

# Gulf Monitor



**Gulf Research Center** Knowledge for All



Iraq Five Years Later – The Failure of the Americans, Iraqis and Arabs

US Navy Changing the Rules of Engagement in the Region



Gulf Security Dilemmas



Dubai Inc. in China: New Vista of Gulf-Asia Ties

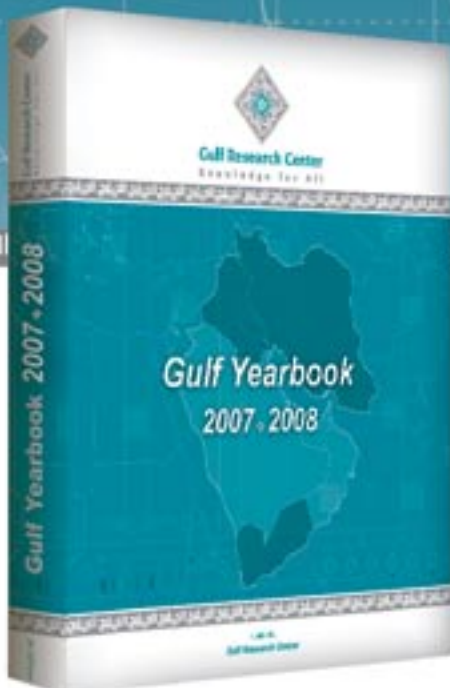
A Common European Approach to Sovereign Wealth Funds: Continuity of the Status Quo?



**Gulf Research Center**  
Knowledge for All

# ***Gulf Yearbook*** ***2007-2008***

The Gulf Yearbook 2007-2008 provides an analytical perspective on the main and critical developments of the year for the Gulf region with particular focus on the key political, economic, security, social and environment issues that have defined Gulf relations over the year.



**To order your copy, contact:**

Tel.: +971 4 3247770

Fax: +971 4 3247771

[sales@grc.ae](mailto:sales@grc.ae)

[www.grc.ae](http://www.grc.ae)



## GULF MONITOR

## CONTENTS

May 2008, Vol. 2, No. 3

Editor-in-Chief: Abdulaziz Sager  
 Editor: Christian Koch  
 Assistant Editor: Radhika Menon

### Editorial Policy

The Gulf Monitor seeks to provide a regional perspective on critical issues pertaining to the Gulf region. The opinions expressed in this publication are those of the author(s) alone and do not state or reflect the opinions or position of the Gulf Research Center (GRC). No liability for errors or omissions is accepted by GRC although every precaution has been taken to ensure that the information contained in this publication is accurate.

### © Gulf Research Center 2008

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the Gulf Research Center.

### Published by

Gulf Research Center  
 P.O. Box 80758  
 187 Oud Metha Tower, 11th Floor  
 303 Sheikh Rashid Road  
 Dubai, United Arab Emirates  
 Tel.: +971 4 324 7770  
 Fax: +971 4 324 7771  
 Email: info@grc.ae  
 Website: www.grc.ae

Cover Photo: US soldiers from Ghost rider Company 3rd Squadron 2nd Stryker Cavalry Regiment rest on a car. (Image courtesy of AFP)

## SECURITY

- ▶ Iraq Five Years Later – The Failure of the Americans, Iraqis and Arabs  
*by Abdulaziz O. Sager* ..... 4
- ▶ US Navy Changing the Rules of Engagement in the Region  
*by Dr. Mustafa Alani*..... 8

## REGIONAL RELATIONS

- ▶ Gulf Security Dilemmas  
*by Dr. Christian Koch*..... 10

## ECONOMICS

- ▶ Dubai Inc. in China: New Vista of Gulf-Asia Ties  
*by Dr. Samir Ranjan Pradhan*..... 14
- ▶ A Common European Approach to Sovereign Wealth Funds: Continuity of the Status Quo?  
*by Nermina Biberovic*..... 18

# Iraq Five Years Later – The Failure of the Americans, Iraqis and Arabs

**Abdulaziz O. Sager**

In 2003, the US waged a war on Iraq which ended with the toppling of Saddam Hussein's Baathist regime and put the country under direct US occupation. The invasion led to the disbandment of the institutions of the Iraqi state and pushed the country into a state of chaos, lawlessness and lack of security that has virtually continued unabated since then. Five years on, it is important to look into this experience in order to analyze the developments since then and also to be able to draw meaningful lessons and reach some recommendations that could help put an end to the present dilemma in Iraq. This is especially important as current events in Iraq are certain to have either adverse or positive implications

for the Gulf region. A stable and united Iraq, which is pursuing a confident strategy of democracy and economic development, shall be an element for enhancing the stability of the whole region. Alternatively, an Iraq that is torn apart by civil strife, wide-scale violence and absence of an effective state power would most likely lead to the spillover of violence and terrorist activities to other countries within the region and beyond.

One immediate conclusion that can be drawn from both the invasion and occupation of Iraq was that it was based on a systematic policy of lies propagated by the US administration combined with false notions of US power and supremacy as put forth by

the group of neo-conservatives that exerted strong influence over American policy. None of the objectives and justifications for the invasion and subsequent occupation of Iraq proved to hold any degree of validity including the need to destroy Iraq's arsenal of weapons of mass destruction (WMDs), the alleged relationship between the former Iraqi regime and the al-Qaeda terrorist network, the danger represented by the Saddam Hussein regime and the imperative therefore to enact regime change, or the pretension that with the establishment of a viable democratic system Iraq would emerge as a model of democracy within the region.

Thus, the US administration was never able to publicly present

*Iraqi men walk through the famous Firdoos Square in central Baghdad where a statue of Saddam Hussein was pulled down by invading US Marines and Iraqi men five years ago*



any credible evidence that Iraq had any type of weapons of mass destruction or show that in fact a relationship between the former regime and al-Qaeda existed. The US policy has failed in instigating a viable democratization process in Iraq instead plunging into a state of widespread chaos, sectarian violence, and lawlessness combined with a total lack of socio-economic development. The incapacity of the US to even minimally provide for a reconstruction effort for Iraq in turn heightens the suggestion that the true motives behind the invasion were gaining total control over Iraq's oil wealth, the establishment of permanent military bases, opening the country for US companies, further consolidating the security of Israel and completing the process of the containment of Iran.

The present situation in Iraq is therefore the logical outcome of the perennial mistakes made by the Bush administration. The US did not plan well for post-Saddam Iraq, disbanded the institutions of the Iraqi state, mismanaged the reconstruction effort, marginalized the Sunni sect and reduced the effective role of regional powers (except for Iran) and that of the United Nations. Ultimately, US forces in Iraq have found themselves in a basically impossible quagmire to the extent that this also negatively affected domestic popularity rating of President George W. Bush. The US policy in Iraq is currently a major issue in the on-going presidential elections campaign, a development which stands in contrast to the fact that traditionally American voters do not take active interest in issues of foreign policy or make it a determining factor in a general election.

The experience of the invasion also underlined the limited impact of the

military might of the so-called 'only superpower' in the world. Despite the presence of 160,000 American forces in Iraq, the expenditure of more than \$500 billion on the war effort, the killing of more than 4,000 US servicemen, and the multiple military operations and contingency plans being conducted by US occupation forces, there exists no law and order in Iraq. In fact, even the enforcement of law is proving next to impossible and US forces have been pushed back to the point where their primary objective is simply to protect the heavily fortified green zone in Baghdad. The result of course is that the country has plunged into a state of violence and chaos similar to that of civil war. It is this environment that has encouraged al-Qaeda and other terrorist groups to come to Iraq and establish themselves in a country where they had no previous presence. These terrorist networks are also using Iraq as a launching pad to attack other countries within the region. And while the role of al-Qaeda in Iraq has diminished in the last months of 2007 and the first months of 2008, there is no guarantee that such a decline will become a permanent state of affairs or that the insecurity and instability inside Iraq has been overcome.

