ASIA HOUSE

THE MIDDLE EAST **PIVOT TO ASIA**

ASIA HOUSE **RESEARCH**

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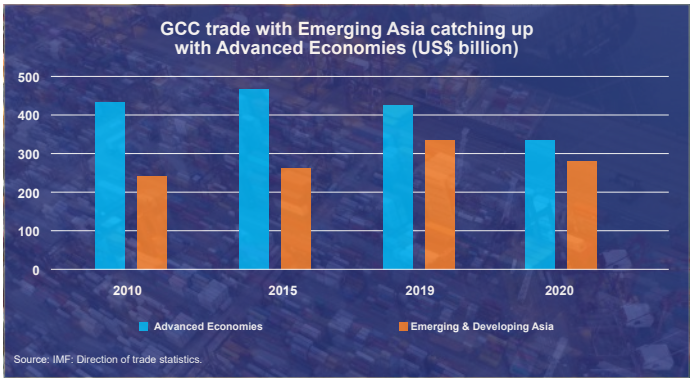
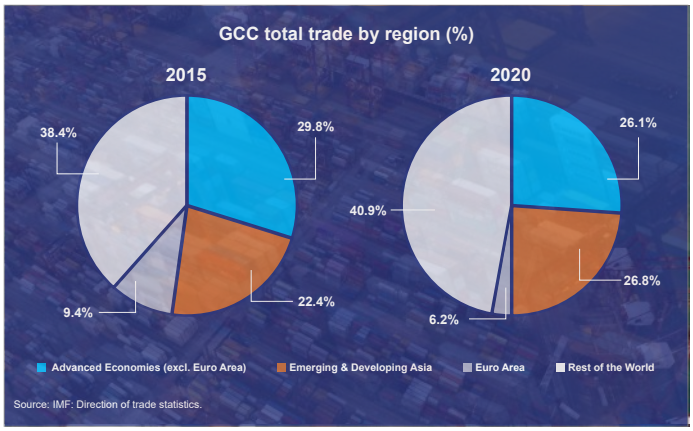
EXECUTIVE SUMMARY

The Gulf's trade relationships are changing. Between 2010 and 2020, the states of the Gulf Cooperation Council (GCC) saw rapid growth in trade with emerging Asia*, in contrast to a slowing of trade with advanced economies.** This report explores this key trend, which marks a fundamental shift in the global trade balance.

The 'Middle East Pivot to Asia' ^ tracks the strengthening economic and political linkages between the two regions. It shows that trade between the Gulf states and emerging Asia has accelerated significantly over the last decade. If underlying growth in bilateral trade and investment between the two regions continues as it has, emerging Asia will become the biggest trading partner for the GCC by 2030, outstripping the GCC's trade with advanced economies. This could have a profound impact on world trade.





Key findings

- GCC trade with emerging Asia has grown from US$247 billion in 2010 to US$336 billion in 2019, representing a jump of approximately 36 per cent.[1]
- During the COVID-19 pandemic, GCC trade with emerging Asia was more resilient than the trade with its existing traditional partners, namely the advanced economies.
- GCC trade with emerging Asia remained at 27 per cent of its total trade between 2019 and 2020. By contrast, advanced economies' share fell from 35 to 32 per cent over the period.
- GCC trade with emerging Asia is catching up to the trade with advanced economies. The gap between its trade with each region has nearly halved, from US$97 billion in 2019 to US$58 billion in 2020.
- The outlook for further GCC-Asia trade and investment growth is positive. By the end of 2022, we expect trade between the Middle East and Asia to recover to 2019 levels.
- Should bilateral trade continue to grow at the average rate seen between 2010 and 2019, GCC trade with emerging Asia will climb to approximately US$480 billion by 2030 – surpassing the advanced economies and making emerging Asia the GCC's biggest trading partner.
- Despite global climate change pledges, oil will remain the GCC's core export to Asia. GCC economic diversification strategies imply that trade in non-hydrocarbon will become an increasingly larger component of overall trade.

DEFINITIONS

* 'Emerging Asia' refers to the IMF's 'Emerging and Developing Asia' list of 34 Asian economies, which includes China, India, and the majority of ASEAN members, but excludes advanced Asian economies such as Japan, Singapore, South Korea, Hong Kong, Macao, Taiwan, Australia, and New Zealand.

** 'Advanced Economies' refers to an IMF list of 40 economies, including traditional GCC trading partners such as the US, UK, and Euro Area. Some Asian economies are included in this list, including Japan, Singapore, South Korea, Hong Kong, Macao, Taiwan, Australia, and New Zealand.

^ This report was authored by Freddie Neve, Middle East Associate, Asia House and edited by Phyllis Papadavid, Head of Research and Advisory, Asia House, with contributions by Cordelia Begbie.
1. Data taken from the IMF's direction of trade statistics: https://data.imf.org/?sk=9d6028d4-f14a-464c-a2f2-59b2cd424b85

A profound shift in the global trade balance

Over the next decade, Asia will take on increased importance as an essential trading partner for the GCC. Growing Asian oil demand, GCC economic diversification, and a rising tendency for GCC sovereign wealth funds (SWFs) to look eastwards, will all drive the Middle East pivot to Asia.

