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POLICY BRIEF

EAST MEETS MIDDLE: CHINA'S BLOSSOMING RELATIONSHIP WITH SAUDI ARABIA AND THE UAE

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SUMMARY

- The blossoming but still immature relationship between China and the two key Gulf states, Saudi Arabia and the UAE, has implications that reach far beyond the Middle East.
- Saudi Arabia and the UAE are emerging as key middle powers, while China's role in the Gulf is part of its growing assertiveness and ambition on the global stage.
- These relationships are driven by structural changes in the international energy market, increasing multipolarity in the global power distribution, and the effect of the growing US-China competition on geopolitics.
- The EU and its member states barely figure into these dynamics, but they clearly have interests involved and do have cards to play. They should not seek to directly counter Chinese influence in the Gulf, but rather to build their own effective partnerships with both Saudi Arabia and the UAE.

The image of Chinese leader Xi Jinping presiding over an important diplomatic breakthrough between arch-rivals Saudi Arabia and Iran in March 2023 has become emblematic of the changing global order and the declining American role in the Middle East. Once merely a discreet energy client reluctant to meddle in Middle Eastern politics, over the past two decades China has become a key player in the Gulf's fast-changing geopolitical landscape. Ten years after the launch of the Belt and Road Initiative (BRI) in 2013, relations between China and the two main Gulf Cooperation Council (GCC) powers – Saudi Arabia and the United Arab Emirates – have come a long way, developing beyond energy trade to a wide range of new sectors.

The blossoming relationship between these two Gulf states and China is a symptom of a broader evolution in the geopolitical context and has implications that reach far beyond the Middle East. Saudi Arabia and the UAE have emerged as key middle powers driven by their ambition to play a role in a changing global order and the growing geopolitical competition between China and the United States. In the meantime, China's changing perspective on the Gulf is part of its growing assertiveness and ambition on the international scene.

The wars in Ukraine and especially Gaza have accelerated those trends. They have reinforced the narratives of a declining Western-led order and fed growing debates in the Gulf about the need to diversify economic and security partnerships. But these wars have also highlighted the contradictions of China's position. Despite its growing influence, Beijing has maintained a reserved approach to the recent Houthi attacks in the Red Sea as well as to the Israel-Hamas conflict more broadly. Beyond the hype, relations between China and the Middle East remain relatively shallow, still driven by transactional interactions and a lack of mutual understanding.

This paper seeks to understand the relations between China and two of the Middle East's most important powers in all their complexity. The dual case study reveals a lot about how the Middle East and the world are changing under the pressures of increasing geopolitical fragmentation and competition. For this purpose, it first examines the complex reality of Chinese ties to the UAE and Saudi Arabia, revealing a burgeoning relationship that is beginning to touch on geopolitical issues but has yet to fully mature beyond its economic infancy. The paper then seeks to situate those ties within the broader geopolitical and geoeconomic developments, particularly structural shifts in the international energy market, the rise of multipolarity, and the growing competition between the US and China. Saudi Arabia and the UAE emerge from this narrative as new powers in their own right, protective of their sovereignty, anxious to set their own path in their region, and seeking to navigate between their diverse dependencies on both China and the US.

The paper concludes with some recommendations on how the EU and its member states can profit from an understanding of these dynamics to calibrate their foreign policy in the Middle East and beyond. European countries, it has to be noted, barely enter into the narrative of the dramatic changes in the region. But they clearly have interests in the outcome, and they do have cards to play. The paper advises the EU and its member states not to directly counter Chinese influence in the Gulf. Rather, they should build effective partnerships in areas where Europeans have comparative advantage with both Saudi Arabia and the UAE and can capitalise on those countries' desires to maintain diversity in their geopolitical relationships and avoid excessive dependence on any one superpower.

China's growing footprint in the Persian Gulf

The 2020s are proving eventful for China-Gulf relations. March 2023 saw China's high-profile mediation of the Saudi-Iranian rapprochement, followed a few months later an invitation for Saudi Arabia and the UAE to join the BRICS group of emerging economies. Debates are also increasing around the purchase of oil in renminbi. This all raises questions about the nature of Riyadh's and Abu Dhabi's blossoming relationship with Beijing – and challenges perceptions of China's role as a purely economic actor in the Middle East.

These events are in keeping with a rapid expansion of relations between China and Saudi Arabia and the UAE over the past decade. China – the world's largest oil importer – has emerged in the last 20 years as the largest client for the Gulf states' hydrocarbons exports. The energy trade is at the core of the China-Gulf relationship. China alone represents nearly a quarter of the region's hydrocarbons exports and will almost certainly remain a top client for decades. In the context of China's Belt and Road Initiative, launched in 2013, Saudi Arabia and the UAE have also partnered with Chinese companies on key port and industrial zone projects to reinforce their central position on global trade routes. These projects include a terminal at Khalifa Port in the UAE, as well as Yanbu, Jizan, and Jeddah ports on Saudi Arabia's Red Sea coast.

However, the economic cooperation between the two Gulf states and China has not stopped at energy trade and infrastructure projects. It has instead followed the evolving priorities of Beijing's foreign policy, which has shifted away from the Belt and Road Initiative and hard infrastructure projects to increasingly focus on digital infrastructures, new technologies, and a diplomatic offensive to promote Chinese norms and narratives globally. As a result, China-Gulf economic relations started diversifying into a multitude of sectors, some of which are potentially strategic – from emerging technologies and AI, to logistics and supply chains, and critical minerals and renewable energies.

Chinese firms are involved in some of the Gulf's biggest renewable energy projects, at a time when the Gulf states are accelerating their efforts to diversify their economies away from fossil fuels. Chinese firms are supporting the construction of two of the world's largest solar-energy projects in the UAE – the Mohammed bin Rashid Al Maktoum Solar Park and the Noor Abu Dhabi solar plant. China's Silk Road Fund also acquired a 49 per cent stake in the Saudi renewable-energy company ACWA Power, which now serves as the kingdom's main investment arm in renewable energy projects across the region and beyond. Saudi Arabia also cooperates closely with Chinese companies in the diversification of its economy, notably in the electric vehicle industry. In June 2023, Riyadh signed a $5.6 billion deal with Chinese electric car maker Human Horizons to establish a research, development, and manufacturing joint venture in Saudi Arabia. Chinese EV start-up Enovate also entered a joint venture with the Saudi Sumou Holding in 2022 to establish a $500m manufacturing plant in the kingdom.

