ASIA HOUSE

The Middle East's Asian Pivot

Trade Growth and Opportunities

Asia House is the Centre of Expertise on Asia. Based in London, it drives economic and political engagement between Asia and Europe through its programme of events featuring thought-leaders from governments and industry; through its research activity; and through its corporate advisory services.

INTRODUCTION

The current global trade order is changing, as a result of not only the policy direction of world leaders but also economic shifts and transformations. Asia is comprised of dynamic economies that have grown rapidly over the past two decades and continue to lead global growth. Several are undergoing transitions from manufacturing-based economies to service- or innovation-led economies.

The Middle East, as a distinct region within Asia, is experiencing its own unique growth opportunities and challenges. Although most Gulf nation economies are predicted to grow in the coming years, low oil prices are expected to continue and the need for economies to diversify is inevitable. Population change is set to transform the region as urbanisation and connectivity continue to increase, creating larger and more educated urban digital middle classes. There is also set to be a dramatic increase in physical connectivity across the whole of Eurasia under China's Belt and Road Initiative (BRI), which could unleash economic development, investment and trade on a historic scale. These trends present many opportunities for international economic engagement in the Middle East.

As the Middle East's economic advancement and increasing connectivity draw it further into global markets, a question arises: Who will dominate trade with the region? Some Middle Eastern economies have had long-term relationships with traditional Western markets, but their political and economic engagement with Asia is continuing to increase. Throughout traditional markets – particularly the US – there are rising protectionist attitudes, and the global trade order is less certain now than at any time in the past few decades.

This research is part of Asia House's commitment to exploring these long-term trends and the opportunities arising from them. Prepared as part of the Asia House Middle East Programme, this research compares Middle Eastern trade growth with the rest of Asia to its trade growth with traditional markets, such as the US and UK. This paper provides our key findings. The full report provides a detailed examination of trade flows between the Middle East and emerging Asian economies, highlighting specific areas of growth and opportunities. To access the full report please see details on pg 11.

Executive summary

Amid an uncertain and dynamic global economic order, Asia is winning out in the competition for share of Middle Eastern trade. This century, Middle Eastern trade with the rest of Asia has grown more rapidly than Middle Eastern trade with traditional markets. Furthermore, while emerging Asia – China, India and countires in the Association of South East Asian Nations (ASEAN) – is taking an increasing share of Middle Eastern trade, the share of trade among Organisation for Economic Co-operation and Development (OECD) countries has significantly reduced. This paper explores these trends and examines trade flows between Gulf nations and the rest of Asia to understand future opportunities and risks in the region.

Trade growth between Asia and the Middle East is based on Asia's huge (and increasing) energy demands and the Middle East's increasing demand for primary and secondary sector consumer goods. The Gulf Cooperation Council (GCC) nations – Saudi Arabia; United Arab Emirates (UAE); Bahrain; Kuwait, Qatar and Oman – dominate economic ties with the rest of Asia, and the highest trade growth is taking place with emerging Asian economies. Growth has been driven by economic expansion, population increase and growing middle classes in each region. For example, between 2000 and 2016, the GCC's compound annual growth rate of bilateral trade with China was 13.5%, whereas the GCC's rate with the US was 4.4%. India's compound annual growth rate of bilateral trade with the GCC was 14.7%, whereas the European Union's (EU) was 5.5% (see Figure 4). In 2000, emerging Asian economies had an 18% share of GCC trade; in 2016, they had 30% – a 12% increase. In 2000, the OECD (consisting of 35 nations and all traditional Western markets) had a 63% share of GCC trade; in 2016, they had 42% – a 21% reduction (see Figure 3). China is also the largest trading partner of both Iran and Iraq. These long-term trends show the Middle East's growing focus on trade with the rest of Asia. They also highlight, from an Asian perspective, the elevated importance of Middle Eastern trade in comparison to traditional markets.