Oil remains central to GCC-Asia trade. Hydrocarbons and their associated products still make up the majority of GCC exports and Asian nations are the main recipients of these exports. Asian nations see Middle East engagement as a key means of securing oil supplies, with Asia frequently investing in Middle East extraction and seeking Gulf expertise in developing refineries at home. While Asian countries are strengthening their green targets, Asian oil demand is expected to continue rising over the next several years. This will encourage further growth in the GCC-Asian economic relationship, with rising oil demand and prices in 2021 supporting this trend.

The role of China

GCC-Asia trade growth has also been driven by the Gulf states' economic diversification strategies and megaprojects. These have encouraged Asian investment into new sectors including technology, construction, infrastructure, and renewables. China is a significant source of these funds. Chinese investment into the UAE reached its pre-pandemic peak of US$8 billion in 2018, representing an average annual growth rate of approximately 95 per cent between 2011 and 2018, whereas Chinese investment into Saudi Arabia has also grown at an average annual growth rate of approximately 21 per cent, peaking at US$5.5 billion in 2019. China is now the GCC's most significant trading partner, with China either the top trading partner or the second-top trading partner for all countries in the bloc.

Sovereign wealth funds look east

At the same time, GCC SWFs are increasingly shifting their focus eastwards. This reflects strategic thinking in the Gulf's capitals and will be a key trend that defines the Middle East pivot to Asia over the next decade. Investments into Asia are on the rise and, importantly, SWFs are also establishing physical offices in these markets in the search for new opportunities. The rise in oil prices from an approximate average of US$40 per barrel in 2020 to multi-year highs in October 2021 at over US$80 per barrel, if sustained, will increase revenue for the Gulf states and encourage increased external investment, including to Asia.

Geopolitical implications

Deepening economic ties have also encouraged deeper political ties, with greater engagement between Middle East and Asian leaders to manage, protect, and grow investments. The Middle East is not looking to weaken its traditionally strong relationship with western powers, but growing commercial opportunities in Asia, increased international investment outflows from Asia, and a desire from some political leaders to strategically hedge between East and West, have led to an increased focus within the Middle East on cultivating ties with Asia.

The Gulf states will need to carefully navigate ongoing US-China tensions. There are some signs that Gulf states are facing pressure from western powers over Chinese investment into sensitive sectors such as security and telecommunications. Gulf ties to China have not yet caused a deterioration in political relations with western economies, but should US-China relations develop into open confrontation, there could be pressure from the US on the Gulf states to deprioritise their relationship with China.

Over the past decade the Middle East pivot to Asia has evolved from being primarily a relationship based on fossil fuel trade to a broader relationship that crosses into multiple sectors and fulfils strategic objectives for both regions. Deepening economic and political ties between the Middle East and Asia will be a key geopolitical trend worth following, and a key driver of global trade over the next decade.

INTRODUCTION

INTRODUCTION

Trade routes have existed between the Middle East and Asia for over 2,000 years, with the Middle East at the western edge of the original Silk Road that spanned the Eurasian land mass. The 20th century saw trade expand far beyond this route for both regions. Gulf economies engaged in global oil and gas exports and, towards the end of the 20th century, East Asia became a key global manufacturing hub. Economic and political engagement between the Middle East and Asia is growing, with trade and investment increasing across a wide range of strategic sectors including, energy, infrastructure, and technology. The capital cities of both regions are increasingly welcoming senior Asian/Middle Eastern government officials, with a steady stream of cooperation/investment agreements signed in recent years. This gradual improvement in economic and political relations between the two regions in the 21st century is broadly defined as the 'Middle East pivot to Asia'.

Asia House first identified this trend in a 2018 report that analysed trade relations between the two regions (Asia House, 2018). This report demonstrated that Middle Eastern economies were 'pivoting' towards Asian economies for growth opportunities, with this pivot largely driven by the Gulf states. Growth opportunities for Middle Eastern economies were themselves driven by Asia's growing demand for oil and China's strategic ambition to develop its Belt and Road Initiative (BRI). The official maps of the BRI typically bypass the Arabian Peninsula, favouring the trade routes and ports of the western Indian Ocean, such as Chabahar port in Iran and Gwadar Port in Pakistan. And yet, there has been significant BRI investment in the Gulf, with Chinese President Xi Jinping previously declaring the Gulf states "natural cooperative partners in jointly building the BRI" (Rakhmat, 2019).

Middle East-Asian ties have only deepened since then. Asia's demand for oil and natural gas from the Middle East, which has typically been central to Asia-Middle East trading relations, shows no sign of abating over the next couple of decades. But economic ties are expanding considerably beyond this sector, particularly in construction, infrastructure, and technology. The acceleration of the Gulf states' economic diversification programmes, coupled with Asia's continued global economic expansion and growing political power, are now driving the pivot. Deepening economic ties also encourage political ties, with increased engagement between Middle East and Asian leaders to manage, protect, and grow investments. The Middle East is not looking to weaken its traditionally strong relationship with western powers, but growing commercial opportunities in Asia, increased international investment outflows from Asia, and to a lesser extent a desire from some political leaders to strategically hedge between East and West, have led to an increased focus within the Middle East on cultivating ties with Asia.

