

THE GROWING ASIAN MIDDLE EAST PRESENCE

ASIAN COUNTRIES HAVE TRADED with their western neighbors for centuries. Today, however, as a result of the emergence of China and India as world economic powers and the growth of other Asian economies, the ties between Asia and the Middle East have increased to an unprecedented extent.¹ The signs can be seen everywhere. All around the Arabian Gulf, hotels, banks, schools, and shopping centers are managed by Asian expatriate workers, who also provide most of the region's manual labor. Without Asian labor, the oil-rich economies of the Gulf would collapse. Many of the vast construction projects in Doha, Abu Dhabi, Dubai, and other city-states are supervised by South Korean companies. Most of the automobiles and trucks on the street are Japanese or Korean. The endless procession of tankers that sail from the huge ports of the Gulf carrying oil and liquefied natural gas is destined increasingly for the Asian market. Infrastructure projects, including new roads, railways, seaports, airports, gas and oil pipelines, and undersea communication lines, are expanding in both the Middle East and Central Asia, making access between the two regions easier and cheaper.

These trends suggest that, absent a protracted global recession, the Asian presence in the Middle East will continue to grow significantly over the coming decade. However, the strategic implications are far less clear. To what extent will major Asian countries such as China and India be drawn into the complicated, volatile geopolitics of the Middle East? What roles will they take on? How will intra-Asian rivalries play out? And how will

Asia's new powers interact with the countries that traditionally have dominated the region—notably the United States? With the exception of Indian and Chinese purchases of military technology from Israel, and Asian arms sales to the countries of the Gulf, the big issues of war, peace, and security in the Middle East have largely remained outside Asia's domain. Will that always be the case? Those are the questions that drive this book.

THE KEY ASIAN PLAYERS

Asia's involvement in the Middle East affects a huge swath of countries, including Pakistan, Indonesia, Malaysia, Thailand, Singapore, Sri Lanka, Bangladesh, the Philippines, Australia, New Zealand, and, more indirectly, the countries of Central Asia. All are influenced in some way by the scramble for Middle East energy, the huge amount of money that Middle East oil and gas producers have received and invested, and efforts to seek alternative energy supplies and supply routes. However, four countries merit particular attention owing to their economic and potential military prominence: India, China, Japan, and South Korea.

Over the next thirty years, the economies of India and China are expected to surpass that of the United States in size (although as a result of population growth, their per capita GDP will remain relatively low), giving their governments increased regional and global clout.² As India and China grow, Japan will be left behind. Nonetheless, Japan is likely to remain a key Asian power, given its close ties to the United States and its growing assertiveness in its relationship with China. Moreover, Japan's energy needs will keep it tied to the Gulf. Similarly, South Korea, while even smaller than Japan, is already deeply engaged in the Middle East, especially in the energy sphere. Lacking domestic oil reserves, South Korea is the world's fifth-largest importer of oil and the eleventh-largest importer of liquefied natural gas.³ In addition, South Korean construction companies have been hired to build oil refineries, petrochemical plants, offices, and infrastructure across the Middle East. Although South Korea's relations with the region have focused on energy imports and construction, efforts have been made to pursue cooperative relations in other sectors as well.

INDIA

The Indian subcontinent has had close commercial ties with the Gulf for centuries, and India today has managed to cultivate good working

relationships with all the countries in the Middle East, including Israel. While economic interests have provided the basis for many of those relationships, India has also taken on a modest military role. The Indian government has participated in Middle East peacekeeping operations since 1956, when it contributed troops to the United Nations Emergency Force (UNEF), which was established following the Suez crisis. Currently 672 Indian soldiers make up part of the United Nations Interim Force in Lebanon (UNIFIL), and India has provided two of UNIFIL's last four commanding officers, although the government has stated it does not want to become involved in military operations.⁴ In addition, India has been increasing its bilateral military ties with all of the small countries in the Gulf.

To date, India has not been able to demonstrate significant power or influence in the region. It was humiliated in 1990–91, when Saddam Hussein invaded Kuwait and hundreds of thousands of Indian workers were stranded in the country. When the workers were released, the Indian government had no way to get them out and had to lease transport aircraft from Europe to mount an evacuation. Because of such frustrations as well as its proximity, India is likely to establish a stronger, more assertive presence in the Gulf over the coming decades.

CHINA

For a short period in the fifteenth century, China was the dominant power in the Indian Ocean, but over the centuries that followed, it had little to do with the Middle East. After the Communist Revolution in 1949, China tried to cultivate close relationships with revolutionary groups in the Arab world, but its efforts were violently opposed by Arab nationalists. In the wake of the Sino-Soviet split and China's eventual rapprochement with the United States in 1972, China changed course and sought instead to establish cordial relations with Middle Eastern governments. In particular, it became more directly involved in the geopolitics of the region through arms sales, notably to Saudi Arabia, Iran, and Iraq, during the 1980s.

