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Great Powers, the Persian Gulf, and Global Oil: A Comparative Analysis

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GREAT POWERS, THE PERSIAN GULF, AND GLOBAL OIL:

A COMPARATIVE ANALYSIS

by

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ABSTRACT

GREAT POWERS, THE PERSIAN GULF, AND GLOBAL OIL: A COMPARATIVE ANALYSIS

**Katerina Oskarsson
Old Dominion University, 2014
Director: Dr. Steve Yetiv**

Using original data, this study explores the changing capabilities of the United States, China, and Russia in the conflict-ridden Persian Gulf since 1980. It reveals what such shifts mean for American hegemony, the international distribution of capabilities in the region, relations among the great powers, and global oil security.

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TABLE OF CONTENTS

	Page
LIST OF TABLES	vii
LIST OF FIGURES	viii
 Chapter	
1. INTRODUCTION	1
Why Regions Matter	2
Power Dynamics and Oil Security	5
Definitions and Research Design	8
Contribution to the Literature.....	12
Findings of the Dissertation	14
Dissertation Roadmap	18
Conclusion.....	19
 2. THE UNITED STATES IN THE PERSIAN GULF	 20
The Argument of this Chapter.....	23
America’s Evolving Position in the Persian Gulf	24
U.S. Diplomatic Position in the Persian Gulf	24
U.S.-Saudi Diplomatic Relations.....	25
U.S.-Iran Diplomatic Relations	39
U.S.-Iraqi Diplomatic Relations	43
U.S. Military Capabilities in the Persian Gulf	47
Saudi-U.S. Security Relations	51
Bahrain-U.S. Security Relations.....	57
Kuwait-U.S. Security Relations.....	61
Qatar-U.S. Security Relations	64
UAE-U.S. Security Relations	65
Oman-U.S. Security Relations.....	66
U.S.-GCC Security Framework.....	67
Iraq-U.S. Security Relations	73
Arms Sales.....	76
U.S. Economic Capabilities in the Persian Gulf	83
U.S.-Saudi Economic Relations	86
U.S. –GCC Economic Relations.....	90
U.S.-Iraqi Economic Relations.....	93
Energy Relations	94
U.S.-Saudi Energy Relations	97
U.S.-Small GCCs Energy Relations	100
U.S.-Iraqi Energy Relations.....	101

Chapter	Page
Conclusion.....	104
3. CHINA’S EVOLVING ROLE IN THE PERSIAN GULF	109
China’s Shifting Mix of Motivations	110
Areas of Chinese Involvement	113
Diplomatic Interaction.....	114
Sino-Saudi Diplomatic Relations	115
Sino-Iranian Diplomatic Relations	119
Sino-Iraqi Diplomatic Relations	122
Sino-Small GCCs Diplomatic Relations	125
China’s Economic Capabilities in the Persian Gulf	131
Sino-Saudi Economic and Energy Relations	134
Sino-Iraqi Economic and Energy Relations	143
Sino-Small GCCs Economic and Energy Relations	150
Sino-Iranian Economic and Energy Relations.....	152
Arms Sales.....	157
Conclusion.....	160
4. RUSSIA IN THE PERSIAN GULF	163
The Argument of this Chapter.....	163
Russia’s Shifting Mix of Motivations	164
Russia’s Evolving Position in the Persian Gulf	167
Diplomatic Relations.....	167
Russian-Gulf State Economic Relations	173
Energy Development and Investment	186
Arms Trade.....	201
Conclusion.....	204
5. CONCLUSIONS.....	209
Comparative Analysis: U.S., China, and Russia	209
Diplomatic Capabilities	211
Military Capabilities	213
Economic-Energy Capabilities	219
6. OIL SECURITY	226
Basic Threats to Oil Security in the Persian Gulf	228
Investment	235
Energy Policy and Statecraft	239
Global Relations	239
REFERENCES	245
VITA	268

LIST OF TABLES

Table	Page
1. Concentration of Proved Reserves of Oil	7
2. U.S. Foreign Military Sales Agreements to the Persian Gulf States (Dollars in Thousands).....	78
3. Concentration of Proved Reserves of Oil	227

LIST OF FIGURES

Figure	Page
1. U.S. Arms Sales to the GCC countries (1980-2012)	77
2. Total Trade between the U.S. and the GCC, Iraq, and Iran (1985-2012).....	85
3. Total Trade between the U.S. and the GCC, Iraq, and Iran, excluding Saudi Arabia (1985-2012).....	86
4. U.S. Crude Oil Imports from the Persian Gulf	96
5. U.S. Oil Imports from the Persian Gulf as a Percentage of the Total U.S. Oil Imports (1994-2013)	96
6. Total Trade Between China and Iran, Iraq, the GCC and Saudi Arabia (1992-2012).....	131
7. Total Trade Between China and the Persian Gulf (1992-2012)	132
8. Saudi Arabia's Oil Exports to China and the United States (2000-2013)	135
9. Total Trade between Russia and Iran (1981-2011).....	174
10. Total Trade between Russia and Iraq (1981-2011).....	175
11. Total Trade between Russia and Saudi Arabia (1981-2011).....	178
12. Total Trade between Russia and Qatar (1981-2011)	180
13. Total Trade between Russia and the UAE (1984-2011).....	182
14. Total Trade between Russia and Kuwait (1981-2011)	183
15. Total Trade between Russia and Bahrain (1981-2011)	185
16. Total Trade between Russia and Oman (1988-2011)	186
17. China's and Russia's Arms Trade with the Persian Gulf States (GCC, Iraq and Iran).....	217
18. External Powers' Arms Sales to the Persian Gulf States (1988-2011), millions USD	219

19: Total Chinese, American, and Russian Trade with the GCC States.....	220
20: Total Chinese, American, and Russian Trade with Iraq.....	221
21: Total Chinese, American, and Russian Trade with Iran.....	222
22: Total Trade Between Russia and the GCC, Iraq, and Iran.....	223
23. Saudi Arabia's Oil Exports to China and the United States (2000-2013).....	225
24: Percentage of Oil Imports from the Persian Gulf: U.S. vs. China (1994-2013).....	225

CHAPTER 1

INTRODUCTION

In May 2014, President Barack Obama stated that, “by most measures, America has rarely been stronger relative to the rest of the world.”¹ That statement contrasted heavily with prevailing views around the world about American capability. Indeed, story after story has heralded the rise of competitors such as China, arguing that China is a rising giant in world politics. Polls reveal that in 15 of 22 countries surveyed, most respondents believe that China has already replaced or will replace America as a leading power.² According to the Global Language Monitor, which tracks the top 50,000 media sources throughout the world, the “rise of China” has topped the list of the most read news stories of the 21st century, surpassing stories such as the September 11 terrorist attacks, the election of Barack Obama, and the death of Osama Bin-laden.³

Similarly, the resurgence of Russia has become the subject of scholarly and public parlance as analysts, leaders, and the global media regularly raise the question of whether Russia seeks to recapture the glory of its position during the Cold War as a challenger to the United States, or at least to re-establish its power position in its backyard and perhaps around the world. Illustratively, the July 2006 cover of *Economist* magazine claimed that

¹ "Remarks by the President at the United States Military Academy Commencement Ceremony," May 28, 2014, <http://www.whitehouse.gov/the-press-office/2014/05/28/remarks-president-united-states-military-academy-commencement-ceremony>.

² Joseph Nye, "The Twenty-First Century Will Not Be a 'Post-American' World," *International Studies Quarterly* 56, no. 1 (March 2012).

³ Michael Beckley, "China's Century: Why America's Edge Will Endure," *International Security* 36, no. 3 (Winter 2011/12). "Bin-Laden's Death One of Top News Stories of 21st Century: Rise of China Still Tops All Stories," *Global Language Monitor*, May 6, 2011, <http://www.languagemonitor.com/predictive-quantities-indicator/bin-ladens-death-one-of-top-news-stories-of-21th-century>.

we are “Living with a Strong Russia.”⁴

Yet, while the questions of American capability and of global challengers are ubiquitous, they have been predominantly focused on the global level. Thus, we commonly see questions of this kind: is the United States still a global hegemon?⁵ Will China overtake it as the strongest state in the world? Has the world become post-American or multipolar?⁶

By contrast, we rarely ask how the relative capabilities of great powers have changed in regions of the world, nor are we especially concerned with such comparisons across time either at the global level or in regions. This dissertation explores to what extent and how, if at all, American capability has declined in the Persian Gulf relative to that of China and Russia since the end of the Cold War. It does so by exploring changes in U.S. political, economic, and military capabilities in the region compared to those of key global challengers in the Gulf, namely China and Russia. The main objective is to reveal how America compares to itself and to China and Russia over time, hopefully yielding a good portrait of comparative global capability in the Persian Gulf to date.

Why Regions Matter

It is vital to do more to explore America’s position and that of its potential challengers in regions such as the Persian Gulf for several reasons. First, regions offer a

⁴ “Living with a Strong Russia,” *The Economist* July 15, 2006, <http://www.economist.com/printedition/2006-07-15>.

⁵ Fareed Zakaria, *The Post-American World* (New York: W.W. Norton, 2008). Christopher Layne, “This Time Is Real: The End of Unipolarity and the Pax Americana,” *International Security Quarterly* 56, no. 1 (March 2012).

⁶ Beckley, “China’s Century: Why America’s Edge Will Endure.” Nye, “The Twenty-First Century Will Not Be a ‘Post-American’ World.”

barometer of larger global dynamics because world politics is shaped fundamentally by what happens in regions. Therefore, examining a position and role of great powers in regions such as the Persian Gulf can offer a new window on the question of American power in world politics. If we want to understand American and global power, and that of Russia and China, we should not ignore what has happened in regions - especially those as critical to global security and economic health as the Persian Gulf. More work is necessary that actually explores the abilities of Russia and China in various areas of the world rather than on the global level alone. Have they changed? How? What connections and alliances has it tried to make? What does this mean for American hegemony? For areas of mutual cooperation amid rivalry?

Second, exploration of these questions in regions would enhance our understanding of America's position and that of its challengers because, as Robert Keohane and Joseph Nye have demonstrated, the relative capabilities of major powers in an issue area – in this case regions – may well differ from distribution of such capabilities at the global level and depending on the issue area in question.⁷ Great Britain, for instance, remained the pre-eminent power in the ocean issue area well after its power began to flag at the global level. A hegemon may be much weaker in a particular issue area where a lesser state may be the strongest. Similarly, studying regions more intensively is also important because great powers may be strong in one region but weak in others. Global analysis masks such differences, as would relative strength in issue areas such as the oceans or international trade.

Third, since the debate on American capability relative to its challengers is mostly focused on the global level, the existing studies largely rely on comparisons of national

⁷ Robert Keohane and Joseph Nye, *Power and Interdependence* (New York: Longman, 2011).

economic, military and political power indicators. As Michael Beckley aptly notes, the “case for the decline of the United States and the rise of China rests heavily on a single statistics: GDP.”⁸ Similarly, Robert Gilpin and Paul Kennedy argued in the 1980s and Christopher Layne in 2012 that the U.S. decline is a function of national economic power.⁹

While these indicators are central to judgments about global level dynamics, they tell us less about changes in America’s capability and that of its potential challengers in regions of the world – in this case the Persian Gulf. For instance, while there is general agreement that China’s capabilities are increasing, it is not clear or obvious how these changes manifest themselves in individual regions. Studying change at the international level can to a certain degree provide insight into regional politics, but does not substitute for a regional-level analysis. In fact, as I explain in the following section, as the outside actors, their capabilities in regions are based on different factors such as, for instance, the state of their diplomatic relations with regional states, military presence in or near the region, arms sales and security relations, and economic ties such as mutual trade and investment.

Fourth, scholars rarely explore phenomena across time to understand change, despite regularly making claims or assumptions about change. While much valuable work exists on outside great powers in the Middle East, we still lack careful analyses to understand the evolution of American capability and that of its challengers, and that is also a problem for global level analyses. As Joseph Nye has cautioned, “one should be

⁸ Beckley, "China's Century: Why America's Edge Will Endure."

⁹ Subramanian, "The Inevitable Superpower: Why China's Rise Is a Sure Thing."

wary of extrapolating long-run trends from short-term cycles,”¹⁰ while Michael Beckley has opined that “many studies are static, presenting single-year snapshots of U.S. and Chinese power,” which can be deceptive.¹¹

Power Dynamics and Oil Security

While the primary objective of this work is to explore America’s position and that of its potential challengers in the Persian Gulf, the study also provides insight into how changes in American, Chinese, and Russian regional capabilities have affected global oil security which I define as the reliable and uninterrupted oil supply to the global economy at reasonable prices.¹² Although the “reasonable oil price” is a debatable term, in this dissertation it means free from large spikes in oil prices that cause major economic turmoil. However, several qualifications are in order. It is important to stress that since this dissertation does not focus on oil security as its primary goal, the study does not consider all of the possible impacts of great powers’ regional capabilities on global oil security given the complexity of question and range of threats that must be assessed.

To be sure, much excellent work exists on oil security, which covers subjects ranging from fundamentals of oil supply to pipeline politics to Russia’s strategic use of energy for political power. However, as mentioned earlier, there is a surprising lack of work on how the international relations of the Persian Gulf impact oil security.¹³ This is

¹⁰ Nye, "The Twenty-First Century Will Not Be a ‘Post-American’ World."

¹¹ Beckley, "China’s Century: Why America’s Edge Will Endure."

¹² Charles L. Glaser, "How Oil Influences U.S. National Security," *ibid.* 38, no. 2 (Fall 2013). See also Meghan L. O’Sullivan, "The Entanglement of Energy, Grand Strategy, and International Security," in *The Handbook of Global Energy Policy* ed. Andreas Goldthau (Hoboken: Wiley-Blackwell, 2013).

¹³ Joe Barnes and Amy Myers Jaffe, "The Persian Gulf and the Geopolitics of Oil," *Survival* 48, no. 1 (March 2006). Jan H. Kalicki and David L. Goldwyn, eds., *Energy and Security: Toward a New Foreign*

in part because most scholars of the Middle East are not focused on oil security and most oil security analysts, be they political scientists or economists, do not focus on Middle East dynamics. This dissertation seeks to partially fill this gap and bridge these areas by examining oil security with special attention to the role of great powers.

Understanding the role of great powers in the region as a primary objective, and what that also means for oil security, is important because the international relations of the Persian Gulf lie at the crossroad of international security and international political economy via the fact that energy drives the global economy and is crucial to regional and global security issues. Few goals are more important for the global economy than ensuring the free flow of oil, and to a lesser extent liquefied natural gas (LNG), from the Persian Gulf. Failure to do so could stunt global economic growth and cause considerable human suffering.

In fact, past American and global recessions have been preceded by or accelerated by an increase in oil prices, often the result of Persian Gulf instability, including the 1973 oil embargo, the 1979 Iranian revolution and the 1980 outbreak of the Iran-Iran war, among others. To be sure, the security of the Persian Gulf oil and a need for oil investment in the region is poised to become even more important in the future. This is because world dependence on oil and LNG is projected to increase in decades ahead, with the Persian Gulf serving as the principal source of supply to meet rising demand over the next two decades (Table 1).

Table 1. Concentration of Proved Reserves of Oil

Location/Region	Share of Total	Reserves-to-Production Ratio
North America	13.2%	38.7
South & Cent. America	19.7%	*
Persian Gulf	48.1%	78.1
Asia Pacific	2.5%	13.6
European Union	0.4%	12.1
Former Soviet Union	7.5%	25.2
Africa	7.8%	37.7

Source: Created by the author from *BP Statistical Review of World Energy*, June 2013.

As John Calabrese observes, the Persian Gulf “continues to be the centre of gravity of the international oil market,” containing nearly two-thirds of the world’s proven oil reserves.¹⁴ The combined proven oil reserves of five Gulf countries alone – Saudi Arabia, Iraq, United Arab Emirates (UAE), Kuwait, and Iran – account for approximately 60% of the world total. As one scholar aptly puts it:

Oil and natural gas are primary drivers of the entire global economy, both in the developing and developed worlds. Regional security in the Gulf is therefore inherently tied to socioeconomic development throughout the world. And insofar as socioeconomic development has become a preeminent global security issue in the post-9/11 world...Gulf security is inherently a global security problem. ... Regional security in the Persian Gulf constitutes a global public good.¹⁵

The Persian Gulf is not only a nerve center of the global economy, it is also a center of gravity for global terrorism and home to weapons of mass destruction (WMD) capabilities – a toxic mix with security consequences transcending the Gulf region. Lastly, due to the strategic importance of the Persian Gulf to America, China and Russia, the changing role and position of these powers in the region inevitably shapes global

¹⁴ John Calabrese, *Sino-Gulf Relations and the United States: Dark Cloud – Silver Lining*, ed. Markus Kaim, Great Powers and Regional Orders: The United States and the Persian Gulf (Ashgate, 2008).

¹⁵ Michael Ryan Kraig, "Forging a New Security Order for the Persian Gulf," *Middle East Policy* 13, no. 1 (Spring 2006).

relations between these fundamental actors of world politics. All these reasons justify the selection of the Persian Gulf as the area of inquiry.

Definitions and Research Design

The study employs the method of a structured, focused comparison.¹⁶ This method is “structured” in that I formulate questions that reflect the overall research objective and then ask these questions of each case study to guide and standardize data collection. The goal of this structure is to identify accumulations of the findings in the different cases and a systematic comparison possible. The method is “focused” in that it deals only with certain aspects of the cases examined.¹⁷ The overarching research question of this dissertation is: How have relative capabilities of the United States, China, and Russia changed in the Persian Gulf since the end of the Cold War? Or in other words, to what extent and how, if at all, have American capabilities in the Persian Gulf changed relative to that of China and Russia in the post-Cold War period?

Russia and China were chosen because they are among the strongest states in world politics and have at times been compared to America and each other in global capability. Historically and particularly during the Cold War, Russia played a significant role in the region. In contrast, China has been a relative newcomer in the international relations of the Persian Gulf. The regional actors explored in this study are chiefly Iraq, Iran, and members of the Gulf Cooperation Council (GCC) which includes Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Bahrain and Oman.

¹⁶ Alexander L. George and Andrew Bennett, *Case Studies and Theory Development: The Method of Structured, Focused Comparison* (Cambridge, MA: Harvard University, 2005).

¹⁷ *Ibid.*, 67.

The main objective is to reveal how America compares to itself and to China and Russia over time. To address this question, I first explore changes in diplomatic, economic, and military capabilities in the region for each case study. Secondly, I then compare the three case studies to each other across the same indicators and time frame.

The context and the temporal element are of paramount importance in exploring, interpreting, and comparing the outside states' position in the region over time. Focusing mostly on the post-Cold War period, this comprehensive, data-driven analysis covers a time frame of approximately 20 years - from 1991 to 2014 - to adequately grasp the "change."

In international relations, power is traditionally defined in two main ways. It can be defined as the ability to get others to do something they otherwise would not do; in other words, it is one's ability to achieve an outcome one desires. This definition subsumes concept such as "soft power" which is the "ability to attract others."¹⁸ The second way to define power is to look at capabilities. This is chiefly done by examining key indicators such as military and economic capabilities.

In this dissertation, power is defined in terms of capabilities, but examining capabilities of external actors in a region is a different matter than examining them at the global level. Comparisons of states' capabilities at the global level are largely based on national economic, military, and political indicators such as GDP, GDP per capita, national deficit, defense spending, a level of national education, and a number of allies to mention just a few.¹⁹ However, these indicators of capabilities are not suitable for a regional-level analysis because changes in countries' GDP and defense spending may

¹⁸ Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (New York, NY: PublicAffairs, 2004).

¹⁹ Subramanian, "The Inevitable Superpower: Why China's Rise Is a Sure Thing."

affect states' capabilities differently in different regions. In contrast, as the outside actors, their capabilities in regions are based on different factors such as the state of their diplomatic relations with regional states, military presence in or near the region, arms sales and security relations, and economic ties such as mutual trade and investment. Such indicators provide a useful portrait of the power and role of outside actors; of actors that must act at long distances. Actors recognize such capabilities depend less on national attributes like GDP or population, but on capabilities, beyond just those of a military kind, that are salient to particular regions and to their realities.

Specifically, in effort to systematically examine the capabilities of the outside states in the region since the end of the Cold War (1991 – 2014), the study explores and compares the following indicators of capabilities in each case study (U.S., China, Russia):

- The state of their diplomatic relations with regional states. In this domain, I explore changes in an inter-state diplomatic status, diplomatic treaties and accords, high-level visits, and official and unofficial statements since the end of the Cold War to capture the broader picture of ongoing relations.
- Military presence, security agreements, and arms sales. In this area of interaction, I explore changes in the level and composition of arms trade, broader defense relations, and the external powers' military presence in the region.
- Economic and energy ties. In this area, I explore changes in the level of hydrocarbon and non-hydrocarbon trade, mutual foreign direct investments and energy relations. In non-hydrocarbon trade, I also analyze the composition of the trade to distinguish between low-technology goods and knowledge intensive products, which are harder to substitute.

This method of exploring power has the advantage of being straightforward and data-driven. However, several qualifications are in order. First, the examination of capabilities tells only a part of the story, leaving an equally intriguing and important question of how these capabilities translate (or not) into desirable outcomes largely unanswered. Indeed, while states with greater capabilities are often assumed to be able to bring about desired outcomes, examining capabilities alone can be misleading because states with significant capabilities often fail to translate them into the desirable outcomes – as, for instance, the 2003 U.S. invasion of Iraq illustrated.

Second, this comparative study is focused on capabilities and does not consider threats to America's regional position or to the position of Russia and China. Thus, while the Iraq war of 2003 produced calamitous effects, it did not decrease American capability as this dissertation defines it, although it did impact oil security in some ways. Specifically, the goal of this study is not to explore whether the 2003 invasion was worthy or how and why the U.S. went to Iraq in the first place, although I do briefly discuss these issues to situate the changes in capabilities in the necessary context. Instead, when we explore American capabilities alone, it is found that in the period between the 1991 Gulf war and the 2003 war, the United States did not have diplomatic ties to Iraq, and its trade, energy, and security ties to Baghdad were virtually non-existent. In contrast, since the late 2000s and particularly since the U.S. withdrawal from Iraq in 2011, U.S.-Iraqi cooperation in defense and energy areas expanded, and trade and arms sales have been on rise.

Third, the study does not assess the costs of America's role in the Persian Gulf. These costs are very high and should be considered in an overall examination of the costs

and benefits of America's position.²⁰ That, however, is not the goal of this project and, in fact, represents a cottage industry of study in and of itself.

Contribution to the Literature

As suggested above, this study explores the larger question of American capability relative to that of key challengers in a region of the world and secondarily, oil security. While I have explained how this contributes to the literature, it is important to stress that, although many books and articles have explored quite effectively the position of single external actors in the Persian Gulf, few have examined multiple actors across a long period of time in this region. Moreover, even those studies have not drawn on original data but have been fundamentally qualitative. To my best knowledge, no study has systematically mapped and analyzed real and relative changes in the American, Chinese and Russian position in the Persian Gulf over the same period of time, and no such work does so by examining the same indicators of power (diplomatic, economic and military capabilities).

In fact, there is a dearth of work on the international relations of the Persian Gulf. While some studies effectively examine selected bilateral relations,²¹ work on the Gulf's

²⁰ See Steve A. Yetiv, *The Petroleum Triangle: Oil, Globalization, and Terror* (New York, NY: Cornell University Press, 2011). See also Mark A. Delucchi and James J. Murphy, "U.S. Military Expenditures to Protect the Use of Persian-Gulf Oil for Motor Vehicles," (University of California, Davis: Institute of Transportation Studies, October 2006). John S. Duffield, *Over a Barrel: The Costs of U.S. Foreign Oil Dependence* (Stanford: Stanford University Press, 2008).

²¹ Steve Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," *The Middle East Journal* 61, no. 2 (Spring 2007). F. Gregory Gause, *The International Relations of the Persian Gulf* (New York, NY: Cambridge University Press, 2010). Marc J. O'Reilly, *Unexceptional: America's Empire in the Persian Gulf, 1914-2007* (New York, NY: Lexington Books, 2008). Steve A. Yetiv, *The Absence of Grand Strategy: The United States in the Persian Gulf, 1972-2005* (Washington, D.C.: Johns Hopkins University Press, 2008).

international relations is often narrowly focused and treated in a vacuum, apart from developments in other critical dyads in the region.²² The existing studies have different starting points, and explore region to region relations rather than comparing the key great powers to themselves and to each other in the region.²³ The extant studies that explore U.S., Chinese and Russian position in the Persian Gulf in one study are usually part of edited volumes, with different authors exploring these relations in different ways, making such studies largely unsuitable for systematic comparisons.²⁴ Other studies explore great powers' relations in the broader Middle East, considering some but not all Persian Gulf countries as they are defined in this dissertation.²⁵ Moreover, while in recent years attention has been predominantly fixated on the increase of Asian oil demand from the Gulf, disproportionately less energy has been exerted to assess what this absolute increase means relative to changes in Gulf's ties with other great powers. Intriguingly, scant attention has been given to the multifaceted, more gradual, but no less important changes in Russia's position in the region since the end of the Cold War. Yet, without more encompassing, systematic, and data-driven exploration of these developments over a broad range of time, we are inadequately equipped to comprehensively assess the short- and long-term implications of these unfolding changes. To be sure, this may create the conditions for ill-informed policy decisions.

²²Louise Fawcett, *International Relations of the Middle East* (Oxford: Oxford University Press, 2013). Marat Terterov, *New Partnerships and Realignment in the Evolving International System: Contemporary Relations between Russia, the Cis and the Gulf* (Dubai: Gulf Research Center, 2009). Mark A. Smith, *Russia and the Persian Gulf: The Deepening of Moscow's Middle East Policy* (Conflict Studies Research Centre, August 2007).

²³Geoffrey Kemp, *The East Moves West: India, China and Asia's Growing Presence in the Middle East* (Washington, D.C.: Brookings Institution Press, 2010). Christopher Davidson, *The Persian Gulf and Pacific Asia: From Indifference to Interdependence* (New York, NY: Columbia University Press, 2010).

²⁴ For instance, Mark N. Katz, "Russian-Iranian Relations in the Ahmadinejad Era," *Middle East Journal* 62, no. 2 (Spring 2008). Carol R. Saivetz, *Moscow's Iranian Policies: Opportunities and Dangers*, Middle East Brief (Brandeis University, January 2007). Gause, *The International Relations of the Persian Gulf*.

²⁵ John Calabrese, *China's Changing Relations with the Middle East* (New York: Pinter, 1991).

Findings of the Dissertation

What do we find when we compare China, Russia, and the United States over time in the Persian Gulf? What does that tell us about American capability? About China's and Russia's rising challenge in the region and globally? About global oil security? This dissertation provides the most comprehensive, data-driven portrait of the changing capabilities and role of the United States, China, and Russia in the Persian Gulf to date. In so doing, it makes five arguments.

First, America has emerged far stronger over time in the Persian Gulf in terms of capability as this study defines the term, despite the disastrous outcome of the Iraq war. This needs to be accounted for in the broader debate about American capability at the global level.

The U.S. remains the dominant political, security and economic power in the region and its capabilities have risen across all three indicators. American military capabilities in the region, security cooperation with and arms sales to the regional states have been on rise since the 1980s, making the United States the preponderant power in the security area in the Gulf. Security ties have represented the cornerstone of the U.S. relations with the members of the Gulf Cooperation Council (GCC) since the 1980s and with Iraq since the removal of Saddam Hussein in 2003. Although the collapse of the Soviet Union and the end of the Cold War removed a common threat that underpinned U.S.-GCC relations since the end of WWII, a shared interest in the unfettered flow of regional oil to international markets and shared concerns over Iraq in the 1990s, Al Qaeda-inspired terrorism, and Iranian regional ambitions in the 2000s have provided a renewed logic for

continued strategic cooperation, keeping the U.S.-GCC relations robust despite many political lows between the U.S. and Saudi Arabia in particular.

In response to these threats, the U.S. military presence and its ability to project forces to the region and to sustain them while in the region increased dramatically during the 1980s, and then further escalated in the 1990s. During the 2000s, the U.S. military presence in the region further expanded and its defense cooperation with the GCC states broadened and deepened in an unprecedented way. In the absolute terms, American trade, investment, and energy ties to the regional states (except Iran) have also expanded – albeit at a slower rate compared to China and Russia both of which started from a low base.

Second, other great powers have also risen in the Persian Gulf - but not like the United States. Although the U.S. is the dominant power in the region, the distribution of capabilities in the region among great powers has become less concentrated since the end of the Cold War and particularly in the 2000s as China and, to a lesser degree, Russia have expanded - in some cases dramatically - their diplomatic, trade and energy ties to the regional states. Russia's overall strategic position in the broader Middle East weakened substantially following the collapse of the Soviet Union, and the ultimate loss of Iraq as a main ally—a development that had already begun in the 1980s. However, the collapse of the empire did not altogether undermine Russia's role in the region, and with respect to the Gulf Arab states it, in fact, proved particularly beneficial. However, in sharp contrast to the U.S., neither the China's nor Russia's rising economic and diplomatic position in the region has been accompanied by a meaningful development of security ties vis a vis the Gulf states or military presence in the region. Despite their effort to penetrate the regional

lucrative arms market, China's and Russia's security relations have been largely limited to diminishing, yet still troublesome, arms sales to Iran and to some extent cooperation on its nuclear program. Although China's and Russia's increased position in the region has been predominantly confined to the economic and diplomatic areas of interactions, these developments represent an important change in the international relations of the Persian Gulf.

Third, competition among the U.S., China, and Russia in the region's economic and energy spheres has significantly increased in the last decade. While the U.S. remains the dominant economic power in the region and value of its trade with the regional states has increased in the absolute terms since the end of the Cold War, the U.S. share of GCC trade dropped from 15% to 9% in 2012 while that of China more than doubled from 4% to 11% in the same period as a result of China's increasing dependence on Gulf oil imports. However, the Gulf's expanding economic pie (driven by high oil prices of the last decade) has been, to some extent, able to accommodate the absolute expansion of all three power's economic position in the region. China and Russia have also significantly increased their energy investments across the region and particularly in Iraq and Iran.

The first three points here lead to a fourth: all things equal, the rise of U.S. overall capabilities in the region has benefited global oil security by ensuring the free flow of oil from the region, calming the international markets, and providing conditions necessary for adequate investment into oil exploration and development. Meanwhile, the rise of China's political and economic capabilities, and to a lesser extent, those of Russia has produced mixed results. On the positive side, the rise of China's and Russia's economic interdependence with the Persian Gulf is positive for global oil security because the rise

of mutual investments brings more oil and gas on the global market, while giving the both states a greater stake in regional stability.

On the other hand, the stronger China's and Russia's relations with the Gulf States become, the more challenging it may be for the United States to secure cooperation on regional issues. This may not only increase tensions in U.S. relations with China and Russia on the global level, but also escalate uncertainty in the Gulf. And uncertainty is anathema to the oil market. In fact, while a high level of instability could endanger Russia's growing regional investments, Moscow, as a major oil and gas exporter, has benefited from a certain level of regional tensions, such as those limiting Iraq's and Iran's energy exports in the 1990s and 2000s respectively. Not only have such tensions led to higher oil price, thus filling Kremlin's coffers, they have also constrained Iran's and Iraq's ability to compete with Russia on the European energy market. Similarly, despite China's greater stake in regional stability due its increasing dependence on regional oil, Beijing may prefer to *protect*, diplomatically or otherwise, countries such as Iran to safeguard its energy security.

While the rise of China and Russia in the region has allowed for some rivalry with Washington, which is not positive, the fact that this has not been in the security field has tempered this negative outcome. Indeed, as mentioned earlier, China's and Russia's economic and political rise in the region in the post-Cold War era and particularly in the last decade has not been accompanied by the establishment of a military presence in the region or commensurate security relations with the regional states. In that sense, they do not pose a serious challenge to the American regional position, thus limiting opportunities for potential clashes.

By contrast, oil security could be compromised by inter- or intra-state aggression, terrorist attacks on oil facilities, the use of WMD, or efforts to block the passage of shipping through the Strait of Hormuz. In light of these threats, the United States has remained committed to playing a vital role in protecting the Strait of Hormuz and has developed the capability and willingness to deter, contain and address threats to oil and regional security. The global economy depends on Gulf oil at reasonable prices. The U.S. presence and its regional capabilities help decrease the potential for market instabilities, and thereby help stabilize insurance rates for shipping through the Persian Gulf.

Fifth, the rise of the United States, and the lack of other plans in the region or globally to protect oil security, means that there is no good alternative to the American policing role in the Gulf in the foreseeable future.

Dissertation Roadmap

The study consists of five chapters including the introductory chapter. Each chapter – one devoted to the United States, China, and Russia offers a brief introductory section to the country's historical position in and key motivation for the involvement in the Gulf region to situate the developments since the end of the Cold War in a necessary historical perspective which then allow for comparison over time; or from 1991 to 2014. Each case study chapter is further broken down into sub-sections that examine each variable, namely diplomatic interaction; economic and energy ties; and military presence as well as security relations and arms sales to each regional state.

Each chapter systematically sketches changes in the outside powers' diplomatic, security, trade and energy relations vis-à-vis the Persian Gulf states, and concludes by summarizing these changes in the bilateral context.

The final two chapters consist of a comparative conclusion and oil security analysis. The conclusion brings together and compares all empirical evidence across the three case studies (U.S., China, and Russia) and three main areas of interaction (diplomatic, economic and energy, security/military). Given the Persian Gulf's importance to the health of the global economy, the last chapter analyzes what the changes in the U.S., Chinese and Russian position in the region mean for global oil security.

Conclusion

In the following chapters, I aim to shed light on the role of great powers in the Persian Gulf - a region of immense importance to the global economy and security. In doing so, we can also learn something about larger issues surrounding American power in world politics and global oil security.

CHAPTER 2

THE UNITED STATES IN THE PERSIAN GULF

The United States encounter with the Persian Gulf dates to the 19th century when American merchants traversed the region in search for trade opportunities. However, unlike European powers, Americans remained insulated from the 19th century's great power imperial rivalries in the Middle East. It was only after World War I that Americans, and specifically U.S. major oil companies, developed an interest and established a presence in the Persian Gulf in search of petroleum deposits.¹ During World War II, the U.S. military's increasing demand for petroleum, dwindling domestic oil supplies, and the region's strategic location in the competition with the Axis powers made the Persian Gulf more important to the United States.² Indeed, as early as 1947 President Harry Truman started to commit the United States to protect Saudi security.³ America's post-World War II economic boom and the Cold War rivalry with the Soviet Union further increased the region's economic and geostrategic importance to the United States. In 1949, National Security Council (NSC) identified the region as "critically important to American security," and called for the United States to "promote pro-Western ties to prevent Soviet penetration of the region."⁴ America's overarching interests in the Persian Gulf have remained consistent since the onset of the Cold War. They have included access to energy resources and the protection of regional stability

¹ Daniel Yergin, *The Prize* (New York, NY: Free Press, 2008).

² See for example Committee on Energy and Natural Resources U.S. Congress, *The United States Relationship with Saudi Arabia and Iran*, vol. Publication no. 95-70 (Washington, D.C.: Government Printing Office, December 1977).

³ United States Department of State, *Saudi Arabia: Interest of the United States in the Preservation of the Integrity and Security of Saudi Arabia; the Question of Financial and Other Aid*, vol. V, Foreign Relations of the United States (Frus), the near East and Africa (Washington, D.C. January 17, 1947).

⁴ Cited in Michael A. Palmer, *Guardians of the Gulf* (New York, NY: The Free Press, 1992).

from a variety of threats. While these two overarching and related interests have not changed much, the threat America has faced in the region has changed. For most of the Cold War, geopolitical competition with the Soviet Union posed a risk to U.S. interests in the region. Despite that, it was not until British withdrawal from the area east of Suez in 1971, the United States became seriously involved in the Gulf, assuming the responsibility for the protection of regional security and particularly the free flow of oil at reasonable prices to the American and global economy, while preventing the region from being dominated by an adversarial power. Underscoring the importance of the region to the United States, President Jimmy Carter described the Persian Gulf in 1977 as “vulnerable and vital...to which greater military concern ought to be given.”⁵ But even then, the United States entrusted proxies, Iran and Saudi Arabia, with advancing its interests in the region, while keeping its forces over the horizon. It was not until the early 1980s that the United States began to develop major military capabilities in the region in a response to dramatic changes in regional security situation that unfolded after 1978. The overthrow of the pro-Western regime of the Shah of Iran in 1979 which eliminated the main pillar of Nixon’s Twin Pillar security policy for the region, the Iranian Hostage crisis, and particularly the Soviet invasion of Afghanistan later that year, led to the Carter Doctrine which committed the United States to defense of the region from external threat. In his State of the Union Address in January 1980, President Carter declared:

Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States. It will be repelled by use of any means necessary, including military force.⁶

⁵ Ibid., 101-02.

⁶ Cited in Michael A. Palmer, *Guardians of the Gulf* (New York, NY: The Free Press, 1992).

These watershed events, exacerbated by the onset of the Iran-Iraq in 1980, led to the expansion of the U.S. commitment. While the Carter doctrine committed the United States to protect Gulf from external threats, the Reagan doctrine committed it to internal security – with a specific goal of preventing the overthrow of the Saudi regime.⁷ As President Ronald Reagan stated in 1981, “...there’s no way that we could stand by” and see Saudi Arabia “taken over by anyone that would shut off that oil.”⁸ The U.S. national security strategy (NSS) issued in 1987 by President Reagan underscored U.S. continuous regional interests and threat to those interests:

Our principal interests in the Middle East include maintaining regional stability, containing and reducing Soviet influence, preserving the security of Israel and our other friends in the area, retaining access to oil on reasonable terms for ourselves and our allies, and curbing state-sponsored terrorism.⁹

Subsequent events in the region upon which I will elaborate in this chapter, including Iraq’s and Iran’s threat to regional stability and Al Qaeda-inspired terrorism, further drew the United States into the Gulf.

On the whole, this evolving security environment necessitated America’s sustained involvement in the region since the early 1980s. In September 2013, President Obama underscored the continuity of America’s interests in the Persian Gulf and risks to those interests when he stated before the United Nations that securing “the free flow of resources through key shipping lanes; the defense of our homeland against the pervasive

⁷ On the evolution of the three doctrines under Nixon, Carter, and Reagan, see Palmer, *Guardians*, particularly chapters 5 and 6.

⁸ Weekly Compilation of Presidential Documents, Administration of Ronald Reagan, 1981, p. 873.

⁹ The White House, "National Security Strategy of the United States," (January 1987), 17.

and persistent threat of terrorism and extremism; and, the prevention of the proliferation of weapons of mass destruction,” continue to be the U.S. vital goals in the region.¹⁰

The Argument of this Chapter

As this chapter demonstrates, since the 1980s, and particularly in the post-Cold War period, the United States has expanded, in some cases dramatically, its diplomatic, military and economic capabilities in the region. Despite many differences over regional developments that have strained U.S.-Saudi diplomatic relations at numerous times since the end of the Cold War, defense and economic cooperation between the United States and Saudi Arabia as well as the remaining GCC states has increased significantly in the post-Cold War era.

To be sure, the collapse of the Soviet Union removed the common threat that underpinned U.S. cooperation with Saudi Arabia and the other GCC states during the Cold War. However, a shared interest in the uninterrupted flow of regional oil to the global economy and common concerns over Iraq in the 1990s and over Al Qaeda-inspired terrorism and Iranian regional ambitions in the 2000s have provided a renewed logic for continued strategic cooperation. In response to the evolving threat, the U.S. ability to project forces to the region and to sustain them while in the region increased significantly since the 1980s and even more so in the 1990s. During the 2000s, the U.S. military presence in the region further expanded and its defense cooperation with the Gulf Cooperation Council (GCC) states, and with Iraq in the post-2003 invasion period, broadened and deepened. While defense cooperation and arms sales represent bedrock of

¹⁰ Cited in U.S. Central Command (CENTCOM), Posture Statement.

the U.S. relations with the GCC countries and Iraq since the removal of Saddam Hussein in 2003, trade and energy ties with most of the regional states have also expanded in the post-Cold War period. In case of Iraq, this constitutes a particularly novel development. Relations with Iran remained largely adversarial in the post-Cold War era, alternating between tense and overtly hostile, albeit with a few periods of relative thaw.

America's Evolving Position in the Persian Gulf

The evolution of U.S. capabilities in the region is characterized by a major expansion in the diplomatic, security and economic relations since the 1980s. These changes are discussed in the following sections. In order to capture changes in U.S. diplomatic position in the region, I first explore high-level visits and official as well as unofficial statements between 1991 and 2014. I then draw on original data to trace changes in the U.S. military presence in the region; on security agreements with and arms sales to the regional states; and in energy and non-energy trade and investments.

U.S. Diplomatic Position in the Persian Gulf

This section explores U.S. diplomatic relations with Saudi Arabia, Iran and Iraq between 1991 and 2014. Of course, volumes could be written on these subjects and have been.¹¹ However, within the context of this dissertation's goals, the limited aim here is to

¹¹ See for instance Anthony H. Cordesman, *Saudi Arabia: Guarding the Desert Kingdom* (Boulder, CO: Westview Press, 1997). Thomas Lippman, *Inside the Mirage: America's Fragile Partnership with Saudi Arabia* (Boulder, CO: Westview Press, 2004). David Long, *The United State and Saudi Arabia: Ambivalent Allies* (Boulder, CO: Westview Press, 1985). On U.S. relations with Iraq and Iran, see Gause,

provide a sense of any major changes in post-Cold War bilateral relations. The chapter shows that despite serious strains, and developments that have pushed the states apart at times, U.S.-Saudi relations have been more or less friendly--forged on the anvil of common oil and regional security interests; and anchored by close defense and commercial ties.

Secondly, in contrast to China's and Russia's expanding relations with Iran in the post-Cold War period, the U.S.-Iranian relations have remained largely torturous since the 1979 Iranian revolution. Finally, the chapter shows that while the U.S.-Iraqi relations remained hostile until the removal of Saddam Hussein in 2003, the U.S. diplomatic relations with Iraq expanded significantly following the war.

U.S.-Saudi Diplomatic Relations

On the whole, U.S.-Saudi relations have remained at a similar level to what they were during the Cold War. Since World War II, the mutual interest in protecting the free flow of oil from Saudi Arabia has been the main bedrock of the bilateral relations in which the U.S. vowed to provide security to Saudi Arabia in return for Saudi management of a stable and affordable oil supply to the world market.¹² While these core interests have not changed, threat to those interests has changed over time. Specifically, during the Cold War, Saudi Arabia's religiosity placed the Kingdom firmly in the U.S.

The International Relations of the Persian Gulf. Steve A. Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics* (Westport, CT: Praeger, 1995).

¹² See "Texts of Letters Exchanged by Ibn Saud and Roosevelt," *New York Times* October 19, 1945.

anti-communist camp, serving as a bulwark against Soviet expansion. Indeed, the shared perception of threat posed by the Iranian revolution, the Soviet invasion of Afghanistan, and the Iraq-Iran war pushed the United States and the Kingdom to strengthen their political relations despite differences over the Arab-Israeli conflict.¹³ Despite the end of the Cold War threat, a common interest regarding the uninterrupted flow of Saudi oil to the global economy, shared concerns over Iraq in the 1990s, and over Al Qaeda-inspired terrorism and Iranian regional ambitions in the 2000s have tied the United States and Saudi Arabia together since the end of the Cold War.

Despite the common interests, U.S.-Saudi relations have been strained by a number of issues in the post-Cold War period. They include the Israeli-Palestinian conflict, the 9/11 terrorist attacks, the 2003 U.S.-led invasion of Iraq, disagreement over the Arab Spring, Iranian nuclear program and Syrian civil war, to mention the most salient ones.

However, the two countries have appeared to weather the political storms of the post-Cold War era without causing a permanent rupture in the bilateral relations. In fact, despite frequent political tensions, in key areas such as defense and economic cooperation, the U.S.-Saudi relations have strengthened in the post-Cold War period. Indeed, despite recurring political rifts over regional developments, cooperation in counterterrorism, critical energy infrastructure protection, missile defense, and cyber security have improved dramatically particularly in the decade since the 9/11 attacks – as will be evidenced in a separate section on U.S.-Saudi military relations. Similarly, U.S.

¹³ See for instance House of Representatives U.S. Congress, "Saudi Arabia and the United States," in *Report for the Subcommittee on Europe and the Middle East of the Committee of Foreign Affairs* (Washington, D.C.: Congressional Research Service, August 1981).. Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*.

arms sales to the Kingdom have reached unprecedented levels since the 1980s and even more so since 9/11 – thus perpetuating the Saudi reliance on American material, maintenance and training support for the foreseeable future. Moreover, U.S.-Saudi commercial links continued to intensify in the post-Cold War era. The value of bilateral trade more than tripled in the decade since the 9/11 terrorist attacks that seriously tested U.S.-Saudi diplomatic ties; and energy cooperation between the countries has expanded on both the governmental and private sector level.

The U.S.-Saudi relationship particularly intensified as a result of the U.S.-led Operations Desert Shield aimed at protecting Saudi Arabia from Iraqi threat, and Operation Desert Storm, which evicted Iraq from Kuwait in 1991. Whereas the 1991 Gulf war led to unprecedented U.S.-Saudi cooperation, tensions over the U.S. Iraqi policy and the U.S. military presence in Saudi Arabia complicated relations for the rest of the 1990s.

Allied with the U.S. in the 1991 Gulf War, the Kingdom agreed to host over a half million U.S.-led forces and shouldered more than 50% of the war costs.¹⁴ More importantly, however, Operations Desert Shield and Desert Storm elevated the bilateral relations because they confirmed and raised the U.S. long-standing commitment to Saudi security.¹⁵ Following the 1991 Gulf War, the Clinton Administration's "dual containment" of both Iraqi and Iranian threat that characterized the U.S. policy toward the region during the 1990s made Saudi Arabia more important to the U.S. as the policy

¹⁴ Saudi Arabia contributed over \$36 billion of total \$60 billion In Rachel Bronson, *Thicker Than Oil: America's Uneasy Partnership with Saudi Arabia* (Oxford: Oxford University Press, 2008). 206. See also Youssef M. Ibrahim, "Gulf War's Cost to Arabs Estimated at \$620 Billion," *New York Times* September 8, 1992.

¹⁵ For a detailed discussion of the Desert Storm's effect on the bilateral relations, see Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*, 105-7.

rested in part on Saudi willingness to host U.S. military personnel in the Kingdom.¹⁶ The U.S. policy toward Iraq however led to tensions between the two countries. While both Washington and Riyadh viewed Iraq as a threat to Gulf security, they disagreed about strategies to contain it. In particular, having to already deal with the domestic opposition to the U.S. postwar presence, Riyadh did not favor the U.S. Air Force strike missions against Iraq from Saudi territory – such as those in 1996 and 1998. As Kenneth Pollack, President Clinton’s Director for Gulf Affairs at the National Security Council observed, “by any measure, the Saudis ha[d] become less supportive of limited U.S. military operations against Iraq.”¹⁷ However, the U.S.-Saudi tensions over Iraq did not cut to the bone as the Kingdom’s continued willingness to subsidize the U.S. presence and operations in the Kingdom illustrated.¹⁸ Meanwhile, the U.S. military presence in the Kingdom posed its own challenge as anti-American terrorist incidents in 1995 and 1996 that killed 24 U.S. military personnel based in Riyadh and Dhahran illustrated.¹⁹

Divergent views over regional issues continued to test the relations at beginning of the 2000s. The Bush administration policy toward the Arab-Israeli conflict and particularly the lack of American response to Israel’s military incursion into the West Bank in the spring of 2001 caused a rift between the two countries, with Saudi foreign minister, Saud al Faisal, complaining that the Bush Administration’s approach toward the Arab-Israeli conflict “makes a sane man go mad.”²⁰ In May 2001 Crown Prince Abdullah

¹⁶ See for instance Martin Indyk, “The Clinton Administration’s Approach to the Middle East,” in *Speech at Soref Symposium* (Washington, D.C.: Washington Institute for Near East Policy, May 18, 1993).

¹⁷ Kenneth M. Pollack, *The Threatening Storm: The Case for Invading Iraq* (New York, NY: Random House, 2002).

¹⁸ Bronson, *Thicker Than Oil: America’s Uneasy Partnership with Saudi Arabia*, 220.

¹⁹ See The National Commission on Terrorist Attacks Upon the United States, “The 9/11 Commission Report,” 60.

²⁰ Serge Schmemmann, “Arafat Thankful for Bush Remark About ‘Palestine’,” *New York Times*, November 12, 2001.

declined an invitation to the White House and in a letter to President Bush, Abdullah warned that “from now on, you have your interests and the kingdom has its interests, and you have your road and we have our road.”²¹ As a sign of the strained relations, the Saudi government did not initially allow American warplanes to fly through Saudi air space in the first day of the U.S. air campaign against Afghanistan in 2001 and barred the U.S. from launching airstrikes against Kabul from Prince Sultan Air Base;²² although the Saudi government let the U.S. to use the command and control center at Prince Sultan Airbase to coordinate air campaign.²³ Oil prices became another divisive issue in U.S.-Saudi relations. As prices spiked throughout 1999 and 2000, increasing a threefold in two years, the U.S. unsuccessfully called on Saudi Arabia to increase the oil production. As Morse and Jaffe note, King Abdullah “exhibited more reluctance to cater to U.S. wishes than Fahd demonstrated in the 1980s and early 1990s.”²⁴

The already tense diplomatic relations were particularly tested in the wake of the September 11 terrorist attacks. The revelation that fifteen of the nineteen hijackers were Saudi citizens caused the greatest crisis in U.S.-Saudi relations since the 1973-1974 oil embargo.²⁵ In words of Saudi Ambassador to the U.S. Adel Al Jubeir, the revelation that fifteen 9/11 hijackers were Saudis was “a disaster,” and “Bin Laden, at that moment, had

²¹ Elaine Sciolino and Patrick E. Tyler, "Saudi Charges Bush with Failure to Broker Mideast Peace," *ibid.*, November 9, 2011.

²² Eric Schmitt, "U.S. To Withdraw All Combat Forces from Saudi Arabia," *ibid.*, April 29, 2003.

²³ Gause, *The International Relations of the Persian Gulf*, 146.

²⁴ Edward L. Morse and Amy Myers Jaffe, "Opec in Confrontation with Globalization," in *Energy and Security: Towards a New Foreign Policy Strategy*, ed. Jan H. Kalicki and David L. Goldwyn (Baltimore: Johns Hopkins Press, 2005), 81.

²⁵ See for instance The National Commission on Terrorist Attacks Upon the United States, "The 9/11 Commission Report," 373-74. Subcommittee on Middle East and South Asia, *U.S. Congressional Hearing: U.S. Relations with Saudi Arabia: Oil, Anxiety, and Ambivalence*, September 18, 2007. U.S. Senate Committee on the Judiciary, *U.S. Congressional Hearing: Saudi Arabia: Friend or Foe in the War on Terror?*, November 8, 2005.

made in the minds of Americans Saudi Arabia into an enemy.”²⁶ Nonetheless, signaling a shared interest in improving the relations, Crown Prince Abdullah met with President Bush in April 2002 at the president’s home in Crawford Texas. Although the meeting was “very rocky and tense,”²⁷ the bilateral relations improved after the Crawford meeting largely because the Saudis became more willing to cooperate with the U.S. on terrorist financing issues.²⁸

The Saudi government’s support for the U.S.-led campaign against Iraq in 2003 signaled that the bilateral relations weathered the crisis of 9/11. The Saudi government granted a permission to American Special Forces to use Saudi bases near the Iraqi border and American officials were allowed to use the command and control center at Prince Sultan Airbase to manage the air campaign with full access to Saudi airspace.²⁹ Saudi Arabia also persuaded OPEC to keep oil prices between \$22-28 at the eve of the invasion.³⁰ The Kingdom provided this support despite the crown prince Abdullah’s public proclamation that the invasion “would not serve America’s interests or the interests of the world.”³¹

As the section on U.S. regional military capabilities discusses in more detail, the aftermath of 9/11 and the 2003 Iraq war however did lead to a change in the bilateral relations. In April 2003, the U.S. announced withdrawal of all its combat forces from

²⁶ "House of Saud," (PBS, February 8, 2005).

²⁷ Bronson’s interview, in Bronson, *Thicker Than Oil: America’s Uneasy Partnership with Saudi Arabia*, 238.

²⁸ See for instance The National Commission on Terrorist Attacks Upon the United States, "The 9/11 Commission Report," 373-75.

²⁹ Michael Dobbs, "Saudi Rulers Walk Political Tightrope; Support for Us Played Down at Home," *Washington Post*, March 14, 2003, 23. Craig Smith, "Reluctant Saudi Arabia Prepares Its Quiet Role in the Us-Led War on Iraq," *New York Times*, March 20, 2003. John Solomon, "Saudis Secretly Provided Extensive U.S. Help During Iraq War," *Associated Press*, April 24, 2004.

³⁰ O’Reilly, *Unexceptional: America’s Empire in the Persian Gulf, 1914-2007*, 235.

³¹ Michael R. Gordon, "Saudis Warn against Attack on Iraq by the United States," *New York Times*, March 17, 2002.

Saudi Arabia, ending more than a decade of military presence in the Kingdom. Leaving only a small military training team in the Kingdom, the U.S. moved its major air operations center to Al Udeid Air Base in Qatar. At the appearance with Prince Sultan bin Abdul Aziz, U.S. Defense Secretary Donald H. Rumsfeld explained that “It is now a safer region because of the change of regime in Iraq...The aircraft and those involved will now be able to leave.”³² Along similar lines, Prince Sultan stated “There is no need for them [U.S. forces] to remain,” adding that “This does not mean that we requested them to leave.”³³ As Gregory Gause pointed out, “Saudi officials had mixed feelings about the departure, relieved that they could no longer be pilloried for the American presence but worried that the American departure might seem a sign of weakening of U.S. support for the regime.”³⁴

The conclusions of the 9/11 Commission report released in July 2004 further normalized the relations strained by the 2001 attacks. The report concluded that Saudi Arabia has been “a problematic ally in combating Islamic extremism,” but the Commission found “no evidence” that the Saudi government as an institution or senior Saudi officials individually funded Al-Qaeda.³⁵

The relationship improved after April 2005 when President Bush and King Abdullah reconvened at Crawford ranch. In a joint statement, the two leaders stated that “Today, we renewed our personal friendship and that between our nations.”³⁶ Underscoring a shared interest in regional security, both countries also “pledge[d] to

³² Eric Schmitt, "U.S. To Withdraw All Combat Forces from Saudi Arabia," *ibid.*, April 29, 2003.

³³ *Ibid.*

³⁴ Gause, *The International Relations of the Persian Gulf*, 147.

³⁵ The National Commission on Terrorist Attacks Upon the United States, "The 9/11 Commission Report."

³⁶ U.S. Department of State, "Joint Statement by President Bush and Saudi Crown Prince Abdullah," April 25, 2005.

continue their cooperation so that the oil supply from Saudi Arabia will be available and secure.”³⁷ Later that year during Prince Saud Faisal’s visit to the U.S., the two governments inaugurated a cabinet-level “strategic dialogue” to expand cooperation in six areas of mutual interest.³⁸ The dialogue launched bi-annual, senior level-meetings and established six working groups focused on counterterrorism; military affairs; energy; economic and financial affairs; education exchange and human development; and consular affairs.³⁹ According to one Saudi official, a broader rationale behind the dialogue was to revive the partnership created by former Secretary of State, Henry Kissinger, in the early 1970s on areas ranging from joint military planning to energy policy. While at that time, coordinated Saudi-U.S. actions “rolled back communism,” the objective of the new strategic dialogue would be to strengthen partnership to end terrorism. During the visit, Faisal also presented U.S. Secretary of State Condoleezza Rice with a chocolate birthday cake inscribed to her and depicting the flags of both countries.⁴⁰

Toward the end of the decade, the relations remained largely correct as was demonstrated by several high-level visits and bilateral agreements signed during those visits, including massive arms sales agreements. In fact, shortly prior to the President Bush’s visit to Saudi Arabia in May 2008 to commemorate the 75th anniversary of U.S.-Saudi relations, U.S. National Security Adviser Stephen Hadley evaluated the relations

³⁷ Ibid.

³⁸ Robin Wright, "U.S., Saudi Arabia Inaugurate New 'Strategic Dialogue'," *Washington Post*, November 13, 2005, <http://www.washingtonpost.com/wp-dyn/content/article/2005/11/13/AR2005111300493.html>.

³⁹ For the official press statement and the full text of the U.S.-Saudi Strategic Dialogue, see U.S. Department of State, "U.S.-Saudi Strategic Dialogue," (May 16, 2006).

⁴⁰ Wright, "U.S., Saudi Arabia Inaugurate New 'Strategic Dialogue'."

between the two countries as being in “pretty good shape.”⁴¹ During the visit, the Bush Administration announced a series of agreements designed to bolster bilateral relations in areas including civil nuclear cooperation, security, and visa policies. Specifically, the two countries inked a Memorandum of Understanding on Civil Nuclear Energy Cooperation in which the U.S. agreed to “assist the Kingdom of Saudi Arabia to develop civilian nuclear energy for use in medicine, industry, and power generation...”⁴² Saudi Arabia also agreed to join two Bush Administration initiatives, namely the Global Initiative to Combat Nuclear Terrorism and the Proliferation Security Initiative. Under these initiatives, the two countries “have agreed to cooperate in safeguarding the kingdom’s energy resources by protecting key infrastructure, enhancing Saudi border security, and meeting Saudi Arabia’s expanding energy needs in an environmentally responsible manner.”⁴³ The two countries also agreed to issue business and tourist visas to each other’s citizens on reciprocal terms.⁴⁴ The Bush administration announcement of a \$20 billion arms sales deal with Saudi Arabia in 2007 further evidenced that the bilateral relations weathered the 9/11 crisis.⁴⁵

Despite these initiatives, post-9/11 fallout continued to lurk in the background. In May 2008, a former U.S. Ambassador to Saudi Arabia described the U.S.-Saudi relations as reflecting “an odd disconnect,” observing that there has been “recognition on the part of the government in both countries that this is a very important relationship. But in both cases, the public is extremely negative. Saudi Arabia has been successfully vilified in

⁴¹ Christopher M. Blanchard, "Saudi Arabia: Background and U.S. Relations," (Washington, D.C.: Congressional Research Service, June 14, 2010).

⁴² Office of the Spokesman U.S. Department of State, "Media Note: U.S.-Saudi Arabia Memorandum of Understanding on Nuclear Energy Cooperation," (May 16, 2008).

⁴³ Office of the Press Secretary The White House, "Fact Sheet: Strengthening Diplomatic Ties with Saudi Arabia," (May 16, 2008).

⁴⁴ Blanchard, "Saudi Arabia: Background and U.S. Relations," 12.

⁴⁵ David S. Cloud, "U.S. Set to Offer Huge Arms Deal to Saudi Arabia," *New York Times*, July 28, 2007.

American politics, and the United States is now extraordinarily unpopular in Saudi Arabia."⁴⁶ On that account, in October 2009, U.S. Ambassador to Saudi Arabia James Smith called for the necessity of "taking down walls" in the bilateral relations created by 9/11 and for expanding U.S.-Saudi partnerships in education, trade, and investment.⁴⁷

Despite mutual diplomatic efforts to improve bilateral ties, diverging views on regional issues, especially U.S. policy toward Iraq, complicated relations. The Saudi leadership worried about the U.S.-backed Al-Maliki Shia government in Iraq which opened door to increased Iranian influence in the war-torn country and the region in general. Voicing his frustration with the U.S. policy, Minister of Foreign Affairs, Prince Saud bin Faisal stated in September 2005, "We fought a war together [with the U.S.] to keep Iran from occupying Iraq after Iraq was driven out of Kuwait. Now we are handing the whole country over to Iran without reason."⁴⁸ The Kingdom's fear of Iran's regional ambitions and its rising influence in Iraq was further reflected in a leaked cable from April 2008 in which King Abdullah urged the Bush administration to "cut off the head of the snake" by militarily destroying Iran's nuclear program. Along similar lines, King Abdullah complained in 2009 that "some say the U.S. invasion handed Iraq to Iran on a silver platter; this after we fought Saddam Hussein," further noting that he had "no confidence whatsoever in [Iraqi Prime Minister] Maliki," adding "I don't trust this man...He is an Iranian agent."⁴⁹

⁴⁶ Ambassador Chas Freeman, President of the Middle East Policy Council, served as U.S. Ambassador to Saudi Arabia from 1989 to 1992. Tabassum Zakaria, "Analysis-Saudi Smile Likely for Bush on Oil Plea, Not More," *Reuters*, May 12, 2008.