It would of course be short-sighted to place the blame solely on the actions of the US when it comes to the state of affairs in Iraq. What has also been made painfully clear is the extent of the weakness of the Iraqi political elites and their failure to stand up to the challenges facing the future of their country. The most blatant shortcoming has been the failure to launch a process of genuine national reconciliation that would instill a sense of national identity and allegiance to the Iraqi state, enhance peaceful coexistence among various

**The invasion led to the disbandment of the institutions of the Iraqi state and pushed the country into a state of chaos, lawlessness and lack of security that has virtually continued unabated since then**

groups, guarantee the unity and integrity of Iraq and ultimately lead to the end of the foreign occupation of the country. Yet, instead of putting forward a genuine effort at achieving national reconciliation, the Iraqi political elite has put the key emphasis on sectarian allegiance at the expense of loyalty to the nation, with external ties dominating those to one's homeland and its governing state. What one encounters inside Iraq is different elite groups engaged in a deadly tug of war over futile and minor issues that have exacerbated the spread of sectarian violence and armed militia operations.

Such situation has further complicated the volatile situation in Iraq and reduced the chances of reaching a political solution. It goes without saying that the stability of Iraq cannot be secured in the absence of such a permanent settlement. Moreover, the invasion and occupation of Iraq confirmed that Iran has emerged as the biggest winner in this process. Not only has Iran been able to assert its influential role in the politics of the country and consolidate its presence inside its neighbor, Tehran has also made use of the US policy failures and mistakes in Iraq and the absence of an effective role by other Arab states in the country's affairs. The result is that Iran is using its role in Iraq as a point of leverage as it engages with the US in a process of

**Not only has Iran been able to assert its influential role in the politics of the country and consolidate its presence inside its neighbor, Tehran has also made use of the US policy failures and mistakes in Iraq and the absence of an effective role by other Arab states in the country's affairs**

shuffle diplomacy aimed at defining the future of bilateral relations between Washington and Tehran as well as the issue of the Iranian nuclear program. Ironically, the recent visit by Iranian President Mahmoud Ahmadinajad to Iraq was declared publicly in advance, while senior US officials continue to visit Baghdad secretly. It is within this context that one can understand the reasons

behind the US decision to begin talks with Iran solely on the situation in Iraq and to the exclusion of all other players in the region. In simple terms as far as Washington is concerned, any viable solution to the situation in Iraq needs to now ultimately pass through Iran.

The experience of the US-led invasion and occupation of Iraq has finally also shown the extent of the vulnerability and weakness of the Arab role toward Iraq. The two main players contesting in Iraq are the US and Iran. Arab countries and the Arab League have if anything only a role that is limited to issuing public statements and communiqués that call for the unity and integrity of Iraq and the necessity to observe its national sovereignty. At the same time, Arab countries have failed to take serious steps that could lead to an implementation of these objectives. The result is that the

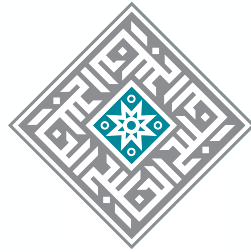
official Arab order is in a deep crisis that makes it ineffective in forging viable solutions to current problems in various Arab countries.

Five years on, the invasion has thus shown the extent of the failure of US policy in Iraq, the weakness of the Iraqi's political elite, the marginality of the Arab role toward Iraq, as well as the success of Iranian regional policy. Meanwhile, the Iraqi people continue to pay a heavy cost for the mistakes of Iraq's occupiers, the failure of its rulers, the absence of its brothers, and the mounting ambitions of some of its neighbors within the region. If the status quo continues unchecked, Iraq may disintegrate into rival city states, a situation that could carry catastrophic implications for the whole region and beyond.

*Abdulaziz O. Sager is Chairman, Gulf Research Center*

*A US soldier from 187th Infantry Regiment patrols with an Iraqi soldier and a Sunni awakening fighter in Rushdie Mullah area in Yusufiyah, south of Baghdad on March 19, 2008*





**Gulf Research Center**  
Knowledge for All

# Gulf Research Center Premium Membership

The GRC's Premium Membership is designed for companies and organizations that wish to improve their understanding of key regional and international issues in fields including Politics, Security and Terrorism, the Environment, Economics and Energy. It is a source of indispensable information that analyzes the Gulf region objectively, provided by specialists who live and work in the region. Members can add invaluable depth to their knowledge about the region and its challenges in the 21st Century. Each Premium Member may nominate two representatives who will each receive:

1. Full and privileged access to the members' area of the GRC website, including research program portals, resource materials, Gulf in the Media, alerts, expert opinions and breaking news.
2. Free admission to the GRC Annual Conference (excluding air tickets and accommodation).
3. Free participation in two corporate members' lectures or group briefings (GRC premium members may also request individualized face-to-face meetings with our specialists).
4. Priority to attend additional selected GRC events.
5. A full paper copy set of the latest GRC publications as they are published, including books, research and analysis papers, newsletters, research bulletins and Araa magazine.
6. 10% discount on purchases of additional paper copies of GRC publications and much, much more...

For more information on this unique offer, prices, and other membership packages tailored to suit individual needs, please contact Flo Weisweiler at 00971509780709 or email to [fweisweiler@grc.ae](mailto:fweisweiler@grc.ae).

# US Navy Changing the Rules of Engagement in the Region

**Mustafa Alani**

It was just after sunset on Monday, March 24, 2008 when a motorboat carrying three Egyptian traders approached the US container ship 'Global Patriot' in the Gulf of Suez as it prepared to sail towards the Mediterranean. The 'Global Patriot' was carrying used US military equipment. When the Egyptian motorboat came too close to the US ship, it was warned to stop. These warnings went unheeded, and the crew of the US ship was ordered to open fire. One person was killed and two were injured as a result. According to US Navy sources, the crew of the US ship had warned the small boats to turn away via bridge-to-bridge radio besides a series of other warning measures. However, one small boat continued to approach the US ship, and that was when the order to open fire was issued. Egyptian sources explained that it was usual for fisherman and hawkers on small boats to ply the waters of the canal trying to sell cigarettes and other local products to ships passing through, and that the crew of the US ship possibly acted nervously and in an unjustifiable manner. A statement issued by the US Fifth Fleet disputed the Egyptian claim about casualties stating that the crew of the 'Global Patriot' had only fired warning shots at a small boat approaching the vessel, following multiple warnings to turn away. "There were no reports from the Global Patriot of casualties," the

statement said. Later, however, the US acknowledged that there had been casualties.

This incident in the Gulf of Suez is not an isolated one. In January 2008, five Iranian speedboats challenged three US ships (identified as Navy cruiser

vessels, but also made a threat through radio communication to 'blow them up.' The speedboats, believed to belong to Iran's Revolutionary Guards Naval command, came within approximately 200m (650ft) of the US vessels. US Navy said that the

*US Global Patriot cruises down the Suez Canal towards the Egyptian port city of Ismailiya on March 25, 2008*



USS Port Royal, destroyer USS Hopper and frigate USS Ingraham) in the Strait of Hormuz. According to the US version of the event, the Iranian speedboats had not only behaved provocatively and harassed the US

Iranians withdrew as the US ships prepared to open fire and that the order to the crew to open fire was actually issued. The confrontation, which occurred in international waters, lasted about 20 minutes.

