the growing interest of Gulf investors in one of the world's fastest growing economies. The list of subscribers reads like a who's who of Gulf investors: the investment authorities of Kuwait and Qatar alongside a consortium of prominent individual investors from Saudi Arabia headed by Prince Alwaleed and his company, Al-Azizia Commercial Investments. They are joined by other heavyweights on the international scene; an American-German consortium of Goldman Sachs, American Express and Allianz picked up 10 percent of the shares prior to the IPO in January, while Hong Kong business magnate Li Ka-shing has invested $205.5 million via Hutchison Whampoa and another of his companies. With proceeds of $20 billion for about 15 percent of the company's shares, it has been the biggest IPO worldwide since that of NTT DoCoMo in 1998 which raised $18.4 billion. Mainly owned by China's Ministry of Finance and a Chinese government investment arm, the bank will have a value of $130 billion and rank number sixth worldwide in terms of market capitalization. The Kuwait Investment Authority is the biggest single investor in the IPO with a share worth $719.4 million.

There is no doubt that after the dire years of low oil prices in the 1980s and 1990s, Gulf investors have deep pockets again. The net oil revenues of all oil exporting countries have been more than $650 billion in 2005. Their accumulated current account surplus amounts to 41 percent of the current account deficit of the world's great debtor, the United States, and is only slightly behind Asia, which makes up 47 percent of the US deficit. With the US current account deficit now beyond $800 billion and no end in sight, there are, naturally, increasing worries about dollar weakness as well as interest in investments outside the dollar realm.

China seems to be a natural candidate: Since the mid-1990s, in real terms its economy has grown continuously around nine percent annually and so has its trade with the GCC countries. On an absolute base it may not be the most important trading partner yet, as with six percent it is still behind the EU (19.4 percent), Japan (15.1 percent) and the US (10 percent). But as China's foreign trade with the GCC has been growing by more than 30 percent annually in recent years, this rank order may well change in the future. Thus, it is no wonder that GCC investors want to have a piece of the pie. Kuwait and Aramco are investing in refineries in China in order to foster long-term customer relations and enhance the value chain of their oil production. Besides that, the interest of Gulf investors in Chinese banks is intense. Prince Alwaleed applied for a $2 billion stake in Bank of China's IPO in July and received an allotment of $390 million; he has also expressed his interest in the upcoming IPO of the China Merchants Bank.

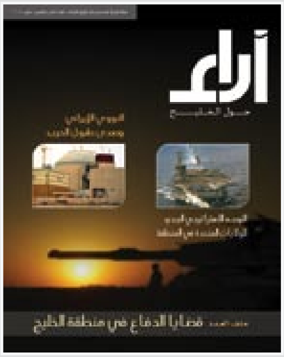
While China is certainly a force to reckon with and an interesting portfolio addition, Gulf investors may well take a second look behind the all-pervasive China hype. The dream of everlasting hyperbolic economic growth

**GCC-China Trade — 2005**
*(US$ billion)*



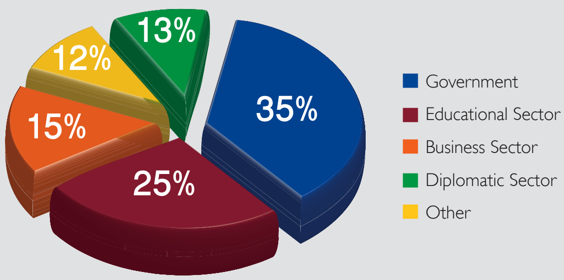

*Source: Gulf Research Center*

## Araa - The GRC Magazine



Launched in 2004, Araa focuses on economic, political, social, and defense issues relevant to the geopolitical Gulf region – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE, Iraq, Iran, and Yemen. Araa is part of GRC's attempt to redress the lack of adequate representation of regional opinions and interests and fulfill its mission of 'knowledge for all.' This influential publication – reflecting the views of established academics and columnists – has gained in reputation over a period of time. Araa writers come from academia, business and industry, and occasionally the public sector

### Araa Readership Profile




### Araa editorial plan 2006-2007

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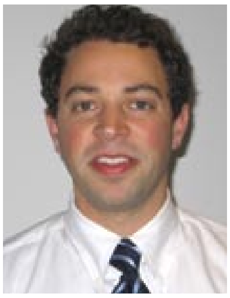
|---|---|
| July 2006: | GCC water crises |
| August 2006: | GCC e-government |
| September 2006: | Yemen |
| October 2006: | GCC aviation |
| November 2006: | Iraq |
| December 2006: | Real estate & construction |
| January 2007: | Defense |
| February 2007: | Telecom/satellite channels |
| March 2007: | Energy |
| April 2007: | Gulf security |
| May 2007: | Iran |

was last seen during the Nasdaq stock bubble in 2000/2001 and the GCC stock bubble this year, and has led to unpleasant awakenings in each case. China might not be an exception. As a rule, one can say that when everybody has invested in a market and emphatically thinks they are right, something goes terribly wrong shortly after.