Figure 1. GDP growth forecast, GCC countries (%)

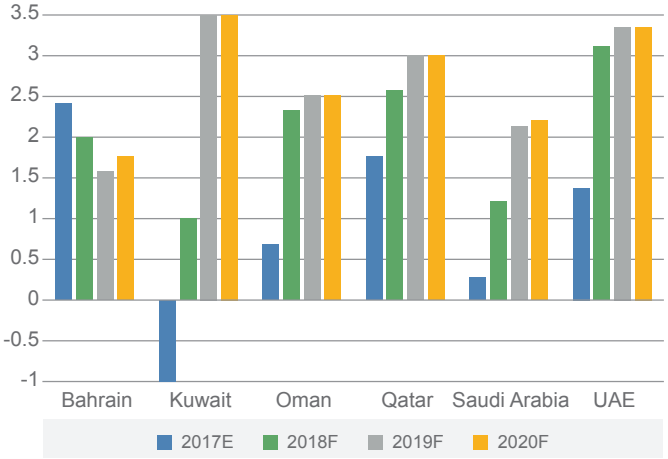
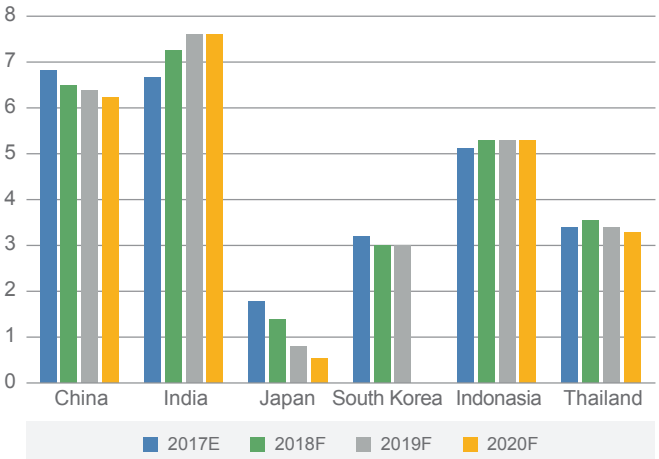


Figure 2. GDP growth forecast, Asian countries (%)



E: Estimate F: Forecast

The current trajectory suggests that these trends will persist, and that the economic relationship between Asia and the Middle East will continue to grow. There are robust rates for economic growth throughout Asia and increasing rates of growth in most GCC nations (figures 1 and 2). This is occurring alongside the general recovery in global output and trade. The ongoing trend will also be maintained by the need for many Middle-Eastern rentier economies to diversify and grow their non-energy sectors, due to low oil prices and widening fiscal deficits. The long-term commitment to increasing this economic relationship between the two regions is evidenced by increased diplomatic engagement and long-term bilateral strategic planning.