In general, investment flows in both directions have increased rapidly in recent years, with two of the Gulf's most important sovereign wealth funds – the UAE's Mubadala and the Saudi Public Investment Fund (PIF) – intending to open new offices in China to target the Chinese market.

But the sector where China-Gulf cooperation could be most consequential – and potentially problematic for Western countries – is emerging technologies and AI. As part of a massive investment in digitalising their economies, Saudi Arabia and the UAE have rapidly expanded their cooperation with Chinese tech companies and research institutes.

The UAE and Saudi Arabia cooperated with Huawei and Alibaba for the development of part of their tech infrastructure, including their 5G networks, smart city applications, and the construction of large data centres. In September 2023, Huawei launched a new "cloud region" in Riyadh aimed at supporting government services and AI applications. Professors from Chinese or Chinese-American origins head some of the top AI research institutions and companies in the UAE and Saudi Arabia – such as King Abdullah University of Science and Technology in Saudi Arabia and the Mohammed bin Zayed University of Artificial Intelligence (MBZAI) in the UAE. These institutions, which lead ambitious initiatives to develop Arabic large language models and AI applications, also count a significant number of Chinese scholars among their faculty members, including up to 40 per cent in MBZAI. [1] Moreover, the UAE's top AI company, G42, which is involved in some of the country's most strategic high-tech projects, cooperated closely with Chinese companies, including on the development of a covid-19 vaccine and in the launch of the Emirati Ministry of Health's genomics programme.

This cooperation has raised concerns in the US that Gulf countries could serve as weak entry points for China to access sensitive US technologies. For instance, the Saudi and Emirati research institutes involved in AI research have purchased a large quantity of US-produced Nvidia chips, whose export to China is restricted. American policy circles also fear that widespread Chinese tech equipment in the Gulf's digital infrastructures could be used for intelligence gathering purposes given the US' close military partnership with the Gulf states.

It is worth noting that across all these sectors, Chinese companies are not the Gulf states' only partners. China is even a secondary partner in some of their most strategic projects such as new technologies and AI, where big US companies such as Microsoft and OpenAI continue to be the preferred interlocutors. Here, Gulf companies continue to prioritise cooperation with Western companies – which they consider more innovative and prestigious. [2] But Chinese companies retain other advantages: for example, their prices are often extremely competitive and they have been more ready than their Western counterparts to transfer technologies and localise production. More importantly, China's tech war with the US has limited business opportunities for Chinese companies abroad because of the pressure that it puts on US allies not to use Chinese technology. This has endowed the Gulf states with more bargaining power to impose heavier localisation clauses and transfer of intellectual property and know-how. Chinese tech companies also often have less stringent data-privacy standards than Western companies.

Political and security relations have also expanded alongside these economic ties, breaking with Beijing's traditionally reserved approach towards Middle Eastern politics. Saudi Arabia and the UAE, for example, have upgraded their diplomatic representation in their dealings with China. The UAE has appointed Khaldoon al-Mubarak, a close adviser to president Muhammad bin Zayed Al Nahyan and CEO of the sovereign wealth fund Mubadala, as the country's special envoy to China. In Saudi Arabia, the minister of investment Khalid al-Falih – who was previously oil minister and chief executive of the state energy firm Aramco – leads on relations with Beijing. Visits to China by senior Gulf state officials have increased significantly over the past decade and vice versa. These upgraded diplomatic ties signal the increasing importance of the relationship for all parties.

Until the late 2000s, China and the Gulf states had a very limited relationship in the realm of security. But this too has begun to change. China's People's Liberation Army (PLA) established its first overseas military base in Djibouti in 2017, and since then the PLA's navy has gradually increased the number of port calls and joint naval exercises in the region. Saudi Arabia conducts annual joint naval exercises with the Chinese PLA and its ministry of defence hosts Chinese military officials.

Chinese defence companies have also started making inroads in a Gulf market that was largely dominated by Western countries. Saudi Arabia and the UAE, for example, have purchased a large share of their combat drones from China in the 2010s – the CH4 and Wing Loong – a technology that Western partners are reluctant to sell them due to concerns about undermining the Missile Technology Control Regime. At the start of 2024, Chinese defence companies made a splash at UAE and Saudi defence shows, hosting pavilions larger than those of the US. More importantly for the Gulf states' objectives to develop their own national defence industries, since 2017 the UAE and Saudi Arabia have cooperated with Chinese companies on the joint development and manufacturing of military drones and ballistic missiles in the Gulf.

Moreover, in 2021 US intelligence indicated that China may be building a secret military installation at the UAE's Khalifa port in Abu Dhabi. This was sufficiently credible for the US to suspend negotiations with the UAE for the transfer of F-35 fighter jets. Suspicious activity around the Emirati port ceased during the peak of the covid-19 pandemic but resumed in 2022. And then in 2023, rumours circulated that talks were under way regarding the possible establishment of a Chinese base in Oman. In response, the US set a potential Chinese base in Saudi Arabia as a red line in the context of its efforts to broker a deal to normalise relations between Saudi Arabia and Israel.

In early 2023, Beijing played a ground-breaking role in the diplomatic rapprochement of Iran and Saudi Arabia – a highly unusual move in a Middle East traditionally dominated by Western influence. Against the backdrop of rising tensions about Iran's nuclear programme, the deal between the longstanding arch-rivals represented a key step towards regional de-escalation. Although Beijing only came in on the final steps of a deal long negotiated by Oman and Iraq, this role still represents a significant departure from China's non-interventionist approach to Middle Eastern geopolitics. It could also pave the way for further political engagement in the future.