A rare voice of skepticism has been Joe Studwell's book The China Dream in 2002, where he argued that since the 19th century, the most populous country of the world has been the projection screen for fantasies of foreign businessmen that never materialized – and this time it might not be different. Studwell mainly pointed to unchecked credit growth, the paralyzing effects of an ever-present bureaucracy, dubious statistical data, and an ailing state sector which is still very important in the economy, but hardly gets attention, besides the successful and celebrated export industries. No doubt, Studwell has been wrong so far – China has continued to grow rapidly since 2002 and widespread foreign investor frustration has not been discernible. The issue of bad loans has been addressed in a government bailout and the ratio of non-performing loans at ICBC, for example, has decreased from 34 percent in 2000 to only four percent today. Still, the expansion of credit and the dependence of Chinese economy on exports, especially to the US, are worrying. While in 1996-1999 the share of exports to GDP was 20 percent, it is now 34 percent; and especially after 2001, exports have been growing at 30 percent annually. A simple calculation suggests that most of China's growth has been depending on this growth in exports and developed domestic markets still remain limited.

This could become critical in case the US economy should cool down. Recent data from the US housing market suggests exactly this. Once the American consumer cannot borrow against ever rising house prices anymore, China's most important export market would be in trouble. Given the importance of exports for the Chinese growth model, this would mean declining growth rates and a potential re-emergence of the bad loan problem. For Gulf investors this means that they have to look out. China is certainly an important portfolio addition, but its growth story is not as impeccable as is usually portrayed. By trying to avoid dollar weakness in the US, Gulf investors could be hit by dollar weakness and declining exports in China instead.

# Strategic Equation: China, Gulf, and United States



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The People's Republic of China recently announced that it is boosting its peacekeeping force deployed in Lebanon to 1,000 troops. This signifies a huge development. Instead of withdrawing in the face of instability when one of its soldiers serving in the UN peacekeeping force in Lebanon was killed during the recent war involving Israel, China expanded its Middle Eastern security role.

This poses two questions: how exactly does the Gulf see China and what does this mean for US foreign policy in the region?

The Gulf Cooperation Council (GCC) countries, which are protected by the US military, argue that Washington's policy toward Iraq has soured; its democracy project ushered in an unexpected Hamas victory in Palestinian territories; and attempts to reverse Iranian efforts to pursue nuclear weapons have failed despite Washington's intense efforts. From the Gulf leaders' perspectives, Washington has emboldened Iran by eliminating the two biggest local bulwarks to Iranian foreign policy, the Taliban and a Sunni-run Iraq.

The GCC countries face threats that can no longer be met through traditional American military means. Saudi Arabia, Washington's most influential Gulf ally, is facing high unemployment, the spread of Salafi extremists, and Shiite political challenge. Many GCC countries fear the crumbling of Iraq and the rise of Iran, threats the US military is ill-suited to counter. The US Army cannot prevent the violence in Iraq from spilling into the neighboring countries. And US airstrikes will not be able to stop Iran from using asymmetric attacks to retaliate against the Gulf Arab countries.

How the smaller Gulf countries view US defense guarantees is vital because this affects the trajectory of Gulf-China ties. If GCC-US ties were to weaken, it would open up the region to a whole range of new security arrangements with outside players. To date, the GCC countries provide the US with local bases, the stability of which formed a major working assumption of the American-led intervention in Afghanistan and Iraq and serve as the linchpin of long-term US defense positioning in the Gulf. Their approval of America's presence is critical because Washington will increasingly depend a lot more on them as the Iraq situation deteriorates further. A US foothold in the Gulf is deeply important at a time when there is uncertainty about the future of US bases in Iraq, the state of affairs in Iraq itself, and the impact of an expansionary Iranian foreign policy.

While China cannot quell these concerns of America's Gulf Arab allies, it is the number one destination for Iranian crude, which gives it some political weight in the Islamic Republic, and which Washington lacks. The Iraqi oil minister, Hussain Al-Shahristani, flew to Beijing in October, 2006, negotiated oil deals and sought Chinese foreign direct investment, which Beijing could well fork out because of its massive currency reserves. In fact, China recently announced that it is in discussions to bring online the $1.2-billion Al-Ahdab oil field deal in central-southern Iraq and is building a freeway in Iraq's Kurdish areas. So while Washington's allies in the region do not see Beijing as a counterweight to the US, China's economic outreach is translating into a concrete presence on the ground in the region.

The burgeoning Middle Eastern-Chinese political relationship is no longer speculation; it is a fact. In April 2006, Chinese President Hu Jintao made his first state visit to Saudi Arabia after his unproductive meetings in Washington, and following up on King Abdullah's visit to China earlier this year. Amid the Saudi rank and file lambasting the US Middle East policy, the Majlis Al-Shura (the Saudi Consultative Council) gave the Chinese president a standing ovation. These ceremonial gestures were converted into tangible gains; leaders signed defense agreements, negotiated energy deals, and finalized strategic cooperation memorandums of understanding as well.

It should come as no surprise that Beijing is reaching out, routinely sending weapons instructors, maintenance crews, and military advisors to Saudi Arabia to assist Saudi National Guard forces handling the CSS-2 missiles that China sold them. The Saudi military attaché in Beijing has been tasked with maintaining this defense relationship.

In view of this, Washington has three options to respond: first, ignore growing Gulf-China ties; second, try excluding China from the region in order to shore up the US's political influence; and third, reach out and partner with Beijing to tackle the region's toughest security problems.

