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The Gulf States in International Political Economy

Kristian Coates Ulrichsen



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The Gulf States in International Political Economy

Kristian Coates Ulrichsen

Baker Institute Fellow for the Middle East, Rice University, USA

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List of Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACD	Asia Cooperation Dialogue
ADGM	Abu Dhabi Global Market
ADIA	Abu Dhabi Investment Authority
ADIC	Abu Dhabi Investment Council
ADNOC	Abu Dhabi National Oil Company
AFESD	Arab Fund for Economic and Social Development
AHAB	Ahmad Hamad Algosaibi and Brothers
ALBA	Aluminium Bahrain
AQAP	Al-Qaeda in the Arabian Peninsula
Aramco	Arabian American Oil Company
ASEAN	Association of Southeast Asian Nations
ASPA	South American-Arab Countries Summit
BAPCO	Bahrain Petroleum Company
BCCI	Bank of Credit and Commerce International
BOT	Build, Operate, Transfer
BRIC	Brazil, Russia, India, China
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CENTO	Central Treaty Organization
CIC	China Investment Corporation
CNOOC	China National Offshore Oil Company
COP	Conference of the Parties
CSB	Central Statistical Bureau (Kuwait)
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
DIFX	Dubai International Financial Exchange
Dubal	Dubai Aluminium
ECFR	European Council on Foreign Relations
EEC	European Economic Community
EDB	Economic Development Board (Bahrain)
EITI	Extractive Industries Transparency Initiative
EIU	Economist Intelligence Unit
EM	Emerging Market
ENEC	Emirates Nuclear Energy Corporation

EU	European Union
FDI	Foreign Direct Investment
FGF	Future Generations Fund (Kuwait)
FIA	Fédération Internationale de l'Automobile
FSA	Financial Services Authority (United Kingdom)
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GECF	Gas Exporting Countries Forum
GLMM	Gulf Labour Markets and Migration
GOSI	General Organization for Social Insurance (Saudi Arabia)
GRF	General Reserve Fund (Kuwait)
GRI	Global Redesign Initiative
GTL	Gas-to-Liquids
ICT	Information and Communications Technologies
IFDI	Islamic Finance Development Indicator
IIRO	International Islamic Relief Organization
IMF	International Monetary Fund
IOM	International Organization of Migration
IONS	Indian Ocean Naval Symposium
IPIC	International Petroleum Investment Corporation
IPO	Initial Public Offering
IRA	Independent Regulatory Agency
IRENA	International Renewable Energy Agency
ISIS	Islamic State of Iraq and Syria
ITUC	International Trade Union Confederation
KAC	Kuwait Airways Corporation
KA-CARE	King Abdullah City for Atomic and Renewable Energy
KAEC	King Abdullah Economic City
KAFD	King Abdullah Financial District
KAUST	King Abdullah University of Science and Technology
KCIC	Kuwait-China Investment Company
KEPCO	Korea Electric Power Corporation
KFH	Kuwait Finance House
KFUPM	King Fahd University of Petroleum and Minerals
KIA	Kuwait Investment Authority
KIO	Kuwait Investment Office
KNOC	Korea National Oil Corporation
KOC	Kuwait Oil Company
KPC	Kuwait Petroleum Corporation
KPI	Kuwait Petroleum International

LNG	Liquefied Natural Gas
MICE	Meetings, Incentives, Conferences, Events
MSCI	Morgan Stanley Capital International
OBU	Offshore Banking Unit
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OIC	Organization of the Islamic Conference
OPEC	Organization of Petroleum Exporting Countries
PACI	Public Authority for Civil Information (Kuwait)
PDRY	People's Democratic Republic of Yemen
PETRONAS	Petroleum Nasional Berhad (Malaysian National Petroleum Company)
PFLOAG	People's Front for the Liberation of Oman and the Arabian Gulf
PIF	Public Investment Fund (Saudi Arabia)
PLAN	People's Liberation Army Navy
PPP	Public Private Partnership
PSG	Paris Saint-Germain
QAPCO	Qatar Petrochemical Company
QFC	Qatar Financial Centre
QFCRA	Qatar Financial Centre Regulatory Authority
QIA	Qatar Investment Authority
QNFSP	Qatar National Food Security Programme
QSI	Qatar Sports Investment
QIPCO	Qatar Investment & Projects Development Holding Company
RAF	Royal Air Force (United Kingdom)
RUSI	Royal United Services Institute
SABIC	Saudi Basic Industries Company
SALIC	Saudi Agricultural and Livestock Investment Company
SAEV	Saudi Aramco Energy Ventures
SAMA	Saudi Arabian Monetary Agency
SCAF	Supreme Council of the Armed Forces (Egypt)
SIDF	Saudi Industrial Development Fund
SoCal	Standard Oil Company of California
SOE	State-owned Enterprise
SQU	Sultan Qaboos University
SRI	Stanford Research International
SWF	Sovereign Wealth Fund
TIP	Trafficking in Persons
TRIPS	Trade-Related Aspects of Intellectual Property Rights