Early Stages

At the same time, the relationship between China and the Gulf States including Saudi Arabia and the UAE is still in its early stages. Chinese and Gulf leaders tend to exaggerate the depth of their interactions, either to project power for domestic consumption or to reinforce their bargaining capacity with their Western partners. China-GCC relations still struggle to match the depth of the economic, political, and military relations that the region has maintained for several decades with the West, and in particular with the US.

Europe and North America continue to represent by far the main source of foreign investment in the region. They are also by far the main destinations for Gulf investments abroad. Europe's foreign direct investment in Saudi Arabia is ten-times greater than that of China. In cutting-edge sectors, Gulf tech companies continue to favour partnerships with Western companies. A clear sign of this was the 2023 decision by the UAE's leading AI company G42 to prioritise its relations with top US tech companies over China when forced to pick sides. In May 2024, the head of the $100 billion Saudi investment firm Alat, specialised in AI and semiconductors, said in an interview that if demanded by the US, the fund would divest from China. Similarly, during the covid-19 pandemic the Gulf states' sovereign wealth funds invested heavily in American and European companies, showing how much the dollar and Western economies continue to represent safe havens in times of crisis.

In the meantime, the Chinese economy has slowed significantly. This, alongside Xi's moves to tighten control of capital, repress Chinese tech giants, and introduce more stringent US sanctions, have cooled the Gulf's appetite to invest in China. Despite current debates on de-dollarisation, the Gulf states have no interest in shifting dramatically to the renminbi and increasing their dependence on what is still an opaque financial system.

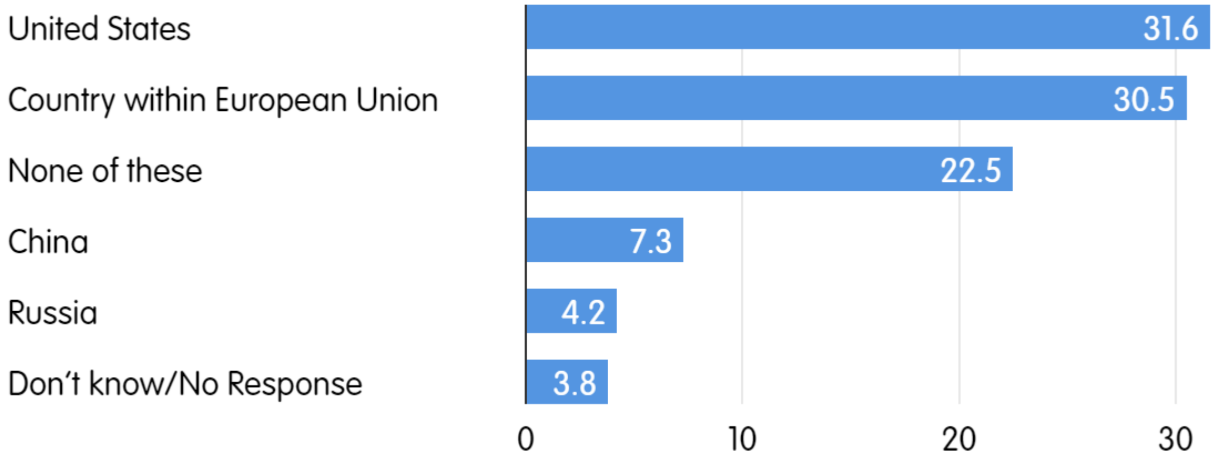
In the highly strategic nuclear sector, Saudi Arabia is using the threat of cooperation with China as a bargaining chip to obtain a cooperation with the US – suspended until now due to

Riyadh's reluctance to fully publicly resigning itself to a civilian programme. It is clear however that the kingdom's preference lies in a partnership with the US rather than China due to the long-term strategic nature of such a cooperation.

While the Gulf states hope to foster economic cooperation with China and jointly invest along in BRI projects, China remains a competitor to Gulf companies in many sectors, from logistics and aluminium, to mining and manufacturing. China-GCC trade liberalisation talks have been ongoing for nearly 20 years and were recently relaunched again. This persistency is driven by a political push from both sides, but a free trade agreement may not be underpinned by a strong economic rationale as Gulf countries need to protect their burgeoning local industries from China's manufacturing power.

In Saudi Arabia and the UAE, the population's cultural proximity to and understanding of the political systems in the US and Europe remains much stronger than with China. English is the lingua franca in the Gulf and Western movies and cultural productions dominate the market. Most Gulf students who study outside the region go to US or European universities. ECFR polling has found that, when asked where they would prefer to live if they moved abroad, 63 per cent of Saudis chose Europe or the US, while only 7 per cent opted for China.

If you were to move and live outside Saudi Arabia, which of the following countries would you choose? In per cent



Source: based on ECFR public opinion polling conducted in Saudi Arabia from 19 to 27 September 2023 among 1,012 respondents.
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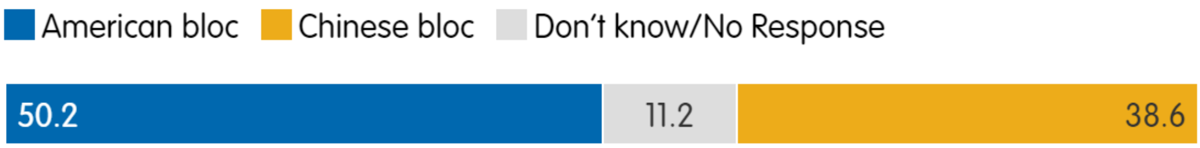
In the field of security and defence, the US security presence in the Gulf remains unrivalled. China has shown no desire to replace the American security umbrella in the region. Chinese weapons represent less than 2 per cent of the Gulf's arms imports while the US accounts for around 75 per cent.

From private discussions, it appears that the Gulf states see China as an opportunistic and transactional player in the Middle East, and more broadly in international politics. [3] They remain worried of Beijing's close relationship with Iran, and part of the rationale in bringing Beijing to the table of the Saudi-Iranian rapprochement was for Riyadh to hold China more accountable for its ties with Tehran. Beijing's distant reaction to the conflict in Gaza and the escalation in the Red Sea are stark reminders China's lack of readiness to engage significantly in Middle Eastern security issues.