⁴⁷ "Taking Down Walls" in Saudi-U.S. Relations – Ambassador James Smith," *Saudi-U.S. Relations Information Service*, November 19, 2009.

⁴⁸ "Prince Saud Address to the Council on Foreign Relations," September 20, 2005, <http://www.saudiembassy.net/archive/2005/speeches/page7.aspx>.

⁴⁹ "U.S. Embassy Cables: Saudi King's Advice for Barack Obama," *Guardian*, November 28, 2010, <http://www.theguardian.com/world/us-embassy-cables-documents/198178>.

Despite the divisive regional issues, the election of Barack Obama into presidency improved bilateral relations. King Abdullah stated in 2009 “Thanks God for bringing Obama to the presidency,” which has created “great hope” in the Muslim world.⁵⁰ Close ties were particularly underscored during a White House counterterrorism adviser, John Brennan’s meeting with Saudi King Abdullah in March 2009. According to a leaked embassy cable, during the visit, Abdullah said that it was “critically important to restore America’s credibility” in the world.⁵¹ Brennan asserted that the bilateral alliance “must remain strong,” and assured the King of President Obama’s desire for a “long and healthy U.S.-Saudi relationship.”⁵² Brennan also praised counterterrorism and intelligence sharing cooperation between the U.S. and Saudi Arabia, noting that it had never been better. The King reciprocated by emphasizing that the two countries “spilled blood together” during the Gulf War; further noting that despite divergent views on regional and other issues “Our disagreements don’t cut to the bone.”⁵³

President Obama’s first visit of Saudi Arabia in 2009 and Secretary of State Hillary Rodham Clinton’s meeting with Saudi Foreign Minister Prince Saud Al-Faisal later that year further reinforced mutual efforts to maintain close ties.⁵⁴ During the meeting, the two countries discussed “ways we can broaden and deepen our partnership, including the continuation of the U.S.-Saudi Strategic Dialogue.”⁵⁵ Confirming the shared interests in Gulf security, Clinton stated:

The U.S. commitment to Saudi Arabia’s security is unwavering. We share concerns about the destabilizing role that Iran has played throughout the

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Scott Wilson, "King Abdullah Greet Obama in Saudi Arabia," *Washington Post*, June 4, 2009, <http://www.washingtonpost.com/wp-dyn/content/article/2009/06/03/AR2009060300943.html>.

⁵⁵ Ibid.

region and the continued expansion of its nuclear program and its support for terrorism. At the same time, we are working together to deny terrorists safe haven and access to funding, particularly in Afghanistan and Pakistan.⁵⁶

Similarly, Prince Faisal stated “our common interests make it incumbent upon us to closely coordinate our efforts.”⁵⁷

In June 2010, King Abdullah reciprocated President Obama’s visit. During the visit, President Obama stated that the two countries “will continue to work together to expand the people-to-people contacts, the educational programs, the commercial ties, the business people who are working together in both countries so that not only do our government remain strong partners but our people are continually enriching both countries.”⁵⁸ For his part, King Abdullah shared Obama’s sentiment, noting that “over the past seven decades, the relationship has grown stronger and broader and deeper, and we appreciate all that you personally have done to further broaden and deepen and strengthen this relationship. ... I hope that you will be able to continue to work with us on improving this relationship for many more years.”⁵⁹

A series of popular uprisings, known collectively as the Arab Spring, that swept through the Middle East and North Africa in 2011 and overturned several autocratic governments in the region strained once again the U.S.-Saudi relations. President Obama’s support for the overthrow of Egyptian President Hosni Mubarak, a longtime U.S. ally, raised Saudi concerns about the reliability of the U.S. partnership and its commitment to Saudi security. As Bruce Riedel put it “For the House of Saud this was a

⁵⁶ U.S. Department of State, "Remarks with Saudi Arabian Foreign Minister Prince Saud Al-Faisal: Remarks by Hilary Rodham Clinton," (July 31, 2009).

⁵⁷ Ibid.

⁵⁸ The White House, "President Obama & King Abdullah Meet at the White House," (June 29, 2010).

⁵⁹ Ibid.

betrayal of a key ally.”⁶⁰ Saudi dissatisfaction with the U.S. regional policy was underscored in January 2011 when King Abdullah urged President Obama not to humiliate Mubarak and warned that he would step in to provide funds to Egypt if U.S. withdrew its aid to Egypt totaling \$1.5 billion annually.⁶¹ However, a \$30 billion arms agreement announced at the end of 2011 under which Saudi Arabia would get 84 new F-15SA jets and upgrade of Saudi 70 F-15 signaled that the disagreement on how to handle the popular revolts in the region did not fracture the bilateral relations based on a common strategic interests. The package is a part of a 10-year, \$60 billion weapons deal for Saudi Arabia approved by the U.S. in 2010.⁶² As one senior Saudi official pointed out “When you look at the size of this package, what does it tell you about U.S.-Saudi relations? It says it’s very strong and very solid. Any disagreements from time to time don’t affect the core relationship.”⁶³

The diplomatic relations however further deteriorated over the U.S. handling of Syria’s civil war and Iran’s nuclear program. Saudi Arabia bemoaned the U.S. shift to a negotiated agreement with Syria, after urging the United States to intervene militarily to depose of Syria’s President Bashar al Assad. Nor did the Kingdom appreciate a preliminary agreement between the U.S. and the other members of the U.N Security Council as concluded with Iran. The Saudi King was concerned the Obama Administration agreed too quickly to negotiate a settlement and ease some sanctions against Iran in exchange for a suspension of its uranium-enrichment program and a

⁶⁰ Bruce Riedel to, March 19, 2014, <http://www.brookings.edu/research/opinions/2014/03/19-obama-mending-fences-riyadh-riedel>.

⁶¹ "Saudis Told Obama Not to Humiliate Mubarak," *The Times*, February 10, 2011, <http://www.thetimes.co.uk/tto/news/world/middleeast/article2905628.ece>.

⁶² Mark Landler and Steven Lee Meyers, "With \$30 Billion Arms Deal, U.S. Bolsters Saudi Ties," *New York Times*, December 29, 2011.

⁶³ Ibid.

partial reduction of its uranium stockpile.⁶⁴ In October 2013, Saudi Arabia bewildered the United Nations by rejecting a seat on the Security Council, a reaction that many interpreted as underscoring “the depth of Saudi anger over what monarchy sees as weak and conciliatory Western stances toward Syria and Iran,” both of which are Saudi Arabia’s regional rivals.⁶⁵

However, similarly to the previous crises that tested the U.S.-Saudi relations, the rift over Iran and Syria did not cause a permanent rupture between the two countries. This was demonstrated during the U.S. Secretary of State John Kerry’s visit to Saudi Arabia in November 2013, during which Saudi Foreign Minister Prince Saud al Faisal bin Abdelaziz Al Saud stated the two countries do not necessarily disagree on objectives, especially when it comes to their policies toward the conflict in Syria and nuclear negotiations with Iran, but instead “most of the differences are in tactics.”⁶⁶ Along similar lines, Kerry stated “...when we may differ once or twice on a tactic here or there, the bonds of our friends are much stronger than any of those differences at that moment in time.”⁶⁷ During the appearance with Kerry, the Saudi Foreign Minister Prince Saud al-Faisal addressed the spate of media reports about the Saudi-U.S. relations that followed the Kingdom’s rejection of the Security Council seat, “which went so far as to describe them [the bilateral relations] as dramatically deteriorating.” Al-Faisal stated that “it’s only natural that our policies and views might see agreement in some areas and disagreement in others. That’s perfectly normal in any serious relationship that spans a

⁶⁴ Scott Wilson, "Obama Plans Visit to Saudi Arabia," *Washington Post*, February 3, 2014, http://www.washingtonpost.com/politics/obama-plans-visit-to-saudi-arabia/2014/02/03/bd0463ec-8d03-11e3-95dd-36ff657a4dae_story.html.

⁶⁵ Robert F. Worth, "Saudi Arabia Rejects U.N. Security Council Seat in Protest Move," *New York Times*, October 18, 2013.

⁶⁶ U.S. Department of State, "Remarks with Saudi Arabian Foreign Minister Saud Al-Faisal," (Meeting with John Kerry in Riyadh, Saudi Arabia, November 4, 2013).

⁶⁷ *Ibid.*

wide range of issues.”⁶⁸ Commenting on “media speculation versus the reality of the friendship that we share,” Secretary Kerry described the U.S.-Saudi relationship as being “strategic” and “enduring,” encompassing a wide range of bilateral and regional issues.⁶⁹

Evidencing the enduring strength of the bilateral relations, Kerry indicated:

Saudi Arabia and the United States have an incredible deep relationship. It goes way beyond one or two countries and one or two efforts. This is a deep relationship and it has endured now for more than 70 years and it will endure well into the future.⁷⁰

Despite the differences over the regional issues, Kerry further asserted “Time and again, Saudi Arabia has proven to be an indispensable partner, but an indispensable partner that obviously has independent and important views of its own, and we respect that. We look forward to continuing this collaboration to advance our shared security and our shared prosperity.”⁷¹ Similarly, on the eve of Obama’s visit of Saudi Arabia in March 2014, White House press secretary Jay Carney said the two leaders would discuss “all of those areas” of disagreements during the visit, while assuring that “Whatever differences we may have do not alter the fact that this is a very important and close partnership.”⁷²

U.S.-Iran Diplomatic Relations

In contrast to China and Russia both of which have expanded diplomatic ties to Iran in the post-Cold War period, the U.S.-Iranian relations have remained adversarial since the overthrow of the pro-Western Shah of Iran in the 1979 Iranian revolution.

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Wilson, “Obama Plans Visit to Saudi Arabia.”

While from 1971 to 1979, Iran was the key ally and pillar on which the U.S. relied to protect Gulf security,⁷³ since the 1979 Islamic Iranian revolution and subsequent seizure of the U.S. Embassy in Tehran, the relations alternated between largely tense to openly hostile, albeit with a few periods of relative thaw.⁷⁴ Iran's attempts to destabilize the Gulf monarchies, subvert the Arab-Israeli peace process, its sponsorship of groups that the U.S. designate as terrorist, and its development of nuclear program have motivated U.S. containment policies against Iran since 1979.

In 1984, the Reagan administration designated Iran a sponsor of international terrorism, with President Clinton describing Iran in 1991 as a "threat not only to its neighbors, but to the entire world."⁷⁵ In 1995, as part of its policy of dual containment, the Clinton administration increased pressure on Iran by imposing sanctions banning U.S. trade and investment with Iran. And in 1996, the U.S. enacted the Iran and Libya Sanction act which broadened the sanctions to include penalties on foreign companies' investment in Iran's energy sector to reduce Iran's income and, in turn, impede its ability to sponsor terrorism and acquire WMD.⁷⁶

The bilateral relations slightly improved with the election of relatively moderate Mohammad Khatami into presidency in 1997 and stayed on that path until the turn of the century. Reciprocating Khatami's outreach, Secretary of State Madeleine Albright stated

⁷³ For official statements on the Nixon Doctrine see Subcommittee on the Near East and South Asia U.S. House Committee on Foreign Affairs, "New Perspectives on the Persian Gulf," (January 1, 1973).

⁷⁴ For an overview of U.S. policy on Iran during the Cold War see for instance House of Representatives U.S. Congress, "U.S. Policy toward Iran," in *Hearings before the Subcommittee on Europe and the Middle East of the Committee on Foreign Affairs* (Washington, D.C.: GPO, January 17, 1979). U.S. Department of State, "The Evolution of the U.S.-Iranian Relationship," (IR03555: NSA, January 29, 1980). Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*. For U.S.-Iran relations in the post-Cold War period see O'Reilly, *Unexceptional: America's Empire in the Persian Gulf, 1914-2007*.

⁷⁵ Quoted in Yetiv, *The Absence of Grand Strategy: The United States in the Persian Gulf, 1972-2005*, 98.

⁷⁶ Kenneth Katzman, "Iran Sanctions," (Congressional Research Service, June 26, 2014). See also Kenneth M. Pollack, *The Persian Puzzle: The Conflict between Iran and America* (New York: Random House, 2004).

in June 1998 the U.S. “can develop with Iran, when it is ready, a road map leading to normal relations,” and in 2000 announced the modest easing of certain economic sanctions on Iran.⁷⁷ Despite these overtures, the Supreme Leader Ayatollah Khamenei did not share Khatami’s sentiment. After the brief period of thaw, the relations reached a new low at the beginning of the 2000s when President George W. Bush defined Iran as a rouge state and part of an “axis of evil,” along with Iraq and North Korea, during his January 2002 State of the Union speech.⁷⁸

The revelation of Iran’s clandestine nuclear program later that year elevated the Iranian threat on the U.S. agenda; albeit following the December 2003 earthquake in Iran the Bush administration offered help which Iran accepted, allowing U.S. relief workers and two military cargo planes to enter the country – in what where the first U.S. military flights into Iran since 1980.⁷⁹ The U.S. and Iran also became unlikely allies on Iraq and Afghanistan.⁸⁰ The two countries discussed Iraq and Afghanistan related issues from late 2001 until May 2003 in Geneva in what constituted “the first confirmed direct dialogue between the countries since the 1979 revolution.”⁸¹

The election of Mahmoud Ahmadinejad into presidency in June 2005, followed by his inflammatory remarks, including his denial of Holocaust,⁸² and the lack of cooperation with the International Atomic Energy Agency (IAEA) on the Iran’s nuclear

⁷⁷ Barbara Crossette, "Albright, in Overture to Iran, Seeks a 'Road Map' to Amity," *New York Times*, June 18, 1998.

⁷⁸ For transcript of speech see "Bush State of the Union Address," *CNN* January 29, 2002, <http://edition.cnn.com/2002/ALLPOLITICS/01/29/bush.speech.txt/>.

⁷⁹ "U.S. Airlifts Disaster Aid into Iran," *CNN*, December 30, 2003, <http://edition.cnn.com/2003/US/12/27/iran.us.aid/>.

⁸⁰ Robin Wright, "U.S. In 'Useful' Talks with Iran," *Los Angeles Times*, May 13, 2003.

⁸¹ Kenneth Katzman, "Iran: U.S. Concerns and Policy Responses," (Congressional Research Service, July 25, 2014), 53.

⁸² "Iranian Leader Denies Holocaust," *BBC News*, December 14, 2005, http://news.bbc.co.uk/2/hi/middle_east/4527142.stm. Adam Nichols, "Iran’s Ahmadinejad Issues New Threats against Israel, U.S.," September 23, 2007.

program further strained the bilateral relations. In response to Iran's defiance of various Security Council resolutions urging Iran to suspend its uranium enrichment, the U.S. escalated its calls for international sanctions, with Bush warning of a possible WWII if Iran was to be allowed to develop nuclear weapons.⁸³ Sanction pressure on Iran dramatically increased following the election of President Obama in 2009, although the Obama administration's policy also included a significant engagement aspect. For instance in March 2009, on the occasion Persian New Year, President Obama stated that the U.S. "is now committed to diplomacy that addresses the full range of issues before us, and to pursuing constructive ties among the United States, Iran, and the international community."⁸⁴ Later that year in his speech in Cairo, Obama again reached out to Iran by conceding that during the Cold War, the U.S. "played a role in the overthrow of a democratically-elected Iranian government," further stating that "any nation – including Iran – should have the right to access peaceful nuclear power," if it adheres to NPT requirements.⁸⁵

However, Iran's crackdown on protests over elections at the end of 2009 and its continued defiance to cooperate on its nuclear program escalated the tensions with the U.S. In response, the Obama administration orchestrated and gradually escalated broad international economic pressure on Iran while keeping an offer of sanctions relief in exchange for a deal on the table.⁸⁶

⁸³ Brian Knowlton, "Nuclear-Armed Iran Risks World War Iii, Bush Says," *New York Times*, October 17, 2007.

⁸⁴ The White House, "The President's Message to the Iranian People," March 19, 2009, <http://www.whitehouse.gov/video/The-Presidents-Message-to-the-Iranian-People#transcript>. Helen Cooper and David E. Sanger, "Obama's Message to Iran Is Opening Bid in Diplomatic Drive," *New York Times*, March 20, 2009, <http://www.nytimes.com/2009/03/21/world/middleeast/21iran.html>.

⁸⁵ The White House, "Remarks by the President on a New Beginning: Speech in Cairo, Egypt," June 4, 2009, http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-Cairo-University-6-04-09.

⁸⁶ For overview of sanctions see Katzman, "Iran Sanctions."

The election of relatively moderate Hassan Rouhani in June 2013 combined with the Iran's rapidly deteriorating economic situation paved the way for new negotiations, raising the possibility that a deal can be reached over Iran's nuclear program. This was demonstrated in September 2013 when President Obama and his Iranian counterpart spoke over phone in what was the first direct conversation between Presidents of the two countries since 1979.⁸⁷ The historic phone call was followed by an interim nuclear agreement between the P5+1 and Iran reached on November 2013.

However, Iran's development of ballistic missiles, its stronger strategic position in the post-Saddam Gulf, its influence in Iraq and its support for the Syrian regime along with enduring ties to Hezbollah among others, continue to pose separate and unresolved issues in the U.S.-Iranian relations. Illustratively, despite the increased possibility for a nuclear deal, Iranian Supreme Leader Ayatollah Ali Khamenei described any potential U.S. expectations of Iran curbing its missile development as "stupid and idiotic."⁸⁸

U.S.-Iraqi Diplomatic Relations

Like the U.S.-Iranian relations, U.S. relations with Iraq have been torturous, albeit they have normalized in the last decade. For more than three decades, from 1967 to 2003, the U.S. did not have official diplomatic relations with Iraq and it has been only since the U.S. removal of the Saddam Hussein's regime in 2003 and particularly since the U.S. withdrawal from Iraq at the end of 2011 that the bilateral relations improved. As

⁸⁷ Jeff Mason and Louis Charbonneau, "Obama, Iran's Rouhani Hold Historic Phone Call," *Reuters*, September 28, 2013.

⁸⁸ Louis Charbonneau and Parisa Hafezi, "Iran Pursues Ballistic Missile Work, Complicating Nuclear Talks," *ibid.*, May 16, 2014, <http://uk.reuters.com/article/2014/05/16/uk-iran-nuclear-missiles-idUKKBN0DV21X20140516>.

demonstrated in the separate section on the U.S. military capabilities in the Gulf, since the U.S. withdrawal in 2011, security cooperation has become a cornerstone of U.S.-Iraqi ties. However, as in the case of the U.S.-Saudi relations, expanded defense ties have not precluded political discords.

Although during the Cold War, Iraq had been Moscow's main ally in the region, the U.S. supported Iraq during the Iraq-Iran war to counter the Iranian threat. While in the 1980s, the U.S. removed Iraq from the list of state sponsors of terrorism, reestablished diplomatic ties with Baghdad in 1984 and supplied Iraq with arms sales to prevent Iraq from losing the war with Iran, the U.S.-Iraqi relations reached the nadir following the Iraq's invasion of Kuwait in 1990. Since the U.S.-led Operation Desert Storm that expelled Iraq from Kuwait in 1991 until the U.S.-led invasion of Iraq in 2003, Washington kept Iraq politically, economically and militarily contained to constrain the country's ability to threaten its neighbors and to build conventional and unconventional military capabilities. Containment initiated under the administration of the elder Bush after the 1991 Gulf War escalated under the Clinton's policy of dual containment in the 1990s which, in addition to sanctions and enforcement of no-fly zones, also included efforts to overthrow the Hussein regime.⁸⁹ Martin Indyk, the special assistant to the president for Near East and South Asian affairs and architect of dual containment expressed the U.S. view of Iraq in 1993 stating "The current regime in Iraq is a criminal regime, beyond the pale of international society and, in our judgment, irredeemable."⁹⁰

⁸⁹ See House U.S. Congress, Subcommittee on Europe and the Middle East, Committee on Foreign Affairs, "U.S. Policy toward Iraq Three Years after the Gulf War," (February 23, 1994). For evolution of U.S. policy toward Iraq, see also Yetiv, *The Absence of Grand Strategy: The United States in the Persian Gulf, 1972-2005*.

⁹⁰ See Indyk, "The Clinton Administration's Approach to the Middle East." See also Martin Indyk et al., "Symposium on Dual Containment: U.S. Policy toward Iran and Iraq," *Middle East Policy* 3, no. 1 (March 1994).

While the CIA worked to undermine the Iraqi regime since 1991, these efforts expanded in 1996 and then further escalated in October 1998 after Iraq stopped cooperating with international inspectors on its WMD program. In response to this non-cooperation, the Clinton administration expanded containment by signing into law the Iraq Liberation Act which explicitly called for regime change and tightening enforcement of no-fly zone, leading to bombing Iraq in Operation Desert Fox in December 1998. In February 1998, President Clinton voiced his frustration with Iraqi actions and his rationale for escalating efforts aimed at Hussein's removal, stating:

Iraq admitted, among other things, an offensive biological warfare capability, notably, 5,000 gallons of botulinum, which causes botulism; 2,000 gallons of anthrax; 25 biological-filled Scud warheads; and 157 aerial bombs. It is obvious that there is an attempt here, based on the whole history of this operation since 1991, to protect whatever remains of his capacity to produce weapons of mass destruction, the missiles to deliver them, and the feed stocks necessary to produce them...⁹¹

The events of September 11, 2001 altered the U.S. view of the Middle East and particularly the Persian Gulf, setting the context, which ultimately led to the U.S. invasion of Iraq.⁹² In his speech to the United Nations on September 12, 2002, President Bush urged Saddam Hussein to comply with sixteen UN resolutions passed between 1991 and 2002 all of which Iraq had defied.⁹³ In the wake of the Hussein regime's alleged ties to Al-Qaeda, possession of WMD and its reluctance to cooperate with UN inspectors, President Bush declared in his January 2003 State of the Union speech, two months before he launched the Operation Enduring Freedom: "[A] brutal dictator, with a history

⁹¹ For a full transcript see "Text of Clinton Statement on Iraq," *CNN* February 17, 1998, <http://www.cnn.com/ALLPOLITICS/1998/02/17/transcripts/clinton.iraq/>.

⁹² On the role of 9/11 in changing the U.S. policy toward Iraq, see Dennis Ross, *Statecraft: And How to Restore America's Standing in the World* (New York: Farrar, Straus and Giroux, 2007), 104-10. See also Steven Cook, "U.S. Democracy Promotion in the Persian Gulf," in *Great Powers and Regional Orders* ed. Markus Kaim (Aldershot: Ashgate, 2008), 71-85.

⁹³ The White House, "President Bush Outlines Iraqi Threat," October 7, 2002. See also "Remarks by President Bush on Iraq in the Rose Garden," September 26, 2002.

of reckless aggression, with ties to terrorism, with great potential wealth, will not be permitted to dominate a vital region and threaten the United States.”⁹⁴

In wake of the issues outlined above and as a part of the Bush administration’s broader effort to democratize the Middle East to root out the causes of terrorism, on March 20, 2003 the U.S.-led 125,000-strong force invaded Iraq and removed Hussein from power. Although on May 1, 2003 President Bush declared “Mission Accomplished,” deteriorating security conditions that unfolded drew additional 30,000 U.S. forces into Iraq in 2007,⁹⁵ leading to a prolong U.S-led nation building involvement that lasted until December 2011.⁹⁶ In accordance with the November 2008 Security Agreement, the official conclusion of the U.S. combat mission in August 2010, and the Iraqi government decision in October 2011 not to extend legal protection of U.S. troops despite the U.S. appeal on Iraq to extend the presence,⁹⁷ the U.S. decreased its force presence to 47,000 in 2010 and withdrew the last troop contingent in December 2011.⁹⁸

The Strategic Framework Agreement (SFA) signed in December 2008 which “normalizes the U.S.-Iraqi relationship with strong economic, diplomatic, cultural, and security ties” has served as the foundation for “a long-term bilateral relationship” in the post-2011 era.⁹⁹ In the post-2011 period, the U.S. has continued to cooperate with Iraq on

⁹⁴ The full text of the 2003 State of the Union address is available at "The State of the Union Address," 2003 www.whitehouse.gov/news/releases/2003/01/20030128-19.html.

⁹⁵ Kenneth Katzman, "Iraq: Politics, Governance, and Human Rights," (Congressional Research Service, July 2, 2014). (bringing U.S. troop levels from their 2004-2006 baseline of about 138,000 to about 170,000)

⁹⁶ SIGIR estimates that the U.S. and its allies will have spent some \$75 billion on aid. The Congressional Research Service estimates that the dollar cost of the war to the U.S. alone is over \$823 billion through FY2012.

⁹⁷ Prashant Rao, "Maliki Tells Us' Boehner Iraqi Troops Are Ready," *Agene France Presse*, April 16, 2011. Aaron Davis, "Maliki Seeking Consensus on Troops," *Washington Post*, May 12, 2011.

⁹⁸ Katzman, "Iraq: Politics, Governance, and Human Rights," 34.

⁹⁹ The White House, "Fact Sheet: The Strategic Framework Agreement and the Security Agreement with Iraq," December 4, 2008, <http://georgewbush-whitehouse.archives.gov/news/releases/2008/12/20081204-6.html>.

a number of political issues. Specifically, the U.S. worked with Maliki and his Sunni and Kurdish opponents “to narrow areas of disagreement” and to “facilitate serious discussions on revenue sharing” between the Iraqi Kurdistan Region and central government.¹⁰⁰ The U.S. has also worked to promote Iraq’s regional integration and strategic independence, launching “a quiet but active campaign to ease tension with Turkey, settle accounts with Kuwait, strengthen ties to Jordan, and accelerate efforts to reintegrate Iraq with its Gulf neighbors.”¹⁰¹

U.S. Military Capabilities in the Persian Gulf

This section explores the changes in the American security position in the region over time. It shows America’s military capabilities in the region, security cooperation with and arms sales to the regional states have been on the rise since the 1980s, making the United States the de facto hegemon at least in the security area in the Gulf. In response to the evolving threat, the U.S. ability to project forces to the region and to sustain them while in the region increased in the 1980s, and further escalated during the 1990s. During the 2000s, the U.S. military presence in the region further expanded and its defense cooperation with the GCC states also increased. Since the removal of Saddam

For the actual text see U.S. State Department, "Strategic Framework Agreement for a Relationship of Friendship and Cooperation between the United States of America and the Republic of Iraq." Special Inspector General for Iraq Reconstruction (SIGIR), "Quarterly Report to the United States Congress," (April 30, 2012), 32.

In his November 2013 testimony to House Foreign Affairs Committee, Brett McGurk, Deputy Assistant Secretary for Iraq and Iraq outlined U.S. policy toward Iraq and its “core interests” which include “maintaining a unified and federal Iraq; supporting increases in production and export of oil resources; promoting Iraq’s strategic independence and regional integration; countering the re-emergence of al Qaida in Iraq (AQI); [and] supporting Iraq’s democratic institutions and trajectory.”

¹⁰⁰ U.S. Department of State, "U.S. Foreign Policy toward Iraq: Testimony by Brett McGurk, House Foreign Affairs Committee, Subcommittee on the Middle East and Africa," (November 13, 2013).

¹⁰¹ Ibid.

Hussein in 2003 and particularly following the U.S. withdrawal from Iraq in 2011, U.S. security ties with and arms sales to Iraq have similarly increased.

While the U.S. maintained some modest military capabilities in and around the region since World War II, they remained nil until after 1979. Indeed, it was only in response to the 1979 Iranian revolution, the Iranian hostage crisis, the Soviet invasion of Afghanistan and ensuing perceptions of a growing Soviet threat, and finally the Iraq-Iran war, that the U.S. began developing a Rapid Deployment Force (RDF) for regional contingencies,¹⁰² expanded naval presence in the region, secured access agreements for U.S. forces, improved airlift and sealift capability, and increased military exercises with the Gulf monarchies.

The Soviet incursion to Afghanistan in particular represented a watershed in U.S. decision to develop regional facilities for U.S. rapid deployment forces, tying Gulf stability to U.S. global security,¹⁰³ in what became to be known as the Carter Doctrine, which formally committed the U.S. to a direct military role in the protection of the region.¹⁰⁴ Demonstrating a sharp break with the past, one official noted in 1981 that the United States was “starting from scratch in building [President Carter-mandated] security framework” in the Gulf.¹⁰⁵ The Iraq-Iran war led to the further expansion of U.S. military capabilities in the region, particularly in Saudi Arabia. Indeed, whereas prior to 1979 the

¹⁰² See for instance John D. Mayer, "Rapid Deployment Forces: Policy and Budgetary Implications," (Washington, D.C.: Congressional Budget Office, 1983). See also Paul K. Davis, "Observations on the Rapid Deployment Joint Task Force: Origins, Direction, and Mission," (RAND Corporation, June 1982). George C. Wilson, "Carter Budget Envisions a Force for Quick, Long-Distance Reaction," *Washington Post*, 27 November 1979.

¹⁰³ See for instance "Transcript of President's Speech on Soviet Military Intervention in Afghanistan," *New York Times*, January 5, 1980. See also Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*, 56.

¹⁰⁴ *Public Papers of the President of the United States*, (Washington, D.C.: U.S. Government Printing Office, 1981), 197.

¹⁰⁵ David Newsome, "America Engulfed," *Foreign Policy* 43: 27. For an excellent overview of RDF and detailed dynamics that led to its approval for the Gulf contingencies see Davis, "Observations on the Rapid Deployment Joint Task Force: Origins, Direction, and Mission."

Saudis were not willing to grant the United States access to Saudi bases, in the early 1980s Riyadh consented to build nearly \$200 billion-worth extensive naval defense infrastructure able to accommodate a rapid and massive deployment of U.S. forces,¹⁰⁶ and the United States agreed to sell the Kingdom AWACs aircraft.¹⁰⁷ By the late 1980s, all of the GCC states provided assistance to the U.S. in the region and jointly participated in military exercises with the U.S.¹⁰⁸ The improved U.S.-GCC security cooperation and strengthened military infrastructure in Saudi Arabia proved critical in the 1990-91 Gulf War as it enabled a massive and rapid deployment of U.S.-led forces into the region to expel Iraq from Kuwait.

In the post-Cold War era, the U.S. has further expanded its military presence in the Gulf its security cooperation with the regional Arab states. The U.S. military presence in the Persian Gulf predated the Gulf War of 1991, but the deployment of U.S. forces to the Gulf reached a historic high in 1991. Saudi Arabia hosted over 500,000 U.S.-led forces deployed to evict Saddam Hussein from Kuwait and deter a potential Iraqi invasion of Saudi Arabia. While the U.S. military presence naturally diminished since the all-time high of the 1991 Gulf War, the U.S. military capabilities in the region have remained robust and security cooperation with the GCC states have continued to deepen and broaden particularly in the last decade.

¹⁰⁶ For detailed discussion see Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*, 81-84.

¹⁰⁷ For U.S. decision making surrounding the sale see U.S. House of Representatives, "On Proposed Sale of Awacs to Saudi Arabia: Summary of Gao Testimony before the Subcommittee on Europe and the Middle East and the Subcommittee on International Security and Scientific Affairs Committee on Foreign Affairs," (Washington, D.C.: U.S. General Accounting Office, October 1981). Committee on the Armed Services U.S. Senate, "Military and Technical Implications of the Proposed Sale of Air Defense Enhancement to Saudi Arabia," (Washington, D.C.: U.S. Government Printing Office, 1981).

¹⁰⁸ See George B. Crist, "Department of Defense Appropriations for Fiscal Year 1989: Hearing before a U.S. Senate Subcommittee of the Committee on Appropriations," (Washington, D.C.: GPO, 1988), 179. On exercises, see U.S. Senate, Armed Services Committee, General H. Norman Schwarzkopf, Commander in Chief of the U.S. Central Command, February 8, 1990, 55.

While before the Iraqi invasion of Kuwait, the GCC states preferred to keep the U.S. forces “over the horizon,” after the war their willingness to grant the U.S. access to their bases and military facilities considerably increased as the Iraqi invasion illustrated to Gulf monarchies their vulnerability to stronger neighbors. As Indyk pointed out, the “fact that it took the United States six months to build up enough forces in the Gulf to evict the Iraqi army from Kuwait underscored the great risk they were running by continuing to keep the United States at arms-length.”¹⁰⁹

Consequently, following the war, the U.S. concluded Defense Cooperation Agreements with Oman in 1991, Bahrain and Kuwait in 1991, Qatar in 1992 and the UAE in 1994. Although Saudi Arabia preferred “not to advertise its security relationship with the U.S...to minimize domestic criticism,”¹¹⁰ the Saudis allowed the U.S. military forces to establish a permanent presence in the country and granted the U.S. Air Force access to its air bases.¹¹¹ Under these defense cooperation and access agreements which were conducted for an initial 10-year period and whose text is largely classified, Kuwait granted the U.S. access to a range of Kuwaiti facilities including Ali al-Salem Air Base and Camp Arifjan. The Kuwaitis also agreed to house a U.S. armored battalion and prepositioned equipment that would enable a rapid deployment of a mixed armor and mechanized infantry brigade.¹¹² The defense agreement with Bahrain extended U.S. forces access to military facilities, granted the U.S. a permission to store munitions, and set the groundwork for expanded joint military training and exercises. By 1995, the U.S.

¹⁰⁹ Martin Indyk, "Us Policy Priorities in the Gulf: Challenges and Choices," (Washington, D.C.: Brookings Institution, December 2004).

¹¹⁰ O'Reilly, *Unexceptional: America's Empire in the Persian Gulf, 1914-2007*, 179.

¹¹¹ Prior to this permanent presence, Saudi Arabia granted U.S. forces prepositioning rights in the 1980s and allowed the U.S. RDF enhances access to their airfields and ports. See Yetiv, *America and the Persian Gulf: The Third Party Dimension in World Politics*, 83.

¹¹² Kenneth Katzman, "Kuwait: Security, Reform, and U.S. Policy," (Congressional Research Service, April 29, 2014).

Fifth Fleet established permanent “on shore” headquarters and the country became home to U.S. Marine Forces Central Command, Destroyer Squadron Fifty, and three Combined Maritime Forces.¹¹³ Despite the long-standing U.S. naval command presence in Bahrain that dates to 1948, prior to the 1990-91 Gulf War, the U.S. naval headquarters in Bahrain remained “off shore” on a command ship. Similarly, the defense pact with Qatar has allowed the U.S. to preposition equipment. During the 1990s Qatar invested over \$1 billion to construct the massive Al Udaid air base for the U.S. use and in 2002, U.S. Central Command set up its forward headquarters in the country.¹¹⁴ For its part, under the agreement with the UAE, the U.S. has been permitted to use UAE ports, preposition an armored brigade and use Dhafra air base for aerial refuelers. Finally, Oman granted the U.S. access to air bases at Masirah, Seeb and Thumrait for USAF strategic bombers.

The evolution of the U.S. military capabilities in the region in the post-Cold War period has been shaped by particular defense relations with the regional states, which will be discussed in the following section of this chapter.

Saudi-U.S. Security Relations

In the post-Cold War period, and specifically since the 1991 Gulf War, the U.S. has significantly expanded security cooperation with Saudi Arabia.

¹¹³ "Bahrain: Reform, Security, and U.S. Policy," (Congressional Research Service, June 11, 2014). For an extended discussion of the U.S. military presence in Bahrain, see Richard McDaniel, "No 'Plan B': U.S. Strategic Access in the Middle East and the Question of Bahrain," (Brookings Institution: Center for 21st Century Security and Intelligence, June 2013).

¹¹⁴ Indyk, "Us Policy Priorities in the Gulf: Challenges and Choices."

Although the two countries did not conclude a formal Defense Cooperation Agreement after the 1991 war, Saudi Arabia invited the U.S. to increase its access to Saudi air and seaports and to improve the capabilities of the combined AWACS force, which the U.S. sold to the Saudis in the 1980s. The U.S. established a state-of-the-art Combined Air Operation Center at Prince Sultan Air Base,¹¹⁵ and under a Military Training Mission Agreement renewed in 1992, the two countries also increased the number of combined exercises.¹¹⁶ Although reluctantly, Saudi Arabia allowed the U.S. to use its bases to fly strike missions against Iraq in 1996 and 1998 and in support of Operation Enduring Freedom in 2001 and Operation Iraqi Freedom in 2003.

The expanding U.S.-Saudi security cooperation in the post-Cold War era has been accompanied by fluctuating U.S. military presence in the Kingdom. After the liberation of Kuwait, the U.S. reduced its military presence in the country from the all-time high of 1991 to less than 1000 military personnel stationed on Saudi territory in 1993. However, since 1994, the U.S. force levels in and around Saudi Arabia began to increase in response to Iraq's renewed threat to Kuwait's northern border and regional stability at large, reaching nearly 5,000 by 2003.¹¹⁷ Following the removal of Saddam Hussein's regime in 2003, the U.S. relocated almost all of the 5,000 troops deployed in the Kingdom along with its Combat Air Operations Center to neighboring Qatar, leaving between 200 to 300 U.S. military personnel and a contingent of contractors in Saudi Arabia in support of long-standing U.S. training programs.¹¹⁸

¹¹⁵ Ibid., 6.

¹¹⁶ Dale Bruner, "Us Military and Security Relations with the Southern Gulf States," (Washington, D.C.: NSSP, Georgetown University, May 8, 1995).

¹¹⁷ O'Reilly, *Unexceptional: America's Empire in the Persian Gulf, 1914-2007*, 218.

¹¹⁸ Blanchard, "Saudi Arabia: Background and U.S. Relations."

Despite the diminished U.S. military presence on the Saudi soil, security cooperation continued to deepen and broaden during the 2000s. Indeed, despite the strained political relations in the aftermath of the 9/11 terrorist attacks, security relations have expanded since 2003 when Saudi Arabia began more closely cooperating with the U.S. on counterterrorism in response to a growing domestic terrorist threat from Al Qaeda in the Arabian Peninsula (AQAP).¹¹⁹ Beginning in May 2003, the Kingdom became a target of a series of terrorist attacks. In November 2003 and in 2004 terrorist attacks in Saudi Arabia escalated, with targets including Saudi Arabia's oil infrastructure and the U.S. Consulate in Jeddah.¹²⁰ Although terrorist attacks against U.S. facilities occurred in the Kingdom already during the 1990s, "attacks against non-U.S. targets did not begin until May 2003."¹²¹ As the 9/11 Commission report observes, "[a]s in Pakistan, Yemen, and other countries, [Saudi] attitudes changed when the terrorism came home."¹²² While the 9/11 Commission report notes that "before the September 11 attacks, the Saudi government resisted cooperation with the U.S. on the Al Qaeda financing problem," a number of U.S. State Department's Country Reports on Terrorism have demonstrated unprecedented Saudi cooperation with the U.S. counterterrorism initiatives since 2003. In testimony before the Senate Judiciary Committee in November 2005, U.S. Department of the Treasury official Daniel Glaser underscored the importance of such cooperation to the U.S. strategic partnership with Saudi Arabia when he singled out the

¹¹⁹ The Commission concluded that the Saudi government had become "locked in mortal combat with Al Qaeda."

¹²⁰ "Persian Gulf: Report to Congressional Requesters," (U.S. Government Accountability Office, September 2010), 49."

¹²¹ Blanchard, "Saudi Arabia: Background and U.S. Relations," 27.

¹²² Judith Kipper quoted in Patrick E. Tyler, "Stability Itself Is the Enemy," *New York Times*, November 10, 2003.

Kingdom as “one of the countries most central to our global counterterrorism efforts.”¹²³ The Bush Administration concluded that many of Saudi Arabia’s problems in fighting terrorism resulted from poor training, rather than hostile intent and it sought to rectify the situation by providing the Kingdom with advanced training programs. As a result, since 2003, the Kingdom has created new entities and laws designed to combat terrorist financing in accordance with U.S. and international standards.¹²⁴ Cooperation expanded further since 2005 when the two countries bolstered their collaboration on counterterrorism as the U.S. started providing training and technical assistance to the Kingdom.¹²⁵ Specifically, under a lead of the U.S. Department of State, a number of U.S. agencies ranging from Department of Defense and Energy to Department of Treasury and Intelligence community have assisted the Saudi government with training on interdiction and investigation related to bulk cash smuggling, financial investigation techniques and training to build investigative capability among others. The U.S. intelligence community also increased information sharing with Saudi ministries.

Expanded collaboration on counterterrorism continued in subsequent years. In the 2008 Report on Terrorism, the U.S. Department of State praised improvements in Saudi cooperation with U.S. counterterrorism efforts as “significant;” however, the report also noted that “Saudi Arabia needs to continue to take steps to exercise oversight of fundraising activities in the Kingdom and Saudi charitable activities abroad.”¹²⁶ Along similar lines, in April 2008, Undersecretary of the Treasury for Terrorism and Financial Intelligence, Stuart Levey noted in his testimony before the Senate Finance Committee

¹²³ U.S. Department of the Treasury, “Testimony of Daniel L. Glaser, Deputy Assistant Secretary Office of Terrorist Financing and Financial Crimes,” (November 8, 2005).

¹²⁴ Blanchard, “Saudi Arabia: Background and U.S. Relations,” 9.

¹²⁵ “Combatting Terrorism,” (Washington, D.C.: Government Accountability Office, September 2009), 51.

¹²⁶ U.S. Department of State, “Country Reports on Terrorism 2008,” (April 2009).

that while the Kingdom is “serious about fighting Al Qaeda in the kingdom... the seriousness of purpose with respect to the money going out of the kingdom is not as high,” adding that “Saudi Arabia today remains the location from which more money is going to terror groups and the Taliban – Sunni terror groups and the Taliban – than from any other place in the world.”¹²⁷ A 2012 State Department report on terrorism released in May 2013 lauded the Saudi government for working to sustain “a robust counterterrorism relationship with the United States,” characterized by “enhanced bilateral cooperation.”¹²⁸

In addition to counterterrorism, U.S.-Saudi cooperation on Kingdom’s internal security has further broadened since 2008 when the two countries signed a Technical Cooperation Agreement, which led to the establishment of a U.S.-interagency critical infrastructure protection advisory mission to the Kingdom. The new Office of the Program Manager-Ministry of Interior (OPM-MOI) facilitates U.S. assistance “in the areas of critical infrastructure protection and public security, including border protection, civil defense capabilities, and coast guard and maritime capabilities.”¹²⁹ OPM-MOI is a Saudi-funded, U.S.-staffed senior advisory mission that “provides embedded U.S. advisors to key industrial, energy, maritime and cyber security offices within the Saudi government.”¹³⁰ As part of these efforts, the United States Military Training Mission also oversees a Saudi-funded program to train a Facilities Security Force for the Ministry of Interior to protect key infrastructure locations. Then-U.S. Ambassador to Saudi Arabia

¹²⁷ U.S. Senate, “Testimony of U.S. Department of the Treasury Undersecretary for Terrorism and Financial Intelligence Stuart A. Levey before the Senate Finance Committee,” (April 1, 2008).

¹²⁸ U.S. State Department Office of the Coordinator for Counterterrorism, “Country Reports on Terrorism 2012,” (May 2013).

¹²⁹ U.S. State Department, “Technical Cooperation Agreement between the United States of America and the Kingdom of Saudi Arabia.”

¹³⁰ Christopher M. Blanchard, “Saudi Arabia: Background and U.S. Relations,” (Congressional Research Service, February 12, 2014).

Ford Fraker underscored the magnitude and significance of this program focused largely on Saudi internal security, noting in October 2008 the program is “probably the single biggest initiative for the U.S.-Saudi relationship,” estimating that contracts related to this initiative could total “tens of billions of dollars.”¹³¹ As a part of this initiative, since 2009, the OPM MOI has coordinated the development of Saudi Arabia’s planned, U.S.-trained and equipped 35,000-strong Facility Security Force which will protect critical energy infrastructure within the Kingdom, including the oil and gas facilities, diesel plants, power generators and future nuclear plants from attacks by militants.¹³² According to a U.S. CENTCOM 2013 Posture Statement, the program is “the first interagency security assistance program to build the capabilities of the [Saudi] Ministry of Interior Security Forces that protect Saudi Arabia’s critical infrastructure.”¹³³ The statements further notes that “this is a long-term \$1 billion FMS Interagency Technical Cooperation Agreement, which has shown remarkable progress.” The initiative complements a long-standing U.S. Military Training Mission (USMTM) to Saudi Arabia established in 1953 and OPM-SANG, which manages the modernization and development efforts of the Saudi Arabian National Guard since 1973. Saudi Interior Ministry spokesman General Mansour al-Turki underscored the rationale behind this initiative stating that “There is a new threat to oil

¹³¹ "Managing the Marriage: A Conversation with Ambassador Ford Fraker – Part 3," *Saudi-U.S. Relations Information Service* December 1, 2008, <http://susris.com/2008/12/01/susris-exclusive-moving-in-the-right-direction-a-conversation-with-ambassador-ford-fraker-part-3/>.

¹³² "Facilities Security Forces (Fsf)," *Saudi-U.S. Relations Information Service* <http://susris.com/glossary/facilities-security-forces-fsf/>. See also "Saudi Arabia: Background and U.S. Relations."

¹³³ U.S. House of Representatives, "Statement of General Lloyd J. Austin, Iii, U.S. Army, Commander U.S. Central Command, before the House Appropriations Committee for Defense on the Posture of U.S. Central Command," (March 5, 2013).

installations from terrorists that has to be confronted... We can't just rely on a security system that was built some time ago for a different kind of risk."¹³⁴

In addition to these efforts, the number of Saudi military officers training in the U.S. has also increased in the last decade. Fracker noted in December 2008, "Three to four years ago there were 100 Saudi military officers training in the U.S." By 2008, "that number has jumped to 700 officers."¹³⁵

Bahrain-U.S. Security Relations

For its part, U.S. security cooperation with Bahrain has expanded in the post-Cold War period. In addition to hosting the U.S. naval headquarters, Bahrain participated in the U.S.-led coalition in 1991 and hosted 17,500 US forces and 250 U.S. combat aircraft at Shaykh Isa Air Base. Although U.S. military presence in Bahrain decreased to about 1,300 after the war, U.S.-Bahrain cooperation remained strong during the 1990s. This was demonstrated during 1991-1998 when Bahrain agreed to host the regional headquarters for U.N. weapons inspections in Iraq as well as the U.S.-led Multinational Interdiction Force (MIF) that enforced a UN embargo on Iraq during 1991-2003.¹³⁶ The country has also agreed to host two U.S. Patriot anti-missile batteries since the early 1990s.¹³⁷

¹³⁴ Simon Webb, "Saudi Builds Security Force of 35,000 to Guard Oil," *Reuters*, November 16, 2007, <http://www.reuters.com/article/2007/11/16/us-ope-summit-saudi-security-idUSL1528115720071116>.

¹³⁵ "Moving in the Right Direction – a Conversation with Ambassador Ford Fraker," *Saudi-U.S. Relations Information Service* December 1, 2008, <http://susris.com/2008/12/01/susris-exclusive-moving-in-the-right-direction-a-conversation-with-ambassador-ford-fraker-part-3/>.

¹³⁶ Katzman, "Bahrain: Reform, Security, and U.S. Policy."

¹³⁷ Walter Pincus, "Bahrain Government's Ties with the United States Run Deep," *Washington Post*, February 22, 2011.

Security cooperation deepened further in the 2000s. In 2001, the U.S. and Bahrain renewed their defense cooperation agreement for another 10-year period and, despite domestic opposition, Bahrain provided support to the U.S.-led wars in Afghanistan and Iraq. Specifically, the country allowed the U.S. to fly combat missions from its Shaykh Isa Air Base in both operations, deployed its U.S.-supplied warship and its ground and air assets in support of the U.S. missions, hosted over 4,000 U.S. military personnel during Operation Enduring Freedom (2001-2003), and contributed around 100 Bahraini troops to the U.S.-led International Security Assistance Force in Afghanistan (ISAF) from 2009 until 2014 – being the only GCC country besides the UAE to make such a contribution.¹³⁸

Indeed, the U.S. access to Bahraini installations proved critical to the U.S. interest in the region during the 2000s. The U.S. headquarters in Bahrain coordinated the operations of over 30 U.S. warships performing support missions for U.S. operations in the 2003 Iraq war, anti-terrorism missions aimed at preventing the seaborne movement of Al Qaeda and arms or WMD-related technology, and maritime narcotics interdiction across the Arabian Sea.¹³⁹

The already close defense relationship further strengthened in March 2002 when President Bush designated Bahrain a “major non-NATO ally,” a status that has qualified Bahrain for U.S. arms sales that are sold only to NATO countries.¹⁴⁰ Bahrain has also

¹³⁸ Kenneth Katzman, "Bahrain: Key Issues for U.S. Policy," (Congressional Research Service, March 24, 2005).

¹³⁹ Ibid.

¹⁴⁰ The White House, "Presidential Determination on the Designation of Bahrain as a Major Non-Nato Ally: Presidential Determination No. 2002-10, Memorandum for the Secretary of State," March 15, 2002, <http://georgewbush-whitehouse.archives.gov/news/releases/2002/03/20020315-3.html>.

become the largest recipient of U.S. grant security assistance among the GCC states.¹⁴¹

Although the U.S. suspended Foreign Military Financing (FMF) to Bahrain in 1994, the FMF was renewed in wake of Bahrain's contribution to war in Afghanistan and Iraq.

Further signaling the U.S. commitment to continued military presence in and security cooperation with Bahrain, in May 2010, the U.S. embarked on massive \$580 million military construction investment which will nearly double the existing facility in the country from 80 acres to 157 acres.¹⁴² The expansion is slated for completion in 2017 and will support the deployment of "additional U.S. coastal patrol ships and the Navy's new littoral combat ship, and permit larger U.S. ships to dock at the naval facility."¹⁴³ The U.S. is also investing \$45 million to expand Shaykh Isa Air Base, which hosts U.S. aircraft and additional \$19 million for a Special Operations Forces facility.¹⁴⁴

Although U.S.-Bahraini political relations soured in 2011 following Bahrain's violent crackdown against anti-government protests, the security cooperation has remained largely unaffected by this discord, although some U.S. officials suggest that the Bahraini government has become "slightly less forthcoming with in-kind support to the U.S. military presence" since the unrest. Condemning the crackdown, President Obama noted in May 2011, "You can't have a real dialogue when parts of the peaceful

¹⁴¹ U.S. State Department, "Foreign Military Financing Account Summary," <http://www.state.gov/t/pm/ppa/sat/c14560.htm>.

¹⁴² Simoes, "Bahrain Expansion Latest Sign of Continued Presence," *Stars and Stripes*, December 16, 2013. Among the recent appropriations to fund the expansion are: \$54 million for FY2008 (Division 1 of P.L. 110-161); \$41.5 million for FY2010 (P.L. 111-117); \$258 million for FY2011 (P.L. 112-10). \$100 million was requested for FY2012 for two projects, but was not funded in the FY2012 Consolidated Appropriation (P.L. 112-74).

¹⁴³ Katzman, "Bahrain: Reform, Security, and U.S. Policy."

¹⁴⁴ *Ibid.*

opposition are in jail.”¹⁴⁵ Similarly, while noting that “Bahrain is a friend and an ally and has been for many years,” U.S. Secretary of State Hillary Clinton called for “restraint from the government, [and] to keep its commitment to hold accountable those who have utilized excessive force... We urge a return to a process that will result in real, meaningful changes for the people there.”¹⁴⁶ Although the U.S. temporarily paused defense transfers and security assistance in response to harsh criticism over arms sales to Bahrain, the Obama administration later resumed the transfer of “equipment needed for Bahrain’s external defense and support of Fifth Fleet operations.”¹⁴⁷ Despite the political tensions, in August 2011, the two countries also renewed for the third time since 1990 the Defense Cooperation Agreement for another 10 year period;¹⁴⁸ and in 2012, Bahrain was slated to receive around \$500,000 in U.S. Nonproliferation, Anti-terrorism, Demining, and Related assistance (NADR).¹⁴⁹

In reaction to growing tensions over Iran’s nuclear program, the U.S. has continued to expand its military capabilities in Bahrain. In March 2012, the U.S. announced it would expand its presence in Bahrain by doubling its minesweepers to eight and dispatching additional mine-hunting helicopters. In May 2013, the U.S. Navy also doubled coastal patrol ships in Bahrain from five to ten.¹⁵⁰ The 2013 U.S. Central Command Posture Statement (USCENTCOM) further foreshadows the U.S. intention to

¹⁴⁵ The White House, "Remarks by the President on the Middle East and North Africa," May 19, 2011, <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa%20>.

¹⁴⁶ "Stunned U.S. Urges Bahrain to Show Restraint after Bloody Crackdown," http://www.nbcnews.com/id/41638606/ns/world_news-mideast_n_africa/t/stunned-us-urges-bahrain-show-restraint-after-bloody-crackdown/#.U2e5ZoFdWWY.

¹⁴⁷ U.S. Senate, "The Gulf Security Architecture: Partnership with the Gulf Cooperation Council: A Majority Staff Report Prepared for the Use of the Committee on Foreign Relations " (Washington, D.C.: Government Printing Office, June 19, 2012). See also U.S. State Department, "Press Releases: 2012, Bahrain Security Assistance," (January 27, 2012).

¹⁴⁸ "U.S.-Bahrain Defense Pact Renewed," *Agence France Press*, August 5, 2011.

¹⁴⁹ Katzman, "Bahrain: Key Issues for U.S. Policy."

¹⁵⁰ "Bahrain: Reform, Security, and U.S. Policy."

remain engaged in Bahrain in the foreseeable future, stating “The strong U.S.-Bahrain relationship is particularly critical in the face of the threat Iran poses to regional stability... We will continue to be a strong partner of Bahrain and the Bahraini people in the years ahead.”¹⁵¹

Kuwait-U.S. Security Relations

Similarly to Bahrain, U.S.-Kuwaiti security ties have also expanded in the post-Cold War period. While the bilateral relations were nil for most of the Cold War, they expanded in the 1980s when the U.S. protected Kuwaiti oil tankers through reflagging during the Iraq-Iran war. The relations further strengthened after the U.S.-led liberation of Kuwait in 1991 when the U.S. established a permanent presence in Kuwait. Kuwait contributed over \$16 billion to compensate the U.S. for incremental costs associated with Desert Shield and Desert Storm operations and between 1992 and 2003 allowed the U.S. to use Kuwaiti facilities to enforce a no fly zone over southern Iraq, hosting over 4,000 U.S. troops and 1,000 U.S. Air Force personnel during the 1990s.¹⁵² As a sign of eagerness to tie its security to the U.S., Kuwait also contributed around \$200 million annually to U.S. containment operations against Iraq.¹⁵³

Bilateral ties strengthened further in the 2000s. In 2001, the two countries renewed the 1991 defense cooperation agreement for another 10-year period and the pact has remained in the effect since 2011. Although the exact text is classified, the agreement

¹⁵¹ U.S. Senate, "Statement of U.S. Marine Corps General James N. Mattis, Commander, U.S. Central Command, before the Senate Armed Services Committee," (March 5, 2013).

¹⁵² Katzman, "Kuwait: Security, Reform, and U.S. Policy."

¹⁵³ *Ibid.*, 13.

provides for “mutual discussions in the event of a crisis; joint military exercises; U.S. evaluation of , advice to, and training of Kuwaiti forces; U.S. arms sales; prepositioning of U.S. military equipment; and U.S. access to a range of Kuwaiti facilities, among others.

U.S. military presence in Kuwait increased significantly as a result of the U.S. led 2001 Afghanistan and 2003 Iraq wars. In 2001, the U.S. increased its military presence in country by 5,000-U.S. force to promulgate Operation Enduring Freedom in Afghanistan. The 2003 U.S.-led invasion of Iraq further deepened the U.S.-Kuwaiti ties as Kuwait agreed to host about 25,000 U.S.-led support forces and 250,000 invasion forces along with massive volumes of equipment, while contributing \$266 million annually to support the U.S. increased presence on its territory.¹⁵⁴

Closer bilateral ties were further underscored in April 2004 when the Bush Administration designed Kuwait as a major non-NATO ally of the U.S.¹⁵⁵ Since the U.S. withdrawal from Iraq in December 2011, the U.S. presence in Kuwait decreased to permanent 13,500 U.S. troops,¹⁵⁶ which is significantly higher compared to the U.S. presence in Kuwait during the 1990s.¹⁵⁷ According to a congressional report, the composition of the residual force consisting of combat and support forces signals “that the United States wants to retain at least some combat power in close proximity to both

¹⁵⁴ David Pollock, "Kuwait: Keystone of U.S. Gulf Policy," (Washington Institute for Near East Policy, November 2007), 2.

¹⁵⁵ U.S. Department of Defense, "Dod Commemorates Kuwaiti Major Non-Nato Ally Status," April 1, 2004.

¹⁵⁶ Tom Shanker, "In Kuwait, Panetta Affirms U.S. Commitment to Middle East," *New York Times*, December 11, 2012. It also constitutes more than a third of the 35,000 U.S. forces in the Gulf. “There are not really plans to have any substantial increases in any other parts of the Gulf as this war winds down.” "The Cable: Foreign Policy’s Josh Rogin," *Washington Post*, December 22, 2011, 17.

¹⁵⁷ Michelle Tan, "15,000 in Kuwait, at Least for Now," *Army Times*, January 16, 2012.

Iraq and Iran.”¹⁵⁸ During his visit to Kuwait in December 2012, U.S. Secretary of Defense Leon E. Panetta stated that “[o]ur presence in Kuwait and throughout the Gulf helps advance the capabilities of partnering nations, deters aggression and helps ensure we’re better able to respond to crisis in the region.”¹⁵⁹

The continuous intimacy of the relations was further demonstrated in September 2013 during Kuwaiti Amir Sabah Al-Sabah’s visit of President Obama. During the meeting which focused on regional issues and bilateral relations, Obama described Kuwait as “one of our most important partners in the region” with which the U.S. has “a very strong bilateral defense agreement,” and work together “on a whole range of economic and social and security issues.”¹⁶⁰ He also noted the U.S. is “looking forward to extensive cooperation in the future.”¹⁶¹ Moreover, a June 2012 Senate Foreign Relations Committee report observed that Kuwait “is especially keen to maintain a significant U.S. military presence.”¹⁶² The Kuwaiti military is also a willing recipient of U.S. training. As one U.S. military officer put it in February 2012, “Their appetite for partnership exceeds our ability to provide it.”¹⁶³

¹⁵⁸ Katzman, "Kuwait: Security, Reform, and U.S. Policy," 14.

¹⁵⁹ Ernesto Londono, "Panetta Visits Kuwait to Highlight Partnership," *Washington Post*, December 11, 2012.

¹⁶⁰ The White House, "Remarks by President Obama and Amir Sabah Al-Sabah of Kuwait after Bilateral Meeting," September 13, 2013, <http://www.whitehouse.gov/the-press-office/2013/09/13/remarks-president-obama-and-amir-sabah-al-sabah-kuwait-after-bilateral-m>.

¹⁶¹ Ibid.

¹⁶² U.S. Senate, "The Gulf Security Architecture: Partnership with the Gulf Cooperation Council: A Majority Staff Report Prepared for the Use of the Committee on Foreign Relations " 12.

¹⁶³ SFRC staff discussions, Kuwait, February 2012, in *ibid*.

Qatar-U.S. Security Relations

The U.S.-Qatari relations have also expanded in the post-Cold War era. While the U.S. established official diplomatic relations with Qatar in 1973, the bilateral relations did not take off until after the 1991 Gulf War. Since 1992 when the two countries signed a defense agreement, defense cooperation has expanded progressively to include “cooperative defense exercises, equipment pre-positioning, and base access agreements.”¹⁶⁴ Since the early 1990s, Qatari Camp Al-Sayliyyah has served as the largest prepositioning facility for U.S. equipment in the world, and as the forward command center for CENTCOM personnel during the Afghanistan and Iraq wars.¹⁶⁵ Keen to maintain the U.S. military presence and deepen military-to-military cooperation, Qatar invested more than \$1 billion during the 1990s to expand the Al-Udeid air base that has hosted U.S. forces.

Security relations and U.S. presence in the country further expanded in 2003 when the U.S. moved its massive Combat Air Operations Center (CAOC) to Qatari Al-Udhaid Air base from Saudi Arabia. The Center serves as a regional hub for the command and control of airpower throughout 20 regional countries, hosting U.S. Air Force, Army, Navy, Marine Corps and Coalition partners.¹⁶⁶ Although Qatar subsidizes much of the U.S. presence, between 2003 and 2011, the U.S. invested over \$457 million for U.S. military infrastructure in Qatar, including construction of a new Air Force and

¹⁶⁴ Christopher M. Blanchard, "Qatar: Background and U.S. Relations," (Congressional Research Service, November 4, 2014), 4.