UAE	United Arab Emirates
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
USSR	Union of Soviet Socialist Republics
WECG	World Economic Centre of Gravity
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WWF	World Wildlife Fund

Introduction

This book examines the changing position of the Gulf Cooperation Council (GCC) states within a global order which itself is in a state of flux. Against the backdrop of deep shifts in the structure and balance of geopolitical and geo-economic gravity, the Gulf States have become increasingly assertive centres of regional power and influence. Beginning in the 1990s, the GCC states became increasingly integrated with the world economy, gradually opened up to foreign direct investment, and eventually acceded to the World Trade Organization. Since the turn of the century, and backed by the world's fastest-growing airlines and by governing methods that resemble a corporate structure grafted onto the principles of hereditary rule, Dubai, Abu Dhabi, and Doha have imprinted themselves on the global consciousness, their exposure magnified by the acquisition or sponsorship of landmark assets and prestige events across the world. Moving far beyond the longstanding role of Saudi Arabia in stabilising international oil markets, the Gulf States emerged in the 2000s as more muscular participants in attempts to rebalance and reshape the world around them. This process accelerated after the sudden outbreak of the Arab Spring upheaval in 2011, as the Gulf monarchies took unprecedented measures to contain and control the processes of change in the Middle East and North Africa, and peaked with the Saudi-led coalition that formed to conduct Operation Decisive Storm in Yemen in March–April 2015.

For many observers of international affairs, the awarding of the hosting rights to the 2022 FIFA World Cup to Qatar in December 2010 symbolised the rapid, even startling, rise of the Gulf States as regional powers with global reach. This breakthrough event took place in the wake of the global financial crisis and a series of high-profile investments by Gulf-based sovereign wealth funds and private investment vehicles. Within a

bewilderingly quick time, it appeared to many commentators that ‘Gulf money’ was everywhere, snapping up iconic global brands and investing in world-renowned institutions such as Harrods, Porsche, Ferrari, the Chrysler Building in Manhattan, the London Stock Exchange, Barclays Bank, Citigroup, and the ‘Shard’ skyscraper that towered over the skyline of London. Sports fans learned to navigate a new lexicon as they shuttled between Arsenal’s Emirates Stadium and the Etihad Stadium of Abu Dhabi-owned Manchester City, while the most famous team in the world, FC Barcelona, took the field bearing the logos of the Qatar Foundation and Qatar Airways. Indeed, the quarter-final of the 2015 UEFA Champions League saw Qatar-sponsored FC Barcelona take on (and defeat) Qatar-owned Paris Saint-Germain, whose shirt sponsor is Emirates airline, also the shirt sponsor of the defending European champions, Real Madrid.

Even more remarkable than the material manifestation of Gulf capital is the pace and scale of economic – if not political – development that has propelled the Gulf States to prominence within just two generations. This means that some of the most remarkable and all-encompassing socio-economic transformations in recorded history have been distilled into the space of a single human lifetime. In *Rags to Riches: A Story of Abu Dhabi*, the prominent Emirati businessman Mohammed al-Fahim described the circumstances of his 1950s childhood as a place where

the permanent and seasonal residents of Abu Dhabi island still lived in barasti huts built of palm fronds harvested from the date trees. The exceptions were a few wealthier residents and the ruling family who lived in earth or clay houses . . . The houses were clustered together for security, companionship, and warmth during the cooler months.¹

In a similar vein, Khabeer Khan, a Pakistani advisor recruited by Sheikh Zayed bin Sultan Al Nahyan to work on agricultural development, described his first arrival in Abu Dhabi in 1962 as ‘like stepping back into the Stone Age.’² Writing in 1995, al-Fahim added that ‘the changes that have taken place throughout the Emirates over the past three decades have been incredible, difficult to believe even for those who have seen them with their own eyes.’³