More recently, China has followed India's example by becoming engaged in Mideast peacekeeping. China's participation in UNIFIL began officially on April 9, 2006. In addition to three observers, the first forces stationed included a 182-member engineering battalion, including minesweeping, engineering and logistics companies, and a field hospital. The first Chinese casualty occurred on the night of July 25, 2006, when Lieutenant Colonel Du Zhaoyu was among four UN peacekeepers killed by an Israeli air strike

that hit a clearly marked UN outpost in southern Lebanon.⁵ Two months later, the Chinese government decided to increase its troop numbers in UNIFIL to 1,000; in addition, China stated that it would provide Lebanon with roughly \$5 million in aid.⁶

Considerable uncertainty remains regarding China's future presence in the region, particularly in the military arena. China is a long way from the Gulf. If its maritime reach expands into the Indian Ocean and its overland reach grows through Central Asia and Pakistan, it, too, could become a major strategic player in the Middle East. But those are significant "ifs."

DIMENSIONS OF ASIA'S MIDDLE EASTERN FOOTPRINT

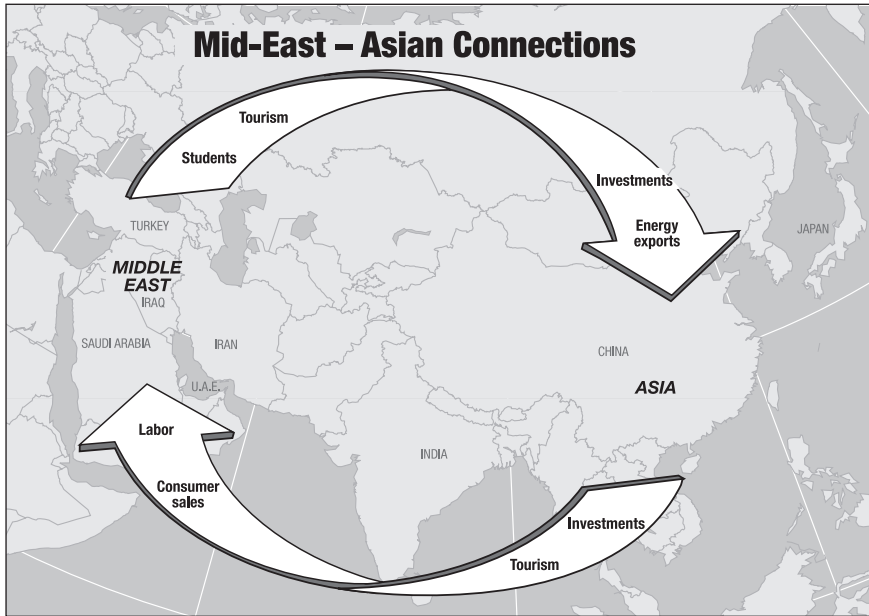
The scale of the Asian powers' involvement in the Middle East can be measured in multiple ways, including by the amount of energy flowing east to Asian markets, the value of Asian exports to the Middle East, financial investment by Asian firms in the Middle East and by Middle Eastern firms in Asia, the number of tourists traveling in both directions, and the number of Middle Easterners enrolling for higher education in key Asian countries (see map 1-1).

ENERGY

Any review of the Middle East–Asia connection must begin with the issue of energy. Asia's need for fossil fuels is the determining factor in its growing interaction with the region, especially with the Gulf. Vast amounts of money are being exchanged as Asian energy consumption and energy imports grow and income from Middle Eastern oil is invested in infrastructure projects both in and outside the region.

Oil. The Middle East and the Caspian basin contain approximately 850 billion barrels of oil—65 percent of the world's estimated 1,300 billion barrels of proven oil reserves.⁷ At approximately 30 million barrels a day, the region accounts for 33 percent of worldwide oil production. Within the Middle East, oil production is concentrated largely in Saudi Arabia, Iran, and Iraq, which accounted for just under 20 percent of world production in 2005. In 2008, the three countries produced 10.8, 4.1, and 2.4 million barrels a day, respectively. The U.S. Energy Information Administration (EIA) and the International Energy Agency (IEA) predict that by 2030, those countries could be producing 12.8, 4.7, and 5.6 million barrels a day,