*Annual Growth in World Oil Demand*

Regarding option one, if the US continues with its current policies with Iran and Iraq, pro-Western GCC countries will continue to feel that Washington does not take their legitimate concerns into consideration. As a result, America's traditional friends in the region will persist with opening their doors to potential competitors with real interests, such as China.

Option two, labeling GCC-China ties as the makings of an anti-US axis, would expand Beijing's incentives to deepen ties with Russia and Iran, countries which are far less politically benign to US interests than Washington's traditional Gulf Arab allies. Moreover, Chinese officials say they are wary of US demands against Beijing to scale back its energy ties with the Middle East and lower its oil consumption when the US consumes over two-and-a-half times more oil per day than China despite having only one-fourth of China's population.

This leaves the third and best option – America mapping out a strategic understanding with China to deal with the Gulf's security challenges. The two sides share overwhelming common interests: ensuring the free flow of oil, moderating threats to regional stability, and developing alternative sources of energy.

The US should not worry that by reaching out to China, it is somehow caving in to Beijing because Washington has more political influence in the Gulf. After all, Beijing knows it cannot exclude the US from the region because 90 percent of its oil imports go along sea lanes guarded/ overseen by the US Navy and that the Gulf-Beijing relationship is driven by energy and economics.

Among the confidence-building measures needed to give shape to this option are:

- The United States should reduce energy market pressure on China by expanding its own conservation measures and increasing the use of alternative sources of energy.
- Beijing must forego the possibility of oil-for-weapons deals with its Gulf allies.
- Washington must pressure the International Energy Agency to give emergency oil supply guarantees to Beijing as an insurance against any possible energy crisis.
- China must promise not to lock in energy supply.
- The US should offer China specific targeted financial incentives to expand conservation measures and investments in alternative sources of energy.

These initiatives would reduce the risks of market shocks and are particularly important in an age of increased uncertainty and tension between Iran and the United States in the Gulf where Beijing and Washington are so economically dependent.

China has taken the first step and has already reached out to the United States. In particular, it is shifting its Middle East policy away from Iran. Since US-Iran tension started heating up in 2005, Beijing has moved almost no funding into its proposed $100-billion energy program with Iran, though both say that the project is moving ahead. China allowed the International Atomic Energy Agency to rebuke Iran, referred it to the UN Security Council, and President Hu visited US-ally Saudi Arabia at about the same time. At the same time, he has not been to Iran since becoming president despite being one of the world's most widely traveled world leaders at present, having visited at least 49 countries since the beginning of his tenure.

Washington ought to respond to Beijing's olive branch, particularly with the US tied down in Iraq, and facing few good options on Iran. By rebuilding Washington's relationship with China, the US leaders could not only reduce the possibility of energy competition with China, but also evolve a security cooperation paradigm that could benefit all the parties.

# Gulf Security and India

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*Gulf Research Center*

While the relationship between the Gulf Cooperation Council (GCC) countries and India are currently rooted in economic dynamics, it is not completely unrealistic to assume that the region would consider India as a more favored partner if it is willing to address the Gulf's security concerns as well. The need for alternate strategies in the Gulf and the possibility of India playing a role in it arises as a result of changing developments on both sides.

## GCC Perspective

In the Gulf, the United States has failed miserably in dealing with the Iraqi and Iranian security dilemmas. As a result, two schools of thought prevail in the region: one urging less international involvement in the region's affairs and the other, more.

Those arguing that the way out of the dilemma is through the withdrawal of external powers from the Gulf feel that external powers have precipitated the crises rather than contribute positively. They feel the region may be better off dealing with the crises itself; and that the Gulf has become so complacent that it is unwilling to evolve indigenous mechanisms for conflict prevention and resolution, as well as shying away from confidence-building measures with potential rivals. Therefore, the new mantra, even elucidated by the GCC countries, is that "a lasting Gulf security system can only function if it is based on a regional initiative".

But the situation on the ground is really not conducive to the complete removal of external forces. The GCC countries "neither practice nor engage in any sort of cooperative security exchange," and there is a sense of distrust even among the members of this homogenous bloc.[1] As a result, an indigenous alternative and viable security architecture is highly unlikely.

In such a situation, the alternative is further internationalization of the region. The dominant view is that "the United States is a spent force – not militarily or economically, but politically."

This school argues that all the US approaches in the region – relying on Iran and Saudi Arabia as part of the twin-pillar policy in the 1970s; propping up Iraq to counter Iran as part of the balance of power in the 1980s; and invasion of Iraq in 2003 – have failed to guarantee the desired level of security. As a result, the GCC countries are willing to consider intense political, economic and social ties with other countries to counter the prevailing notion that only (US) military power counts.

Saudi Foreign Minister Saud Al-Faisal told the Gulf Dialogue meeting in Bahrain in December 2004 that guarantees for Gulf security cannot be provided unilaterally "even by the only superpower in the world". The region requires guarantees "provided by the collective will of the international community."