The COVID-19 pandemic has slowed the Middle East pivot to Asia but will not reverse the trend of deepening economic ties between Asia and the Middle East. COVID-19 reduced Asia's demand for Middle Eastern oil, contributing to the depressed oil prices witnessed throughout 2020, contracted economies in both regions and thereby reduced economic activity and trade between them, particularly in advanced Asian economies such as Japan and Singapore. But the Gulf states' trading ties with emerging economies in Asia showed resilience, and the Gulf states' trade with these economies as a portion of their total trade remained relatively constant at 27 per cent between 2019 and 2020. By contrast, the GCC's trade with advanced economies - including the Euro Area, the US, and UK, and advanced Asian economies such as Japan, Singapore, South Korea, Hong Kong, Macao, Taiwan, Australia, and New Zealand – fell from 35 per cent of the GCC's total trade in 2019 to 32 per cent in 2020. This means the gap between the GCC's trade volumes with emerging Asia and advanced economies has nearly halved. The gap amounted to approximately US$97 billion in 2019 and declined to US$58 billion in 2020.

Both regions have shown signs of economic recovery in 2021. The IMF's latest World Economic Outlook, published in October 2021, expects the Middle East region to grow by 4.1 per cent in 2021, whereas emerging Asian economies are forecast to grow by 7.2 per cent in 2021 (IMF, 2021). At the time of writing, Brent crude oil prices have increased from an average US$41.96 per barrel in 2020 to multi-year highs in October 2021, with Brent crude priced at US$83.78 per barrel on 11 October 2021. This price increase is due, in part, to increased global demand as social restrictions across the world have been eased.

Recent oil price developments have also been driven by supply dynamics too: in July 2021, the Organization of Petroleum Exporting Countries (OPEC) and its allies, collectively known as OPEC+, agreed to gradually phase out its historic 2020 9.7 million b/d production cut by the end of 2022 (Sheppard, 2021). This decision could drive further price increases as oil demand recovers. A sustained period of high oil prices will increase government revenue for the Gulf states, boosting their economies, and the willingness to invest abroad through outward Foreign Direct Investment (FDI), including to Asia.

2021 has also seen a flurry of new deals and investments between Asian economies and the Middle East across a range of sectors, which are detailed throughout this report. The COVID-19 pandemic is, of course, not over. A number of Asian economies, such as Vietnam, the Philippines, and Japan, have struggled to roll out vaccines to their populations and in Summer 2021 have had to resort to lockdowns to contain the Delta variant. Vaccine-resistant variants of COVID-19 could emerge that cause widespread lockdowns and undermine the Middle East pivot to Asia. But for the time being Middle East-Asia economic ties are broadly on the path towards recovery. Furthermore, the outlook for growth in the Gulf's trading ties with Asia is broadly positive. As GCC economic diversification creates new opportunities for Asian investors, the economies of China and India grow, Gulf SWFs continue to explore opportunities in Asia, and Asian oil demand increases, we expect the GCC's trading relationship with Asia to benefit.

The Middle East pivot to Asia could be a key driver of global trade over the next decade, particularly given its importance in the global energy supply and in the global shipping industry and transport of global goods. While GCC trade with the entire Asia region has been larger than GCC trade with the West for a number of years, the last decade has shown significant growth in GCC trade with emerging Asia – an IMF list of 34 Asian economies that includes China, India, and the majority of ASEAN members (but excludes advanced Asian economies such as Japan, Singapore, South Korea, Hong Kong, Macao, Taiwan, Australia, and New Zealand). Further growth in GCC trade with emerging Asia will be a key geopolitical trend over the next decade. Should GCC trade with emerging Asia recover to 2019 levels by the end of 2022 and were trade to continue to grow at the average annual rate seen between 2010 and 2019 of approximately five per cent, we can expect the GCC's trade with emerging Asian economies to expand from US$336 billion in 2019 to approximately US$480 billion by 2030, outpacing GCC trade with advanced economies. This would raise the importance of emerging Asia as a trading partner for the GCC, in comparison to the advanced economy trading partners.

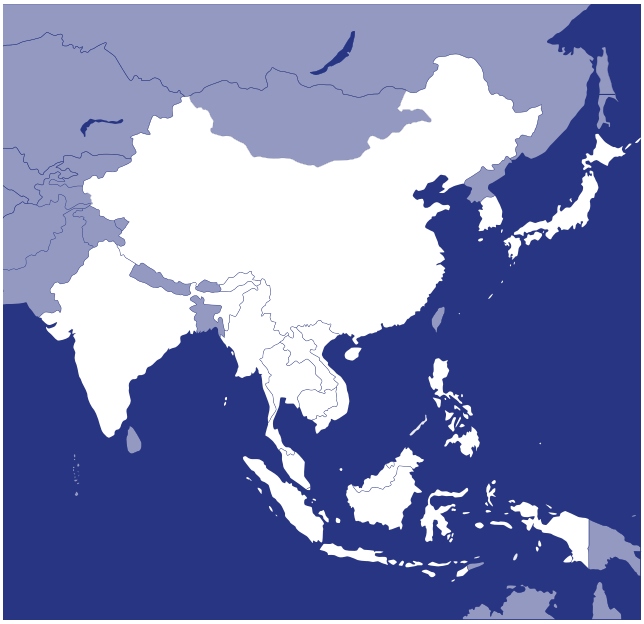
This report explores the Middle East pivot to Asia in detail by analysing government-to-government engagement, bilateral trade and investment flows, infrastructure development, economic cooperation, and key investments across strategic sectors. The report concludes with projections of the future direction of Middle East-Asian relations, establishing the implications for the economies involved. The report also presents the risk factors that could potentially undermine the Middle East pivot to Asia and the essential factors for its continuation going forward.