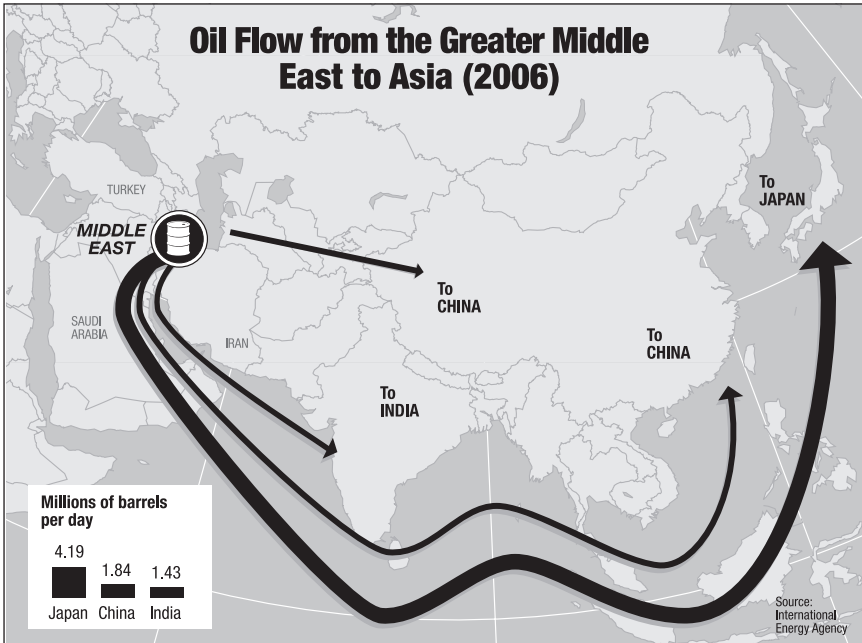
MAP 1-1



respectively, for a total of 23 percent of world production. By then, the Middle East as a whole is expected to account for 39 percent of world oil production. While the 6 percentage point increase in its share may appear modest, it means that the region will account for more than half of all new production from the present to 2030, when it is projected to produce 18.7 million additional barrels a day, or 56 percent of the total global increase of 33.4 million barrels a day.⁸

Japan, India, and especially China will consume much of that increase. The Asian market already consumes 23 million barrels a day, representing 30 percent of world demand, and two-thirds of Asia's oil imports come from the Middle East (see map 1-2). In 2006, Japan was the largest Asian consumer of Mideast oil, importing 4.19 million barrels a day, followed by China (1.84 million) and India (1.43 million). However, in the next 25 years China and India are likely to overtake Japan to become Asia's top oil consumers. As map 1-3 indicates, by 2030 oil flows to China will increase to 10.5 million barrels a day and those to India will increase to 4.5 million. Japan's Mideast oil flows will drop by 50 percent, to 2 million barrels a day. Furthermore, by 2030 the method of delivery will have shifted slightly.

MAP 1-2



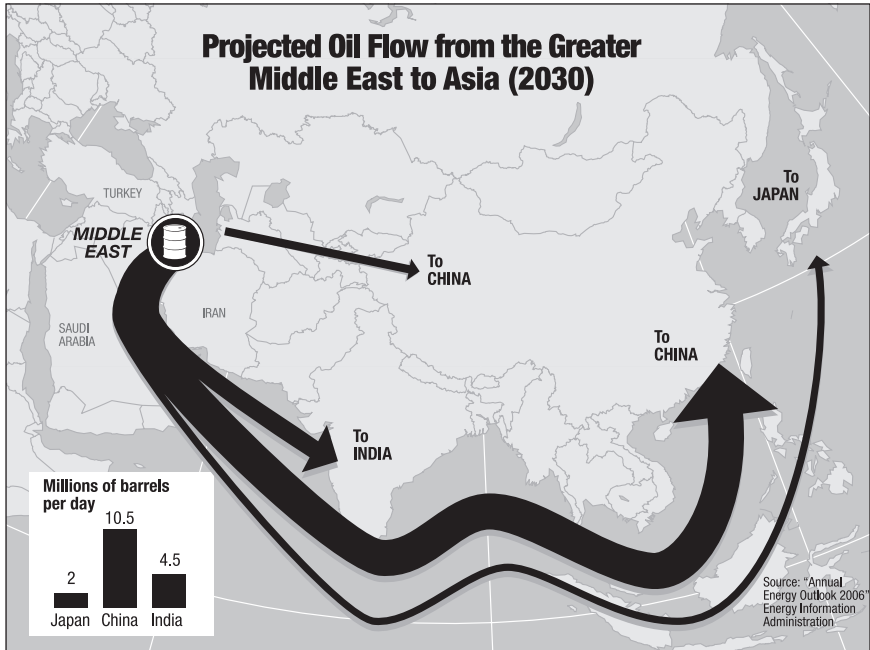
Source: International Energy Agency.

As oil pipelines throughout Central Asia begin to operate at full capacity, China will switch increasingly to land-based delivery.