In the meantime, Riyadh continues to show interest in negotiating a normalisation deal with Israel in exchange for increased US security guarantees. Saudi leaders have said that concluding such a deal would depend on Israeli recognition of a Palestinian state. But the fact that the deal remains even in theory on the table demonstrates the continued importance of the kingdom's security relationship with Washington. Moreover, Saudi Arabia's initial hesitation to formally join the BRICS group – unlike the UAE which immediately accepted the invitation – suggests that Riyadh may be aiming to spare its relations with Washington and keep formal BRICS accession in its pocket as a potential negotiation card.

In a ECFR polling from September 2023, Saudi respondents declared that if forced to choose, they would prefer their country to be part of an American bloc (50 per cent) rather than a Chinese bloc of countries (39 per cent).

If Saudi Arabia was forced to choose between being part of an American or a Chinese bloc of countries, which would you prefer it to end up in? In per cent



Source: based on ECFR public opinion polling conducted in Saudi Arabia from 19 to 27 September 2023 among 1,012 respondents.
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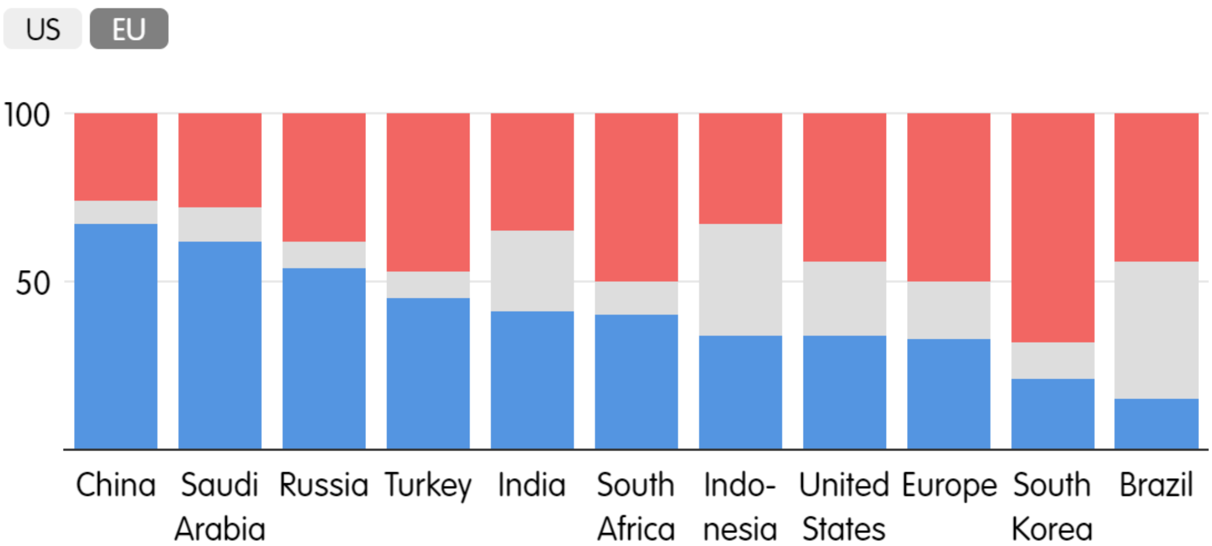
Both China and the Gulf Countries have often exaggerated this narrative of a declining West in the face of a rising East in recent years to cater to their own domestic constituencies and reinforce their bargaining power vis-à-vis Western interlocutors. The result of these efforts is clearly visible among Gulf public opinion. According to ECFR opinion polls conducted in eleven countries during 2023, Saudi Arabia was the country with the second highest share of respondents who considered that the EU would collapse and that the US would cease being a democracy within the next twenty years. On these opinions, Saudi Arabia came second right after China.

Similarly, in the Gulf and most other Middle Eastern countries, the population tends to overestimate the extent of Chinese investments in their countries, while dramatically underestimating European ones.

Looking ahead, how likely do you think it is that in the next twenty years the European Union will fall apart? In per cent



Source: Datapraxis and YouGov (Denmark, France, Germany, Great Britain, Italy, Poland, Portugal, Romania, Spain, Switzerland), Datapraxis and Norstat (Estonia), Gallup International Association (Brazil, China, India, Indonesia, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United States), September/October 2023. · Get the data
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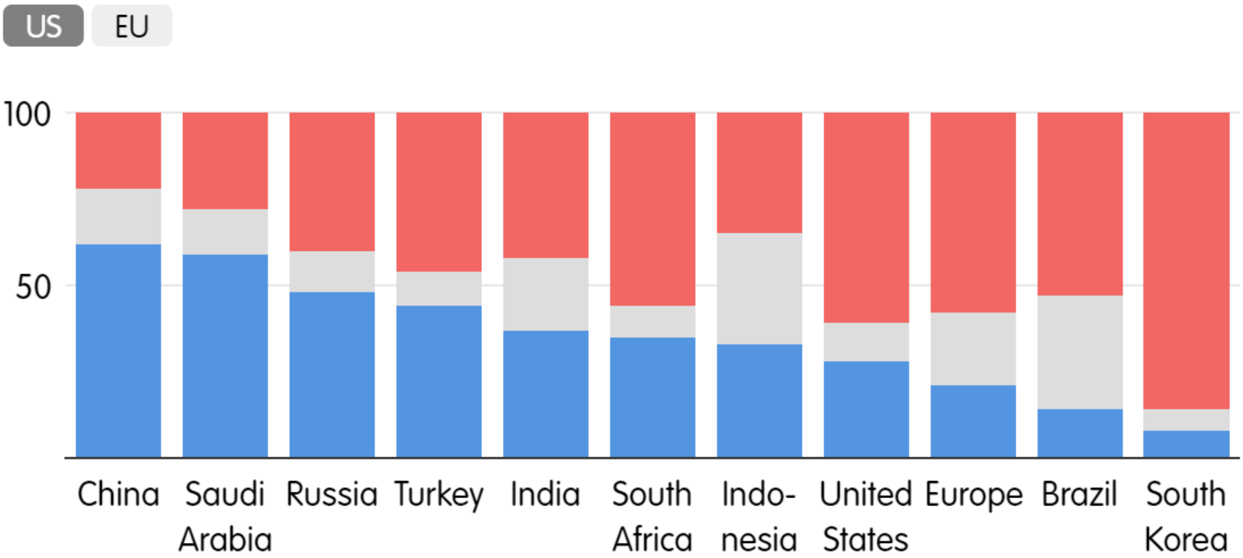
Looking ahead, how likely do you think it is that in the next twenty years the US will stop being a democracy? In per cent