¹⁶⁵ Malcolm C. Peck, *Historical Dictionary of the Gulf Arab States*, 2nd ed. (Lanham, MD: Scarecrow Press, 2008), 28.

¹⁶⁶ Central Command USAF, Combined Air and Space Operations Center, , "Fact Sheet," (June 2, 2011). Global Security, "Al Udeid Air Base, Qatar," <http://www.globalsecurity.org/military/facility/udeid.htm>.

Special Operations facilities.¹⁶⁷ The new CAOC is “the most advanced operations center in history...[and] with thousands of computers, dozens of servers, racks of video equipment and display screens, the facility resembles the set of a futuristic movie.”¹⁶⁸

A security partnership between the two countries further deepened in 2011 when Qatar’s forces and fighter jets participated in NATO-led operations over Libya. This was followed by U.S. Secretary of Defense Chuck Hagel’s visit to Doha in December 2013 during which the two countries signed a new 10-year defense cooperation agreement.

UAE-U.S. Security Relations

As with the other GCC countries, U.S. security relations with the UAE have similarly expanded in the post-Cold War period. The bilateral cooperation took off after 1994 when the two countries signed Defense Cooperation Agreement (DCA), which permits the U.S. to pre-position equipment, grants U.S. warship access to UAE’s Jebel Ali port and the Al Dhafra Air Base, and provides for U.S. training of UAE armed forces at the Air Warfare Center near Al Dhafra Air Base.¹⁶⁹ Similarly to other GCC states, as an eager recipient of U.S. security guarantees, the UAE has subsidized facilities expansion and modernization in support of the U.S. presence since the early 1990s.¹⁷⁰

Defense cooperation increased further in the 2000s. Under the DCA, the UAE allowed the U.S. to upgrade its airfields at Al Dhafra air base and use them in support of

¹⁶⁷ Blanchard, "Qatar: Background and U.S. Relations," 5.

¹⁶⁸ Ibid.

¹⁶⁹ Kenneth Katzman, "The United Arab Emirates (Uae): Issues for U.S. Policy," (Congressional Research Service, May 15, 2014), 12.

¹⁷⁰ U.S. Senate, "The Gulf Security Architecture: Partnership with the Gulf Cooperation Council: A Majority Staff Report Prepared for the Use of the Committee on Foreign Relations " 17.

Operation Iraqi Freedom in 2003 and war in Afghanistan to which the UAE committed around 250 troops since 2003.¹⁷¹ The U.S. military presence in the UAE which consists mostly of U.S. Air Force has also substantially increased from 800 U.S. forces before the 2003 U.S.-led Iraq War, to around 3,000 by 2011, reaching nearly 5,000 in 2012. In April 2012, the U.S. bolstered its presence in the UAE by deploying F-22 Raptor combat aircraft to Al Dhafra base. Also, a 2012 congressional report assessed that “More U.S. Navy ships visit the port at Jebel Ali than any other port outside the United States.”¹⁷² Security cooperation broadened when in 2012 the UAE became home to the new Integrated Air Missile Defense Center which serves as a key training facility for U.S.-GCC cooperation on missile defense.¹⁷³

The closeness of the security relations was further underscored in the 2013 CENTCOM Posture Statement that noted that “Their [UAE’s] many contribution to collective defense and their close military ties over decades mark the UAE as one of our strongest friends within the region, deserving of our continued close engagement and tangible [Foreign Military Sales] FMS support.”¹⁷⁴

Oman-U.S. Security Relations

For their part, U.S.-Omani security relations have expanded in the post-Cold War era. Oman was the first GCC country to formally grant the U.S. military access to its

¹⁷¹ Greg Jaffe, "U.S. Rushes to Upgrade Base for Attack Aircraft," *Wall Street Journal*, March 14, 2003.

¹⁷² U.S. Senate, "The Gulf Security Architecture: Partnership with the Gulf Cooperation Council: A Majority Staff Report Prepared for the Use of the Committee on Foreign Relations " 17.

¹⁷³ Pierre Tran, "Uae to Build Integrated Air Ops Center in 2012," *Defense News*, November 12, 2011, <http://www.defensenews.com/article/20111112/DEFSECT01/111120301/UAE-Build-Integrated-Air-Ops-Center-2012>.

¹⁷⁴ Ibid.

military installations in a 1980 defense agreement, which has been renewed several times since then, most recently in 2010. In an important statement of enduring commitment to a partnership with the U.S., Oman hosted U.S. forces “during every U.S. military operation in and around the Gulf since 1980.”¹⁷⁵ Under the renewed 2000 defense agreement, the U.S. invested \$120 million to upgrade an air base at Musnanah.¹⁷⁶ Corresponding with the increased U.S. force levels in the Persian Gulf in support of operations in Afghanistan and Iraq, Oman hosted around 4,300 U.S. forces, mostly Air Force, during Operation Enduring Freedom, which ousted the Taliban in Afghanistan and a force of 3,750 during Operation Iraqi Freedom.¹⁷⁷ Since 2004, the U.S. military presence in Oman dropped to about 200 mostly U.S. Air Force, with the Omani government reportedly discussing a possibility of reducing U.S. military visibility even further by relocating all U.S. military personnel to offshore and sparsely inhabited Masirah Island.¹⁷⁸

U.S.-GCC Security Framework

To complement the security arrangements with the individual GCC states, in the post-Cold War period and particularly in the last decade, the U.S. has also sought to enhance its defense cooperation with the GCC as a group through a variety of institutionalized security frameworks aimed at establishing GCC-wide security architecture which would enhance GCC countries’ capacity to face regional threats and thereby, increase their burden sharing in protecting their own and regional security. The

¹⁷⁵ Kenneth Katzman, "Oman: Reform, Security and U.S. Policy," (Congressional Research Service, December 27, 2013), 2.

¹⁷⁶ Philip Finnegan, "Oman Seeks U.S. Base Upgrades," *Defense News*, April 12, 1999.

¹⁷⁷ Katzman, "Oman: Reform, Security and U.S. Policy," 9.

¹⁷⁸ *Ibid.*, 9-10.

focus of these initiatives, which have intensified since the late 2000s, has evolved in correspondence with the changing regional security environment and, in recent years, in response to constrained fiscal realities in the U.S.

In his March 1995 Congressional testimony, Assistant Secretary of Defense for International Security Affairs Joseph Nye described one of such initiative as “a three-tier cooperative approach” with the GCC countries.¹⁷⁹ This framework consisted “of strengthening local self-defense capabilities, promoting GCC and inter-Arab defense cooperation, and enhancing the ability of U.S. and coalition forces to return and fight effectively alongside local forces in a crisis.”¹⁸⁰

In 1998, the Clinton Administration introduced the Cooperative Defense Initiative (CDI) to reaffirm its commitment to Gulf security and increase defense cooperation with the GCC states. The CDI focused on meeting threats from weapons of mass destructions, including chemical and biological weapons. Under this framework, the U.S worked bilaterally and multilaterally with the GCC states and other regional states such as Egypt and Jordan to develop capabilities in the five CDI areas including “active defense [intercepting and destroying missiles], passive defense [doctrine, protective gear and medical stockpiles], shared early warning, consequence management and medical countermeasures.”¹⁸¹ Under the active defense pillar, the U.S. began to explore how to integrate the Saudis and Kuwaitis Patriot missile system with the U.S. forces. As part of the CDI, the U.S. Central Command sponsored a variety of exercises with the GCC and

¹⁷⁹ Quoted in O'Reilly, *Unexceptional: America's Empire in the Persian Gulf, 1914-2007*, 180.

¹⁸⁰ *Ibid.*

¹⁸¹ Jim Garamone, "Cooperative Defense Initiative Seeks to Save Lives," *American Forces Press Service*, April 10, 2000, <http://www.defense.gov/news/newsarticle.aspx?id=45075>. See also "Washington Promotes New Defense Initiative in the Gulf and Advances Strategic Cooperation with Israel," *Foundation for Middle East Peace* 9, no. 7 (Winter 1999).

regional states, with the first exercise taking place in May 2000 in Bahrain. The CDI, noted one analyst, served as a “military response to the political complaints long heard from Arabs concerning America’s favoritism toward Israel, lack of trust in regional Arab partners, and lack of vision for integrating Gulf policy into a larger regional strategy.”¹⁸²

In response to the increasing terrorism and proliferation threats, the changing situation in Iraq, as well as the relative strengthening of Iran and its investment in ballistic missile and nuclear technology, the Bush Administration launched a Gulf Security Dialogue (GSD) in May 2006 to revive and expand the U.S.-GCC security cooperation and to promote more robust cooperation among the GCC states themselves to meet common threats.¹⁸³ Under this framework, the U.S. has enhanced engagement with the GCC countries in six areas including: GCC defense capabilities and interoperability; regional security issues such as the Arab-Israeli conflict; counter-proliferation; counter-terrorism and internal security; critical infrastructure protection; and Iraq. While promoting multilateral cooperation and integrated engagement, the interagency Dialogue complements, but does not replace, the existing bilateral arrangements between the U.S. and individual GCC countries such as military to military coordination programs. GSD discussions have been held with each country semi-annually.

Despite this, an October 2008 congressional research report concluded that efforts to foster intra-GCC and integrated GCC-U.S. security cooperation have faced “significant challenges” because the GCC countries “have unique perspectives on the various security threats they face on the preferability of various policy responses...some GCC leaders

¹⁸² O’Reilly, *Unexceptional: America’s Empire in the Persian Gulf, 1914-2007*, 181.

¹⁸³ Christopher M. Blanchard, “The Gulf Security Dialogue and Related Arms Sale Proposals,” (Congressional Research Service, October 8, 2008).

appear to remain reluctant to fully embrace integrated responses.”¹⁸⁴ Similarly, the U.S. Government Accountability Office (GAO) noted in 2010 that GSD “has not succeeded in enabling multilateral cooperation among Gulf countries because these countries prefer bilateral discussions with the [U.S.] on security concerns.”¹⁸⁵

The Gulf Security Dialogue has, in many respects, continued under the Obama Administration which has further emphasized the multilateral aspect of security cooperation, while focusing chiefly on the development of Gulf missile defense system to deter and protect the region against potential missile attacks from Iran. In March 2012, the Obama Administration launched the U.S.-GCC Strategic Cooperation Forum in Riyadh. Though still in its nascent stages, this initiative is designed to formalize and deepen multilateral “cooperation and coordination of policies to advance shared political, military, security, and economic interests in the Gulf region, foster enhanced stability and security throughout the Middle East, and strengthen the close ties between the GCC and the United States.”¹⁸⁶ The inauguration launched a spate of high level visits aimed at deepening security cooperation. Then U.S. Secretary of State Hillary Clinton emphasized the initiative’s focus on enhancing missile defense cooperation in August 2012 stating, “We can do even more to defend the Gulf through cooperation on ballistic missile defense...it’s the cooperation – what they call ‘interoperability’ – that we now need to really roll up our sleeves and get to work on.”¹⁸⁷

¹⁸⁴ Ibid.

¹⁸⁵ "Persian Gulf: Report to Congressional Requesters."

¹⁸⁶ U.S. State Department, "Joint Communique from the Second Ministerial Meeting for the U.S.-GCC Strategic Cooperation Forum," October 1, 2012, <http://www.state.gov/r/pa/prs/ps/2012/10/198516.htm>.

¹⁸⁷ Tom Shanker, "U.S. And Gulf Allies Pursue a Missile Shield against Iranian Attack," *New York Times*, August 8, 2012.

Robust U.S.-GCC security relations were underscored during the second ministerial meeting of the U.S.-GCC Strategic Cooperation Forum in October 2012 in New York, during which Foreign Ministers of the GCC, the Secretary of the GCC, and U.S. Secretary of State Clinton called for improved multilateral military and security cooperation to deal with threats to the GCC territory and maritime security in the Gulf region, agreed on the need to continue to deepen U.S.-GCC ballistic missile defense cooperation, and welcomed the establishment of the Joint U.S.-GCC Security Committee which deals with issues pertinent to counter-terrorism and border security.¹⁸⁸ Enhanced cooperation through this mechanism was further underscored in September 2013, when U.S. Secretary of Defense Chuck Hagel and Secretary of State Kerry co-hosted the third ministerial meeting of the Forum. Shortly after that, in December 2013 during the Manama Dialogue in Bahrain, Secretary Hagel reiterated U.S. commitment to the GCC security and the need for the integrated approach, stating “The United States will continue to work closely with each of our partners in the GCC, but we must remain together, and we must do more to strengthen multilateral defense cooperation...”¹⁸⁹ In support of this objective, Hagel announced several new initiatives aimed at deepening the U.S.-GCC security cooperation.

First, DOD will work with the GCC on better integration of its members' missile defense capabilities. ... Second, we would like to expand our security cooperation with partners in the region by working in a coordinated way with the GCC, including through the sales of U.S. defense articles through the GCC

¹⁸⁸ U.S. State Department, "Joint Communique from the Second Ministerial Meeting for the U.S.-GCC Strategic Cooperation Forum." Third ministerial meeting, September 2013: "Joint Communique from the Third Ministerial Meeting for the U.S.-Gcc Strategic Cooperation Forum," September 26, 2013, <http://www.state.gov/r/pa/prs/ps/2013/09/214834.htm>. First meeting, April 2012: D.C. Royal Embassy of Saudi Arabia in Washington, "First Ministerial Meeting of Gcc-U.S. Strategic Cooperation Forum Concludes," April 1, 2012, http://www.saudiembassy.net/latest_news/news04011202.aspx; U.S. Congress, "U.S. Policy toward Iraq Three Years after the Gulf War."

¹⁸⁹ U.S. Department of Defense, "Remarks by Secretary Hagel at the Manama Dialogue from Manama, Bahrain," December 7, 2013, <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=5336>.

as an organization....And, third, I'm inviting our GCC partners to participate in an annual U.S.-GCC Defense Ministerial [which] will affirm the United States' continued commitment to Gulf security, and it will allow the U.S. and GCC member nations to take the next step in coordinating our defense policies and enhancing our military cooperation.¹⁹⁰

As the next step in improving U.S.-GCC defense collaboration in addition to the longstanding bilateral arrangements, later in December 2013, President Obama designated the GCC eligible for Foreign Military Sales as a block.¹⁹¹ This designation

helps lay the groundwork for the GCC states to address regional ballistic missile defense through multilateral procurement... allowing the GCC to invest in shared systems for mutual defense, even as the United States continues a strong bilateral defense partnership with each individual GCC member state. And it demonstrates our commitment to the U.S.-Gulf Partnership...¹⁹²

To facilitate further U.S.-GCC cooperation on ballistic missiles issues, President Obama expanded the authority of the U.S. Air Force to conduct integrated air and missile defense training at the U.S.-UAE Integrated Air and Missile Defense Center in the UAE.¹⁹³

Despite regional political tensions that have complicated the U.S.-Saudi political relations since 2011, in May 2014 during Defense Secretary Hagel's meeting with ministers from the six GCC countries in Saudi Arabia, Saudi crown prince Salman bin Abdulaziz al-Saud affirmed the need for "coordination in politics and defense strategies of our countries" to meet "persistent threats to the region's security and stability."¹⁹⁴

¹⁹⁰ Ibid.

¹⁹¹ Zachary Fryer-Biggs and Awad Mustafa, "Obama Issues Directive to Sell Weapons to Gcc," *Defense News*, December 18, 2013, <http://www.defensenews.com/article/M5/20131218/DEFREG04/312180019/Obama-Issues-Directive-Sell-Weapons-GCC>.

¹⁹² U.S. State Department, "Gulf Cooperation Council and Ballistic Missile Defense: Remarks by Frank A. Rose," May 14, 2014, <http://www.state.gov/t/avc/rls/2014/226073.htm>.

¹⁹³ Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy," *World Politics* 51, no. 1 (1998).

¹⁹⁴ "Saudi Seeks Stronger Us-Gulf Military Cooperation," *Defense News*, May 14, 2014, http://www.defensenews.com/article/20140514/DEFREG04/305140029/Saudi-Seeks-Stronger-US-Gulf-Military-Cooperation?odyssey=mod_sectionstories.

Calling for stronger military cooperation between the U.S. and the GCC states, Prince Salman singled out concerns over “political crises” in some Arab states, as well as “attempts to acquire weapons of mass destruction and meddling of certain states” in the internal affairs of others.¹⁹⁵ Hagel noted that despite Iran’s diplomatic engagement being a “positive development,” the U.S. and GCC states “continue to share concerns about Iran’s destabilizing activities throughout the region... [including Iran’s] sponsorship of terrorism, its support for the Assad regime in Syria and its efforts to undermine stability in GCC member nations... That is why we are committed to continuing to work together to reinforce GCC defense and capabilities.” During the meeting, the GCC ministers and Hagel agreed on the need “for more cooperation in three areas: more integrated air and missile defense coordination; closer maritime security integration; and expanded cybersecurity cooperation.”¹⁹⁶ According to Deputy Assistant Secretary Frank Rose, to address these and other security issues, U.S. and Gulf experts are now meeting as a group to exchange best practices on counterterrorism and border security, “within which cyber security is becoming an increasingly prominent topic.”¹⁹⁷

Iraq-U.S. Security Relations

While the U.S. has maintained close defense relations with the GCC countries since the 1980s, the U.S.-Iraqi security relations has begun to develop only since the removal of Saddam Hussain in 2003 and normalized only since the U.S. withdrawal from

¹⁹⁵ Ibid.

¹⁹⁶ Ibid.

¹⁹⁷ U.S. State Department, "Gulf Cooperation Council and Ballistic Missile Defense: Remarks by Frank A. Rose."

Iraq in 2011. Despite the complete U.S. troop pullout in 2011, the U.S. has maintained robust, albeit diminishing civilian presence in the country. After the withdrawal, the U.S. sustained over 16,000 political and security-related personnel in the in Iraq, about 50% of which were contractors.¹⁹⁸ This includes the Office of Security Cooperation-Iraq (OSC-I) which is “the largest U.S. security cooperation office in the world,” staffed with more than 3,500 largely civilian U.S. security and support personnel.¹⁹⁹ In mid-2013, the U.S. presence in Iraq then dropped to around 10,000 and then further to about 5,500 at the end of 2013, of which about 1,000 are U.S. governmental employees with the rest being contractors.²⁰⁰ Since the U.S. withdrawal, OSC-I staff has continued to administer arms sales to Iraq, as well as train, mentor and otherwise cooperate with the Iraq military and the government on counter-terrorism, naval and air defense, and through joint exercises.²⁰¹

With security situation in Iraq deteriorating since early 2012, Iraq has urged for increased security cooperation with the U.S. This was reflected in August 2012 during Chairman of the Joint Chiefs of Staff General Martin Dempsey’s visit to Iraq during which he stated that the Iraqi government “recognize[s] their capabilities may require yet more additional development and I think they’re reaching out to us to see if we can help them with that.”²⁰² The two countries cemented increased security ties in a five year Memorandum of Understanding (MOU) which provides for expanded high level-U.S.

¹⁹⁸ Katzman, "Iraq: Politics, Governance, and Human Rights," 34.

¹⁹⁹ Ibid., 35. Of the staff, about 175 are U.S. military personnel, 45 are Defense Department civilians, 46 members of the staff administer the Foreign Military Sales (FMS) program and other security assistance programs such as the International Military Education and Training (IMET) program. The rest are contractors.

²⁰⁰ Ernesto Londono, "U.S. Clout Wanes in Iraq," *Washington Post*, March 24, 2013. Tim Arango, "U.S. Plans to Cut Its Staff by Half at Iraq Embassy," *New York Times*, February 8, 2012.

²⁰¹ Senate Armed Services Committee, "Senate Armed Services Committee Holds Hearing on Iraq Security Issues," (November 15, 2011).

²⁰² "U.S. Hopes for Stronger Military Ties with Iraq: General," *Agence France Press*, August 19, 2012.

military exchanges; professional military education cooperation; counter-terrorism cooperation; the development of defense intelligence capabilities; and joint exercises.²⁰³

As Sunni unrest in Iraq continued to escalate in 2013 partly due to a spillover from the Syria's civil war, the U.S. and Iraq discussed options to further enhance security cooperation. This was underscored during Maliki's meeting with President Obama and Secretary of Defense Hagel in November 2013, during which Maliki sought greater access to U.S. intelligence and expedition of arms sales among others to deal with Al-Qaeda affiliated groups threatening Iraq.²⁰⁴ As security conditions continued to rapidly deteriorate in early 2014, the Obama administration enhanced security cooperation with Iraq. In January 2014 Secretary of State John Kerry stated the U.S. would assist Iraq to deal with the crisis but he ruled out a reintroduction of U.S. troops into Iraq. Without detailing what assistance the U.S. would provide he affirmed the U.S. would do "everything that is possible," further noting, "We are not, obviously contemplating returning. We are not contemplating putting boots on the ground. This is their fight, but we're going to help them in their fight."²⁰⁵ In February 2014 Deputy Assistant Secretary of State Brett McGurk testified that in the wake of the Al-Qaeda resurgence in Iraq, OSC-I increased "non-operational" training with Iraqi counterterrorism forces.²⁰⁶

²⁰³ Jim Garamone, "U.S., Iraq Sign Defense Cooperation Memo of Understanding," *American Forces Press Service*, December 6, 2012, <http://www.defense.gov/news/newsarticle.aspx?id=118721>.

²⁰⁴ As of November 2011, OSC-I managed nearly 370 U.S. Foreign Military Sales (FMS) cases worth over \$9 billion of agreed sales to Iraq, of which the largest has been the sale of 36 F-16 combat aircraft and associated training, parts and weaponry with a total price tag of about \$6.5 billion.

²⁰⁵ Loveday Morris and Anne Gearan, "Kerry Says U.S. Will Help Iraq against Al-Qaeda but Won't Send Troops Back In," *Washington Post*, January 5, 2014.

²⁰⁶ U.S. State Department, "Al-Qaeda's Resurgence in Iraq: A Threat to U.S. Interests: Testimony by Brett McGurk, House Foreign Affairs Committee," (February 5, 2014).

"U.S. Seeks to Resume Training of Iraqi Commandos," *Dow Jones Newswire*, January 9, 2014. U.S.

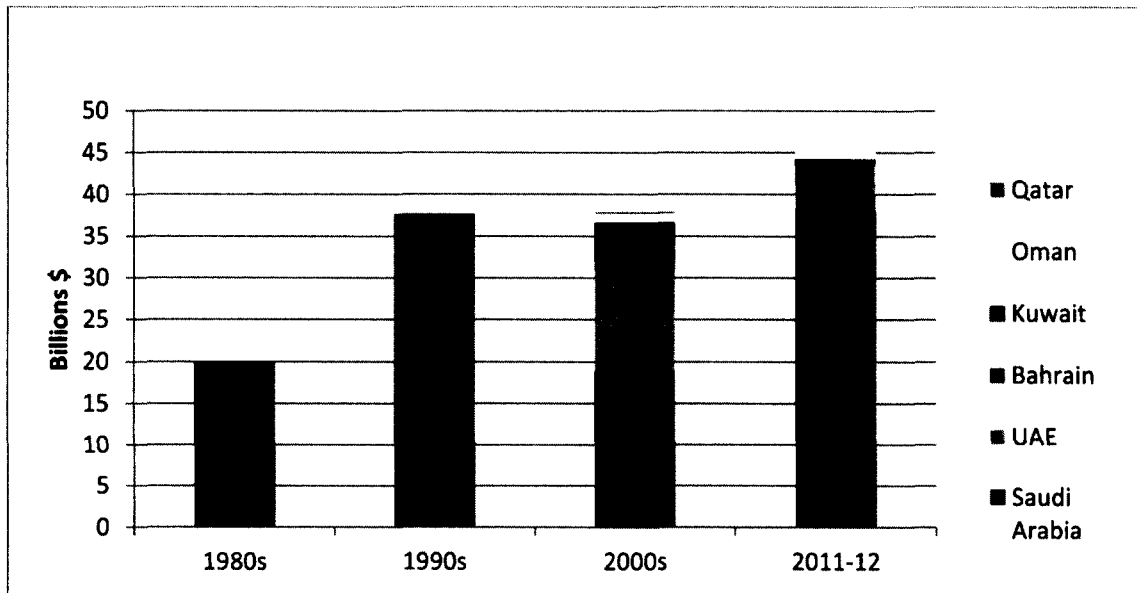
Arms Sales

Since the Cold War, the U.S. has used arms sales, and provision of military training and other security assistance to the Gulf states to further its national security objectives in the region. As the figures below illustrate, these efforts accelerated in the post-Cold War period and particularly in the last decade during which the U.S. arms sales to the GCC states dramatically increased. While the Gulf War of 1990-91 and threat of Iraq served as a principal driver of GCC countries' arms purchase until the removal of Hussein's regime in 2003, concerns over the relative strengthening of Iran's regional power along with the Obama's administration increased focus on burden-sharing has created new GCC states' demands in the last decade and particularly since the early 2010s. As Secretary of Defense Chuck Hagel noted in December 2013, "Over the last 20 years, the sale of advanced weapons has helped to shift the military balance in the region away from Iran and in favor of our Gulf partners, and this shift is accelerating."²⁰⁷ Meanwhile, the U.S. CENTCOM Posture Statement issued in March 2014 links the increased provision of security assistance to the GCC countries to the need for their contribution to regional stability and their own defenses, stating "Through our continued presence in the region, training and equipping programs, and further expansion of multilateral exercises and activities, we are setting conditions for increased burden-sharing."²⁰⁸

²⁰⁷ U.S. Department of Defense, "Remarks by Secretary Hagel at the Manama Dialogue from Manama, Bahrain."

²⁰⁸ U.S. Senate, "Statement of General Lloyd J. Austin, Iii, Commander U.S. Central Command, before the Senate Armed Services Committee on the Posture of U.S. Central Command," (March 6, 2014).

Figure 1. U.S. Arms Sales to the GCC countries (1980-2012)



Source: Data compiled by the author from various Congressional Research Service Reports by Richard F. Grimmett.

Indeed, as Table 2 demonstrates, U.S. arms sales procured through the Foreign Military Sales program to the regional countries in a short period of seven years, from 2005 to 2012, in many cases exceeded, or were nearly equal to total U.S. arms transfers to these states in the previous more than five decades. From Fiscal Year (FY) 2007 to 2010 alone, the six GCC states' arms and training services agreements accounted for nearly 30% of all U.S. foreign military agreements in that period. While U.S. arms sales to Iran ceased after the Islamic revolution in 1979, Iraq – a major purchaser of Soviet advanced weaponry during the Cold War - has become a beneficiary of U.S. Foreign Military Sales (FMS) since 2005.

Table 2. U.S. Foreign Military Sales Agreements to the Persian Gulf States (Dollars in Thousands)

Country	FY 1950-2004	2005	2006	2007	2008	2009	2010	2011	2012	FY 2005-2012
Saudi Arabia	67,129,439	724,613	802,972	1,635,990	6,257,289	2,837,882	2,026,968	3,364,301	34,733,840	52,383,855
Qatar	18,462	18	0	26	17,352	194,828	17,106	1,175	37,518	268,223
UAE	912,687	26,574	761,995	1,627,834	653,060	7,559,603	501,642	1,532,937	3,850,990	16,514,635
Bahrain	2,062,220	26,241	89,823	203,349	75,919	95,629	88,010	105,065	25,759	709,795
Kuwait	9,103,598	95,992	657,608	82,132	523,379	298,019	1,071,604	409,424	178,372	3,316,530
Oman	1,049,385	45,687	17,224	38,588	28,501	86,060	11,709	139,384	1,462,768	1,829,921
Iran	10,715,417	0	0	0	0	0	0	0	0	0
Iraq	13,152	80,724	0	1,049,611	2,350,423	901,437	817,788	1,841,331	1,497,011	8,538,325

Source: Compiled by the author from the U.S. Department of Defense Security Cooperation Agency's Historical Fact Books and Fiscal Year Series, September 30, 2012.

In accordance with the 2006 Gulf Security Dialogue's and 2012 Strategic Cooperation Forum's goals to build GCC capabilities, promote interoperability and facilitate greater burden-sharing with the U.S., the U.S. arms sales to the GCC states have increased dramatically since the second half of the 2000s. Indeed, from 2007 to 2013 alone, the U.S. arms agreements with the GCC countries totaled more than \$75 billion. Sales during this six year period "are worth nearly as much as those made previously totally in the previous 15 years."²⁰⁹ Between 2004-2007 and 2008-2011 the U.S. arms agreements with the GCC countries increased more than eight fold.

The arms agreements have focused on development of GCC's air, naval, asymmetric warfare, counterterrorism and particularly missile defense capabilities. In line with the U.S. goal to build an integrated regional defense against the threat of ballistic missiles, several GCC states purchased missile defense systems and others expressed a similar interest. The UAE and then Qatar have contracted to procure U.S. Terminal High

²⁰⁹ U.S. Department of Defense, "Remarks by Secretary Hagel at the Manama Dialogue from Manama, Bahrain."

Altitude Area Defense (THAAD) systems. The U.S. has been also negotiating the sale of THAAD with Oman. The UAE and other GCC states have also purchased Patriot PAC-3 system that can be deployed “against short-range ballistic missiles, large-caliber rockets, and air-breathing threats,” and which provide “a lower-tier, point defense of critical national assets.” Saudi Arabia is in the process of upgrading its existing U.S.-procured Patriot PAC-2 batteries to the PAC-3 configuration. Kuwait also is upgrading its existing batteries to PAC-3, and in December 2013 signed an offer with the U.S. for two additional PAC-3 batteries. During Hagel’s visit to the region in late 2013, the U.S. finalized another massive arms agreement for F-15, F-16 and advanced munitions with a total price tag of nearly \$11 billion. According to Hagel “These are the most advanced capabilities we have ever provided to this region.”²¹⁰ Hagel further lauded GCC billions-worth investments in missile defense purchases when he stated in December 2013 “We applaud the efforts of many Gulf states to acquire new and enhanced missile defense capabilities in the face of growing regional missile threat.”²¹¹ In May 2014, Frank Rose, U.S. Deputy Assistant Secretary linked these efforts to a greater need for GCC-U.S. burden-sharing, noting “These procurements demonstrate our GCC partners’ determination to provide for their own defense, and when combined with our regional BMD capabilities, represent a significant contribution to regional stability at a time when our own defense spending is under fiscal pressure. In today’s austere budget environment, these investments can help achieve greater economies of scale.”²¹²

²¹⁰ Ibid.

²¹¹ "Iiss Manama Dialogue, Secretary of Defense Speech," December 7, 2013, <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1824>.

²¹² U.S. State Department, "Gulf Cooperation Council and Ballistic Missile Defense: Remarks by Frank A. Rose."

Saudi Arabia is the largest U.S. Foreign Military Sales (FMS) customer, “with active and open cases valued at approximately \$97 billion” as of March 2014.²¹³ Saudi Arabia’s arms agreements with the U.S. increased nine times in 2008-2011 compared to 2004-2007. In October 2010, the U.S. announced its plan to sell up to \$60 billion worth of military aircraft to the Kingdom in what would be the largest U.S. arms sale in the history.²¹⁴ The remaining GCC countries have also considerably increased their arms purchases from the U.S. In a period from 2007 to 2010, the UAE agreed to procure U.S. defense articles and services through the Foreign Military Sales program in total of \$10.4 billion, which is more than any other country in the world except Saudi Arabia.²¹⁵

Although Oman has traditionally relied on British-made defense articles, since the early 2000s the country has also been increasingly procuring U.S. systems in its effort to modernize its arsenal and enhance interoperability with the U.S. forces. Particularly in the recent years, the arms agreements have increased significantly (Table 1). In 2001 Oman purchased 12 U.S.-made F-16 aircraft and in 2010 agreed to procure up to additional 18 F-16s from Lockheed Martin worth up to \$3.5 billion. In October 2011, Oman agreed to purchase surface-to-air and air-to-air missiles at value about \$1.25 billion to develop its layered air defense system. In May 2013, during Secretary of State John Kerry’s visit to Oman, the two countries agreed on the sale of the THAAD (Theater

²¹³ The White House, “Fact Sheet: United States-Saudi Arabia Bilateral Relationship,” March 28, 2014, <http://www.whitehouse.gov/the-press-office/2014/03/28/fact-sheet-united-states-saudi-arabia-bilateral-relationship>.

²¹⁴ “Us Confirms \$60bn Saudi Arms Deal: Largest Ever Us Arms Sale Includes 84 Boeing F-15 Fighter Jets and More Than 100 Attack Helicopters,” *Al Jazeera*, October 10, 2010, <http://www.aljazeera.com/news/middleeast/2010/10/20101020173353178622.html>

²¹⁵ Richard F. Grimmett, “U.S. Arms Sales: Agreements with and Deliveries to Major Clients, 2003-2010,” (Washington, D.C.: Congressional Research Service, December 16, 2011).

High Altitude Area Defense system), which is “the most sophisticated missile defense system the United States exports.”²¹⁶

Qatar has increasingly become another “non-traditional” buyer of U.S. arms. Although France has supplied the vast majority of Qatar’s arsenal for decades, since later 2000s and particularly since 2012, proposed U.S. arms sales to Qatar has indicated “a shift in Qatar’s defense planning toward the future use of advanced U.S. attack and transport helicopters and other weapons systems, including items for air defense and missile defense.”²¹⁷

With the UN sanctions on Iraq lifted since the U.S.-led invasion in 2003, also Iraq has newly become an important buyer of U.S. arms, both before and after the U.S. withdrawal. As of November 2011, the U.S. Office of Security Cooperation-Iraq (OSC-I) managed nearly 370 U.S. Foreign Military Sales (FMS) cases worth over \$9 billion of agreed sales to Iraq, of which the largest has been the sale of 36 F-16 combat aircraft and associated training, parts and weaponry with a total price tag of about \$6.5 billion.²¹⁸ Corresponding with escalating Al-Qaeda linked violence since 2012 and spillover from the Syria’s civil war, arms sales agreements increased in the recent years. A year after the withdrawal, in December 2012, the U.S. Navy delivered two support ships to Iraq, which will assist Iraq’s fast-attack and patrol boats that secure its offshore oil platforms and other coastal and offshore locations. In 2013 Iraq agreed to purchase the U.S. Integrated Air Defense System and Apache helicopters with a price tag of around \$10 billion for use

²¹⁶ Walter Hickey, “We’re Now Selling the Most Advanced Missile System to This Islamic State,” *Business Insider*, June 6, 2012, <http://www.businessinsider.com/lockheed-martin-sells-thaad-missile-system-to-uae-2012-6>.

²¹⁷ Blanchard, “Qatar: Background and U.S. Relations,” 5.

²¹⁸ Senate Armed Services Committee, “Senate Armed Services Committee Holds Hearing on Iraq Security Issues.”

against Al-Qaeda affiliated group Islamic State of Iraq and the Levant (ISIL).²¹⁹ The same year U.S. sold Iraq 75 HELLFIRE missiles and unarmed surveillance drones for use against ISIS targets.²²⁰ In January 2014, Iraq made agreements for a potential sale of up to 500 more HELLFIRE missiles and related training “to ensure that ISIL can never again gain safe have in western Iraq.”²²¹ The U.S. have also increased bilateral and regional training opportunities for Iraqi counterterrorism units with U.S. trainers from the Embassy’s Office of Security Cooperation, and expedited procurement of essential counterterrorism-related equipment for Iraq’s “most elite and disciplined units.”²²²

In February 2014 Deputy Assistant Secretary of State Brett McGurk stated in his testimony before U.S. House Foreign Affairs Committee “we believe that sales of U.S. equipment will strengthen a long-term strategic relationship with the Iraqi military – through training, spare parts, joint exercises, logistics and interoperability with U.S. forces and regional partners.”²²³ McGurk made also clear that if the U.S. does not satisfy Iraq’s arms appetite, other countries will. He stated:

Iraq has acute demands, money to supply those demands, and while it prefers U.S. equipment and the multi-decade relationship that comes with our foreign military sales program, strategic competitors are now lining up to meet Iraqi demands if we cannot deliver. We believe that it is in America’s strategic interest to supply military systems to Iraq, as opposed to Russia or other competitors.²²⁴

²¹⁹ John Hudson, "Iraqi Ambassador: Give Us Bigger Guns, and Then We'll Help on Syria," *Foreign Policy*, July 17, 2013
http://thecable.foreignpolicy.com/posts/2013/07/17/iraqi_ambassador_give_us_bigger_guns_and_then_wel_l_help_on_syria.

²²⁰ Adam Schreck, "Iraq Presses Us for Faster Arms Deliveries," *Yahoo.com*, October 18, 2012.

²²¹ "U.S. Seeks to Resume Training of Iraqi Commandos." U.S. State Department, "Al-Qaeda’s Resurgence in Iraq: A Threat to U.S. Interests: Testimony by Brett McGurk, House Foreign Affairs Committee."

²²² "Al-Qaeda’s Resurgence in Iraq: A Threat to U.S. Interests: Testimony by Brett McGurk, House Foreign Affairs Committee."

²²³ U.S. Department of State, "U.S. Foreign Policy toward Iraq: Testimony by Brett McGurk, House Foreign Affairs Committee, Subcommittee on the Middle East and Africa."

²²⁴ *Ibid.*

Such competition is not without a precedent. In the mid-1980s, Great Britain, for instance, sold combat fighter aircraft to Saudi Arabia, when the U.S. refused to sell a similar aircraft.²²⁵

The sale of advanced defense articles, particularly the F-15, F-16 and ballistic missile defense systems, will perpetuate the GCC countries reliance on material and training support provided by the U.S. military and U.S. defense contractors for the foreseeable future.²²⁶ For instance, a congressional report notes that the proposed sale of advanced U.S. F-15 aircraft to the elite Royal Saudi Air Force (RSAF) announced in 2010 will, among other sales, “guide the immediate future of the United States Military Training Mission (USMTM) in Saudi Arabia and the Saudi Arabian National Guard Modernization Program (PM-SANG),” both of which have operated under “special bilateral agreements” and have been funded by Saudi arms procurement since the 1950s and 1970s, respectively.²²⁷

U.S. Economic Capabilities in the Persian Gulf

In the post-Cold War era and particularly since the mid-2000s, the U.S. has expanded its trade ties and economic collaboration with all the GCC countries. Also energy ties have remained robust both on the governmental and the private sector level. The removal of the Saddam Hussein regime has also facilitated increased trade volumes

²²⁵ Richard F. Grimmett and Paul K. Kerr, "Conventional Arms Transfers to Developing Nations, 2004-2011," (Congressional Research Service (CRS), 2012).

²²⁶ Blanchard, "Saudi Arabia: Background and U.S. Relations."

²²⁷ Ibid., 4.

and unprecedented collaboration in the energy sector with Iraq, while economic ties with Iran have continued to be virtually non-existent due to escalating sanctions.

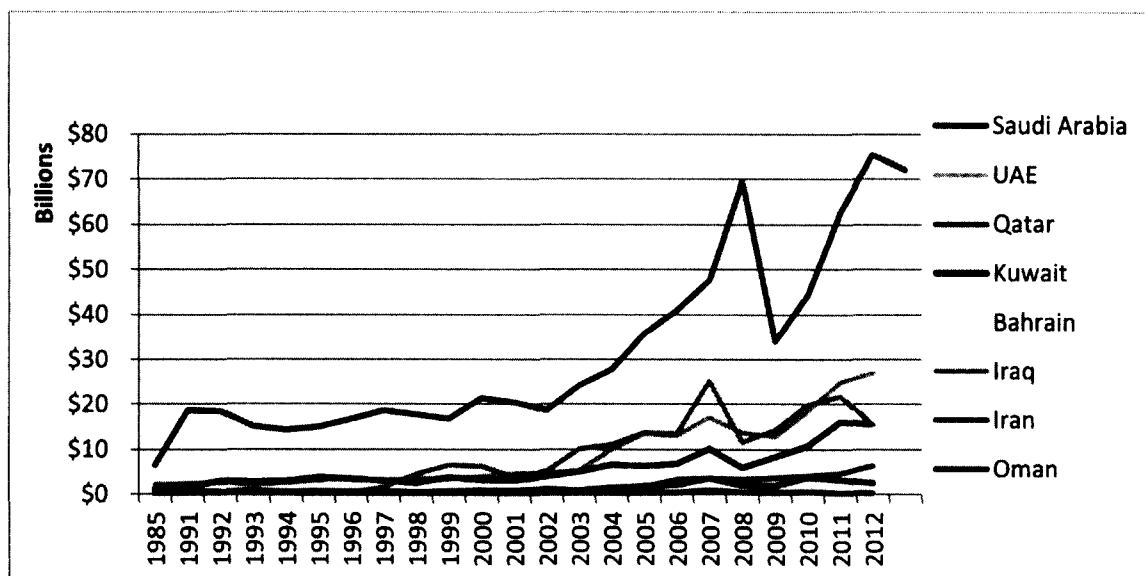
Although the first half of the 1990s witnessed robust U.S. commerce expansion with the GCC region compared to the Cold War period, the pace slowed down in the second half of the 1990s as the U.S. directed more of its foreign investment toward other regions and low oil prices constrained GCC's fiscal strength. Bilateral economic cooperation temporarily deteriorated following the crisis of 9/11 and the previously booming governmental GCC-U.S. trade dialogues virtually ceased. Despite that, the U.S. private sector presence in the GCC countries remained robust. In fact, as of 2003, more than 700 U.S. affiliated companies operated in the GCC countries, the number of U.S.-GCC countries' joint ventures continued to be far higher compared to any other country and the U.S. private sector investment in the GCC economies constituted half the world's investment in the GCC.²²⁸

The economic ties particularly intensified since the mid-2000s. The combination of increasing oil prices since 2002 and again since 2009, along with the Bush administration's 2003-2004 initiatives to deepen economic ties with the Middle East countries facilitated unprecedented trade volumes and commercial cooperation every year since around 2003 (Figure 2 and 3). Indeed, the high oil prices in the 2000s led to the expansion of U.S.-GCC economic ties in both directions, although trade temporarily declined in 2008-2009 due to the global financial crisis. The GCC's newly gained financial power from hydrocarbon revenues translated into unprecedented infrastructure development in the GCC countries and, in turn, stimulated the bilateral trade and

²²⁸ John Duke Anthony, "The U.S.-Gcc Relationship: Is It a Glass Leaking or a Glass Filling?," (National Council on U.S.-Arab Relations, July 1, 2003).

particularly the U.S. export to the region. Secondly, since the mid-2000s, the GCC countries have dramatically expanded their investment position in the U.S. and West in general through their sovereign wealth funds (SWF). GCC SWFs have grown in tandem with the rising oil prices since 2009, reaching \$1.6 trillion in 2012, up from \$1 trillion in 2007 and accounting for more than 32% of the global SWF assets.²²⁹ Illustratively, Saudi Arabia which holds the highest volume of SWF assets, or around \$690 billion, among the GCC countries, kept reportedly around 80% of its portfolio in U.S. Treasury bonds in 2013 despite political disagreements over regional issues.²³⁰

Figure 2. Total Trade between the U.S. and the GCC, Iraq, and Iran (1985-2012)



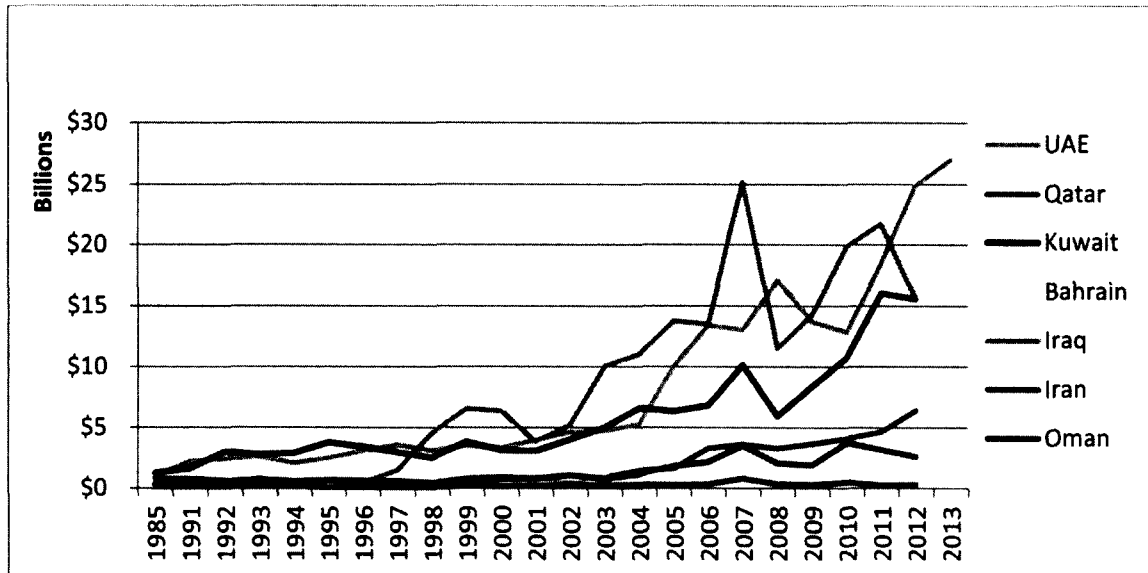
Source: Created by the author with the data drawn from the UN Commodity Trade Statistics Database, Various Issues (New York: United Nations), and UN International Trade Statistics Yearbooks, Various Issues (New York: United Nations).

²²⁹ "Saudi Tops Sovereign Wealth Fund Assets in Gcc," *albahaba*, August 13, 2013, <http://www.albahaba.com/business/saudi-arabia-sovereign-wealth-fund-gcc-513325>.

²³⁰ Stasa Salacanian, "Gcc Sovereign Wealth Funds Manage over Usd 1.7 Trillion," *bqdooha*, December 9, 2013, <http://www.bqdooha.com/2013/12/gcc-sovereign-wealth-funds-manage-usd-1-7-trillion>.

Figure 3 excludes Saudi Arabia to better illustrate the increase in trade between the U.S. and the remaining GCC countries as well as Iraq.

Figure 3. Total Trade between the U.S. and the GCC, Iraq, and Iran, excluding Saudi Arabia (1985-2012)



Source: Created by the author with the data drawn from the UN Commodity Trade Statistics Database, Various Issues (New York: United Nations), and UN International Trade Statistics Yearbooks, Various Issues (New York: United Nations).

As the next section demonstrates, these changes have been manifested in U.S. bilateral ties with individual GCC countries and Iraq.

U.S.-Saudi Economic Relations

The U.S.-Saudi trade relations have increased considerably in the post-Cold War era and particularly since the mid-2000s, making Saudi Arabia America's main trading partner in the Persian Gulf. While during the 1990s the value of bilateral trade remained relatively flat, stagnating around \$18 billion year, it increased by more than 350%

between 2000 and 2013 alone reaching over \$75 billion in 2013.²³¹ Improved economic ties were underscored in 2003 when the two countries signed Trade and Investment Framework Agreement (TIFA) which, provided a bilateral forum focused on fostering greater trade and investment.²³² Trade volumes further increased after 2005 when Saudi Arabia was admitted to the World Trade Organization following 12 years of negotiations with the U.S.

Although U.S. oil imports from Saudi Arabia have decreased in recent years due to increased domestic oil production in the U.S., high oil prices since 2002 have been responsible for much of the increase in the value of bilateral trade. While U.S. oil imports from the Kingdom account for the bulk of the total bilateral trade, the U.S. exports to Saudi Arabia have also increased considerably, rising by 300% between 2003 and 2013 alone.²³³ In contrast to China's lower-valued exports to Saudi Arabia, U.S. exports to the Kingdom include mainly high-value, high-tech products such as private commercial services, vehicles, electric machinery, and commercial aircraft among others.²³⁴

According to President of the National U.S.-Arab Chamber of Commerce, David Hamod, the increase in the U.S. export is largely attributable to unprecedented infrastructure development in the GCC states. Indeed, in 2009 the Kingdom launched a five-year \$400 billion worth project to build infrastructure, expand energy production and boost

²³¹ United States Census Bureau, "Trade in Goods with Saudi Arabia," <http://www.census.gov/foreign-trade/balance/c5170.html#2013>.

²³² Office of the United States Trade Representative, "Agreement between the Government of the United States of America and the Government of the Kingdom of Saudi Arabia Concerning the Development of Trade and Investment Relations," http://www.ustr.gov/sites/default/files/uploads/agreements/tifa/asset_upload_file304_7740.pdf.

²³³ Excluding military arms sales and other governmental services.

²³⁴ Office of the United States Trade Representative, "U.S.-Saudi Arabia Trade Facts," <http://www.ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/saudi-arabia>.

economic growth.²³⁵ The Kingdom also announced plan to invest \$150 billion over the next two decades to upgrade its utility-related infrastructure.²³⁶

To boost investment by American companies in these projects amid increasing competition from China, Russia and Europe, the U.S. has intensified trade-related engagements with Saudi Arabia through a variety of business dialogues and trade visits. For instance, in June 2010, the Under Secretary for International Trade at the U.S. Department of Commerce, Francisco Sanchez, led a delegation of 11 U.S. companies specializing in health care, wastewater management and engineering to the Kingdom to look for business opportunities.²³⁷ During the visit Sanchez noted “There is a lot of opportunities and those opportunities are across the board,” such as in petrochemicals and the health care system.²³⁸ Meanwhile, the same year in April, a delegation of 200 Saudi government and business representatives attended the U.S.-Saudi Business Opportunities Forum in the U.S. During the forum Saudi Oil Minister Ali al-Naimi and Finance Minister Ibrahim al-Assaf discussed business opportunities with leading U.S. companies such as ExxonMobil and Boeing. The expansion of the U.S. interest in the business opportunities in the Kingdom in recent years was underscored by Usamah al-Kurdi, a chairman of a Shoura committee that aims to develop U.S.-Saudi relations, who noted “when I saw the number of U.S. companies participating [during the forum], I thought

²³⁵ Glen Carey, "U.S. Companies Seek New Investments in Saudi Arabia Amid China Competition," *Bloomberg*, June 6, 2010, <http://www.bloomberg.com/news/2010-06-06/u-s-companies-seek-new-investments-in-saudi-arabia-amid-china-competition.html>.

²³⁶ "Saudi-U.S. Relations Remain Strong," *Arab News*, March 12, 2014, <http://www.arabnews.com/news/538866>.

²³⁷ "U.S. Companies Seek New Investments in Saudi Arabia Amid China Competition."

²³⁸ *Ibid.*

they are finally paying attention to the business opportunity in Saudi Arabia,...American companies weren't moving fast enough."²³⁹

These engagements have translated into an increased U.S. economic position in the Kingdom. In fact, U.S. foreign direct investment in Saudi Arabia increased by more than 17% between 2011 and 2012, with over 150 U.S. companies starting business in the Kingdom in 2012 alone.²⁴⁰ In addition to these new entrants, giants such as General Electric have continued to maintain multiple longstanding joint venture projects in the Kingdom engaged in power generation, electrical and medical equipment service, information services and other services for more than seven decades.²⁴¹

Despite strained political relations over regional issues, U.S.-Saudi commercial links continued to intensify. In September 2013, U.S. Commerce Secretary Penny Pritzker underscored the deepening of economic relations between the two countries at U.S.-Saudi Business Opportunities Forum, noting that "...as the growth of this forum reflects, our commercial relationship is blossoming both in trade and investment...[in 2012] trade in both directions hit an all-time record high," surpassing the pre-recession levels for the first time.²⁴² In March 2014, during U.S.-Saudi Arabian Business Council meeting attended by more than 300 business representatives from the U.S. and the Gulf region, Pritzke further lauded the commercial ties with the Kingdom noting, "Perhaps the most exciting aspect of the U.S.-Saudi relationship is the vibrancy of our commerce...US and Saudi businesses have been building strong links between our countries for eight

²³⁹ Ibid.

²⁴⁰ James B. Smith, "Us-Saudi Relations: Eighty Years as Partners," *Arab News*, March 20, 2013, <http://www.arabnews.com/news/445436>.

²⁴¹ Mamarinta P. Mababaya, *The Role of Multinational Companies in the Middle East: The Case of Saudi Arabia* (Dissertation.com, 2003), 362.

²⁴² "Opportunities Ahead – Commerce Secretary Pritzker," *Saudi-US Relations Information Service*, September 24, 2013, <http://susris.com/2013/09/24/trade-and-investment-opportunities-ahead-commerce-secretary-pritzker/>.

decades.”²⁴³ She also expressed interest in further expansion of mutual investment ties, stating ²⁴⁴ “I applaud Saudi leaders for their plans to invest more than \$150 billion over the next two decades to upgrade [utilities-related] infrastructure. American firms hope to be part of these projects.”²⁴⁵ Pritzke and her business delegation also explored investment opportunities in Kingdom’s expanding renewable energy projects, which are a cornerstone of the Saudi Arabia’s ambitious plan to generate nearly half of its electricity from alternative sources in the future.²⁴⁶

However, it is important to point out that while U.S.-Saudi trade relations have increased, and in the absolute terms, the U.S. remains Saudi Arabia’s biggest trading partner, the U.S. has been losing market shares to other countries, most notably to China. Indeed, while in 2000, U.S. exports to the Kingdom represented nearly 20% of total Saudi imports, by 2007 it was only 13.5%.²⁴⁷ In contrast, China’s total market share of Saudi market more than doubled from 4.1% to 9.6% in the same period. Similarly, while in 2000, 20% of Saudi exports went to the U.S., by 2007 the figure had dropped to around 15%.

U.S. –GCC Economic Relations

In the post-Cold War period and particularly since the mid-2000s, the U.S. has similarly expanded economic relations with all the remaining GCC states and in recent

²⁴³ "Saudi-US Relations Remain Strong."

²⁴⁴ "Trade Mission Highlights Close U.S. Ties with Saudi Arabia," *Saudi-US Relations Information Service*, March 12, 2014, <http://susris.com/2014/03/12/trade-mission-highlights-close-u-s-ties-with-saudi-arabia/>.

²⁴⁵ "Saudi-US Relations Remain Strong."

²⁴⁶ Ibid.

²⁴⁷ John Sfakianakis, "U.S.-Saudi Trade Relations," *Saudi-US Relations Information Service*, June 10, 2009, <http://susris.com/2009/06/10/us-saudi-trade-john-sfakianakis/>.

years also enhanced ties with the GCC as a bloc. The ties deepened particularly in conjunction with the launch of Bush administration's Middle East Free Trade Area Initiative (MEFTA) in 2003, a component of the Bush's broader political and economic reform plan aimed at promoting democracy in the Middle East.²⁴⁸ Under this initiative, the U.S. concluded the Trade and Investment Framework Agreement (TIFA) with all the GCC countries between 2002 and 2004. The agreements established Councils on Trade and Investment in which high level officials from each country meet to advance trade and investment issues.²⁴⁹ As a part of this initiative, the U.S. further expanded its economic ties in the region by concluding U.S. Free Trade Agreement (FTA) with Oman in 2009, and Bahrain in 2006. Furthermore, in line with the Obama administration's effort to forge closer cooperation with the GCC as a group, in September 2012 the U.S. and the GCC signed a Framework Agreement for Trade, Economic, Investment and Technical Cooperation to complement and build on the U.S. bilateral economic arrangements with individual GCC countries. As described by U.S. Ambassador Kirk, "This important trade and investment agreement will help to grow and strengthen [U.S.] economic ties with the Gulf Cooperation Council – which is a key strategic U.S. partner in the Middle East and North Africa region... The United States greatly values its economic relationship with this group, which is a focus of our efforts to increase American jobs and U.S. exports under President Obama's National Export Initiative."²⁵⁰

²⁴⁸ Office of the United States Trade Representative, "Middle East Free Trade Area Initiative (Mefta)," <http://www.ustr.gov/trade-agreements/other-initiatives/middle-east-free-trade-area-initiative-mefta>.

²⁴⁹ "United States and Kuwait Sign Trade and Investment Framework Agreement," <http://www.ustr.gov/about-us/press-office/press-releases/archives/2004/february/united-states-and-kuwait-sign-trade-and->.

²⁵⁰ "United States Trade Representative Ron Kirk Announces Agreement with Gulf Cooperation Council to Strengthen Economic Ties, Expand Trade and Investment Relationship," September 27, 2012 <http://www.ustr.gov/about-us/press-office/press-releases/2012/september/ustr-kirk-announces-agreement-gcc>.

Although the U.S. does not import virtually any oil from the UAE, the country has become the top U.S. export partner in the Arab world. In 2013, bilateral trade reached nearly \$27 billion, of which the U.S. exports to the UAE accounted for almost 90%.²⁵¹ U.S. exports to the UAE, mostly transportation equipment and electronic products,²⁵² increased from around \$1 billion in 1991 to more than \$11 billion in 2006, reaching over \$26 billion by 2013. As in case with other GCC countries, UAE's infrastructure boom has continued to attract U.S. foreign direct investment which increased by nearly 34% between 2011 and 2012 alone.²⁵³ In the opposite direction, the U.S. continues to be an important destination for UAE's investment. A representative of the Abu Dhabi Investment Authority (ADIA), one of the biggest sovereign investment fund in the world, stated in 2010 that "between 35% and 50% of ADIA's assets are being invested in the U.S., [while] between 25% and 30% are invested in Europe."²⁵⁴

While U.S. trade ties with the remaining small GCC states have similarly expanded -albeit to a different extent - the increase has been particularly significant in case of Qatar and Kuwait. Indeed, the U.S. exports to Qatar increased by more than 1,000% between 2003 and 2013, with imports being up by over 300% for the same period.²⁵⁵ U.S. exports to Kuwait increased by more than 70% between 2003 and 2013,

²⁵¹ "United Arab Emirates," <http://www.ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/united-arab-emirates>.

²⁵² "U.S. 2013 Exports to Arab World Set Record – Nusacc," *Saudi-US Relations Information Service*, February 8, 2014, <http://susris.com/2014/02/08/u-s-exports-to-arab-world-set-record-nusacc/>.

²⁵³ "United Arab Emirates".

²⁵⁴ Maximilian Bossdorf, Christian Engels, and Stefan Weiler, "Eu Gcc Invest Report 2013," (GCC Invest EU, April 2013).

²⁵⁵ Office of the United States Trade Representative, "Qatar," <http://www.ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/qatar>. "U.S. 2013 Exports to Arab World Set Record – Nusacc."

while U.S. imports have been up by 455% for the same period.²⁵⁶ For its part, U.S. foreign direct investment in Kuwaiti stocks more than doubled between 2011 and 2012.

U.S.-Iraqi Economic Relations

The removal of sanctions in the post-Saddam Hussain era has facilitated the expansion of the U.S.-Iraqi economic ties. Bilateral trade, driven predominantly by U.S. imports of Iraqi oil, increased from virtual zero in the 1990s to over \$20 billion in 2012. Meanwhile, over the past several years, U.S. companies in the energy, defense, information technology, automotive and transportation sectors have become increasingly active in Iraq. In 2013, the bilateral Trade and Investment Framework Agreement (TIFA) between the U.S. and Iraq came into effect.²⁵⁷ The agreement, which was negotiated since 2005, establishes a permanent forum for annual senior-level discussions on trade, investment and other economic issues.²⁵⁸ During the council's inaugural meeting in March 2014, both governments "placed strong importance on broadening their strategic partnership beyond military and security ties," and discussed ways for Iraq to advance its World Trade Organization Accession process aimed at integrating Iraq into the global economy.²⁵⁹

²⁵⁶ "Kuwait," <http://www.ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/kuwait>.

²⁵⁷ "United States of America and the Republic of Iraq Announce Progress on Entry into Force of Trade and Investment Framework Agreement," June 3, 2013 <http://www.ustr.gov/about-us/press-office/press-releases/2013/march/US-Iraq-TIFA-progress>.

²⁵⁸ "United States and Iraq Sign Trade and Investment Framework Agreement," July 2005 <http://www.ustr.gov/about-us/press-office/press-releases/archives/2005/july/united-states-and-iraq-sign-trade-and-invest>.

²⁵⁹ "United States and Iraq Hold Inaugural Trade and Investment Framework Agreement Meeting and Register Progress on Bilateral Issues," March 2014 <http://www.ustr.gov/about-us/press-office/press-releases/2014/March/US-and-Iraq-hold-inaugural-Trade-and-Investment-Framework-Agreement-Meeting>.