Of course, such long-term predictions rest on a multitude of assumptions. Iraq is expected to have increased production from 2.1 million barrels a day (in 2007) to 5 million barrels a day by 2030. However, the country’s future remains uncertain. Similar concerns could be raised about Iran, where continuing disputes with the United States over Iran’s nuclear program have prevented Iran from securing the infrastructure funding that it requires to increase production. China and India also are expected to increase their production of oil significantly, but they will not produce anywhere near enough to meet their growing demand for fuel. China produced 3.9 million barrels a day in 2007 and is expected to produce 4.1 million barrels a day by 2030. India produced 900,000 barrels a day in 2007 and is expected to produce 1.3 million barrels a day by 2030.

Natural Gas. The Middle East and Caspian basin also contain 45 percent of the world’s proven reserves of natural gas, with approximately 6,200

MAP 1-3

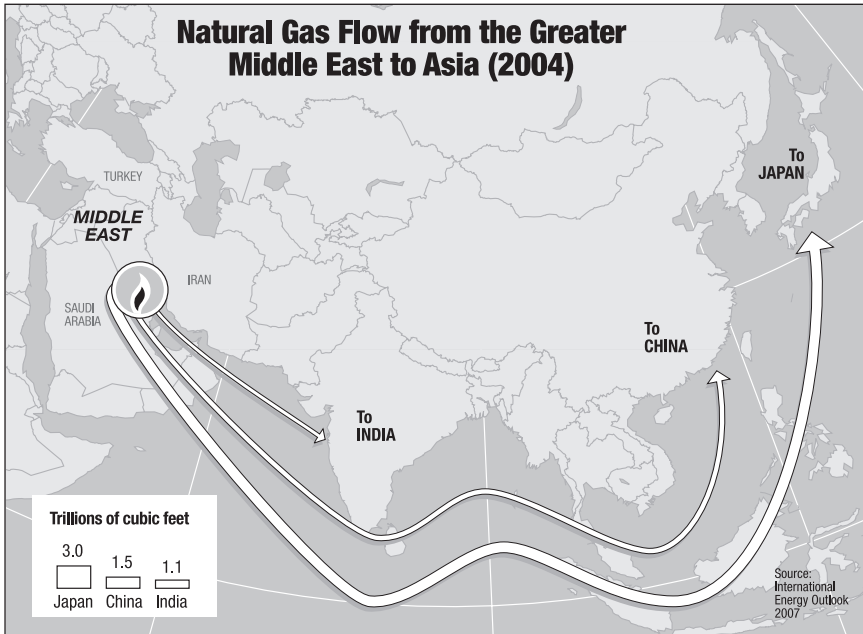


Source: *Annual Energy Outlook 2006*, Energy Information Administration.

trillion cubic feet; yet in 2007 the region accounted for only 20 percent of worldwide natural gas production. Although Iran possesses the world's second-largest supply of natural gas reserves and 15 percent of the world's total proven reserves, with 27 trillion cubic meters, it currently supplies only 6.2 billion cubic meters annually, ranking only 25th worldwide. It is an understatement to say that capacity for growth exists in this sector.

According to the International Energy Agency, the Middle East exported 1.6 trillion cubic feet of natural gas in 2004. Of that, 78 percent went to East Asia, 20 percent to Europe, and 2 percent to North America. Map 1-4 shows the amount of natural gas received by China, India, and Japan. The IEA predicts that in 2030 the Middle East will export roughly 8.2 trillion cubic feet of natural gas, of which 43 percent will go to Asia, 41 percent to Europe, and 15 percent to North America.⁹ As with oil flows, by 2030 China will overtake Japan as the top importer of natural gas from the Middle East and Caspian basin. However, as shown in map 1-5, all three Asian giants will demand increased quantities of natural gas by that time.