Section one of this report explains the 'Middle East Pivot to Asia' in greater detail, outlining the key factors underpinning this trend, including bilateral trade, the centrality of oil to the pivot, and growing bilateral political exchanges. Section two outlines the strategic objectives behind the pivot, examining the incentives of both Asian and Middle Eastern leaders for increased engagement with one another. Section three outlines the key factors currently driving the pivot and trends that could either accelerate the development of Asian-Middle East ties or undermine them. Section four provides more granular detail on the key sectors where Asian-Middle Eastern economic ties are growing. Finally, the conclusion of this report provides a forward-looking analysis regarding the future of Asian-Middle Eastern ties.

NOTE ON DEFINITIONS

For this research, when we examine the Middle East, we will primarily focus on six key economies within the Gulf region including: Saudi Arabia, the United Arab Emirates (UAE), Oman, Bahrain, Kuwait, and Qatar. All are members of the Gulf Cooperation Council (GCC) a political and economic alliance of the six countries in the Arabian Peninsula. This focus on the GCC economies is important, as this is where the 'pivot' to Asia can be most clearly seen.

The term Asia in this report will relate to the economies of Japan, South Korea, India, China, and the 10 economies of the Association of Southeast Asian Nations (ASEAN) – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.



SECTION ONE

MAPPING THE MIDDLE EAST PIVOT TO ASIA: ECONOMIC AND POLITICAL TIES

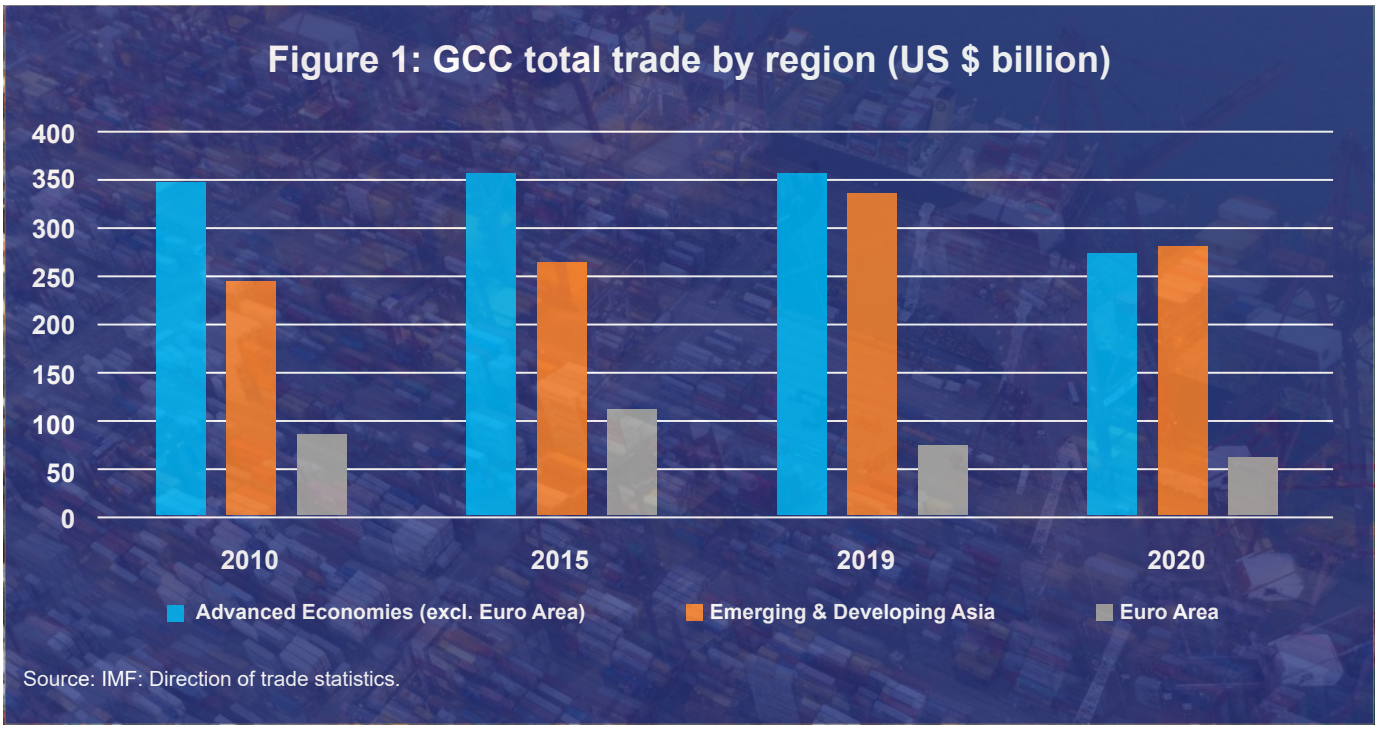
MAPPING THE MIDDLE EAST PIVOT TO ASIA: ECONOMIC AND POLITICAL TIES

The 'Middle East Pivot to Asia' refers to the expansion of economic and political relations between the two regions during the 21st century. This section outlines the growth in bilateral trade between the GCC and Asia over the last decade, as well as Asia's growing importance to the GCC as an export market. Oil remains central to this. Trade in hydrocarbons looks set to increase over the next several years and the Gulf states' economic diversification strategies are set to encourage investment from Asia into new sectors. Finally, this section examines how growing GCC-Asia economic ties have encouraged growing political exchanges between the GCC and Asia, highlighting key bilateral visits over the last few years and their outcomes.

