Problems and Opportunities for China in Developing Its Role in the Gulf Region

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Abstract: Peace and stability in the Gulf region are of critical importance to all states which have significant economic relations with the Gulf countries. They are particularly important when these relations can be described as involving a large measure of mutual dependence. China’s economic relations with the Gulf countries have that character, given the Gulf’s critical need to export oil, and China’s long-term requirement for oil imports from the region. Whereas Western countries have sought to protect their interests in the Gulf by military engagement, China has wisely avoided that course of action. That might seem to leave China with less leverage to protect its interests there, but this need not be so. China has an alternative means at its disposal. Mutual dependence conveys a kind of soft power. The “Belt and Road” Initiative offers opportunities for all Gulf countries to deepen and widen their international economic engagement. Effective engagement in this, however, depends on the resolution of existing conflicts between Gulf countries. The existing economic relationship, complemented by what can be offered for the future, provide China with an effective channel to encourage reconciliation, creating the underpinning for peace and stability in the region.

Keywords: China; Gulf; Stability; “Belt and Road” Initiative; Trade

I. Perspective

For any major power, developing relations with states in a region which is riven by conflict and confrontation will be problematic. Issues arise as to how to balance relationships – or perhaps not to balance them at all, but to support one state or set of states against others. This is the issue which this article seeks to address: how China can best develop its role in the Gulf in light of ongoing conflicts and confrontations within the region.

Western powers have generally responded to conflicts within the region by taking sides, and in practice their roles in the region have often deepened existing conflicts – and perhaps even created some of them. China, and most other Asian countries, have adopted a very different approach, stressing non-interference in the affairs of the states of the region, commitment to good relations with all the 8 states around the Gulf (the 6 GCC states, plus

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Iran and Iraq), and the need for negotiation and reconciliation to resolve existing conflicts. The latter approach has clearly proved beneficial, both for the interests of China and other Asian countries, and those of the Gulf governments themselves. China and most other Asian countries have been able to develop their economic and political relations with all of the states of the region, and the Gulf governments have been reassured that these countries are not pursuing policies which will undermine their sovereignty and independence.

Nonetheless, there is a problem inherent in the policies which China and other Asian countries have been pursuing. The problems stem from the depth and bitterness of the ongoing conflicts in the region, and the possibility that if these conflicts continue the stability of the region may be threatened. In such a situation, the interests of outside powers are likely to be endangered. Difficulties can arise both from the insecurity/blockage of the waterways through which trade passes on its way to or from a Gulf country, and possibly from one Gulf country or another deciding that it is no longer prepared to interact with an external power which maintains relations with a Gulf rival/enemy. At the time of writing, such scenarios arising do not appear unrealistic, both with regard to the cross-Gulf conflict to resolve their differences through reconciliation and negotiation, China could negotiation in the region. In other words, rather than simply advising that the states in

What is needed to resolve this problem is a strategy for China, and perhaps some other Asian powers, to act proactively so as to bring about reconciliation through negotiation in the region. In other words, rather than simply advising that the states in conflict to resolve their differences through reconciliation and negotiation, China could take initiatives aimed at making such reconciliation/negotiation practically feasible. A possible objection to adopting such a strategy is that neither China nor other Asian powers have enough leverage to bring Gulf states to the negotiating table, at least in a manner which would ensure success. Western powers have been prepared to offer military support against a Gulf state’s regional rivals so as to exert pressure on a Gulf government, but China and other Asian countries have wisely refrained from entering into such commitments. China’s strength lies in the wide-ranging economic links which it maintains with all Gulf countries, and this brings access to the governing circles in the states concerned, but it does not necessarily bring leverage. Both China on its side, and the Gulf states on theirs, benefit from the rapidly-expanding economic relationships, and at the same time both sides would lose if any of these relationships were damaged. China’s extensive trade with and investment in the region, therefore, cannot be used to exert effective pressure on individual Gulf states to engage in regional reconciliation.