Areas of opportunity

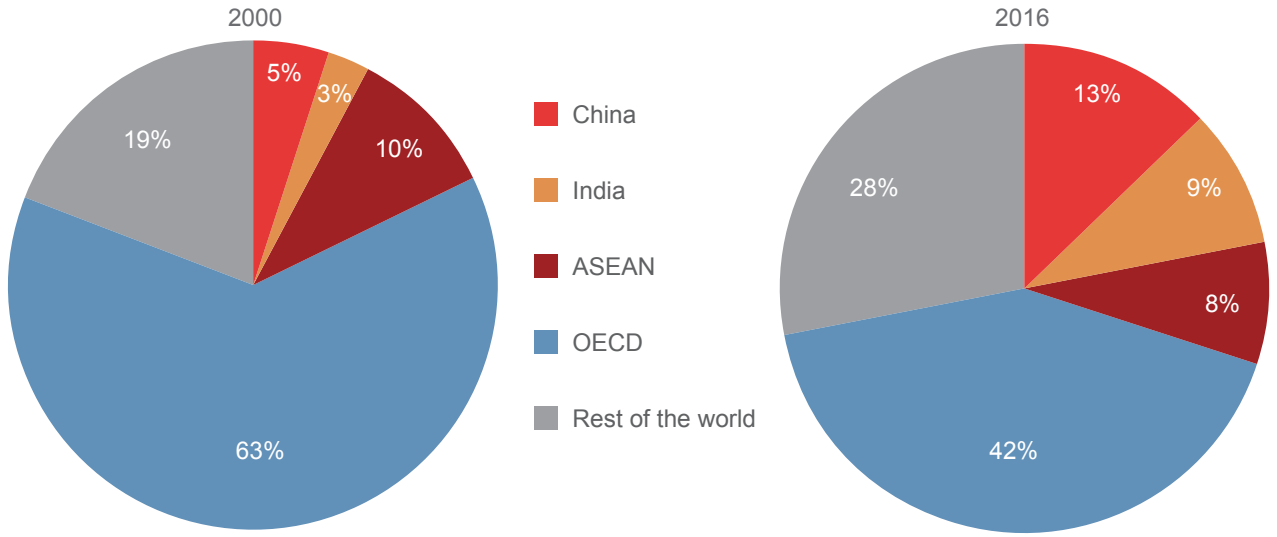
Continuing trade growth presents opportunities – both for multinational companies already in the region and for those looking to expand their global investments or operations. These opportunities are also tied to the transforming economies in many nations across both Asia and the Middle East. Particular sectors that will present opportunities include insurance and related professional services, tourism, plastics and renewable energy production. Macro trends to exploit include China's BRI, Saudi Arabia's 'Vision 2030', China's a-political approach to trade, the possibility for a GCC single market and the potential US political and security vacuum in the region. Nevertheless, there are still risks present. These include the vulnerability of both Asian and Middle Eastern economies to global price shocks and recessions, non-tariff barriers to trade, civil wars and geopolitical tensions.

Overview of trade

Gulf Cooperation Council (GCC) trade partners by share

Emerging Asia's trade with GCC countries has mainly been driven by rapid economic development in both regions. The trade has grown more rapidly than trade between the GCC and traditional markets of both North America and