The expansion in GCC-Asia trade

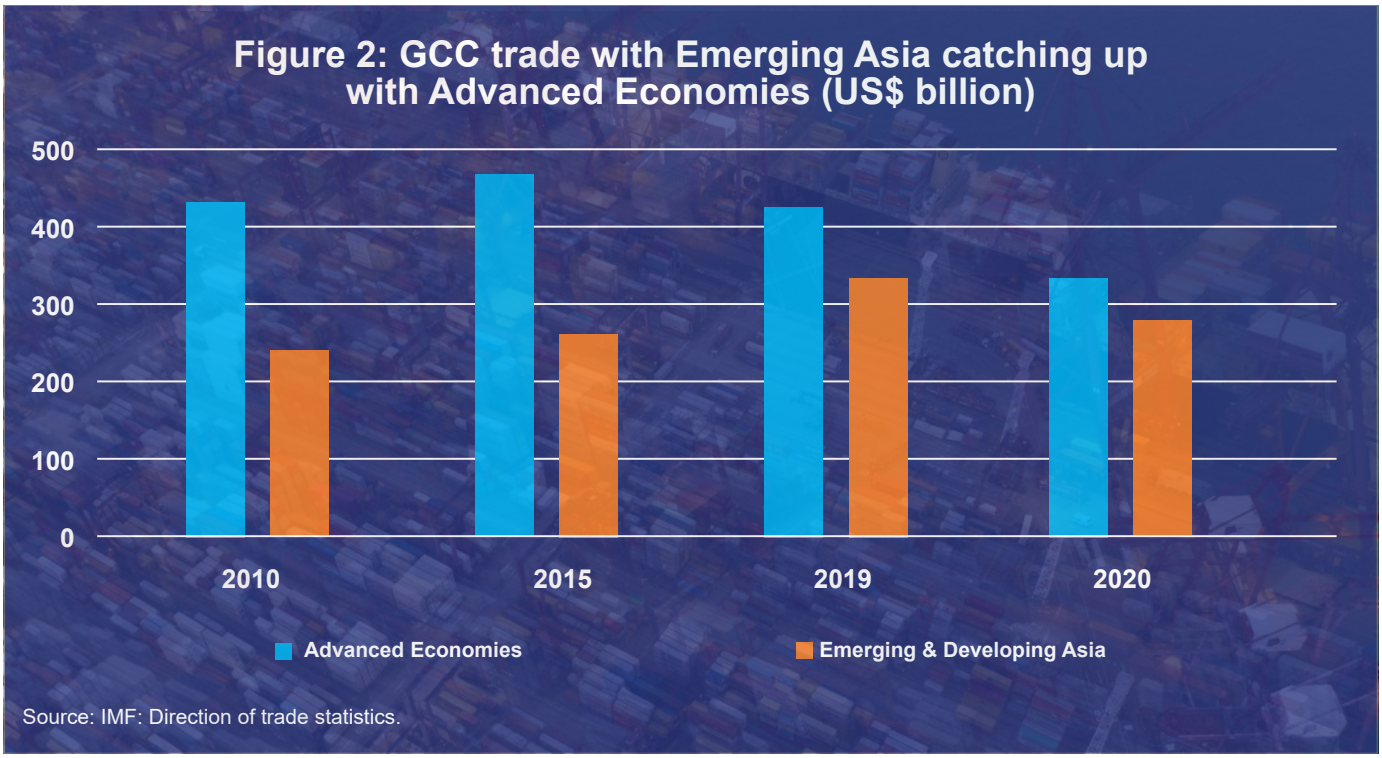
While GCC trade with the entire Asia region has been larger than GCC trade with the West for a number of years, the last decade has seen a significant increase in trade between the Gulf economies and 'Emerging & Developing Asia' (an IMF list of 34 Asian economies, that includes China, India, and the majority of ASEAN members, but excludes advanced Asian economies such as Japan, Singapore, South Korea, Hong Kong, Macao, Taiwan, Australia, and New Zealand). Trade between these two regions rose from around US$247 billion in 2010 to US$336 billion in 2019, expanding at an approximate annual growth rate of five per cent per annum. China accounts for a significant part of this increase in trade. As with the Asian region, it is now the most significant trading partner for several key Middle Eastern economies, including Saudi Arabia, Kuwait, and Oman. China's trading relationship with the entire Middle East region increased from US$227 billion in 2018 to US$294 billion in 2019 (Chaziza, 2020).