MAP 1-4

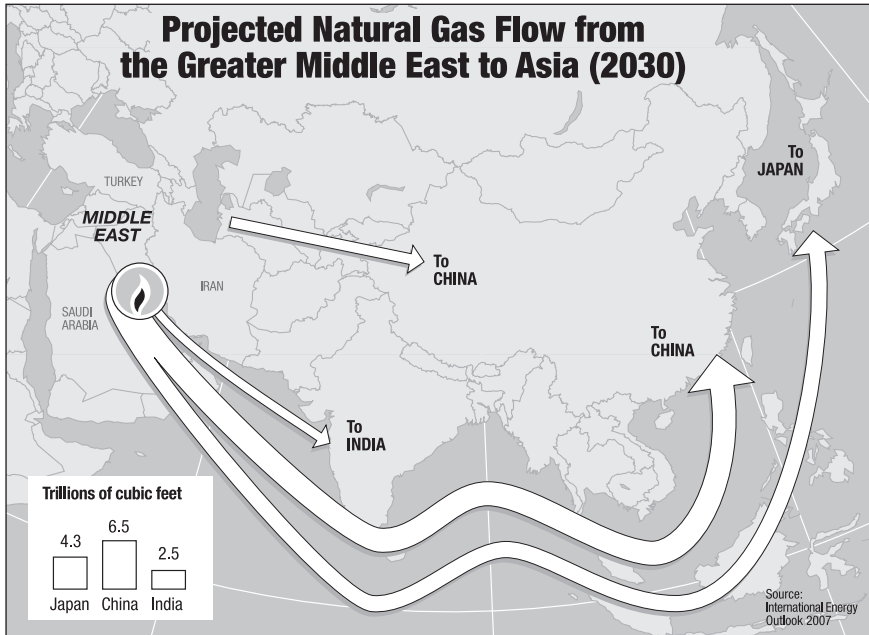


Source: *International Energy Outlook 2007*, Energy Information Administration.

Underlying Assumptions. The preceding projections assume strong economic growth in Asia in the coming decades. As their vast populations ascend into the middle class, China and India are best poised to realize those projections, providing huge post-recession growth to the global economy. However, growth is also likely in Korea and Japan and in the developing economies of Southeast Asia, including Malaysia and Indonesia, which are still recovering from the Asian financial crisis of the late 1990s. If the fallout from the 2008 financial crisis is contained and the growth of these economies continues, demand for energy in South and East Asia will rapidly exceed the region's energy production capacity.

In the coming decade, the main Asian oil importers will likely diversify their energy sources in an attempt to reduce their dependence on Middle Eastern oil and natural gas. Wealthier countries, including China, Japan, India, and Korea, will invest in research and development of alternative sources of energy, such as nuclear power. It is unlikely, however, that the region will be able to substantially reduce its dependence on imports. Instead,

MAP 1-5



Source: *International Energy Outlook 2007*, Energy Information Administration.

the rising economies of Asia will increasingly look outward for new supplies of energy—a dynamic already well documented in the rush to engage Africa seen in China, India, and Japan. Yet no other region can match the capacity of the Middle East and the Caspian basin.

OTHER DRIVERS OF THE ASIAN PRESENCE

While the need for energy may be the major reason for Asia's interest in the Middle East, four other factors help account for the growing economic, political, and cultural ties between the two regions: immigrant labor, non-energy trade and investment, tourism, and educational exchange. In each category there has been an increase in activity that shows no signs of abating.

Immigrant Labor. The growing presence of Asian workers in the Persian Gulf is a key fact of life in the region. The Asian population is estimated at 8,568,400, but that does not take into account illegal immigrants. Some Asians work as agricultural laborers, oil plant workers, and service