Europe. Combined trade with China, India and ASEAN amounted to 30% of the GCC's total trade in 2016 – almost double the combined total in 2000. China and India dominate the picture, as they are the GCC's largest trade partners. The share of GCC trade with China and India combined stood at 22% in 2016 – nearly a threefold increase from 8% in 2000. In contrast, OECD nations had a 63% share of GCC trade in 2000, but a 42% share in 2016 (Figure 3).

Figure 3: GCC share of trade with selected countries, 2000 vs. 2016



Source: UNCTAD statistics; author's calculations.

Percentage growth in bilateral trade with GCC

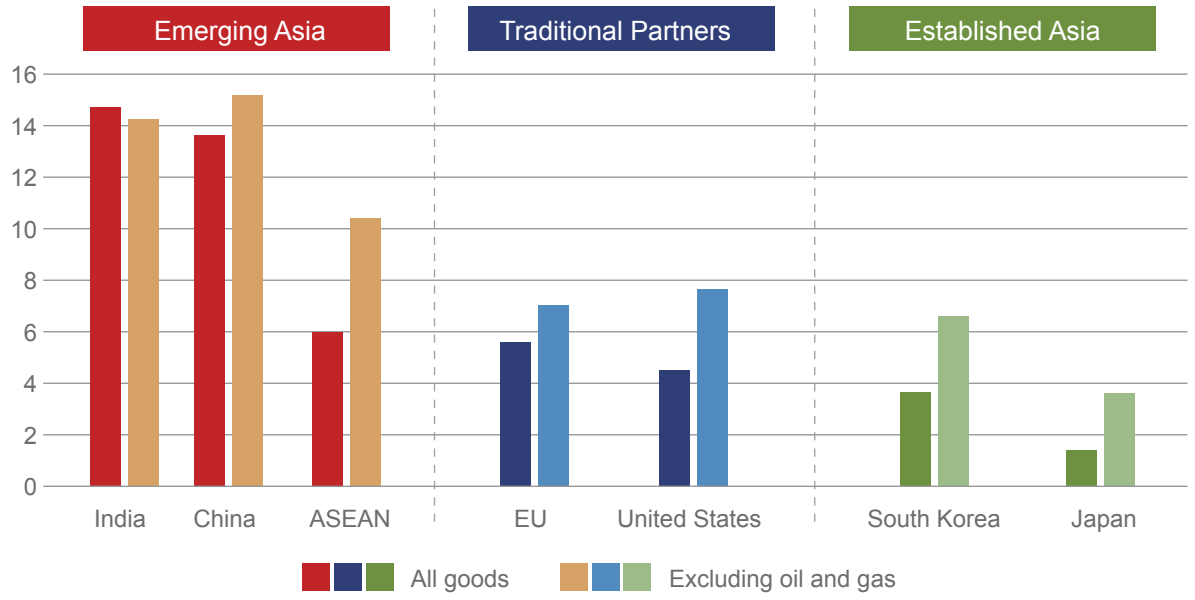
Between 2000 and 2016, China's bilateral trade with the GCC grew at an annualised rate of 13.5%, and India's grew at an annualised rate of 14.7%. This is higher than their overall trade growth rates: 8.9% and 10.2%, respectively. ASEAN trade with the GCC grew at 6% and 10.2% (excluding oil and gas), exceeding its overall trade growth of 4.5%. These figures also exceed the overall trade growth rate of the GCC, which is 6.9%. Notably, since 2000, GCC trade with Vietnam grew 25%. This is also much higher than Vietnam's overall trade growth of 14.4%. See the Appendix for all bilateral trade growth rates.