As recently as the 1950s and 1960s, there was very little infrastructure in the small cities on the Arabian Peninsula as institutional mechanisms evolved slowly to absorb growing oil revenues. Saudi historian ‘Abd Al-Aziz ibn ‘Abd Allah al-Khwaiter offers the following description of rule in Saudi Arabia at the time of the creation of the kingdom in 1932:

The king was the source of power. He had the final word, which was bound solely by the power of the Sharia. He relied on no systematic administrative bodies other than the employees in his council, whose job was to submit to him the various matters that were raised in council, then to carry out his orders in addressing those matters. The king decided on administrative, political, military, economic, and social matters, and referred what concerned the Sharia to the relevant authorities.⁴

Indeed, as late as 1952, the only 'government' ministries in Saudi Arabia were those dealing with finance (founded in 1932), foreign affairs (1933), and the interior (1944).⁵ In 1959, mail from Kuwait to the newly emerging oil centre of Al-Khobar in eastern Saudi Arabia still took around 30 days and virtually no international telephone lines existed in the kingdom.⁶ Bureaucratic arrangements in many cases were limited to the presence of 'gatekeepers,' usually of foreign origin, who controlled access to the ruling sheikh and wielded enormous influence over the conduct of policy; examples of such personalised networks were those of Abdullah Suleiman, Fuad Hamza, and Yusuf Yassin in Saudi Arabia, Mulla Saleh in Kuwait, Charles Belgrave in Bahrain, and Abdullah Darwish in Qatar.⁷ Even as late as 1990, a remarkable photograph of the main thoroughfare running through central Dubai, Sheikh Zayed Road, showed only a few scattered buildings surrounded by desert, in remarkable contrast to the road's centrepiece in an intensely built up 'global hub' just two decades later.⁸

Economic activity expanded rapidly with the growth of the oil industry following the discovery of oil in the 1930s, and the beginning of commercial extraction and export in the 1940s, following a hiatus during World War Two. Oil revenues transformed the political economy of the Gulf States, shaped the nature of state-society relations, and determined their subsequent development, while also enabling the sheikhdoms to evolve from little more than city-states dominated by local coalitions between ruling families and merchant elites into modernising and increasingly centralised states. However, certain rulers, such as Sheikh Shakhbut bin Sultan Al Nahyan in Abu Dhabi and Sultan Said bin Taimur in Oman, resisted the trappings of modernisation well into the 1960s, accounting in no small measure for their eventual toppling by more ambitious members of their immediate family. In 1965, for example, what is today the Abu Dhabi International Airport consisted of 'little more than a sand landing strip and a single small building that was cooled by a wind tower' with only a soft-sand track to connect it with

the town.⁹ Meanwhile Oman experienced what Marc Valeri describes as the 'decade of remoteness' as the Sultan withdrew from public life in the 1960s and sought to block all modernising influences, limiting running water and electricity, for example, to his royal palaces and the homes of a select group of trusted associates.¹⁰ In addition, just three schools existed in the entire country in 1970, with a total enrolment of 900 boys and an illiteracy rate of 66 per cent among Omani adults.¹¹

The central aim of this volume is to describe the processes by which the Gulf States have become embedded in the global system of power, politics, and policymaking over the past four decades. A key question is the extent to which the far more active – and assertive – involvement of individual Gulf States in international institutions and global governance is merely adding another dimension to otherwise little-changed structures or leading to something qualitatively new as coalitions of emerging economies challenge the hitherto Western-centric global order. This is closely related to a further dimension of the Gulf States' uneven engagement with the processes of globalisation, namely the degree to which the patterns of conspicuous consumption that have become characteristic of modern Gulf cities such as Dubai and Doha are gradually being augmented by productive integration into global economic structures and flows. A recent article in *Race and Class* summarised the ambivalence surrounding the political economy of the contemporary Gulf States by suggesting provocatively that the United Arab Emirates (UAE) and Qatar have in fact been 'consciously constructed as specialised geographic zones for the global elite and transnational capitalism.'¹²

Although the export of oil has connected the Gulf to the world economy for more than 60 years, far predating the great acceleration of economic globalisation from the 1970s on, the processes by which the Gulf States have 'gone global' nevertheless have proliferated beyond recognition since the 1990s. A rigorously interdisciplinary approach drawing upon historical development, international economics, international trade and international relations, comparative politics, and globalisation studies will situate the Gulf States firmly within their twenty-first-century context. Proceeding from the starting point that contemporary issues in global politics transcend traditional disciplinary boundaries, the book examines the complex interdependencies that mark the region as such an integral component of international affairs.