Nonetheless, China does have a viable means to incentivise Gulf states in moving towards reconciliation. The “means” referred to here are ones which no other outside power currently possesses: the ability to use inclusion in the “Belt and Road” Initiative (BRI) initiative -- especially the land-based part of this -- as an incentive for reconciliation. All of the eight countries around the Gulf stand to benefit from being part of the network of communications and industrialisation which BRI is bringing into existence across Central Asia (with Europe and China at the far ends). Yet in practice the GCC countries will only be able to participate in this crucially important zone of integration and exchange if they resolve existing conflicts in the region. The construction of cross-regional railways, roads and oil pipelines is impossible without considerable inter-state cooperation and
consultation. At present that is not feasible. In recent years, the relationship between Saudi Arabia and Iran (and sometimes Iraq) has been openly confrontational. Even normal diplomatic contacts have been disrupted and at times non-existent. For the GCC states to draw the substantial benefits which the land-based BRI might offer them, therefore, they would need to find a basis for reconciliation with Iran, create a strong basis for understanding among themselves, and seek to construct frameworks for cooperation among all eight Gulf states. It is unlikely that this could be done without the assistance of an external power. China as the instigator and effective leader of the project from which gains may flow (BRI) is in a unique position to play the roles of mediator and facilitator.

This article will proceed by first assessing how important the existing economic relationship between China and the Gulf states is, relative to other economic relationships maintained by the Gulf states. The primary indicator to be used in this regard is the flow of trade, as documented in the Direction of Trade (DoT) Statistics produced by the International Monetary Fund (IMF). The annual IMF DoT statistics are issued at the beginning of May every year, so the most recent such data at the time of writing covers all years up to 2016. Next, likely changes in the supply and demand for Gulf hydrocarbons over the coming 20 years will be examined. Given the significance of hydrocarbons exports in Gulf trade, changes in this element are likely to determine how patterns of trade are likely to develop in the future.

The later part of the article will focus on the how the Gulf states relate to BRI at present, and how they view the initiative.

II. The Rise of China as a Leading Trading Partner of the Gulf States

In assessing the importance of any country’s trade relations with another, it is important to take account of a variety of different perspectives. That is to say, the statistics for any one year may not be significant in themselves. Specific events, such as wars or natural catastrophes, can lead to one country having sudden requirements for large quantities of a particular good from another country, or else major deliveries of expensive weaponry may impact the figures in a particular year. The economic and political significance of trade, moreover, is relative: a trading relationship is only significant relative to the size and character of the other trading relationships which the two countries concerned may have.

What is important in grasping the extent and significance of economic changes is perspectives which straddle different time-periods, reflecting shifts in overall relationships as well as in economic strategies and performance. The data from individual years are not necessarily significant as they will be affected by developments specific to the year in question. Here, two tables showing pan-Gulf trade with the region’s major trading partners will be presented, one covering the 1990-2013 period, and the second covering the 2011-2016 period. While trade only constitutes one dimension of an economic relationship (with investment flows, contracting etc. forming other dimensions), it does nonetheless usually constitute a key indicator of the overall relationship.

The significance of Table 1 is that covers the period from 1990, when the levels of Chinese and Indian trade with the Gulf were very low in comparison with that of other
trading partners, through to 2013 which was the first year in which China became the Gulf’s major trading partner (with India holding third place in the ranking, and Japan fourth place). In a long-term historical perspective, the latter development is significant. For the two centuries before 2013, Gulf trade had been tied in primarily to Western-based trading networks – whether directly or through India during the period of British predominance in India. In 2013, the European Union was displaced from the leading position which it (or its predecessor, the European Economic Community) had held over the previous four decades. European Union trade now ranked second.

Table 1: Growth of Gulf Trade with Major Partners, 1990-2013 ($ billion)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.3</td>
<td>11.8</td>
<td>44.9</td>
<td>121.4</td>
<td>93.4</td>
<td>203.5</td>
<td>224.4</td>
</tr>
<tr>
<td>India</td>
<td>4.4</td>
<td>6.6</td>
<td>21.4</td>
<td>119.3</td>
<td>87.9</td>
<td>186.5</td>
<td>183.9</td>
</tr>
<tr>
<td>Japan</td>
<td>33.5</td>
<td>52.0</td>
<td>103.8</td>
<td>176.1</td>
<td>103.7</td>
<td>181.3</td>
<td>171.6</td>
</tr>
<tr>
<td>South Korea</td>
<td>6.1</td>
<td>25.6</td>
<td>53.4</td>
<td>109.7</td>
<td>71.9</td>
<td>142.4</td>
<td>136.1</td>
</tr>
<tr>
<td>EU</td>
<td>59.9</td>
<td>66.7</td>
<td>142.5</td>
<td>212.0</td>
<td>156.0</td>
<td>207.4</td>
<td>216.2</td>
</tr>
<tr>
<td>US</td>
<td>19.1</td>
<td>33.9</td>
<td>66.0</td>
<td>124.8</td>
<td>71.2</td>
<td>143.7</td>
<td>137.2</td>
</tr>
</tbody>
</table>