This incident happened on a major oil shipping route, and the consequences of such an incident could have sparked off a major military confrontation that would have undermined the security and the freedom of navigation in one of the most vital regions for the global economy. Most recently, on April 25, a US ship, Westward Venture, working for the US Military Sealift Command fired warning shots in the direction of two unidentified speedboats in the Gulf waters, a few miles from the Iranian coast. The US military spokesperson said



that the speedboats withdrew soon after the warning shots were fired. What alarmed the US Navy even more, however, is the series of naval exercises conducted by the naval command of Iran's Islamic Revolutionary Guards Corps during 2007, which focused, among other

skills, on perfecting mock attacks on ships by small speed boats packed with large amount of high explosives and on operations by divers using limpet mines. Following the Strait of Hormuz incident, the US naval command in the region expressed its concern over the conduct of the Iranian Revolutionary Guards Corps-Naval command describing it as 'provocative and irresponsible.'

Indeed, since al-Qaeda organized seaborne suicide attacks just off the Yemen coast on USS Cole in October 2000 and later on the French oil tanker Limburg in October 2002, the US Navy has been fully aware of the threat posed to its vessels by small speedboats and motor powered boats in general and understands the serious consequences of such attacks.

From the three incidents which occurred in 2008 – the Strait of Hormuz incident and the Gulf of Suez incident, and the Gulf incident – it seems that the US Navy operating in the Middle East waters has a new and more forceful rule of engagement, which gives 'standing authority' to the commanders of US vessels to open fire on any suspected target believed to pose a potential threat to the safety of their ships. By examining the two incidents when fire was either actually opened and caused casualties (Gulf of Suez incident) or when an order was actually issued to the gunners to open fire (Strait of Hormuz incident), it seems the US Navy's rules of engagement have specified the danger zone or the engagement zone as a distance not exceeding 200 meters. Thus any unidentified vessel (mainly small boats) approaching US vessels and failing to heed warnings to stop, by coming within the distance of 200

meters (or more) will be subject to attack by US forces. Such a change in the rules of engagement could be seen as

**What alarmed the US Navy even more, however, is the series of naval exercises conducted by the naval command of Iran's Islamic Revolutionary Guards Corps during 2007**

necessary in the context of the escalating and multiple security challenges facing the US forces in the region. These challenges arise from the US confrontation with Iran over the state's nuclear file and over the Iranian interventionist policy in Iraq, Lebanon, and Palestine. Besides, the unstable security situation in Iraq, and the continuing threat from Al-Qaeda and other terrorist groups also pose security challenges.

The escalating US-Iran standoff in Iraq and in the Gulf waters has prompted researchers to examine scenarios for conflict between the two states, focusing on two main possible developments: a planned war and an accidental war (basically representing the scenario of a US retaliatory attack on Iran taking advantage of an escalation resulting from an accident). In view of the recent developments related to the assumed changes in the US Navy's rules of engagement, the accidental war or accidental military confrontation scenario seems more possible than before.

*Dr. Mustafa Alani is Senior Advisor and Director of Security and Terrorism Department, Gulf Research Center*

# Gulf Security Dilemmas

**Christian Koch**

Given the shortcomings of security arrangements in the Gulf, it is natural for academics and policy pundits to put forward suggestions for overcoming the existing obstacles which have prevented the region and its external powers from gradually coming together to provide a more stable basis for ensuring regional Gulf security. In this discussion, the starting point of departure currently is that systematic interaction among all those with a stake or interest in the matter, whether at the regional or the broader international level, does not exist. There are simply no effective conflict resolution mechanisms in place.

Regionally, the Gulf Cooperation Council (GCC) as an institution, for the moment, does not have the capacity to serve as an organization that can bring all the actors with a stake in Gulf security matters to one table. The GCC remains a grouping of sovereign states rather than a multilateral institution with a minimum of an independent mandate. As a result of that lack of capacity, key players such as Iran and the United States have not extended to the GCC any organizational legitimacy which could serve as a foundation for the institution to grow and evolve. The US prefers to deal with the Arab Gulf States individually as evidenced by its insistence on concluding Free Trade Agreements with Bahrain and Oman bilaterally. Iran, on the other hand, registers its view by focusing on the fact that the word "Persian" is missing from the GCC official name, thereby implying that under current circumstances, and until all Iranian interests are respected and

included, it is not necessary to deal with its neighbors multilaterally. Such attitudes limit any effective move towards inclusive security apparatuses. In turn, regional instability endures with the constant possibility of short-term conflict situations that could quickly escalate.

The most obvious current danger to the security and stability of the Gulf is a confrontation with Iran, whether between the US and Iran over the latter's nuclear program or as a result of Tehran pressing its aspirations in the rest of the region, which the Arab Gulf states are bound to resist. Already, Tehran's interventionist policy inside Iraq has not produced any confidence regionally that Iran is a partner that one could possibly work with or that under a broader engagement with Iran, interests of the Arab Gulf neighbors would be taken seriously.

On the issue of the Iranian nuclear program, it would be shortsighted, and actually dangerous, to conclude that just because the December 2007 National Intelligence Estimate on Iran stated that it had – at least temporarily – suspended the military aspect of its nuclear program, a military confrontation between the US and Iran over that program is definitely off the table in the last months of the Bush administration. Recent months have underlined that some form of conflict is possible as the Bush administration has once again heightened the rhetoric with Iran. During his news conference on April 29, President Bush made it clear that the disclosure of secret information regarding the Israeli destruction of a

suspected Syrian nuclear reactor (on which there was almost no information for eight months from the time in September when the attack occurred) was done in part to send a message to Iran that proliferation will not be tolerated. Meanwhile, the Chairman of the Joint Chiefs of Staff, Admiral Michael Mullen, accused Iran of increasing its shipments of weapons to militants in Iraq.

*US Navy's Arleigh Burke-class Aegis destroyer USS Hopper*



This followed angry comments by US Secretary of Defense Robert Gates that, "What Iranians are doing is killing American servicemen inside Iraq." Admiral Mullen also made it clear that Iran should not underestimate the seriousness of

the US to interdict such shipment, and he countered a statement by the spokesman of the Iranian Foreign Ministry, Mohammad Ali Hosseini, that the US is too bogged down in Iraq to contemplate action against Iran by stating that, "I have reserve capability, particularly in our Navy and our Air Force so it would be a mistake to think we are out of combat capability." Several suggestions from US administration officials also underlined that the feasibility of attacks on Iran had been discussed including identifying precise targets inside Iran.

detailing discoveries about Iranian arms shipments. He also identified Iranian-sponsored Shi'a groups as "the greatest long-term threat to the viability of a democratic Iraq."

All of this came after a second incident at sea when a US commercial ship contracted by the Pentagon fired warning shots on approaching speedboats thought to be Iranian. This followed the bizarre incident in early January 2008 when US and Iranian vessels came very close to engaging in an armed encounter. Since then, the US navy has let it be

the next step in the sanctions regime are also proceeding with British Prime Minister Gordon Brown indicating that his country would work on extending the sanctions in order to block investment in an Iranian liquefied natural gas operation. In this overall context, there is the danger of a series of events escalating into a grave crisis. A first real incident at sea could easily lower the threshold and open the path for the US to take much broader action against Iran including attacks against suspected nuclear sites. At this point, it would be going too far to argue that the US is intentionally preparing the ground for another conflict and that all the recent statements are part of an overall effort in that direction. But that should not be seen to mean that a sudden eruption of conflict is not possible.