The events leading to these and similar reactions in the region have forced the GCC countries to build ties with a host of alternatives, particularly in Europe and Asia. Some of the countries here have one factor in common: they are "regional plus" powers; their political weight goes well beyond their geographical borders, though not as far as to give them a global reach or global ambitions. This gives them a perfect stake in developing a multi-polar world that can resist any single nation's efforts to achieve dominance.[2] While cultivating the new relationship, the region is linking its economic interests and security needs. And, apart from the importance of energy, Europe and Asia are showing signs of relating to the relevance of the Gulf region to transnational security issues such as proliferation of weapons, crime, drugs and terrorism, and their impact on their domestic scenarios. Further, to many, the fact that the Arab Gulf countries are even willing

1 Recent examples include serious differences between Saudi Arabia and Bahrain over the latter signing the free trade agreement with the United States, which resulted in the Saudi crown prince boycotting the December 2004 GCC Summit in Manama; and the widening rift between Saudi Arabia and Qatar over Al-Jazeera's coverage of political events in the Gulf, which has manifested in several forms, including the US shifting from the Prince Sultan Air Base in Saudi Arabia to Al-Udaid in Qatar starting 2002, and unconfirmed Saudi objection to a Qatar-UAE (Dolphin) gas project in 2006.

2 Read Jonathan Steele, "India's revival means it can pick and choose its friends," Guardian (UK), 24 February 2006.

to consider alternatives despite US objections is the "real strategic shift occurring in the region".[3]

### *Indian Perspective*

While energy security is certainly a factor, India is now willing to showcase its power and influence in the region. This expanded security perspective is driven by necessity, ambition and opportunity. The desire to lead coincides with its rise as a major power with continental aspirations. Former premier Atal Behari Vajpayee and current Prime Minister Dr. Manmohan Singh urged looking beyond the immediate neighbourhood. Singh said "the Gulf region is a part of our natural economic hinterland. We must pursue closer economic relations with all neighbors in our wider Asian neighborhood."[4]

After Pakistan, China, Russia and the US, the Gulf is the focus to ensure against any maritime or landward threat to it from the region, serve as a base to pursue India's interests, confront terrorism and extremism, as well as tap the investment potential. By focusing on the Gulf and restoring traditional linkages with the immediate and extended neighbourhood, India is seeking to address its "four deficits" in the historical, security, economic and global decision-making realms.[5]

India is now talking about "soft power" and diplomacy – the security of the Gulf countries, as well as the wider Middle East, is of "paramount concern" and New Delhi is ready to contribute to the stability of the region by sharing its experience in combating terrorism, maritime security and military training. India stresses that events in Iraq have brought home the fact that a politically unstable area can become the spawning ground of terrorists.

> *"Linkages with illicit trafficking in narcotics, as well as in small arms have enhanced the destructive potential and lethal reach of the terrorists. The fight against terrorism has to be long-term, sustained and comprehensive. It cannot be ad hoc, selective or compartmentalized in terms of region or religion."*[6]

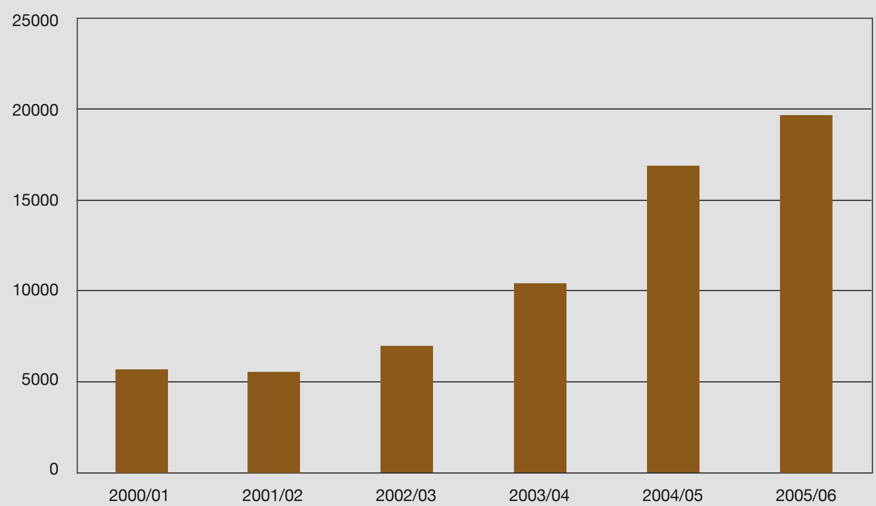
According to India's National Security Adviser M.K. Narayanan:

> *"The key focus in our external relations today is ensuring the stability and security of the region, comprising the arc of nations from the Gulf to East Asia...India's decision to enter into cooperative strategic relationship with China fully mirrors this approach."*[7]

India is keen on cooperation with the GCC countries to ensure safety and security of sea-lanes and of communications; safety and freedom of navigation in the shipping lanes and trade routes; counter religious extremism and/or transnational terrorism, narcotics trafficking and proliferation of weapons in the region; and achieve peace in the subcontinent, given Pakistan's bond with the region.

**GCC-India non-oil trade (2001/02-2005-06)**

*Source: Ministry of Commerce and Industry, Government of India*




***Note: India's oil bill from the Gulf amounted to another $26 billion during the same period.***

3 For more on these issues, read Christian Koch, "Gulf region makes strategic shift in new global system," Arab News (Saudi Arabia), 22 October 2006; "Gulf needs more, not less, external involvement," Gulf in the Media (UAE), 27 January 2006; and Tanvir Ahmad Khan, "Taking a broader view of security in the Gulf," Gulf News, 13 July 2006.)