There was, moreover, every indication that the share of the market taken by China, and perhaps India, would continue to grow. Over the 2005 to 2013 period, Chinese trade was growing at approximately eight times the rate of European Union trade. Projections of China’s and India’s increasing demand for oil imports – substantially higher than that projected for Western countries – indicated that the underlying thrust of the growing trading relationship would remain strong. Although the trading relationship was slightly skewed towards Gulf exports rather than imports, nonetheless approximately 40% of all China-Gulf trade in 2013 consisted of Chinese exports to the Gulf.⁵

Table 2 presents the data covering the trade of Gulf countries with their major trading partners in 2016. At first sight, the data appears to contradict the conclusions which the writer drew from Table 1. China, in 2016, was no longer the Gulf’s leading trading partner. While China had reinforced its leading position in Gulf trade in 2014, the European Union regained its lead in 2015 and strengthened it further in 2016. This, however, is misleading. Two factors explain the changed ranking. The first is the fall in the price of oil and gas, which substantially lowered the value of all Gulf trade in 2015 and 2016. A larger

proportion of Chinese trade with the Gulf is constituted by oil and gas rather than is the case with
the EU, so the lower price levels inevitably reduced the value of China’s overall Gulf trade
more than the EU’s. The impact of this was even more severe on the trade flows in 2016
than in 2015, despite the fact that oil prices had begun to stabilize in 2016. Whereas in
2015 the main impact was on the value of Gulf oil exports, in 2016 Gulf imports were also
sharply reduced. Gulf governments were cutting their expenditure, especially spending on
major projects. A lower level of imports than before was required.

Table 2: 2016 Gulf Trade with Major Partners in $billion

<table>
<thead>
<tr>
<th></th>
<th>Bahrain</th>
<th>Saudi Arabia</th>
<th>UAE</th>
<th>Qatar</th>
<th>Oman</th>
<th>Kuwait</th>
<th>Iraq</th>
<th>Iran</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2.0</td>
<td>44.0</td>
<td>30.1</td>
<td>7.0</td>
<td>11.8</td>
<td>10.3</td>
<td>18.2</td>
<td>22.5</td>
<td>145.9</td>
</tr>
<tr>
<td>India</td>
<td>1.0</td>
<td>36.3</td>
<td>37.1</td>
<td>8.1</td>
<td>2.0</td>
<td>5.5</td>
<td>10.4</td>
<td>9.3</td>
<td>109.7</td>
</tr>
<tr>
<td>Japan</td>
<td>2.0</td>
<td>28.6</td>
<td>28.4</td>
<td>13.0</td>
<td>1.1</td>
<td>6.0</td>
<td>1.4</td>
<td>3.6</td>
<td>84.1</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.3</td>
<td>20.5</td>
<td>12.5</td>
<td>8.5</td>
<td>0.7</td>
<td>8.3</td>
<td>6.2</td>
<td>7.3</td>
<td>64.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>163.4</td>
</tr>
<tr>
<td>US</td>
<td>81.4</td>
</tr>
<tr>
<td>World</td>
<td>1173.3</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, Direction of Trade Statistics 2017. Calculated by the
writer.

The second factor is that China diversified its sourcing of crude oil imports in 2016.
Russia, making use of the expanding capacity of its East Siberian-Pacific Ocean pipeline,
displaced Saudi Arabia in 2016 as China’s main source of oil imports. Angola’s share in the
Chinese oil market also expanded, while Saudi Arabia’s oil exports were restrained
towards the end of 2016 by the supply cuts which Saudi Arabia agreed to at the November
2016 OPEC meeting in Vienna.

There is ample reason for believing, however, that the trend over 2015 and 2016 is
short-term and that the longer-term trend will be different. The principal reason for this is
that the perspective for energy supply and consumption through to 2035 is that China (and
most other Asian countries) will require an increasing amount of oil over this period, while
demand for oil in Western countries will decline. The main source of increased supply,
moreover, will be the Gulf region. This contention will be explained and documented in
section 3 below.