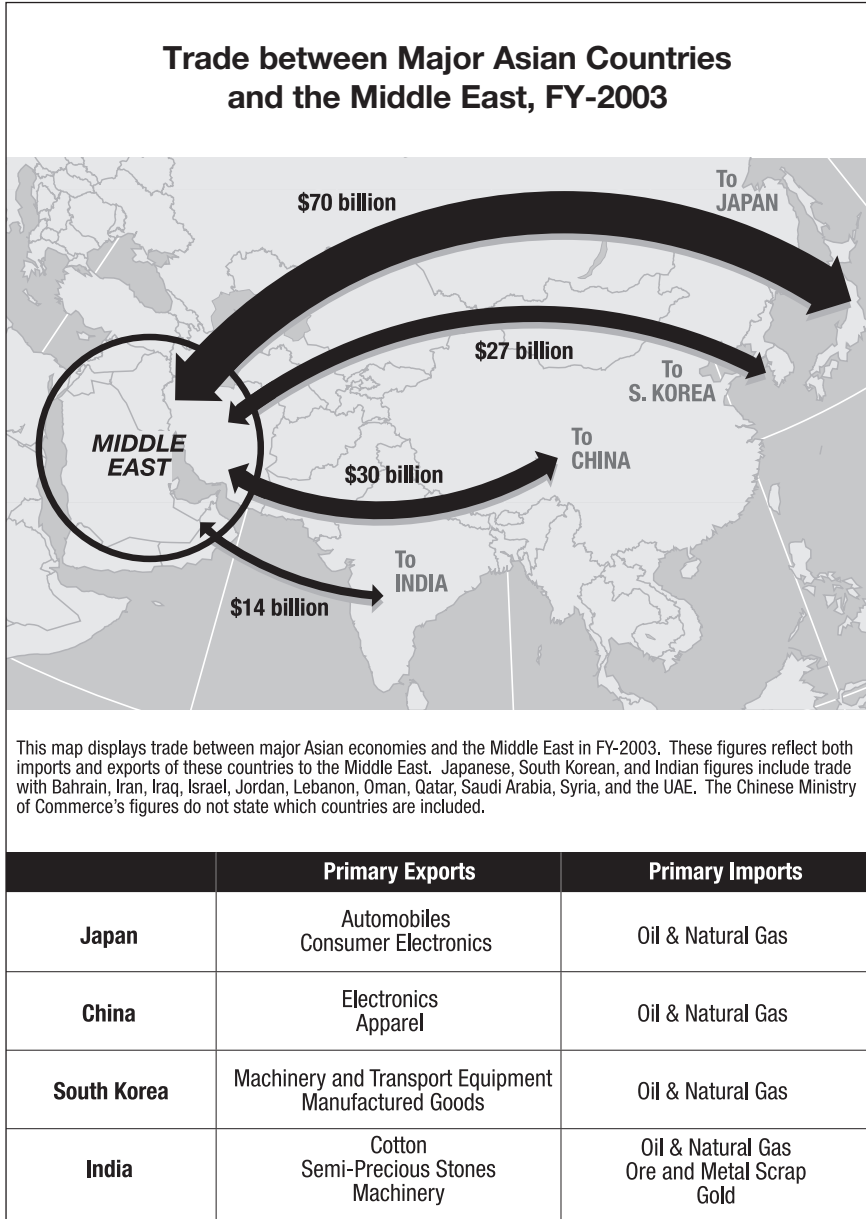
employees; others occupy prestigious jobs in banking and education. Some are newly arrived in the region; others come from families that have been in the Middle East for many generations. The majority come from Bangladesh, India, Indonesia, Nepal, Pakistan, the Philippines, Sri Lanka, and Thailand. They work mainly in Saudi Arabia, the United Arab Emirates, Kuwait, and Iraq, although small populations of Asians also work in Israel, Jordan, and Iran.¹⁰ Why so many Asians? Most come from relatively close by in South Asia. Many are unskilled laborers prepared to work for low wages, while others are well educated and offer skills that are in high demand, including the ability to speak English, the language of business and tourism across the Middle East.

Non-Energy Trade and Investment. Trade and investment between the two regions have increased, as Middle Eastern investors have sought new outlets for their petrodollars and Asian firms have pursued new opportunities for growth.¹¹ From 2003 to 2007, trade between the major Asian economies and the Middle East grew 269 percent, from \$141 billion to \$379 billion. (Maps 1-6 and 1-7 display changes in trade patterns between Asia and the Middle East.) Japan's trade with the Middle East increased by 195 percent (\$70 billion to \$137 billion); China's, by 366 percent (\$30 billion to \$109 billion); Korea's, by 243 percent (\$34 billion to \$82 billion); and India's, by 759 percent (\$7 billion to \$51 billion). During the same period, India's trade with the Middle East jumped from 9 percent of India's overall trade to 23 percent. Similarly, Korea's trade with the Middle East increased from 6 percent to 11 percent of Korea's overall trade. Typically, consumer goods, ranging from automobiles and televisions to clothing and jewelry, account for a significant share of Asian exports to the Middle East, while energy products make up the lion's share of Asian imports.

Middle Eastern investment in Asia and Asian investment in the Middle East also have grown, but precise figures are difficult to obtain. The emerging markets of China and India in particular have a great advantage in attracting investment because they can produce more goods at a lower cost than other countries. The combination of high GDP growth, cheap skilled labor, and growing markets makes Asia especially appealing to foreign investors.

More information is available on Asian direct investment in some Middle Eastern countries. In 2003, Chinese foreign direct investment (FDI) stocks in

MAP 1-6



Sources: Ministry of Commerce, People's Republic of China; Ministry of Commerce, Government of India; Kita.org (South Korea); Customs Agency of Japan.

MAP 1-7



This map displays trade between major Asian economies and the Middle East in FY-2007. These figures reflect both imports and exports of these countries to the Middle East. Japanese, South Korean, and Indian figures include trade with Bahrain, Iran, Iraq, Israel, Jordan, Lebanon, Oman, Qatar, Saudi Arabia, Syria, and the UAE. The Chinese Ministry of Commerce's figures do not state which countries are included.

	2003	2007	Increase
Japan	\$70 Billion	\$137 Billion	96%
China	\$30 Billion	\$110 Billion	366%
South Korea	\$34 Billion	\$82 Billion	241%
India	\$7 Billion	\$51 Billion	729%

Sources: Ministry of Commerce, People's Republic of China; Ministry of Commerce, Government of India; Kita.org (South Korea); Customs Agency of Japan.