Energy Relations

As this section illustrates, the Persian Gulf has remained an important source of U.S. oil imports in the post-Cold War period; albeit in the absolute terms U.S. oil imports from the region have declined since the late 2000s due to the U.S. increased domestic oil production from shale (Figure 3 and 4). Similarly to the Cold War era, the U.S. oil companies continue to maintain a strong presence in the GCC countries through a variety of investments and joint ventures. In a sharp break with the past, the U.S. oil companies have also become important players in the Iraqi oil sector in the post-Saddam era, albeit they have faced significant competition from Russia and particularly China. Finally, in the second half of the 2000s, U.S.-GCC energy cooperation has also expanded beyond oil into renewable sources of energy.

Although U.S. overall oil imports from the region have decreased in the absolute numbers in the late 2000s as U.S. domestic oil production increased due to the U.S. boom in unconventional oil (Figure 3), the share of oil imports from the region as a percentage of the overall U.S. oil imports has been on the rise in recent years after it temporarily decreased in 2009-2010 (Figure 4). Indeed, while U.S. domestic oil production increased the most in 150 years in 2012, the oil imports from the Gulf as a whole accounted for more than 25% that year, a nine-year high. In fact, despite the domestic shale oil boom, U.S. oil import from Kuwait increased in 2012 to levels not seen since 1998. This is partly because oil from U.S. shale formations in the Bakken in North Dakota and the Eagle Ford in Texas is of light variety, while many U.S. refineries are designed to process heavier crude oils imported from the Gulf. In fact, an expansion of the Motiva refinery in

Texas, the largest refinery in the U.S. jointly owned by Royal Dutch Shell and Saudi Aramco, has paradoxically stimulated a greater demand for Gulf oil in recent years despite the U.S. shale boom.²⁶⁰

A Saudi response to the U.S. oil boom has been mixed. In November 2013, Saudi billionaire and influential businessman Prince Alwaleed Bin Talal warned that the increased shale oil output in the U.S. poses a significant threat to the Kingdom's economic stability, asserting that new shale discoveries "are threats to any oil-producing country in the world...It is a pivotal moment for any oil-producing country that has not diversified."²⁶¹ However, shortly after that Saudi deputy oil minister, Prince Abdulaziz Bin Salman Bin Abdulaziz dispelled such concerns, stating "I think that the world economic growth will be sufficient to handle growth from all sorts – shale oil, shale gas, tight oil and including renewables."²⁶² However, as a result of the U.S. shale oil boom, Saudi Arabia has reportedly canceled U.S. preferential discount, under which Saudi Aramco sold oil to American refiners for around \$1 a barrel less than to Asia.²⁶³

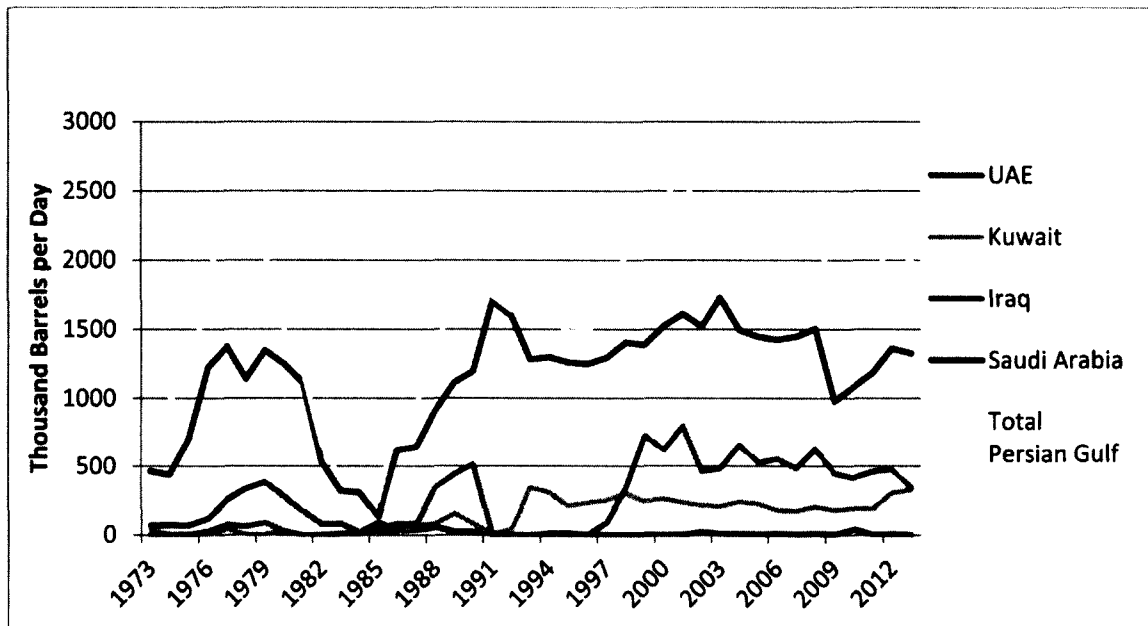
²⁶⁰ Ajay Makan, "U.S. Oil Imports from Middle East Increase," *Financial Times*, February 25, 2013.

²⁶¹ Andy Sambidge, "U.S. Shale Boom Have Minimal Impact on Gulf," *Arabian Business*, November 23, 2013.

²⁶² *Ibid.*

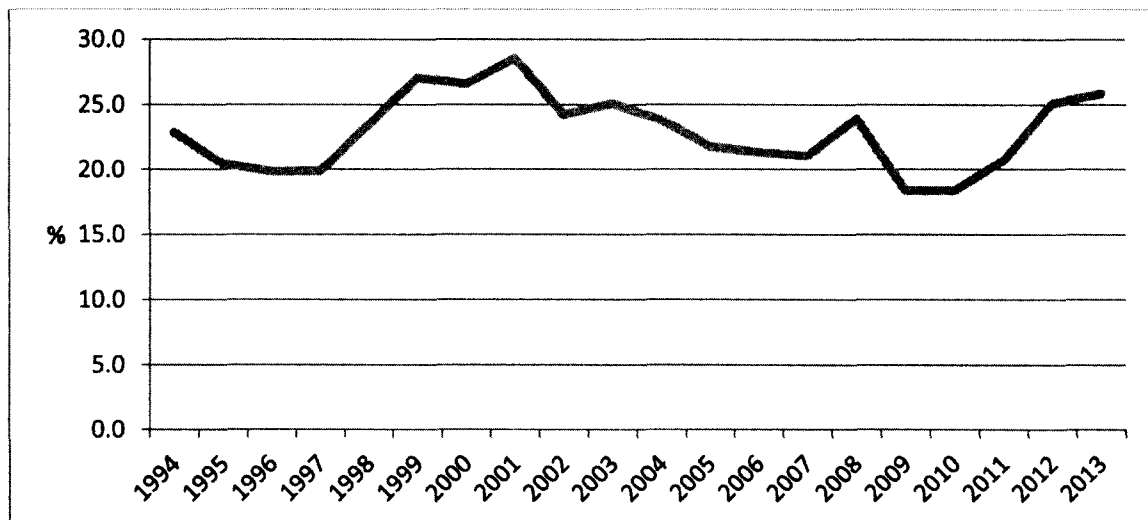
²⁶³ Jad Mouawad, "China's Growth Shifts the Geopolitics of Oil," *The New York Times*, March 19, 2010, http://www.nytimes.com/2010/03/20/business/energy-environment/20saudi.html?pagewanted=all&_r=0.

Figure 4. U.S. Crude Oil Imports from the Persian Gulf



Source: Created by the author with the data drawn from the U.S. Energy Information Administration, Petroleum & Other Liquids statistical database.

Figure 5. U.S. Oil Imports from the Persian Gulf as a Percentage of the Total U.S. Oil Imports (1994-2013)



Source: Created by the author with the data drawn from the U.S. Energy Information Administration, Petroleum & Other Liquids statistical database.

U.S. energy ties to and cooperation with the Persian Gulf countries go however far beyond the U.S. oil imports. As the next section evidences, the U.S. energy companies as well as the U.S. government have maintained robust energy ties and cooperation with the regional states in the post-Cold War era.

U.S.-Saudi Energy Relations

U.S. major oil companies such as Chevron and ExxonMobil have a long history with the GCC's and particularly in Saudi Arabia's energy sector, launching Saudi Arabia's future as a world leader in crude oil production in the 1930s. Indeed, it was U.S. Chevron, then-Standard Oil Company of California, which discovered oil in Bahrain in 1932 and in Saudi Arabia in 1938, later allowing other American oil majors to acquire equity interests in its Saudi operations, which led to the establishment of the Arabian-American Oil Company (ARAMCO) – a predecessor of today's Saudi Aramco. Although by 1980 Chevron lost its initial equity operations in the Kingdom as Aramco became fully nationalized, its presence in the Kingdom has remained robust in the post-Cold War period.

In fact, for over 70 years, Chevron continues to be the only major energy company to have a continuous upstream presence in the Kingdom, conducting exploration and production in the onshore Partitioned Zone between Saudi Arabia and Kuwait on behalf of the Saudis.²⁶⁴ The agreement to operate the Kingdom's 50% interest in the area was extended in 2009 until 2039. Through subsidiaries and joint ventures, Chevron and Saudi Arabia have also maintained and expanded partnerships in Saudi

²⁶⁴ "Saudi Arabia Fact Sheet," (Chevron, May 2014).

downstream; such as in petrochemicals and in related marketing and retail. Illustratively, since 1996, a joint venture between Chevron's subsidiary Arabian Chevron Petrochemical and Saudi Industrial Venture Capital Group operate \$650-million petrochemical complex at Al-Jubail. In mid-1999, the venture also completed a benzene plant in the Kingdom. In 2008, the two partners also jointly opened one of the world's largest styrene plant, and in 2012 they inaugurated one of the world's largest olefins units. Moreover, in 2011 Chevron and Saudi Aramco signed a five-year collaboration agreement on technology transfer.

Also ExxonMobil has remained one of the largest buyers of Saudi Aramco crude oil and foreign investors in the Kingdom. For over three decades, the company has participated in petrochemicals manufacturing, refining and other petroleum operations in Saudi Arabia through three major joint ventures including Samref, a refining joint venture with Saudi Aramco; and Yanpet and Kemya, two manufacturing joint ventures with Saudi SABIC.²⁶⁵ In March 2007, ExxonMobil joined forces with Saudi Aramco and China's Sinopec in two refining and ethylene joint ventures to expand a refinery in China's Fujian province. The two joint ventures with a total investment of about \$5 billion represent the first fully integrated refining, petrochemicals and fuels marketing project with foreign participation in China.²⁶⁶ Moreover, in June 2012, Kemya was awarded a \$2.2 billion contract to build a specialty-elastomer plant in the Kingdom to produce rubber products for export to the Middle East and Asia.²⁶⁷

²⁶⁵ "Saudi Arabia Activities," ExxonMobil, <http://corporate.exxonmobil.com/en/company/worldwide-operations/locations/saudi-arabia/about/overview>.

²⁶⁶ "Aramco in \$5bn China Deal," *Arab News*, March 31, 2007, <http://www.arabnews.com/node/296629>.

²⁶⁷ Samuel Potter and Dana El Baltaji, "Sabic, Exxon Said to Seek \$1.2 Billion for Saudi Rubber Plant," *Bloomberg*, July 29, 2013, <http://www.bloomberg.com/news/2013-07-29/sabic-exxon-said-to-seek-1-2-billion-for-saudi-rubber-plant.html>.

U.S.-Saudi cooperation in the energy sector is not limited to projects in Saudi Arabia but in recent years expanded also within the U.S. Indeed, the U.S. energy boom has attracted significant Saudi investment. The Motiva Refinery in Texas, a joint venture between Shell and Saudi Aramco which operates a refinery with the largest crude oil processing capacity in the U.S. finalized a major five year expansion project in 2012.²⁶⁸ The same year, Sadara chemical company, a joint venture between Aramco and a U.S. company Dow Chemical, secured a \$5 billion direct loan from the U.S. Export Import Bank to start operations in both countries. Moreover, in an effort to globalize its operations, Saudi Basic Industries (SABIC), one of the world's biggest petrochemical producers, plans to make an initial investment in the U.S. shale gas industry at the end of 2014 and then expand it in 2017.²⁶⁹

Energy cooperation between the two countries has also expanded on the governmental level and beyond traditional, hydrocarbon-related projects. This was illustrated in May 2008 during President Bush's visit to the Kingdom during which the U.S. and Saudi Arabia signed a Memorandum of Understanding on Civil Nuclear Energy cooperation. Under this MoU, the U.S. committed to assist the Saudis in development of civilian nuclear energy for use in medicine, industry and power generation.²⁷⁰ The two countries also strengthened their energy collaboration in areas including energy efficiency, science and technology research and other forms of renewable and alternative energy. Illustratively, in line with Kingdom's effort to diversify its energy sources to

²⁶⁸ Smith, "Us-Saudi Relations: Eighty Years as Partners."

²⁶⁹ "Saudi's Sabc in Talks to Enter Us Shale Gas Market," *Arabian Business*, January 22, 2014, <http://www.arabianbusiness.com/saudi-s-sabic-in-talks-enter-us-shale-gas-market-535740.html#U4EMzHJdWWb>.

²⁷⁰ "U.S.-Saudi Arabia Memorandum of Understanding on Nuclear Energy Cooperation," *Saudi-US Relations Information Service*, May 16, 2008, <http://susris.com/2008/05/16/us-saudi-arabia-memorandum-of-understanding-on-nuclear-energy-cooperation/>.

meet its increasing electricity demand, the Kingdom is working with the U.S. Department of Energy's National Renewable Energy Laboratory and DoE's Environmental Protection Agency on solar energy issues, and development of energy efficiency in the Kingdom, including automotive fuel economy standards.²⁷¹ The two governments also hold an annual Bilateral Energy Dialogue to "explore broader energy cooperation, including potential cooperation on advanced geothermal research and other issues relating to alternative energies."

U.S.-Small GCCs Energy Relations

Similarly to the Cold-War period, U.S. oil companies also continue to be major players in the remaining GCC states in the post-Cold War era. Chevron and ExxonMobil have been active for more than three decades in UAE's oil production and downstream.²⁷² For its part, in 2009, Chevron also formed a partnership with Qatar's Science & Technology Park, committing \$20 million over five years to establish a center of excellence in renewable power and energy efficiency.²⁷³ Prior to that in 2003, in its first joint venture with Qatar Petroleum, the company inaugurated world-scale petrochemical complex in Qatar.²⁷⁴ Meanwhile, ExxonMobil's subsidiary has begun to provide LNG-related services to Qatar. In May 2013, ExxonMobil signed an agreement

²⁷¹ The White House, "Fact Sheet: United States-Saudi Arabia Bilateral Relationship."

²⁷² "United Arab Emirates," ExxonMobil, http://www.exxonmobil.com/UAE-English/PA/about_what_affiliates.aspx.

²⁷³ "Chevron to Establish Sustainable Energy Efficiency Center in Qatar," Chevron, February 17, 2009 <http://www.chevron.com/news/press/release/?id=2009-02-17>.

²⁷⁴ "Chevron Phillips Chemical Company Llc and Qatar Petroleum Dedicate World-Scale Chemical Complex in Qatar," Chevron Phillips Chemical Company, January 21, 2013 <http://www.cpchem.com/en-us/news/Pages/ChevronPhillipsChemicalCompanyLLCandQatarPetroleumDedicateWorldScaleChemicalComplexinQatar.aspx>.

with Qatar Petroleum International for construction of a \$10 billion natural gas export terminal in Texas. Golden Pass Products LLC, a subsidiary formed by the two companies plans to ship up to 16.6 million metric tons of gas annually from the Golden Pass facility.²⁷⁵

Through its subsidiaries and technical-service agreements, Chevron and ExxonMobil have been similarly active in Kuwait's upstream and downstream.²⁷⁶ In 2000 ExxonMobil also opened its office in Kuwait and since then provides a variety of technical services to Kuwait Petroleum Corporation (KPC) and Kuwait Oil Company (KOC).²⁷⁷ Building on its long history in Bahrain that dates to the early 1930s, Chevron also continues to provide high-tech performance energy related products such as DELO Lubricants – premium motor oils and coolants, aviation fuel and other products through its subsidiary CALTEX.

U.S.-Iraqi Energy Relations

Since the removal of Saddam Hussein regime in 2003, the U.S. has also forged energy ties with Iraq, which was closed to U.S. oil companies' investment since the 1970s. In contrast to the 1990s, since 2003 the U.S. significantly contributed to the reconstruction and development of Iraq's energy sector, investing \$4.6 billion to the power sector and \$2.1 billion to the oil sector, while also providing ongoing energy

²⁷⁵ Joe Carroll, "Exxon to Build \$10 Billion U.S. Lng Export Plant with Qatar," *Bloomberg*, May 9, 2013, <http://www.bloomberg.com/news/2013-05-09/exxon-to-build-10-billion-u-s-lng-export-plant-with-qatar-1-.html>.

²⁷⁶ "Kuwait Fact Sheet," (Chevron, May 2014).

²⁷⁷ "Kuwait," ExxonMobil, <http://corporate.exxonmobil.com/en/company/worldwide-operations/locations/kuwait>.

capacity building programs.²⁷⁸ For example, four export platforms that came on line south of Basra in 2012 – each with capacity to export 900,000 barrels per day – were the result of joint U.S.-Iraqi efforts beginning in 2007 to increase Iraq’s export capacity.²⁷⁹ As a part of this effort, U.S. companies developed single-point mooring oil loading terminals to compensate for deficiencies in Iraq’s oil export infrastructure in Basra and Umm Qasr.²⁸⁰

The U.S. government has continued to cooperate with Iraq on energy issues since the U.S. withdrawal in 2011. The U.S. engages Iraq on the energy sector through the Joint Coordination Committee (JCC) on Energy established in 2008 as a part of Strategic Framework Agreements. In April 2012, during the inaugural committee meeting, the two countries reaffirmed their goal to joint cooperation in the areas of oil production and export, natural gas, electricity, and critical energy infrastructure protection, and committed to convene the Energy JCC quarterly during 2013. The U.S. officials reaffirmed they would continue to support Iraq’s electricity sector by provision of training in operations and maintenance.²⁸¹ The U.S. continuous interest in Iraq’s energy developments was further underscored in November 2013 when Brett McGurk Deputy Assistant Secretary for Iraq and Iran described Iraq’s hydrocarbon sector as “vital to U.S. interest in the region” during his testimony outlining U.S. foreign policy toward Iraq,²⁸²

²⁷⁸ U.S. State Department, "Joint Statement of the U.S.-Iraq Joint Coordinating Committee on Energy," April 23, 2012, <http://www.state.gov/r/pa/prs/ps/2012/04/188295.htm>
<http://www.state.gov/e/enr/rls/rem/2012/188344.htm>.

²⁷⁹ U.S. Department of State, "U.S. Foreign Policy toward Iraq: Testimony by Brett McGurk, House Foreign Affairs Committee, Subcommittee on the Middle East and Africa."

²⁸⁰ Katzman, "Iraq: Politics, Governance, and Human Rights," 25.

²⁸¹ U.S. State Department, "Joint Statement of the U.S.-Iraq Joint Coordinating Committee on Energy."

²⁸² U.S. Department of State, "U.S. Foreign Policy toward Iraq: Testimony by Brett McGurk, House Foreign Affairs Committee, Subcommittee on the Middle East and Africa."

Also U.S. energy companies have enhanced their position in Iraq's energy sector. Since 1973 until the 2003 U.S.-led invasion, the U.S. and other western oil companies were completely shut out of Iraq's oil industry. With the removal of Saddam Hussein regime, these companies have returned to Iraq to produce oil for the first time since being forced out of the country.²⁸³ Although Iraq has awarded mostly non-U.S. companies with contracts to develop its oil and petroleum-related sector, several U.S. companies did win a few contracts. American service oil company Halliburton joined Shell to develop 25 billion barrels Majnoon oil field, one of the world's largest oil fields.²⁸⁴ Other U.S. service oil companies such as Baker Hughes, Schlumberger, and Weatherford work in Basra. In 2010, ExxonMobil, with junior partner Royal Dutch Shell, signed an agreement with the South Oil Company of the Iraq Ministry of Oil to rehabilitate and redevelop the 8.7 billion barrel West Qurna Phase 1 in southern Iraq.²⁸⁵ However, in 2013, ExxonMobil concluded agreements with PetroChina for participating interest in the project. In October 2011, ExxonMobil was also awarded six production sharing contracts in Iraq's Kurdistan region. In 2012 and 2013, also U.S. Chevron concluded several oil exploration deals in Iraq's autonomous Kurdistan region.²⁸⁶ Meanwhile in 2012, U.S. energy company Emerson was awarded a contract to provide crude oil metering system and other technology for a new oil terminal in Basra, while also winning a contract to install control systems in the power stations in Hilla and Kerbala.

²⁸³ Dahr Jamail, "Western Oil Firms Remain as Us Exits Iraq," *Al Jazeera*, January 7, 2012, <http://www.aljazeera.com/indepth/features/2011/12/2011122813134071641.html>.

²⁸⁴ "Quarterly Report to Congress," (Special Inspector General for Iraq Reconstruction, October 30, 2010).

²⁸⁵ "Iraq," ExxonMobil, <http://corporate.exxonmobil.com/en/company/worldwide-operations/locations/iraq/about/overview>.

²⁸⁶ "Chevron Signs Iraq Kurd Oil Deal," *Al Arabiya*, June 17, 2013, <http://english.alarabiya.net/en/business/energy/2013/06/17/Chevron-signs-Iraq-Kurd-oil-deal.html>.

Conclusion

As this chapter demonstrated, in the post- Cold War era and particularly in the 2000s, the U.S. has significantly enhanced its overall capabilities in the region. It has done so by expanding its military presence in the region and by increasing its diplomatic, defense, and economic ties with all of the members of the Gulf Cooperation Council and with Iraq since 2003.

Similarly to the Cold War period, security cooperation has remained a cornerstone of U.S. relations with the GCC states in the post-Cold War era. While the end of the Cold War removed a shared interest in defeating Communism, and the 2003 war removed the Iraqi threat, the rise of the terrorist threat on the Arabian peninsula, ascendancy of Iran and volatile regional security conditions in the broader Middle East since the Arab Spring uprisings and the U.S. withdrawal from Iraq, have created a more complex strategic environment and provided new logic for U.S.-GCC security relations. While U.S. policies to address these issues have often strained U.S. political relations with Saudi Arabia, and occasionally with the other GCC states, these threats have also prompted the broadening and deepening of security cooperation between the U.S. and individual GCC states.

Indeed, while protection of the free flow of oil has remained a shared interest, changes in the regional security environment in the post-Cold War era and particularly since the 2000s have necessitated greater security cooperation between the U.S. and the GCC states. In fact, as Chuck Hagel noted during this visit to Manama Dialogue in Bahrain in December 2013, “Many challenges that the region already faced, from violent extremism to failed states to proliferation, have actually intensified, and destabilizing

actor, state and non-state actors alike, have adopted more and more advanced weaponry, weaponry from ballistic missiles to cyber capabilities.”²⁸⁷ For these reasons, and in spite of political pressure on America’s commitments overseas, the United States has embarked on a series of major security cooperation initiatives in the region geared towards a variety of contingencies. In addition to conventional military cooperation and longstanding training programs, changes in the regional security environment have led to new collaborative initiatives. Cooperation in non-traditional security areas such as counterterrorism, critical infrastructure protection and cyber domain has dramatically increased since the mid-2000s. Meanwhile, security cooperation in traditional areas such as missile defense has also significantly expanded.

These shared security concerns and a need for deeper and broader cooperation to address them has driven the U.S. and GCC states closer together despite relatively frequent political divides and diverging views on regional issues especially with Saudi Arabia. This was most clearly illustrated in the aftermath of the 9/11 attacks, which seriously strained the U.S.-Saudi relations. However, the fact that the relations recovered even after such an enormous event and defense cooperation further intensified in the post-2001 period despite differences over regional issues demonstrates the two countries continue to share larger strategic interests. War on terrorism has united the two countries since the 2003 bombings inside Saudi Arabia. Similarly, despite the crisis of 9/11 and other politically divisive issues since the end of the Cold War, U.S. economic and energy ties with the GCC states have continued to expand. Meanwhile, although U.S.-Iranian relations have remained strained, the elimination of the Hussein regime and removal of a

²⁸⁷ U.S. Department of Defense, "Remarks by Secretary Hagel at the Manama Dialogue from Manama, Bahrain."

decade-long sanction regime has facilitated trade, energy and security cooperation between the U.S. and Iraq since 2003 and particularly following the U.S. withdrawal in 2011.

In response to the evolving threat, the U.S. military capabilities in the region increased in the 1980s, and further expanded during the 1990s and the 2000s. Indeed, between 1979 and 2014, the increase in U.S. force projections has been dramatic. Whereas in 1979, the U.S. force projection capabilities were nil, in 2014 despite the withdrawal from Iraq, the U.S. maintained major facilities and permanent forward presence in the region, including prepositioned material, most advanced fighter aircraft, intelligence, surveillance and reconnaissance assets, missile defense capabilities, along with a routine naval presence of over 40 ships in the broader region. The U.S. has naturally reduced its military presence since its height of half a million forces in 1991 and nearly 180,000 during the 2003 Iraq War. However, despite the elimination of the Hussain's regime and withdrawal from Iraq in December 2011, the U.S. military presence in the region has remained robust and is poised to remain significant in the future as various governmental statements, recent defense initiatives and facility expansions in some of the GCC countries suggest. U.S. Defense Secretary, Chuck Hagel further confirmed this commitment to Gulf security in December 2013 stating that the U.S. has "a ground, air and naval presence of more than 35,000 military personnel in and immediately around the gulf,"²⁸⁸ further adding that "A robust U.S. military presence in the Persian Gulf has been a priority for the department [of defense]. Even as we [U.S.] put our presence on a more sustainable long-term footing, our capabilities in the region

²⁸⁸ Ernesto Londono, "Visiting Service Members in Bahrain, Hagel Vows Continued U.S. Presence in Persian Gulf," *Washington Post*, December 6, 2013.

will far exceed those that were in place September 11, 2001. Our defense relationships [with the regional countries] are also much stronger and far more robust and sophisticated.”²⁸⁹

Furthermore, despite the removal of the Hussein regime, the U.S. post-2011 military presence in the Gulf to counterbalance Iran and to protect the free flow of natural resources from a variety of threats remains greater than in the period after the 1991 Gulf War when the U.S. permanent presence dropped to about 7,500-12,000 with the ability to rapidly deploy some 30,000-35,000 during a crisis.²⁹⁰ However, more important than the size of the residual force is the U.S. continuous access to critical regional hubs in the GCC states. As demonstrated in the text, while the U.S. withdrew most of its presence from Saudi Arabia in 2003 due to popular backlash, it has several times renewed and in the majority of cases expanded its access to critical installations in all of the remaining GCC countries, which have remained keen to host and subsidize the expanded U.S. presence. Sustaining physical infrastructure and enabling functions such as intelligence, surveillance, and logistics, while keeping some material forward positioned has been key to the U.S. dominant position in the region.

The Obama administration’s increased focus on burden-sharing and interoperability with the GCC states, which has led to an unprecedented increase in arms sales to the GCC states, and recently also to Iraq is poised to perpetuate U.S. defense partnerships with the regional states, U.S. leverage in the region and privileged access to basing rights. This is because the recent and pending arms sales, some of which include

²⁸⁹ "Remarks by U.S. Defense Secretary at the Annual Washington Institute for near East Policy’s Soref Symposium (Washington Dc, May 09, 2013),"

<http://www.defense.gov/Transcripts/Transcript.aspx?TranscriptID=5235>.

²⁹⁰ Anthony H. Cordesman, "Uscencom and Its Area of Operations," (Washington, D.C.: Center for Strategic and International Studies, April 1998).

the most advanced capabilities the U.S. has ever provided to this region, include also associated training, exercises, supplies, and replacement parts, thus perpetuating the Gulf states' reliance on U.S. support for the continued effective operation of these defense systems.

CHAPTER 3

CHINA'S EVOLVING ROLE IN THE PERSIAN GULF

China is a relative newcomer to the Persian Gulf region despite 2,200 years of political history. While between 1413 and 1432 Chinese fleets underwent a series of naval expeditions to Arabia, it was not until the mid to late 19th century that isolationist China developed some interest in the Persian Gulf.¹ But even then, and in a sharp contrast to European powers and Russia, China's interests and involvement in the region remained rather limited. In the first half of the 20th century, unlike Russia, Britain, and Germany, China remained largely insulated from great power rivalry for strategic position and colonial possession in the region due to its preoccupation with its own nation-building rather than with global events, let alone Middle East politics.² For most of the Cold War, China remained insulated from regional politics, although in the 1950s and 1960s, China sought to generate anti-colonial sentiment in the region. It was however not until the later 1970s and early 1980s that China, in conjunction with its broader political opening to the world, became more seriously involved in regional dynamics,³ and it has been only since the end of the Cold War that China dramatically enhanced its role and interest in the region chiefly to ensure sufficient energy supplies necessary to sustain its booming economy.

Indeed, as this chapter demonstrates, in the post-Cold War period and particularly in the last decade, China has unprecedentedly expanded diplomatic, economic and to a

¹ Louise Levathes, *When China Ruled the Seas: The Treasure Fleet of the Dragon Throne, 1405-1433* (New York: Simon & Schuster, 1994).

² Lillian Craig Harris, *China Considers the Middle East* (London ; New York : I.B. Tauris, 1993.), p. 28.

³ Steve A. Yetiv and Chunling Lu, "China, Global Energy, and the Middle East," *Middle East Journal* 61, no. 2 (2007): p. 200.

much lesser degree security capabilities across the region, making it an important player in the region. In the post-Cold War period China has developed amicable relations with all of the Persian Gulf states, including the members of the GCC, Iran and Iraq. Since the 2000s, these relations have further expanded in tandem with increasing trade and energy cooperation. However, in sharp contrast to the United States, China's increased diplomatic interaction and economic interdependence with regional states have not led to the establishment of China's military presence in the region or development of meaningful security cooperation with regional states and particularly Saudi Arabia. In fact, while America's arms sales to the regional states increased dramatically in the last decade in particular, China's arms sales to the region have declined in the post-Cold War period. Finally, as this chapter shows China's interest in the region is quite likely to accelerate significantly in the future due to China's increasing energy imports from the region.

China's Shifting Mix of Motivations

China's interest in the Persian Gulf has been largely driven by the PRC's increasing oil demand and rising dependence on oil imports from the Gulf region. While a major oil producer in its own right, and a net oil exporter until the early 1990s, China has been a net importer of oil since 1993. Fueled by an average economic growth rate of 10% each year for the last decade, China's energy demand has skyrocketed making it the world's second largest oil consumer behind the United States.⁴ Indeed, in a span of only

⁴ "China," *U.S. Energy Information Administration*, <http://www.eia.gov/countries/analysisbriefs/China/china.pdf>.

one decade from 2000 and 2010, China's oil consumption increased by 90%, or 4.3m b/d.⁵ The combination of the rising oil demand and decreasing domestic oil production from depleted oil fields have resulted in increasing dependency on imports of foreign oil. In 2000, oil imports accounted for 29% of China's oil needs; by 2013 China imported 58%, or 6.3 million bpd, of its oil consumption. With oil demand increasing by around 12% each year since 1980, the International Energy Agency (IEA) projects that China's oil imports will further increase to 80% by 2035.⁶ The skyrocketing oil consumption made China the world's second largest net oil importer in 2009, and in October 2013, the country surpassed the United States as the world's largest importer of foreign oil.⁷ China's usage of natural gas has also increased rapidly in the 2000s, making China a net importer of pipeline and liquefied natural gas (LNG) in 2007. Although gas constituted only 4% of China's total energy consumption in 2011, the consumption and imports of gas grew by 11% and 19% respectively between 2012 and 2013, with the gas demand poised to accelerate in the future.⁸

Increasing dependence on foreign oil imports has made the Middle East critical to China's energy security for two reasons. First, since 1996, more than half of China's imported oil has come from the Middle East, particularly the Persian Gulf. Specifically, oil imports from only four countries, namely Saudi Arabia, Iran, Iraq and Oman, accounted for more than 70% of China's imports from the Middle East in 2012.

⁵ "Keeping It to Themselves," *The Economist*, March 31, 2012. <http://www.economist.com/node/21551484>. (accessed November 18, 2012)

⁶ "World Energy Outlook 2013: Executive Summary," (International Energy Agency, 2013).

⁷ China imported 6.3 million bpd compared to US 6.24 million bpd – driven by US increasing production.

⁸ "China's 2014 Oil Demand, Imports to Grow Faster-Cnpc Research," *Reuters*, January 15, 2014, <http://www.reuters.com/article/2014/01/15/china-oil-demand-idUSL3N0KP1PR20140115>. <http://www.reuters.com/article/2014/01/15/china-oil-demand-idUSL3N0KP1PR20140115>. (accessed February 14, 2013)

Second, China has no near-term alternative to Middle Eastern oil because the region is home to nearly two-thirds of the world's proven crude oil reserves and is projected to provide most of the increase in global oil supply in coming decades. Indeed, various energy watchdogs project that global oil production will increasingly be concentrated in the Persian Gulf region.⁹ Consequently, as China's oil demand and imports continue to increase, so will China's dependence on the Persian Gulf, despite China's extensive state-backed efforts to diversify its energy partnerships and oil suppliers.¹⁰ The EIA projects that the region will account for about 70% of China's oil imports by 2020.

For China, securing access to sufficient energy supplies, in particular oil, is essential to economic growth and modernization, both of which are, in turn, inextricably linked to political stability. Barring unpredictable developments that would dramatically steer China from its current development trajectory, the country is projected to require about 13-14 million bpd in 2020, which means doubling its current imports as the overall size of the economy continues to grow and domestic sources of oil production become even more depleted. Access to energy resources is therefore set to remain a matter of regime survival in the upcoming decades.¹¹

While today, energy security assumes the utmost importance in China's economic and foreign policy, elevation of energy security on China's agenda is a relatively new development. Only in its tenth Five Year Plan (2001-2005), the Chinese government

⁹ "'Don't Rely on Shale Oil' Warns International Energy Agency," *Euronews*, December 11, 2013, <http://www.euronews.com/2013/11/12/don-t-rely-on-shale-oil-warns-international-energy-agency/>.

¹⁰ China is hedging by going to 29 other countries

¹¹ "Brookings Doha Energy Forum 2012: Policy Paper," *Brookings Institution*(2012), http://www.brookings.edu/~media/research/files/reports/2012/5/23%20energy%20forum%20report/energy%20forum%20report_english.

acknowledged explicitly and for the first time publically that securing overseas oil supplies is essential to China's continued economic growth and modernization.¹² The elevation of energy security on the agenda was preceded by a significant increase in China's oil imports. In a span of just four years from 1996 and 2000, China's oil imports doubled from 15% to 32% respectively and oil prices sharply increased in 1999-2000.¹³ In 2001, China's State Petroleum and Chemical Administration noted that China "will have to strengthen its cooperation with other countries in oil-gas developments, so that it can obtain abroad 50 million tons of oil and some 50 billion cubic metres of natural gas."

Areas of Chinese Involvement

As political scientists Steve Yetiv and Chunlong Lu show, in contrast to the United States, and to some extent Britain, France and Russia, China has never had military bases, access agreements and prepositioning sites in the area or access to regional facilities.¹⁴ Moreover, although all of China's imported oil from the Persian Gulf is delivered by tanker, China is decades away from having and being able to project the naval and air projection capabilities to influence developments in the region and to be able to protect the 7,000 miles of sea lanes between Shanghai and the Strait of Hormuz.¹⁵ However, in February 2013, China and Pakistan concluded an agreement, which grants China the operating rights to the

¹² See Minxuan Cui, ed., *"Zhongguo nengyuan shiwu guihua jianjie"* ["Brief Introduction of China Energy Tenth Five-Year Plan"], in *Zhongguo nengyuan fazhan baogao 2006 [The Energy Development Report of China 2006]*, (Beijing: Shehui kexue wenxian chubanshe, 2006).

¹³ Pak K. Lee, "China's Quest for Oil Security: Oil (Wars) in the Pipeline?," *Pacific Review* 18, no. 2 (2005).

¹⁴ Yetiv and Lu, "China, Global Energy, and the Middle East," 200.

¹⁵ John Calabrese, "Dragon by the Tail: China's Energy Quandary," *Middle East Institute Perspective* (March 23, 2004): p. 4.

Gwadar port facilities in western Pakistan, along the Arabian Sea and near the Strait of Hormuz.¹⁶ In 2012, China rejected Pakistan's offer to build a naval base in Gwadar, preferring to keep the port as a civilian, commercial and non-military facility. Since Gwadar is located only 300 miles from the Strait of Hormuz, the deal signals the growing Chinese presence in the Persian Gulf region despite its civilian nature.¹⁷ It will allow China to monitor maritime traffic and naval activities in the Persian Gulf and Indian Ocean and provide China with a transit terminal for crude oil imports from Iran and Africa to China's Xinjiang region.¹⁸

As demonstrated in the next section, in order to compensate for the lack of military presence in the region, China has focused on developing diplomatic relations, trade and foreign direct investment, and arms sales with regional states to protect and advance its interests in the region.

Diplomatic Interaction

During most of the Cold War, China's efforts to establish relations with the Gulf's Arab governments were stymied by insurmountable ideological differences with Arab nationalists strictly opposing China's Marxist government. Consequently, Beijing lacked diplomatic relations with Saudi Arabia, Bahrain, the United Arab Emirates, Qatar and Oman during most of the Cold War. Iraq was the only Persian Gulf country China

¹⁶ Brian M. Downing, "New Port Marks China's Growing Presence in the Persian Gulf Region," *World Tribune*, February 21, 2013, <http://www.worldtribune.com/2013/02/21/new-port-marks-chinas-growing-presence-in-the-persian-gulf-region/>.

For example, the fact is that by 2025, the Indian Ocean and the Straits of Malacca are likely to facilitate about 75 percent of China's energy imports, which explains its plan to provide more than a billion dollars in aid and loan guarantees for building the Pakistani port of Gwadar.

¹⁷ Ibid.

¹⁸ Yetiv and Lu, "China, Global Energy, and the Middle East," 200.

maintained diplomatic relations with as Iraqi pan-Arab nationalist and socialist ideologies resonated with Beijing. Although established already in 1958, Sino-Iraqi relations however remained poor until mid-1975.

Nonetheless, an improvement in Sino-U.S. relations in the 1970s, implementation of “Open and Reform” policy in the 1978, and the subsequent end of China’s support for revolutionary movements set a ground for China’s diplomatic successes in the region. In 1970, China and Iran reestablished diplomatic relations, which had been broken off in 1949 following the establishment of the PRC, but it was not until the early 1980s that these relations improved significantly.¹⁹ While in the 1980s arms sales to Iran, Iraq and Saudi Arabia became China’s primary link to the region, it was not until 1990 that China successfully established formal diplomatic relations with all Persian Gulf countries. Kuwait was the first Arab Gulf state to form diplomatic relations with China in 1971, followed by Oman in 1978, the United Arab Emirates (UAE) in 1984, Qatar in 1988, Bahrain in 1989, and finally Saudi Arabia in 1990. Despite the establishment of formal relations, it has been only in the last decade that these relations have broadened and deepened into unprecedented levels.

Sino-Saudi Diplomatic Relations

In the post-Cold War era and particularly in the last decade, China has dramatically expanded its links to Saudi Arabia. Although the diplomatic ties between the two countries were first established in the 1930s, they ceased after the establishment of communist China in 1949. While mutual official visits took off following the

¹⁹ Ibid.

establishment of the formal diplomatic relations in 1990, it was not until 1998 that King Abdullah, then crown prince, for the first time visited China in what constituted the highest-level Saudi visit ever to China.²⁰ This was followed by then Chinese president Jiang Zemin's first visit to the Kingdom in 1999. Underscoring the centrality of mutual energy interests to the bilateral relations, during the visit the two countries signed a "strategic oil partnership" in which Saudi Arabia agreed to open selected portions of its upstream energy sector to Chinese investment, in return for China's opening its downstream and oil refinery sector to the Kingdom.²¹

The relationship particularly intensified in the second half of 2000s, during which the seniority and frequency of the high-ranking visits notably increased. In line with China's energy security interest, high-level diplomatic interaction has focused on cooperation related to the hydrocarbon industry. In January 2006, Saudi King Abdullah, shortly after assuming the throne in 2005, chose Beijing for his first state visit as a king, before making an official visit to any Western country.²² It was the first visit ever by a Saudi king to China since the two countries established formal diplomatic relations in 1990. During the visit, the two sides signed five agreements on cooperation in the areas of oil, natural gas and minerals,²³ and king Abdullah expressed interest to further bilateral

²⁰Scott Anderson, "A Potential Partnership: Sino-Saudi Relations," *Wilson Journal of International Affairs*, no. 2 (2004).

²¹"Riyadh and Beijing Spur Global Economic Growth," *Arab News*, October 01, 2013, <http://www.arabnews.com/news/466321>.<http://www.arabnews.com/news/466321> (accessed December 18, 2013)

²²"Saudi King Arrives in China to Discuss Energy," *China Daily*, January 23, 2006, http://www.chinadaily.com.cn/english/doc/2006-01/23/content_514686.htm.http://www.chinadaily.com.cn/english/doc/2006-01/23/content_514686.htm (accessed June 18, 2013)

²³"China, Saudi Arabia Sign Energy Cooperation Deal," *Xinhua News Agency*, January 24, 2006, <http://www.china.org.cn/english/BAT/156149.htm>.<http://www.china.org.cn/english/BAT/156149.htm> (accessed May 18, 2012)

cooperation in economy, energy and infrastructure, and cultural exchanges with China.²⁴ Chinese president Hu reciprocated the visit in April 2006.²⁵ Upon arrival to the Kingdom, Hu was reportedly welcomed by fluent Chinese speaking Saudi nationals,²⁶ and was honored as one of the few foreign leaders ever to address the Shura – the Saudi consultative council that advises the king and cabinet.²⁷ During the visit, Hu also visited Aramco’s facilities and the two sides inked several energy agreements that were, according to King Abdullah, intended to “write a new chapter of friendly cooperation with China in the twenty-first century.”²⁸ Similarly, Hu stated that the visit “would begin a new phase in partnership between the two countries in the new century.”²⁹ Further underscoring mutually beneficial energy relations, King Abdullah granted China a loan to build infrastructure in the oil-rich Xinjiang province. In sharp contrast, during Hu’s visit to the United States in 2006, the Chinese leader was reportedly “heckled by a protestor in a minor diplomatic row on the White House lawn.”³⁰

Following a severe earthquake that hit western China in May 2008, claiming nearly 90,000 casualties, Saudi Arabia became the biggest donor to China, donating \$50

²⁴“China, Saudi Arabia Extend Energy Ties,” *Asia Times*, January 25, 2006,

http://www.atimes.com/atimes/China_Business/HA25Cb04.html.

http://www.atimes.com/atimes/China_Business/HA25Cb04.html. (accessed May 11, 2012)

²⁵ Hassan M. Fattah, "Avoiding Political Talk, Saudis and Chinese Build Trade," *The New York Times*, April 23, 2006,

http://www.nytimes.com/2006/04/23/world/asia/23saudi.html?_r=1&http://www.nytimes.com/2006/04/23/world/asia/23saudi.html?_r=1&. (accessed January 12, 2012)

²⁶ Christopher M. Davidson, *The Persian Gulf and Pacific Asia : From Indifference to Interdependence* (New York : Columbia University Press, 2010), 48.

²⁷ Fattah, "Avoiding Political Talk, Saudis and Chinese Build Trade."

²⁸ "Riyadh and Beijing Spur Global Economic Growth."

²⁹ Ibid.

³⁰ Bryce Wakefield and Susan L. ed. Levenstein, *China and the Persian Gulf: Implications for the United States*, (Washington D.C.: Woodrow Wilson International Center for Scholars, 2011), http://www.wilsoncenter.org/sites/default/files/ASIA%20Program_China%20and%20the%20PG.pdf.

million and \$10 million in material.³¹ In February 2009, Chinese President Hu Jintao traveled to Saudi Arabia for the second time at the invitation of King Abdullah, with stated intention to elevate the bilateral ties to a next level.³² During the visit, Hu prized advancement of strategic friendship and expressed that “China attaches great importance to bilateral relations with Saudi Arabia and is ready to work with the Saudi side to deepen pragmatic cooperation.”³³

Although energy, trade and investments ties have dominated the agenda of mutual visits, in the last decade the two sides have also bolstered closer political ties. For instance in 2004, the two countries signed a memorandum of understanding to hold regular political consultations and in January 2012, Chinese Premier Wen Jiabao traveled to Saudi Arabia with his delegations to discuss with Crown Prince Nayef bin Abdul Aziz al-Saud not only oil cooperation but also the political situation surrounding Iran, Syria, Iraq and Israeli-Palestinian peace process.³⁴ Wen’s visit, which came amid the U.S. pressures on China to reduce its imports of Iranian oil, was part of his six-day tour through the region.³⁵ During the visit, Wen called for strengthening coordination and cooperation with Saudi Arabia on major issues, noting that China is willing to “add more

³¹ "Chinese President Arrives in Riyadh at Start of 'Trip of Friendship, Cooperation'," *Xinhua*, February 10, 2009, http://news.xinhuanet.com/english/2009-02/10/content_10796711.htm.http://news.xinhuanet.com/english/2009-02/10/content_10796711.htm. (accessed June 16, 2012).

³² "Chinese President's Visit to Saudi Arabia to Show Friendship," *Xinhua*, February 10, 2009, http://news.xinhuanet.com/english/2009-02/10/content_10795670.htm.http://news.xinhuanet.com/english/2009-02/10/content_10795670.htm. (accessed May 16, 2012).

³³ "Chinese President Arrives in Riyadh at Start of 'Trip of Friendship, Cooperation'."

³⁴ David D. Kirkpatrick, "Chinese Visit to Saudi Arabia Touches on Oil and Politics," *The New York Times*, January 15, 2012, <http://www.nytimes.com/2012/01/16/world/middleeast/chinas-wen-jiabao-mixes-oil-and-politics-in-saudi-visit.html>.<http://www.nytimes.com/2012/01/16/world/middleeast/chinas-wen-jiabao-mixes-oil-and-politics-in-saudi-visit.html> (accessed May 01, 2012).

³⁵ *Ibid.*

strategic connotation to the bilateral relations.”³⁶ In May 2013, ahead of the second Geneva peace conference on Syria’s civil war, Saudi Arabian Foreign Minister Prince Saud al-Faisal traveled to China to meet with Chinese President Xi Jinping and his Chinese counterpart Wang Yi to discuss regional affairs and Sino-Saudi bilateral relations.³⁷ During the visit, the Chinese President expressed that China strives to develop friendly relations with Saudi Arabia “no matter how the international situation changes.”³⁸ Meanwhile, during the visit, the Chinese leader reportedly also conveyed to al-Faisal that China will not support an Iranian nuclear program that could pose a threat to the Gulf region.

Sino-Iranian Diplomatic Relations

China and Iran share a long history of cultural, economic and diplomatic ties, dating back to their pre-colonial empires.³⁹ Although the relations between the two countries were discontinued in 1949 following the formation of the PRC, the formal diplomatic ties were re-established in 1970. However, it was not until the early 1980s, that these relations improved significantly, with high-level diplomatic interaction revolving at that time around the Iran-Iraq war (1980-1988), arms sales, nuclear cooperation and balancing the U.S. and

³⁶ "Premier Wen Jiabao Visits Three Gulf Countries," (Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the Hong Kong Special Administrative Region January 20, 2012).

³⁷ "Saudi Fm Tells China Violence by Assad Must Be Stopped," *Al Arabiya*, May 18, 2013, <http://english.alarabiya.net/en/News/middle-east/2013/05/18/Saudi-FM-tells-China-violence-by-Assad-must-be-stopped-.html>.<http://english.alarabiya.net/en/News/middle-east/2013/05/18/Saudi-FM-tells-China-violence-by-Assad-must-be-stopped-.html> (accessed June 05, 2013).

³⁸ *Ibid.*

³⁹ Levenstein. p. 38.

Soviet hegemony.⁴⁰ Prior to the 1979 revolution, the bilateral relations were miniscule, partly due to the U.S. pressure on Iran to limit economic and diplomatic ties with communist China.⁴¹

The significance of the mutual relationship had been reflected in mutual high level visits. In June 1985 and May 1989, Ali Khamenei, then president of Iran, met with Chinese leader Deng Xiao-ping during his visit to China.⁴² Wan Li, then chairman of the National People's Congress (NPC) of China, traveled to Iran in September 1988. High level visits continued during the 1990s, with Chinese Prime Minister, Li Peng visiting Iran in July 1991, President Yang Shangkun in October 1991, Qiao Shi, then Chairman of the NPC in November 1996. Iran's leadership reciprocated the visits with the speaker of the Iranian Parliament, Mehdi Karroubi traveling to Iran in November 1991 and President Rafsanjani in 1992. However, realizing that Chinese military assistance to Iran was straining China's relationship with the United States, possibly putting China's booming economy at risk, the Chinese leadership downgraded their relationship with Iran in 1997, ceasing cooperation in the nuclear and missile programs.⁴³

The early 2000s witnessed the resumption of high-level cooperation between the two countries. Iranian President Mohammad Khatami visited China in June 2000 and Chinese Vice-President Hu Jintao reciprocated a visit to Iran in January 2001. The closer relations were assisted by China's accession to the World Trade Organization in late 2001 which diminished the U.S. leverage over China, and by the revelation of Iran's uranium

⁴⁰ Bates Gill, *Chinese Arms Transfers : Purposes, Patterns, and Prospects in the New World Order* (Westport, CT : Praeger, 1992), 96-99.

⁴¹ Scott Harold and Alireza Nader, *China and Iran: Economic, Political, and Military Relations*, (Santa Monica, CA: RAND Corporation, 2012), http://www.rand.org/content/dam/rand/pubs/occasional_papers/2012/RAND_OP351.pdf. 3.

⁴² Levenstein. 16.

⁴³ John W. Garver, *China and Iran : Ancient Partners in a Post-Imperial World* (Seattle : University of Washington Press, 2006), 13-17.

enrichment program in 2002 which led to Iran's gradual international isolation and thereby opened opportunities for China to fill the economic and diplomatic vacuum in Iran.⁴⁴ At the same time however, the revelation of Iran's nuclear program in 2002 and deterioration of Iran-U.S. relations, which followed thereafter has complicated China's relations with Iran, forcing Beijing to carefully balance its ties with the two powers. This has been reflected in Sino-Iran diplomatic interaction. While President Ahmadinejad visited China in September 2008, Chinese presidential and prime ministerial visits to Iran ceased after the two visits made by Hu Jintao as vice president in January 2001 and Jiang Zemin as president in April 2002. Upon the election of Ahmadinejad as Iran's president in June 2005, the Chinese president did not travel to Iran and instead visited King Abdullah who became the king of Saudi Arabia in August of the same year. Instead, the regional security forums Shanghai Cooperation Organization's (SCO) summits have become a venue for Sino-Iranian diplomatic interaction. The two countries for instance exchanged views in Shanghai in June 2006, in Bishkek in August 2007, and in Yekaterinburg in June 2009, and Beijing in June 2012.⁴⁵ In September 2012, Wu Bangguo, chairman of the Standing Committee of China's National People's Congress traveled to Iran for a four-day official visit.⁴⁶ While China's rising demand for energy and Iran's increasing isolation – facilitated by the U.S. policy of “dual containment” in the 1990s and the revelation of the Iran's nuclear program since 2002

⁴⁴ Nader. 4.

⁴⁵ Ben Blanchard, "Iran's Ahmadinejad to Visit as China Slams New Sanctions," *Reuters*, May 23, 2013, <http://www.reuters.com/article/2012/05/23/us-china-iran-idUSBRE84M05A20120523>.<http://www.reuters.com/article/2012/05/23/us-china-iran-idUSBRE84M05A20120523> (accessed August 15, 2013).

⁴⁶ "China's Top Legislator Starts Visit to Iran for Closer Ties," *Xinhua News Agency*, September 09, 2012, http://news.xinhuanet.com/english/china/2012-09/09/c_131838742.htm.http://news.xinhuanet.com/english/china/2012-09/09/c_131838742.htm (accessed October 11, 2013).

- brought the two powers into a closer relationship, as will be discussed in the conclusion, the two states also have serious differences.

Sino-Iraqi Diplomatic Relations

The U.S.-led invasion of Iraq in 2003 facilitated unprecedented expansion of China's relations with post-Saddam Iraq. Sino-Iraqi diplomatic relations were established in 1958, but remained frosty until mid-1975, with Iraq leaning towards the Soviet Union as opposed to China. Thereafter, China became more concerned about "Soviet designs in the region, and that made Iraq more important to China, while the Iran-Iraq war would make China more important to Iraq as an arms supplier."⁴⁷ International sanctions imposed on Iraq following the Iraq-Kuwait war in 1991 however hindered further expansion of Sino-Iraqi relations.⁴⁸ Prior to the first Gulf War, China condemned Iraq's invasion of Kuwait but assumed a neutral stance by abstaining from the United Nations Security Council's vote authorizing the use of force against Iraq.⁴⁹ Later in the 1990s, China joined France and Russia in calling for lifting of sanctions against Iraq, hoping to actualize energy contracts, which remained only on the paper due to sanctions. In the lead-up to the 2003 war, China voted in favor of the UN Resolution 1441 giving Iraq the last chance to comply, but in 2003 China joined Germany, France and Russia in opposing the U.S. invasion.

⁴⁷ Yetiv and Lu, "China, Global Energy, and the Middle East," 202.

⁴⁸ Suzanne Xiao Yang, *China in the Un Security Council Decision-Making on Iraq* (Hoboken: Taylor and Francis, 2012), 136-50.

⁴⁹ Nicholas D. Kristof, "War in the Gulf: China; Beijing Backs Away from Full Support of the War," *The New York Times*, February 1, 1991, <http://www.nytimes.com/1991/02/01/world/war-in-the-gulf-china-beijing-backs-away-from-full-support-of-the-war.html>. <http://www.nytimes.com/1991/02/01/world/war-in-the-gulf-china-beijing-backs-away-from-full-support-of-the-war.html> (accessed November 11, 2013).

It was not until the establishment of the Iraqi Interim Governing Council following the 2003 US-led invasion that the two countries began to expand their bilateral relations. The relations took off after the Iraqi interim president, Bhr Ul-Uloum, visited China in May 2004. During the visit, then Chinese president Hu Jintao conveyed its intent to consolidate and expand bilateral relations with Iraq. Following the visit, China called for withdrawal of U.S.-led forces from Iraq. The relations particularly intensified after 2007, when Iraqi president, Jalal Talabani, accompanied by a 40-member delegation, made their first official state visit to China in what was the first official visit to China by an Iraqi president since the two countries established diplomatic relations in 1958.⁵⁰ During the visit, Iraqi leadership encouraged Chinese companies to bid for exploration of Iraqi oilfields and Chinese President Hu committed to support and participate in the country's reconstruction process in fields of energy, education, technology and health.

In January 2010, China also agreed to write off 80% of Iraq's \$8.5 billion Saddam Hussein-era debt in an effort to cultivate its business interests in the country, boost Iraq's reconstruction and enhance bilateral ties at large.⁵¹ Iraqi Finance Minister Bayan Jabr lauded China's effort, noting that the deal "will enhance economic cooperation between the two friendly countries."⁵² Deputy Foreign Minister Shen Guofang conceded that the Chinese hoped the debt waiver would increase China's opportunities to bid on Iraqi oil

⁵⁰ Qin Jize, "China Welcome to Explore Iraqi Oil Resources: Envoy," *China Daily*, June 19, 2007, http://www.chinadaily.com.cn/cndy/2007-06/19/content_897160.htm.

http://www.chinadaily.com.cn/cndy/2007-06/19/content_897160.htm (accessed May 16, 2013).

⁵¹ Sinan Salaheddin, "Iraq: China to Write Off 80 Percent of Iraq Debt," *Associated Press*, February 3, 2010,

<http://proxy.lib.odu.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=edsnbk&AN=12DA553FB0385470&site=eds-live&scope=site>.

<http://proxy.lib.odu.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=edsnbk&AN=12DA553FB0385470&site=eds-live&scope=site> (accessed December 18, 2013).

⁵² *Ibid.*

and infrastructure projects. In addition to the debt forgiveness, China also granted to war-torn Iraq \$6.5 million for public health and development programs.⁵³ The deal was preceded by Iraqi award of two lucrative oil tenders to the state-run China National Petroleum Corporation (CNPC).

The bilateral relations were further enhanced following the U.S. withdrawal from Iraq in 2011. In April 2011, Iraqi Finance Minister visited China and signed an agreement with several Chinese companies cancelling or reducing remaining debts owed by the Iraqi side.⁵⁴ Then in July 2011, Iraqi Prime Minister Nuri Al-Maliki's paid a visit to China, in what was the first visit of an Iraqi prime minister to China in over 50 years of history of diplomatic relations.⁵⁵ During the visits, Al-Maliki called China a strategic partner of Iraq and expressed his desire for the establishment of Chinese reconstruction funds in Iraq. Chinese Premier Wen Jiabao vowed to provide continued assistance to Iraq's economic reconstruction and debt relief arrangements while Maliki voiced his support for the one-China policy. He also encouraged Chinese companies to invest in Iraq, calling for expansion of cooperation in areas of energy, transportation, housing, telecommunication and agriculture. Sealing their cooperation, the two sides inked two agreements to build long-term cooperation in oil and gas sector, electricity and other fields.

⁵³ "China to Write Off Iraqi Debts," *China Daily*, May 04, 2007, <http://www.china.org.cn/english/international/209907.htm>.

<http://www.china.org.cn/english/international/209907.htm> (accessed May 16, 2013).

⁵⁴ "China and Iraq," <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2823/>. Ministry of Foreign Affairs of the People's Republic of China, August 22, 2011, <http://www.fmprc.gov.cn/eng/wjb/zzjg/xybfs/gjlb/2823/> (accessed January 16, 2014).

⁵⁵ "China, Iraq Pledge Further Reciprocal Cooperation as Pm Visits," *Xinhua*, July 18, 2011, http://news.xinhuanet.com/english2010/china/2011-07/18/c_13993129.htm.

http://news.xinhuanet.com/english2010/china/2011-07/18/c_13993129.htm (accessed December 11, 2013).

Sino-Small GCCs Diplomatic Relations

In addition to Saudi Arabia, Iran and Iraq, China's diplomatic ties with the small states of the Gulf Cooperation Council (GCC) have similarly expanded in the post-Cold War period. Of all GCC states, Kuwait and China enjoy the longest diplomatic relationship established in 1971. Officials from both countries have maintained frequent visits since 1989 when Chinese President Yang Shangkun visited Kuwait, with Kuwaiti Emir Jaber reciprocating in 1990 and 1991.⁵⁶ Kuwait had been China's largest supplier of preferential official loans, providing China with \$620 million in loans on favorable terms between 1982 and 2001. In 1991, Kuwait sought to sign a security agreement with China similar to the ten-year agreement that it had signed with the United States earlier that year, while also pledging its support to any efforts that China undertakes to guard its national sovereignty, including preventing Taiwan, Tibet, Xinjiang from declaring independence.⁵⁷

The relations particularly intensified following the Kuwaiti prime minister's visit to China in 2004, during which the two countries promoted two way investment and trade and signed three agreements on economic and technology cooperation, oil and natural gas. This was followed by Chinese Foreign Minister Yang Jiechi's visit to Kuwait in September 2008 during which Jiechi prized growing bilateral relations and cooperation in all areas, calling for deepening of political trusts and strengthening of trade, energy and

⁵⁶ "China and Kuwait," <http://kw.chineseembassy.org/eng/sbgx/t580302.htm>. Ministry of Foreign Affairs of the People's Republic of China in the State of Kuwait. <http://kw.chineseembassy.org/eng/sbgx/t580302.htm> (accessed December 16, 2013).