The exceptional nature of the circumstances affecting Gulf trade since 2014 needs to
be taken into account. In 2014, the value of total Gulf trade with the rest of the world stood
at $1,789 billion; in 2016 this had come down to $1,173 billion. The Gulf trade of all the

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1 The data contained in Table 2, and some of the analysis on it, will be published in a publication in the
press at the time of writing this chapter. The publication is Tim Niblock, “Collective Security, Security
Communities and the Gulf Region,” in Tim Niblock, Talmiz Ahmad and Degang Sun, eds., Conflict
region’s major trading partners underwent decline. The longer-term trend can be seen by comparing the rates of decline experienced by different trading partners. From 2011 (when Gulf trade had regained stability after the global financial crisis) through to 2016, the EU’s trade with the Gulf declined by about 32%, whereas China’s trade declined by about 24%.©

III. Present and Future Global Demand for and Supply of Oil and Gas

As indicated above, the objective of this section is to assess how trading relations between China and the Gulf states will develop in the future – i.e., to indicate whether the trend identified in the table covering the 1990-2013 period is likely to hold sway, rather than the relatively different pattern present in 2015 and 2016.

While all aspects of trade are relevant to this assessment, it will be assumed here that the export of Gulf oil and gas will be the most critical element – just as it has been in the past. Other Gulf exports, petrochemicals in particular, will also be important, but these have in the past been critically dependent on the oil and gas trade, with some oil and gas importing countries opening their markets to Gulf petrochemicals as a means of guaranteeing the security of their oil and gas supplies. There is no reason to think that this will change. As for Gulf imports, these are inevitably linked to the level of exports. The exports provide the government with the revenues needed to maintain a viable developing economy, and at the same time bring in the foreign exchange required to finance imports.

The focus in this section, therefore, is on understanding how global demand for and supply of oil and gas will develop over the next 20 years (through to 2035). Of particular relevance is the changing geography of demand and supply: which parts of the world will require more/less oil and gas, and which countries will have the production capacity to satisfy that demand.

Projections on the changing demand for imported oil and gas in any country need to take into account the changing overall demand for energy in that country, and the extent to which local production of energy (whether from hydrocarbons, nuclear power or renewables) will be able to meet that demand. Political factors may affect decisions on where oil and gas are imported from, but the most basic factor is availability – i.e., the countries which are likely to have oil and gas to sell. Table 3 lays out the projected changes in the production and consumption of energy globally, and the impact which this will have on the demand for oil in different countries/regions of the world. The first two columns show the rise/fall in energy consumption in different parts of the world (chosen on the basis of relevance for Gulf producers); the last two columns show the rise/fall in energy production in those areas; and the middle column indicates how demand for oil is expected to rise or fall there. The data is taken from the BP Statistical Review of World Energy 2017 and BP Energy Outlook 2017.©

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¹ The figures in this paragraph were calculated by the writer on the basis of data available in International Monetary Fund, Direction of Trade Statistics, 2017.
² At the time of writing, these are the publications which contain the most up-to-date material on future energy supply and demand. The publications were accessed at http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/country-and-regional-insights.html.
Table 3: Percentage Changes in the Production, Consumption and Shares of Global Energy, 2015-2025 (all figures are positive, except those marked with a minus)

<table>
<thead>
<tr>
<th>Region</th>
<th>Rise/fall in energy consumption 2015-2035</th>
<th>Share of global energy consumption in 2035</th>
<th>Rise/fall in oil demand, 2015-2035</th>
<th>Rise/fall in energy production in 2015-2035</th>
<th>Share of global energy production in 2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>47</td>
<td>26</td>
<td>61</td>
<td>38</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>129</td>
<td>9</td>
<td>120</td>
<td>122</td>
<td>5</td>
</tr>
<tr>
<td>Other emerging Asia</td>
<td>62</td>
<td>9</td>
<td>33</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Africa</td>
<td>77</td>
<td>4</td>
<td>56</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td>North America</td>
<td>4</td>
<td>17</td>
<td>-4</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>European Union</td>
<td>-8</td>
<td>9</td>
<td>-3</td>
<td>-11</td>
<td>4</td>
</tr>
<tr>
<td>United States</td>
<td>1</td>
<td>13</td>
<td>-17</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>Russia</td>
<td>2</td>
<td>4</td>
<td>0.5</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Brazil</td>
<td>41</td>
<td>2</td>
<td>15</td>
<td>68</td>
<td>3</td>
</tr>
</tbody>
</table>


The overall setting for these figures is shaped by the projection that, despite the attempts of governments to move away from heavy dependence on hydrocarbons, oil and gas demand will nonetheless rise through the 2015-2035 period, with the peak not being reached until the mid-2040s. Global hydrocarbon liquids production (oil, liquid natural gas, condensates etc.) is expected to rise from 96.7 million b/d in 2015 to about 110 million b/d in 2035. The actual figure, however, will depend on the rate of economic growth. Even after the peak, oil would remain a significant source of global energy consumption for many decades.¹

While there will be a rising need for energy in all parts of the world except for the European Union over the 2015-2035 period, the table shows that there are substantial differentials in the rates of energy growth around the world, and even more so in the

¹ *BP, BP Energy Outlook 2017*, op.cit, pp.11-29.
demand for liquids. Oil demand will decrease in North America (especially the US) and Europe. Energy Outlook 2017 does not include figures for Japan, Taiwan and South Korea, but information elsewhere in the report suggests that oil demand will decline there too. In the opposite direction, there will be major increases in oil demand in China, India, other Emerging Asia, and Africa. Figures for South America are not included, but information elsewhere in the report suggests that there too increased demand is expected.