Saudi Arabia and the United Arab Emirates (UAE) were \$240,000 and \$31 million respectively. By 2008, those figures had grown to \$620 million for Saudi Arabia and \$375 million for the UAE. China's FDI stocks in Iran also have increased significantly, from \$22.15 million in 2003 to a peak of more than \$122 million in 2007. Increased Asian investment in the Middle East is not restricted to China, however. In 2000, Japan's FDI stocks in Saudi Arabia and the UAE stood at \$714.53 million and \$26.98 million, respectively. By 2007 those numbers had grown more than threefold for Saudi Arabia (to \$2.564 billion) and almost tenfold for the UAE (to \$251.62 million).¹²

In addition, there has been significant cross-regional investment in infrastructure. When King Abdullah of Saudi Arabia visited Asia in 2005 and China's president, Hu Jintao, visited Riyadh the following year, joint projects outside the oil sector were at the top of the agenda.¹³ Asian countries have already signed contracts worth \$500 billion to complete infrastructure projects in the Middle East, and the Gulf states may invest as much as \$250 billion in East and Southeast Asian infrastructure projects and real estate development.

Tourism. Tourism between Asia and the Middle East also has been on the rise, complementing the growth in diplomatic and economic relations between the two regions. Before the 2008 financial crisis, some analysts believed that by 2020, \$3 trillion would be invested in leisure and tourism and supporting infrastructure in the Gulf states alone. Travel promoters expected the region to add 200 new hotels, 100,000 new rooms, and airport capacity to handle an additional 300 million Asian passengers, contributing to the creation of 1.5 million jobs.¹⁴ Before the crisis, income from tourism to thirteen countries in the Middle East—including Egypt, Iran, Saudi Arabia, Turkey, and the UAE—was projected to increase from \$150 billion in 2006 to \$280 billion in 2020.¹⁵

Asian companies have begun to invest in construction of hotels and resorts in the Middle East. In May 2007, the Hotel JAL chain, the first Japanese operator to enter the Middle East, opened a 257-room hotel in the UAE. The company also announced plans to open additional five-star hotels in Dubai and Bahrain by 2011. Similarly, the Indian hotel chain Flora Group Hotels opened its sixth property in Dubai in 2008 and unveiled plans for three new properties in the region. Air traffic between Asia and the Middle East also is growing. For example, Air Arabia is building a strong

network of flights between India and the Gulf region. The Sharjah-based airline began flights to India in March 2005 with service to Mumbai. Within two and a half years, it had expanded to offer more than fifty-five weekly flights to nine cities in India, which account for nearly 25 percent of Air Arabia's destinations.

Both the growth in commercial ties between Asia and the Middle East and the emergence of a large Asian expatriate community have fueled the increase in interregional travel. In addition, since 9/11 perceptions of hostility toward Muslims in Western countries have contributed to the growth of Asia–Middle East tourism. Asian countries, especially Malaysia and Thailand, have lured travelers from the region with the promise of not only acceptance but also special services for Muslim guests, such as halal meals.

Higher Education. In recent years, growing numbers of students in the Middle East have been turning to Asia for higher education as well as to traditional destinations such as the United States and the United Kingdom. Saudi Arabia and the other Gulf states, in particular, have shown increased interest in the educational opportunities that Asia offers. For instance, a 2005 survey found that half of UAE residents regarded India as the best option for their children's higher education.¹⁶ Several factors are driving the trend, including lower costs, less stringent visa requirements, and the growing economic and political ties between Middle Eastern and Asian nations.

The cost of obtaining a higher education in long-established study destinations, such as the United States and the United Kingdom, is much higher than in Asia. Overseas students in those countries pay more than \$12,000 annually, on average, for undergraduate tuition; some Asian schools charge only half as much.¹⁷ Because India, China, and South Korea are increasingly improving the quality of their domestic higher education, lower cost does not necessarily reflect inferior quality. In addition, the cost of living is lower in Asia than in the West, making it easier for international students to make ends meet.

People-to-people contact between the Middle East and Asia also is changing as a result of burgeoning cultural and educational exchange programs. In March 2007, for example, the governments of India and Bahrain established a cultural exchange program with the goal of building stronger bilateral relations through cooperation in the arts, education, and media events. Similarly, the Japanese government has sought to increase cultural and

educational exchanges with Middle Eastern countries. Japan has established public information and cultural centers in Cairo and Tehran, and, through the Japan Foundation, it has planned cultural exhibitions, delegations, and theatrical performances in a variety of countries. In the years since 9/11, the foundation also has worked to promote greater understanding of Middle Eastern culture and traditions in Japan. Its efforts have included programs on Islam, Iran, and Iraq, as well as invitations to Middle Eastern artists to perform in Tokyo.