What such situation also underlines again is the overall fragility of the Gulf region when it comes to its security relationships. And in this context, one has to state clearly what the parameters which underline this fragility are. First, US unilateral tendencies to resolve the challenges facing the region almost exclusively through a military paradigm have done little to contribute to regional stability; in fact it has exacerbated insecurity. That unilateral approach has proven most destructive in relation to Iraq where the current situation could still lead to a division of the country along ethnic and sectarian lines. If the same unilateral approach were to be applied to Iran, a similar disaster would be placed in front of the Arab Gulf States. It is further the case that through their unwillingness to develop a more inclusive multilateral approach, US policy has also served as an obstacle for the region itself to develop more indigenous mechanisms.



General David Petraeus, the US commander in Iraq who has been nominated as the next US Central Command (CENTCOM) chief, has also been vociferous about Iran's alleged interference in Iraq and has ordered a dossier to be put together

known that if the Iranians were intent on changing the rules of the game, the US would follow suit and begin responding more aggressively to Iranian provocations. At the same time that the US is increasing the military pressure on Iran, discussions about

But equally important is the second parameter in that unless Iran begins to identify itself as a friendly neighboring Gulf country that is fundamentally committed to improving its relationship with the GCC states on a genuine one-to-one level, the chances for broader stability in the Gulf will not exist. While on a basic level, there is no disagreement from the GCC perspective about the natural role that Iran plays as a key regional country – including its right to have its interests respected as part of the regional equation – Iran must recognize that by portraying itself as the grand nation that has superior rights and interests as opposed to all the other Gulf littoral states it cannot open a new chapter in regional relations. Iran is a regional power but with that status also comes the greater responsibility to act in the broader Gulf interest, whether Persian or Arab.

One big question in the current debate is where this leaves the GCC states. It should be clear that GCC-Iran relations are currently strained, and there exists little confidence from the Arab Gulf side about Iranian actions and intentions. As far as the GCC is concerned, Iran is fully determined to exert its influence throughout the region without considering what impact this might have or the interests that might exist on the other side of the Gulf. There is also a common conviction that Tehran does not take the Arab Gulf governments seriously and continues to perceive them as weak puppet states that are solely being propped up by US military protection. Iran thus has little respect for its neighbors which in turn makes it difficult for the GCC states to effectively engage with Iran.

At the same time, the GCC states want to resolve their differences with

Iran through dialogue, and they are very aware of the possible devastating consequences that another armed confrontation could have on the region. With the large amounts of oil revenues flooding into the region and making possible large-scale development projects, the GCC states simply have too much to lose if war were to break out once again. Moreover, the Arab Gulf

foreign policy role over the past two years, the GCC promoting a regional integration mechanism especially on the economic side, and the GCC states looking at broadening their external relationships, for example, by focusing on ties with Asia and Africa and also talking to NATO about a multilateral security engagement in the region.

*NATO Secretary General Jaap de Hoop Scheffer shakes hands with Bahrain's Foreign Minister Shaikh Khaled bin Ahmed Al-Khalifa after the signing of an agreement between the two sides in Manama on April 24, 2008.*



governments and their populations are tired of conflict having been confronted by a continuous series of crises for the past three decades ever since the 1979 Iranian revolution. They are also aware that they cannot change geography and that Iran will always be their neighbor. The emphasis therefore has to be on accommodation instead of confrontation.

All of this points to the need also for the Arab Gulf States to take the lead in the conflict resolution process and ensure that their interests define the terms and direction of the current debate. On a positive note, this process has begun with Saudi Arabia certainly playing a more active

Such steps, of course, remain insufficient in order to resolve the underlying dilemmas in the short-term. But given the chaos in Iraq, the threat from Iran and the weakness of the United States, they represent choices that can ultimately pave the way out of the current unacceptable status quo. Given the present situation, it seems likely that Gulf security dilemmas will remain part of the daily equation. It is only when both the US and Iran comes to their senses that these dilemmas can slowly be resolved.

*Dr. Christian Koch is Director of International Studies, Gulf Research Center*



مركز الخليج للأبحاث  
المعرفة للجميع

## Newsletters Published by GRC

- ▶ *The GRC Environment Research Bulletin*
- ▶ *GRC Economics Research Bulletin*
- ▶ *Security & Terrorism Research Bulletin*

- Gulf-Asia Research Bulletin* ◀
- GCC-EU Research Bulletin* ◀
- GRC Newsletter* ◀



# Dubai Inc. in China: New Vista of Gulf-Asia Ties

**Samir Pradhan**

Visits by leaders of the GCC states to Asia may not raise eyebrows anymore. However, if there are huge economic stakes involved in the interaction between the fastest-growing economy and a forward-moving desert economy, it is bound to attract attention particularly from geo-economic observers. The high profile visit of His Highness Shaikh Mohammed bin Rashid Al-Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai to China therefore drew great interest. The entourage comprised a who's who of the emirate of Dubai and reflected the proactive economic diplomacy of the UAE being re-energized in recent years with a primary focus on rising Asia. Apart from bolstering economic and commercial ties with China, this visit was also meant to benefit the UAE in more ways than one including on several crucial strategic and foreign policy fronts. And, from a broader perspective, this signified the booming east-east solidarity which has been in existence for several years now.

Since the establishment of diplomatic ties on November 1, 1984, the political, economic, and trade relations between the UAE and China have evolved smoothly. In recent years, UAE-Sino ties have strengthened with burgeoning trade and investment cooperation. Bilateral trade between the UAE and China recorded an impressive growth of 33 per cent in the last eight years. In 2007, China exported

goods and services worth nearly \$17 billion to the UAE, out of which nearly 70 percent was re-exported to other countries in the Middle East, Africa and even Europe. Trade between Dubai and China, which has been

countries in recent years point to two-way complementarities. Dubai Port World's investment in container berths operation in six Chinese ports, Damac's investment of \$2.7 billion in Tanggu district mix-use

*Chinese Premier Wen Jiabao meets with visiting Vice-President and Prime Minister of the United Arab Emirates, Shaikh Mohammed bin Rashid Al-Maktoum, April 3, 2008*



increasing steadily over the past five years, soared to a 47 percent high of \$6.2 billion in 2007. China's main exports to the UAE are textile products, light industrial products, products made of the five metals (gold, silver, copper, iron and tin), handicrafts and machinery. UAE's main exports to China are aluminum ingot, chemical fertilizer, petroleum and petrochemical products like, polythene, polypropylene, etc.