With regard to oil supply, the projections for “the Middle East” (defined as the Mashreq countries plus Iran) are that oil production over this period will rise by 29% (9 million b/d). Not all of this increase, however, will be available for export. Domestic oil consumption is expected to rise by 34% (3 million b/d). An additional 6 million b/d (over the existing quantity available for export) will, therefore, be on the global oil market. Most growth would come from Saudi Arabia, Iran and Iraq. The Middle East’s share of global supply will, in this projection, rise from 32% to 37%, with oil export volumes rising from 21 million b/d in 2015 to 27 million b/d in 2035.

The changing pattern of oil supply and demand in North and South America, Africa and Russia suggests that Asia’s growing demand (at least the additional part of it) will need to be satisfied primarily from the Middle East. Some comments on each of these areas will be made so as to substantiate this point. Russian oil production over the 2015-2035 period is projected to increase by 11%, while oil consumption rises by 15%. While Russia remains a very important oil exporter, therefore, the oil available for export will be slight reduced. China will clearly still constitute an important market for Russian oil, in view of its proximity to Russian oil fields (and the pipelines linking the two countries), but Russian oil alone could not be expected to satisfy China’s additional demand – or even the existing level of demand.

The African continent currently produces more oil than it consumes, with production in 2016 coming to 4.1 million b/d and consumption to 3.7 million b/d. Over the 2015-2035 period, African energy consumption is expected to grow faster than that in any other major region, with the exception of India. Demand for oil will rise by 56%. At the same time, energy production will increase by 28%. African oil supply and demand in 2035, however, will still constitute only relatively small portions of the global energy market (4% of consumption, and 6% of production). While some African countries will need to import more oil, most of the imports (especially on the western side of the continent) may be expected to come from other parts of Africa. Demand for Gulf oil is unlikely to rise significantly.

In order to assess the likely demand for Gulf oil which will follow from this overall increase in oil demand, the oil and gas production projections for other parts of the world need to be considered. For national oil markets, it is of course easier and perhaps preferable to source oil supplies locally (or perhaps from a neighboring country) rather than rely on supplies from a different part of the world. Demand for Gulf oil and gas will be heavily influenced by the changing patterns of supply and demand for hydrocarbons in Russia, Africa and South America. Developments in these areas will now be covered.

In what follows “oil” will be used to cover liquids generally. Natural gas liquids will, therefore, be included in the figures presented.
North America will experience a small rise in energy consumption (4%), but a much larger increase in energy production (21%). Oil demand is expected to decline by 4%, while oil production increases significantly. North America overall will be a net exporter of oil by 2035, although not at a level comparable to the Gulf region. Taking the US part of this by itself, oil production there is expected to grow by 26%, and consumption to decline by 13%. By 2019 the US will become a net exporter of natural gas and by 2027 a net exporter of liquids overall. North America will not need to import oil from the Gulf region.

In South America, production from the existing oil producing countries (Venezuela in particular) will be complemented by the new fields being developed in Brazil. In 2015 oil supply and consumption in Brazil were approximately equal, but in 2035 Brazil is expected to be a relatively-significant net exporter. This also applies to the South American region overall: it will be a net exporter of oil. Again, Gulf oil will not be needed.

The situation with regard to Europe and Asia will be very different from the regions just covered. In both of these areas there will be a continuing need for Gulf oil. In the case of Europe, the continued dependence on imported oil will be significant but nonetheless declining. Energy consumption in Europe is expected to fall by 8%. Energy production, however, will fall even more (11%). Europe is the only part of the world where demand for and supply of energy both fall over the 2015-2035 period. With a rapid rise in the production and consumption of renewable energy, oil will form a smaller part of the energy mix. Oil consumption is expected to fall by 24%. There will be a continued need for oil imports, but at a reduced level.