4 "PM keen on building strong ties with Gulf states", Sify.com (India), 7 August 2005.

5 Part of a statement by former Indian defense minister Pranab Mukherjee at the Carnegie Endowment for International Peace, Washington, DC, 27 June 2005.

6 Statement by India's Special Envoy to the Middle East Chinmaya Gharekhan at the second Gulf Security Conference in Bahrain, 2-3 December 2005.

7 These views were part of his presentation titled "China and India: The Asian rising powers debate – An Indian perspective," at the third Global Strategic Review Confer ence of the International Institute for Strategic Studies in Geneva on 18 September 2005.

Further, portraying India as "a core state" in the emerging global order and offering to help secure the busy Malacca Straits against high-seas pirates at the Asia Security Summit in Singapore in June 2006, Mukherjee said:

> *"(New Delhi's) role is crucial for ensuring and maintaining long-term peace, stable balance of power, economic growth, and security in Asia...India is one of the important legs of the Asian juggernaut along with China, Japan, and Indonesia."*[8]

The latest military build-up plan dates back to 2001. On a visit to Washington, then external affairs minister Jaswant Singh said:

> *"For a long time, India has not been seen in its true dimensions. How many people know that Indonesia is only 65 miles from the southernmost Indian island? Or that but for Pakistan-occupied (sic) Kashmir, Tajikistan is just 27 miles from India. That we had a border with Iran in 1947? Or that the legal tender of Kuwait till 1961 was the rupee? So when we talk about Indonesia or central Asia or the Gulf, it is because of our interest and our sphere of influence."*

With this in mind, the government launched "a 20-year program to become a world power whose influence is felt across the Indian Ocean, the Arabian Gulf, and all of Asia"[9] in November 2003.

In order to highlight its potential and achieve its objectives, the Indian military services are undertaking a major build-up of conventional arms, creating ways of delivering nuclear weapons and defending against them, planning construction of warships, enhancing military logistics in Central Asia and even negotiated with the US for an Asian version of NATO. All these come in the wake of India's existing maritime security involvement involving Asian, African, European and Gulf countries (Oman), as well as Russia and the US. Further, the Indian Coast Guard and Navy have been active in anti-piracy, disaster relief, and environmental management and response operations, which was evident after the 2004 tsunami.

A key role in this program is that of the Indian Navy. In October 2003, then navy chief Admiral Madhvendra Singh said: "Fulfilling India's dream to have a full-fledged blue-water navy would need at least three aircraft carriers, 20 more frigates, 20 more destroyers with helicopters, and large numbers of missile corvettes and anti-submarine warfare corvettes." The Navy's acquisitions program was then worth $20 billion. The plan includes acquiring or constructing a submarine that could launch nuclear missiles, aircraft carriers, and long-range missiles with a reach of over 2,500 kilometers.

The Navy's aim is not just to patrol the seas, but have the capacity to create and "deploy battalion-sized forces at various strategic points... [on] short notice, and disperse them quickly from the landing or dropping zone before any adequate enemy response". The inference is that the expansion program envisions possible intervention in countries in India's "sphere of influence".

These plans were reflected in the government's Maritime Doctrine in 2004. According to a US War College study:

> *"Whereas (India's) earlier doctrine focused on inward-looking strategies, the new doctrine attempts to deal with conflict with (an) extra-regional power and protecting persons of Indian origin and interest abroad," (which perhaps brings the Gulf on the radar screens)."*[10]

Maintaining that the 'challenge' lies in India becoming a maritime power, former Indian Navy chief Admiral Arun Prakash promised in August 2006 a fully balanced, technologically fighting fit force in the next decade.

> *"We are back on track on the submarine front (and) in a few years time would be back to the desired levels on the naval air operations front as well....With fantastic support by the indigenous shipbuilding infrastructure and other acquisitions, within the next 10 years, the Indian Navy would be a fully-balanced, technologically fighting fit, all-purpose maritime force to be reckoned with...The challenge, therefore, lies in India becoming a maritime power. No one can stop India from becoming a maritime power...Though our maritime interests are now all over, anything that happens between the east coast of Africa and the Malacca Straits is of immediate concern to India. We have the business to know what is happening in this part of the Indian Ocean. So, this is the immediate footprint of the Indian Navy...All our maritime strategies, plans and growth takes into account the*

8 "India is a core state for Asian security: Pranab Mukherjee," The Hindu (India), 4 June 2006.
9 India's defense expenditure doubled from $11.6 billion in 1998-99 to $21.5 billion in 2005-06. More details available in "India's place in the US strategic order," Research Unit for Political Economy (Mumbai), December 2005.
10 For more on GCC-India tactical dimensions, see Khadija Arafah Muhammad Amin, "Need for strategic cooperation," GCC-India Research Bulletin (Gulf Research Center, Dubai, January 2006).

*matrix of economic interests and military threats. All that the force is planning is done keeping in view the bigger role of the country in world affairs in the 21st century and safeguarding all the vital interests of India....There's total consensus on this issue and we are not going back from this approach to Indian maritime strategies or planning. China and Pakistan are only a small part of it, nothing more ..."*[11]

The naval build-up can be gauged from the 8,000-acre Seabird naval base near Goa, which would bring together warships, aircraft carriers and long-range aircraft, among others, capable of impacting waters that stretch from Aden to the Malacca Strait. Further, Israeli-built Heron UAVs in Kochi would give India a surveillance capability that is unrivalled in the region.