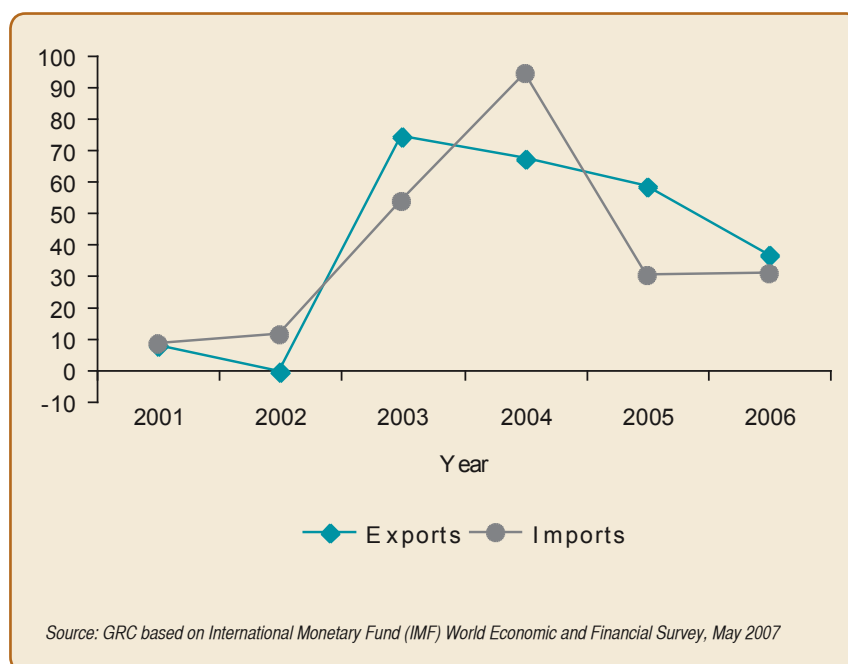
Apart from booming trade relations, investment flows between the two

development project, and Jumeirah Group's management rights for hotel development of the HanTang Jumeirah Shanghai, are some of the headline making UAE investments in China. Simultaneously, Chinese companies especially construction, petroleum and petrochemical firms are increasingly setting up their base in the UAE, which is a strategic transit point for a huge market extending from the Indian subcontinent to the African shores. There are more than 3,000 registered Chinese

companies and Dragon Mart is one of the important Chinese business establishments in the UAE. The Chinese Commodities and Trade Fairs which are held throughout the UAE from Sharjah to Fujairah on a regular basis have served as an effective forum to promote trade. Added to this is the increasing flow of Chinese manpower to the UAE which surpassed the 200,000 mark in 2007, out of which only 30,000 were laborers and the rest being executives and businessmen. Importantly, the huge foreign exchange reserves and the sovereign wealth funds in both countries have become a crucial element in global capital flows through strategic investments and acquisition of companies.

Recognizing the huge potential for synergizing complementarities, Chinese President Hu Jintao visited the UAE and deliberated on various issues in January 2007. In April 2007, UAE Minister of Economy Shaikha Lubna Al-Qassimi reciprocated and signed an MoU to set up a joint team tasked with boosting bilateral relations during her visit to China. Thus, the trip of the Ruler of Dubai accompanied by 15 top ranking government officials,

**Figure: Growth Rate of Exports and Imports in UAE-China Trade**



50 prominent businessmen and important media dignitaries among others was a natural extension of these developments. Shaikh Mohammad would later characterize the trip as “outstanding, historical and vibrant.”

During the visit, the UAE delegation concluded a raft of agreements and memorandums of understanding on a whole range of economic, health, cultural and judicial issues between the government as well as private business level dignitaries

of both the nations. They included an agreement signed by Foreign Minister Shaikh Abdullah bin Zayid Al-Nahyan and his Chinese counterpart on security cooperation; Mohammad Abdullah Al-Gergawi, Minister of Cabinet Affairs, with the Chinese Minister of Higher Education on cooperation in higher education and scientific research; and an MoU signed on cooperation in health quarantine between the UAE Ministry of Health and the Chinese Department of Quality Control and Health Quarantine.

**Table: UAE's Trade with China, 1990-2006 (Billion Dollars)**

Year	Exports (X)	Imports (M)	TT (X+M)	Trade Balance (X-M)
1990	0.04	0.57	0.6	-0.5
1995	0.11	1.65	1.8	-1.5
2000	0.38	2.05	2.4	-1.7
2001	0.41	2.23	2.6	-1.8
2002	0.40	2.48	2.9	-2.1
2003	0.70	3.80	4.5	-3.1
2004	1.18	7.40	8.6	-6.2
2005	1.86	9.61	11.5	-7.7
2006	2.54	12.55	15.1	-10.0

Source: IMF, Direction of Trade Statistics CD-ROM, 2007

At the UAE-China Business and Economic Cooperation Forum, several additional agreements were signed. Prominent among them were the agreement for collaborative research and information sharing between Etisalat and Chinese biggest telecom equipment maker, Huawei Technologies; Dubai based Tejari's agreement pertaining to a joint venture with YinShengTai Group, a leading real estate developer in Qingdao, China, to establish Tejari China (under the Chinese brand name of 'Te Jia Ye') and set in motion the opening of over a dozen new offices across China in 2008; a strategic agreement with ShanghaiMart, China's first and Asia's largest permanent international trade mart, to facilitate export promotion and strengthen commercial links for textile trade with the Middle East; and a high-level Sino-UAE public-private partnership between Emaar Properties and the Shanghai China-News Enterprise Development Limited for mixed-use property and infrastructure development projects in key Chinese cities.

With an economic boom sweeping across the landscape, both UAE and China are eager to expand opportunities and share benefits in the globalizing economy. The

**With an economic boom sweeping across the landscape, both UAE and China are eager to expand opportunities and share benefits in the globalizing economy**

emerging partnership thus entails a highly competitive blend of China leveraging its strength in basic

processed manufacturing and the UAE showcasing its logistics hub advantage.

Beyond tangible economic and commercial benefits, there are concurrent regional as well as global political, strategic and security trends which also induce both parties to intensify bilateral relations. In the recent past, China has been highly successful in carrying out its overreaching global economic diplomacy especially in its near and extended neighborhood. In pursuing its avowed objective of becoming a major strategic power while addressing its urgent domestic constraints, such as its unstable region containing nearly 20 million Muslim population and importantly, its quest for energy sources, China has redefined its engagement with the Gulf region in general and Saudi Arabia and the UAE in particular. To protect its lifeline energy transport channels starting from the Middle East, China has expanded its naval power and made a foothold in the Indian Ocean by constructing the Gwadar Port in Pakistan. The UAE being an Indian Ocean littoral state is therefore a strategic partner for China in its effort to make its presence felt as a power to coexist with other powers in the region and importantly to showcase to the US. Moreover, with the UAE being the most modern and liberal country in the Gulf region it is not only a source of investment for the social, cultural and religious development of China's Muslim dominated regions but could possibly also act as an interlocutor in quelling possible independence movements in those regions, importantly in the Xinjiang province.

Of late, the UAE has been pursuing a pragmatic foreign policy pertaining to the Asian region which, however,

does not mean shying from away increasing its political and strategic profile in the region and beyond and thereby forging links and partnerships

**Beyond tangible economic and commercial benefits, there are concurrent regional as well as global political, strategic and security trends which also induce both parties to intensify bilateral relations**

with other major powers. China is of vital importance in the UAE's strategic calculus also due to its closeness to Iran. Given the fact that China-Iran relations are on the upswing and the UAE has border disputes with Iran and the US's persistent pressure on Iran, UAE is strategizing to adopt a pragmatic course. In case of future threats from Iran, the UAE is hopeful that it could manage the Chinese influence to its advantage. Further with increasing US pressure on the UAE to regulate and monitor trade and commercial exchanges with Iran, the UAE is contemplating a balanced approach.

As a result, the potential for a further enhancement of the bilateral relationship between the UAE and China are promising. Both are faced with two-way complementarities to exploit opportunities for mutual benefit. While economic and commercial benefits are clearly tangible, strategic benefits cannot be discounted. Therefore, both countries will need to continuously reassess how to adapt their interests and aspirations to the changing geopolitical environment.