In Asia, China is expected to emerge as the world’s largest consumer of energy, accounting in 2035 for 26% of global energy demand, while North America’s share declines to 17% and the EU’s share to 9%. India and “Other Emerging Asia” (Asia excluding India, China and OECD countries) would also have shares of 9% each. With regard specifically to oil, China’s demand for oil is expected to increase by 61% while production falls by 13%. China’s dependence on imported oil is expected to rise from 61% in 2015 to 79% in 2035. In the case of India, it is predicted that oil imports will need to increase by about 165%. In Other Emerging Asia, also, energy consumption is expected to far outstrip any increase in energy production. Oil production there is expected to decrease by 34% while oil demand increases by 33%. A substantial increase in oil imports would be required.

The parameters for the future oil market, therefore, are fairly clear: while oil production (and energy production generally) will increase in many parts of the world, the major contribution in meeting Asia’s increased demand for oil will need to come from the Gulf region. Conversely, the increased Asian demand will be critical to the economic well-being of Gulf states, enabling governments to maintain their revenues through increased production, despite a lower level of oil prices than was present in the past.

The reorientation of the Gulf’s global economic relations towards Asia (and the leading role of China in that context), then, is not a temporary phenomenon but a long-term trend based on mutual needs in the oil market.
IV. The Basis for a Diplomatic Initiative to Resolve Gulf Conflicts

While China and other Asian countries have wisely avoided taking sides in intra-Gulf divisions, the relationships of mutual dependence which have been established between China and the Gulf countries open up new incentives and perspectives for the resolution of conflict. Relations of mutual dependence can be seen as creating a form of soft power, and this soft power can be used to influence a partner country’s external policies – towards outcomes which are in the mutual interest of both sides. Threats to the peace, security and stability of the Gulf area could potentially inflict serious damage on the shared interests of the Gulf states and China. There is, therefore, every reason to find means whereby soft power can help to achieve regional reconciliation.

All of the states of the Gulf have much to gain from inclusion in the cooperative and integrative frameworks which are now spreading across Central Asia. The “Belt and Road” Initiative is no doubt the most critical element here, but its significance can best be understood within the context of the wider network of institutions and organizations which have been formed to foster cooperation among regional states (and some outside the region). Recent years have seen a mushrooming of these institutions and organizations. Collectively they are beginning to take the shape of an “alternate global order”. This alternate order, it should be stressed, is not an alternative to the existing global world order. It does not seek to displace the existing global order (as represented by the United Nations and its agencies, and the global financial institutions), but it does create new channels and new means for developing relations among states. The reference here is to such institutions/groupings as the Shanghai Cooperation Organization, BRICS and its various associated agencies, and the Eurasian Economic Union.

Iran has actively sought to engage with the institutions and developments of the alternate order. It holds observer status in the Shanghai Cooperation Organization, and has participated in a number of the organization’s meetings and activities. It is currently applying for full membership. It has also associated itself with some BRICS activities and hopes to become a member of the BRICS New Development Bank. More substantially, it is an active participant in the land-based side of “The Belt and Road” Initiative.

The states of the GCC, however, have not taken this path. In practice they cannot link up with the land-based part of BRI; ongoing conflicts across the Gulf mean they have no access to it. Reconciliation between Saudi Arabia and Iran would be necessary before a land link could be established.

There have been some indications, since the later part of 2016, that the Saudi government has become aware of the danger of missed opportunity: failing to engage effectively with BRI, while leaving Iran free to benefit from it. King Salman’s visit to Asian countries in March 2017, together with a significant number of initiatives indicating interest in developing strategic relations with Asian countries, across the Indian Ocean (and the projected Saudi naval facility in Djibouti), can be interpreted in this light. In the upgrading of the Chinese-Saudi Comprehensive Strategic Partnership, discussed when King Salman was in China, there was increased emphasis on the military-security dimension. Some of the commentary about King Salman’s Asian visits suggested that Saudi Arabia, having lost to Iran in terms of land communications to BRI, is now seeking
to emphasize the maritime dimension of BRI, and to use its links with Asian countries across the Indian Ocean to counter Iranian influence there.

The latter strategy, however, would deepen rather than resolve the ongoing conflict with Iran. What is needed is an initiative whereby Saudi Arabia and other Gulf states can be enticed by the advantages of linking up the whole Gulf area to the land-based side of BRI. Regional reconciliation would be the most basic requirement before this could happen. A move in this direction would, at the same time, create an incentive for the GCC to engage with the wider framework of cooperative relations provided by the alternate global order. China is probably the only power with the soft power (on both sides of the Gulf) to bring about such an outcome.