THE MIDDLE EAST AND EXTERNAL POWERS

Despite the growth in economic and cultural ties between the Middle East and Asia, the region remains dominated, as it has been for the past century and a half, by Western powers. From the 1850s to the 1950s, Britain, France, and, to a lesser extent, Italy held sway in North Africa, the Levant, and the Gulf. That era came to an end with the 1956 Suez crisis, which began with Egypt's decision to nationalize the Suez Canal, which precipitated a French, British, and Israeli invasion over the vehement opposition of the United States. In the wake of the crisis, Britain and France saw their importance rapidly diminish, and the U.S.-Soviet rivalry emerged as the predominant external influence in the region. Soviet support for anti-Western Arab regimes—such as the Egyptian, Syrian, and Iraqi governments—and the growing U.S. military relationship with Israel became cornerstones of the new dynamic. In addition, the United States increasingly extended its hand to the countries in the Gulf, particularly Saudi Arabia and Iran until the fall of the Shah.

With the collapse of the Soviet Union at the end of 1991, the strategic map of the Middle East changed again. The United States seemed to stand astride the region as the world's only superpower—or “hyperpower,” in the words of one French politician.¹⁸ However, that triumphalism was called into question by the September 11, 2001, terrorist attacks on the United States, which in turn led the United States to topple Afghanistan's Taliban government in 2001 and to invade Iraq in 2003.

Today, U.S. forces are deployed all the way from the Sinai desert through the Arabian Peninsula, Persian Gulf, Arabian Sea, and Indian Ocean as well as Afghanistan. U.S. troops are involved in combat in Iraq and Afghanistan, and the U.S. Navy controls large stretches of water from the Red Sea to the

Strait of Malacca. However, the country's involvement in two wars has become highly costly, in both lives and dollars, and increasingly unpopular at home, raising doubts about how long the United States can sustain its presence in the region. The questions about U.S. involvement became especially acute with the emergence of the worldwide financial crisis in 2008.

The financial crisis also diminished U.S. prestige by calling into question the validity of its economic model, which had been eagerly pursued on the Arabian Peninsula, the richest part of the Middle East. Overnight, optimistic growth projections for the Gulf were put on hold as the housing bubble in Dubai burst and investment virtually stopped. Since then, investment and development have resumed, although at a more cautious pace. But the financial crisis has strengthened the critics of the so-called "Anglo-Saxon" model of economic growth. As *The Economist* put it:

The economic downturn has also opened the door to a seemingly alternative ideology to the West's liberal-market approach. So, goodbye "Washington Consensus" (in favor of open markets and limited government involvement in business) and hello to what is being called the "Beijing model" or "China model." Instead of placing one's trust in the market, the future of economic growth is seen to be coming from a more muscular state hand on the levers of capitalism.¹⁹

If all these factors coalesced to bring about a U.S. retreat from the region, would any Asian powers fill the vacuum? On that point, there is no consensus. Some writers acknowledge Asia's economic and cultural expansion into the Middle East but argue that domestic factors in India and China will limit their ability to play the role now held by the United States. Others maintain that, to the contrary, China is likely to take a more aggressive approach to the Middle East and develop close relationships with countries like Syria and Iran. Still others focus on the growing relationship between India and the United States, arguing that it may serve to counterbalance Chinese ambitions.²⁰ However, most analysts agree that while there may well have been a "unipolar moment" in the 1990s when the United States was the sole superpower, that moment has gone and new patterns of international relations are evolving.²¹ The new dynamics must take into account not only growing ideological challenges to the West but also the reemergence of more traditional balance-of-power politics as the Asian nations become world players.

PLAN OF THE BOOK

This book brings together and explores the issues essential to understanding Asia–Mideast dynamics and their strategic implications. The first part outlines the main features of the Asian presence in the Middle East and explains how they fit into the overall foreign policies of the key Asian powers. It closely examines the roles that India and China currently play in the Middle East and notes the more limited but significant involvement of Pakistan, Japan, and South Korea. (Taiwan, North Korea, Australia, and the South-east Asian countries also play roles, but they are not examined in detail here.) It also devotes special attention to the links between Asia and Israel.

Against that backdrop, the second half of the study focuses on developments that affect the entire region. It describes in detail the many large-scale infrastructure projects that are bringing Asia and the Middle East closer together. In addition, it considers the strategic implications of Asia’s growing footprint in the Middle East and the challenges that it poses for the region and for the United States. It analyzes the major strategic issues facing the Middle East, Asia, and the United States—including maritime security, military competition, nuclear proliferation, terrorism, extremism, and energy security—and discusses ways in which leading Asian countries can contribute to the policing of this vast region. Finally, the conclusion examines key factors that may bring about very different outcomes for the Asian presence in the Middle East, the role of the United States, and the region as a whole.