In addition, the book documents the thickening webs of inter-regional linkages between the Gulf States and major developing nations that are creating new 'coalitions of convenience' among rising powers with a

shared interest in reshaping the post-1945 international architecture. Patterns of global engagement and the pursuit of internationalisation are reconfiguring the position of individual states within the global order and injecting new dynamics into inter-regional and international relations. This is by no means a phenomenon unique to the Gulf States, as made clear by the deep divisions within the European Union over the handling of issues such as the Greek debt crisis or the response to a more assertive Russia, both of which highlight the resilience of bilateral approaches to foreign policymaking. Nevertheless, the great diversification of the GCC states' geopolitical and geo-economic interests does represent a significant juncture in the process of internationalising the Gulf and repositioning it within the changing global order.

In common with many other 'non-Western' discourses, officials in the GCC states have embraced partial aspects of economic globalisation and focused on the practical measures of global engagement, over any attachment to theoretical or normative concepts of 'global governance.' Rather than posing a systemic threat to contemporary structures of international governance, the GCC states operate in a pragmatic manner designed to maximise influence and leverage in the existing architecture of world politics in which contemporary power and influence is dispersed among a greater number of active participants spread across a wider political and economic spectrum than before. This is also part of a broader trend whereby normative foundations of the international system – from governance and political reform to transparency and accountability – are increasingly seen through a prism that diverges from what may be termed the 'Western-centric' lens that characterised the post-1945 institutions of global governance and the political element of globalisation itself.

Yet such scepticism towards the more political (or cultural) dimensions of globalisation has not distanced the GCC states from acting as international players or from participating in the broader rebalancing of the global order. On the contrary, the Gulf States have become increasingly visible and proactive in setting international policy agendas on a wide range of issues, ranging from financial and energy governance to global aviation and food security. As is set out in the following chapters, this holds important implications for the continuing evolution of international institutions in a polycentric environment with multiple centres of influence and competing policy objectives. It is also significant in terms of the regional reordering triggered by the political upheaval across much of the Arab world and the active policy responses of individual Gulf States to the disorder in North Africa and the Levant.

Although this book covers the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) as a whole, it is important at the outset to highlight the significant differences that exist among the six member states. What is often termed 'the Gulf' is neither a monolithic bloc of major oil-producing Arab states nor a case of 'Saudi Arabia plus five' smaller states. On the contrary, three broad categories readily become apparent in terms of resource endowments and policy projection. These are the aggressively internationalising approaches of Qatar and the UAE (and specifically Abu Dhabi and Dubai within the seven-emirate federation); the niche-level significance of Saudi Arabia and Kuwait in the global energy and investment landscape; and the lesser importance of Bahrain and Oman, both comparatively resource-poor states that are grappling with the immediate challenges of transitioning towards a post-oil economy. While these categories are neither static nor unchanging, they are evolving as the Gulf emerges as the pivot around which broader shifts in global economic activity are occurring. Thus, any examination of the international political economy of the Gulf States inevitably focuses more on Saudi Arabia, Qatar, the UAE, and Kuwait than on Bahrain and Oman. Yet the latter two states are far from insignificant actors on the regional stage, as the book makes clear.

The Gulf States in international political economy

Recent years have seen an explosion in the academic literature on the Gulf States, much of it rooted in political science, comparative politics, international relations, and security studies. While the majority of publications focus on a specific discipline, several edited volumes since the mid-2000s have examined the global emergence of the Gulf States through the prism of globalisation studies. A pioneer in this regard is *Globalization and the Gulf*, published in 2006, which offered innovative perspectives on the interaction within the global system of the processes of globalisation with the deeply held traditions of Gulf society and culture. As the three authors write in their introductory essay, 'no part of the world has come into the global market more rapidly and with more change in material abundance than the Arab Gulf oil states.'¹³ Five years later, *The Transformation of the Gulf: Politics, Economics and the Global Order*, published on the very cusp of the Arab Spring, explored the mechanisms by which the GCC states were both shaping, and being reshaped by, globalisation. The volume outlined a roadmap of their repositioning in a global order itself in a state of flux following the 2008–2009 world financial crisis. It also provided material for a new theoretical approach

to global studies by analysing the region as a barometer of globalisation, and a cockpit of transformative shifts in standards and patterns of living within a highly compressed time period.¹⁴