## Conclusion

Notwithstanding the historic ties between the GCC and India, which have been sustained by the current oil, trade and expatriate dynamics, the way forward for a robust bilateral relationship rests on developing a paradigm that hinges on strategic political, economic and security dimensions.

The common political and security concerns translate into efforts for peace and stability in the Gulf region and South Asia. The emerging perceptions create further opportunities for GCC-India cooperation in the future. While the GCC countries are going through important changes and transformations, the process of understanding and integration needs to intensify beyond the traditional issues. This involves joint efforts to meet domestic and regional challenges.

With India viewing the Gulf, South Asia and Central Asia as "strategically interactive and interrelated regions", it is time for the GCC to reciprocate in a commensurate way. Given the prevailing anti-West sentiment among Arabs, it is the appropriate time for upgrading GCC-India ties.

A GCC-India relationship based purely on selling and buying of oil is no longer untenable. The GCC countries need to take note of the fact that India's basket of energy suppliers are widening. It is not entirely impossible that India may follow the United Sates, which gets more oil from Africa than the Middle East, or China which gets more crude supplies from Angola than Saudi Arabia. With a view to strengthening and diversifying relations, it is imperative for both to acquire fresh dimensions to consolidate their positions in a fast-changing world.

The GCC countries and India share a common desire for peace, stability and security in the region and value the independence, sovereignty and territorial integrity of the countries concerned. However, in the process of moving forward, the real challenge is how to turn the Indian military strength into a factor of regional security. The dilemmas in the Gulf region could ease if the GCC countries and India evolve new ideas of collective security that go beyond the restrictive paradigms of the past. But by suggesting that it is willing to play a proactive role by sharing its experience in combating terrorism, maritime security and military training, New Delhi may also be indicating just how far it is willing to go, which, in fact, is not far enough for the long-term security concerns of the Gulf countries.

The issues mentioned above raise many questions:

- Will India stick to involvement only in soft security issues?
- If it goes beyond, will it mirror the US approach or will it be distinct and non-controversial?
- Even if it is interested in a wider role, how effective will it be?
- Will the Indian public opinion support military interventions abroad?
- Will India's responses to possible internal and external threats in the region be different in terms of its response, especially since India and Iran enjoy good ties?
- How will India's increasing military cooperation with the United States pan out in the GCC countries?
- Should India work toward a developing a collective security mechanism in cooperation with the US, EU and China?
- More crucially, are the GCC countries looking 'out of the box' for their security or is the US making a mountain out of a molehill while expressing long-term fears about China's intentions in the regional security architecture, and possibly India's in the future?

11 "Navy chief promises technologically fighting fit force," Indo Asian News Service, 8 August 2006; such assertions have led to question if India's naval modernization effort is aimed at turning the Indian Ocean into India's ocean. For more, see "US, China, India flex muscle over energy-critical sea lanes," Freerepublic.com, 10 June 2006.

# Media Monitor

*The following are the highlights of important events pertaining to relations between the Gulf and Asian countries during the last few months of 2006.*

### Japan

- Japanese engineering firm Chiyoda said it and South Korea's Hyundai Heavy Industries had won a $1.8 billion order to build natural gas processing units in Qatar for Royal Dutch Shell (August 2).
- Japan's INPEX Holdings Inc. loses the right to lead the $2 billion-plus development of Iran's Azadegan oil field, but will retain a token share (October 7).
- A consortium led by Japan's Marubeni Corp wins a $2.3 billion contract to build a natural gas power plant in Qatar (October 17).
- Oman signs a $150 million loan agreement with Japan Bank for International Cooperation to finance part of the second phase of Sohar Industrial Port (November 20).
- China and Japan stake claim to develop Iraq's vast oil reserves with Tokyo offering billions of dollars in loans and Beijing agreeing to renegotiate a deal signed with Saddam (November 2).

### South Korea

- Hyundai Engineering and Construction wins a $780 million contract from Saudi Aramco to build a gas processing plant in the kingdom (September 21).
- Abu Dhabi awards a $1.6 billion construction deal to Hyundai Heavy Industries Co finally to boost production at an offshore oil field (September 27).
- Hyundai Motor Co. wins an order from Iran worth about $227 million to supply completed vehicles (September 4).
- South Korea signs an agreement with Kuwait for joint storage of 2 million barrels of crude oil, adding to the country's emergency stockpile (November 1).
- Bando Engineering & Construction announces plans to invest $1 billion over the next two-three years to set up three mega projects in the UAE (November 13).
- Sungwon Corporation plans to invest over $1.2 billion in property development in the Middle East, primarily in the UAE. (November 15).

### Singapore

- Emirates Bank International and Doha Bank open representative offices in Singapore (October 30).
- Emirates Investment Group announces plans to invest about $640 million in a real estate project in Singapore (November 1).

### Malaysia

- UAE's Tamouh Investments awards IJM Consortium $400 million mixed development real estate contract (September 24).
- MMC Corp. and Binladin Group win a $30 billion deal to develop and manage the new Jizan Economic City (November 7).
- Saudi Aramco opens new Aramco Overseas Company office in Kuala Lumpur (November 11).