Source: Datapraxis and YouGov (Denmark, France, Germany, Great Britain, Italy, Poland, Portugal, Romania, Spain, Switzerland), Datapraxis and Norstat (Estonia), Gallup International Association (Brazil, China, India, Indonesia, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United States), September/October 2023. · Get the data
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For this reason, the challenge posed by China to European interests in the Middle East is less about what China effectively does in the region than about how it feeds into a battle of narratives that erodes the leverage of European countries.

Overall, the picture that emerges of Chinese relations with the UAE and Saudi Arabia is of a burgeoning but still limited and somewhat transactional partnership. It thrives in some areas, lags in others, but both sides want it to continue to grow in depth and breadth.

An evolving global energy market

China's new relationship with Saudi Arabia and the UAE is driven in part by a structural shift in global energy markets, particularly, the shift in the centre of gravity of global energy demand towards Asia and China. This shift not only challenges the core of the "energy for security" relationship between the US and the Gulf, it also changes the patterns of geoeconomic dependencies and calls into question the denomination of oil trade in dollars in the future.

In 1945, a meeting between then-US president Theodore Roosevelt and Saudi King Abdul Aziz Ibn Saud aboard the USS Quincy was the first step in an alliance based on a stable supply of low-cost oil in exchange of American security guarantees. For decades, oil has been sold in dollars and the large revenues derived from its sale – "petrodollars" – were largely recycled into the US economy. This mechanism played a major role in the blossoming of the American economy after the second world war and the international domination of the dollar. In exchange, the US has become the Gulf states' primary security partner and the cornerstone of the regional security architecture in the wider Middle East.

But over the last decade, profound transformations in energy markets have challenged this "energy for security" arrangement. Following the shale gas revolution, US oil imports from Saudi Arabia fell five-fold between 2012 and 2022. The US economy continues to depend on international energy prices, but this development, alongside the perspective of global energy transitions, have fed a debate in Washington about the need to decrease US security involvement in the Middle East. This debate is having concrete repercussions: for instance, in 2019, Donald Trump refused to intervene after an Iranian attack on Saudi oil installations in Abqaiq and Khurais – which was experienced as a betrayal in Gulf capitals.

China's rapid emergence over the past two decades as the Gulf states' biggest energy client radically changes the picture of the Gulf's states core economic interests. It also raises new questions about whether this new situation could lead to greater Chinese political and security involvement in the Gulf in the long run.

In 20 years, China's energy imports increased fifteen-fold, and the country has been the world's biggest oil importer since 2016. The Gulf alone represents half of China's hydrocarbons imports. As a result, China's share of total GCC energy exports jumped from only 5 per cent in the early 2000s to over 20 per cent in 2023. [4] Projections suggest that this share will continue to increase for decades to come. While imports of GCC oil to other Asian countries, especially India and south-east Asian countries, are also expected to rise rapidly in the coming decades, these are unlikely to replace China as the top importer.

The development of a long-term relationship between China and the Gulf countries has therefore become crucial for the long-term economic security and prosperity of all involved. Both sides have ramped up their joint investments across the energy value chain, from the exploration and exploitation of oil fields to investments in storage, refineries, petrochemical industries, and the signature of long-term supply agreements. In 2021, the CEO of Aramco, Amin Nasser, declared that the Chinese market would be the company's top priority for the next 50 years.

The stakes may be the highest of all for the Gulf states themselves. Since the 1970s, they – and especially Saudi Arabia – have derived major geopolitical leverage from their position as pivotal producers, capable of regulating global energy markets. Oil revenues allowed them to "buy" key political influence in the wider Middle East and with powers farther afield. Ultimately, oil remains at the centre of their political, economic, and social structures, despite their recent diversification efforts.

For the Gulf states, nurturing their relationship with China is about maintaining their centrality in the world's economy and the geoeconomic influence they derive from it in times of global energy transitions. This goal explains why some of Saudi Arabia's recent investments in China's refineries have been highly subsidised. Many such investments, it appears from the outside, lack an economic rationale and instead seem aimed at deepening China's dependence on Gulf oil.

From China's perspective, the strong energy dependence on the Gulf is de facto changing Beijing's perspective on the region and forcing it to pay greater attention to stability in the Middle East. This development has triggered debates among Chinese scholars about whether Beijing should devote more diplomatic and military capital to the region. Over the past decade, China attempted to reduce its energy dependency on single countries such as Saudi Arabia by diversifying its suppliers to Iraq, but also Angola, Brazil, and Venezuela. Gulf producers, however, seem set to remain key energy partners for China as their price advantage in producing oil and gas means they will outlast other producers that might be undermined by the green transition.

In the long run, global energy transitions are likely to shift the Gulf states' and China's energy relationship in favour of the latter. The evolution of global energy markets has already limited the impact of geopolitical tension and conflict on global oil prices. The Abqaiq-Khurais attack in 2019 and more recently the Houthi attacks in the Red Sea have not triggered the kind of price hikes that would have been likely just a few decades ago. Chinese policymakers may in turn decide that access to cheap oil is no longer an existential issue – as foreshadowed, for example, by a hesitation from China to invest in Aramco when it went public in 2019. It is therefore unlikely that the new energy interdependence between the Gulf and China will automatically lead to more Chinese involvement in the region's geopolitics and security the same way it did for the US in the 20th century.