Three research articles by the present author have further investigated the global profile of the Gulf States. In *Rebalancing Global Governance: Gulf States' Perspectives on the Governance of Globalization*, I detailed how officials in the Gulf States evolved in their perspectives on the 'governance of globalisation' that differ significantly from Western-centric norms of 'global governance.' A second article, *The GCC States and the Shifting Balance of Global Power* surveyed the motivations and objectives behind the Gulf States' rise to international prominence in the first decade of the twenty-first century, and examined the implications for the future of global and regional politics in light of the growth of new inter-regional blocs and linkages. In a third article, *Repositioning the GCC States in the Changing Global Order*, I provided important historical context not only to the rebalancing of global power around multiple centres of political and economic influence, but also to the newfound set of pressures generated by the Arab Spring. In a separate article for the *Brazilian Journal of Strategy and International Relations*, I explored the multifaceted and lengthy integration of the Gulf States within frameworks of South-South relations, going back to the 1950s and 1960s when Saudi Arabia and Kuwait made important religious and humanitarian contributions to Arab and Islamic causes across the world.¹⁵

Similarly, the field of international political economy has matured and broadened significantly in the last decade. A comprehensive review of the literature is beyond the scope of this study, but it is sufficient to note some of the more important recent works. Research by Thomas Oatley has analysed the interplay between domestic and international politics, and surveyed the complex array of interests and institutions that together constitute the 'rules of the game' within which state and non-state actors pursue wealth and power. His work emphasises the importance of integrating the political and economic dimensions of the global economy, which itself is a competition that produces both winners and losers. As he notes in his overview textbook on the subject, 'politics in the global economy revolve around enduring competition between the winners and the losers generated by global economic exchange.'¹⁶ In *Debates in International Political Economy*, Oatley also provides an accessible overview of the major theoretical and empirical debates on the nature of the contemporary international system, trade and migration patterns, the role of multinational corporations and sovereign wealth funds, international finance and monetary issues, and the global politics of climate change.¹⁷

In *Analysing the Global Political Economy*, authors Andrew Walter and Gautam Sen conduct a wide-ranging survey of critical areas of international political economy, with an emphasis on the importance of economic theory. Walter and Sen engage rigorously with the political economy of finance and financial integration, the international monetary system and foreign direct investment, and the evolution of a multilateral trading system. By bring economics 'back in' to the core of the study of international political economy, the book complemented and added value to much of the existing literature that prioritised political science and international relations-based approaches.¹⁸ Other significant contributions to recent literature are a spate of works addressing the global political economy, with an eponymous volume edited by John Ravenhill one of numerous examples. This examined issues such as regionalism and the impact of globalisation in the Global South in another wide-ranging survey of contemporary issues of international political economy.¹⁹

Robert Gilpin's *Global Political Economy: Understanding the International Economic Order* (2001) built upon the author's path-breaking 1987 work, *The Political Economy of International Relations*, which did much to provide the conceptual underpinnings for the breakthrough and subsequent maturation of international political economy as an academic discipline. His books explored the intensifying interdependence of national economies, the rise of regional and inter-regional economic cooperation, and the ways that political, economic, and technological forces have transformed the world. In addition, they integrate political and economic analysis with historical and theoretical insights to produce a nuanced examination of the complex interaction between nation-states and the world economy. In a third study, *The Challenge of Global Capitalism: The World Economy in the 21st Century*, Gilpin argued that secure political foundations, wise leadership, and a set of fair rules were urgently required to ensure the stability of the international capital system.²⁰

A different yet innovative approach to contemporary global issues has been provided by Richard Beardsworth in *Cosmopolitanism and International Relations Theory*. Beardsworth links the concerns of cosmopolitanism to international relations and world politics on the grounds that 'specific problems facing actors in the field of world politics are of an increasingly global nature, and since the solutions to them call for both global cooperation and global vision.'²¹ This builds upon earlier research into what David Held labels 'the paradox of our times' – namely that 'the collective issues we must grapple with are of growing extensity and intensity, yet the means for addressing these are weak and

incomplete.¹²² In *Global Covenant*, Held identifies two major challenges for policymakers: identifying the economic, political, and security realms in the global arena, and moulding public institutions to regulate and manage these connections. Held argues that solutions to these dilemmas are required in order to support the rapid growth not only in mutual interconnectedness but also vulnerability in a world where 'the fate and fortunes of each of us are thoroughly intertwined' in virtually every facet of modern-day life.²³