*Dr. Samir Pradhan is a Senior Researcher, Gulf Research Center*

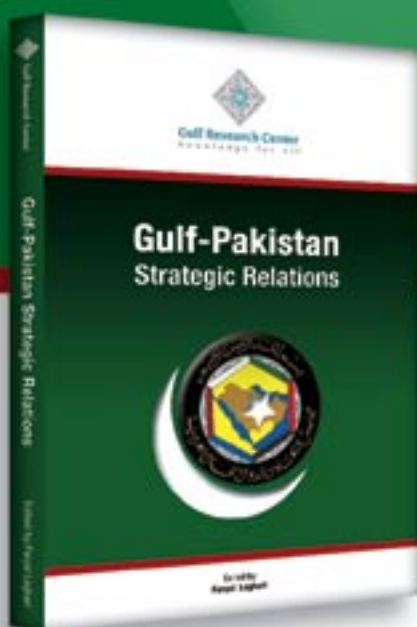


**Gulf Research Center**  
Knowledge for All

# Gulf-Pakistan Strategic Relations

The significance of the Gulf States derives from their vast energy resources and their geographic position in the politically volatile and strategically significant Middle East region. Pakistan's strategic location in relation to the Middle East, Central Asia, China and India, coupled with it being the only Muslim nuclear power, has added a significant dimension to its ties with the Gulf. The long-standing relations between the Gulf States and Pakistan are multifaceted and encompass political, economic, cultural and security aspects.

This edited volume looks at the issues that play a major role in Gulf-Pakistan relations. It covers the historical ties between the regions, political relations in the changing geo-strategic landscape with China and India emerging as Asian giants, economic relations governed by energy, trade and manpower issues, and security ties including defense cooperation, counterterrorism and soft security issues. With eminent commentators and analysts providing well-informed insights on these issues, this book aims to address the dearth of research material on Gulf-Pakistan relations.



**To order your copy, contact:**

Tel: +971 4 3247770

Fax: +971 4 3247771

[sales@grc.ae](mailto:sales@grc.ae)

[www.grc.ae](http://www.grc.ae)

# A Common European Approach to Sovereign Wealth Funds – Continuity of the Status Quo?

**Nermina Biberovic**

In times of new global economic realities, the stabilizing potential of Sovereign Wealth Funds (SWFs) for financial global markets is widely recognized. At the same time concerns about their opaque nature and their motives have arisen. The paradigm shift of SWF's investment policies towards equities and alternative investments and their geographical diversification has initiated considerable controversy over possible implications for the OECD and the European Common Market and has triggered efforts towards a regulatory response.

These regulatory initiatives have been fuelled by the startling growth of SWF assets, and probably even more by a number of major investment decisions made by individual sovereign funds and other state-owned or state-controlled corporate entities.<sup>1</sup> Their profile has been raised through a series of recent significant acquisitions in Europe and worldwide.<sup>2</sup>

## A Common European Response

In line with international efforts,<sup>3</sup> the European Union (EU) by the end of 2007 acknowledged that an internationally agreed code of conduct on SWFs - under the

auspices of the IMF<sup>4</sup> - is the most effective and proportionate way to address concerns that the cross-border operations of some SWFs could interfere with the normal functioning of market economies.

A common approach was considered necessary to strengthen Europe's voice in international discussions, while the code itself "is regarded as an international one, rather than simply a European one."<sup>5</sup> The EU – which

*European Union Trade Commissioner Peter Mandelson attends a meeting of Gulf Cooperation Council (GCC) finance ministers in Doha, December 2, 2007*



1 For an overview of the national treatment of foreign controlled enterprises in OECD countries, see Organization for Economic Cooperation and Development (OECD), National Treatment for Foreign-Controlled Enterprises Including Adhering Country Exceptions to National Treatment, March 2008 at: <http://www.oecd.org/dataoecd/32/21/1954854.pdf> (accessed 03.04.2008).

2 Among GCC's major acquisitions in Europe are: The purchase of British P&O by DP World, the acquisition of a 25 percent stake of J. Sainsbury in the UK by Delta Two/Qatar Investment Authority (QIA). QIA's purchase of Chelsea from the British Ministry of Defense as well as its 50 percent stake in the London Stock Exchange jointly with Bourse Dubai ranks equally as Dubai's offer to acquire a stake in OMX and its purchase of a 3.2 percent stake in EADS. Noteworthy is Kuwait Investment Authority's (KIA) stake in Daimler Benz, British Petroleum and its acquisition of real estate in the United Kingdom.

3 In autumn 2007, the G-7 Group outlined plans urging the IMF and OECD to work out an agenda that would cover transparency and good governance. This approach was affirmed by the G-7 in Tokyo, in February 2008. See Statement of G-7 Finance Ministers and Central Bank Governors, Tokyo, February 9, 2008 at: [www.mof.go.jp/english/iff/g7\\_080209.pdf](http://www.mof.go.jp/english/iff/g7_080209.pdf) (accessed 27.03.2008). The OECD is taking the lead on issues related to investment policies in host countries, including national security issues, which stand outside the purview of the IMF.

4 Most governments running SWFs have in general committed to contributing to the stability of the international financial system in the context of their membership in the IMF, as is the case for all six GCC member states.

is a key actor in the multilateral financial system – decided not to take legislative action, but to support IMF and OECD standards, based on close coordination with the US in the Joint Investment Dialogue. Addressing SWFs, José Manuel Barroso, President of the European Commission, outlined that a “common approach at EU level is essential, in order to avoid distorting the single market with incompatible national responses” and emphasized the need for “cooperative efforts” between recipient countries and SWFs. Yet, he asserted, “that European legislation might be applied in the future, if transparency through voluntary means could not be achieved.”<sup>6</sup> According to the EU Trade Commissioner Peter Mandelson, “SWFs simply (could not) afford to underestimate how important reassurance about systems of transparency and governance is in ensuring that unfounded suspicion doesn’t mushroom into protectionism that is in nobody’s interest”.<sup>7</sup>

Faced with the challenge of maintaining its constitutional commitment to an open investment market on the one hand and taking decisive action to prevent future crises and shore up 27 national economies and the Common Market as a whole on the other hand, the EU and its member states have come under pressure to reconcile national and European regulative standards and to adjust these policies within an internationally elaborated regulatory frame.

### Constitutional Flexibility?

In fact, the European Commission

abstained from legislative action and favored a voluntary code of conduct intending to avoid uncoordinated responses among its member states. EU’s legal framework concerning a common commercial policy, including trade and investment, has in several previous debates been challenged by the member states.

According to EU’s legal framework, investment flows follow the principles of free movement of capital. Yet, the commitment to free movement of capital is not absolute as it is regulated and limited on EU as well as on member states levels. The European Parliament and the European Council may thus adopt measures by qualified majority on the movement of capital from third countries. If these measures imply a step backwards of Union Law concerning the liberalization of the movement of capital, unanimity would be required.<sup>8</sup>

Nevertheless, Foreign Direct Investment (FDI) does not currently squarely fall under EU’s Common Commercial Policy, as “investment” in general was not part of the respective articles of the EU Treaties. In the Treaty of Lisbon – which followed the Treaty of Maastricht, Amsterdam and Nice – we find a controversially drafted article which mentions foreign direct investments in the wording of the Common Commercial Policy, next to trade in goods and services and the commercial aspects of intellectual property. Yet, Lisbon’s “Reform Treaty” misses to clarify the allocation of competencies which in fact might intensify and revive the debate.<sup>9</sup>

### Member States’ Investment Positions - In Search for a Strategy

The dispute between the Commission and the member states in respect of the legal authority concerning the conclusion of International Investment Agreements (IIAs), which resulted from the above mentioned constitution, has in the past been referred to the European Court of Justice (ECJ). The latter in previous lawsuits argued that the responsibility over investment agreements with third countries falls under member states’ competence.<sup>10</sup>

As hitherto, the EU member states will continue using their rights according to the “Merger Regulation” to develop and use national instruments to take appropriate measures to protect their legitimate interests – other than competition - as long as these are nondiscriminatory, proportionate and compatible with other provisions of international regulations and Community Law. Officials from the GCC assume that these national mechanisms might be used to control and condition SWF investments or any other investors henceforth.