⁵⁷ Geoffrey Kemp, *The East Moves West : India, China, and Asia's Growing Presence in the Middle East* (Washington, D.C. : Brookings Institution Press, 2010), 135.

investment cooperation with Kuwait and the GCC.⁵⁸ He also thanked Kuwait for its staunch support on issues such as Taiwan and Tiber. In May 2009, Chinese Premier Wen Jiabao met with Kuwaiti Emir Sheikh Sabah al-Ahmad al-Jaber al-Saban in what was the first Emir's visit to China since he became Emir of Kuwait in 2006.⁵⁹ Wen Jiabao evaluated bilateral relations and cooperation as "solid" and "fruitful" and expressed that China is prepared to expand cooperation with Kuwait in areas of economy, trade, energy, infrastructure and finance.⁶⁰ He also reiterated that China "valued traditional friendship with the Arab countries and supported their efforts to safeguard [their] sovereignty, independence and dignity,"⁶¹ further pointing to China's eagerness to "push forward exchanges between China and the Cooperation Council for the Arab States of the Gulf."⁶² For his part, Shaykh Al-Sabah hailed the friendship between the two countries, noting that Kuwait attached "great importance to advancing cooperation with China in various fields, including [...] economy, trade and politics."⁶³ He further stated that Kuwait was "fully keen on bolstering its ties with China and seeks to increase political coordination

⁵⁸ "Kuwaiti Prime Minister Nasser Meets with Visiting Chinese Foreign Minister Yang Jiechi," (Embassy of the People's Republic of China in the State of Kuwait, September 05, 2008). <http://kw.chineseembassy.org/eng/sbgx/t590943.htm> (accessed November 03, 2013).

⁵⁹ Khizar Niazi, "Kuwait Looks Towards the East: Relations with China," Policy Brief, *The Middle East Institute* (September 01, 2009), <http://www.mei.edu/content/kuwait-looks-towards-east-relations-china-0>. (accessed September 16, 2013).

⁶⁰ "Wen Jiabao Meets with Kuwaiti Emir Al-Sabah," (Embassy of the People's Republic of China in the State of Kuwait, May 11, 2009). <http://kw.chineseembassy.org/eng/sbgx/t562033.htm> (accessed January 25, 2014).

⁶¹ "China, Kuwait Pledge Cooperation During Global Financial Crisis," *Xinhua*, May 11, 2009, http://news.xinhuanet.com/english/2009-05/11/content_11355089.htm.

http://news.xinhuanet.com/english/2009-05/11/content_11355089.htm (accessed January 25, 2014).

⁶² "China, Kuwait Issue Communique, Stressing Trade, Energy Resources Co-Op," *Xinhua*, May 12, 2009, http://news.xinhuanet.com/english/2009-05/12/content_11357753.htm.

http://news.xinhuanet.com/english/2009-05/12/content_11357753.htm (accessed January 14, 2014).

⁶³ "Kuwait, China Sign Energy Agreement", *The China Post*, May 11, 2009,

<http://www.chinapost.com.tw/business/middle-east/2009/05/11/207637/Kuwait-China.htm>.

<http://www.chinapost.com.tw/business/middle-east/2009/05/11/207637/Kuwait-China.htm> (accessed January 18, 2014).

and boost trade exchange and mutual investments,”⁶⁴ adding that the Sino-Kuwaiti relations are based on mutual respect, equality and mutual benefit. The visit culminated in signing six agreements and memorandums of understanding in the fields of energy, education, communication, sports and finance.

Also China and Bahrain expanded bilateral relations in the second half of the 2000s. Bahraini Prime Minister, Shaikh Khalifa bin Salman Al Khalifa visited China in May 2002, touching off a myriad of lower-level visits.⁶⁵ In May 2006, when Chinese Assistant Foreign Minister, Li Zhaoxin, visited Bahrain, Shaikh Al Khalifa praised the progress in bilateral relations between both countries and China’s efforts at developing relations with all GCC member states and Arab countries in general.⁶⁶ Similarly, in November 2008, Al Khalifa hailed the further development of relations between the two countries. In September 2011 during the Summit Meeting with the heads of Arab delegations, ahead of the China-Arab International Trade and Economic cooperation Forum, the Chief Executive of the Bahrain Economic Development Board, Shaikh Mohammed bin Essa Al-Khalifa underscored the development of mutually beneficial Sino-Gulf relations by stating, “I can only see the relationship between the Arab World and China growing. And this will occur above and beyond the importance of oil to trade and economic co-operation. In short, good trade relations between China and the Arab world are in our mutual interest. Through more diverse and deeper interdependence we

⁶⁴ "Hh Amir Says Kuwait Willing to Reinforce Ties with China," *Kuwait News Agency*, May 10, 2009, <http://www.kuna.net.kw/ArticleDetails.aspx?id=1997050&language=en>.

⁶⁵ "Foreign Minister Meets with His Chinese, Thai and S.Korean Counterparts," *Bahrain News Agency*, June 22, 2004, <http://bna.bh/portal/en/news/372402?date=2011-04-17>.

⁶⁶ "Pm Hail Bahraini-Chinese Relations," *Bahrain News Agency*, May 25, 2006, <http://www.bna.bh/portal/en/news/400300?date=2011-03-7>.

will bring greater growth to our markets.”⁶⁷ In April 2013, Bahrain’s King Hamad bin Isa Al Khalifa discussed cooperation in various areas during a meeting with China’s Special Envoy to the Middle East, Wu Sike and his delegation visiting Manama.⁶⁸

Similarly to the other Persian Gulf countries, officials from China and the United Arab Emirates (UAE) have maintained frequent visits since 1980s, seniority of which has increased in the second half of the 2000s.⁶⁹ The ruler of Dubai and UAE vice president, Sheikh Muhammad bin Rashid Al Maktum paid a visit to China in 2008, and Abu Dhabi’s Crown Prince, Sheikh Muhammad bin Zayed Al Nahyan visited China in 2009. The relations particularly intensified when in January 2012, during Chinese Premier Wen Jiabao’s visit to Saudi Arabia, the UAE, and Qatar, launched a strategic partnership with China.⁷⁰ The visit constituted the first ever visit paid by a Chinese premier to the UAE and Qatar.⁷¹ Sheikh Mohammed bin Rashid Al-Maktoum, vice president and prime minister of the UAE and a ruler of Dubai noted that the strategic partnership between the two countries will promote high-level exchanges, deepen mutual political trust and lead to more cooperation in trade and energy. Chinese Vice President Xi Jinping assessed the deal as marking “a new stage of China-UAE relations.”⁷² During the visits, the two sides agreed to increase high-level exchanges, forge closer political consultations and coordination on major regional and international issues, deepen the political relations of

⁶⁷ "Trade between Bahrain and China on a Rise ", *Albawaba*, September 21, 2011, <http://www.albawaba.com/trade-between-bahrain-and-china-rise-393114>.

⁶⁸ "Bahrainin King Meets with Chinese Special Envoy to Middle East in Manama," *Xinhua*, April 03, 2013, http://news.xinhuanet.com/english/photo/2013-04/03/c_132280682.htm.

⁶⁹ ""China and the United Arab Emirates", " (Embassy of the People's Republic of China in United Arab Emirates, 2011).

⁷⁰ "China, Uae to Establish Strategic Partnership," *Xinhua*, January 17, 2012, http://china.org.cn/world/2012-01/17/content_24425251.htm.

⁷¹ "Premier Wen Jiabao Visits Three Gulf Countries."

⁷² "China Eyes Closer Strategic Partnership with Uae," *Xinhua*, March 29, 2012, http://china.org.cn/world/2012-03/29/content_25016551.htm.

mutual trust and equality and uphold the principle of non-interference in other countries' internal affairs. They also agreed to increase bilateral trade, energy cooperation, expand cooperation in banking areas, reinforce cooperation within military industry and military exchanges, culture and economic cooperation in general.⁷³ Then again in March 2012, Chinese Vice President Xi Jinping met with visiting UAE Crown Prince of Abu Dhabi Sheikh Mohammed bin Zayed Al Nahyan in Beijing to strengthen the bilateral strategic partnership, launching subsequent visits aimed at enhancing cooperation in the areas of economy, energy and culture.⁷⁴

While in Saudi Arabia Wen Jiabao's sought to "further lift up the strategic relations," and in the UAE initiated the strategic partnership. In Qatar, Wen agreed to "further strengthen contacts between the leaders and increase strategic mutual trust."⁷⁵ Wen's January 2012 visit to Saudi Arabia, UAE and Qatar, in what constituted the first visit ever paid by Chinese premier to Qatar, coincided with a 45% increase in Sino-Qatari trade within just one year.⁷⁶ During the visit, Wen emphasized the importance of energy to Sino-Qatari relations, stating that "establishing a long-term, stable and comprehensive partnership with Qatar on natural gas is an important topic between us."⁷⁷ Wen's visit was reciprocated by Qatari Prime Minister later that year.

China has also sought to enhance relations with Oman as illustrated in 2010, when Jia Qinglin, chairman of the National Committee of the Chinese People's Political

⁷³ "China, Uae Issue Joint Statement ", *China.org.cn*, January 18, 2012, http://china.org.cn/wap/2012-01/18/content_24436682.htm.

⁷⁴ "China Eyes Closer Strategic Partnership with Uae."

⁷⁵ "Premier Wen Jiabao Visits Three Gulf Countries."

Collaboration in the energy sector, and multitude of joint ventures as well as foreign direct investment.

⁷⁶ "Qatar-China Trade Jumps 45% to \$8.45bn Last Year," *Construction Week Online*, February 27, 2013, <http://www.constructionweekonline.com/article-21134-qatar-china-trade-jumps-45-to-845bn-last-year/#.UvubxGJdWWY>.

⁷⁷ Chris Zambelis, "China, Qatar Forge Tricky Partnership," *Asia Times*, October 25, 2012, http://atimes.com/atimes/China_Business/NJ25Cb01.html.

Consultative Conference (CPPCC) and China's top political adviser visited Oman to promote "mutual trust and [cooperation] in trade, energy and culture," and to "inject new vitality to bilateral relations."⁷⁸ During the visit, the two countries signed four agreements on cooperation in the economic, trade and cultural areas.⁷⁹ Oman's Deputy Prime Minister Fahad Bin Mahmoud echoed Jia Qinglin's remarks, noting that Oman views China - which has become Oman's largest trading partner - as a strategic partner and seeks to promote economic and trade cooperation as well as people-to-people exchange.⁸⁰

In 1981 China also established diplomatic ties with the GCC bloc itself, and by 1996, the GCC and China established regular annual consultations to support increased economic and trade cooperation. Beyond the GCC and the Persian Gulf region, China has also enhanced its position with the broader Middle East. In January 2004, China and the Arab League, in which all of the GCC states are represented, established the Sino-Arab Cooperation Forum to promote cooperation in political, trade, energy and cultural affairs.⁸¹ And in 2010, at the occasion of the fourth Forum's meeting, the two sides elevated the relationship to "strategic cooperation." At the occasion of the fifth ministerial meeting in May 2012, Chinese Vice Foreign Minister Zhai Jun praised the development of the forum by stating that it has "remarkably enhanced the overall level of China-Arab friendly cooperation."⁸²

⁷⁸ "China, Oman Vow to Enhance Cooperation, Friendship," *Xinhua*, November 08, 2010, http://news.xinhuanet.com/english2010/china/2010-11/08/c_13597013.htm.

⁷⁹ *Ibid.*

⁸⁰ *Ibid.*

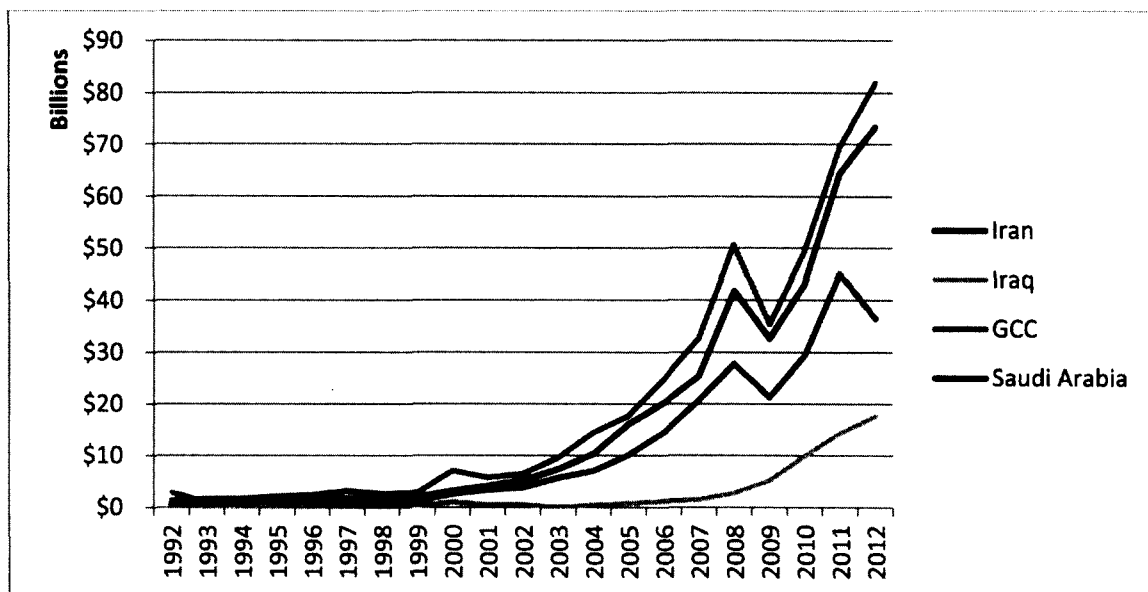
⁸¹ "A Step Forward in Boosting China-Arab Cooperation," *English.news.cn*, May 13, 2010, http://news.xinhuanet.com/english2010/indepth/2010-05/13/c_13293326.htm.

⁸² "Officials Expect 5th China-Arab Cooperation Forum to Lay New Cornerstone for Ties," *English.news.cn*, May 30, 2012, http://news.xinhuanet.com/english/china/2012-05/30/c_131621391.htm.

China's Economic Capabilities in the Persian Gulf

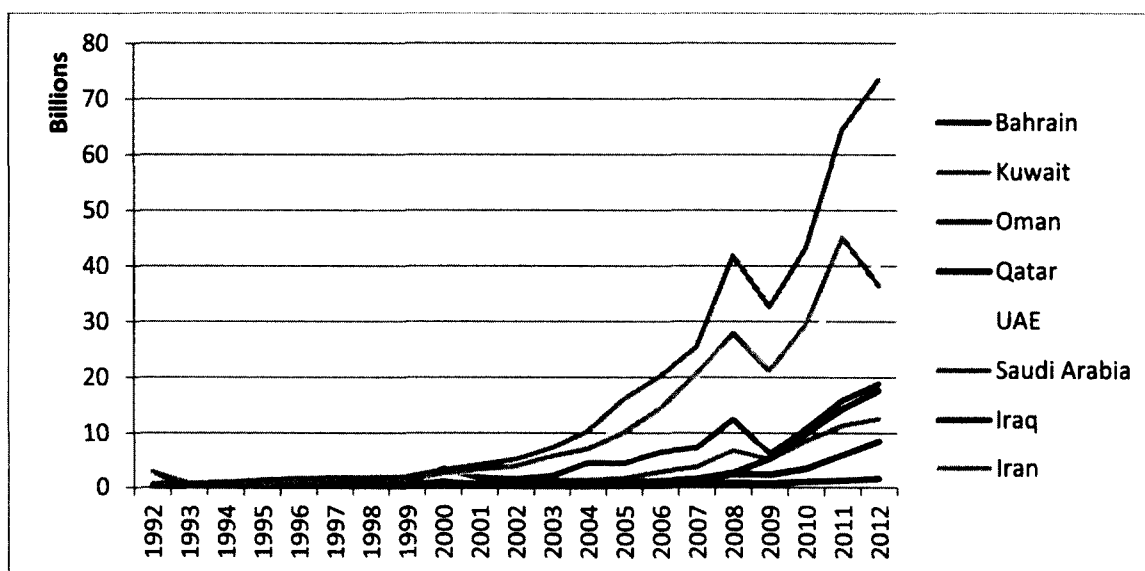
Enhanced diplomatic relations between China and the Gulf states facilitated unprecedented multi-faceted economic ties. While cooperation in energy has been central to those ties, non-energy economic ties have also proliferated, particularly in the last decade. Growing economic interdependence between China and the Gulf is reflected in increasing trade volumes, mutual investments, multitude of joint ventures as well as a variety of construction projects (Figure 6).

Figure 6. Total Trade Between China and Iran, Iraq, the GCC and Saudi Arabia (1992-2012)



Source: Created by the author with the data drawn from UN Commodity Trade Statistics Database, Various Issues (New York: United Nations).

Figure 7. Total Trade Between China and the Persian Gulf (1992-2012)



Source: Created by the author with the data drawn from UN Commodity Trade Statistics Database, Various Issues (New York: United Nations).

China's share of GCC trade increased from less than 2% in 1992 to over 11% in 2012.⁸³ Particularly the last decade has accounted for the most of that increase, as between 2001 and 2012 China's share of total GCC trade more than doubled from 4% to 11% respectively.⁸⁴ In contrast, the U.S. and EU share of GCC trade decreased from 42% to around 22% during the same period.⁸⁵ Specifically, U.S. share of GCC trade dropped from 15% in 1992 to 9% in 2012. Similarly, while the EU remains the GCC biggest trading partner, the EU's share of GCC trade decreased from 24% in 1992 to 13% in 2012. These changes are a part of a larger shift in the trade pattern, which began in the 1990s and accelerated in the 2000s. While in 1980 North American and Western European countries accounted for almost 85% of all the GCC's trade, by 2012 the Asian

⁸³ Abdel Aziz Aluwaisheg, "The Gcc Turns East," *Arab News*, December 16, 2012, <http://www.arabnews.com/gcc-turns-east>.

⁸⁴ "Gcc's Trade Surplus to Hit \$493 Billion in 2012-13," *Albawaba*, March 28, 2012, <http://www.albawaba.com/gcc-trade-surplus-hit-493bn-2012-13-418907>.

⁸⁵ "European Union, Trade in Goods with Gcc (6)," (Directorate-General for trade - European Commission, July 11, 2013).

continent has become GCC's largest trading partner, accounting for around 57% of GCC's total foreign trade.⁸⁶ In 2013, trade with the GCC states represented 70% of all Sino-Arab trade.⁸⁷ Experts project that China alone will become the GCC's most important economic partner by 2020.⁸⁸ Mutual energy interests lie at the core of expanding relations between China and the Persian Gulf countries. While China needs access to large volumes of oil to sustain its economic growth, the Persian Gulf states view China as a huge market for their oil exports, which constitute their main source of income. While the United States and European countries' oil demand is projected to remain flat or decrease due to their emphasis on alternative energy sources, increased energy efficiency and the growing production of shale oil and gas in the U.S., the Chinese domestic market is projected to remain the fastest growing energy market in the world. Moreover, according to Ibrahim Al-Muhanna, advisor to the Saudi Minister of Petroleum, the West's focus on reducing its reliance on oil and gas which has put pressure on Gulf oil producers to look for alternative export markets has been accompanied with a "wave of hostility from some western countries under the guise of energy security, protecting the environment and fighting global warming."⁸⁹

However, the GCC's "Look East" economic policy and China's "Go outward" policy is not converging only around the flow of oil from the Persian Gulf to China (and

⁸⁶ "Gcc Trade and Investment Flows: The Emerging-Market Surge," *The Economist* (Economist Intelligence Unit, 2011), <http://www.economistinsights.com/sites/default/files/downloads/AVIVA%20-%20GCC%20Trade%20and%20Investment%20Web%2022%20MARCH%202011-1.pdf>. Just between 2008 and 2012, GCC-Asia trade almost doubled from \$480 billion in 2008 to \$814 billion in 2012.

<http://english.alarabiya.net/en/special-reports/bridging-the-gulf/2013/06/18/Asia-GCC-relations-Growing-interdependence.html>

⁸⁷ Robert Bailey, "China and Gcc: Growing Ties," *Gulf Business*, April 16, 2013, <http://gulfbusiness.com/2013/04/china-and-gcc-growing-ties/#.UuRJNtIo7IU>.

⁸⁸ "Gcc Trade and Investment Flows: The Emerging-Market Surge."

⁸⁹ Tamsin Carlisle, "China Is Right Market at Right Time for Gulf," *The National*, August 18, 2009, <http://www.thenational.ae/business/china-is-right-market-at-right-time-for-gulf>.

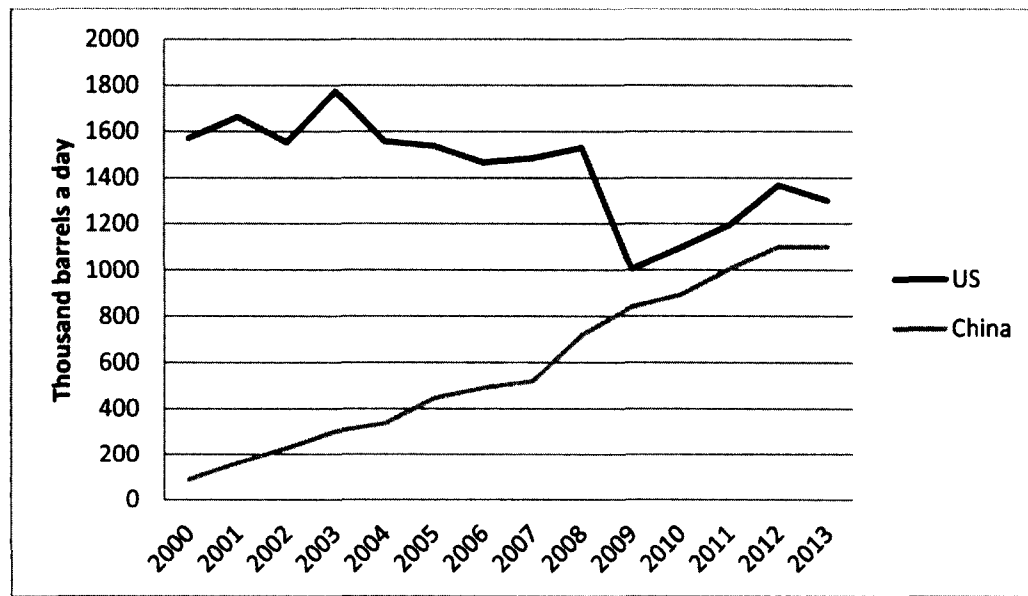
Asia at large). The oil-rich GCC states have also become a growing export market for Chinese goods and a bi-directional flow of foreign direct investment has also been on a rise.

Sino-Saudi Economic and Energy Relations

Economic ties with Saudi Arabia constitute a relatively recent development. When the two countries re-established diplomatic relations in 1990, energy played a miniscule role in Sino-Saudi economic relations and bilateral trade totaled only \$296 million. By 2012, trade between the two countries stood at \$73 billion, up from \$43 billion in 2010, making Saudi Arabia China's largest trading partner in the Middle East. Oil lies at the center of the bilateral trade relations. While in 1995, Saudi oil accounted for only 2% of China's oil imports, by 2002 Saudi Arabia became China's largest supplier of crude oil, supplying around 20% of China's oil every year since then. In absolute terms, China's oil imports from Saudi Arabia grew 24 times in only a decade, increasing from only 50,000 bpd in 1999, to 455,000 bpd in 2005, surpassing 1 million bpd in for the first time in 2009, and reaching 1.2 million bpd in 2012. In 2009, China even briefly surpassed the United States as Saudi Arabia's number one oil customer, while the US imports from Saudi Arabia fell below 1 million bpd for the first time in 20 years (Figure 8).⁹⁰

⁹⁰ "China Exceeds Us to Become Saudi Arabia's Top Oil Customer," *Global Times*, February 23, 2010, <http://www.globaltimes.cn/business/china-economy/2010-02/507404.html>.

Figure 8. Saudi Arabia's Oil Exports to China and the United States (2000-2013)



Source: U.S. data come from U.S. Energy Information Administration, *Petroleum & Other Liquids* database. Chinese data come from various years, *Chinese Statistical Yearbook*, (Beijing: Customs General Administration of the People's Republic of China).

It was not until the end of the 1990s when energy relations between the two began to unfold. In 1998, the two countries concluded the first oil contract and the same year, Saudi Aramco opened a subsidiary office, the Saudi Petroleum Ltd., in Beijing to oversee sales and marketing, despite low volumes of oil imported by China.⁹¹

While in 1999, the Kingdom supplied only 6% of China's oil, "Saudi Aramco recognized, even then, how important China would be for the market in the future, because of its outstanding growth prospects and desire for a higher living standard," according to Mohammed Al-Madi, regional vice-president of Saudi Petroleum Ltd's Beijing office.⁹² Cooperation in energy took off after Chinese President Jiang Zemin's visit of Saudi Arabia in 1999, during which the two countries fostered a "strategic oil

⁹¹ "We Recognized China's Importance Early," *China Daily*, September 26, 2011, http://www.chinadaily.com.cn/cndy/2011-09/26/content_13789462.htm.

⁹² *Ibid.*

partnership.” Under this agreement, Saudi Arabia would allow China to invest in its oil and gas market, with the exception of upstream oil production and exploration.⁹³

Economic ties have further strengthened following China’s and Saudi Arabia’s accession to the World Trade Organization in 2001 and 2005 respectively.

Saudi Arabia is keenly aware that while the United States and Europe’s oil demand will probably not rise by much, China’s oil demand is poised to grow in the future. Underscoring the importance of China to Saudi Arabia’s security of demand, Khalid al-Falih, CEO of Saudi Aramco stated in 2010, “Demographic and economic trends are making it clear – the writing is on the wall. China is the growth market for petroleum.”⁹⁴ In 2006, Saudi Prince Walid bin Talal similarly ascertained Saudi motivation by stating, “We are opening new channels, we are heading east. China is a big consumer of oil. Saudi Arabia needs to open new channels beyond the West. So this is good for both of us.”⁹⁵ On the eve of Chinese president Hu’s visit to the Kingdom in 2006, Prince Walid further underscored the importance of the growing Sino-Saudi economic cooperation by stating, “When you have a country of 1.3 billion people growing at 10 percent annually, importing millions of tons of oil, Saudi Arabia has to be there [...] It’s clear Saudi Arabia is going where its interests are, and China is going where its interests are.”⁹⁶ Along similar lines, Al-Naimi in 2010 noted that Saudi Arabia views “China as a strategic partner and seek to strengthen and enhance such partnership.”⁹⁷

⁹³ Mohammed Turki Al-Sudairi, "Sino-Saudi Relations: An Economic History," (GRC Gulf Paper: Gulf Research Center, August 2012).

⁹⁴ Mouawad, "China's Growth Shifts the Geopolitics of Oil."

⁹⁵ Hassan M. Fattah, "Avoiding Political Talk, Saudis and Chinese Build Trade," *ibid.*, April 23, 2006, http://www.nytimes.com/2006/04/23/world/asia/23saudi.html?_r=1&.

⁹⁶ *Ibid.*

⁹⁷ H. E. Ali I. Al-Naimi, "Energy for a New Asian Century," (McMurry Inc., 2010).

The Kingdom has courted its increasingly important oil market in the East by repeatedly reassuring China about guaranteed oil supplies to Beijing at all times. The Saudis voiced out this commitment to deliver continuous oil supplies to China during President Hu Jintao's visit to the Kingdom in 2009 and then again during Saudi Minister of Petroleum and Mineral Resources, Ali Al-Naimi's visit to China in 2010. Specifically, Al-Naimi stated "let me be as explicit as possible: China can rely on Saudi Arabia to provide it with the oil it will need to continue its projected growth for the coming decades."⁹⁸ Saudi Aramco's CEO, Al-Falih issued a similar guarantee in 2009 when he told the Xinhua News Agency in 2009, "I can tell you that China has always been given the highest consideration by Aramco to make sure that they receive as much of their requirements as possible."⁹⁹ Sinopec Chairman Fu Chengyu underscored the convergence of Sino-Saudi economic interests in 2011, stating "China needs energy to fuel its economic growth," while the Kingdom "needs a reliable market."¹⁰⁰

Sino-Saudi economic relations have gradually become more multifaceted extending to mutual industrial collaboration and cross-investments within and beyond the oil industry. As Saudi Aramco's CEO Khalid A. Al-Falih noted:

Some observers – particularly those outside of China and Saudi Arabia – superficially see our bilateral relationship with China as a one-way flow of oil from our company to this country, and view our ties exclusively through the narrow lens of energy supply security [...] This dynamic of mutual dependence will only become stronger as Saudi Aramco continues to invest in multi-billion dollar infrastructure and development projects, and as its level of crude oil export to China continues to rise in the decades ahead.

⁹⁸ Ibid.

⁹⁹ "Saudi Aramco Sees Strong Potential in China Market," *Saudi Gazette*, January 16, 2009, <http://www.saudigazette.com.sa/index.cfm?method=home.PrintContent&action=Print&contentID=0000000054443>.

¹⁰⁰ "China & Gcc Widen Energy Ties," *Middle East Economic Survey*, January 23, 2012, <http://www.mees.com/en/articles/7337-china-and-gc-widen-energy-ties>.

He also added, "We don't consider ourselves simply as sellers of oil to China, but rather strategic partners."¹⁰¹

The 1999 strategic oil agreement has facilitated mutual cross-investments and joint-ventures in refining, petrochemical sector, infrastructure projects and petroleum technical service cooperation. In 2001, Saudi Aramco, Exxon Mobile and Sinopec agreed to jointly build a refinery in Qingdao in eastern Shandong province and expand capacity for a petrochemical plant in Quanzhou in Fujian province. As a part of the deal, China allowed Saudi Aramco to open 600 gas stations in the province in exchange for a 30-year supply contract for 30,000 bpd of Saudi oil. The refinery, which opened in November 2009 and in which Aramco invested some \$750 million triples the capacity of the Fujian plant to process Saudi heavy crude oil from 80,000 bpd to 240,000 bpd.¹⁰² The two countries also concluded an agreement under which Aramco would supply the Fujian government with 30,000 bpd of oil for the next thirty years, thereby securing a long-term outlet for its crude.¹⁰³ Meanwhile, Chinese companies have also sought to acquire and expand their foothold in Saudi Arabia's downstream and upstream. For instance, in 2004 China's oil company Sinopec secured a 10-year contract with Saudi Aramco to explore natural gas field in Saudi Arabia's al-Khali Basin, an area that Saudi Arabia has opened to foreign firms for the first time in 25 years.¹⁰⁴

The energy cooperation further intensified after King Abdullah's visit to China in 2006 in what was the first ever visit by the Saudi monarch to China. During the visit, the

¹⁰¹ Summer Said, "Aramco Agrees to Supply Oil to Chinese Refinery," *The Wall Street Journal*, March 20, 2011, <http://online.wsj.com/news/articles/SB10001424052748704433904576212043669531456>.

¹⁰² "Sinopec, Exxon Mobil, Saudi Aramco and Fujian Petrochemical Sign Agreements to Progress Fujian Manufacturing and Marketing Projects," (Exxon Mobil Corporation, August 25, 2004).

¹⁰³ John Calabrese, "China and the Persian Gulf: Energy and Security," *The Middle East Journal*, no. 3 (1998).

¹⁰⁴ "Saudi Arabia and China Extend Ties Beyond Oil," (September 27, 2005), <https://uyghuramerican.org/article/saudi-arabia-and-china-extend-ties-beyond-oil.html>.

two countries signed five new energy cooperation agreements, including a memorandum on oil, natural gas, and mineral cooperation. The Kingdom also agreed to help China to build its own strategic petroleum reserve on Hainan Island.¹⁰⁵ Largely thanks to this deal, China's strategic reserves reached an estimated 103 million barrels by 2012. China plans to grow its reserves to 500 mbd by 2016, with Saudi Arabia supplying the bulk of this crude cushion. When Chinese President Hu Jintao reciprocated the visit in 2009, the two countries signed five additional agreements expanding economic cooperation, including first major non-hydrocarbon \$1.8 billion deal under which the China Railway Construction Cooperation would build a high speed rail between holy cities Mecca and Medina.¹⁰⁶ The same year, Saudi SABIC was awarded a contract to help develop a \$3 billion petrochemical complex at Tianjin, while in 2011 Aramco and CNPC's subsidiary PetroChina signed an agreement under which Aramco would develop and supply 200,000 bpd oil refinery in China's Yunnan province. Aramco will supply oil through a \$2 billion oil and natural gas pipeline from Myanmar, halving shipping time from Saudi Arabia to China.¹⁰⁷ In 2010, Saudi Aramco's Board of Directors chose for the first time ever China for their meeting, further signaling the increasing importance of China to Saudi Arabia's oil industry.¹⁰⁸ Then in 2012, Aramco opened "Aramco Asia" in Beijing, and during Chinese Premier, Wen Jabao's visit to Saudi Arabia the very same year, Sinopec was awarded its first major investment in Saudi Arabia's oil sector to build oil refinery in Yanbu. The plant is projected to process 400,000 barrels per day and should be

¹⁰⁵ Kevin Jianjun Tu, "The Strategic Considerations of the Sino-Saudi Oil Deal," *China Brief* 6, no. 4 (March 29, 2006). The Heritage Foundation.

¹⁰⁶ "China Will Build Special Railway for Muslim Pilgrims in Saudi Arabia," *The Telegraph*, February 11, 2009, <http://www.telegraph.co.uk/news/worldnews/middleeast/saudi-arabia/4587544/China-will-build-special-railway-for-muslim-pilgrims-in-saudi-arabia.html>.

¹⁰⁷ "Plant Planned with Cnpc in Yunnan," *Oil & Gas News Online*, September 26, 2011, <http://www.thefreelibrary.com/Plant+planned+with+CNPC+in+Yunnan.-a0267926024>.

¹⁰⁸ "Company Board Meets in China," (Saudi Aramco, 2010).

operational in 2014.¹⁰⁹ Although China would like to gain a foothold in the Kingdom's oil upstream, Chinese NOCs have so far been able to provide only engineering and maintenance services and natural gas development assistance, as the Kingdom continues to keep its upstream closed to foreign investment.¹¹⁰ Similarly, despite increased energy cooperation, Yanbu refinery is the only downstream project China has secured in Saudi Arabia so far.¹¹¹

While China is eager to attract Saudi investment into its refining industry to secure stable, long-term supply of Saudi oil, Saudi Arabia seeks to invest in Chinese oil-industry related projects as a way to secure their status as a major oil provider to China. As part of the Kingdom's economic diversification strategy, the Kingdom strives to expand sales of refined products in China and gain access to the Chinese downstream, particularly in the retail gas market. In line with Kingdom's diversification efforts, Saudi Aramco has over the past two decades developed from a principally oil and gas producer to an integrated company with significant refining, shipping, and distribution assets. Similarly, Saudi Basic Industries Corporation (SABIC) has built significant regional sales and marketing infrastructure with offices in China and Asia at large. According to Prince Saud bin Abdullah bin Thinyan Al Saud, SABIC's chairman, "Asia is a region where SABIC not only wants to supply products, but is also a region that regards as a strategically important location for future manufacturing of its products."¹¹² In 2009, SABIC's CEO Mohammed al-Mady noted "SABIC's growth in China has not limits,

¹⁰⁹ Kirkpatrick, "Chinese Visit to Saudi Arabia Touches on Oil and Politics."

¹¹⁰ Chris Buckley, "China's Wen Presses Saudi Arabia for Oil Access," *Reuters*, January 14, 2012, <http://www.reuters.com/article/2012/01/15/us-saudi-arabia-china-idUSTRE80E00O20120115>.

¹¹¹ "China & Gcc Widen Energy Ties."

¹¹² Habib Shaikh, "Saudi Arabia Looks East as It Expands Industries," *The Business Times Singapore*, October 02, 2006.

especially when the Chinese market is currently the world's biggest for petrochemical products."¹¹³

Although oil-related cooperation lies at the heart of Sino-Saudi economic interaction, the partnership has extended beyond oil agreements in recent years. For instance, the two countries launched cooperation in renewable energy during Premier Jiabao's visit to the Kingdom in 2012.¹¹⁴ The deal is part of Saudi Arabia's massive energy diversification program to decrease its domestic consumption of oil, which has been annually growing by 7-8%. As a part of this effort, the Kingdom plans to invest \$100 billion in 16 nuclear reactors by 2030. Although details of the project remain scant, China will contribute in areas such as development and maintenance of nuclear power plants and research reactors, as well as the supply of nuclear fuel components. The agreement is Saudi Arabia's fourth nuclear agreement, following deals with France, Argentina and South Korea.

While Sino-Saudi trade relations and economic cooperation increased unprecedentedly in the post-Cold War period and in the past decade in particular, the expansion of the bilateral economic ties has its limits when considered within the broader context. Despite the increased trade between the two countries, China's trade with Saudi Arabia accounted for only 1.8% of China's total trade in 2011.¹¹⁵ At the same time, while Saudi Arabia's export to China consists mostly of oil, chemicals and plastics, China's export to Saudi Arabia consists of low-values goods. In contrast, U.S. exports to Saudi Arabia are dominated by high-tech goods. While mutual trade interdependence is

¹¹³ "Sabic Mulls New Plants to Boost Output," *Reuters*, December 06, 2009, <http://es.reuters.com/article/idUKGEE5B502920091206>.

¹¹⁴ "Premier Wen Jiabao Visits Three Gulf Countries."

¹¹⁵ (14% for Saudi Arabia, 1% in 1990)

booming, as Yang Guang, director general of the Institute of West Asian and African Studies at the Chinese Academy of Social Studies aptly pointed out, “Neither Saudi Arabia nor China sees attracting capital as their chief goal [...] Both are seeking technological know-how. However, neither has the expertise the other wants.”¹¹⁶

Moreover, the United States, not China, remains Saudi Arabia’s largest source of coveted foreign direct investment, representing more than 25% of all FDI in the Kingdom. Saudi Arabia’s share of China’s total global outward investment between 2005 and 2013 was only 2.2%. In the other direction, Gulf’s capital flows into China are hampered by Chinese capital controls, preventing the Gulf’s sovereign wealth funds from building large portfolios in China. Also, China has much higher investment stakes in the U.S. energy sector than in Saudi Arabia. Between 2007 and 2013, China’s investment in the U.S. energy sector totaled \$16.6 billion (\$33.3 billion in Canada’s energy sector), compared to \$6.8 billion in the Saudi energy sector.¹¹⁷

There have also been other limits to the economic cooperation. Although Saudi Arabia guaranteed reliable oil supply to China, the Kingdom keeps its upstream closed to foreign investment, thereby preventing China in securing stakes in equity oil which would enable Beijing to bypass the global energy market in times of severe disruptions by having its NOCs to ship oil from Saudi Arabia directly to China. Secondly, China has accused Saudi Arabia of dumping petrochemicals on its markets. Also the biggest infrastructure project, a much-heralded railway between Mecca and the holy sites of Mina and Mount Arafat built by the Chinese ended in a dispute, with China Railways

¹¹⁶ Naser M. Al-Tamimi, *China-Saudi Arabia Relations, 1990-2012: Marriage of Convenience or Strategic Alliance?*, Durham Modern Middle East and Islamic World Series (Hoboken : Taylor and Francis, 2013).

¹¹⁷ "China Global Investment Tracker," (American Enterprise Institute and The Heritage Foundation, 2013).

threatening to sue the Saudi authorities for the losses it has made on the investment due to problems over the allocation of land, cost overruns and workers' riots.¹¹⁸

Sino-Iraqi Economic and Energy Relations

In the post-Saddam period and particularly since 2009, China's trade and cooperation in energy with Iraq have also expanded to an unprecedented extent. Although the UN sanctions imposed on Iraq after the first Gulf War in 1991 deflated Sino-Iraqi trade, by the end of the 1990s, trade relations increased as a result of the UN oil-for-food program. In an effort to ensure long-term access to Iraqi oil, China successfully negotiated several major oil deals under Saddam Hussein. In 1997 China National Petroleum Corp. (CNPC) along with China North Industries Corp. signed a \$1.2 billion worth production sharing contract to develop the Iraqi al-Ahdab oil field in southern Iraq, and in 1998 the two sides initiated negotiations for the Halfayad field. However, the realization of the prospective contracts was pending removal of UN sanctions. Although in 1998, China and Iraq signed the largest oil contract under the Oil-for-Food program, under which China bought 18 million barrels of oil from Iraq, by the time the United States launched Operation Iraqi Freedom in 2003, Iraqi oil accounted for less than 1% of China's total oil imports.¹¹⁹

Following the 2003 invasion, the Iraqi oil industry has gradually recovered, with the country becoming one of the leading oil producers and therefore a lucrative energy

¹¹⁸ "Looking East: The Saudis Are Hedging Their Bets," *The Economist*, December 09, 2010, <http://www.economist.com/node/17680668>.

¹¹⁹ Roy D. Kamphausen, "The Iraq Energy Factor in Sino-Japanese Relations," *Policy Brief* 7, no. 6 (March 21, 2007), <https://uyghuramerican.org/article/iraq-energy-factor-sino-japanese-relations.html>.

partner to China. While before the invasion, Iraq's oil industry was largely walled off from world markets by international sanctions against Saddam Hussein's government, in 2012, Iraq overtook Iran as the OPEC second-largest oil producer. Since 2012, Iraq has been producing oil at the highest rate since Saddam Hussein seized power in 1979,¹²⁰ and in 2013 surpassed Iran in the volume of oil exports to China. While in 2009, China imported 143,000 bpd, or around 3% of its oil imports from Iraq, by 2013 the oil imports from Iraq have increased to 550,000 bpd, accounting for more than 8% of China's total oil imports. Meanwhile, China is seeking 882,000 bpd of Iraqi's oil for 2014, a 68% increase from 2013. If Iraq delivers on the deal, the country will challenge Angola as China's second largest oil supplier behind Saudi Arabia.¹²¹

Starved for investments after more than a decade of sanctions followed by a decade long war, Iraq has opened its upstream to foreign companies to recover its production and increase revenue. This has opened a window of opportunity for China and since 2009, Chinese companies have gradually become top players in the Iraqi oil sector. Although all oil contracts and negotiations were suspended following the U.S.-led invasion of Iraq 2003, in 2008 China's CNPC was the first foreign company able to renegotiate the \$3 billion oil service contract for the 1 billion barrel al-Ahdab oil field signed under Saddam.¹²² The 2008 contract constituted the first oil contract the Iraqi government awarded to a foreign oil company since the overthrow of Saddam which led

¹²⁰ Nayla Razzouk and Anthony Dipaola, "Iraq Oil Production Beating Iran Ends Saddam Legacy," *Bloomberg*, May 11, 2012, <http://www.bloomberg.com/news/2012-05-11/iraq-oil-output-beating-iran-ends-saddam-legacy.html>.

¹²¹ "Kingdom to Ship Same Oil Volumes to China in 2014," *Arab News*, January 15, 2014, <http://www.arabnews.com/news/509126>

¹²² Katherine Zoepf, "Iraq Signs \$3.5 Billion Deal for China to Develop Oil Field," *The New York Times*, November 11, 2008, <http://www.nytimes.com/2008/11/12/world/middleeast/12crude.html>.

to renewed access to the country's immense reserves.¹²³ In Iraq's first oil field auction in June 2009, China's CNPC in partnership with British Petroleum (BP) won a contract to increase production at Iraq's biggest oil field Rumaila oil field in Basra from 985,000 b/d to 2.85 million b/d within seven years at a cost of \$15 billion, making it the world's second largest oil field behind Saudi Arabia's Ghawar field.¹²⁴ China's willingness to accept tough bid terms opened the door to additional production opportunities in the second Iraqi bidding round in December 2009, in which CNPC in a consortium with France's Total and Malaysia's Petronas secured a contract to increase production of the Halfaya oil field from 3,100 b/d to 535,000 b/d.¹²⁵ Moreover, in May 2010, the China National Offshore Oil Corporation (CNOOC) and Turkey's TPAO were awarded a contract to raise output at the Maysan complex of fields located along Iraq's border with Iran from 100,000 b/d to 450,000 b/d.¹²⁶ In addition, China's Sinopec along with ENI, Oxy, and Kogas won the bid for increasing capacity of the Zubair field to 1.125 million b/d.

Upon completion, all China's projects in Iraq could potentially increase of China's access to almost 1.9 million bpd, turning Iraq into China's largest supplier of crude oil by 2020. Foreshadowing China's even greater role in the Iraqi energy sector, in August 2013, PetroChina confirmed it was negotiating with Exxon Mobile to co-develop the Iraqi West Qurna 1 oilfield, which holds oil reserves worth \$50 billion.¹²⁷ If the deal materializes, it will make the Chinese company the biggest single foreign investor in the

¹²³ Ibid.

¹²⁴ "Iraq Considers Lessons from First Bid Round," *Petroleum Intelligence Weekly*, July 13, 2009.

¹²⁵ Catherine Hunter, "Halfaya Contact Signed Off in Iraq as Ministry Works to End-January Deadline," *Global Insight*, January 28, 2010.

¹²⁶ Samuel Ciszuk, "Cnooc, Tpaoc Sign Development Contract for Iraq's Maysan Oilfields," *ibid.*, May 18, 2010.

¹²⁷ "China, Indonesia to Join Exxon at Giant Iraqi Oilfield," *Reuters*, August 22, 2013, <http://www.reuters.com/article/2013/08/22/petrochina-iraq-idUSL4N0GN29G20130822>.

Iraqi oil industry. The company has been also holding talks with Lukoil OAO Holdings, Russia's second-biggest oil producer, over joint development of the currently stalled West Qurna-2 project after Norwegian oil company Statoil ASA sold its 18.75% stake in 2012.¹²⁸ Lukoil head Vagi Alekperov told Reuters in January 2013 "An attractive partner for us would be China, where there is stable demand growth."¹²⁹ While West Qurna-2 is expected to produce 500,000 bpd in 2014, the oil field, currently operated by Lukoil, has the potential to produce more than 5 million b/d – similar to the Saudi Arabia's Ghawar field which is the world's largest producing oil field. Due to its enormous and almost untapped potential, the West Qurna field plays a critical role in realizing Iraq's goal to increase its oil production from the current about 3 million bpd to 12 million bpd by 2017, surpassing Russia's production of 10 million b/d and rivaling Saudi Arabia's 12.5 million b/d.¹³⁰

In sum, by October 2013, less than two years after U.S. President Barack Obama officially declared the end of the war in Iraq, Chinese NOCs, mainly CNPC, and not U.S. companies, have been operating three fields in the southern Iraq, and producing more than 50% of Iraqi oil output, or 1.4 million bpd. Chinese state-owned companies invested more than \$2 billion a year into the recovery of Iraq's oil sector, while also sending hundreds of workers to Iraq. In 2013, China built an airport near the Iranian border to ferry its workers to Iraq's southern oil fields. According to the CNPC chairman Jiang Jiemen, the three Iraqi oil fields, including al-Abad, Halfaya and Rumaila in Iraq, along with Majid-e-Suleiman and North Azadegan oilfields in Iran are a cornerstone of China's

¹²⁸ Du Juan, "Petrochina Poised to Dominate Iraqi Oil," *China Daily*, August 13, 2013, http://usa.chinadaily.com.cn/business/2013-08/13/content_16891897.htm.

¹²⁹ Ibid.

¹³⁰ The possible deal will increase the domestic crude supply (in Iraq) for a short period, because oil companies usually sell their products on overseas markets instead of transporting them back home.

CNPC growth plans to almost triple its foreign upstream production from 1.5 million b/d in 2009 to 4 million b/d in 2020, to make up for falling domestic production from some of China's mature fields.¹³¹ An Iraqi Oil Ministry official in charge of petroleum contracts and licensing, Abdul Mahdy al-Ameedi noted that China and Malaysia have the largest share of international contracts, adding that the Iraqi government is "very much satisfied with the work of Chinese companies."¹³²

China's expanded role in the Iraqi oil industry has been largely facilitated by China's willingness to accept poor oil terms offered by the Iraqi Oil Ministry which offers foreign operators as little as a couple of dollars per barrel produced, making it difficult for foreign companies to generate profit. Since Chinese national oil companies are not accountable to shareholders as it is in the case of Western IOCs, the Chinese NOCs are willing to accept the strict terms of Iraq's oil contracts even at the cost of generating minimal profit. For instance, although in 2008 CNPC was able to recover its contract to develop the al-Ahdab field signed under Saddam Hussein in 1997, the company had to change the terms of contract from the initial production sharing agreement into a less profitable and more risky technical service contract.¹³³ Also remaining contracts that China has secured since Iraq opened its energy sector to investment have been subject to technical service contracts. Securing access to energy supplies necessary to fuel its expanding economy however relegates profit seeking to a secondary role. Illustratively, CNPC, along with BP, agreed to develop the Rumaila field

¹³¹ Erica S. Downs, "China-Gulf Energy Relations," (Brookings Institution, August 01, 2011).

¹³² "A Chinese Oil Company May Buy Exxon's Iraq Stake," *Puk Media*, May 25, 2013, http://pukmedia.com/EN/EN_Direje.aspx?Jimare=4991.

¹³³ "China's Cnpc Signs First 20-Year Iraqi Service Contract," *International Petroleum Finance*, September 08, 2008. For a difference between PSC and SC see Valentine Ataka, "The Features & Merits of Production Sharing Agreements Withservice Contracts from the View Point of an Ioc."

under tough bid terms, for a remuneration fee of only \$2 per barrel. Similarly, CNPC-Total-Petronas consortium accepted a remuneration fee of only \$1.40 per barrel and CNOOC-TPAO agreed to develop the Maysan fields for a fee of \$2.30 per barrel.¹³⁴ Abdul Mahdi al-Meedi, an Iraqi oil ministry official praised the role of Chinese companies in the Iraqi oil sector, noting “We don’t have any problems with them [Chinese companies]. They are very cooperative. There’s a big difference, the Chinese companies are state companies, while Exxon or BP or Shell are different.”¹³⁵ While the Chinese state backed oil companies are able to develop fields at lower costs, other companies, including ExxonMobile have moved to secure separate deals with Iraq’s semiautonomous Kurdish region, whose terms are more generous but which the Iraqi central government considers illegal.¹³⁶ As noted by Lin Bogiang, director of the China Center for Energy Economics Research at Xiamen University, “It’s not that China likes going to Iraq, [but] not that many places are left.”¹³⁷

Energy relations between the two countries are poised to grow in the future. Iraq’s potential for oil production is enormous given its vast, largely undeveloped reserves. The IEA projects that Iraq will account for 40% of global oil supply growth over the next two decades, making Iraq the largest contributor and becoming the second largest global oil exporter rivaling Russia.¹³⁸ IEA projects that by 2035, Iraq will produce 8 million bpd, with about 80% of Iraq’s future oil exports expected to Asia, mainly to China. Given

¹³⁴ Catherine Hunter, "Halfaya Contract Signed Off in Iraq as Ministry Works to End-January Deadline," *Global Insight*, January 28, 2010.

¹³⁵ Ibid.

¹³⁶ Ibid.

Late last year, the China National Petroleum Corporation bid for a 60% stake in the lucrative West Qurna I oil field, a stake that Exxon Mobil may be forced to divest because of its oil interests in Iraqi Kurdistan. Exxon Mobil, however, has so far resisted pressure to sell, and in March the Chinese company said it would be interested in forming a partnership with the American company for the oil field.

¹³⁷ Dexter Roberts et al., "China Doubles Down on Iraqi Oil," *Bloomberg Businessweek* (2013).

¹³⁸ "World Energy Outlook 2012: Executive Summary," (International Energy Agency 2012).

China's increasing role in the Iraqi oil sector, nearly a third of the future oil production in Iraq is projected to come from fields that either are directly owned or co-led by Chinese companies. As expressed by Fatih Birol, "Baghdad to Beijing is the new Silk Road of the global oil trade-oil from Baghdad and capital investment from Beijing."¹³⁹ However, industry experts view this ambitious production expansion timetable unattainable given security, political and infrastructure constraints in the country.¹⁴⁰ Therefore, some experts project that Iraq will be able to increase its production capacity to only 6.5 million b/d by 2020.

China has expanded its commercial activity in Iraq well beyond its sizeable role in Iraq's oil and gas sector. In 2010, China's Shanghai Electric started work on a \$1 billion power plant project in Iraq.¹⁴¹ The power plant is projected to increase Iraq's electricity capacity by 1,320MW. During the same year, the China National Building Material Co. began construction of a \$270 million cement factory in Muthanna and the Sinoma Construction Co. signed a \$112.5 million deal to construct a cement factory in Sulaymaniyah.¹⁴²

¹³⁹ Dexter Roberts, "A Chinese Oil Company May Buy Exxon's Iraq Stake," *Bloomberg Businessweek*, January 17, 2013, <http://www.businessweek.com/articles/2013-01-17/a-chinese-oil-company-may-buy-exxons-iraq-stake>.

¹⁴⁰ "Reality Check for Iraq's Rapid Ramp-Up," *Petroleum Intelligence Weekly*, March 15, 2010.

¹⁴¹ Aseel Kami, "China's Shanghai Works on \$1 Bln Power Deal in Iraq," *Reuters*, May 29, 2010, <http://in.reuters.com/article/2010/05/29/iraq-power-plant-idINLDE64S08720100529>.

¹⁴² "Foreign Commercial Activity in Iraq: 2010 Year in Review," (Dunia Frontier Consultants, 2011).

Sino-Small GCCs Economic and Energy Relations

Trade with other GCC countries has also experienced rapid growth in the post-Cold War period and particularly in the last decade. The UAE is presently China's greatest non-hydrocarbon trade partner in the Persian Gulf. In 2012, China's exports to the UAE accounted for 75% of total Sino-UAE trade, primarily made up of Chinese textiles and machinery. Trade between the two countries increased from only \$608 million in 1992 to \$10 billion in 2005, reaching over \$40 billion in 2012, making China Dubai's second largest import partner, with Dubai securing the position of China's 12th largest export market.

Sino-Qatari trade has also rapidly expanded from \$77 million in 1992, to \$1 billion in 2007, reaching \$8 billion in 2012. China's increasing demand for natural gas accounts for most of the increase, with China's imports accounting for nearly 90% of total Sino-Qatari trade in 2012. While in 2008, 80% of China's LNG imports were sourced from Australia, by 2012, Qatar had overtaken Australia as China's largest supplier, accounting for 34% of LNG imports.¹⁴³ In the second half of the 2000s, the two countries further expanded cooperation in the energy sector. In late 2009, Qatargas set up a representative office in Beijing to market Qatari gas to other Chinese companies. In May 2010, PetroChina signed a 30-year PSA with Qatar Petroleum and Shell to jointly develop natural gas in Qatar's Block D.¹⁴⁴ In March 2012, Qatar signed with China a

¹⁴³ Chen Qian, "China's Natural Gas Imports: On a Rising Path," *Shipping Intelligence Network*, May 24, 2013, http://www.clarksons.net/markets/feature_display.asp?section=&news_id=34021&title=China%92s+Natural+Gas+Imports%3A+On+A+Rising+Path.

¹⁴⁴ Julie Jiang and Jonathan Sinton, "Overseas Investments by Chinese National Oil Companies: Assessing the Drivers and Impacts," (International Energy Agency, February 2011).

memorandum on promoting bilateral energy cooperation.¹⁴⁵ Also, two major Chinese companies, Sino Petro and China Offshore Oil Engineering Corporation, are engaged in the exploration of natural gas in Qatar.¹⁴⁶

In recent years, Qatar has begun to play an important role in meeting China's increasing natural gas consumption. Driven by fast economic growth and the wider use of gas in urban households, manufacturing, power generation and the chemical industry, China has become a net importer of natural gas in 2007 and since then gas imports have increased on average by more than 60% annually, reaching 29mt in 2012.¹⁴⁷ China opened its first regasification plant in 2006 and by 2012 China built six LNG receiving terminals. Moreover, China is building eight new regasification plants with a total capacity of 23.8mt. These projects suggest further increase in seaborne LNG imports in coming years. Also, due to China's greater focus on cleaner energy, China is projected to triple the use of natural gas to top 300 billion cubic metres (bcm) by 2020 and nearly a third of that would be imported.¹⁴⁸ While in the long-term, development of China's enormous shale gas reserves could boost domestic gas output, there currently remain significant technological obstacles and environmental concerns over shale gas extraction in China.

Trade relations with Oman also improved. Trade has increased from \$455 million in 1992 to \$1 billion in 2002, reaching \$18 billion in 2012. China's imports of Omani oil

¹⁴⁵ "China-Qatar Cooperation Benefits Both Countries," *Xinhua*, June 23, <http://lr.china-embassy.org/eng/majorevents/t468200.htm>.

¹⁴⁶ Joey Aguilar, "China-Qatar 2013 Trade Volume Projected to Reach \$10bn," *Gulf Times*, December 30, 2013, [http://www.gulf-times.com/qatar/178/details/376180/china-qatar-2013-trade-volume-projected-to-reach-\\$10bn](http://www.gulf-times.com/qatar/178/details/376180/china-qatar-2013-trade-volume-projected-to-reach-$10bn).

¹⁴⁷ "China," (U.S. Energy Information Administration, February 04, 2014).

¹⁴⁸ "China's Liquefied Natural Gas Import Deals," *Reuters*, November 11, 2013, http://articles.chicagotribune.com/2013-11-11/news/sns-rt-china-lngdeals-factbox-20131111_1_largest-lng-supplier-gas-import-factbox-china.

account for nearly 90% of the overall Sino-Omani trade and in 2012, nearly 50%, or 382,000 bpd of Omani oil exports went to China.¹⁴⁹ Oman's oil export to China steadily increased from 61,000 bpd in 1992 to 115,000 in 1998 to 382,000 bpd in 2012. Only between 2012 and 2013, China's oil imports from Oman increased by 26% reaching 477,000 bpd in 2013 and accounting for nearly 50% of Omani's total oil export.¹⁵⁰ This made Oman the third largest supplier to China in 2013, up from being China's seventh largest supplier in 2012.¹⁵¹ China's CNPC also secured 50% of an upstream concession in Omani oil sector, while China's Sinopec and Sinochem are involved in the Omani gas sector.¹⁵²

Sino-Iranian Economic and Energy Relations

As Figure 1 suggests, Sino-Iranian trade relations expanded significantly since 2000, making Iran China's second biggest trading partner in the Persian Gulf for the most of the last decade. While the UAE has been China's largest non-hydrocarbon trade partner in the region, with China's exports to the UAE dominating the bilateral trade ties, Iran has been one of the China's top sources of imported oil from the region since the early 1990s. While during the 1990s, the EU, especially Germany, Italy and France, were Iran's biggest trading partner, the Iranian nuclear stand-off and the ensuing international sanctions led to a decline in trade with Western powers. While in 2003, China was Iran's

¹⁴⁹ "Oman," (U.S. Energy Information Administration, October 10, 2013).

¹⁵⁰ Al-Tamimi, *China-Saudi Arabia Relations, 1990-2012: Marriage of Convenience or Strategic Alliance?*, 146.

¹⁵¹ "China's Iranian Crude Imports Drop 2.2 Pct in 2013," *Reuters*, January 21, 2014, <http://uk.reuters.com/article/2014/01/21/china-oil-iran-idUKL3N0KV23120140121>.

¹⁵² "Oman Oil & Gas Report: Includes 10-Year Forecasts to 2022", *Oman Oil & Gas Report*, no. 4 (2013).

sixth biggest trading partner, Beijing gradually filled the economic vacuum left behind by other countries and overtook the EU as Iran's largest oil customer and trading partner in 2007.¹⁵³ Indeed, while other countries began to gradually curb their business activities in Iran since 2002 as pressure on Iran due to its nuclear program mounted, Sino-Iranian trade and investment ties expanded significantly.¹⁵⁴ While in 1992, Sino-Iranian trade totaled only \$436 million, by 1997 trade increased to over \$1 billion, reaching \$20 billion in 2007. In 2011, the two countries announced plans to increase their bilateral trade from \$45 billion to \$100 billion by 2016 and signed a \$20 billion deal to increase cooperation in Iran's industrial and mining sector.¹⁵⁵

Iran has been among one of China's top suppliers of crude oil since the mid-1990s, accounting on average for 10% of China's crude oil imports. Although Iran remains a leading supplier of oil to China, Iran's share of China's oil imports have been falling since 2010. While in 2009, China imported 465,000 b/d, or 11.4% of oil from Iran, in 2013 Iran's oil accounted for only 7%, or 429,000 bd of total China's oil imports. Due to the sanction pressure, Iran dropped from being the fourth largest oil supplier to China in 2012 to the sixth position in 2013. Moreover, Teheran was overtaken by Iraq and Oman, each marking growth of 50% and 30% in oil supplies to China between 2012-2013 respectively.¹⁵⁶

In the last decade, China has also established and expanded its role in Iran's upstream. In January 2001, Sinopec entered into an agreement with Iranian national oil company, NIOC, to undertake a joint oil exploration venture in the Zavareh-Kanshan oil

¹⁵³ Bijan Khajepour, "Iran's Pivot to the East," *Al-Monitor*, July 19, 2013, <http://www.al-monitor.com/pulse/originals/2013/07/iran-trade-west-asia-economy.html#>.

¹⁵⁴ Nader.

¹⁵⁵ "China Expects \$40bln Trade Exchange with Iran in 2011," *Fars News Agency*, July 11, 2011.