Greater attention also has been paid to the transnational role of civil society and non-governmental organisations, in recognition of the fact that these constitute critical stakeholders that operate beyond the territorial constraints of nation-states. As Fred Halliday noted in 2003, on many issues ranging from political prisoners, the environment, and landmines, 'it is non-governmental organisations which have (within countries and internationally) developed the policies of global institutions.'²⁴ This forms part of what Jan Aart Scholte has labelled a 'more polycentric [system of] governance' whereby sub-state actors and supra-state agencies coexist alongside nation-states, albeit with some autonomy from them.²⁵ Meanwhile, work by Mary Kaldor and others in the series of *Global Civil Society* yearbooks has added depth to the concept and understanding of global civil society. This they define as the development of 'new forms of civic participation and involvement in a globalising world' through connecting people, organisations, values, and ideas located 'in some trans-national arena, and not bound or limited by nation-states or local societies.'²⁶

Building on this brief overview of recent approaches in critical concepts of international political economy, the need for a focused study on the role of the Gulf States in the broader global rebalancing becomes clear. Combining elements of international relations, international economics, comparative politics, and historical approaches, this book maps out and analyses the myriad patterns of Gulf States' engagement with the regional, inter-regional, and international system. Within the overarching shifts in geopolitical and geo-economic power, the Gulf States often stand out by virtue of eye-catching and headline-grabbing policy pronouncements, but deeper issues also lie behind their greater engagement. These factors are explored in the sections and chapters that follow, and collectively amount to a desire among policymakers in the Gulf States to proactively participate – on their own terms as far as possible although also through the creation of informal coalitions with other groups of emerging economies – in the shifting distribution of regional and international power (which itself is being redefined as a concept).

Structure of the book

There are two parts to this book which each address a different aspect of the Gulf States' interaction with the global arena. Part I, entitled 'Globalisation and the Gulf,' consists of four chapters that provide an introduction to the major theoretical and empirical units of analysis. The opening chapter offers a historical overview of the Gulf States' interaction with the global economy. It describes how the Gulf region has for centuries been a commercial and strategic pivot located astride the major trade routes linking India, Africa, and Europe, and connected to each through a dense network of transoceanic influences. Powerful processes of migration and acculturation shaped a cosmopolitan identity and externally focused trading mentality long before the discovery, extraction, and export of oil integrated the region firmly into the international economic system.

This leads into Chapter Two, which explores the evolving role of small states in world politics and international relations as the acceleration of global processes has opened up new possibilities for the exercise of power and influence. Kuwait and Saudi Arabia have, for decades, been embedded in networks of South-South relations through the generous provision of overseas development assistance and leadership in the pan-Islamic arena, but since the end of the Cold War the complexity of the Gulf States' connection with the international system has grown exponentially and far exceeded the Global South. Closer examination of Qatar and the UAE illustrates how, in both states, neither their territorial limitations nor their small population has constrained the projection of power and influence at levels that far outmatch many much larger and more conventionally 'powerful' states. This calls into question some of the dominant assumptions regarding international structures and power in the global age, as both are being radically reconfigured.

Chapter Three analyses the mechanisms of the Gulf States' projection of power and influence at a regional and global level through the prism of 'state capitalism' and the creation of national development plans and strategic niches. Emphasis is placed on specific niche developments in the Gulf, with particular emphasis on renewable and alternative energy in the UAE and Saudi Arabia, refined products and petrochemicals in Saudi Arabia, and higher education and research in Qatar and, to a lesser extent, Oman. The final chapter in this opening section explores the motivations and objectives that have underpinned Gulf officials' strategies of global engagement, not least in how policymakers have sought to derive maximum advantage from

economic globalisation while minimising the spillover of its political and cultural dimensions.

In Part II, 'Changing Patterns of Global Engagement,' five chapters address the Gulf States' changing patterns of engagement with the global system. Chapters Five and Six focus on international finance and the enmeshment of GCC states in global trade. The development of GCC states into regional financial hubs for both conventional and Islamic finance is detailed in Chapter Five, which contextualises their growth against the deeper shift in global economic power from west to east and from the market to the state. A key feature of the chapter is the internationalisation of Gulf-based Islamic financial institutions and new acquisitions patterns of sovereign wealth funds, which are creating durable new connections between the Gulf and Southeast Asia, in particular. Such ties are examined more fully in Chapter Six, which delves into the significant diversification of Gulf States' trade relationships not only with existing states such as those in Pacific Asia, but also with new partners in South and Southeast Asia during the 2000s. The chapter ends with an extended case study of the emerging 'nexus' of food and energy security that is creating durable new connections between the Gulf States and a range of partners across Africa and Asia.