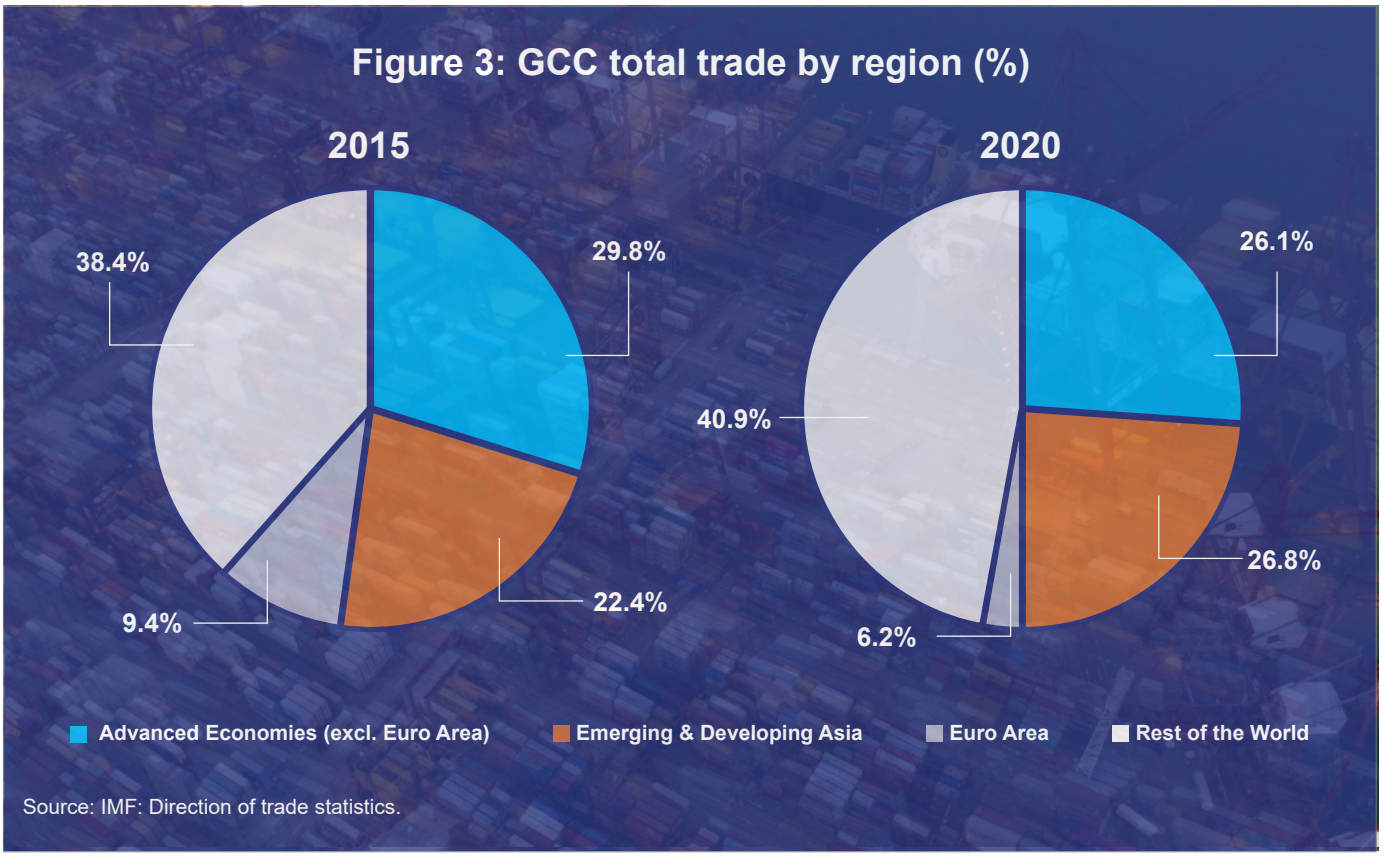
The pivot has the potential to transform the global trade landscape, eventually leading to a trading relationship between the Gulf economies and emerging Asian economies that exceed the traditional trading relationship between the Middle East and advanced economies in the West. Should GCC-Asian trade recover to 2019 levels by the end of 2022 and trade continues to expand at the average rate seen between 2010 and 2019, of approximately five per cent, we can expect the GCC's trade relationship with emerging Asian economies to expand from US$336 billion in 2019 to around US$480 billion by 2030, increasing the significance of Asia as a trading partner for the GCC, in comparison to western economies. This growth would likely outpace the GCC's trade with the Euro Area and other advanced economies in the West. As IMF statistics in Figure 1 show, total GCC trade between emerging Asian economies has risen since 2010. In comparison, GCC trade with advanced economies outside the Euro Area has only increased marginally between 2010 and 2019, rising from US$346 billion to US$356 billion, whereas GCC trade with the Euro Area has declined from US$92 billion in 2010 to US$76 billion in 2019.



The COVID-19 pandemic has led trade to fall between the GCC and all other regions between 2019 and 2020. As Figure 2 shows, the gap between the GCC's trade volumes with emerging Asia and advanced economies has narrowed. The gap amounted to approximately US$97 billion in 2019 and declined to US$58 billion in 2020.

Figure 3 shows that the emerging economies of Asia have become a more important region for GCC trade over the last five years. Trade with Asia's emerging economies, including China, represented 22.4 per cent of the GCC's total trade in 2015. In 2020, the region represented 26.8 per cent of the GCC's total trade. By contrast GCC trade with advanced economies outside the Euro Area represented 29.8 per cent of the GCC's total trade in 2015, but in 2020 represented 26.1 per