Several EU member states, including the United Kingdom, France and Germany, have legislation on the national level in place that allows them to deal with SWFs: France regulates foreign investment in a separate code of law, setting up reporting and review mechanisms which ensure that the authorities are aware of individual foreign investment activities. Accordingly, information

5 Commission puts forward proposals to the European Council on sovereign wealth funds and financial stability. Press Release IP/08/313, Brussels, February 27, 2008 at: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/313&format=HTML&aged=0&language=EN&guiLanguage=en> (accessed 27.03.2008).

6 Ibid.

7 Peter Mandelson cited in “EU Commissioner Calls for Sovereign Wealth Fund Code of Conduct”, AFP News Brief List, March 28, 2008 at: <http://www.france24.com/en/20080328-eu-commissioner-calls-sovereign-wealth-fund-code-conduct> (accessed 01.03.2008).

8 EC Article 57(2), 57(3).

9 Treaty of Lisbon, Article 188C, 1.

10 The European Court of Justice (ECJ) has provided further guidance on how EU member states can take these national measures in full compatibility with the Treaty, stressing that purely economic grounds can never justify obstacles prohibited by the Treaty. The ECJ also offers guidance and has provided criteria to assess the proportionality of authorization systems to assure compliance with Community Law.

necessary for an assessment can be gathered and transactions within well-defined time frames reviewed. The French model is adopted to some extent by Germany's Federal Ministry of Economics and Technology as the Ministry came up with a bill in early November 2007 for the amendment of the Foreign Trade Act of the year 1961. The revision is set to establish a reasonable review process, which might be implemented in 2008. By screening on a case by case basis, German authorities will be able to block certain acquisitions of foreign investors in German companies (in which they would gain 25 percent or more of voting power), if such cases have been classified as a threat to the public order or national security – as defined by regulations of the EU and the rulings of the European Court of Justice – within three months after the acquisition. It is noteworthy, that Germany – unlike several other European countries – does not name particular industries as sensitive to national security considerations, but reserves its right to decide on a case by basis whether an enterprise is of “strategic relevance.” The United Kingdom is following a less formal, however discrete approach, in evaluating and prohibiting foreign investments that are considered against national interest.

### **Coordinating Initiatives: EU Commission's Proposal for a Voluntary Code of Conduct**

The Commission's communication on SWFs<sup>11</sup>, which was issued at the end of February 2008, was welcomed by the Spring European Council Summit on March 13-14, 2008. A unified

European approach was essential in order to avoid a fragmentation of investment regulations as well as an uncoordinated series of national responses, especially as several EU member states had already initiated – as stated above – a review of national investment laws. In the communication, the Commission clearly laid down its position proposing a “balanced and

*A Euro symbol in front of the European Central Bank (ECB) in Frankfurt, Germany*



proportionate unified approach” of its member states. In line with this concept, the Commission on the one hand seeks to protect legitimate national policy interests through enhanced transparency, predictability and accountability criteria for SWF investments without, on the other hand, falling into the trap of protectionism – pursuant to its commitment to maintain an open investment environment. Overall, the Commission's move represents the bloc's first attempt at addressing

SWFs activities at EU level, aiming to balance concerns over the alleged lack of transparency while contributing to international efforts to set up a framework for improving the openness and accountability of the funds.

The EU declared that it would follow the approach of IMF and OECD suggesting a voluntary code of

conduct for SWFs with a focus on good governance and transparency. Accordingly, a variety of areas, including rules on allocating and separating responsibilities within the governance structure, could be covered. The code of conduct could also call for public disclosure of an investment policy that defines the overall objectives and could require operational autonomy for the SWF to achieve its defined objectives. Besides, it could ask for the disclosure of the general principles

<sup>11</sup> Commission of the European Communities (COM 2008) 122 final, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Common European Approach to Sovereign Wealth Funds, Brussels, March 27, 2008 at: [http://ec.europa.eu/commission\\_barroso/president/index\\_en.htm](http://ec.europa.eu/commission_barroso/president/index_en.htm) (accessed 01.04.2008). The Commission set out five principles: the commitment to an open investment environment both in the EU and elsewhere, including in third countries that operate SWFs, the support of multilateral work in international organizations such as the IMF and OECD, the use of existing instruments at EU and member state level, the respect of EC Treaty obligations and international commitments, for example in the WTO framework, and finally the commitment to proportionality and transparency.

governing a SWF's relationship with governmental authorities and the publication of general principles of internal governance that provide assurances of integrity. The proposal also suggests that the code should include the development and issuance of risk-management policies. Provisions related to transparency might include annual disclosure of investment positions and asset allocation – particularly for investments for which there is majority ownership – as well as clarification on how the ownership rights are exercised. In addition, it could include disclosure of the use of leverage and the currency composition, as well as size and source of an entity's resources. Information on the home country regulation and oversight governing the SWFs may also be asked for.

### **From Cooperation to Partnership: Defining Coherent Strategies**

By the end of March 2008, the US Treasury Department laid out a series of principles governing investment activities for both funds and recipient countries. The accord was signed between the US Treasury Department, Abu Dhabi Investment Authority (ADIA) and Singapore's Government Investment Corporation (GIC) and backed by the world's third largest SWF, the Norwegian Government Pension Fund.<sup>12</sup> The IMF which is planning to draw up a draft agreement by the end of this year is likely to mirror the policy principles laid down in Abu Dhabi in March.<sup>13</sup> Most likely, this development will increase the pressure on smaller SWFs in the Gulf to follow.

In reaction to the international and European search for a regulatory framework for SWFs, ADIA, the world largest SWF, declared in a document from March 2008 addressing the US Treasury Secretary Henry Paulson, the finance ministers of the G-7, IMF, World Bank, OECD and the European Commission, that its investment entities are “predominantly passive investors” that favor “small stakes in companies that involve no control rights, no board seats, and no involvement in the management or direction of firms.” Yet, ADIA did not explicitly rule out changing tack in the future.<sup>14</sup>

Recent conciliatory moves by international and European representatives have stressed the need for a “cooperative dialogue”, reacting to the resentments, which the world's largest and Gulf's biggest SWFs have articulated. Yet, Gulf officials expressed their concern that individual EU member states might translate a voluntary code of conduct into compulsory national jurisdiction. A strengthened mutual dialogue between Europe and the Gulf will hence imply enhanced consultation mechanisms, as recent developments clearly indicate.