Chapter Seven consists of a case study of global aviation as the arena in which the Gulf States have been the most visible and dynamic generators of global change. It compares and contrasts the startling rise of Emirates, Qatar Airways, and Etihad and describes how these three airlines have redefined traditional aviation markets. Operating without the political or workplace constraints of 'legacy carriers' and benefiting from their hosts' 'state capitalist' models of development, the Gulf States' airlines have reshaped global aviation around the hubs of Dubai, Doha, and Abu Dhabi, turning them into 'super-connectors' capable of linking any two points on the globe with a single stopover in the Gulf. Moreover, the announcement of a series of record airplane orders provides further leverage to Gulf airlines as their business assumes ever-greater importance to manufacturers such as Boeing and Airbus at a time of contraction and consolidation elsewhere in the industry. Nevertheless, the chapter ends on a note of caution as it assesses whether three aggressively expanding competitors can be sustainable in such a concentrated market.

Chapter Eight explores how mass inward migration has resulted in a highly stratified workforce underpinning a distinctive form of 'Gulf capitalism' built upon rigid hierarchies of power that are subject to endemic and often systematic abuse. Flows of remittances create overlapping webs of human and socio-economic ties linking labour-sending

countries in South and Southeast Asia with the Gulf, but in fundamentally unequal ways. These have contributed to a tense relationship with international non-governmental organisations and global civil society groups over calls for greater scrutiny of working conditions and transparency in protecting migrants from human rights violations.

Chapter Nine ends by examining how the themes outlined in this book, such as the internationalisation of the Gulf and the projection of different forms of power and influence across the regional and global economy, nevertheless coexist uneasily alongside potent existing and potential new sources of insecurity. This is part of a changing approach to the concept of security, in which non-traditional and longer-term challenges to stability are reshaping regional security agendas with the rapid rise of the Islamic State of Iraq and Syria (ISIS) only one of numerous policy challenges facing Gulf policymakers. Others include threats from state failure in neighbouring states, resource insecurity arising from the over-consumption and depletion of oil reserves, the difficulty of overhauling patterns of unsustainable economic development to cushion the eventual transition to a 'post-oil' era, and the new challenges presented by the post-2011 Arab Spring upheaval across the Middle East.

The conclusion will draw attention to the 'Gulf paradox' – that the global emergence of the Gulf States and the new challenges posed by the Arab Spring constitute two profoundly diverging trends for the contemporary Gulf. The interaction of these two diverging trends will shape the dynamics of the Gulf States' political economy and international relations in the years and decades ahead. New domestic priorities may temper some (but not all) of the Gulf States' global positioning that appeared to reach its apotheosis in December 2010. Nevertheless, the shifts in geo-economic power do present the Gulf States with opportunities to increase their leveraging influence in a global order in flux and to create or thicken mutual interdependencies with a multiplicity of partners. This is already leading to new inter-regional realignments and portends a future in which the Gulf States' traditional political and security alignment with the US and Western powers will coexist alongside economic (and possibly ideational) reorientation towards a variety of new partners in Asia, Africa, and even Latin America.

Part I

Globalisation and the Gulf

1

The Gulf and the Global Economy

The opening chapter in this book assesses the multifaceted reasons behind the Gulf States' uneven record of integration into the global economy. It begins by documenting how the ties binding the Gulf States into the global economy are both deep-rooted and long predate the discovery and extraction of oil in the twentieth century. Rather, the opening section highlights the historical interconnectivity of the transnational flows that tied the region into a broader economic hinterland spanning the Indian Oceanic world. Nevertheless, these processes were patchy and subject to partial reversal during the early oil years. Thus, the second section in this chapter examines the entrenched dynamics that also served to limit the Gulf States' relationships with the international system, both politically and economically. Such dynamics included the conservative leanings of many of the 'post-traditional' governing systems in the (Arabian) Gulf, and the Gulf States' enmeshment in Western political and military spheres of influence, during the period of prolonged British protection and following the passage to independence.