Growing multipolarity

This new China-Gulf energy interdependence is occurring against a backdrop of declining US hegemony and increasing multipolarity, which is also pushing them together. Saudi Arabia and UAE are deeply aware of this trend and keen to position themselves well to take advantage of it.

They are therefore seeking out new partnerships – including with China – to develop more flexible, ambitious, and independent foreign policies. The changing global dynamics also offer the Gulf states an opportunity to position themselves as key players on the international scene.

Declining US leadership and changing priorities have deeply affected how Gulf leaders see the world. The Obama administration announced a pivot to the Indo-Pacific in 2012. Then Trump refused to intervene after the Iranian attacks on Saudi oil infrastructure in 2019. And in 2021 came the Biden administration's catastrophic withdrawal from Afghanistan. This has all contributed to an image in the Gulf of an unreliable US on the decline. In March 2022, for example, President Joe Biden was not even able to arrange phone calls with the leaders of Saudi Arabia and the UAE as he sought to build international support for Ukraine and contain a surge in oil prices. Such a snub was unthinkable only a few years ago. Overall, Saudi Arabia and the UAE have responded to this change by diversifying their relations with new powers, especially in Asia and in developing countries.

Moreover, China's proposal of a multipolar order aligns with the Gulf states' vision of the world. This vision presents an opportunity for Saudi Arabia and the UAE to position themselves not just as regional powers, but also as important players in that order. In the space of a few months in 2023, the countries joined the Shanghai Cooperation Organization as dialogue partners and were invited to join BRICS. Both these organisations aim to offer an alternative model to Western-led multilateral platforms. Joining them positions Saudi Arabia and the UAE in a global south space in which China plays a key role. Due to the limited power these organisations currently wield, the Saudi and Emirati decisions to join them is not for the moment highly consequential. But it is a strong indicator of their goal to become key middle powers at the junction between the West and the global south.

There are also opportunities for China in engaging with Gulf powers. Saudi Arabia and the UAE are no longer only a source of hydrocarbons for Beijing, but also potential conduits of Chinese interests and international positioning. The two Gulf states have increasingly supported China's narratives and worldviews in international forums, including on issues such as the Uyghurs, Taiwan, South China Sea disputes, and China's "masks and vaccines diplomacy" during the covid-19 pandemic. The Saudi decision to place the Saudi-Iranian rapprochement under the Chinese patronage provided Beijing was a major diplomatic victory at a time when Beijing was promoting its Global Development, Civilisation and Security Initiatives. On global issues such as internet regulation, and climate change, the Gulf states tend to align more closely with Chinese than Western positions. They have, for example, backed China against Western countries in trying to shape norms and standards in platforms such as the International Telecommunications Union and the Internet Governance Forum.

The Gulf states are therefore useful partners for Beijing in this sense, thanks to their ability to shape political developments in the developing world, Western countries, and Western-led international institutions.

The wars in Ukraine and Gaza accelerated these trends. The war in Ukraine highlighted how middle powers – including the Gulf states – pursue their own interests independently of Western priorities. They have also increased moves among these powers to shield themselves against Western sanctions. The US and European response to the war in Gaza has further eroded Western legitimacy in the Middle East and sharpened narratives promoted by China and Russia of a West-rest divide.

The war in Ukraine has been a priority of China's foreign policy. Beijing closely follows Western reactions to Russia's invasion and the subsequent dynamics between Europe and NATO as it prepares for a potential escalation in the Indo-Pacific. The war in Gaza, meanwhile, presents an opportunity for Beijing to further advance its narratives on the international scene and expose Western contradictions.

US-China rivalry

The widening gap between the Gulf states and Western countries over these two conflicts is positive for Beijing because it takes place against the backdrop of a broader US-China rivalry. That rivalry represents both a vulnerability and a potential opportunity for the Gulf states. To date, Saudi Arabia and the UAE have focused on maximising their margin of manoeuvre between the two big powers. Their aim is to avoid being constrained to pick a side between their biggest energy client and what remains their top security partner. The United States' growing scrutiny around the Gulf states' relations with China is already affecting their ability to pursue relations with both partners at the same time. As discussed, the UAE's ties with China were a major reason for the US suspension of the F-35 deal with the Gulf states in 2021.

The US-China tech war has also started interfering with the Gulf states' high-tech ambitions. Saudi and Emirati sovereign wealth funds, including the Abu Dhabi Investment Authority, Mubadala, and the PIF, have been under greater scrutiny from the United States' foreign investment committee (CFIUS) over their ties with China and the risk of sensitive US tech leakages.[5] As of late 2023, CFIUS was reviewing more than half a dozen investment deals. This was likely behind the US decision to compel the Saudi venture capital firm Prosperity7 to sell back its shares in a Silicon Valley AI chip startup backed by OpenAI in November 2023. In August 2023, the US expanded its export restrictions on sophisticated AI chips to include some countries in the Middle East which were unspecified but are likely to include Saudi Arabia and the UAE. Finally, in early 2024 the UAE's leading AI company G42, which had sparked controversies over its connections with Chinese companies, announced it would cut all ties with and investments in China following pressure from its US corporate partners and the US government.

The fragmentation of the world's economy, intensifying trade wars, and risks of tech decoupling are therefore directly threatening the Gulf states' economic diversification strategies. But this also presents opportunities for Riyadh and Abu Dhabi. They have increasingly used China as a bargaining chip in their relations with Western powers. Saudi Arabia, for example, is using the Chinese threat card in its ongoing negotiations with the US around a potential Saudi nuclear programme to obtain cooperation with the US. The US has also refocused its attention on the Gulf in response to the deepening Chinese influence. China's sale of armed drones to the Gulf has also pushed the US to revise its own export restrictions on unmanned aerial vehicles to the region.