The geo-economic relationship between the EU and the Gulf cannot be overlooked or understated. In 2007, the GCC member states have been able to build their net foreign asset position to \$1.8 trillion, as the latest research of the

Institute of International Finance indicates.<sup>15</sup> The EU is attracting a significant share of these account surpluses, which might further rise, in case the Gulf States move towards an agenda of diversifying currency holdings. It is estimated that GCC's capital outflows towards the European Common Market accounted for around one fifth of Gulf's total capital outflows between 2002 and 2006. Around 20 percent of GCC's overall portfolio investment and around 55 percent of Gulf's total direct investment were directed towards the EU. While the ratio of direct investment is marginal,

**Gulf officials expressed their concern that individual EU member states might translate a voluntary code of conduct into compulsory national jurisdiction**

yet it clearly indicates a strategic alignment towards the EU. To conclude, an international dialogue should build upon existing rules and regulations and might contribute to mutual trust while keeping markets open in times when economic ties have deepened and widened. The Europeanization process of investment policies itself will matter in this regard, as the process is currently dominated by the policies of countries having closer ties with the Gulf region and divergent economic interests. In a similar way, the economic preferences of the GCC states vary.<sup>16</sup>

12 The policy principles to which ADIA and GIC signed up include a pledge that their investment should be made solely for commercial and not political objectives, that the investment purpose, objectives and financial information including asset allocation and rates of return should be disclosed. Furthermore, the world's largest SWFs commit to apply strong governance structures and internal control and risk management systems. In return, host countries of SWFs agree to an equal treatment of all investors, and to ensure predictable investment frameworks in place - apart protectionist barriers to investment. Restrictions imposed for national security reasons would, accordingly, have to be proportional to the risk raised by transaction.

13 Also see International Monetary Fund, Sovereign Wealth Funds – A work Agenda, February 29, 2008 at: [www.imf.org/external/np/pp/eng/2008/022908.pdf](http://www.imf.org/external/np/pp/eng/2008/022908.pdf) (accessed 02.04.2008).

14 Ryan Harrison, “Adia is not a ‘Political Tool’”, *Emirates Business* 24/7, March 19, 2008.

15 Institute of International Finance (IIF), *Economic Report Gulf Cooperation Council Countries*, January 16, 2008.

16 For further details on GCC's SWFs, see Deutsche Bank Research, *Staatsfonds – Staatliche Auslandsinvestitionen im Aufwind*, December 18, 2007.

## Sovereign Wealth Funds– State Investments on the Rise

Overview of important SWFs worldwide				
Country	Fund	AuM (USD bn)	Inception year	Source
United Arab Emirates	Abu Dhabi Investment Authority (ADIA)	875	1976	Oil
Singapore	Government of Singapore Investment Corporation (GIC)	330	1981	Non-commodity
Norway	Government Pension Fund - Global (GPF)	322	1990	Oil
Saudi Arabia	Various funds	300	NA	Oil
Kuwait	Kuwait Investment Authority (KIA)	250	1953	Oil
China	China Investment Company Ltd.	200	2007	Non-commodity
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	140	1998	Non-commodity
Russia	Stabilization Fund of the Russian Federation (SFRF)	127	2003	Oil
China	Central Huijin Investment Corp.	100	2003	Non-commodity
Singapore	Temasek Holdings	108	1974	Non-commodity
Australia	Australian Government Future Fund (AGFF)	50	2004	Non-commodity
Libya	Reserve Fund	50	NA	Oil
Qatar	Qatar Investment Authority (QIA)	40	2000	Oil
United States	Alaska Permanent Reserve Fund Corporation (APRF)	40	1976	Oil
Brunei	Brunei Investment Agency (BIA)	35	1983	Oil
Ireland	National Pensions Reserve Fund (NPRF)	29	2001	Non-commodity
Algeria	Reserve Fund	25	NA	Oil
South Korea	Korea Investment Corporation (KIC)	20	2006	Non-commodity
Malaysia	Khazanah Nasional BHD (KNB)	18	1993	Non-commodity
Kazakhstan	Kazakhstan National Fund (KNF)	18	2000	Oil, gas, metals
Canada	Alberta Heritage Fund (AHF)	17	1976	Oil
Taiwan	Taiwan National Stabilisation Fund (TNSF)	15	2000	Non-commodity
United States	New Mexico State Investment Office Trust Funds	15	1958	Non-commodity
Iran	Foreign Exchange Reserve Fund	15	1999	Oil
Nigeria	Excess Crude Account	11	2004	Oil
New Zealand	New Zealand Superannuation Fund	10	2003	Non-commodity
Oman	State General Stabilisation Fund (SGSF)	8.2	1980	Oil, gas
Chile	Economic and Social Stabilization Fund (ESSF)	6.0	2007	Copper
Botswana	Pula Fund	4.7	1993	Diamonds et al.
United States	Permanent Wyoming Mineral Trust Fund (PWMTF)	3.2	1974	Minerals
Norway	Government Petroleum Insurance Fund (GPIF)	2.6	1986	Oil
Azerbaijan	State Oil Fund	1.5	1999	Oil
East Timor	Timor-Leste Petroleum Fund	1.2	2005	Oil, gas
Venezuela	Investment Fund for Macroeconomic Stabilization (FIEM)	0.8	1998	Oil
Kiribati	Revenue Equalisation Reserve Fund (RERF)	0.6	1956	Phosphates
Chile	Chile Pension Reserves Fund	0.6	2007	Copper
Uganda	Poverty Action Fund	0.4	1998	Aid
Papua New Guinea	Mineral Resources Stabilization Fund (MRSF)	0.2	1974	Minerals
Mauritania	National Fund for Hydrocarbon Reserves	0.0	2006	Oil, gas
United Arab Emirates	Dubai Intern. Financial Centre Investments (DIFC)	NA	2002	Oil
Angola	Reserve Fund for Oil	NA	2007	Oil
<b>Total</b>		<b>3,190.00</b>		
<b>Memorandum items: Planned SWF projects</b>				
China	State Foreign Exchange Investment Corporation (SFEIC)	200	2007e	Non-commodity
Russia	Future Generations Fund of the Russian Federation (SFRF)	32	2008e	Oil
Bolivia	(Establishment of SWF planned)	NA	2008e	Oil
Japan	(Establishment of SWF presumed)	NA	NA	Non-commodity
<b>Total incl. Memorandum items</b>		<b>3,422.00</b>		

Data on assets under management reflect latest available figures as reported by each individual entity or other authoritative sources. Various reporting dates between 2004 and 2007.

Source: Deutsche Bank Research, Staatsfonds – Staatliche Auslandsinvestitionen im Aufwind, December 18, 2007

So far, the inclusion of public procurement, standards, intellectual property and investment policies in the EU negotiation directives represents a significant step towards

“deepened” GCC-EU relations. Yet, an agenda of well-defined mutual strategies will be required, if Gulf-European ties are to evolve from cooperation to partnership,

especially in the context of the EU-GCC FTA.

*Nermina Biberovic is a Research Associate, Gulf Research Center*



**Gulf Research Center**  
Knowledge for All

# The Gulf and Africa

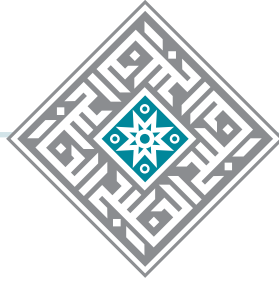
## Developing a New Strategic Partnership



February 24-25, 2009. International Convention Centre, Cape Town, South Africa

The “Gulf and Africa: Developing a New Strategic Partnership” forum will bring together key leaders from business, academia, government and media to outline the main challenges facing more constructive relations between the key regions of Africa and the Gulf. The purpose of this event is to cover a wide range of issues enabling the proposition of policy recommendations that will ensure closer ties.

[www.grc.ae](http://www.grc.ae)



# Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider and consultancy specializing in the Gulf region. The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented.

The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

187 Oud Metha Tower, 11th floor  
303 Sheikh Rashid Road  
P.O. Box 80758, Dubai, UAE  
Tel. No.: +971 4 324 7770  
Fax No.: +971 4 324 7771  
E-mail: [info@grc.ae](mailto:info@grc.ae)  
Website: [www.grc.ae](http://www.grc.ae)