These figures are much higher than GCC growth rates with traditional markets. US trade growth with the GCC

from 2000 to 2016 was 3.9%, while the EU's was 5.5% and the UK's was 3.9% (see Figure 4 for a comparison of trade growth rates). These figures are lower than the trade growth of India, China and ASEAN with the GCC, and lower than the GCC's overall world trade growth for the same period: 6.9%. It is also only marginally higher than the world trade growth of the US and the EU for the same period: 4.1% and 5.3%, respectively.

This highlights that Chinese, Indian and ASEAN trade growth with the GCC is increasing more than their trade with other regions. Importantly, it also highlights that GCC trade with these Asian nations is growing at a quicker pace than its trade with traditional Western markets; China and India have already become the GCC's biggest trading partners, while the share of traditional markets (such as the US, Germany and the UK) is decreasing. The exceptions in Asia are South Korea and Japan. Although these countries already have a large amount of trade with the GCC, their percentage growth with the GCC was relatively low: 3.8% and 1.2%, respectively (Figure 4). This is in line with their relatively low overall world trade growth: 4.4% and 0.4%, respectively.

Figure 4: GCC bilateral trade growth (2000–2016 Compound Annual Growth Rate (CAGR)) (%)

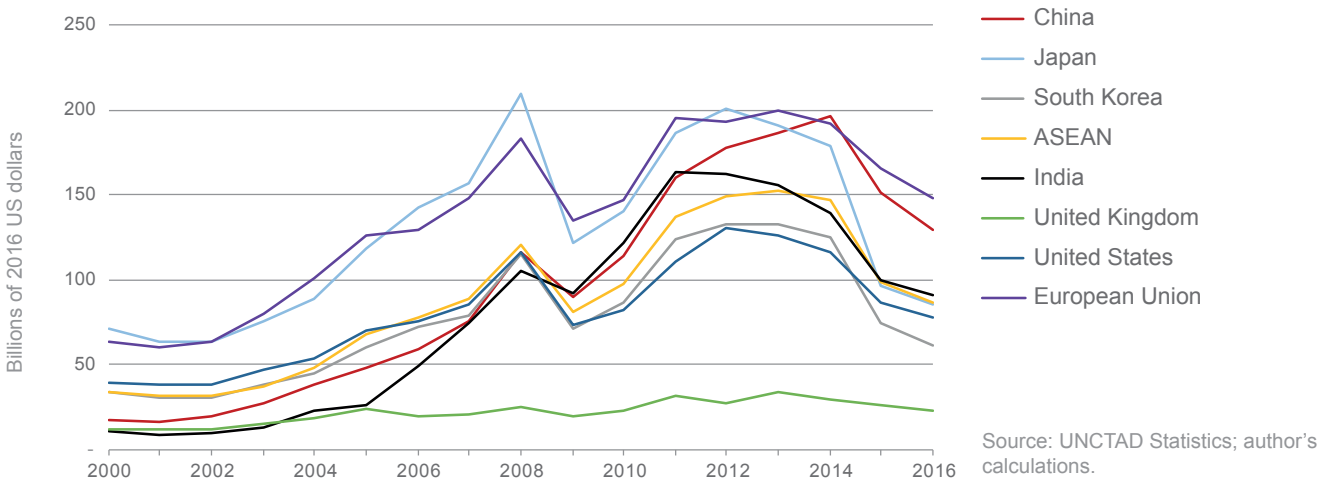


Source: UNCTAD Statistics; author's calculations.

Value of bilateral trade with GCC

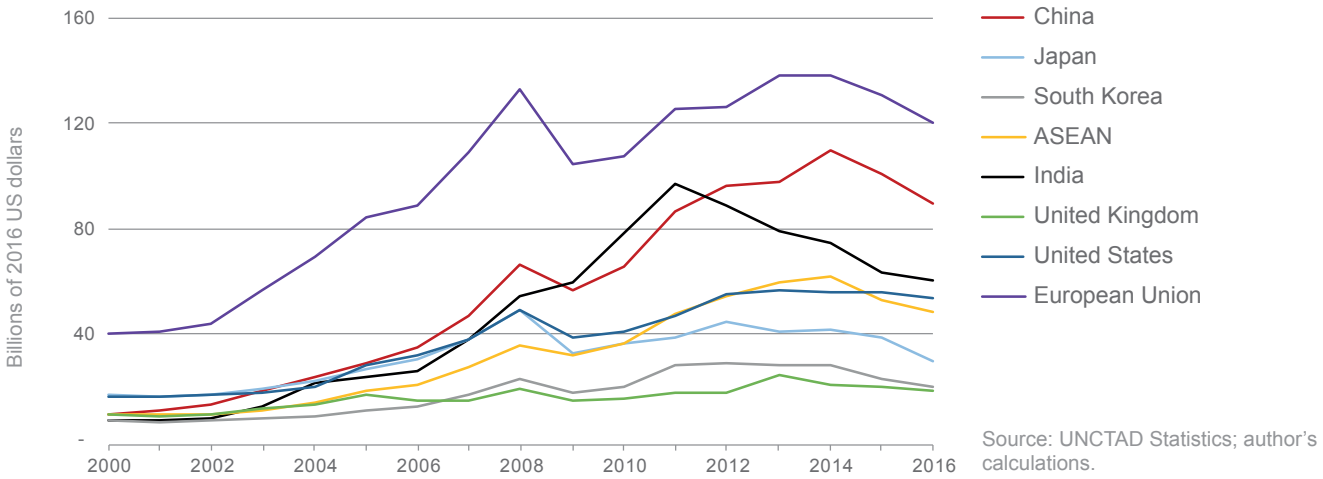
In 2016, trade between China and the GCC reached approximately $130 billion. This is nearly as much as the whole of the EU ($148 billion), and much more than with the US ($78 billion). Trade between India and the GCC also stood at higher than the US, at $91 billion in 2016. In recent years, the dollar value of bilateral trade between the GCC and all regions has dropped due to the decline in oil, gas and other commodity prices. But the decline has masked continued underlying growth in the trade of commodities and other goods between the GCC and Asia as measured by tonnage. See figures 5 and 6 for the trajectory of value of trade since 2000.

Figure 5: Value of GCC bilateral trade, 2000–2016*



Source: UNCTAD Statistics; author's calculations.