¹⁵⁶ "China's Iranian Crude Imports Drop 2.2 Pct in 2013."

block in Iran. The two firms also signed an agreement to upgrade two NIOC refineries. In March 2004, China's state owned oil company, Zhuhai Zhenroung Corporation signed a 25-year deal to import 110 million tons of LNG from Iran. In 2004, China's CNPC bought Canada's Sheer Energy subsidiary, thereby gaining rights to develop Masjid-e-Solyeman oil field. In this \$80 million project, China plans to bring on stream 25,000 bpd.¹⁵⁷

China's NOCs have also filled the investment vacuum in Iran's upstream energy sector following the withdrawal of Asian and European energy companies and gradually became the dominant investors in Iran's oil and gas sector. This has made Iran to a large extent dependent on not only Chinese investment but also technology and China's NOCs equipment.¹⁵⁸ In 2007, China's Sinopec finalized a \$2 billion deal to develop Yadavaran oil field with a goal to bring 300,000 bpd on stream. In 2009, China's Sinopec also finalized a \$20 million deal to develop Garmsar oil block in Iran. That same year the China National Offshore Oil Company (CNOOC) concluded a \$16 billion deal to develop North Pars offshore gas field. In 2009, Chinese national oil company CNPC also replaced French oil company Total to develop the world's largest South Pars natural gas field in a \$4.7 billion deal but pulled from the project in mid-2011 under sanctions pressure.¹⁵⁹ Similarly, in 2009 China's CNPC won a deal to develop the northern part of massive the Azadegan oil field,¹⁶⁰ and then in 2010 replaced Japan's Inpex to develop the entire field

¹⁵⁷ "Cnpc Gains Upstream Foothold," *MEED*, September 03, 2004, <http://www.meed.com/sectors/oil-and-gas/cnpc-gains-upstream-foothold/348765.article>.

¹⁵⁸ Sinton, "Overseas Investments by Chinese National Oil Companies: Assessing the Drivers and Impacts," 21-23.

¹⁵⁹ "Cnpc Replaces Total at South Pars 11," *Upstream Online*, June 03, 2009.

¹⁶⁰ "Cnpc to Develop Azadegan Oilfield," *China Daily*, January 16, 2009, http://www.chinadaily.com.cn/bizchina/2009-01/16/content_7403699.htm.

on its own.¹⁶¹ Once developed, Azadegan oil field in which China has \$1.76 stake may bring on stream 260,000 bpd. In 2011, China also became Iran's largest petrochemicals export market worth \$1.7 billion.¹⁶² Iran has also sought Chinese investment to expand its refining capacity to meet domestic fuel demand. Despite sitting on the second largest oil reserves, Iran imports almost 40% of its fuel needs due to its lack of refineries.¹⁶³

While oil trade dominates bilateral economic ties, non-trade energy and investment constitute an important part of bilateral economic ties. Over the past two decades and especially in the last decade, Chinese state companies have built ports, airports, power plants, cement factories, auto industry, shipping lines and other infrastructure projects especially in major Iranian cities. For instance, between 2000 and 2006, China built the Tehran metro system and in 2011 China's Sinohydro Corp. inked a \$2 billion contract with Farab Iran Corp. to build the world's tallest dam in Iran's province of Lorestan.¹⁶⁴ Fiber Home Communication Technology has won a contract to build broadband fiber optics in Iran, and Hisense Electronic Company has built a factory to produce televisions. Cherry Automobile Company has signed an agreement to cooperate with Iran's Sandbad Khodro Tus to produce 50,000 cars a year.

China largely shunned U.S. requests to curb its energy investment in Iran until later 2010. That has changed thereafter as the Chinese government instructed its oil companies to slow down on their projects in Iran in an effort to ease mounting tensions

¹⁶¹ "Iran, China Signs \$1.7bln Oil Contract," *Fars News Agency*, January 15, 2009.

¹⁶² "Research and Markets: Iran Petrochemicals Report Q2 2011," *Reuters*, March 09, 2011, <http://www.reuters.com/article/2011/03/10/idUS28783+10-Mar-2011+BW20110310>.

¹⁶³ "Iran Seeks China Investment to Build Refineries," *Reuters*, July 13, 2009, <http://www.reuters.com/article/2009/07/13/iran-china-investment-idUSPEK33142220090713>.

¹⁶⁴ "Defiant Iran Forges Ahead with Dams Plan," *UPI*, April 06, 2011, http://www.upi.com/Business_News/Energy-Resources/2011/04/06/Defiant-Iran-forges-ahead-with-dams-plan/UPI-21621302118170/.

with the U.S. and to avoid U.S. sanctions on its big energy firms.¹⁶⁵ In June 2012, the U.S. granted and since then has several times renewed 180-days exemptions to China on purchases of Iranian oil in exchange for China's lowering its oil imports from Iran. Partially as a result of international and U.S. sanction pressure, China decreased imports of Iranian oil by 25% between 2011 and 2013, or from an average of 550,000 to 420,000.¹⁶⁶ Consequently, both CNPC's development of the Azadegan oil field and Sinopec's work on the Yadavaran oil field has been delayed. Moreover, due to the lack of progress, Iran suspended the China National Offshore Oil Corporation (CNOOC) contract for the development of the North Pars natural gas field in 2011. As Erica Dows puts it, China's energy strategy in Iran has been of "talk now and spend later," with China moving slowly in investing large sums of money into Iran that has become completely dependent on China.¹⁶⁷

China also developed economic ties with the GCC bloc itself. In 2004 China and the GCC signed the Framework Agreement on Economic, Trade, Investment and Technology Cooperation and launched negotiations on the China-GCC Free Trade Area (FTA). FTA negotiations however stalled in 2009, partly due to China's protective policies and specifically due to its reluctance to open its markets to GCC petrochemical and chemical products.¹⁶⁸ In 2010, China and the GCC launched a Trade and Economic Joint Committee and in 2011, the two sides discussed the formation of an operations committee to further bolster bilateral trade and investments.¹⁶⁹

¹⁶⁵ Kenneth Katzman, "Iran Sanctions," (Congressional Research Service, January 31, 2014).

¹⁶⁶ Ibid.

¹⁶⁷ Erica S. Dows, "China-Middle East Energy Relations," (Brookings Institution: Testimony before the U.S.-China Economic and Security Review Commission, June 06, 2013).

¹⁶⁸ Abdel Aziz Aluwaisheg, "China-Gcc Strategic Dialogue Resumes," *Arab News*, January 19, 2014, <http://www.arabnews.com/news/511401>.

¹⁶⁹ Al-Sudairi, "Sino-Saudi Relations: An Economic History."

Arms Sales

While in the 1990s and even more so in the 2000s, energy cooperation became the fulcrum of Sino-Gulf relations, during the 1980s, arms sales characterized China's interaction with the Persian Gulf. China entered the Gulf arms market during the Iran-Iraq War, selling arms to both parties in the conflict at a value of over \$12 billion. Arms sales provided China with a lever vis a vis the U.S. and served as a source of hard currency to modernize China's own military program.¹⁷⁰ Although China developed a limited arms trade also with Saudi Arabia and some of the smaller Arab Gulf states, its arms ties to Iran have been the most developed and worrisome to the United States.

In 1985, China and Iran concluded an agreement under which China would sell Iran missile technology and in 1986 China sold Iran Silkworm anti-ship missile. This raised concerns in Washington because Iran could use missile technology to obstruct oil tanker traffic in the narrow Strait of Hormuz.¹⁷¹ China sold Iran tactical ballistic and anti-ship cruise missiles, including C-802 and Silkworm missiles that Iran deployed against Kuwaiti shipping in 1987.¹⁷² Although under the U.S. pressure China discontinued sales of the sophisticated missiles to Iran, China continued to assist Iran in military modernization efforts, with Chinese design and technology being detectable in the Iranian short-range Oghab and Nazeat missiles and the long-range Shahab 3.¹⁷³

¹⁷⁰ John Calabrese, "China and the Persian Gulf: Energy and Security," *Middle East Journal*, no. 3 (1998).

¹⁷¹ Steve A. Yetiv and Chunling Lu, "China, Global Energy, and the Middle East," *ibid.* 61, no. 2 (2007).

¹⁷² Nader.

¹⁷³ Bryan Gold Anthony H. Cordesman, "The Gulf Military Balance - Volume Ii: The Missile and Nuclear Dimensions and Options for Deterrence, Defense, Containment, and Preventive Strikes," *U.S. Iranian Competition Series* (July 18, 2013),

https://csis.org/files/publication/120222_Iran_Gulf_Mil_Bal_II_WMD.pdf.

China's sales to the Gulf dropped significantly after peaking in 1988 largely because Western suppliers' dominance of the Gulf arms market and China's lack of competitiveness in a broad range of military hardware.¹⁷⁴ Indeed, after the Iran-Iraq War, arms sales to the region dropped by about 40%, albeit the Middle East remained China's most lucrative arms market, accounting for over 50% of China's total arms exports.¹⁷⁵ During 1994-1997, China's arms agreements in the Middle East accounted for around 3.5% of region's total agreements.¹⁷⁶ By 2001, the arms agreements within the region fell to around 2.2%, and then increased to approximately 4% of the region's total agreements from 2004 and 2007.¹⁷⁷ From 2008 to 2011, China's share of the region's total arms agreements decreased to 1% which is the lowest since China's penetration of the market in the 1980s.¹⁷⁸ Despite the substantial drop in China's share of arms transfer to the Persian Gulf states in the 1990s, China's transfer of arms to the region has continued to trouble the U.S. as the sales involved sophisticated missile-related technology and nuclear assistance to Iran.

In the 1990s and 2000s Iran has remained the primary recipient of China's arms. Between 1985 and 1996, China has helped in the development of Iran's nuclear program, including provision of various types of nuclear technology, assistance in uranium exploration, mining, the use of lasers for uranium enrichment, training of Iranian nuclear engineers and establishing the Esfahan Nuclear Research Center which has been critical

¹⁷⁴ Calabrese, "China and the Persian Gulf: Energy and Security," 365.

¹⁷⁵ Evan S. Medeiros and Bates Gill, *Chinese Arms Exports: Policy, Players, and Process* (Carlisle, PA: Strategic Studies Institute, U.S. Army War College: 2000).

¹⁷⁶ Richard F. Grimmett, "Conventional Arms Transfers to Developing Nations, 1998-2005," *DISAM Journal*, no. 2 (2007): 59.

¹⁷⁷ Grimmett and Kerr, "Conventional Arms Transfers to Developing Nations, 2004-2011."

¹⁷⁸ *Ibid.*

in the development of Iran's nuclear program.¹⁷⁹ Although in 1997 China ceased nuclear assistance to Iran in an effort to improve strained relations with Washington, the United States has continued to suspect Chinese companies of providing dual-use technology to Iran possibly without the knowledge of the Chinese government. In 2006 the U.S. sanctioned five Chinese companies for assisting Iran's ballistic missiles program. Moreover, an unclassified Pentagon review from 2010 revealed that both China and North Korea had assisted Iran "in developing and expanding its missile program;" and in January 2011 David Albright, president of the Institute for Science and International Security noted that while the U.S. and Europe developed export-control networks to prevent sales of dual use materials to Iranian companies, in China "a large amount" of dual-use technology continue to reach Iranian buyers.¹⁸⁰ China also reportedly helped Iran develop anti-ship cruise missile Nasr which bears resemblance to the Chinese C-704 and assisted in establishing a plant for the manufacturing of the Nasr in 2010.¹⁸¹ China has been also alleged of transferring ballistic missile technology to Iran through North Korea.¹⁸²

While U.S. arms sales to the GCC members and particularly Saudi Arabia have increased dramatically in the post-Cold War era and particularly in the last decade, China is yet to penetrate Saudi Arabia's arms market. During the 2000s, the Kingdom bought only \$800 million worth arms from China, which sharply contrasts with over \$50 billion Saudi Arabia spent on arms imports from the United States just between 2004 and

¹⁷⁹ Garver, *China and Iran : Ancient Partners in a Post-Imperial World*, 156-59.

¹⁸⁰ Indira A.R. Lakshmanan, "U.S. Concerned Chinese Companies May Be Aiding Iran Nuclear Weapon Effort," *Bloomberg*, March 10, 2011, <http://www.bloomberg.com/news/2011-03-10/u-s-concerned-chinese-companies-may-be-aiding-iran-nuclear-weapon-effort.html>.

¹⁸¹ "China Opens Missile Plant in Iran," *UPI*, April 23, 2010, http://www.upi.com/Business_News/Security-Industry/2010/04/23/China-opens-missile-plant-in-Iran/UPI-82791272037022/.

¹⁸² Nader.

2011.¹⁸³ Since the 1988s, when China clandestinely supplied Saudi Arabia with 36 CSS-2 missiles and 9 launchers, arms cooperation remained limited with no transaction of a similar significance being documented. However, in January 2012 the two countries signed an agreement to jointly develop nuclear energy to meet the Kingdom's rising energy demands, raising suspicions that Saudi Arabia may be positioning itself for development of nuclear weapons to counter Iran's nuclear program.¹⁸⁴

Conclusion

In the post-Cold War era, and particularly in the last decade, China has significantly expanded its interest, and diplomatic and economic capabilities in the Persian Gulf. Beijing has developed and expanded amicable political ties to all of the regional states and Sino-Gulf trade and energy cooperation has been on the rise particularly in the last decade. However in a sharp contrast to the American regional role, increased political ties and economic interdependence with regional states has not been accompanied by enhanced security ties to the regional states or China's regional military presence. China has not concluded any security agreements with regional powers and its overall arms sales to the region dropped significantly in the 1990s and further diminished in the 2000s, although limited arms sales to Iran have continued since the 1990s. Interestingly, economic and energy cooperation rather than security and political issues have overwhelmingly dominated the agenda of diplomatic visits between China and the regional states since the 1990s, although the lack of public information on the content of

¹⁸³ Grimmett and Kerr, "Conventional Arms Transfers to Developing Nations, 2004-2011."

¹⁸⁴ Al-Naimi, "Energy for a New Asian Century."

China's discussions with Tehran make any such conclusion about China-Iran visits unwarranted. Despite China's unprecedented diplomatic and economic ties with the GCC countries, there is no indication that the strengthened relations would translate into more political leverage over each other as divergent policies on Iran and Syria for instance demonstrate.

While China has significantly expanded energy cooperation with all of the Gulf states in the last decade in particular, Beijing's energy ties to Iraq and Iran have become especially robust. In fact, while Saudi Arabia and Iran appeared to dominate China's energy interest since the 1990s, China switched its focus to Iraq in the late 2000s. In a short period between 2009 and 2013, Chinese national oil companies became the driving force behind more than 50% of Iraqi oil output in that period. China's NOCs have also filled the investment vacuum in Iran's upstream energy sector following the withdrawal of Asian and European energy companies, gradually becoming the dominant investors in Iran's oil and gas sector. This has made Iran to a large extent dependent on Chinese investment, technology and the Chinese NOCs' equipment. In fact, as a result of the tightening international sanctions, Iran's relationship with China has changed from one of mutual cooperation in the 1980s into one of lopsided dependence today. By 2007 China had become Iran's top trading and economic partner. While Iran has become economically and politically heavily dependent on China, China has been willing to offer support only to the extent that it would not endanger its ties with the U.S. and possibly its international reputation. China largely shunned U.S. requests to curb its energy investment in Iran until later in 2010. That has changed thereafter and the Chinese government instructed its oil companies to slow down on their projects in Iran in an effort

to ease mounting tensions with the U.S. and to avoid U.S. sanctions on China's big energy firms.

CHAPTER 4

RUSSIA IN THE PERSIAN GULF

The end of the Cold War generated a seismic shift in global politics. Yet, while it heralded an era of potentially improved cooperation among the great powers, it did not spawn a complete break with the past. Nor did it render as unimportant Russia's efforts to continue to protect its national interests in the Middle East. This chapter explores four areas of Russian interaction in the Persian Gulf. It examines Russia's diplomatic standing, trade and energy ties to the regional states, arms sales and agreements as well as Moscow's military presence. While the main focus here is on the post-Cold War period, the chapter situates these areas of interaction into some historical perspective as well.

The Argument of this Chapter

Russia has experienced a difficult transition in the post-Cold War period, and the nature and course of this transition remains critical not only to world politics, but also to the Middle East. On the whole, Russia's power and position in the broader Middle East has weakened substantially in the post-Cold War period. However, the collapse of empire did not altogether undermine Russia's regional role and power. In some ways, it proved beneficial. Indeed, in the 1970s and 1980s, Moscow's position was handicapped by its global ideology, menacing military reputation, atheistic propensities, and poor record in dealing with the Muslim world. This was demonstrated most clearly in its invasion of next-door Afghanistan. The end of the Cold War diminished the importance of these factors. As

this chapter demonstrates, Moscow has remained interested in enhancing its position in the Gulf region in the post-Cold War era and exerted a significant effort to develop political, military, and economic ties to the Persian Gulf states in the last decade in particular. The data suggests that Russia's foreign policy toward and position in the Persian Gulf appears to be shifting more toward meeting mercantilist and economic goals in the post-Cold War period and particularly in the 2000s. While Russian-Gulf state trade has not reached high levels, trade is on an upward trajectory, energy cooperation is increasing, and agreements have been made for future cooperation agreements. In total, this suggests increasing Russian economic interdependence with regional states, and an enhanced Russian economic position in the region.

These changes do not mean that Russia has jettisoned strategic interests in the region or that it no longer seeks to balance against Washington. Rather, in the mix of Russia's foreign policy motivations toward the region, it appears that trade and commerce have increased significantly in importance in the post-Cold War period.

This chapter first discusses some signs of a shift in Russian thinking. It then focuses on sketching changes in Russia's diplomatic, trade, energy and arms trade relations in the Persian Gulf.

Russia's Shifting Mix of Motivations

While this chapter does not focus on Russia's global foreign policy, signs of change amid continuity appear to be afoot. The continuity is expressed in Russia's intervention in Georgia and Ukraine, support of Bashar al-Asad's regime in Syria, and Putin's use of

energy as a political weapon, among others. However, it would be a mistake to believe that Russian foreign policy has not evolved from the Cold War. As Russian Foreign Minister Sergey Lavrov has noted, “Archaic perceptions from a bygone era about the struggle for spheres of influence, about reliance upon the power factor in politics and about the imposition of one’s own standards on others still hold sway. We continue to strongly resist such tendencies.”¹

Despite Russia’s muscular approach, especially in Ukraine, over time statements by Russian leaders have been laced with ideas about the importance of globalization, joining the World Trade Organization, economic development, and even pursuing soft power. Vladimir Putin set a goal of doubling gross domestic product (GDP) within a decade when he first became president in 2000.² In his view, “now for Russia are important not only quantitative but qualitative parameters of the economy, and sustainable economic growth.”³ In former President Dmitry Medvedev’s view, Russia’s modernization was not proceeding fast enough given that there “is absolutely no alternative to modernization of the economic or political system.”⁴

Putin refocused attention on economic growth in 2011 in his speech at the First Social Business Forum in Moscow,⁵ and then again as re-elected President in October

¹ The Ministry of Foreign Affairs of the Russian Federation, “Russian Foreign Minister Sergey Lavrov Interview to Interfax News Agency,” December 26, 2011, http://www.mid.ru/bdcomp/brp_4.nsf/e78a48070f128a7b43256999005bcbb3/dfd0fa30cdd8b49844257973004a91ec!OpenDocument.

² RIANovosti.ru, “Crisis Prevented Russia from Doubling Gdp as Promised – Putin,” June 1, 2011, <http://en.rian.ru/russia/20110601/164365815.html>.

³ [Russian Gazette] Rossiyskaya Gazeta, “Vladimir Putin: Sejchas Dlja Rossii Vazhen Ne Kolichestvennyj, a Kachestvennyj Rost Ekonomiki” [Vladimir Putin: Qualitative Not Quantitative Growth Is Important for Russia], June 1, 2011, <http://www.rg.ru/2011/06/01/vvp-anons.html>.

⁴ RIANovosti.ru, “Russia’s Medvedev Sees No Alternative to Modernization,” September 10, 2010, <http://en.rian.ru/russia/20100910/160543812.html>.

⁵ Golos Rossii and [The Voice of Russia], “Putin: “Cherez 10 Let Rf Vojdet V Pjaterku Krupnejshih Ekonomik Mira” [Putin: “After 10 Years, Russia Will Become the Fifth Largest Economy in the World],” May 26, 2011, <http://rus.ruvr.ru/2011/05/26/50848043.html>.

2012 during “Russia Calling” Business Forum.⁶ Recognizing that raw materials cannot serve as the only engine of growth, he has repeatedly promised an expansion and diversification of foreign trade and industry,⁷ and stressed that “Russia certainly needs modern technology and private investment in development.”⁸ In April 2012, Putin reiterated his targets – including improving Russia’s position in the World Bank’s Ease of Doing Business index by 100 places by 2018 from its 120th position.⁹ Despite being critically aware of a need for a reform, Medvedev admitted that in the short term Russia’s concern to maintain its revenues from energy will be still critical.¹⁰ He stressed that “not nostalgia should guide our foreign policy, and strategic long term goal of modernizing Russia,” adding that the modernization and building a new economy “are only possible if we use the intellectual resources of post-industrial society,”¹¹ in the goal of making Russia a “modern country.”¹² It appears then that Russia under Putin does have ambitions to renew its great power status, but that the environment in which it must act has changed. This is certainly true of the dynamics in the Persian Gulf.

⁶ Alexander Kilyakov, "Russia's President Promises a New Model for Economic Growth," *Russia Beyond The Headlines*, October 8, 2012, http://rbth.ru/articles/2012/10/08/russias_president_promises_a_new_model_for_economic_growth_18919.html.

⁷ Ivan Krylov, "Vladimir Putin: V Ekonomike Rossiya Stavit Pered Soboj Ambicioznye Celi, [Vladimir Putin: Russia's Economy Has Set Itself Ambitious Goals]," *ruskiymir.ru*, [*Russian World*], May 26, 2011, <http://www.ruskiymir.ru/ruskiymir/ru/news/common/news19086.html>.

⁸ Ibid.

⁹ Neil Buckley, "Economy: Oil Dependency Remains a Fundamental Weakness," *Financial Times*, June 20, 2012, <http://www.ft.com/intl/cms/s/0/438712b2-b497-11e1-bb2e-00144feabdc0.html#axzz2NAPiiV3V>.

¹⁰ kremlin.ru, "Zasedanie Komissii Po Modernizacii I Tehnologicheskomu Razvitiyu Ekonomiki Rossii, [Meeting of the Commission for Modernization and Technological Development of Russian Economy], Prezident Rossii [President of Russia]," September 26, 2011..

¹¹ "Rossija, Vperjod! Stat'ja Dmitrija Medvedeva, [Forward, Russia! Article by Dmitry Medvedev], Prezident Rossii [President of Russia]," September 10, 2009, <http://kremlin.ru/news/5413>.

¹² [Russian Gazette] Rossiyskaya Gazeta, "Dmitrij Medvedev: Rossiya Cherez 10 Let Dolzhna Stat' Sil'nym Gosudarstvom, [Dmitry Medvedev: Russia in 10 Years to Become a Strong State]," June 20, 2011, <http://www.rg.ru/2011/06/20/rossiya-anons.html>.

Russia's Evolving Position in the Persian Gulf

The evolution of Russia's position in the region is characterized by a major expansion in the diplomatic, trade, and energy relations in the last decade especially. The chapter proceeds to identify these changes in the following sections.

Diplomatic Relations

The economic position and overall influence of outside states is related to their diplomatic standing, status, and access in the region. Improved political relations allow them to jockey for influence on a range of other issues. Russia has made significant diplomatic strides since the 1990s.

It is worthwhile offering a brief account of Moscow's diplomatic breakthroughs in the region. They were facilitated initially by Mikhail Gorbachev's foreign policy of greater liberalization, and were aided by the withdrawal of Soviet forces from Muslim Afghanistan in 1989; Moscow's stand against Iraq's invasion of Kuwait in 1990; and the demise of the Soviet Union in 1991. Moscow lacked diplomatic relations with Saudi Arabia, Bahrain, the United Arab Emirates, Qatar, and Oman during most of the Cold War.¹³ But established them with Saudi Arabia in 1991, and the others in the 1980s. Kuwait was the only Arab state Moscow has maintained diplomatic relations since 1963.

Although Russia sought eagerly to re-establish diplomatic relations with Saudi Arabia since the 1980s, it has been only since the end of the Cold War and particularly in

¹³ Marat Terterov, *New Partnerships and Realignments in the Evolving International System: Contemporary Relations between Russia, the Cis and the Gulf*, Russian and Cis Relations with the Gulf Region: Current Trends in Political and Economic Dynamics (Dubai: Gulf Research Center, 2009).

the last decade that Russia has been able to dramatically expand its links to the Kingdom. The withdrawal from Afghanistan and the fact that Riyadh needed Moscow's support at the global level against Iraq's threat at the regional level were no doubt key factors in generating the diplomatic breakthrough for Moscow. Indeed, Riyadh agreed to Moscow's request precisely at a time when Gorbachev was weighing how strong an anti-Iraq position his country would take in the first Gulf War.¹⁴ But it would not be until after the Gulf War and the fall of the Soviet Union that serious steps would be made on the diplomatic front. In 1992, the Russian Foreign Ministry developed and formally implemented a new policy towards the Gulf States to create economic and political partnerships, which laid the foundation for improved interaction in the 1990s. Prior to that, in 1991, Saudi Arabia provided Moscow with \$2.5 billion in assistance; this, however, was not followed up with more investment in the 1990s as had been expected.¹⁵

Relations improved further after 9/11 when U.S.-Saudi relations reached an all-time low, and particularly intensified after 2003 when Crown Prince Abdullah visited Moscow, being the most senior Saudi official to visit Russia since 1932. In 2005, Russia became an observer at the Organization of the Islamic Conference, and in 2006 formed a Russia-Islamic World Strategic Vision Group.¹⁶ Medvedev repeatedly stated that Russian-Saudi relations are "gaining ever greater dynamics, reflecting cooperation at all levels."¹⁷ In April 2006, Lavrov praised intensive dialogue with Saudi Arabia and

¹⁴ Robert O. Freedman, *Moscow and the Iraqi Invasion of Kuwait*, ed. Robert O. Freedman, The Middle East after Iraq's Invasion of Kuwait (Gainesville: University Press of Florida, 1993).

¹⁵ 127 Andrej Kreutz, *Russia in the Middle East: Friend or Foe?* (Westport: Greenwood Publishing Group, Inc., 2007).

¹⁶ Mark A. Smith, "Russia and the Persian Gulf: The Deepening of Moscow's Middle East Policy," (Conflict Studies Research Centre, August 2007).

¹⁷ ITAR-TASS, "Medvedev: Rf-Saudi Relations Developing Dynamically," July 14, 2008.

indicated Moscow's interest in the "development and deepening of mutually beneficial cooperation in various spheres, especially the economy."¹⁸

Closer ties between Russia and the Gulf Cooperation Council (GCC) were particularly underscored by Putin's inaugural tour of Saudi Arabia, Qatar and Jordan in February 2007--the first-ever trip by a Russian or Soviet head of state to the Gulf. The visit helped Moscow consolidate its already improving relations with the Gulf states.¹⁹ During Putin's visit, King Abdullah gave Putin the country's highest award, the Abd-al-Azir order, for services to Islam; and the two sides resolved to increase bilateral cooperation in the energy sector as well as in economic, commercial, cultural, scientific, technological and transport sectors;²⁰ they also concluded several business contracts, and aimed to remove obstacles to greater Saudi-Russian trade. Putin's visit was followed by King Abdullah's first visit to Moscow as the Saudi monarch in November of the same year.²¹ Prince Bandar Bin Sultan visited Moscow in 2007, touching off a major rise in high-level visits since then.

In July 2008, Medvedev evaluated Russian-Saudi relations as developing dynamically. "We can see this in trade-economic relations, in cultural ties, and in other fields of cooperation."²² Saudi Arabia's Foreign Minister Saud Al Faisal visited the Kremlin in March 2011 and conveyed King Abdullah's personal message "to advance

¹⁸ "Russian Foreign Minister Starts Visit to Saudi Arabia," May 21, 2006.

¹⁹ Terterov, *New Partnerships and Realignment in the Evolving International System: Contemporary Relations between Russia, the Cis and the Gulf.*, 16

²⁰ Gulf News, "Putin Starts 'Historic' Riyadh Visit Today," February 11, 2007.

²¹ Marat Terterov, "Russian Relations to the Gulf Region in a Changing Geopolitical Environment," *CEJISS*, 2008, 157, http://gpf-europe.com/upload/iblock/906/russian_relations_to_the_gulf_region.pdf.

²² ITAR-TASS, "Medvedev: Rf-Saudi Relations Developing Dynamically."

and develop relations of friendship and cooperation in all spheres between Saudi Arabia and Russia.”²³

Russia’s diplomatic relations with the other Gulf states have similarly expanded. Officials from Russia and the United Arab Emirates (UAE) have maintained frequent visits since 1992. In 2007, Putin visited the UAE--the first such high-level visit ever in bilateral relations²⁴--launching subsequent visits that generated cooperation in space, culture, science, education and media. The Russian news agency RIAN and the TV channel Russia Al-Yaum, Russian Radio station, and Russian monthly newspaper in Arabic “Anba mus” opened offices in the UAE.

In 2010, the Emir of Qatar visited Russia; and Medvedev awarded the Order of Friendship to the Kuwaiti Deputy Minister of Awqaf and Islamic Affairs. The same year, Russia signed with Kuwait and Qatar a Memorandum of Understanding on cooperation in the peaceful use of atomic energy; and in 2008 Russia and Bahrain signed the Declaration on furthering development of friendly relations. December 2008 marked the first official visit in the history by King of Bahrain, Hamad bin Isa Al Khalifa to Russia, following myriad lower-level visits. In February 2008, Lavrov praised “the expansion of mutually beneficial cooperation in trade, economic and business spheres and development of cultural and educational ties” with Bahrain.²⁵ November 2011 inaugurated the first ever GCC-Russian strategic dialogue in which the two sides explored security and political issues as well as areas of a strategic importance such as trade, investment, technology,

²³ Interfax: Russia & CIS Military Newswire, "Saudi Arabian Minister Conveys King's Message to Russian President," March 28, 2011.

²⁴ Abbas Al Lawati, "Putin's Visit to the Uae Marks Special Relationship," *Gulfnews.com*, September 10, 2007, <http://gulfnews.com/news/gulf/uae/government/putin-s-visit-to-the-uae-marks-special-relationship-1.200390>.

²⁵ ITAR-TASS, "Russian Fm Is in Bahrain to Discuss Bilateral Ties & Persian Gulf," February 19, 2009.

intercultural and interfaith dialogue.²⁶ Such relations would have been nearly unthinkable in the 1980s.

The evolution of Russian-Iraqi relations has been tortuous. During the Cold War, Baghdad had been Moscow's main ally in the region and their cooperation was close and multifaceted, as reflected in the 1972 Treaty of Friendship and Cooperation. Although Moscow remained Iraq's ally during the 1990s when Iraq was isolated under UN sanctions, its position in Iraq decreased in the post-Soviet era. During the 1990s, Russia moved away from Iraq in an effort to maintain good relations with the GCC and the West. In the first Gulf War in 1990-91, Russia joined the US-led alliance against Iraq, albeit reluctantly.

Although Russian political and economic influence in Iraq rapidly declined after the U.S.-led invasion in 2003, Russia sought to improve relations with the new Iraqi authorities, partly in order to protect Russia's economic contracts and interests. To facilitate new diplomatic relations, Moscow agreed to write off 80% of the Iraqi debt to Russia, which in 2007 amounted to \$13 billion,²⁷ though Putin added that "we assume that the interests of our companies will be taken into account."²⁸ In April 2009, Prime Minister Nouri al-Maliki became the first Iraqi leader to visit Russia since 1981.²⁹ Bilateral ties were enhanced by Lavrov's visit to Baghdad in May 2011.³⁰

²⁶ The Embassy of the Russian Federation in Canada, "Press Release: Summary of Remarks by Russian Foreign Minister Sergey Lavrov at the First Ministerial Meeting of the Strategic Dialogue between Russia and the Cooperation Council for the Arab States of the Gulf", November 7, 2011, <http://www.rusembassy.ca/ru/node/624>.

²⁷ Interfax, "Russia Cis Diplomatic Panorama," December 8, 2004.

²⁸ Ibid.

²⁹ Government of the Russian Federation, "Prime Minister Vladimir Putin Met the Prime Minister of Iraq, Nouri Al-Maliki," April 10, 2009, <http://premier.gov.ru/eng/events/news/3855/>.

³⁰ Ministry of Foreign Affairs of the Russian Federation, "O Vizite Ministra Inostrannykh Del Rossii S.V.Lavrova V Irak, [the Visit of Russian Foreign Minister Sergey Lavrov in Iraq]," May 10, 2011,

Moscow lacked diplomatic relations with Iran prior to its 1979 revolution; even after the revolution, Iran rebuffed Moscow's attempts at gaining a foothold in the country. Indeed, Iran repeatedly condemned the Soviet attempt to "crush the brave resistance"³¹ of the Afghan rebels; Iran's ambassador to the Soviet Union made it clear that the Soviets' actions in Afghanistan had "deadlocked their policies in Muslim countries" and had provided Washington with "an excuse to increase its influence in their region."³² It was recognized in *Pravda* that Iran used the Afghan issue "more often than any other pretext to justify hostile attacks...on the USSR's interests."³³

Moscow's withdrawal from Afghanistan improved bilateral relations. A February 1989 communique from Khomeini to Soviet leader Mikhail Gorbachev praised burgeoning relations.³⁴ In June of the same year, significant bilateral agreements were signed wherein Moscow agreed to "cooperate with the Iranian side in strengthening its defense capabilities,"³⁵ which included a major arms sale to Iran.³⁶ Thereafter, Iran expressed its satisfaction with Moscow on several occasions.³⁷ By 1991, Moscow became Iran's leading arms supplier after having been virtually closed out of the market, at least since 1982.

The bilateral relations have further improved in the past decade. Political relations had been facilitated by the Treaty on Principles of Relations and Principles of Cooperation signed on March 12, 2001. In the past decade, Iran has come close to

<http://www.mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/c32577ca00174586c325788d00229c90!OpenDocument>.

³¹ See the text of Foreign Minister Qatbzadeh's message to Andrei Gromyko in FBIS: South Asia, "Tehran Domestic Service," (August 15, 1980), 5-6

³² Interview with Iran's Ambassador to the USSR, "Tehran Keyhan," (April 15, 1987), 13.

³³ Commentary in CDPP, "Pravda," (April 3, 1985), 9.

³⁴ Reported in CDSP, "Pravda," (February 22, 1989).

³⁵ Excerpt of the agreements, cited in FBIS: USSR, "Moscow International Service," (August 3, 1989), 11.

³⁶ For Moscow's justification to Arab states of this sale, see FBIS: Near East and South Asia (NESA), "Kuwait Al-Qabas," (July 28, 1989), 18.

³⁷ For example, see FBIS: USSR, "Pravda," (July 20, 1989), 30. Also, "Tass," (August 21, 1989), 25.

Russia's position on a number of regional and international issues, such as the desirability of a multipolar world order, strengthening the UN role in international affairs, settlement of the Afghan and Iraqi crises, and stability in Central Asia and the Caucasus. However, as will be discussed in the conclusions, the two states also have serious differences, such as over Iran's nuclear program.

Russian-Gulf State Economic Relations

Improved diplomatic relations between Russia and Gulf states facilitated unprecedentedly high trade volumes and collaboration in the energy sector. Reflecting the strategy outlined by Medvedev in the 2008 Foreign Policy Concept of the Russian Federation which states that with countries of this region, "which is of strategic importance to Russia's national interests – priority attention will be paid to developing mutually beneficial economic cooperation, in particular in the energy sector."³⁸

In November 2008, during the Dubai located conference on "Presentation of Investments in Russia," Alexander Saltanov, Deputy Foreign Minister, stressed that investment cooperation is "the most promising sphere in Russia's relations with countries of the Persian Gulf."³⁹ According to the Russian Foreign Ministry's official spokesman Aleksandr Lukashevich, "The development of collaboration with the Persian Gulf countries will facilitate the promotion of our interests, including our business interests, in the Islamic world and the attraction of its financial resources into the Russian

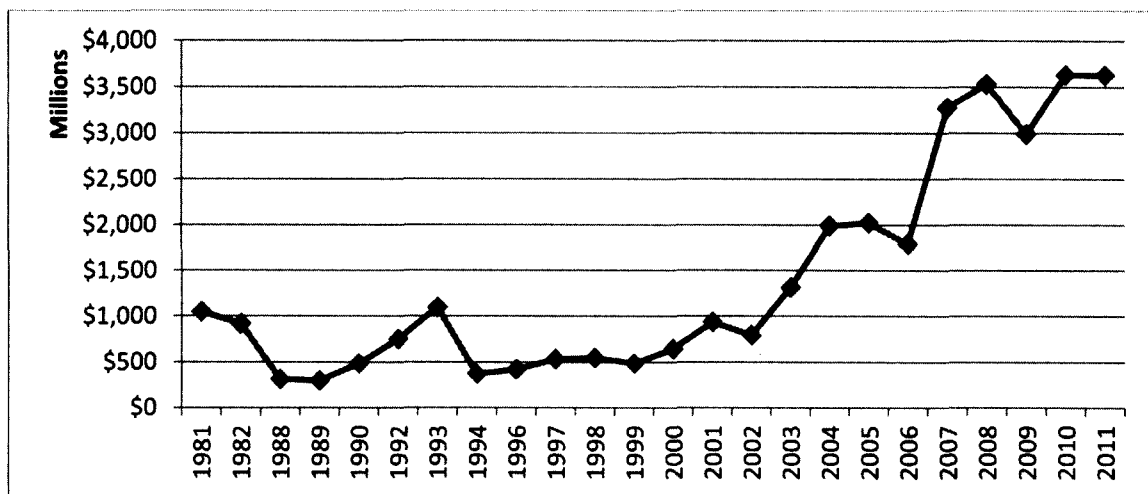
³⁸ Official Web Portal of President of Russia, "The Foreign Policy Concept of the Russian Federation," July 12, 2008, <http://archive.kremlin.ru/eng/text/docs/2008/07/204750.shtml>.

³⁹ ITAR-TASS, "Investments Is Promising Sphere in Ties with Persian Gulf States," November 10, 2008.

economy.”⁴⁰ As graphs below demonstrate, trade between Russia and the Persian Gulf countries declined in 2008-2009 due to the global financial crisis but recovered since then.

As Figure 9 suggests below, Iran has been Russia’s main trading partner in the Persian Gulf. The two countries share a multibillion-dollar trade relationship and Russia developed the nuclear power plant Bushehr with a price tag of \$1.2 billion.⁴¹ Russia was reluctant to stop this cooperation, despite Western pressure, partly because it recognizes that other countries might usurp its role in Iran, and that engaging Iran may increase Moscow’s chances to win nuclear-power contracts from Third World countries.⁴²

Figure 9. Total Trade between Russia and Iran (1981-2011)



Source: Authors’ calculations for data in the years 1981-82 are drawn from *Foreign Trade Statistics Yearbooks of the USSR, Various Issues* (Moscow: Ministry of Foreign Trade of the USSR). The rest of data are drawn from *United Nations Commodity Trade Statistics Database, Various Issues* (New York: United Nations), and *United Nations International Trade Statistics Yearbooks, Various Issues* (New York: United Nations).

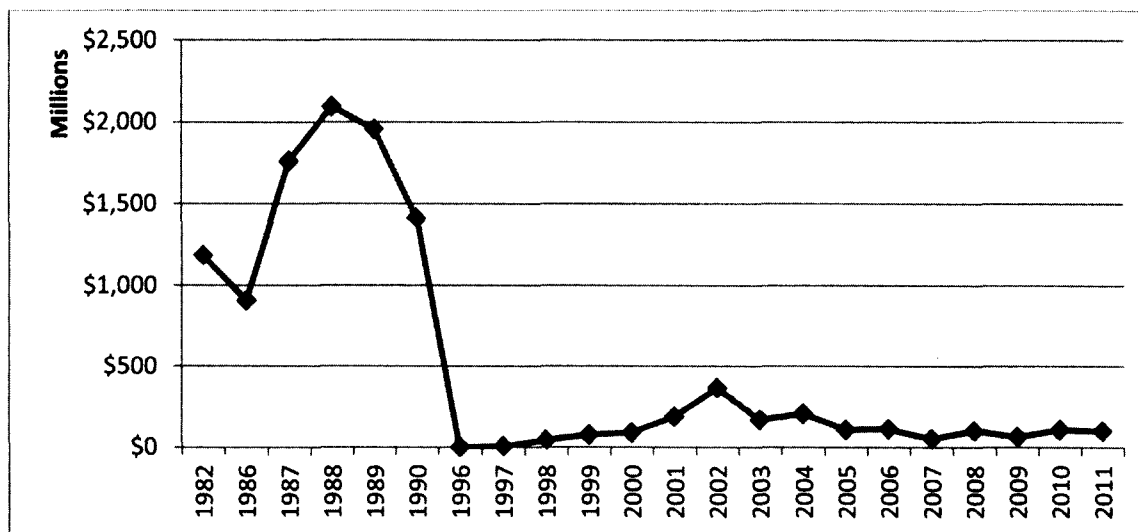
⁴⁰ Rossiyakysya Gazeta Online, "Sergey Lavrov Attends First Meeting of Russia-Gulf Cooperation Council Dialogue," November 3, 2011.

⁴¹ Alex Rodriguez, "Iran Gets Nuclear Fuel Form Russia: But Tehran Says Deal Won't Stop Enrichment " *Tribune Business News*, December 18, 2007, http://articles.chicagotribune.com/2007-12-18/news/0712170921_1_enrichment-nuclear-fuel-nuclear-weapon.

⁴² Nabi Abdullaev, "Putin Talks Arms, Nuclear Power in Gulf Visit," *DefenseNews*, February 19, 2007, <http://harpforum.com/harpforum/lofiversion/index.php?t1285.html>.

During the Cold War and until the 2003 American invasion, Russia's economic ties with Iraq had been greater than its ties with any other Arab country in the region (Figure 10). Between 1998 and 1999, Russian companies procured the highest volume of civil goods delivered to Iraq, amounting to \$500 million and in 2000 all of Iraq's orders from Russia exceeded \$20 billion.⁴³ According to Russian Deputy Foreign Minister Saltanov, in 2001, Russia and Iraq signed contracts worth more than \$1.85 billion and "Iraq secured its position as Russia's leading partner in the Arab World, with a turnover of goods with that country accounting for 60% of that with all Arab countries."⁴⁴ Since the 2003 invasion, trade between Russia and Iraq has rapidly deteriorated.

Figure 10. Total Trade between Russia and Iraq (1981-2011)



Source: Same as for Figure 9 herein.

Saudi-Russian trade relations have continued to develop. Putin praised them on many occasions, noting typically that they were "developing successfully. Trade is

⁴³ *Mezhdunarodnye Otnosehniya Na Blizhnem I Srednem Vostoke in Politika Rossii*, (Moscow: Russian National Fund, 1995). Quoted in Kreutz, *Russia in the Middle East: Friend or Foe?*, 90.

⁴⁴ *Ibid*, 94.

growing at a high rate, although in absolute terms it is still quite modest. However, given good relations that have formed between our countries we have good prospects and good basis.”⁴⁵

Economic ties with Saudi Arabia constitute a relatively recent development. Prior to the 1990s, trade between Russia and Saudi Arabia was virtually non-existent.⁴⁶ As graph 3 suggests below, it was only from the mid-nineties onward that the two countries expanded their economic ties. Just over the period of ten years from 1996 to 2006 the total trade turnover between the two countries increased by almost 500 percent from \$160 million in 1996 to \$714 million in 2006. Followed by Putin’s visit of the Kingdom in 2007, the total trade turnout increased even more dramatically, making the past several years the best in the history of Saudi Russian trade relations. The Russian-Saudi Business Council established in 2002 serves regularly as a platform to strengthen the contacts between business circles of both countries.

For instance, in October 2009, Russia held a business forum and the Russian national exhibition entitled “Russia and the Kingdom of Saudi Arabia: New Prospects for Trade and Economic Cooperation” in Saudi Arabia, and hosted the second Arabian exhibition “Arabia-EXPO” in April 2010,⁴⁷ in which real opportunities for further development of bilateral cooperation were identified in the energy sector, construction industry, innovations, commerce, and investment projects.⁴⁸ In March 2011, the Council organized the third Russian Exhibition “Week of Russian business in Saudi Arabia” and

⁴⁵ Interfax News Agency in BBC Monitoring Former Soviet Union, "Russian Pm Thanks Saudi Arabia for Resolving Issues Quickly and Efficiently," July 14, 2008.

⁴⁶ John Sfakianakis, "Saudi-Russian Trade Relations Deepen," *Arab News*, November 21, 2007.

⁴⁷ Natalia Rybakova, "Russian-Arab Business Council to Attract Investments to Russia," *Tatar-Information agency*, June 10, 2009, <http://eng.tatar-inform.ru/news/2009/06/10/25536/>.

⁴⁸ ITAR-TASS, "Saudi Arabia to Host Business Forum, Russia's Exhibition in October 2009," June 3, 2009.

the business forum which was attended by over 70 representatives of major Russian companies. In December 2009, Novaar Capital Management, a Saudi-led investment concern, created a joint venture with Ural Polar, a company owned by Russia's state institutions, to facilitate a major \$750 million investment in Russia's natural resource-rich Urals region.⁴⁹ However, the investment remains unrealized. Despite Russia's efforts and the Saudis eyeing many investment projects in Russia, there have been no major investments actualized yet.⁵⁰ Saudi Arabia's ambassador to Russia, Ali Hasan Jaafar, reflected the broader view that mutual trade turnover worth several billion dollars "is not commensurate to the potentials of Russia and Saudi Arabia."⁵¹ For instance, the Saudi side indicated that the existent visa regime is a serious obstacle to business cooperation between the two countries.⁵² While the general trend in the trade relations has clearly been upward, the relations have naturally experienced their ebbs and flows. In protest to Moscow's support for the Syrian regime, a Saudi business tycoon for instance revoked a series of oil and gas contracts with more than 20 Russian companies.⁵³ Similarly, in June 2012 two Saudi trade bodies refused to receive a Russian delegation for the same reason.

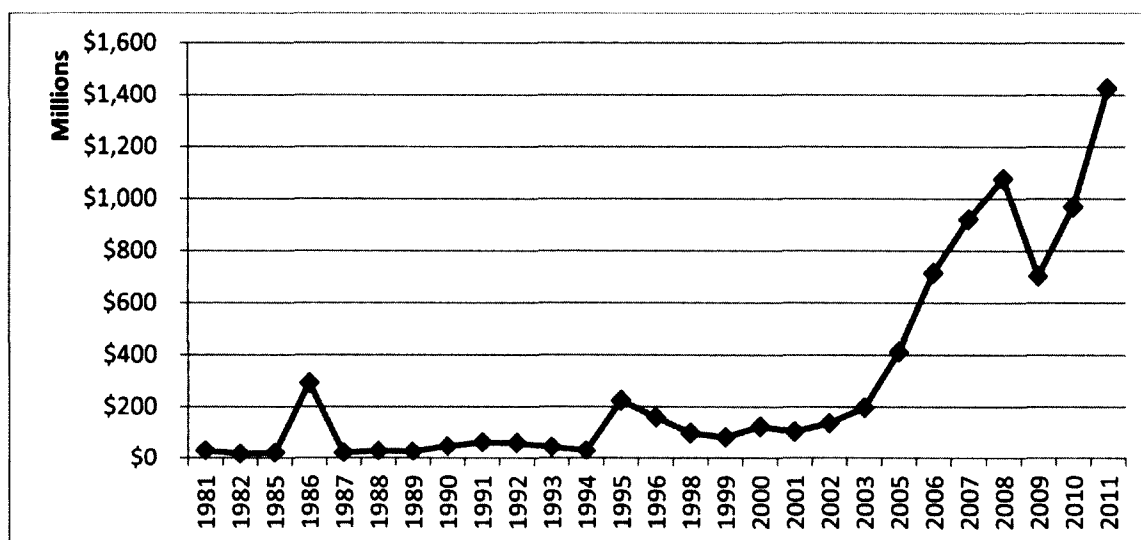
⁴⁹ Saudi Gazette, "Saudi Company in Deal to Develop Russia's \$27.7 Billion Ural Project," December 25, 2009, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentID=2009122558070>.

⁵⁰ D.O. Biryukov, "Arabskie Investitsii V Rossiiskuyu Ekonomiku [Arab Investments in Russian Economy]" *Institut Blizhnego Vostoka, [Institute for Middle East]*, May 27, 2011, <http://www.iimes.ru/rus/stat/2011/27-05-11b.htm>.

⁵¹ ITAR-TASS, "Russia, Saudi Arabia to Cooperate, Not to Compete-Ambassador," April 7, 2009.

⁵² Chamber of Commerce and Industry of the Russian Federation, "Meeting of President of the Chamber of Commerce and Industry of the Russian Federation Sergey Katyrin with Chairman of the Saudi Advisory Council's Economic Affairs and Energy Committee Saleh Al-Shoaibi," July 19, 2011, http://webcache.googleusercontent.com/search?q=cache:2GGMlvP1VEgJ:www.tpprf.ru/en/news/ccinews/index.php%3Fid_12%3D34626+&cd=6&hl=en&ct=clnk&gl=us.

⁵³ Habib Toumi, "Saudi Tycoon Cancels Russia Contracts," *Gulf News*, July 28, 2012, <http://gulfnews.com/news/gulf/saudi-arabia/saudi-tycoon-cancels-russia-contracts-1.1054408>.

Figure 11. Total Trade between Russia and Saudi Arabia (1981-2011)

Source: Same as for Graph 1 herein.

The rise in diplomatic visits between Russia and Qatar also translated into increased economic cooperation, though the upward trend reflected in graph 4 was certainly not linear. The mutual relationship had, in the words of the Russian Ambassador to Qatar, “one of its most successful years in 2010,”⁵⁴ with visits by the Qatari Emir, the Prime Minister and Foreign Minister to Russia, and sharp trade and investment increases. In 2010, trade turnover increased to \$14.6 million from \$8.7 million in 2009.⁵⁵ In 2010, the two sides also signed two agreements on Qatari investments amounting to \$500 million in exploration of polymetallic deposits in Russia’s Yamal-Nenets and Sverdlovsk regions.⁵⁶ After the mutual visits, Qatar also declared in 2010 an intention to invest \$500 million in Russian real estate and \$10 million to build a shopping center in Astrakhan.⁵⁷

⁵⁴ Gulf Times, “Qatar, Russia Working on 12 Major Projects,” February 11, 2011, http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=415405&version=1&template_id=36&parent_id=16.

⁵⁵ Ministry of Foreign Affairs of the Russian Federation, “Rossiisko-Katarskie Otnosheniya, [Russian-Qatari Relations],” October 10, 2011, <http://www.mid.ru/bdomp/ns-rasia.nsf/1083b7937ae580ae432569e7004199c2/94f13cd0c77ed16e43256dd30029fec4!OpenDocument>.

⁵⁶ Ibid.

⁵⁷ Ibid.

The investment has been realized with Qatar Barwa Real Estate Company (BREC) and Gazprombank completing the formation of the real estate fund, starting off by giving it \$75 million each in January 2011. The Fund represent the first collaboration between the two companies with the CEO of Qatari Barwa noting the deal “reinforces the foundation for future successful endeavors” with Russia.⁵⁸ In January 2011, talks were still held on Qatar’s potential investment in Russia’s polymetallic deposit.⁵⁹ In order to enhance economic, trade and investment ties, Russia proposed in 2010 to establish the Joint Commission on Trade, Economic and Technical Co-operation, and to bolster business ties; and the two countries also opened direct flights on the route Moscow-Doha in 2003.⁶⁰ Putin noted that mutual relations were “developing successfully,” with “good prospects” in the future.⁶¹ For his part, the emir of Qatar said that he intended to discuss ways to increase trade and “to develop cooperation in other areas” during his visit in November 2010.⁶² In January 2011, Russian Ambassador to Qatar, Vladimir Titorenko, pointed out that Russia and Qatar were working on 12 major projects “set to take the bilateral relations of world’s two largest gas-reserve holders to a new level.”⁶³

However, since November 2011, the relations have deteriorated in light of the Doha airport incident in which Titorenko, coming from a business trip to Jordan, was attacked by Qatari airport security guards who tried to grab his sealed valise with

⁵⁸ The Peninsula Qatar.com, "Gazprombank Announce Closing of Russia Fund," January 3, 2011, http://webcache.googleusercontent.com/search?q=cache:sM4vh7yQV_8J:www.thepeninsulaqatar.com/business-news/137739-barwa-real-estate-gazprombank-announce-closing-of-russia-fund.html+&cd=1&hl=en&ct=clnk&gl=us.

⁵⁹ Times, "Qatar, Russia Working on 12 Major Projects."

⁶⁰ Ibid.

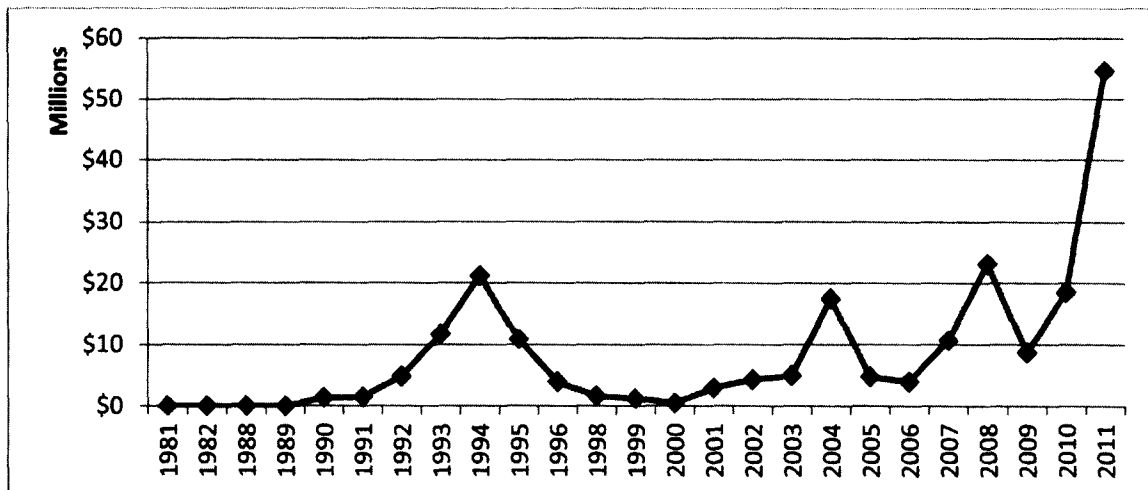
⁶¹ Interfax, "Russia's Putin, Emir of Qatar Willing to Discuss 'Sensitive' Cooperation," November 2, 2010.

⁶² Ibid.

⁶³ Times, "Qatar, Russia Working on 12 Major Projects."

diplomatic mail.⁶⁴ Since an apology from Qatar did not follow the incident, Titorenko was recalled from Qatar. The incident occurred on the same day that Russia's Foreign Ministry criticized Qatar for supplying weapons to Libyan rebels in violation of a UN arms embargo.⁶⁵ It is not clear how new political context triggered by divergent views on the ongoing unrest in the Middle East, including Russia's veto in the UN Security Council on the Syrian crisis resolution, will affect future trade relations between the two countries.

Figure 12. Total Trade between Russia and Qatar (1981-2011)



Source: Same as for Figure 1 herein.

The UAE became Russia's largest trade partner in the GCC and the rising level of trade is clearly reflected in graph 4 below. The two countries also signed a Memorandum of Understanding to strengthen the legal framework and in 2005 established a Russian-

⁶⁴ ITAR-TASS, "Level of Russia-Qatar Diplomatic Relations Remains Low – Foreign Ministry," April 17, 2012, <http://pda.itar-tass.com/en/c154/395427.html>.

⁶⁵ rt.com, "Qatar Vs Russia: When Size Does Not Matter," December 6, 2011, <http://rt.com/news/qatar-russia-syria-usa-115/>.

Emirates Business Council.⁶⁶ In 2007, Putin visited the UAE in the first high-level visit of its kind. As with his other visits in the region, he was accompanied by an array of government-business elites,⁶⁷ and the two parties held the forum of the Russian and UAE Business Communities and a meeting of the Russian-UAE Business Council.⁶⁸ In March 2012, the Chamber of Commerce and Industry of Russia in cooperation with the Council hosted a forum, "Possibilities to Broaden Russian-Emirates Business Cooperation," aimed to draw investments from Arab countries, primarily, the UAE, to Russia.⁶⁹ In November 2010, Abu Dhabi's Mubadala Development Co., state-owned investment fund, announced a \$100 million investment into Verno Capital's Russia-focused hedge funds concluding the first major commitment by a Persian Gulf sovereign-wealth fund into Russia.⁷⁰ In September 2010, Russian state-owned Russian Technologies and Crescent also agreed to invest \$500 million in a joint investment fund to develop transportation projects in Russia.⁷¹ The fund was set up in April 2012 by Gulftainer, the subsidiary of Crescent and the UAE's second largest ports operator. Gulftainer also signed a \$275 million deal in September 2011 to co-develop and operate Russia's Baltic port of Ust-Luga.⁷² In recent years, particularly since 2008, Russian companies also gradually strengthened their position in the UAE market and opened offices there,⁷³ with more than

⁶⁶ [Ministry of Foreign Affairs of the Russian Federation] Ministerstvo Inostrannykh del Rossiiskoi Federatsii, "Rossiisko-Emiratskie Otnosheniya," [Russian-Emirate Relations]," October 10, 2011.

⁶⁷ Ibid.

⁶⁸ ITAR-TASS, "Russia, Uae to Settle Ussr Debt Issue, and to Sign Space Cooperation Agreement," September 9, 2007.

⁶⁹ ameinfo, "The Russian Business Council Organizes the Round Table Special Transport for Oil and Gas Industry," May 5, 2012, <http://www.ameinfo.com/russian-business-council-organizes-round-table-299380>.

⁷⁰ Wall Street Journal, "Abu Dhabi Fund Invests in Russia," November 30, 2010.

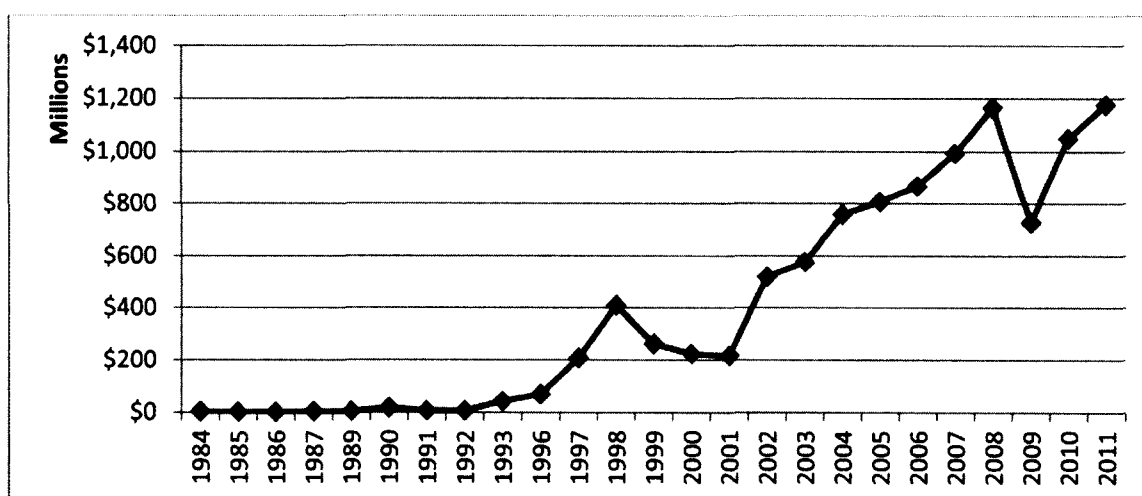
⁷¹ Oil Daily, "Rosneft Joins Uae Gas Project as Russia Seeks Mideast Partners," June 8, 2010.

⁷² Arabianbusiness.com, "'Uae's Gulftainer Eyes Growth in Russia, Asia,'" April 2, 2012, <http://www.arabianbusiness.com/uae-s-gulftainer-eyes-growth-in-russia-asia-452338.html>.