In the second half of the chapter, the focus shifts to the role of energy in framing the role of the Gulf in global economic structures and international trade and investment flows. Beginning in the 1940s, oil exports integrated the Gulf States firmly into the international economic system as Gulf oil became a motor of Western economic growth in the post-World War Two era. Securing stable access to regional supplies and the Western guarantees of security that underpinned this became the pillars that structured the international relations of the Gulf after 1945. Oil from the Gulf, particularly Kuwait, supplied 51 per cent of British requirements in 1971, while Saudi Arabia and the US enjoyed a similarly symbiotic relationship. The chapter ends by describing how the Gulf States were only partially impacted by the broader acceleration of

economic globalisation in the 1970s and 1980s and by the rapid spread of global interconnections in the 1990s.¹

An inter-regional crossroads

By virtue of its geographical location, both the Arabian and Persian shores of the Gulf and its hinterlands have been inter-regional crossroads for centuries. Powerful processes of settlement and exchange tied the area into a cosmopolitan network of inter-regional trade and migration. Such social and commercial links extend back into antiquity and the pre-Islamic era. Archaeological discoveries of imported Persian ceramics and seals at many sites in modern-day Kuwait and Bahrain indicate the presence of thriving traffic between the two coasts of the Gulf as far back as the third millennium BC. In about 2000 BC, the island of Failaka, lying just off the Kuwaiti coastline, was inhabited by colonists from the Dilmun civilisation, centred on modern Bahrain, who developed it into a commercial and trading outpost for the entire region.² Later, the Gulf's geographic location astride the meeting-point of the Middle East, Africa, and Asia was instrumental in shaping economic development in the region. The lucrative frankincense trade routes that linked Oman and Yemen with the Levant, North Africa, and the Mediterranean were one early example of inter-regional networks in operation; another example was provided by the *dhow*s and *booms* that from the seventeenth and eighteenth centuries sailed among the Gulf sheikhdoms, the coast of western India, and the port cities of East Africa. *Dhows* and *booms* departed each season from Basra and the coastal settlements on both sides of the Gulf for the east coast of Africa and the west coast of India, laden with goods and binding the region into a much broader 'transoceanic' maritime community.³

In the latter half of the nineteenth century, important new export markets for Gulf dates and pearls emerged in Europe and as far away as North America. Global demand for both commodities boomed in the later years of the century, as international seafaring trade networks proliferated. The value of the date export trade in Muscat (today the capital of Oman) doubled between 1899 and 1906 and increased two-and-a-half times in Bahrain in the same period. Meanwhile, lifestyle changes and the expansion of the middle and upper classes in industrialised countries generated a substantial boom in demand for pearls, and the total value of pearls exported from the Gulf as a whole trebled between 1893 and 1904.⁴ The Kuwaiti historian Fahad Ahmad Bishara has documented how:

By the early twentieth century, as the boom reached its zenith, the merchants and mariners of the Gulf had established sizeable communities in a number of western Indian ports, including Karachi, Bombay, Goa, and Calicut, with some venturing further into the interior and taking up residence in such trading centres as Hyderabad and Poona. Western India quickly became a cornerstone of the Indian Ocean world of Gulf merchants, providing them with access to food-stuffs such as rice, sugar, tea, and spices as well as textiles, building materials such as Indian teak and other types of timber, which were vital to the burgeoning dhow-building industry in the Gulf.⁵

The powerful merchant families of the Hejaz (including the Ali-Rida, Zainal, Shobokshi, and Jamjum) constituted the mainstay of economic power in the Arabian Peninsula, together with immigrant merchants, many of whom came from Hadramawt in Yemen (the Bin Mahfouz, Bin Ladin, Bin Sakr, and Ka'aki families being prominent examples). These early economic elites operated within a broad transnational sphere stretching from East Africa to India and were cosmopolitan in their outlook and connections to international economic interests. In his seminal study of the major Gulf merchant families, Michael Field described how one of the scions of the Alireza family (in modern-day Saudi Arabia), Mohammed Ali, visited Paris for the first time in 1920.

Drawing on the help of business friends, he opened an office at 62 rue La Fayette, on the edge of the main shopping area of Paris . . . From the early 1920s, Mohamed Ali made it his habit to spend several months at a stretch in Paris each year – he bought a house on the Champs Elysees . . . During the height of his career in pearls, he lived almost permanently in Bombay and Paris.⁶

Writing about Bahrain's most prominent merchant family of the nineteenth century, the Safar, James Onley provides an evocative description of a relentlessly trans-regional family hailing from Hillah in modern-day Iraq but putting down deep roots across Bahrain, Iran, and India.

Hajji Mirza Muhammad Ali Safar (1778–1845) was born in Bushehr; lived in Hillah, Mochah, Bahrain, Bushehr and Bombay; was a Persian, Ottoman and possibly British Indian subject; wrote his letters in Farsi and Arabic . . . His brother, Hajji Muhammad Jafar, was born in Bombay to a Persian mother from Shiraz, lived in Bombay and Bushehr, was a British Indian subject, dressed in the style of an