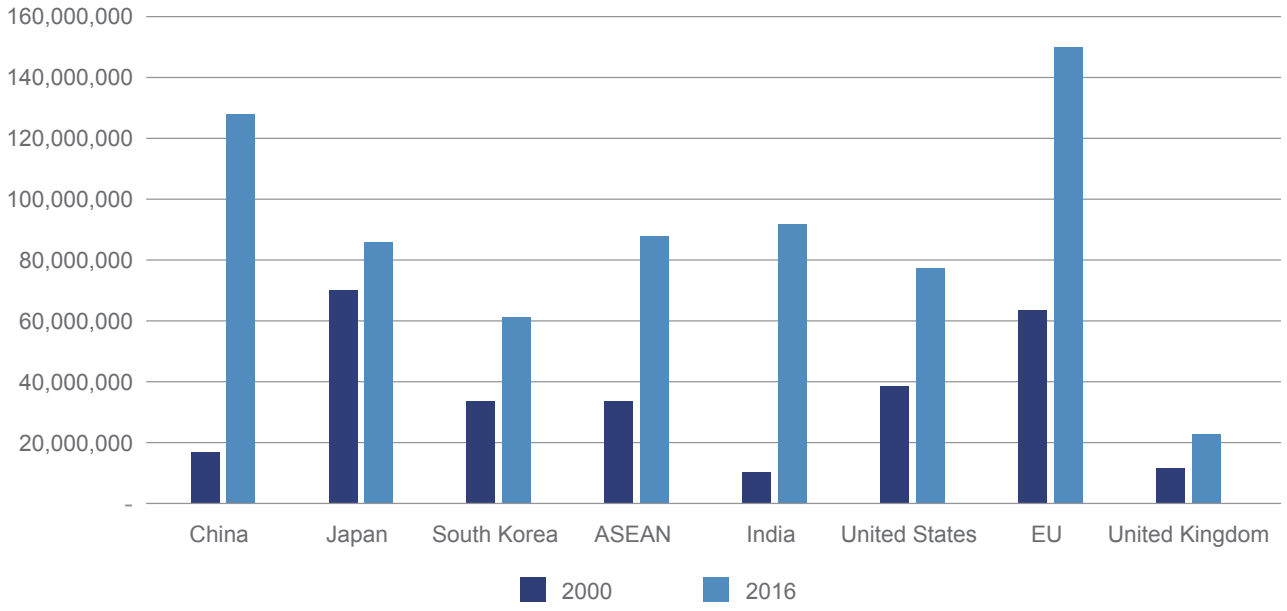
Figure 6: Value of GCC bilateral trade, excluding oil and gas products, 2000–2016*



Source: UNCTAD Statistics; author's calculations.

*** The value of trade, even excluding oil and gas, has reduced during the last two years, as seen in Figure 5. This masks overall growth in the amount of trade because the value of all commodity goods is affected by the fall in oil prices. This is due to the knock-on effect from the fall in energy prices. For example, the price of manufactured goods is affected as it becomes cheaper to run machines, factories and transportation. This is the same for agricultural goods and metals, which depends on the oil products in their production process.**

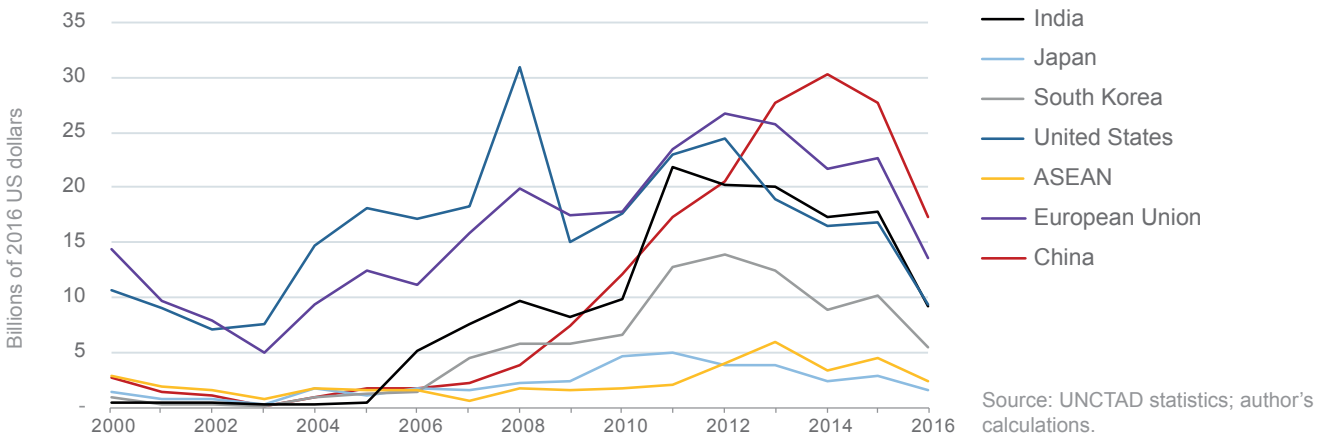
Figure 7: Value of bilateral trade with the GCC, 2000 vs. 2016 (US $billion)