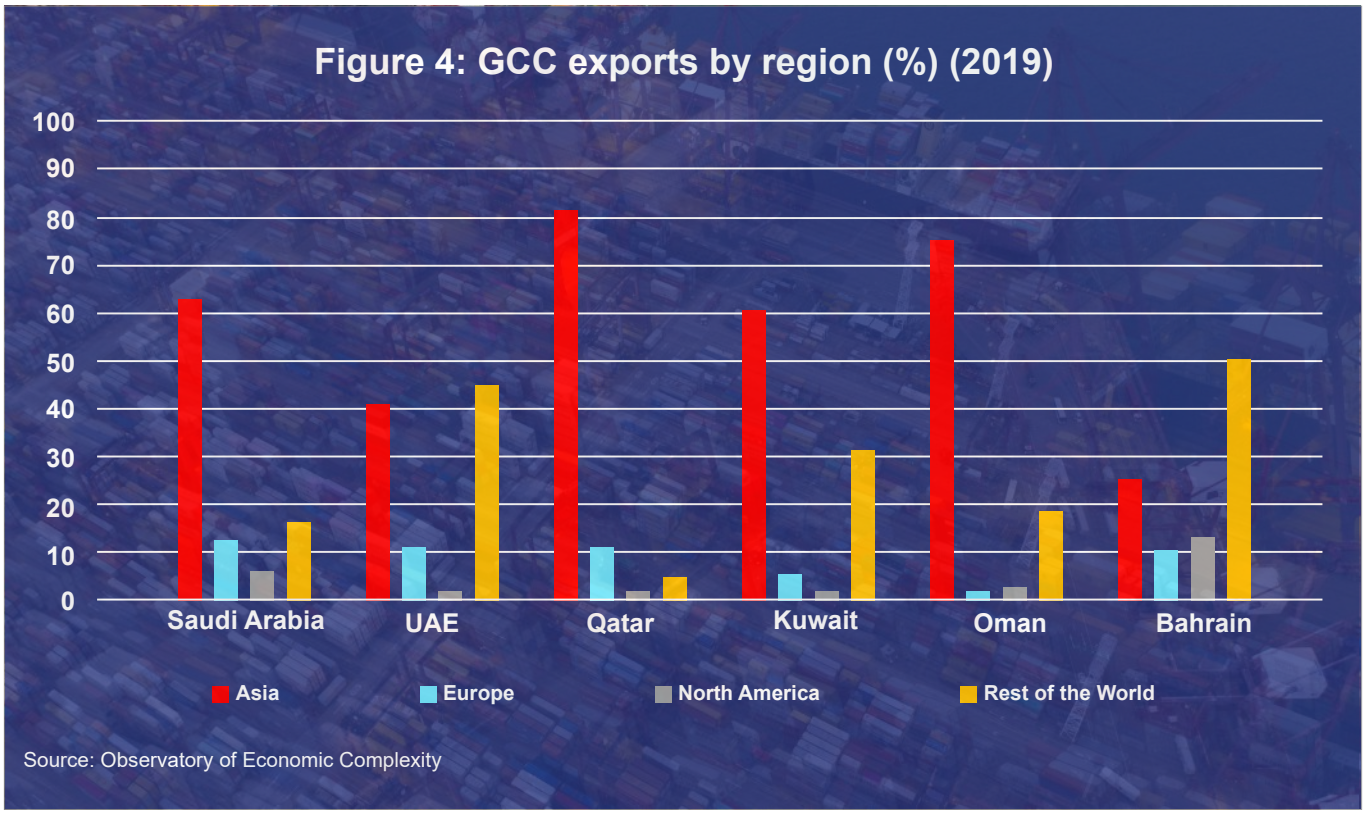


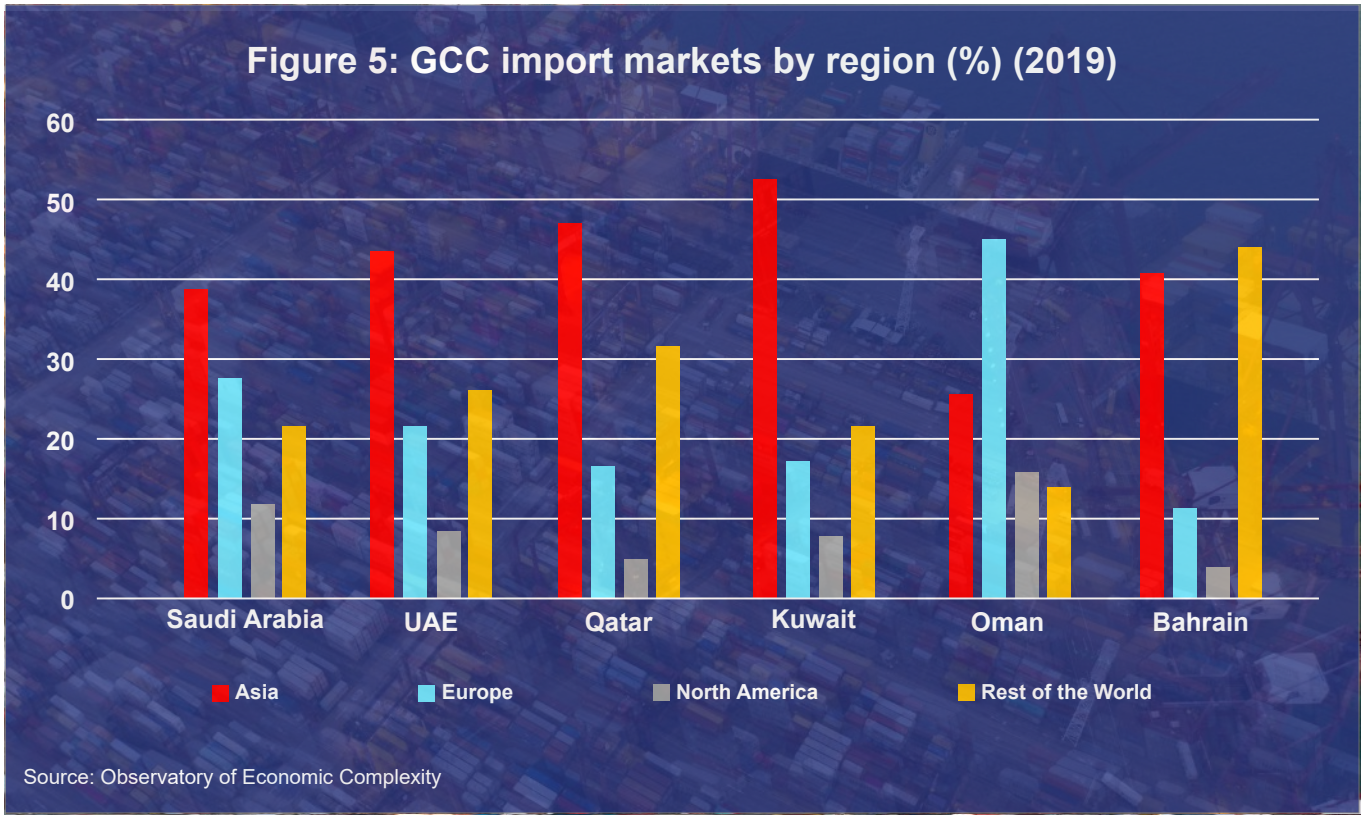


cent. The Euro Area exhibited a similar fall in relative importance. It represented 9.4 per cent of the GCC's total trade in 2015, but in 2020 only represented 6.2 per cent of it.

For the GCC economies, Asia represents a significantly large export market. As Figure 4 shows, Qatar is most dependent on exports to Asia, making up 82 per cent of its total export market, followed by Oman (76 per cent), Saudi Arabia (64 per cent), Kuwait (61 per cent), the UAE (41 per cent), and Bahrain (25 per cent). The vast majority of these exports relate to the oil and gas industry.

The GCC is less dependent on Asia for imports. As Figure 5 shows, imports to the region are more





balanced between East and West, but Asia remains the most significant import market to all the GCC nations except for Qatar and Oman. Kuwait is the most dependent on Asian imports (53 per cent), followed by Bahrain (47 per cent), the UAE (44 per cent), Oman (41 per cent), Saudi Arabia (39 per cent), and Qatar (25 per cent). China in particular is the GCC's most significant trading partner. As Figure 6 demonstrates, China is either the top trading partner or the second-top trading partner for all countries in the bloc. Figure 6 also shows the vast majority of the GCC's top trading partners are within Asia, with India, Japan, and South Korea often featuring among the Gulf nations' top trading partners.

There are a few Free Trade Agreements (FTA) in place between the Gulf nations and Asia. The UAE has led the charge here, signing deals with India (2012), the Maldives (2014), and South Korea (2015). Via the GCC, all Gulf states have an FTA with Singapore and Malaysia, but there is room for more FTAs to be negotiated, which would expand Middle East-Asian trade. In particular, the GCC is undergoing free trade negotiations with China and Japan and work has also begun on an FTA between China and the GCC, as well as between China and 21 Arab nations (Lehr, 2018). Progress has been slow in some of these negotiations. For example, despite frequent statements on both sides indicating a willingness to reach a final deal, GCC-China negotiations have been ongoing since 2004.