⁷³ Ministerstvo Inostrannykh del Rossiiskoi Federatsii, "Rossiisko-Emiratskie Otnosheniya," [Russian-Emirate Relations]."

350 joint ventures.⁷⁴ In the case of the UAE, Russia's efforts to realize trade potential between the two countries have been actualized. For instance, at the meeting organized by the Council in May 2012, a Russian diplomat to the UAE pointed out that trade between the two countries "has been growing fast and has reached the record amount of nearly \$1.5bn in 2011", compared to \$1bn in 2010. He also prized the Council's role "in bringing together businesses of Russia and the UAE in the variety of fields." This also suggests that the trade and diplomatic relations between the UAE and Russia have not been impeded in light of the ongoing unrest in the Middle East.

Figure 13. Total Trade between Russia and the UAE (1984-2011)



Source: Same as for Figure 1 herein.

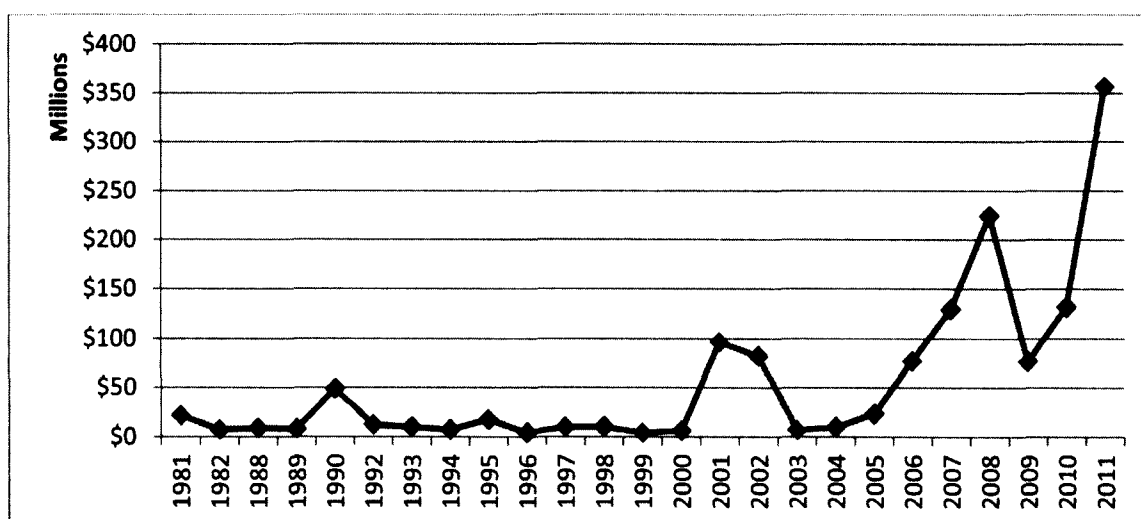
Trade relations with Kuwait also improved, as reflected in Figure 14 below. In 2007, the two sides established the Russian-Kuwaiti Business Council⁷⁵ aimed at developing large investment projects in Russia and Russian companies' participation in infrastructure development in the emirate. In 2009 and 2011, First Deputy Chairman of

⁷⁴ Ibid.

⁷⁵ [Ministry of Foreign Affairs of the Russian Federation] Ministerstvo Inostrannykh del Rossiiskoi Federatsii, "Rossisko-Kuveitskie Otnosheniya," [Russian-Kuwaiti Relations], October 10, 2011.

the Central Bank of Russia, A. Ulyukaev, and a delegation headed by CEO of Vnesheconombank, Vladimir Dmitriev, visited Kuwait.⁷⁶ Also, in September 2011, the two countries held the first meeting of the Sub-Commission on trade, economic, technical, financial, and investment cooperation in Kuwait and agreed to hold regular meetings of the Sub-Commission.⁷⁷

Figure 14. Total Trade between Russia and Kuwait (1981-2011)



Source: Same as for Figure 1 herein.

Russian trade with Bahrain spiked in recent years and then declined in 2008-2009 due to the global financial crisis, albeit it has increased over time, as reflected in Figure 15 below. In May 2007, Russia also set up the Russian-Bahraini Business Council.⁷⁸ Both sides signed a plethora of bilateral agreements and memoranda ranging from agreements on trade, economic and technical cooperation to memorandum of

⁷⁶ Ibid.

⁷⁷ Ensar.ru, "First Meeting of the Sub-Commission on Trade, Economic, Technical, Financial and Investment Cooperation Was Held in El-Kuwait," September 12, 2011, <http://www.ensar.ru/en/news/91.htm>.

⁷⁸ Ministerstvo Inostrannykh del Rossiiskoi Federatsii [Ministry of Foreign Affairs of the Russian Federation], "Rossiisko-Bahreinskie Otnosheniya, [Russian-Bahraini Relations]," October 10, 2011.

understanding between the Russian Ministry of Culture and the Ministry of Culture and Information of Bahrain.⁷⁹ In November 2008, a delegation of Bahraini authorities and business circles headed by the Minister of Finance of Bahrain, Al-Khalifa, visited Moscow, and that same year, Russian Vnesheconombank and the Bahraini Development Bank signed a memorandum of understanding, followed by other such bilateral agreements.⁸⁰

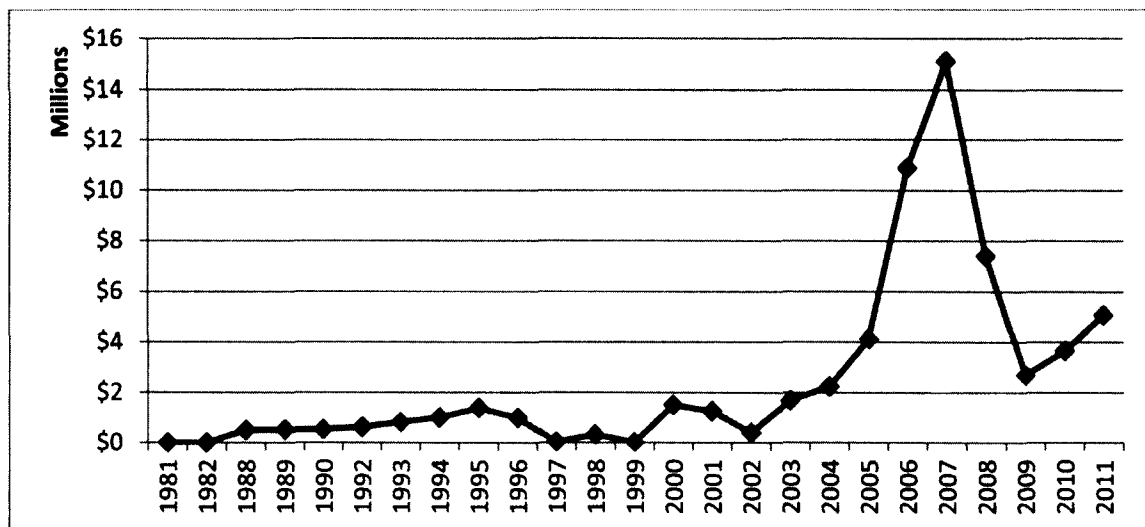
During Lavrov's visit to Bahrain in December 2008, he pointed out that despite expansion in the relations, trade, economic and investment, ties between Russia and Bahrain are rather weak, but that they are promising.⁸¹ In order to expand economic, trade and investment ties with Bahrain, the Deputy Prime Minister of Russia, Viktor Zubkov, established in December 2009 interdepartmental working groups comprising representatives of key Russian economic ministries, and during his visit to Bahrain in January 2010, Zubkov gave the King of Bahrain a road map for enhanced cooperation in trade, investment, industry, mining, hydrocarbons, energy, space, financial and banking sector, high technology, agriculture, and military-technical cooperation.⁸²

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ ITAR-TASS, "Russian Foreign Minister Is in Bahrain to Discuss Bilateral Ties & Persian Gulf," February 19, 2008.

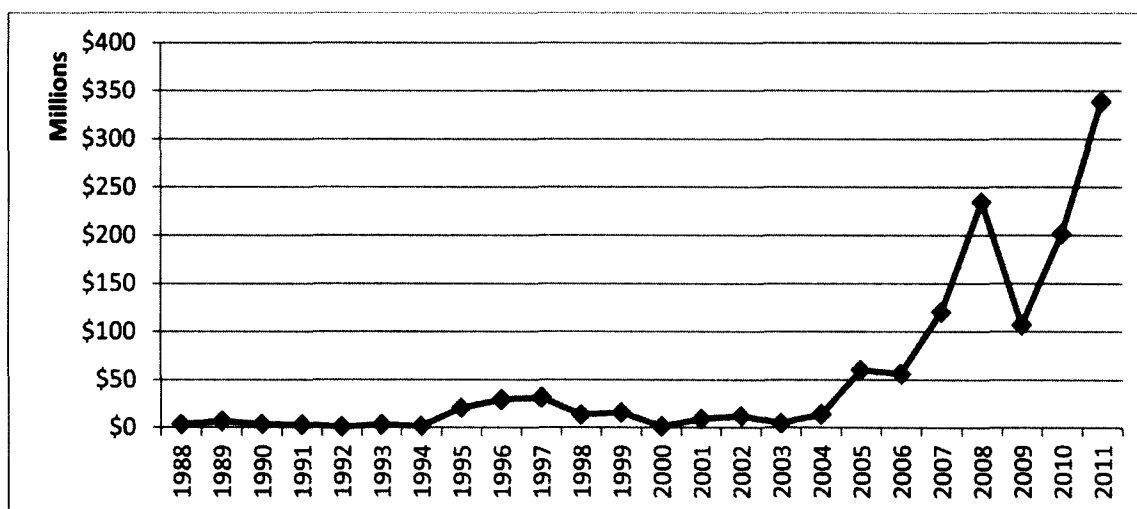
⁸² Ibid.

Figure 15. Total Trade between Russia and Bahrain (1981-2011)

Source: Same as for Graph 1 herein.

Russia has also developed unprecedented business ties with Oman, with rising trade as reflected in graph 8. In the 1990s, the two countries signed many intergovernmental agreements which established the legal base for cooperation, including an agreement on trade and economic and technical cooperation (1994), on cooperation between Chambers of Commerce (1994).⁸³ By December 2010, more than 20 Russian companies worked in the field of information security, exploration and production of oil and gas, shipbuilding, pipe manufacturing and agricultural machinery in Oman.

⁸³ Ministerstvo Inostrannykh del Rossiiskoi Federatsii [Ministry of Foreign Affairs of the Russian Federation], "Rossisko-Omanskie Otnosheniya, [Russian-Omani Relations]," October 10, 2011.

Figure 16. Total Trade between Russia and Oman (1988-2011)

Source: Same as for Graph 1 herein.

Energy Development and Investment

The data shows that energy represents a minor part of Russian trade in the statistics cited in the previous section.⁸⁴ Thus, a stand-alone analysis of Russia's energy relations is in order, as they represent their own important component of Russia's interaction with the regional states.

Russia's foreign policy toward the Persian Gulf region in the last decade has been driven increasingly by energy concerns and business potential. Oil-rich monarchies offer lucrative markets for Russia's goods and a source of badly needed investment. The share of oil and gas in Russia's GDP has gradually risen from 12.7% in 1999 to 31.6% by 2007, accounting for nearly 80% of Russia's exports.⁸⁵ Although Russian oil production has reached historic highs, many of its West Siberian oil fields that have accounted for the 50% increase in Russian oil production in the past decade, have been substantially

⁸⁴ Ministry of Foreign Affairs of the Russian Federation, "Russia-Asia."

⁸⁵ Economist, "Institute of Economic Analysis, Quoted in "Russia's Economy: Smoke and Mirrors," ", February 28, 2008, <http://www.economist.com/node/10765120>.

depleted.⁸⁶ Moscow estimates that \$600 billion must be invested in the oil industry through 2030 to maintain production in West Siberia and to develop East Siberia and Sakhalin.⁸⁷ Lukoil has estimated that \$1 trillion would be needed over the next twenty years just to maintain Russian production at the 10 million barrels per day level.⁸⁸ Yet, attracting investment in Russia's re-nationalized energy industry has been a challenge, which makes the Persian Gulf's energy fields enticing, because they are easier and cheaper to tap. Likewise, while opportunities for shale and tight-oil exploration are plentiful in Russia, energy companies have not been eager to explore them due to production and mineral-extraction taxes that swallow the equivalent of \$71 a barrel when oil trades for \$100.⁸⁹

Russia also strives to maintain a close partnership with energy exporting countries, such as Qatar, to control possible competition within its dominant energy market in Europe. Since energy revenues fill the Kremlin's coffers and, in turn, help to sustain regime legitimacy, Russia also aims to coordinate production with other producers and desirable oil price levels.

Russia has signed numerous bilateral contracts with the Persian Gulf states.⁹⁰ In 2007, Russian oil company Lukoil expanded its oil presence in Iran and Russian Gazprom signed oil and natural gas agreements, which would allow Gazprom to invest

⁸⁶ Dave Cohen, "Has Russia's Oil Production Peaked?," *Energy Bulletin*, April 23, 2008, <http://www.energybulletin.net/node/43184>.

⁸⁷ Ministry of Energy of the Russian Federation, "Energy Strategy of Russia: For the Period up to 2030," 2010, [http://www.energystategy.ru/projects/docs/ES-2030_\(Eng\).pdf](http://www.energystategy.ru/projects/docs/ES-2030_(Eng).pdf).

⁸⁸ Leonard Coburn, "Russian Oil – a Long Term View," (International Association for Energy Economics).

⁸⁹ Joe Carroll, "Russia's Oil Lead Challenged as Taxes Strangle Drilling," *Bloomberg*, March 5, 2013, <http://www.bloomberg.com/news/2013-03-05/russia-s-oil-lead-challenged-as-taxes-strangle-drilling.html>.

⁹⁰ Gulfnews.com, "Gazprom Neft Pursues Iran and Cuba Oil Projects to Expand Resource Base," June 30, 2010, <http://gulfnews.com/business/oil-gas/gazprom-neft-pursues-iran-and-cuba-oil-projects-to-expand-resource-base-1.648034>.

directly in Iranian fields.⁹¹ In 2009, Gazprom Neft signed a memorandum of understanding with the National Iranian Oil Company (NIOC) to study the development of two Iranian oilfields, Azar and Shangule.⁹² Under the memorandum, Gazprom would participate in the development of the North Azadegan oilfield, the construction of an oil refinery in northern Iran, and the transportation of crude oil from the Caspian Sea to the Gulf of Oman from Neka to Jask (big port cities in Iran on the Caspian Sea and in the Gulf of Oman). Analysts say Gazprom Neft, the oil branch of Gazprom, could earn as much as three billion U.S. dollars annually from the North Azadegan oilfield.⁹³

In July 2010, Iran and Russia discussed a roadmap for energy cooperation for the next 30 years. Collaboration would include developing oil fields in both countries, as well as oil and gas fields located in any third country.

However, in March 2010 Lukoil abandoned the oil project in Iran with CEO Leonid Fedun indicating that “work on the oil field was impossible until U.S. sanctions were lifted.”⁹⁴ Moreover in October 2011, Gazprom Neft was forced out by Iran and replaced with a consortium of Iranian companies. Gazprom Neft indicated that besides the tightening of Western sanctions, the company did not like the terms Iran offered. According to Iran, the reason was procrastination over the memorandum of understanding signed in 2009.⁹⁵ In February 2012, Fedun stressed that “Russia has stable relations with Iran despite recent hiccups, but now Lukoil doesn’t have any contracts with

⁹¹ RIANovosti, "Lukoil Set to Expand Oil and Gas Cooperation with Iran," December 13, 2007, <http://en.rian.ru/business/20071213/92262874.html>.

⁹² Interfax, "Interview with Boris Silbermint, Deputy Ceo for Exploration and Production of Gazprom Neft," January 28, 2010, <http://pda.gazprom-neft.com/press-center/lib/3520/>.

⁹³ ITAR-TASS, "Russia, Iran to Boost Energy Cooperation," October 15, 2008.

⁹⁴ RIANovosti, "Russia’s Lukoil Says Iran Project Dropped over Sanctions," March 24, 2010, <http://en.rian.ru/russia/20100324/158299099.html>.

⁹⁵ The Moscow Times, "Gazprom Neft Forced out of Iranian Project," October 11, 2011, <http://www.themoscowtimes.com/business/article/gazprom-neft-forced-out-of-iranian-project/445143.html#ixzz1uoPQoYwy>.

Iran because of sanctions.”⁹⁶ In February 2013, Iran however invited Russian companies to develop a number of its oil and gas fields anew, while also offering to make changes to legislation which would enable Russian companies to gain a stake in Iran’s extractions sites.⁹⁷

For their part, Russia and Iraq have elevated interaction in the energy area in the post-Saddam era, including the development of joint projects between Russia’s Rosneft and Crescent Petroleum in Iraq and throughout the Middle East. In April 2009, Prime Minister Nouri al-Maliki visited Russia, in the first Iraqi leader visit to Russia since 1981. After the meeting, Gazprom Neft won a tender to develop the giant Basra oil field in Iraq,⁹⁸ holding a 30% stake in the project. The implementation of the project is planned for 20 years with the possibility of a five year extension. In September 2009, Russian Energy Minister Sergei Shmatko led a Russian delegation to Iraq to discuss longer term cooperation in electric power and the energy sector. Shmatko and Iraqi Prime Minister Nouri al-Maliki agreed to implement joint projects in the energy sector such as building the Kirkuk-Biji gas pipeline and other strategic gas pipeline, with Russian companies also having opportunities to modernize the existing power plants and build new ones. According to Shmatko, the 2009 visit “opened a new page in energy cooperation between the two countries,”⁹⁹ with the main task being to “create conditions for increased trade and diversifying forms of cooperation.”¹⁰⁰

⁹⁶ RT.com, "Lukoil Executive: Iran Tension to Effect Long Term on Oil Market," February 3, 2012, <http://rt.com/business/news/lukoil-iran-oil-opinion-403/>.

⁹⁷ RT, "Iran Again Invites Russia to Join Its Oil and Gas Projects ", February 12, 2013, <http://rt.com/business/iran-russia-gas-oil-projects-029/>.

⁹⁸ RIANovosti, "Russia’s Gazprom Neft Signs Contract to Develop Iraqi Oil Field," January 28, 2010, <http://en.rian.ru/business/20100128/157704059.html>.

⁹⁹ ITAR-TASS, "Energy Is One of Most Promising Russia-Iraq Cooperation Spheres-Shmatko," September 11, 2009.

¹⁰⁰ Ibid.

In 2009, Lukoil won a tender to develop Iraq's West Qurna-2 oil field, with a plan to invest \$4.5 billion. The development of West Qurna-2 field in the Basra province has a potential to position Lukoil among global giants.¹⁰¹ West Qurna is considered the world's largest underdeveloped oil field, holding 13 billion barrels of crude oil. The aim is to bring production to 1.8 million barrels per day. Lukoil has prepared to mobilize up to 15,000 specialists for Iraq's oil and gas industry.¹⁰² In April 2012, Lukoil started production drilling and construction of an oil processing unit on the field.¹⁰³ Lukoil holds 56.25% in the project with Norway's Statoil holding 18.75%. In March 2012, Statoil decided to transfer its stake to Lukoil.

In May 2011, Russian Foreign Minister Sergei Lavrov visited Baghdad to discuss cooperation in the energy sector, and mentioned that "we are satisfied with the way cooperation in the oil sphere has been developing,"¹⁰⁴ and in June 2011, Iraq announced that it intends to expand contacts with Russian oil and gas companies, noting Russia's importance in the energy sphere. Also, In January 2012, Gazprom Neft started drilling a second appraisal well at the Badra oil field.¹⁰⁵

In addition to hydrocarbon projects contracted with the Iraqi central government, Russia has also eyed hydrocarbon riches in Iraqi autonomous region of Kurdistan. This was demonstrated in February 2013, Gazprom Neft announced the signing of a new production sharing agreement in Kurdistan, taking an 80% share of the Halabja project,

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ Going Global East Meets West, "Iraq and Russia – Lukoil Starts Drilling at Iraq's West Qurna-2 Field," April 25, 2012, <http://goingglobaleastmeetswest.blogspot.com/2012/04/iraq-and-russia-lukoil-starts-drilling.html>.

¹⁰⁴ Interfax-AVN Online, "Lavrov to Discuss Russia-Iraq Energy, Military-Technological Cooperation in Baghdad," May 10, 2011.

¹⁰⁵ Iraq-business news, "Gazprom Neft Starts Drilling Second Well at Badra," January 24, 2012, <http://www.iraq-businessnews.com/2012/01/24/gazprom-neft-starts-drilling-second-well-at-badra/>.

with the site's hydrocarbon reserves standing at around 90-100 million tonnes. The exploration of the site is planned to start in fall 2013 and is estimated to take seven years.¹⁰⁶ The contract is likely to cause frictions with the central Iraqi government in Baghdad, which claims to be the only authority to grant oil contracts and control oil exports in Iraq. In August 2012 the Iraqi Oil Ministry spokesman, Asym Jihad, warned that "sanctions will be applied against all international companies collaborating with the Kurdish autonomy without the permission of Baghdad, and Russian companies are no exception," further warning that Russia's oil company may lose its share in the Iraq's oil fields.¹⁰⁷

Russia has also developed energy relations with Saudi Arabia. Leaders in both countries believe that enhanced energy relations should be a priority in bilateral relations.¹⁰⁸ In October 2002, at the first session of the Russian-Saudi committee for trading, economic and scientific cooperation, Igor Yusufov, the Russian minister of energy stated that "Saudi Arabia was Russia's most important partner in the Middle East" and "offered his Saudi interlocutors the sale of Russian technologies in gas and oil extraction," among others.¹⁰⁹ This is despite the fact that the data on trade as well as the situation around Iran's nuclear ambitions suggest that Iran is far more important in terms of both trade and diplomacy. As a result of the 2003 visit, Russia and Saudi Arabia signed an international five-year cooperation agreement in the oil and gas sector,

¹⁰⁶ Trend, "Gazprom Enters New Project in Iraq's Kurdish Autonomous Region with 80 Percent Share," February 26, 2013, <http://en.trend.az/regions/met/iraq/2123962.html>.

¹⁰⁷ The Journal of Turkish Weekly, "Baghdad to Apply Sanctions against Gazprom in Case of Its Cooperation with Kurdish Autonomy", August 6, 2012, <http://www.turkishweekly.net/news/139753/baghdad-to-apply-sanctions-against-gazprom-in-case-of-its-cooperation-with-kurdish-autonomy.html>.

¹⁰⁸ ITAR-TASS, "Russia, Saudi Arabia Should Strengthen Cooperation Amid Crisis – Sechin," December 16, 2008.

¹⁰⁹ Kreutz, *Russia in the Middle East: Friend or Foe?*, 131.

solidifying plans for Saudi and Russian energy companies to cooperate across borders. Moscow's initial expectation of \$46 billion in joint investment projects to develop the Russian economy has not materialized, but in January 2004, Lukoil won a bid for the development of several promising major oil and gas fields in the Rub al-Khali.¹¹⁰ Lukoil was awarded a tender to develop the 11,200-square-mile "Zone A" natural gas field in the Rub Al-Khali, signing a 40-year contract with Saudi Arabia to explore and develop the field. Lukoil Overseas holds an 80% stake in Lukoil Saudi Arabia, with the remainder held by Saudi Aramco. However, in September 2010 Luksar relinquished 90% of its gas exploration block desert as it has struggled to find gas.¹¹¹ In 2009, Russian Stroytransgaz completed two contracts for the construction of the "Scheib-Abqaiq", 900 km long water pipeline.¹¹²

In June 2010, the two countries also discussed joint projects including Saudi investment into the much needed renovation of Russia's electricity grid. However, it is not clear whether the actual investment has been materialized. As demand for atomic energy booms, Russia has become an aggressive seller, intent on increasing its share of the nuclear fuel market. Only two days after the visit, Saudi Arabia's foreign minister, Prince Saud al-Faisal, said that there were "no obstacles to cooperation between the two countries in all fields concerning the military and nuclear power."¹¹³ In November 2010, Saudi Arabia held talks with Russia over a nuclear agreement on peaceful development of nuclear energy as the Kingdom plans to invest \$80 billion to boost capacity as a response to rising demand for electricity which is expected to triple to

¹¹⁰ Lukoil-overseas.com, "Lukoil Overseas Holding Ltg: Corporate Report," 2009, http://www.lukoil-overseas.com/upload/iblock/435/lo_09_eng.pdf.

¹¹¹ Oil & Gas News, "Lukoil Jv Gives up on Rub Al-Khali," September 21, 2010.

¹¹² Ministry of Foreign Affairs of the Russian Federation, "Russian-Saudi Relations," October 10, 2011.

¹¹³ "Talking Power and Arms in Riyadh," *Defense News*, February 12, 2007.

121,000 (MW) by 2032.¹¹⁴ Thus far, Saudi Arabia has signed nuclear agreements only with France, Argentina, South Korea, and most recently with China.¹¹⁵ In terms of the energy partnership, Putin expressed that “On the face of it, it seems that we are rivals, but considering the world’s growing demand for energy, that is not so.”¹¹⁶

The oil and natural gas sector are one of the most promising directions of cooperation between Russia and the UAE. In 2010, Russia’s biggest oil producer state-controlled Rosneft established its first Mideast presence as it entered a joint venture with the UAE’s Crescent Petroleum to explore for gas in the emirate of Sharjah marking the companies’ first joint project under their broad and longer run strategic cooperation agreement. The two sides have already invested \$35 million into drilling and exploration activities.¹¹⁷ Gas production is expected to begin in 2013.¹¹⁸ Rosneft expressed intent to invest \$630 million in the joint venture,¹¹⁹ though significant future investments would depend in part on Iraqi oil legislation that would protect investment outside the northern Kurdistan region, and on Iraqi stability.

In regard to Kuwait, in April 2009, the Russian company Gazpromgeofizika and the Kuwaiti company Noor Financial Investment signed the agreement to establish two joint ventures to conduct exploration for hydrocarbons.¹²⁰ Under the joint ventures, they

¹¹⁴ Russia in talks over nuclear agreement Saudi Arabia, "Saudi Economic Survey," November 8, 2010.

¹¹⁵ "Saudi Arabia, China Sign Nuclear Cooperation Pact," *Wall Street Journal*, January 16, 2012, <http://online.wsj.com/article/SB10001424052970204468004577164742025285500.html>.

¹¹⁶ "Russia, Saudi Arabia Energy Partners, Not Rivals – Putin," *RIANovosti*, February 12, 2007, <http://en.rian.ru/russia/20070212/60580105.html>.

¹¹⁷ "Gas Vital to Middle East Economies," *gulfnews.com*, July 1, 2011, <http://gulfnews.com/business/oil-gas/gas-vital-to-middle-east-economies-1.830847>.

¹¹⁸ "Crescent Petroleum Discusses Major Projects with Rosneft, Rostekhnologii," *RIANovosti*, August 21, 2010, <http://en.rian.ru/world/20100821/160291179.html>.

¹¹⁹ Mike Johnson, "Rosneft Ventures into Middle East," *Financial Times*, May 20, 2010.

¹²⁰ [Ministry of Foreign Affairs of the Russian Federation] Ministerstvo Inostrannykh del Rossiiskoi Federatsii, "Rossisko-Kuveitskie Otnosheniya [Russian-Kuwaiti Relations]," October 10, 2011.

plan to work in the market of Kuwait's neighboring states – Syria, Lebanon, and Iraq.¹²¹ In 2010, Kuwait also signed a preliminary deal with Russia to cooperate in establishing a nuclear power program.¹²² However as a reaction to the nuclear disaster in Japan, Kuwait decided to abandon civilian nuclear power production in February 2012.¹²³

Meanwhile, in December 2008, Gazprom and the National Agency for Oil and Gas of Bahrain signed a letter of intent to jointly explore new opportunities and to identify areas of mutually beneficial cooperation in oil and gas,¹²⁴ which was expanded in 2009 and 2010,¹²⁵ such as with regard to exploration of the Awali field--the only major hydrocarbon field in Bahrain. In March 2012, Bahrain discussed imports of 400 million cubic feet of LNG per day (cfd) from Russia's Gazprom through a liquefied natural gas terminal expected to open by 2015.¹²⁶

Oman, like other Gulf states, seeks to cooperate on atomic energy. In 2009, during the visit of the Secretary-General Ministry of Foreign Affairs of Oman B. Al-Busaidi in Moscow, a memorandum of understanding on the use of nuclear energy between Russian company Rosatom and Foreign Minister of Oman was signed.¹²⁷ At the constituent session of the Russian-Omani Business Council held in June 2011, Sergey Tishkin, the Chairman on the Council, expressed that oil and gas was the priority sector

¹²¹ Ibid.

¹²² Ibid.

¹²³ "Kuwait Abandons Nuclear Power Option," *UPI.com*, February 23, 2012, http://www.upi.com/Business_News/Energy-Resources/2012/02/23/Kuwait-abandons-nuclear-power-option/UPI-63001330021334/#ixzz1upERaqs.

¹²⁴ Ministerstvo Inostrannykh del Rossiiskoi Federatsii [Ministry of Foreign Affairs of the Russian Federation], "Rossiisko-Bakhreinskie Otnosheniya, [Russian-Bahraini Relations]."

¹²⁵ Ibid.

¹²⁶ "Bahrain Discusses Lng Imports with Russia's Gazprom," *ameinfo.com*, March 7, 2012, <http://www.ameinfo.com/292586.html>.

¹²⁷ "Rossisko-Omanskie Otnosheniya, [Russian-Omani Relations]."

of co-operation with Oman, but that co-operation in other sectors such as power generation, engineering, to mention just a few, should be developed.¹²⁸

Energy ties between Russia and Qatar have also expanded unprecedentedly in the last decade. In April 2010, they created a joint Russian-Qatari committee for cooperation in gas and energy. Qatar, the world's largest liquefied natural gas exporter, is currently one of Russia's most important partners but also a rival in the energy sector. In July 2010, Gazprom EP International was invited by Qatar to take part in a tender for conducting oil and gas operations in the licenser block "A". In addition to this project, Russia expressed interest in working with Qatar in the Middle East in general, including projects on exploration and extraction of hydrocarbons, construction, transportation and distribution infrastructure, gas processing and liquefied natural gas. In March 2010, the parties discussed the execution of transactions with swaps of liquefied natural gas (LNG) and LNG-pipeline gas in Europe and Asia-Pacific region. Qatar signed an agreement with Gazprom to create a Russian-Qatari company with a capital of \$150 million for the operation of gas fields in Russia. Stroytransgaz also has prospects of entering the Qatari market on a permanent basis to monitor oil and gas energy projects in the country. The two countries also discussed potential joint investment projects between Gazprom and Qatar Petroleum and coordinate efforts in markets in Europe, Asian and Pacific Rim countries.¹²⁹ In November 2010, they also signed a memorandum on cooperation in civil nuclear technologies followed by plans to work together to provide nuclear materials and nuclear fuel, as well as to arrange training programs for Qatari nuclear sector

¹²⁸ "Constituent Session of the Russian-Omani Business Council," *Ensat.ru*, June 16, 2011, <http://www.ensat.ru/en/news/85.htm>.

¹²⁹ "Russia, Qatar to Discuss Gas Cooperation, Business, Political Issues," *Interfax: Russia & CIS Business & Investment Weekly*, November 8, 2010.

personnel.¹³⁰ Ways to expand cooperation in the oil and gas sector dominated the agenda of all recent meetings between Medvedev and Qatari Amir Hamad bin Khalifa Al Thani. Qatar wants to join a project with Russia's Novatek to build a liquefied natural gas plant on the Yamal peninsula and invited Gazprom EP international to bid in a tender to conduct oil and gas operations in Qatar after moratorium on exploration is expires in 2014.¹³¹ In November 2011, Russia's Energy Minister Sergei Shmatko said he wanted to speed up an agreement, which would enable Qatar to take part in Yamal gas project, particularly because of Qatar's expertise in the financial, technical and marketing expertise in LNG.¹³² Also, Qatar's Energy Minister Mohammed al-Sada expressed that Qatar is "really interested" in becoming partner in the project.¹³³ So far, however, Novatek has only sold 20 percent stake of Yamal LNG to French oil and gas group Total, leaving 29% for other foreign investors. In April 2012, Novatek started negotiations with Fench EDF, leaving little prospects for cooperation with Qatar. However, in March 2013, an executive at Qatar Petroleum International (QPI) said QPI had "shelved, but not killed" the idea of taking a stake in Yamal.¹³⁴ At the same time, Qatar has bought a major stake in British Royal Dutch Shell in May 2012; further infringing on the European resource market.¹³⁵ Qatar's sovereign wealth fund is also reportedly in negotiations on a stake in Italy's ENI.¹³⁶

¹³⁰ "Russia, Qatar Sign Memorandum on Civilian Nuclear Cooperation," *Interfax: Russia & CIS Business & Investment Weekly*, November 8, 2010.

¹³¹ "Qatar Invites Gazprom to Participate in Lng Projects," *Interfax: Russia & CIS Energy Daily*, April 16, 2010.

¹³² "Yamal Gas: And Qatar Is Coming," *RT.com*, November 15, 2011, <http://rt.com/business/news/russias-shmatko-yamal-construction-397/>.

¹³³ *Ibid.*

¹³⁴ "Qatar Goes Cold on Russia's Yamal Lng Project," *Reuters*, March 5, 2013, <http://www.reuters.com/article/2013/03/05/qatar-yamal-lng-idUSL6N0BXH2Y20130305>.

¹³⁵ "Qatar Buys into Shell," *RT.com*, May 11, 2012, <http://rt.com/business/news/qatar-shell-stake-buy-003/>.

¹³⁶ *Ibid.*

Interestingly, the prospects of Qatar playing the counterweight to Gazprom's dominance on the European market have led Russia to strive to turn a rival into a partner. Russia understands that greater natural gas flows to Europe would decrease its market there and political influence. LNG, in particular, is a threat because it allows for the delivery of natural gas at long distances at competitive prices. In April 2010, Russia and Qatar signed a joint declaration of cooperation in the sphere of gas. The declaration says that they will work to keep gas prices at oil price levels and that the two countries will in addition to joint LNG projects work together on developing scientific and technological cooperation.¹³⁷ Already in 2008, Russia propagated, albeit unsuccessfully, a so-called "Big Gas Troika," an OPEC-style group composed of Iran, Qatar, and Russia to facilitate coordination in the gas sector.

Qatar has emerged as a competitor in the European gas market dominated traditionally by Russia. With the surge of shale gas (a black or dark brown shale containing hydrocarbons that yield petroleum by distillation) in the U.S, Qatar as the biggest LNG producer in the world was forced to divert its supplies to Europe.¹³⁸ This development has coincided with the European Union's efforts to diversify its sources of gas. Consequently in 2010, Gazprom's exports to Europe dropped by 25% compared with 2009.¹³⁹ The emergence of shale gas, which has only become economically profitable in the past five years as a result of technological advances, has transformed the North American energy market, and has diminished Russia's energy dominance in Europe. For

¹³⁷ Ibid.

¹³⁸ Sam Barden, "The Gas Gang," *SBI Markets*, December 14, 2011, http://www.sbimarkets.com/blog/template_permalink.asp?id=88.

¹³⁹ Yulia Latynina, "The Main International Confrontation of the Xxi Century Is between Hydrocarbon Despotism and Pipeline Democracies," *Novaya gazeta*, March 29, 2011, <http://en.novayagazeta.ru/politics/8713.html>.

instance in 2010, deliveries from Qatar to the European region increased by 49%, rising fastest in countries importing LNG such as the UK and Belgium.¹⁴⁰ Qatar, the world's largest liquefied natural gas producer and exporter currently hosts six LNG plants.¹⁴¹ Between 2009 and 2013 some 130bn cubic metres a year of new LNG capacity came on stream with half of it coming from Qatar.¹⁴² This constitutes a 50% rise in global LNG output capacity in just four years.¹⁴³ As Russian envoy to Qatar, Vladimir Titorenko pointed out that the LNG terminals also being built in Southern Europe create even more competition for Russia's planned South Stream gas pipeline. He emphasized that "Russia wants to avoid spending a lot of money on South Stream and then have to compete with cheaper LNG from Qatar."¹⁴⁴ Qatar already penetrated Western Europe, notably the UK, Italy, France and Spain, moving closer to Russia's backyard. In April 2010, Poland, which has its own significant shale gas reserves, signed a 20 year deal to import 1 million metric tons per year of Qatari LNG for its receiving terminal in the port of Swinoujscie scheduled to start operation by mid-2014.¹⁴⁵ Qatar also initiated talks with Bulgaria, which suffered the most by a cut off in Russian gas supplies in January 2009. Russia supplies 42% of Poland's natural gas consumption and nearly all of Bulgaria's. Qatar is

¹⁴⁰ "Gazprom Maintained Market Share in Most of Europe in 2010 – Iea," *Interfax: Russia & CIS Business and Financial Newswire*, March 15, 2011.

¹⁴¹ "Gazprom Talking with Qatar About Working in Europe, Pacific Rim Countries," *Interfax : Russia & CIS Business & Investment Weekly*, November 8, 2010. Also "World's Lng Liquefaction Plants and Regasification Terminals," *Globalnginfo.com*, April 2012, <http://www.globalnginfo.com/World%20LNG%20Plants%20&%20Terminals.pdf>.

¹⁴² "Worrying Times for Energy Investors," *Worrying times for energy investors*, October 28, 2010, <http://www.petroleum-economist.com/Article/2730869/A-worrying-time-for-LNG-investors.html>.

¹⁴³ *Ibid.*

¹⁴⁴ "Russia Courts Qatar as Lng Partner," *Russia Courts Qatar as LNG Partner*, July 22, 2010.

¹⁴⁵ "Poland Signs \$550 Million Gas Deal with Qatargas," *LNGPedia*, July 1, 2010.

also considering investing up to \$4 billion in the development of an LNG import terminal at the port of Astakos in Greece.¹⁴⁶

Russia's sudden reluctance to include Qatar as a stakeholder in the Yamal LNG project as well as Qatar's intensified incursion into the European energy market in 2012 may have been triggered in part by mutual criticism in the context of Qatar's and Saudi Arabia's aggressive support of regime change in Libya and Syria. However, following Gazprom's opening of a representative office in Doha in February 2013, Qatari Energy Minister, Muhammad al-Sada noted that Qatar plans to expand joint investments with OAO Gazprom. Meanwhile, a board chairman Viktor Zubkov who led a delegation to Doha expressed that the office "will contribute to stronger partnership ties and will provide an additional impetus to closer mutually beneficial cooperation with the states in the region."¹⁴⁷

Since Iran is a major natural gas producer, Russia can benefit from U.S.-driven economic sanctions against foreign investment in Iran's energy. For instance, Europe's effort to diversify its gas supply away from Russia was supposed to be originally realized in part by feeding Iranian gas into the Nabucco pipeline – the project, which directly competes with Russia's push for the South Stream pipeline. Only after relations between the West and Iran dramatically deteriorated, Europe began the search for alternative sources for Nabucco, such as Azerbaijan, where cooperation with Iran could make

¹⁴⁶ Leslie Palti-Guzman, "Qatar-Russia: Friends or Enemies?," *Energy Intelligence Group: Energy Compass*, April 9, 2010.

¹⁴⁷ "Gazprom Sets up Shop in Qatar," *UPI*, February 12, 2013, http://www.upi.com/Business_News/Energy-Resources/2013/02/12/Gazprom-sets-up-shop-in-Qatar/UPI-73201360666276/.

sense.¹⁴⁸ In a search for gas to feed Nabucco, the EU also signed in 2010 a memorandum of understanding in energy with Iraq. Furthermore, Iran's vast reserves would inevitably saturate the market, leading to a decrease in Gazprom's and Russia's main source of revenue. However, today, Iran is forced to buy gas from Turkmenistan to cover its domestic energy needs. In 2010, Iran did not produce any LNG but has been building three gas liquefaction plants: one is with China in Southern Iran where the North Pars deposit is located and the other two plants, built with Europeans, will be in South Pars gas field which Iran shares with Qatar. All three plants aim to produce 125 million cubic meters of gas a day. Iran is expected to produce liquefied gas by 2015.¹⁴⁹

Russia is dependent on income from energy export to Europe. Thus, mutual cooperation in coordinating energy exports from the Persian Gulf is understandably one of Russia's main commercial interests. In the long term, there may be a competition for energy resources; however, in the short term, the supply is abundant and producers are competing for markets. For instance, in August 2011, five large Iraqi oil cargoes headed to Europe in what energy experts called "opening shot in a pricing war with rival Russia."¹⁵⁰ The exports of Iraqi Basra oil were triggered by a U.S. oil stocks release in June and by a strengthening of Russian crude values.¹⁵¹ As Iraq is building export facilities and ramping up production, it could compete with Russia, besides others, for market share. As export capacity comes on stream in Basra, Europe's dominant supplier Russia would face more and more pressure on its Urals crude, which is of a similar

¹⁴⁸ "Nabucco Needs Gas from Iran to Be a Game Changer – Bartuska," *ICIS.news*, July 24, 2009, <http://www.icis.com/Articles/2009/07/24/9235044/nabucco-needs-gas-from-iran-to-be-a-game-changer-bartuska.html>.

¹⁴⁹ "Iran Energy Data, Statistics and Analysis – Oil, Gas, Electricity, Coal," *eia.gov*, November 2011, <http://www.eia.gov/cabs/iran/Full.html>.

¹⁵⁰ Dmitry Zhdannikov, "Russia Faces Oil Price Battle as Iraqi Output Grows," *Reuters*, July 29, 2011.

¹⁵¹ *Ibid.*

quality to Iraqi oil.¹⁵² It is no surprise that Putin's visits to oil and gas producing countries in the Persian Gulf often focus on coordination between energy producers. Speaking to journalists in Jordan in 2007, Putin admitted that Russia is interested in coordinating its steps on global energy markets with other energy producers and argued that "this coordination will be aimed at consolidating the international energy market."¹⁵³ Since the growth in shale gas will likely provide strong competition to traditional pipeline gas, Russia wants to coax Qatar in particular and Iran to manage and coordinate their supply of LNG to ensure price stability.

Arms Trade

Although Russia has historically used arms sales and transfers to build influence in the Middle East, Moscow's ability to do so has significantly decreased in the post-Cold War period. However, already before the Soviet Union imploded, Moscow had difficulty translating arms sales into regional influence. In the 1980s, Gulf states were as angered by arms sales to their opponents as they were appreciative of receiving arms from Moscow.¹⁵⁴ While Russian arms transfer agreements in the Near East increased from 1992-1995 to 1996-1999 (4.6% to 7% of total agreements), in the Gulf proper the increase was negligible as far as the actual arms deliveries were concerned.¹⁵⁵

¹⁵² Ibid.

¹⁵³ "Summary of Russian Press for Tuesday 13 February 2007," *Defense News – BBC Monitoring Former Soviet Union*, February 13, 2007.

¹⁵⁴ Steve A. Yetiv and Tom Lansford, "The Third World in the 1990s: Global Interaction in Southwest Asia in an Increasingly Interconnected World," *The Journal of Conflict Studies* (Spring 1998): 5.

¹⁵⁵ See Richard F. Grimmett, "Conventional Arms Transfers to Developing Nations, 1992-1999 - Crs Report for Congress," (Washington, D.C.: Congressional Research Service, August 18, 2000), 44,53.

The 1991 Gulf War and the ensuing embargo against Iraq shut down Moscow's most lucrative regional market and Russian arms sales to Iraq dropped from \$4.1 billion from 1988-91 to near zero thereafter.¹⁵⁶ Russian arms exports to the region remained concentrated on Iran through the mid- to late 1990s, though even with Iran, they weakened by 2000. Just as the United States has reaped significant export profits from its Saudi connection, Russia's arms sales and transfers to Iran have proved quite lucrative. As a result of Iran's military degradation during the war with Iraq in the 1980s, and its inability to purchase modern Western equipment, it turned to Russia for new weapons systems in a number of areas including air defense, communications systems and surface to air missile systems.¹⁵⁷ In a \$10 billion arms-for-oil deal, Russia agreed to supply Iran with MiG-29 fighters, Su-24 fighter-bombers and SA-5 Surface-to-Air-Missiles (SAMs) in the early 1990s.¹⁵⁸ Russia also aided Iran in integrating into its air force the 122 Iraqi aircraft that Iran acquired during the Gulf war,¹⁵⁹ and sold Iran three Russian Kilo-class submarines whose crews are Russian trained, making Iran the only Gulf state with such capability.

By sometimes presenting itself also as a counterweight to Iran, while at the same time offering future suspension of arms deals, Russia's arms link with Iran yielded it some influence with Arab Gulf states. For instance, after its submarine sale to Iran, Russia negotiated an agreement with the UAE in January 1993 that allowed its naval vessels maintenance rights in UAE ports in exchange for pledges to help protect Gulf shipping if necessary. Hence, its ships were afforded a new port in the Gulf, which Russia was eager to

¹⁵⁶ Yetiv and Lansford, "The Third World in the 1990s: Global Interaction in Southwest Asia in an Increasingly Interconnected World," 5.

¹⁵⁷ FBIS Daily Report: Central Eurasia (CEURA), "New Arms Sales Deal with Iran Quite Likely (from *Nezavisimaya Gazeta*)," (May 12, 1995), 9.

¹⁵⁸ "Land of Crisis and Upheaval," *Jane's Defence Weekly*, July 30, 1994, 29.

¹⁵⁹ Anoushiravan Ehteshami, "Iran's National Strategy: Striving for Regional Parity or Supremacy?," *International Defence Review* 4(April 1994): 35.

exploit. In 1993, Moscow also concluded a bilateral security agreement with Kuwait that covered arms exports and equipment training and was aimed at repelling aggression - a reference to Iraq.¹⁶⁰

Since the end of the Cold War and particularly in the last decade, Russia has sought to penetrate a lucrative GCC arms market, which had been closed to Moscow during the Cold War. Despite this effort, the UAE has been the only GCC country, which Russia has concluded several arms contracts with. Consequently, Iran remains the only significant importer of Russian arms in the Persian Gulf, albeit in 2006 Russia resumed limited arms sales to Iraq. Despite the improved relations with Saudi Arabia, like China - Russia has not been successful in concluding a significant arms contract with the Kingdom. In August 2009, Russia was "in a final stage of talks" on the purchase of 30 helicopters Mi-171 which started in 2007, with Saudi Arabia also expressing interest in acquiring Russian weaponry, including S-400 air defense system, T-90 tanks, and BMP-3 infantry fighting vehicles, all worth an estimated \$4 billion.¹⁶¹ Similarly, in February 2010, Russia's first deputy director of the Federal Service for Military and Technical Cooperation reported that the two parties were finalizing an array of agreements on helicopters, armor and air-defense systems with an estimated value of \$4-6 billion.¹⁶² However, in March 2011, the Russian Federal Service for Military-Technical Cooperation (FSVTS) has reported that "one should hardly expect the signing of large weapons contracts with Saudi Arabia."¹⁶³ FSVTS deputy director Vyacheslav Dzirkaln has told Interfax-AVN "Yes, we did plan to sign some contracts but negotiations have

¹⁶⁰ FBIS: SOV, "Kommersant," (December 2, 1993), 11. Also, see James Bruce, "France Bolsters Gcc with Abu Dhabi Accord," *Jane's Defence Weekly*, January 28, 1995, 5.

¹⁶¹ "Russia, Saudi Arabia Set to Finalize Arms Deal," *AFP*, August 29, 2009.

¹⁶² "Russia, Saudi Arabia in Talks on Major Arms Deal," *RIANovosti*, February 15, 2010.

¹⁶³ "Russia-Saudi Arabia Talks on Large Arms Deals Drag On," *Interfax: AVN Military*, March 7, 2011.

dragged on due to various reasons.”¹⁶⁴ He added that “There is no any serious progress in the process.”¹⁶⁵

Conclusion

Russia’s foreign policy toward, and capabilities in the Persian Gulf have changed dramatically since the fall of the Soviet Union. Russia has been making an uneasy and fitful transition from heated rivalry during the Cold War to a different approach toward the region. Commercial interests are gaining in importance and may contribute to Russia’s interest in greater regional stability. The quantitative and qualitative analysis suggests that such a trend in Russia’s commercial interests is likely to continue as Russian economic and growth issues become even more important in its mix of domestic and foreign policy goals.

Russia’s rising commercial interests, however, do not imply an absence of rivalry in non-military areas or even in geopolitical competition. Russia and China for that matter are enmeshed in relationships with Washington that are marked by important elements of both cooperation and rivalry. They sometimes seek to curb U.S. influence in the region, partly to meet their regional goals and partly to check it at the global level or for purposes of protecting the notion of sovereignty as was the case when they vetoed Western efforts at the UN to sanction Syria in February 2012. The real question is not whether or not they are rivals with Washington, but to what extent rivalry is tempered by other factors, including interdependence and vested interests in stability for commercial purposes.

¹⁶⁴ Ibid.

¹⁶⁵ "Corridors of Power, Russia, Saudi Arabia Have So Far Signed One Defense Contract," *Interfax: Russia & CIS Defense Industry Weekly*, March 11, 2011.

If Russia's altered orientation and increased commercial relations continue to develop, they may contribute to Russia's decision to cooperate more in containing Iran's nuclear aspirations. Heretofore, Russia has taken the middle road in its approach to Iran and pursued a purposefully ambiguous policy,¹⁶⁶ an approach that Washington has found insufficiently weak. In some measure, Russia has cooperated with Washington and its allies. By 2009, President Medvedev appeared to change course on Iran. Russia warmed to the notion of sanctions against Iran; and delayed completion of the Bushehr nuclear reactor. Medvedev also signed a decree banning the delivery of S-300 air defense systems and a host of other major arms to Iran, including battle tanks, armored vehicles, large-caliber artillery systems, warplanes, military helicopters, ships and missiles. This action was in line with UN Security Council Resolution 1929 of June 9, 2010.¹⁶⁷ Failure to have taken such action would have crossed red lines in US -Russian relations. Moscow has also shown concern over Iran's nuclear program. It expressed regret over news about the beginning of the uranium enrichment plant near the Iranian city of Qom.¹⁶⁸

However, at the same time, the Russian Foreign Ministry criticized the new EU sanctions against Iran in early 2012, calling them a mistake which would likely increase tensions and will not push Tehran to make concessions regarding its nuclear program.¹⁶⁹ And the rise in Russia trade with Iran, as reflected in graph 2, suggests that Moscow has not been serious about Iran's nuclear aspirations in the first decade of 21st century,

¹⁶⁶ See Saivetz, *Moscow's Iranian Policies: Opportunities and Dangers*.

¹⁶⁷ "Medvedev Bans Sale of S-300 Missiles, Other Weapons to Iran (Update 1)," *RIANovosti*, September 22, 2010, http://en.rian.ru/military_news/20100922/160688354.html.

¹⁶⁸ "Rossiya Osudila Iran Za Obogashchenie Urana [Russia Has Condemned Iran for Its Uranium Enrichment]," *RBK [RBC]*, January 10, 2012, <http://top.rbc.ru/politics/10/01/2012/632910.shtml>.

¹⁶⁹ "Mid Rossii Obyavil Novye Sanktsii Protiv Irana Oshibkoi [Russian Foreign Ministry Announced New Sanctions against Iran Are a Mistake]," *RT*, January 24, 2012, <http://inotv.rt.com/2012-01-24/MID-Rossii-obyavil-novie-sankcii>.

although a change in approach may be noticed beginning around 2010. Russia's general approach has been, as Foreign Minister Sergei Lavrov asserted, to oppose Western sanctions against Iran, but to try to deter both Iran and the West from making counterproductive moves that would further jeopardize the chances for talks.¹⁷⁰

Washington has bemoaned this approach and sought unified pressure against Iran.

In any case, Russia, on the whole, has offered greater cooperation. Surely, such a shift has had more to do with American and international pressure, and Russia's own doubts about a nuclear Iran than with its developing economic portfolio with Arab Gulf states, but the latter may play some role in Russia's calculations.

Overall, while Russia has serious economic interests in Iran, and probably views its connection to Iran as a potential check on American power, data have shown that its commercial interests with GCC states, as well as Iraq, have been rising. And these states do not want Iran to build nuclear weapons. Russia may seek to offer just enough support against Iran to please these actors, without disrupting its connection to Teheran, but that balancing act may be harder to achieve if the crisis with Iran heats up, especially given that Moscow has serious misgivings about Iran's nuclear aspirations,¹⁷¹ as well as other differences with it.¹⁷²

Greater Russian-Gulf state cooperation in energy may also help Russia maintain the use of natural gas as a political tool in Europe. Liquefied natural gas is a serious threat to Russia's market and political influence in Europe because it allows for the delivery of natural gas at long distances at competitive prices. Europe imports up to one-third of its

¹⁷⁰ Alexei Anishchuk, "Russia Hopes Iran Nuclear Talks Will Resume Soon," *Reuters*, January 23, 2012, <http://www.reuters.com/article/2012/01/23/us-iran-russia-idUSTRE80M0Y720120123>.

¹⁷¹ See Katz, "Russian-Iranian Relations in the Ahmadinejad Era."

¹⁷² For a good, brief analysis of differences in relations, see "Russian-Iranian Relations in the Obama Era," *Middle East Policy* 17(Summer 2010).

gas from Russia and accounts for 65% of Gazprom's total exports. But Russia's power in this arena appears to be decreasing. The big energy companies that have signed long-term gas contracts with Russia are winning more flexible pricing arrangements. This is largely because there is greater competition from liquefied natural gas, which is transported by ship, and for shale, an unconventional natural gas extracted from sedimentary rocks. The availability of liquefied natural gas and the discovery of shale resources in Europe have rattled Gazprom's position, especially in Eastern Europe.¹⁷³

Indeed, as early as 2010, Gazprom acknowledged that it was rapidly losing leadership in the European market; that demand for Russian pipeline gas dropped due to the unprecedented increase in LNG supply; and that it planned to take various actions to try to remedy this situation.¹⁷⁴ While Gazprom, the world's biggest gas producer, has supplied about a quarter of Europe's gas needs, it has lost market share to Norway and Qatar, in part as LNG shipments to Europe rose significantly.¹⁷⁵

As suggested earlier in the chapter, Russia has responded in part via greater cooperation with natural gas exporters. At the Gas Exporting Countries Forum 2011, it won the support of the world's 12 largest natural-gas exporters on developing projects for the production and sale of the fuel in order to raise prices. Shmatko described this agreement as integral to Russian energy diplomacy, and the Forum's Russian Secretary General Leonid Bohanovsky asserted it marked a new stage in the history of the 10-year old organization. On the forum's sidelines, Russia, Qatar and Algeria have agreed to

¹⁷³ Judy Dempsey, "If Gas Talks Fail, Europe Has a Backup Plan," *New York Times*, January 9, 2012, <http://www.nytimes.com/2012/01/10/world/europe/10iht-letter10.html>.

¹⁷⁴ "Strakhi Titana, [Giant's Fear]," *RBC Daily*, January 21, 2010, <http://www.rbcdaily.ru/2010/01/21/tek/453620>.

¹⁷⁵ Anna Shiryayevskaya, "Putin's Global Gas Plan Falters as Gazprom Dithers on Lng," *Bloomberg*, August 3, 2010, <http://www.bloomberg.com/news/2010-08-04/putin-s-global-plan-for-gas-domination-falters-as-gazprom-dithers-on-lng.html>.

cooperate on the European natural-gas market.¹⁷⁶ This step is the primary reason for the EU's concerns over any meetings of these countries' leaders.¹⁷⁷ If Russia can continue to build energy relations with Qatar and Iran, despite sanctions against the latter and political problems with both countries, it may be able to use these rising connections to two of the world's biggest natural gas producers to help counter the LNG threat.

¹⁷⁶ "Russia Defends Its Stance at the Gas Exporting Countries Forum," *Voice of Russia*, November 16, 2011, <http://english.ruvr.ru/2011/11/16/60483996.html>.

¹⁷⁷ *Ibid.*

CHAPTER 5

CONCLUSIONS

While many scholars have debated the notion of the American position on the global level, this dissertation has contributed to this debate by exploring the American strength on the regional level. Specifically, this study explored to what extent and how, if at all, American capability has changed over time in the Persian Gulf, relative to that of China and Russia. To answer this question, this dissertation offered the most comprehensive, systematic and data driven exploration since the end of the Cold War. It did so by exploring changes in America's political, economic, and military capabilities in the region and relative to the positions of key global challengers in the Gulf, namely China and Russia. It is important to recall this dissertation does not define strength in terms of the level of threat that external countries face or in terms of actual political outcomes. Rather, it defines strength (or where power lies) as a function of political, military and economic ties between the outside powers and the regional states. In other words, it infers where power lies from these key areas of interactions.

Comparative Analysis: U.S., China, and Russia

What do we find when we compare China, Russia, and the United States over time in the Persian Gulf? In the post-Cold War era, China and Russia have successfully developed diplomatic and economic relations with all regional states. Even so, the United States remains the dominant power in the region across all indicators. Unlike China and

Russia whose rise in the region has been limited to the economic and diplomatic domains, the U.S. military capabilities in the Gulf, defense cooperation with and arms sales to the GCC countries expanded significantly in the post-Cold War period, albeit this has not necessarily translated into desired outcomes as the case of Iraq and Iran demonstrate.

Despite the U.S. dominant position in the region, the distribution of capabilities among the three great powers has become less concentrated since the end of the Cold War. Evidence clearly shows that Russia and particularly China have expanded, in some cases dramatically, their diplomatic contacts and economic ties to regional states. While in China's case, this represents a novel development driven mainly by China's growing energy needs, Russia's increasing interdependence with the regional states and an enhanced Russian economic position in the region represents a significant change amid continuity. While Russia's position in the Persian Gulf appears to be shifting more toward meeting commercial goals, these changes do not mean that Russia has jettisoned strategic interests in the region or no longer seeks to balance against the U.S. as it had been the case during the Cold War.

However, as the following sections discuss in more detail, the relative rise of these powers' economic and political profile in the region has not automatically weakened the United States in the region. First, in absolute terms, America's economic and political position has, similarly to China and Russia, also expanded – albeit at a slower rate compared to these newcomers both of which started from a low base. Secondly, thanks to the Persian Gulf's hydrocarbon riches and high oil prices of the last decade, the Gulf's growing economic pie has been, to some extent, able to accommodate

expansion of all three power's economic position in the region. Third, China's and Russia's increasing economic interdependence with regional states has not been accompanied by an enhanced security position in the region. To be sure, in sharp contrast to China and Russia, the U.S. regional military capabilities have been on the rise since the 1980s, making the U.S. the de facto hegemon in the security area.

The next section elaborates on these overarching arguments. It brings to light more nuanced conclusions across all examined areas of interaction and case studies, in part by making comparisons among these three great powers in graphs that illuminate changes since the end of the Cold War.

Diplomatic Capabilities

Russia's overall strategic position in the broader Middle East weakened substantially following the collapse of the Soviet Union, and the ultimate loss of Iraq as a main ally—a development that had already begun in the 1980s. However, the collapse of the empire did not altogether undermine Russia's role in the region, and with respect to the Gulf Arab states it, in fact, proved particularly beneficial. While for the most of the Cold War, Russia's and China's relations with the GCC states were stymied by insurmountable ideological differences, and in case of Russia by also menacing military reputation, the collapse of the Soviet Union and China's broader political and economic opening to the world opened doors to Russia's and China's diplomatic successes in the region in the post-Cold War period. In fact, Russia, like China, lacked diplomatic relations with the Gulf Arab

monarchies for the most of the Cold War, and it was not until the 1990s these relations took off, and only since the 2000s have these relations expanded dramatically.

Indeed, evidence clearly demonstrates that Russia and particularly China have expanded, in some cases dramatically, their diplomatic contacts to all the regional states, including America's allies such as the GCC countries as well as anti-American ones, Iran and Iraq. Beyond bilateral relations, both China and Russia have also established cooperation with the GCC bloc itself. Diplomatic interaction between Russia and China on one hand and all the GCC states, Iraq and Iran on the other has particularly accelerated in the 2000s. Despite this expansion, China's and Russia's diplomacy in the Gulf has been largely driven by, and focused on commercial matters, including trade, energy investments, and arms sales; albeit the both countries have sought to gain a foothold on the political map of the region in the 2000s, particularly in case of Iran.