Iraq and Iran

Iraq and Iran are two Middle Eastern economies outside of the GCC, which have increased their trade with the rest of Asia throughout the last decade. Iraq's trade growth with other Asian countries between 2000 and 2016 has been very strong: it grew 12.2% with China, 17.6% with the Philippines, 20% with India and 2% with Singapore. During the same period, it had negative growth with the US (-0.8%) and the EU (-0.4%), but grew 4.0% with the whole OECD and had 4.4% overall world trade growth. As Figure 8 shows, China dominates bilateral trade, but the value has been significantly diminished due to the drop in oil prices.

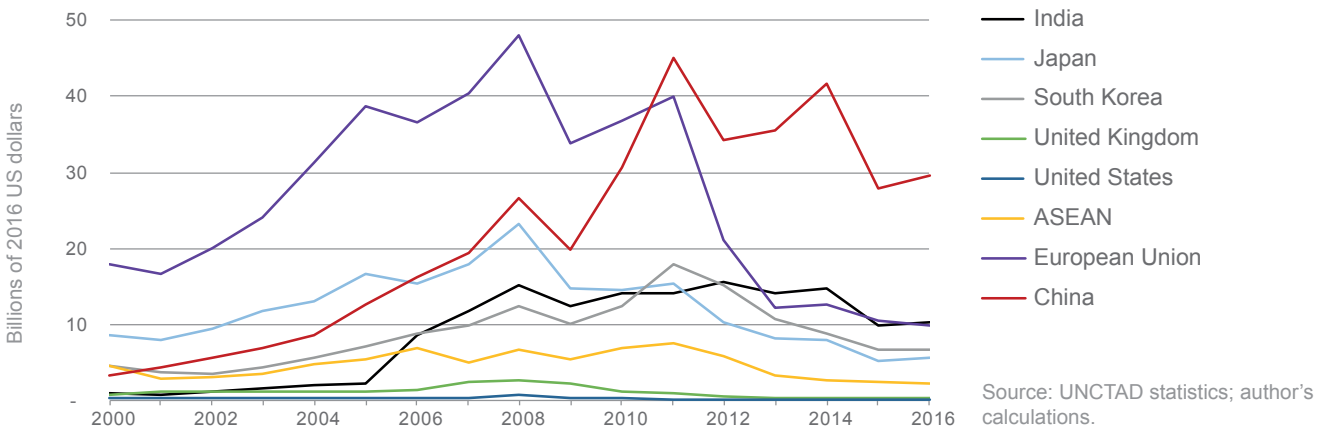
Figure 8: Value of Iraq's bilateral trade



Source: UNCTAD statistics; author's calculations.

China is Iran's biggest trading partner, with bilateral trade currently worth $18 billion. Its next biggest trading partners are India, Japan and South Korea (see Figure 9). This strong trade relationship grew during the most recent US sanctions (2010–2015), and has grown further since the inception of the Joint Comprehensive Plan of Action (JCPOA) in 2015.[i]

Figure 9: Value of Iran's bilateral trade



Source: UNCTAD statistics; author's calculations.

i Financial Tribune. (2017). Iran-China H1 Trade up 31% to $18 Billion. Retrieved from https://financialtribune.com/articles/economy-domestic-economy/69312/iran-china-h1-trade-up-31-to-18-billion

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