### Australia

- KSA and Australia sign a deal for the ICD10-AM health classification system, which would provide employment for more than 2,000 Saudi youth (September 19).
- Abu Dhabi's The National Investor signs financial advisory and capital raising agreements with Boulder Steel Ltd to raise $600 million (September 21).
- Sunland Group Ltd establishes a 50:50 joint venture with Emirates International Holdings in the real estate sector (October 11).

### China

- China Development Bank agrees to establish a $10 billion credit line with Iranian banks (August 19).
- China and Iraq revive a $1.2 billion deal signed by Beijing with the Saddam Hussein government in 1997 to develop an Iraq's Al-Ahab field (October 30).
- Kuwait Investment Authority says its stake in the Industrial and Commercial Bank of China is worth $720 million (November 27).
- Saudi Basic Industries Corp., says it intends to form a joint venture in China with possible investment of up to $5 billion (November 11).
- Saudi Aramco opens the new Aramco Overseas Company office in Shanghai (November 14).

- Property developer China Resources and a Saudi investment firm team up to float a $500 million Sharia-compliant fund to invest in the Chinese real estate market (November 30).

### India

- India hopes to buy Mirage 2000 fighters from Qatar to counter US commitment to supply F-16 fighters to Pakistan (August 16).
- Bahrain's Al-Baraka Banking Group will set up branches in India, Indonesia and Malaysia in 12 months (September 26).
- India will provide training to Bahrain's parliament staff (September 30).
- Bahrain-based Gulf Finance House announces plans to create a $2-billion Energy City India (October 6).
- Emaar MGF partners with a European hotel chain to roll out up to 100 Formula 1 budget hotels in India in 10 years with an investment of $300 million (November 30).
- Dheeraj East Coast announces 16 real estate projects under development worth $1 billion (November 8).

### Pakistan

- Three ships from Pakistan Navy – *Tariq*, *Jurrat* and *Quwwat* – and a submarine, *Saad*, take part in a joint naval exercise with the Royal Navy of Oman (September 22).
- Emaar Properties PJSC receives Pakistani government's approval to develop two island projects near Karachi that will require investments worth $43 billion (September 28).
- An investment group of UAE plans to invest $5 billion to help improve Pakistan's infrastructure (November 7).
- Abu Dhabi's International Petroleum Investment Co and Pakistan's Pan-Arab Refinery plan to build a new $5 billion refinery (November 10).
- UAE and Pakistan sign a MoU to eradicate exploitation of Pakistani workers during recruitment process and guarantee better welfare and benefits (December 19).
- Bahrain opens its first embassy in Pakistan during Crown Prince Shaikh Salman bin Hamad Al-Khalifa's visit (December 20).
- A Saudi-Kuwaiti joint venture, MidRoc Tussonia Ltd, will invest $3-4 billion in Pakistan over the next seven years in power generation, refining and real estate sectors (December 24).

## GRC PARTNERSHIP WITH ASIAN INSTITUTIONS

Collaboration with think-tanks and research organizations is a vital part of the Gulf Research Center's mandate. The cooperation agreements that the center has signed with a number of institutions worldwide aim to support each other in the areas of research, policy facilitation and implementation of long-term conditions for peace, security and sustainable development.

In partnering institutions of interest, we hope to work in pursuit of creating greater national, regional and international awareness on issues pertaining to security and stability in the Gulf region and beyond.

The areas of cooperation encompass joint research; dissemination of findings; convening conferences; facilitating exchange of scholars; translation, re-publication and distribution of selected publications; as well as sharing of relevant databases.

The following is a list of Asian institutions that the GRC either has a formal cooperation agreement with or entered into a working relationship in mutually agreed areas.

### The Australian National University

ANU
THE AUSTRALIAN NATIONAL UNIVERSITY

The Centre for Arab and Islamic Studies at the Australian National University, Canberra, and the GRC signed a MoU to cooperate, collaborate and support each other in the areas of research, knowledge dissemination, internationalization of higher education in the fields of international relations, global politics, networking, internships and events.

### National Defence College

NATIONAL
DEFENCE COLLEGE
ISLAMABAD - PAKISTAN

The National Defence College in Islamabad is affiliated to the Pakistan Armed Forces with a mission to train selected senior officers of the armed forces and civil services of the country, as well as senior military officers from allied countries, for higher responsibilities at policy planning levels.

### *University of Queensland*

The University of Queensland is one of Australia's premier learning and research institutions. The University is a founding member of the national Group of Eight, an alliance of research-strong "sandstone" universities committed to ensuring that Australia has higher education institutions which are genuinely world class. It belongs also to the Global Universitas 21 alliance. This group aims to enhance the quality of university outcomes through international benchmarking and a joint venture e-learning project with The Thomson Corporation.

### *Institute of Geopolitics and Economics of Energy*

The Institute of Geopolitics and Economics of Energy is an applied research body affiliated to the School of Advanced International and Area Studies at East China Normal University in Shanghai. The institute is the first of its kind in China to promote geopolitical and economic research and exchanges on strategic energy issues worldwide.