Another bargaining chip comes from the Gulf's role in entrenching the reserve status of the US dollar. For Beijing, one great benefit of energy interdependence with the GCC is as a lever to promote the internationalisation of the renminbi and perhaps eventually threaten the status of the dollar. Beijing has repeatedly pressed Gulf countries to accept renminbi as petrocurrency, a move that Gulf leaders have mostly resisted due to the deep interconnection of their economies and currencies with the dollar. However, recent developments could change the Gulf states' calculations. The war in Ukraine and Western sanctions against Russia have accelerated debates in the Gulf about ways to shield their economies from economic coercion, including potentially by reducing their dependence on the dollar.

During a state visit to Saudi Arabia in December 2022, Xi formally stated his willingness to purchase Saudi oil in renminbi despite not having reached a deal with Riyadh. This was a rare public acknowledgement of a failure of his diplomacy and sends a strong signal of Beijing's determination to make progress on this file. In 2022, the UAE joined China's mBridge digital central bank currency project to explore the settlement of cross-border transactions in local central-bank digital currencies. In March 2023, the UAE settled its first LNG sale to China in renminbi. A few months later China and Saudi Arabia also signed their first currency swap agreement of $7 billion for three years. Some researchers even suggest that a portion of Saudi Arabia's oil exports to China is already settled in renminbi, according to Asia Society estimates based on data from the Bank of China.

The renminbi remains far from challenging the dominance of the dollar. But these deals pave the way for an evolution that could have far reaching consequences for the global financial equilibrium. An oil trade between GCC states and China that is insulated from US sanctions could also be important in case of an all-out confrontation between the US and China over Taiwan.

On trade in general, the US and Europe's current push to de-risk their supply chains and limit their direct imports from China represents an opportunity for the Gulf states to position themselves as key trade interconnectors between the West and China, as alternative manufacturing, assembly, or shipment hubs. The main GCC ports and related industrial zones, Jebel Ali and Khalifa port in the UAE, and Jeddah, Jizan, and Yanbu in Saudi Arabia, already serve as major re-export and transformation hubs linking Asia to Europe. They could therefore benefit from the West's efforts to re-localise part of their global supply chains outside China. The UAE, which already has a track record in allowing certain countries such as Iran and Russia to bypass international sanctions, could also have a role to play in case of tightening US sanctions against China.

Financing the de-risking effort is also expensive. The US and Japan are increasingly courting Saudi Arabia and the UAE to help invest in the diversification of the West's own technology and critical minerals supply chains. US investment in Saudi Arabia's local electric vehicle industry and cooperation with the kingdom to jointly invest in Africa's critical minerals and metals are part of this effort to curb China's dominance over electric vehicle supply chains.

The European response

The preceding analysis implies that the Gulf's rapprochement with China, although still at its early stages, is both a symptom and a cause of deeper evolutions taking place in the regional and global orders. These changes are not only affecting the geopolitics of the region, they are also progressively eroding European countries' ability to shape political developments in their direct neighbourhood and beyond. This erosion includes their ability to build coalitions and consensus with Gulf partners on international issues that reach beyond the Middle East, from climate change, internet governance, and arms control to conflicts in regions such as Ukraine, the Red Sea, and the Indo-Pacific.

Russia's war in Ukraine has underscored the importance of energy geopolitics. The recycling of billions of petrodollars in the international economy also provides the Gulf states with considerable financial power, which they use as leverage to influence both regional and international politics. The Gulf states' decisions to comply or not with Western sanctions or to help a state bypass them, to redirect billions in investments and government bonds, and to denominate oil trade in other currencies than the dollars can have far reaching consequences on the world's geopolitics. This could be the case especially in the advent of an escalation in the Indo-Pacific. The Gulf states increasingly appear to be significant pivot powers that can tilt the balance of international politics at key moments.

Beijing's growing influence in the Gulf in a context of sharpening global rivalries and fragmentation could pose various potential challenges to European interests, from energy security, access to critical port infrastructures and freedom of navigation, to leakage of sensitive technologies, risks of proliferation, and long-term instability. But Beijing's growing involvement in the region can also create, if not opportunities, at least an interlocutor with whom European countries can engage on regional security issues.

European countries need to take stock of these changes and carefully assess how they may affect their interests, leverage, and relations with different partners in the long run. The European Union's decision in 2023 to establish a structured network of diplomats to monitor China's activities all over the world already represents good progress. National governments should encourage greater coordination between the different geographic and sectoral divisions – including between the ministries of foreign affairs, economy, and defence.

It is neither feasible nor desirable for Europeans to try to counter China's influence in the Middle East. Given its financial and diplomatic weight, China is an unavoidable partner that European countries may want to engage with on certain issues, including regional stability, non-proliferation, and maritime security. They should, however, remain realistic about the degree of cooperation they can achieve in a context of increasing competition.

European countries will have to strike the right balance between setting clear redlines with their Gulf partners on areas where Chinese presence can become problematic and exploring new paths for engagement with the Gulf states, China, and other non-Western partners in the region. In this sense, the GCC-China nexus can be a useful laboratory of Europe's evolving foreign policy in a multipolar world.

Explore areas of engagement with China on regional security issues

China has a degree of leverage over Iran's regional role and nuclear programme and could act as a moderating power. Beijing played an instrumental role in convincing Iranian leaders to sign a nuclear deal with the US and others in 2016 in return for investments and energy contracts. The Chinese role in supporting Saudi-Iranian rapprochement in March 2023 was something neither the US nor the EU was in a position to achieve. The deal continues to hold today and act as a key safeguard against further regional escalation. European countries rightly welcomed the March 2023 deal, but since then Beijing has been reluctant to exert pressure on Iran to limit Houthi attacks in the Red Sea.

Given their own inability to re-launch a diplomatic track with Iran on nuclear issues, European countries should encourage Beijing to play a more active role, and to press Iran to comply with International Atomic Energy Agency regulations that require it to submit information about nuclear facilities to the agency and to stop nuclear activities with no civilian justification. Nuclear proliferation is a topic on which China and Europe's interests align, given that Beijing has no interest in seeing a risk of nuclear proliferation between two of its main energy providers.