While mutual energy and other commercial interests have largely defined China's and Russia's relations with the regional states, security ties represent the cornerstone of U.S. relations with the GCC states and Iraq since the removal of Saddam Hussein in 2003. Although the collapse of the Soviet Union and the end of the Cold War removed a key threat that underpinned U.S.-GCC relations since the end of WWII, a shared interest in the unfettered flow of regional oil to international markets and shared concerns over Iraq in the 1990s and over Al Qaeda-inspired terrorism and Iranian regional ambitions in the 2000s have provided a renewed logic for continued strategic cooperation, keeping the U.S.-GCC relations robust despite many political lows between the U.S. and Saudi Arabia. Indeed, while the protection of the free flow of oil has remained a shared interest, changes in the regional security environment in the post-Cold War era and particularly

since the 2000s have necessitated greater security cooperation between the U.S. and the GCC states.

Despite the outcome and cost of the U.S. invasion of Iraq in 2003 and the embarrassing fact that Saddam's Iraq had no WMD, the Iraqi debacle has not diminished U.S. regional capabilities as defined in this dissertation. In the post-2003 period, the U.S. established diplomatic relations with Iraq, which it had lacked since the 1991 Gulf War. Also as the next sections reveal, in sharp contrast to the 1990s, the U.S. has significantly expanded security and economic cooperation with Iraq particularly after the withdrawal in 2011.

Military Capabilities

While America's military presence, security relations and arms sales to the region expanded dramatically since the 1980s and particularly in the post-Cold War era, neither China's nor Russia's rising economic and political position in the region has been accompanied by the development of security ties vis-à-vis the Gulf states or military presence in the region. China's and Russia's security relations have been largely limited to diminishing, yet still troublesome, arms sales to Iran and to some extent cooperation on its nuclear program.

In contrast, in response to the Iranian revolution, Afghanistan intervention, the Iran-Iraq war, and concern about the broader Soviet threat, the U.S. gained access to and expanded key regional military facilities, and its ability to project force in the region improved considerably between 1980 and 1991. These capabilities proved critical to the

liberation of Kuwait following the Iraqi invasion, enabling the largest U.S. movement of U.S. forces since World War II. In response to the evolving threat, U.S. military footprint and its ability to project forces to the region and to sustain them while in the region increased dramatically during the 1990s and then further in the 2000s as a result of the 2001 Afghanistan and 2003 Iraq war.

Before the Iraqi invasion of Kuwait, the GCC states preferred to keep the U.S. forces “over the horizon,” but after the war their willingness to grant the U.S. access to their bases and military facilities considerably increased as Iraq’s invasion illustrated to Gulf monarchies’ their vulnerability to stronger neighbors. Indeed, while prior to 1980 the only permanent U.S. facility in the Gulf had been a Defense Fuel Supply Station in Bahrain, following the war, the U.S. developed a permanent presence in all the GCC states, repeatedly renewed defense agreements with all the GCC members and expanded its force projection capabilities in the region.

By 1995, the U.S. Fifth Fleet established permanent on shore headquarters in Bahrain and the country became home to the U.S. Marine Forces Central Command, Destroyer Squadron Fifty, and three Combined Maritime Forces, while also agreeing to host two U.S. Patriot anti-missile batteries since the early 1990s. During the 1990s Qatar invested over \$1 billion to construct the massive Al Udaid air base for the U.S. use and in 2002, U.S. Central Command set up its forward headquarters in the country. Under the agreement with the UAE, the U.S. has been permitted to use UAE ports, preposition an armored brigade and use Dhafra air base for aerial refuelers since the early 1990s, and in 2012 the UAE became home to the new Integrated Air Missile Defense Center which serves as a key training facility for U.S.-GCC cooperation on missile defense. Similarly,

Oman renewed the U.S. access to air bases at Masirah, Seeb and Thumrait for USAF strategic bombers. For its part, Saudi Arabia invited the U.S. to increase its access to Saudi air and seaports and improve the capabilities of the combined AWACS force and in the 1990s, the U.S. established a state-of-the-art Combined Air Operation Center at Saudi Prince Sultan Air Base. Although following the removal of Saddam Hussein's regime in 2003, the U.S. decreased its military footprint in Saudi Arabia, it instead increased its presence in the smaller GCC states.

Since the Gulf War, all the GCC states have remained the eager recipients of an American security guarantee, albeit U.S. forces left Saudi Arabia in 2003 and moved to Qatar instead. Through the 1990s and 2000s, they have subsidized facilities expansion and modernization in support of the U.S. presence and prepositioning which increased substantially during the U.S. led wars in Afghanistan and Iraq. Notwithstanding a differing level of enthusiasm, all the GCC states proved to be willing allies during the 1991 Gulf War as well as the wars in Afghanistan and Iraq. Not only the majority of the GCC states hosted and subsidized the increased U.S. presence, some of them committed troops in support of U.S.-led war in Afghanistan and contributed forces to other coalition missions, including the 2011 operation in Libya – in what would be rather unimaginable before and during the Cold War and before.

Since the mid-2000s, the United States cooperation with the Arab Gulf states has further deepened and broadened, corresponding with increased threats emanating from Iran and terrorism. For this reason, and in spite of political pressure on America's commitments overseas, the United States has embarked on a series of major security cooperation initiatives in the region geared towards a variety of contingencies. In addition

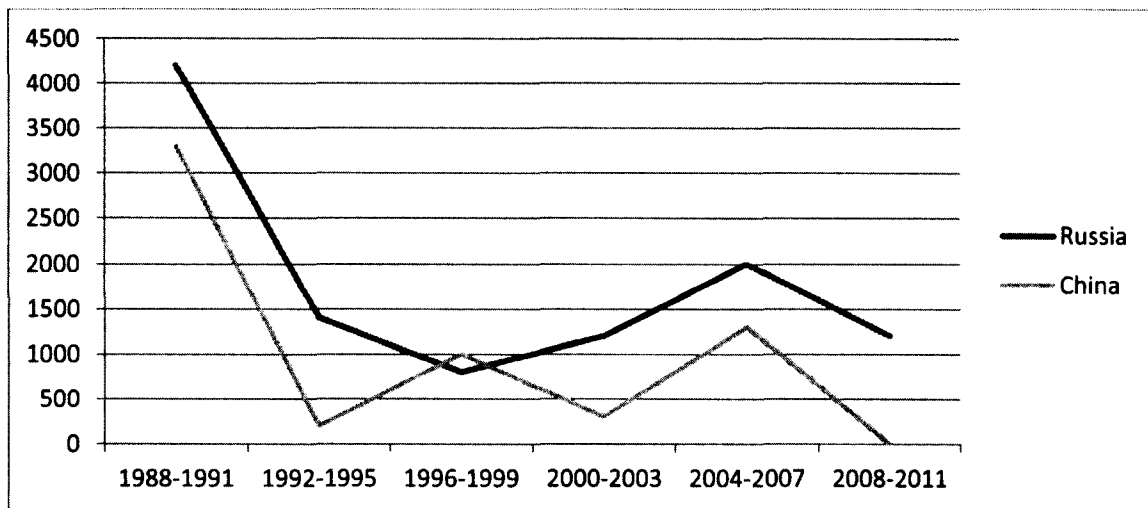
to conventional military cooperation and longstanding training programs, changes in the regional security environment have led to new collaborative initiatives and cooperation in non-traditional security areas such as counterterrorism, critical infrastructure protection and cyber domain has also dramatically increased since the mid-2000s. New investments in facilities expansion in several GCC members, increasing arms sales to the regional states and countless official statements foreshadow the U.S. commitment to continuous and robust presence in the region.

In contrast, neither China nor Russia have developed a military presence in the region, with both powers' security relations being limited to arms sales to Iran and, to a lesser degree, Iraq since the second half of the 2000s. Although Russia has historically used arms sales and transfers to build influence in the Middle East, Moscow's ability to do so has significantly decreased in the post-Cold War period. The 1991 Gulf War and the ensuing embargo against Iraq shut down Moscow's most lucrative regional market and Russian arms sales to Iraq dropped from \$4.1 billion from 1988-91 to near zero thereafter. Russian arms exports to the region remained concentrated on Iran through the mid- to late 1990s, though even with Iran, they weakened by 2000. Since then, Iran remains the only significant importer of Russian arms in the Persian Gulf, albeit in 2006 Russia resumed limited arms sales to Iraq which has tried to diminish its dependence on the U.S.

Similarly, while during the 1980s, China was a major arms supplier of Iraq and Iran, China's arms sales to the Gulf diminished significantly in the post-Cold War period largely because Western suppliers' dominance of the Gulf arms market and China's lack of competitiveness in a broad range of military hardware. Like in Russia's case, in the 1990s and 2000s, Iran remained the primary recipient of China's arms. By 2001, China's

arms agreements with the region fell from around 2.2%, dropping to 1% from 2008 to 2011 which is the lowest since China's penetration of the market in the 1980s. Despite the substantial drop in China's share of arms transfer to the Persian Gulf states in the 1990s, China's transfer of arms to the region has continued to trouble the U.S. as the sales involved sales sophisticated missile-related technology and nuclear assistance to Iran.

Figure 17. China's and Russia's Arms Trade with the Persian Gulf States (GCC, Iraq and Iran)



Source: Compiled by the author from Richard Grimmett, "Conventional Arms Transfers to Developing Countries," (Washington D.C.: Congressional Research Service), various issues.

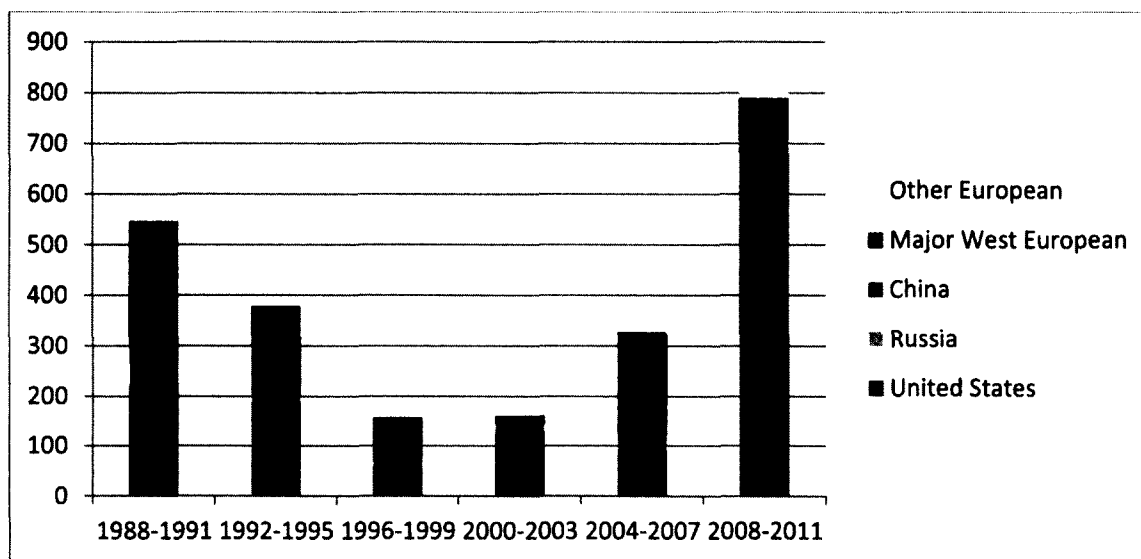
Since the end of the Cold War and particularly in the last decade, Russia and China have, so far unsuccessfully, sought to penetrate a lucrative GCC arms market, which had been close to both powers during the Cold War. Despite this effort, the UAE has been the only GCC country that has concluded several arms contracts with Russia. Despite the improved relations with Saudi Arabia, Russia has not been successful in concluding a significant arms contract with the Kingdom. Like Russia, China has yet to penetrate Saudi Arabia's and the rest of the GCC's arms market. Although China

developed a limited arms trade also with Saudi Arabia and some of the smaller Arab Gulf states, during the 2000s, the Kingdom bought only \$800 million worth arms from China, which sharply contrasts with over \$50 billion that Saudi Arabia spent on arms imports the United States just between 2004 and 2011.¹ Since 1988, when China clandestinely supplied Saudi Arabia with 36 CSS-2 missiles and 9 launchers, Sino-Saudi arms cooperation has remained limited.

While China's and Russia's arms sales to the regional states, in particular Iran, have been modest in the post-Cold War period and further decreasing in the 2000s, the U.S. arms sales to the GCC states dramatically increased in the post-Cold War period and particularly since the late 2000s. While the Gulf War of 1990-1991 and threat of Iraq served as a principal driver of GCC countries' arms purchases until the removal of Hussein's regime in 2003, concerns over the relative strengthening of Iran's regional power along with the Obama's administration increased focus on burden-sharing has created new GCC state demands in the last decade and particularly since the early 2010s. Indeed, the U.S. arms agreements with the GCC states have grown more than eight-fold between 2004-2007 and 2008-2011 alone. The removal of Saddam Hussein, the U.S. withdrawal from Iraq in 2011 and deteriorating security conditions in Iraq since 2012 have also facilitated increased U.S.-Iraqi defense relations and arms sales to Iraq in the post-Saddam era - increasing competition in what used to be a traditional Russia's market.

¹ Grimmitt and Kerr, "Conventional Arms Transfers to Developing Nations, 2004-2011."

Figure 18. External Powers' Arms Sales to the Persian Gulf States (1988-2011), millions USD



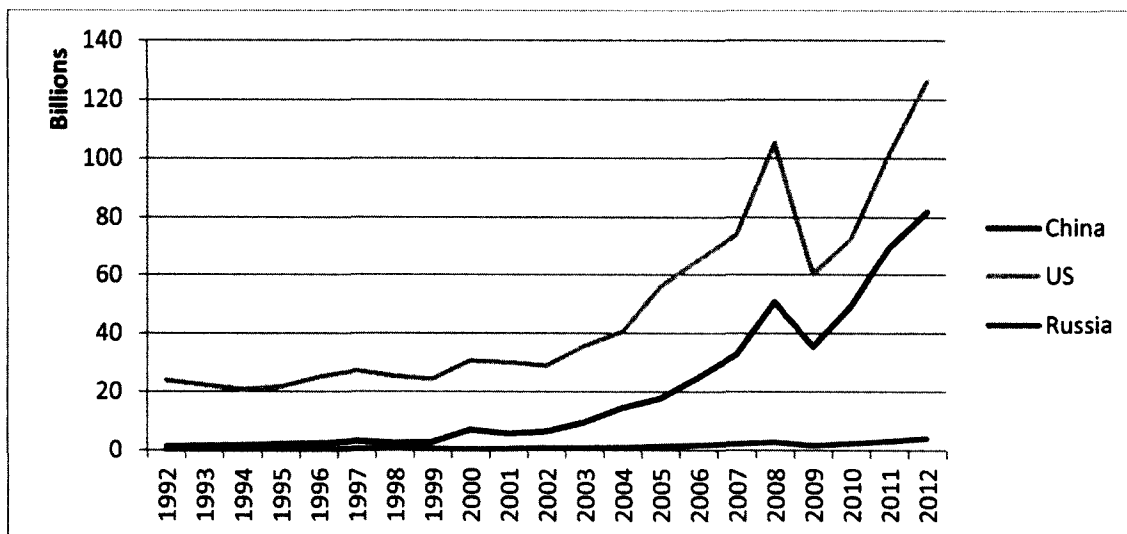
Source: Compiled by the author from Richard Grimmert, "Conventional Arms Transfers to Developing Countries," (Washington D.C.: Congressional Research Service), various issues.

Economic-Energy Capabilities

While the U.S. remains the dominant economic power in the region and value of its trade with the regional states has increased, China in particular and to a lesser degree Russia have significantly expanded their trade and energy cooperation with the regional states in the post-Cold War period and the last decade in particular. China's economic relations with all regional states, including the GCC states, Iraq and Iran have expanded most rapidly since in the post-Cold War period, compared to those of Russia and America. While before 1990 China's trade, investment and energy cooperation with the regional states was very limited – particularly vis a vis the GCC states – by 2000, and even more so over the last decade, China's energy needs have made the Persian Gulf of a major area of importance to China. While the increase in China's economic profile in the region has been predominantly driven

by China's increasing imports of oil, also non-hydrocarbon trade and investments have significantly expanded.

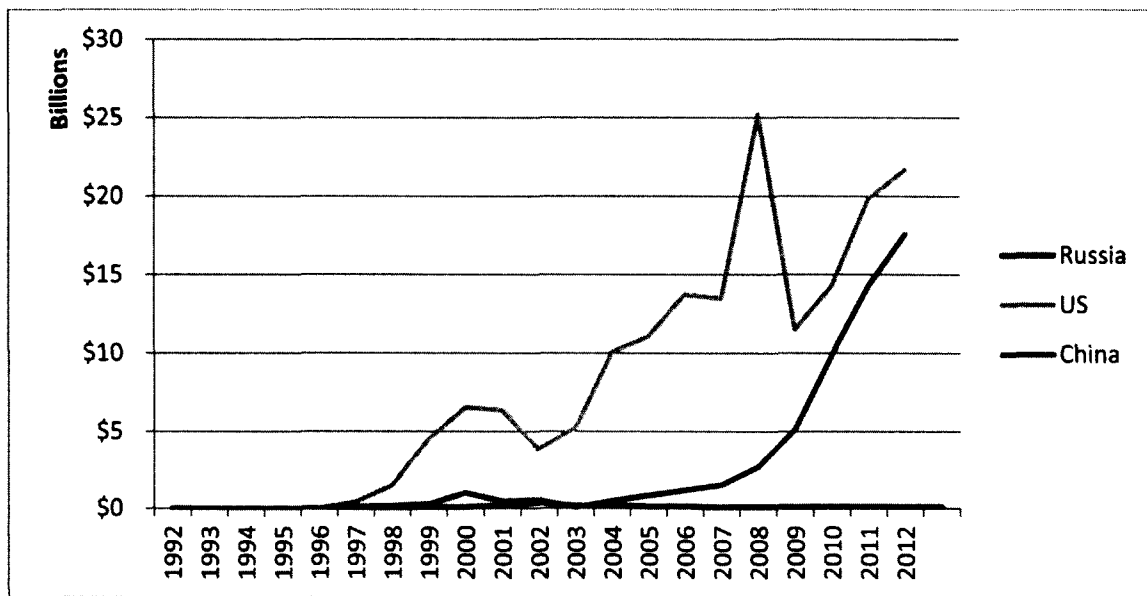
Figure 19: Total Chinese, American, and Russian Trade with the GCC States



Source: Compiled by the author from UN Comtrade database.

As the Figure 20 demonstrates, since the mid-2000s, China, like the U.S., has also unprecedentedly expanded its trade relations with Iraq.

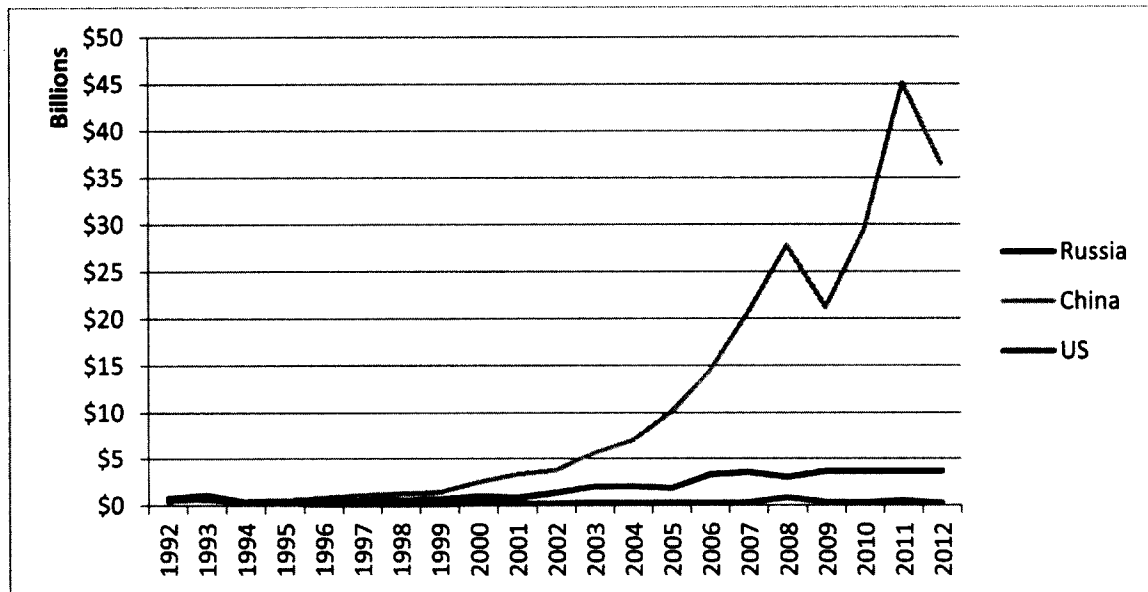
Figure 20: Total Chinese, American, and Russian Trade with Iraq



Source: Compiled by the author from UN Comtrade database.

Like Russia, China has been able to fill the economic vacuum in Iran, following the U.S. and later EU economic sanctions against Tehran (Figure 21). While during the 1990s, the EU, especially Germany, Italy and France, were Iran's biggest trading partner, the Iranian nuclear stand-off and the ensuing international sanctions led to a decline in trade with Western powers. While in 2003, China was Iran's sixth biggest trading partner, Beijing gradually filled the economic vacuum left behind by other countries and overtook the EU as Iran's largest oil customer and trading partner in 2007. Indeed, while other countries began to gradually curb their business activities in Iran since 2002 as pressure on Iran due to its nuclear program mounted, Sino-Iranian trade and investment ties expanded dramatically. In fact, Iran's relationship with China has changed from one of mutual cooperation in the 1980s into one of lopsided dependence today.

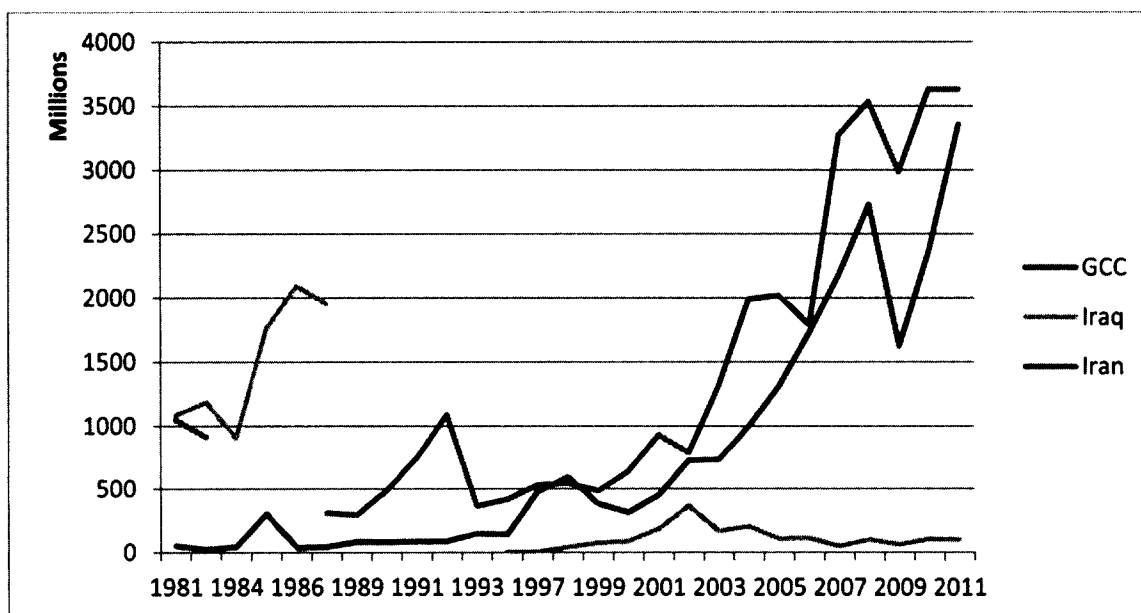
Figure 21: Total Chinese, American, and Russian Trade with Iran



Source: Compiled by the author from UN Comtrade database.

Like in China's case, improved diplomatic relations between Russia and the Gulf states facilitated unprecedentedly high trade volumes and collaboration in the energy sector in the post-Cold War period and particularly in the last decade. However, as the above figures illustrate, despite the increase, Russia's trade relations have been miniscule compared to China's and U.S. trade ties to the regional states. Since Russia is a major oil and gas exporter and therefore has no need to import hydrocarbons from the Persian Gulf, Russia-Gulf trade levels have not reached high levels compared to the other two powers. Although Russia has not been able to recover its economic position in Iraq in the post-Cold War period, its economic relations with the GCC states nonetheless constitutes a novel development as prior to the 1990s, Russia-GCC trade and investment relations were virtually non-existent.

Figure 22: Total Trade Between Russia and the GCC, Iraq, and Iran



Source: Author's calculations for data in the years 1981-82 are drawn from *Foreign Trade Statistics yearbooks of the USSR, Various Issues* (Moscow: Ministry of Foreign Trade of the USSR). The rest of the data are drawn from *UN Commodity Trade Statistics Database, Various Issues* (New York: United Nations) and *UN International Trade Statistics Yearbooks, Various Issues* (New York: United Nations).

While China's trade relations with the Gulf states appears to be approaching the U.S.-Gulf trade levels, the composition of trade reveals a rather different trend. Although both China and the U.S. import GCC, and particularly Saudi Arabia's oil, their exports to the GCC countries vary significantly. Indeed, while China's exports to the region consists largely of low tech, low value goods that are easy to substitute, the U.S. exports are dominated by high tech, high value products. In contrast to China and Russia, the U.S. also continues to be the main source of and destination of the GCC investment. Nonetheless, despite the U.S. absolute increase in trade with the GCC states, in the case of Saudi Arabia – U.S. top trading partner in the Gulf - the U.S. has been losing market share to China. Indeed, while in 2000, U.S. exports to the Kingdom represented nearly 20% of total Saudi imports, by 2007 it was only 13.5%. In contrast, China's total market

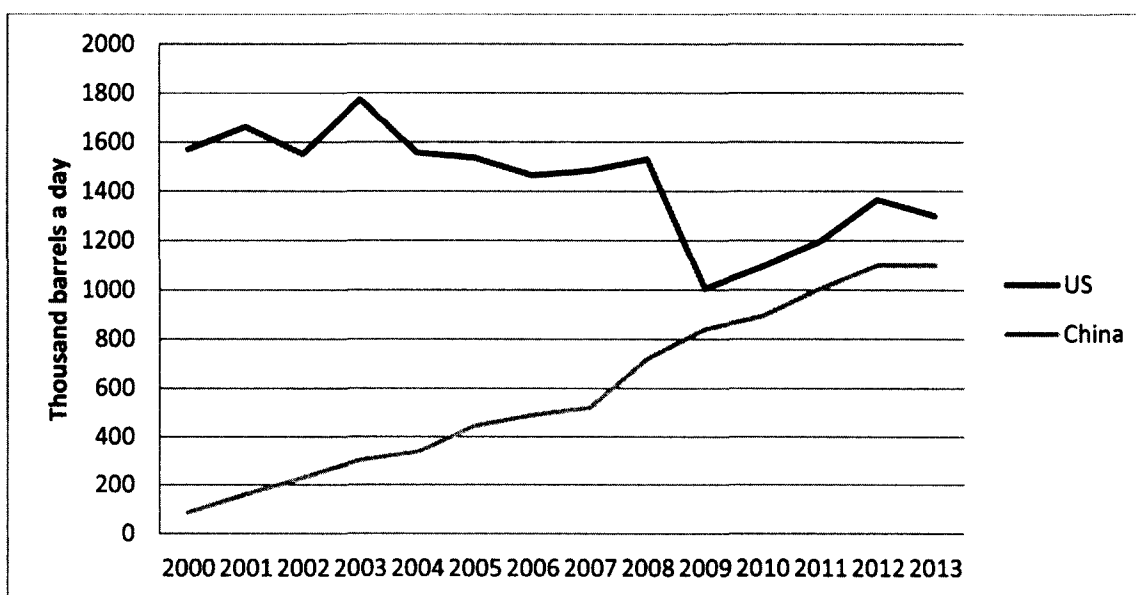
share of Saudi market more than doubled from 4.1% to 9.6% in the same period.

Similarly, while in 2000, 20% of Saudi exports went to the U.S., by 2007 the figure had dropped to around 15%.

Unlike the U.S., China and, to a lesser degree Russia has unprecedentedly enhanced their position in Iraq's and Iran's energy sector, albeit the U.S. energy profile in Iraq has also increased since the late 2000s. While China and Russia have significantly expanded energy cooperation with all the Gulf states in the last decade in particular, as far as energy investment goes, Beijing's and Moscow's energy ties to Iraq and Iran has become especially robust. In fact, just between 2009 and 2013, Chinese national oil companies have become driving force behind more than 50% of Iraqi oil output in that period. In Iran, China's NOCs have also filled the investment vacuum in that country's upstream energy sector following the withdrawal of Asian and European energy companies and gradually became the dominant investors in Iran's oil and gas sector. This has made Iran to a large extent dependent not only on Chinese investment but also technology and the Chinese NOCs' equipment.

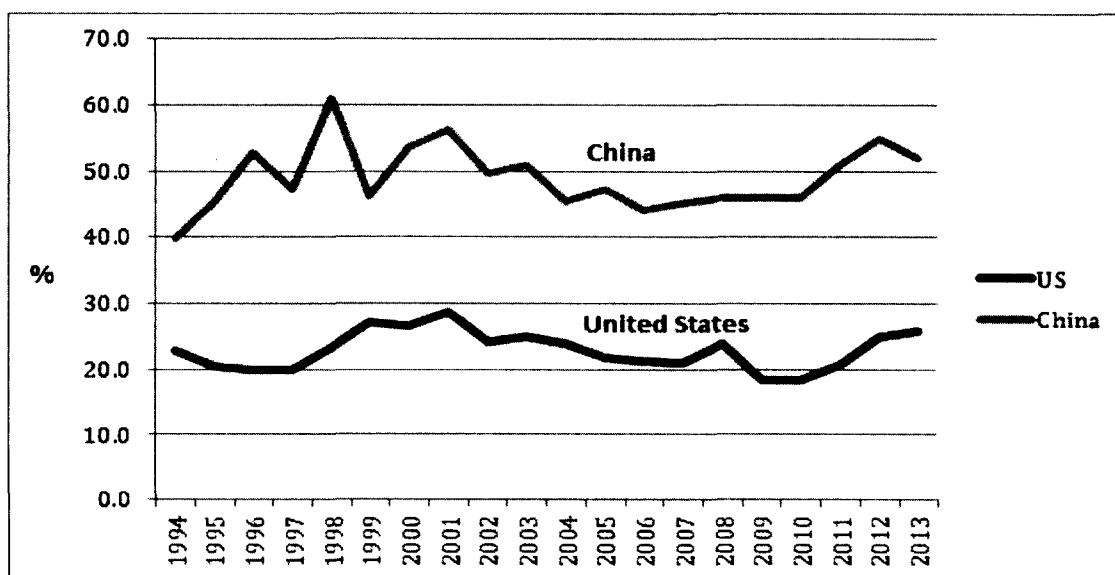
Despite China's and Russia's increase in energy trade and cooperation with the Gulf states and the U.S. decreasing oil imports from the region, the U.S. still remains Saudi Arabia's top oil customer. Finally, while in the absolute terms, the U.S. oil imports from the Gulf has dropped, U.S.-GCC energy cooperation on the governmental and private sector level has continued to deepen particularly in the last decade.

Figure 23. Saudi Arabia's Oil Exports to China and the United States (2000-2013)



Source: U.S. data from U.S. Energy Information Administration, Petroleum & Other Liquids database. Chinese data from various years, Chinese Statistical Yearbook, (Beijing: Customs General Administration of the People's Republic of China).

Figure 24: Percentage of Oil Imports from the Persian Gulf: U.S. vs. China (1994-2013)



Source: U.S. data from U.S. Energy Information Administration, Petroleum & Other Liquids database. Chinese data from various years, Chinese Statistical Yearbook, (Beijing: Customs General Administration of the People's Republic of China).

CHAPTER 6

OIL SECURITY

This dissertation focused mainly on the changing position and power of outside states. While the changes in the position of America, China and Russia in the Persian Gulf in the post-Cold War era are important in their own right, the changes in the international relations of this turbulent region also have important global implications due to the fact that energy is the key to the global economy and crucial to regional and global security issues. In particular, as demonstrated in the following sections, such analysis also provides insight into oil security, which this study defines as the reliable and uninterrupted oil supply to the global economy at reasonable prices.¹

Global oil security is impacted by two critical dimensions in the Persian Gulf: the free flow of oil from the Gulf region and adequate investment into oil exploration and development. Indeed, few goals are more important for the global economy than ensuring the free flow of oil, and to a lesser extent liquefied natural gas (LNG), from the Persian Gulf. In fact, past American and global recessions have been preceded by or accelerated by an increase in oil prices, often the result of Persian Gulf instability, including the 1973 oil embargo, the 1979 Iranian revolution and the 1980 outbreak of the Iran-Iraq war, among others. To be sure, the security of the Persian Gulf oil and a need for oil investment in the region is poised to become even more important in the future. This is because world dependence on oil and LNG is projected to increase in decades ahead, with the Persian Gulf serving as the principal source of supply to meet rising demand

¹ Glaser, "How Oil Influences U.S. National Security." Also, see O'Sullivan, "The Entanglement of Energy, Grand Strategy, and International Security," 30-47.

over the next two decades (Table 3). In addition to holding the largest oil reserves, the two regional states, namely Saudi Arabia and Kuwait, hold 80% of the world's spare capacity that can be used in the times of disruptions to calm jittery global oil markets and stabilize oil prices.

Table 3. Concentration of Proved Reserves of Oil

Location/Region	Share of Total	Reserves-to-Production Ratio
North America	13.2%	38.7
South & Cent. America	19.7%	*
Persian Gulf	48.1%	78.1
Asia Pacific	2.5%	13.6
European Union	0.4%	12.1
Former Soviet Union	7.5%	25.2
Africa	7.8%	37.7

Source: Compiled by the author from *BP Statistical Review of World Energy*, June 2013.

Given the Persian Gulf strategic importance, it is important to ask what changes in the position of American, Chinese and Russian regional capabilities mean for these two dimensions of oil security. It is important to point out that this dissertation did not focus on oil security, nor can it assess it carefully given the complexity of question and the range of threat that must be assessed. However, this dissertation argues that America's rising capabilities have been positive for oil security, all things equal. Indeed, since the 1980s, the rise in U.S. regional military, political and economic assets has enabled the U.S. to protect the free flow of oil from the region against a range of threats. This has, in turn, helped calm the international markets, while providing conditions necessary for adequate investment into oil exploration and development.

Meanwhile, the rise of China's political and economic capabilities, and to a lesser extent, those of Russia has produced mixed results. They have allowed for some rivalry

with Washington, which is not positive, but the fact that this has not been in the security field has tempered this negative outcome. On the positive side, the rise in China's and Russia's economic interdependence with the regional states has benefited global oil security by bringing more oil and gas on the global energy market through mutual investments and, secondly, by increasing their stake in regional stability.

Basic Threats to Oil Security in the Persian Gulf

This section lays out key threats to the two critical dimensions of oil security in the Gulf. As this dissertation evidenced, the rise of Chinese and Russian economic and political capabilities in the region in the post-Cold War era and particularly in the last decade has not been accompanied by the establishment of a military presence in the region or commensurate security relations with the regional states. Consequently, they do not pose a serious security challenge to the American regional position, although continued growth in their economic and political position in the region could complicate U.S. foreign policy - as I later briefly demonstrate on the case of Iran.

However, oil security may be compromised by inter- or intra-state aggression, terrorist attack on oil facilities, use of WMD, or efforts to block the passage of shipping through the Strait of Hormuz – the 34-mile wide bottleneck through which around 40% of the world's seaborne oil exports flows each day, a number which is projected to increase to 60% by 2030 as global oil demand increases and oil reserves in other countries diminish. To be sure, the EIA classifies the Strait of Hormuz as “by far the

world's most important chokepoint [for oil trade]."² Iran poses the key threat to the Strait of Hormuz. Tehran has regularly conducted missile tests, and other maneuvers such as major military exercises in the Strait of Hormuz to demonstrate its military muscle, especially since the UN Security Council imposed economic sanctions against it at the end of 2006. Since then, Iran has enhanced its ability to shut down the Strait by developing various anti-ship missile capabilities, anti-ship mines, and surface ship capabilities. As sanctions against Tehran tightened in 2012, Iran also repeatedly threatened to block the Strait.³ Iran's regional ambitions and its capability to obstruct the free flow of oil was clearly illustrated in the 1980s and 1990s. In 1986-1988, before the U.S. significantly enhanced its military capabilities in the region, Iran threatened oil traffic through the Strait by harassing U.S.-reflagged Kuwaiti tankers, tripling the number of missiles deployed on its Gulf and fitting cruise missiles on its naval boats in 1995-96.

The changes revealed in this dissertation suggest three ways in which oil security has improved.

First, U.S military capabilities for Gulf contingencies were minimal when the Shah of Iran fell in 1979. In contrast, they increased substantially in the 1980s and even more dramatically in the 1990s and 2000s. Indeed, whereas in 1979 the U.S. was unable to protect regional security, U.S. ability to project force improved significantly between 1980s and 2014, in response to evolving regional threats. In the 1980s, the U.S. developed Rapid Deployment Force, improved airlift, sealift and prepositioning capabilities, convinced Saudi Arabia to build massive military infrastructure for

² U.S. Energy Information Administration, "World Oil Transit Chokepoints," August 22, 2012 <http://www.eia.gov/countries/regions-topics.cfm?fips=WOTC&trk=p3>.

³ BBC, "Iran Threatens to Block Strait of Hormuz Oil Route," December 28, 2011.

deployment of U.S. forces and gained access to key regional military facilities. These capabilities proved critical in addressing the Iraqi threat in 1990-91. In the aftermath of the 1991 Gulf war and the 9/11 attacks, U.S. ability to project forces to the region and to sustain them while in the region increased even more dramatically. Whereas before the 1991 Gulf War, the GCC countries preferred to keep the U.S. forces “over the horizon,” since the 1991 crisis they allowed the U.S. to maintain a continuous military presence and prepositioned material on their bases. Indeed, whereas prior 1980 the U.S. only permanent facility in the Gulf had been a Defense Fuel Supply Station in Bahrain, after the 1991 war the U.S. established massive capabilities in all of the GCC states. These capabilities have enabled the U.S. to continuously maintain more than 20,000 personnel in the region. The U.S. regional force projection further increased in the post-2001 era as a result of the U.S.-led 2001 Afghan and 2003 Iraq war. While in 1990 a strategic sealift took the U.S. nearly six months to develop the forces capable of launching Desert Storm, in the 2000s, significant improvements in U.S. sealift capability since Operation Desert Storm and Shield “provided for unprecedented movement” of equipment and supplies, enabling the U.S. to conduct these two simultaneous wars from the regional facilities.⁴ While in 1979 the U.S. strategic lift in the region was nil, by the early 1990s the U.S. regional sealift capacity increased to nearly two million square feet, increasing dramatically in the aftermath of the 1991 Gulf War and particularly in wake of Operation Enduring Freedom and Iraqi Freedom. In sharp contrast to 1979, in the fiscal year 2012 alone, U.S. strategic sealifts facilitated the movement of nearly seven million square feet of cargo into the region aboard 1,277 vessels, the redeployment of more than 3.3 million

⁴ Mark R. Wise, "Strategic Lift and the Operational Commander: It's About Time," (Naval War College, May 16, 2006), 13.

square feet of unit cargo and over 4.4 million square feet of retrograde cargo via 830 vessels.⁵ In fact, whereas in the early 1990s the U.S. maintained less than 20 ships in the area, in December 2013, U.S. Secretary of Defense Chuck Hagel stated the U.S. “routinely maintain[s] a naval presence of over 40 ships in the broader region, including a carrier strike group.” Whereas in the 1980s, the U.S. did not have a continuous military presence and bases in the region, since the end of the 1991 Gulf War, it has maintained around 20,000 forward presence in the area along with bases and prepositioning. In fact, despite the withdrawal from Iraq in 2011, the U.S. military capabilities in the region in 2013 exceeded those prior 2001. As Hagel summarized in December 2013:

We have a ground, air and naval presence of more than 35,000 military personnel in and immediately around the Gulf. [...] along with heavy armor, artillery, and attack helicopters. We’ve deployed our most advanced fighter aircraft throughout the region, including F-22s, to ensure we can quickly respond to contingencies [...] We’ve deployed our most advanced intelligence, surveillance and reconnaissance assets to provide a continuous picture of activities in and around the Gulf. And we have fielded an array of missile defense capabilities, including ballistic missile defense ships, Patriot batteries, and sophisticated radar. Earlier this year, we ramped up our minesweeping capabilities and added five coastal patrol ships to our fleet in this region. We are currently working on a \$580 million construction program to support the expansion of Fifth Fleet capabilities. We also maintain forces and assets at home and around the world ready to deploy to the region on a moment's notice.⁶

Indeed, the United States has remained committed to playing a vital role in protecting the Strait of Hormuz and has developed the capability and willingness to deter, contain and address threats to oil and regional stability. As this dissertation demonstrated, the United States has significantly bolstered its sea- and land-based defenses in the Persian Gulf to deter and counter any attempt by Iran to close the Strait of Hormuz, asserting that while Iran has capabilities to temporarily block the Strait, the U.S. would

⁵ United States Transportation Command, "2012 Annual Command Report," (2012), 16.

⁶ U.S. Department of Defense, "Remarks by Secretary Hagel at the Manama Dialogue from Manama, Bahrain."

take necessary action to reopen it.⁷ As the U.S.-led expulsion of Iraq from Kuwait in 1991 vividly illustrated, the U.S. was also critical in addressing regional inter-state aggression that posed a significant threat to oil security. The rise in U.S. regional capabilities further enabled it to contain the development of and deter use of weapons of mass destruction (WMD), which constitute an indirect threat to oil security. Iraq nearly developed nuclear capability prior to the 1991 Gulf war, and Iran may be able to produce nuclear weapons in the coming years.

The American capability to deter or deal with these and other threats to oil security helps reassure volatile global oil markets, thus decreasing the potential for market instabilities. This, in turn, helps stabilize insurance rates for shipping through the Persian Gulf. The global economy depends on Gulf oil at reasonable prices. If prices rise significantly, the global economy as a whole is impacted. Without a demonstrable American ability to protect the Strait, such rates would likely increase significantly, and oil markets would experience a higher risk premium in the price of a barrel of oil. Such effects have been clearly demonstrated in other contexts such as in the Gulf of Guinea where the growing piracy attacks and insufficient international naval presence to address this threat has led to a sharp increase in the shipping and insurance costs, deterring investors from investing in oil projects along Africa's West Coast.⁸ In fact, there has been no major oil crisis in the region since the rise of American capabilities in the 1980s. To be sure, oil prices spiked in wake of the 1990 Iraqi invasion of Kuwait and the 2003 Iraqi war, however, oil prices declined when the United States demonstrated resolve to

⁷ Kathleen Hunter and Viola Gienger, "Iran Able to Block Strait of Hormuz, General Demsey Says on Cbs," *Bloomberg Businessweek*, January 11, 2012.

⁸ See for instance, "West Africa Piracy Endangering Commodities Shipping," *Insurance Journal*, July 18, 2013. "Pirate Attacks Increase in the Gulf of Guinea," *Oilprice*, July 18, 2013.

use its regional capabilities, particularly its naval forward presence, to respond to the regional crises, thus alleviating traders concerns over oil availability.⁹ Although oil prices spiked dramatically also in 2008, this price shock was largely unrelated to geopolitical issues in the Persian Gulf.

The rise of the U.S. military capabilities in the Persian Gulf has been and will continue to be critical to protecting the free flow of oil to the global market also because no other power or combination of states appears willing or capable to assume the Gulf policing task.

Even if China wanted to play a larger role and the United States and regional actors were willing to cooperate in this scenario that would be quite difficult. Although China has continued to debate how to secure oil lanes and its increasing dependence on regional oil may eventually give a rise to security relations with regional states, Beijing is decades away from having the military, logistical, and communications technology to protect the 7,000 miles of oil supply lanes. In fact, a number of Chinese scholars have been proponents of free riding on American policing role in the Gulf; however others would prefer China to become less dependent on the U.S. policing role in the Gulf.¹⁰

While the evolution of European state relations with the regional states is outside of this dissertation's scope, America's NATO allies lack the capability and will to assume the U.S. security role in the region. In fact, with a few exceptions, they lack the power projection capabilities to contribute meaningfully to the defense of the Persian Gulf against regional threat that could disrupt the energy flow, albeit the UK and France do maintain modest military capabilities in the region. To be sure, European states'

⁹ See Robert Looney, "Oil Prices and the Iraq War: Market Interpretations of Military Developments," *Strategic Insights 2* (April 2003).

¹⁰ Erica S. Downs, "The Chinese Energy Security Debate," *The China Quarterly* 177(March 2004).

capability to protect the Gulf oil supplies is poised to further diminish. In 2013, only three of NATO European countries spent the NATO goal of 2% or more of Gross Domestic Product on defense.¹¹ Current and planned defense cuts in the United Kingdom, France, Germany, Italy, and Spain will in particular impact NATO's Europe's ability to deploy and sustain power over long distances.¹² This was demonstrated by Ivo Daalder, then-U.S. Ambassador to NATO, and James Stavridis, former NATO's Supreme Allied Commander Europe, who warned in 2012 "if defense spending continues to decline, NATO may not be able to replicate its success in Libya [let alone in the Gulf] in another decade."¹³ Similarly, NATO's Secretary General, Anders Fogh Rasmussen, cautioned in 2011 that "if European defense spending cuts continue, Europe's ability to be a stabilizing force even in its neighborhood will rapidly disappear."¹⁴

Lastly, while the countries of the Gulf Cooperation Council (GCC) have demonstrated an increased willingness to operate on the international scene and shoulder a greater share in protecting their own security and oil sea lines, they continue to be heavily dependent on the U.S. leadership and U.S. military capabilities in the region. Also, while the GCC countries have made substantial progress in modernizing and building their capabilities since the 1990s through massive purchases of U.S. defense articles and via U.S.-provided training, they are still developing faculties to maintain equipment, logistically support forces, and provide command, control and intelligence fusion. Moreover, despite expanded diplomatic, security and economic relations between the U.S. and GCC members in the post-Cold War era and the last decade in particular, the

¹¹ NATO, "Press Release 028: Financial and Economic Data Relating to Nato Defence," February 24, 2014.

¹² See Stuart Johnson John Gordon, F. Stephen Larrabee and Peter A. Wilson, "Nato and the Challenge of Austerity," *Survival* 54, no. 4 (August/September 2012).

¹³ Ivo Daalder and James Stavridis, "Nato's Victory in Libya," *Foreign Affairs* 91, no. 2 (2012).

¹⁴ Anders Fogh Rasmussen, "The Atlantic Alliance in Austere Times," *ibid.* 90, no. 4 (July/August 2011).

Gulf states' interests are not always aligned with those of the United States when it comes to regional security issues. Finally, if the GCC states pooled their burgeoning capabilities together, especially in the realm of regional missile defense, they would represent a menacing force to mitigate the regional threats and thereby diminishing the need for U.S. dominant security role in the region. However, despite numerous attempts to upgrade the Gulf Cooperation Council alliance into an effective security and collective defense union over years and particularly since the U.S. withdrawal from Iraq and the Arab Spring uprisings in 2011, diverging interests, lack of trust among several GCC members and the preference of some GCC states to continue to tie their security to the U.S. makes an effective security union which could diminish the need for the U.S. military presence in the region unlikely in the foreseeable future.

Investment

Second, while the rise of U.S. military capabilities in the region has benefited global oil security by ensuring the free flow of oil from the region and calming the international markets, the rise of China's and Russia's economic interdependence with the Persian Gulf states has benefited global oil security by bringing more oil and gas on the global market through mutual investments.

As this dissertation evidenced, Arab states have been investing more in Russian oil and gas exploration and production, and vice versa. Such investment is important for a reason not often discussed or understood. The authoritative International Energy Agency which is the global energy watchdog for consumers, radically changed its forecast on oil

production in 2008. Until then, it largely dismissed notions that oil supplies might peak or reach a point where global oil production no longer increases and then decreases thereafter. By contrast, in November 2008, the agency provided a somewhat alarming forecast that oil will likely peak around 2020. The International Energy Agency changed its forecast because the previous 2007 report was based on best-of-knowledge assumptions about what global oil fields could produce. The 2008 report, by contrast, was based on actual studies of the production rates of the world's largest oilfields. One major factor driving the possible peak oil problem is under-investment by major oil companies and countries in oil discovery and production. In other words, the long term primary risk to energy supply is not likely to be geological availability or terrorism but simply a lack of investment. Estimates are that an average of \$615 billion per year in upstream oil and gas investment will be necessary between 2012 and 2035.¹⁵ A great amount will go solely to the maintenance of the current level of production--just to offset decline rates. For instance, Russian Lukoil has estimated that \$1 trillion would be needed over the next twenty years just to maintain Russian production at the 10 million barrels per day level.¹⁶ Yet, attracting investment in Russia's re-nationalized energy industry has been a challenge, which makes the Persian Gulf's energy fields enticing, because they are easier and cheaper to tap. Under-investment is caused by a variety of factors, but greater Russian-Arab Gulf state interaction may help ameliorate this problem, if it continues to develop over the long run and if Russia maintains positive relations with the West. In this sense, if such cooperation continues, it may increase investment in energy that helps

¹⁵ "World Energy Outlook 2012: Executive Summary," 81.

¹⁶ Coburn, "Russian Oil – a Long Term View," 12-13.

buy some more time, in the case that peak oil does become a serious, future problem in world politics.

In post-Saddam Hussein Iraq, Western, Russian, and particularly Chinese-provided investments have been critical to Iraq's ability to develop its oil potential. Due to its vast oil reserves, second to Saudi Arabia, Iraq plays a vital role in the international oil market and will have a major impact on oil supply and pricing trends in the coming decades. The IEA projects that Iraq will account for 40% of global oil supply growth over the next two decades, making the largest contributor and becoming the second largest global oil exporter rivaling Russia and Saudi Arabia.¹⁷ In fact, the IEA has warned that a potential decrease in future oil prices depend more on increased Iraqi oil production than on the North American boom in shale oil. IEA projects that by 2035, Iraq will produce 6-8 million bpd, 80% of which will head to East Asia, mainly to China.

As a consequence of Iraq's isolation over the two decades, the Iraqi oil sector eroded dramatically. Starved for investments after more than a decade of sanctions followed by a decade long war, in 2009 Iraq opened its upstream to foreign companies to recover its production and increase revenue. While before the invasion, Iraq's oil industry was largely walled off from world markets by international sanctions against Saddam Hussein's government, in 2012, Iraq overtook Iran as the OPEC second-largest oil producer. Since 2012, Iraq has been producing oil at the highest rate since Saddam Hussein seized power in 1979.¹⁸ By October 2013, less than two years after U.S. President Barack Obama officially declared the end of the war in Iraq, Chinese NOCs have been operating three fields in the southern Iraq, and producing more than 50% of

¹⁷ "World Energy Outlook 2012: Executive Summary."

¹⁸ Dipaola, "Iraq Oil Production Beating Iran Ends Saddam Legacy."

Iraqi oil output, or 1.4 million bpd. In fact, Chinese state-owned companies invested more than \$2 billion a year into recovery of Iraq's oil sector.

As demonstrated in the chapter on China, China's expanded role in the Iraqi oil industry has been largely facilitated by China's willingness to accept poor oil terms offered by the Iraqi Oil Ministry which offers foreign operators as little as a couple of dollars per barrel produced, making it difficult for foreign companies to make profit. Since Chinese national oil companies are not accountable to shareholders as it is in case of Western IOCs, the Chinese NOCs accept the strict terms of Iraq's oil contracts even at the cost of generating minimal profit. While the Chinese state backed oil companies are able to develop fields at lower costs, other companies, including ExxonMobile have moved to secure separate deals with Iraq's semiautonomous Kurdish region or withdrew all together. As noted by Lin Bogiang, director of the China Center for Energy Economics Research at Xiamen University, "It's not that China likes going to Iraq, [but] not that many places are left."¹⁹

Given China's increasing role in the Iraqi oil sector, nearly a third of the future oil production in Iraq is projected to come from fields that either are directly owned or co-led by Chinese companies. However, industry experts view this ambitious production expansion timetable unattainable given security, political and infrastructure constraints in the country.²⁰ Therefore, some experts project that Iraq will be able to increase its production capacity to only 6.5 million b/d by 2020.

¹⁹ Roberts et al., "China Doubles Down on Iraqi Oil."

²⁰ "Reality Check for Iraq's Rapid Ramp-Up."

Energy Policy and Statecraft

Third, the increased military position of the U.S. in the Gulf may be conducive to overall global oil security also because it gives Saudi Arabia added interest in playing a constructive producer role.

To be sure, Saudi Arabia's dependence on the United States in the security arena, along with other strategic and economic benefits that the Kingdom derives from the relationship may give the U.S. some degree of influence over the Saudi oil policy. For instance in the week preceding Iraq's invasion of Kuwait in 1991, and also in 2003 at the eve of the U.S.-led invasion of Iraq, Saudi Arabia persuaded OPEC to increase production to calm the global oil market. However, the Saudi reluctance to boost oil production in 2007-2008 when oil prices increased from \$50 to over \$140 per barrel demonstrates the limits of U.S. clout (or China's for that matter) over the Saudi oil policy.

Global Relations

Despite the benefits outlined above, the rise of China's political and economic capabilities, and to a lesser extent, those of Russia have allowed for some rivalry with Washington. To be sure, the stronger China's and Russia's relations with the Gulf States become, more challenging it may be for the United States to secure their cooperation on regional issues. This may, in turn, affect oil security.

Russia's and China's rising commercial interests in the Gulf and greater economic interdependence with regional states do not imply an absence of rivalry in non-military areas or even in geopolitical competition. Russia and China for that matter are enmeshed in relationships with Washington that are marked by important elements of both cooperation and rivalry. They sometimes seek to curb U.S. influence in the region, partly to meet their regional goals and partly to check it at the global level or for purposes of protecting the notion of sovereignty as was the case when they vetoed Western efforts at the UN to sanction Syria in February 2012. The real question is not whether or not they are rivals with Washington, but to what extent is rivalry tempered by other factors, including interdependence and vested interests in stability for commercial purposes.

Indeed, the extent to which China and Russia may and will use their expanded political and economic capabilities in the region to challenge American preponderant position in the Gulf and on the global level is hard to predict. Nor is it evident how their balancing against the U.S. regional position would affect global oil security. However, the position of Russia and China on the Iranian nuclear program offers some insights into potential challenges and opportunities that the rise of these two powers may pose to the U.S. regional interest and oil security.

To be sure, if Russia's increased commercial relations with the GCC states and Iraq continue to develop, they may contribute to Russia's decision to cooperate more in containing Iran's nuclear aspirations – a development which would be conducive to global oil security. Heretofore, Russia has taken the middle road in its approach to Iran and pursued a purposefully ambiguous policy,²¹ an approach that Washington has found insufficiently weak. In some measure, Russia has cooperated with Washington and its

²¹ See Saivetz, *Moscow's Iranian Policies: Opportunities and Dangers*.

allies. By 2009, President Medvedev appeared to change course on Iran. Russia warmed to the notion of sanctions against Iran; and delayed completion of the Bushehr nuclear reactor. Medvedev also signed a decree banning the delivery of S-300 air defense systems and a host of other major arms to Iran, including battle tanks, armored vehicles, large-caliber artillery systems, warplanes, military helicopters, ships and missiles. This action was in line with UN Security Council Resolution 1929 of June 9, 2010.²² Failure to have taken such action would have crossed red lines in U.S.-Russian relations. Moscow has also shown concern over Iran's nuclear program. It expressed regret over news about the beginning of the uranium enrichment plant near the Iranian city of Qom.²³

However, at the same time, the Russian Foreign Ministry criticized the new EU sanctions against Iran in early 2012, calling them a mistake which would likely increase tensions and will not push Tehran to make concessions regarding its nuclear program.²⁴ And the rise in Russian trade with Iran suggests that Moscow has not been serious about Iran's nuclear aspirations in the first decade of 21st century, although a change in approach may be noticed beginning around 2010. Russia's general approach has been, as Foreign Minister Sergei Lavrov asserted, to oppose Western sanctions against Iran, but to try to deter both Iran and the West from making counterproductive moves that would further jeopardize the chances for talks.²⁵ Washington has bemoaned this approach and sought unified pressure against Iran.

²² "Medvedev Bans Sale of S-300 Missiles, Other Weapons to Iran (Update 1)."

²³ "*Rossiia Osudila Iran Za Obogashchenie Urana [Russia Has Condemned Iran for Its Uranium Enrichment].*"

²⁴ "Mid Rossii Obyavil Novye Sanktsii Protiv Irana Oshibkoi [Russian Foreign Ministry Announced New Sanctions against Iran Are a Mistake]."

²⁵ Anishchuk, "Russia Hopes Iran Nuclear Talks Will Resume Soon."

Similarly, China's expanded relations with Iran have made it more difficult for the U.S. to contain Iran. As Iran's largest oil customer, China has been central to U.S. strategy of reducing Iran's revenue from oil sales. Like Russia, China's initially opposed the U.S. imposed sanctions. Beijing repeatedly stressed it would abide only by those sanctions required by the U.N. Security Council resolutions and called for resolution within the International Atomic Energy Agency framework through negotiation.²⁶ Reflecting China's view on Iran's nuclear program, Chinese Foreign Ministry Spokesman Qin Gang stated in March 2006, "China's position has been consistent on the Iranian nuclear issue. We stand for maintaining the rigor and effectiveness of the international nuclear non-proliferation regime and hope to solve the issue properly through negotiations."²⁷ While China views Iran as a potential partner for limiting U.S. influence in the Middle East and opposed the use of outright economic sanctions against Iran, Beijing has been largely reluctant to challenge the United States as sanctions continued to tighten. In fact, China encouraged Iran to accept an offer from the five permanent members of the UN Security Council plus Germany to suspend its uranium enrichment program and to satisfy other international concerns about its nuclear programs. Following the negotiations in mid-2012, China agreed, albeit reluctantly, to cut Iranian oil import by about 21% from an average of about 550,000 bpd in 2011 to about 435,000 bpd in 2012.²⁸ The significant reduction of purchases of Iranian oil earned China, and 19 other world economies, exemption from U.S. financial sanctions. Under

²⁶ For instance, see Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesman Kong Quan's Regular Press Conference on 17 January 2006," <http://www.fmprc.gov.cn/eng/xwfw/>.

²⁷ Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesman Qin Gang's Regular Press Conference on 28 March 2006," <http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t2430j8.htm>.

²⁸ "China Extends Iran Oil Import Cut as Sanctions Mount," *Reuters*, January 5, 2012.

the U.S. law enacted in December 2011, financial institutions in countries that do not qualify for exemptions by significantly lowering their purchases of Iranian oil would risk being cut off from the U.S. financial system if they attempted to settle oil trades with Iran's central bank.²⁹ China has abided by the sanctions because it likely views its economic relationship with the United States as more important than those with Iran. To be sure, the U.S. is a much more important destination for Chinese trade and investment, relative to Iran. In 2011, Chinese investments in the U.S. totaled around \$16 billion and U.S. imports from China reached around \$330 billion. In contrast, Sino-Iranian overall trade and investment totaled \$39 billion and \$1 billion respectively.

In any case, the preceding sections demonstrated that Russia and China, on the whole, have offered greater cooperation on the Iranian issue. Surely, such a shift has had more to do with American and international pressure, and both powers' own doubts about a nuclear Iran than with its developing economic portfolio with Arab Gulf states, but the latter may play some role in Russian and Chinese calculations.

Overall, while both Russia and China have serious economic interests in Iran, and probably view their connection to Iran as a potential check on American power, data has shown their commercial interests with GCC states, as well as Iraq, have been rising. And these states do not want Iran to build nuclear weapons. In the case of China, high economic interdependence with the United States may have also limited China's willingness to challenge the U.S. regarding Iran. In sum, Russia and China may seek to offer just enough support against Iran to please the other regional actors, without disrupting its connection to Teheran, but that balancing act may be harder to achieve if

²⁹ Indira A.R. Lakshmanan and Terry Atlas, "China, Singapore Exempted from U.S. Iran Oil Sanctions," *Bloomberg*, January 29, 2012.

the crisis with Iran heats up, especially given that Moscow and Beijing have serious misgivings about Iran's nuclear aspirations,³⁰ as well as other differences with it.³¹

³⁰ Katz, "Russian-Iranian Relations in the Ahmadinejad Era."

³¹ For a good, brief analysis of differences in relations, see "Russian-Iranian Relations in the Obama Era."

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