### *The Energy and Resources Institute*

The Energy and Resources Institute (TERI) is an independent, not-for-profit research institute focused on energy, environment, and sustainable development and devoted to efficient and sustainable use of natural resources. With its headquarters in New Delhi, Teri also has four regional centers in India and presence in five countries abroad.

### *Korea Institute for International Economic Planning*

The Korea Institute for International Economic Policy in Seoul is a South Korean government-funded economic research institute. It advises the South Korean government on all major international economic policy issues, and also serves as a warehouse of information on Korea's international economic policies. It also carries out research for foreign institutes and governments on all areas of the country's and international economies.

### *National Institute for Research Advancement*

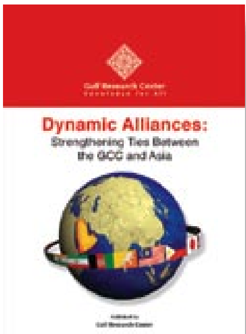
The National Institute for Research Advancement (NIRA) is an independent policy research body established on the initiative of leading figures from Japan's industrial, academic, labor and local government communities. NIRA was established in 1974 and is funded through an endowment made up of capital contributions and donations from both the public and private sectors. Its primary objective is to make contributions, based on the concept of peace, to the resolution of the various complex issues facing contemporary society.

### *Observer Research Foundation*

The Observer Research Foundation is a non-profit and public policy think-tank in New Delhi, which is visualized and supported by a cross-section of India's leading intellectuals, academics, public figures, social activists, business leaders and institutions of higher learning.

## GRC PUBLICATIONS

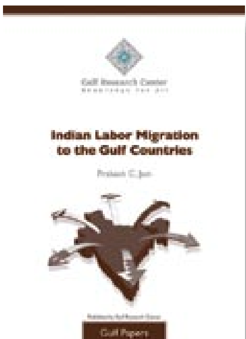
### *Dynamic Alliances: Strengthening Ties Between the GCC and Asia*




The edited volume is a compilation of papers presented at the workshop organized to coincide with the GRC's third annual conference in January 2006. It looks at some of the key aspects of current debates about the future of ties between Asia and the GCC countries in the political, economic, and security spheres.

### *Indian Labor Migration to the Gulf Countries*

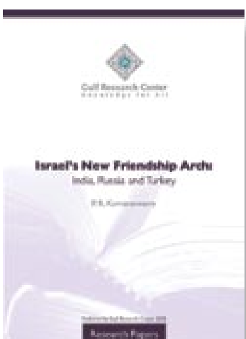
***Dr Prakash C. Jain***




This research paper highlights the trends in the out-migration flow of Indian workers to the Gulf countries in terms of volume and destination, as well as origin in India. It discusses the socioeconomic characteristics of migrants and the impact of Indian migration on the Gulf countries as well as India, and on Indo-Gulf relations.

### *Israel's New Friendship Arch: India, Russia and Turkey*

***Dr P.R. Kumaraswamy***




This paper analyzes the relations of three regional powers – India, Russia and Turkey – with Israel, putting forth the argument that despite their opposing views on Israel's policy towards the Palestinians, relations with the latter have developed positively and have provided the three suitors with an alternate source of arms, an alternate market for their goods and, more importantly, a boost in their relations with the US.

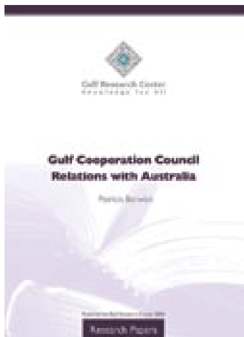
### *GCC Relations with Japan*

***Sonoko Sunayama***

It is an oversimplification to analyze Gulf-Japan relations solely from the perspective of energy. This paper, through analyses of key events in Japan's involvement in the Gulf region since the beginning of the 20th century, aims to identify factors which shaped the course of evolution of GCC-Japan relations.

### *GCC Relations with Australia*

***Patricia Berwick***




Australia and the Arab world have a history dating back to at least the 7th century. In recent history, a much stronger relationship has been shaped through trade, travel, and joint ventures. Oil, the Gulf War and the War against Iraq have had an impact. This paper aims to highlight various opportunities for a constructive relationship between the GCC countries and Australia.

## FORTHCOMING EVENTS

***Release of 'Gulf Yearbook 2006-2007'***
(Fourth GRC Annual Conference)
11 January 2007, Dubai

***Consequences of US Policy for the Gulf Region*** (Workshop)
11-12 January, Dubai

***Security Issues and the Istanbul Cooperation Initiative: Furthering Nato-Gulf relations*** (Workshop)
Co-sponsored by Institute of Diplomatic Studies, Foreign Ministry of Saudi Arabia, and NATO Division of Public Diplomacy
20-21 January, Riyadh

***Pakistan-Gulf Strategic Relations***
Co-hosted by The Institute of Strategic Studies
March 8-9, Islamabad

***Toward a Sustainable Management for Renewable Natural Resources in Arid Lands*** (Executive Learning Program)
April 5-16, Damascus

***The Gulf In-depth*** (Executive Learning Program)
April 20-24, Muscat

***Gulf-Russia Dialogue***
The PIR Center, Moscow
June 7-8, Dubai

Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider and consultancy specializing in the Gulf region. The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented. The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

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