Moreover, China's growing relationship with GCC countries makes Beijing more accountable for its ties with Iran. Saudi Arabia and the UAE have watched with concern China's military and economic support to Iran. In early 2024, Chinese weapons were found among Hamas fighters, raising questions about Beijing's commitment to countering the proliferation of weapons amongst Iran's proxies in the region. While Beijing denies being responsible for such smuggling, it is likely that it has been turning a blind eye on some of these transfers from Iran. This goes against GCC interests, which continue to perceive Iranian proxies as a major security threat. Calling out China on those issues and encouraging Gulf countries to raise it in their interactions with Beijing can help push China to adopt a more responsible position.

Beyond political initiatives, there are opportunities for greater dialogue with China on regional security issues, especially maritime security. The PLA is already involved in some multilateral security initiatives within the United Nation's framework. China shares core interests with Europeans in guaranteeing freedom of navigation around maritime chokepoints. It has in the past cooperated in counter piracy operations with NATO for example in 2015 around the Gulf of Aden. Recent Houthi attacks in the Red Sea create a new opportunity for Europeans to engage with China on regional maritime security issues.

However, European countries should be realistic about the degree of engagement that can be achieved on these issues. Recently, Beijing's reluctance to react to the Red Sea attacks shows that the country is ready to bear a certain level of economic cost rather than taking the risk of threatening the diplomatic ties it has created in the region. The current crisis is also eroding the West's legitimacy in the Middle East and beyond in ways that feed into Beijing's narratives to promote a new global order. Therefore, European countries should not expect China to take any significant political risk in the region and should remain aware that the Chinese have so far shown little interest in engaging with them on Middle Eastern issues.

Moreover, in recent years, opportunities of security cooperation have been limited due to mounting rivalry with the US and a growing climate of defiance. Past experiences of maritime security cooperation in the Gulf of Aden have left Western countries with the suspicion that Beijing was not participating in good faith in those exercises, and rather used them as a way to collect intelligence on its competitors. In this context, sharing with Beijing sensitive information about the way they conduct naval operations does not appear as an option for

Europeans.

Therefore, European countries should keep channels of discussion open with Beijing on regional security issues and could potentially identify targeted areas of engagement when possible. But they should remain mindful of not over-publicising their engagement with Beijing as it would end up supporting Beijing's narratives to present itself as an influential and responsible player without having to deliver much in return. In certain cases, calling out publicly Beijing's inaction can also be a way to remind regional partners of the transactional nature of Beijing's involvement in the region.

Use European economic advantages

On the economic front, European countries cannot counter the ongoing changes in global geoeconomic dynamics and should not try to pressure the Gulf states over their growing economic ties with China. It would be unrealistic to try to compete with Chinese companies on all fronts. They should rather focus on the sectors where they have strong advantages and understand the continued attractiveness of their companies and investments to Gulf countries. Despite an acceleration in Gulf-China economic ties, European countries remain a top source of investments to the region and their companies are still regarded as highly innovative and competitive by the Gulf in many advanced sectors. They have a key role to play in supporting the Gulf states' diversification and energy transition agendas and can position themselves as alternative economic partners to both the US and China.

European companies can invest in key sectors that are crucial to the Gulf states' diversification strategies, such as renewable energies and green hydrogen, electric vehicles, critical minerals, and new technologies. The EU could especially put the European Green Deal at the centre of its diplomatic efforts with the Gulf to develop a joint preferential green investment area. To make a difference with their Chinese competitors, European companies can localise part of their manufacturing or research and development activities in the Gulf therefore promoting transfer of know-how and development of the human capital crucial to the region's development. The EU can mobilise tools like Global Gateway, that have remained until now unused in the Gulf context.

De-risking from China also includes integrating Gulf countries in alternative supply chains and economic coalitions with third countries or regions such as India, Japan, Korea, south-east Asia and some African countries. The launch of the India-Middle East-Europe Corridor in 2023 was an effort in that direction and should be further pursued despite recent regional upheavals. Japan and South Korea can be useful partners for Europeans to invest in the Gulf's renewable energies – including green and blue hydrogen – and high-tech sectors.

Set clear redlines in sensitive sectors

In areas where Gulf-China cooperation poses a potential threat to their core strategic interests, European countries should not shy away from setting – and enforcing – clear red lines on their Gulf partners. This can be in areas where there is a risk of leakage of sensitive technologies or defence-related information to China, or in case of sanctions bypassing. France has an important military base in the UAE and several European countries export military technologies to the Gulf. They could more explicitly condition their most advanced forms of security cooperation with the Gulf to tangible guarantees towards China. Similar conditions could be imposed for cooperation on advanced technologies. The US has already obtained concessions from the Gulf states on some of these key issues. Gulf countries' way of reinforcing their hand in those negotiations is to play their Western partners against each other. It is therefore key that European countries avoid opportunistic behaviours and stick to a united approach – including with their American partner – when dealing with key security concerns.

Don't Panic

In taking on all this work, European policymakers should understand that, although the relations between China and key Gulf powers have progressed rapidly over the past decade, there is still a long way to go before it can make up for a century of deep Middle Eastern relations with the United States and Europe. This new projection of Saudi Arabia and the UAE towards Asia is still in its infancy, but it has already contributed to profound changes in the region's relationship with the US. The immediate result has been the emergence of new Gulf powers on the international scene, more ambitious and independent in their foreign policies. Nonetheless, both the UAE and Saudi Arabia will struggle to maintain the balance between their various partners in a context of growing rivalries between great powers. There is yet more great game to come in the Gulf.

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[1] Author's calculation

[2] Author interviews with Gulf company officers, officials, and scholars in Dubai, Abu Dhabi, and Riyadh, 2021-22

[3] Author Interviews with Saudi, Emirati and Bahraini Foreign Ministry and Defense Officials and experts, November 2019, February 2020, June 2020, November 2020, December 2021, November 2022, March 2023.

[4] Author calculation, based on information from the UNCOMTRADE trade database, HS27, https://comtradeplus.un.org/TradeFlow

[5] CFIUS is an inter-agency committee which reviews foreign investments in the US that implicate national security concerns

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