Oil's centrality to the Middle East pivot to Asia

A large proportion of increased trade to Asia over the last decade has been due to rising demand for hydrocarbons in Asia. While oil demand in the Asia Pacific declined from 35.2 mb/d in 2019 to 33.4 mb/d in 2020 due to reduced economic activity caused by the COVID-19 pandemic, 2021 has shown strong signs of recovery in Asian oil demand (IEA, 2021) In May 2021, OPEC forecasted a four per cent increase in demand for oil from Asia over the course of the year. OPEC's latest monthly report for September projects world oil demand at 100.8 mb/d in 2022, exceeding pre-pandemic levels (OPEC, 2021). Demand growth will be led by China and India with an expected rise of 8.4 per cent and 11.1 per cent respectively (OPEC, 2021a), which will positively impact Gulf exports to these two countries since GCC petroleum exports to China and India amounted to US$78.81 billion and US$47.51 billion respectively in 2019 (see Figure 8).

While 2021 saw a series of pledges from Asian governments to reduce carbon emissions, oil demand in Asia is expected to increase substantially in the future, so will continue to drive the Middle East pivot to Asia. Growth in Asia's population and its middle class will drive this demand for oil and its associated petrochemical goods such as fertilisers and food preservatives. Recent projections from the International Energy Agency (IEA) in March 2021 suggest Asian crude oil demand will increase from 33.4 mb/d in 2020 to 39.3 mb/d in 2026 (IEA, 2021). Middle East producers will be the main source of supply to meet this demand.

Recent developments in global energy markets reinforce the importance of oil to the Middle East pivot to Asia. At the time of writing, oil prices have risen to multi-year highs. Brent crude has increased from an average US$41.96 per barrel in 2020 to US$83.78 on 11 October 2021. Global demand has increased throughout 2021. As vaccination rates increase, social

Figure 6: GCC top five trading partners in 2019

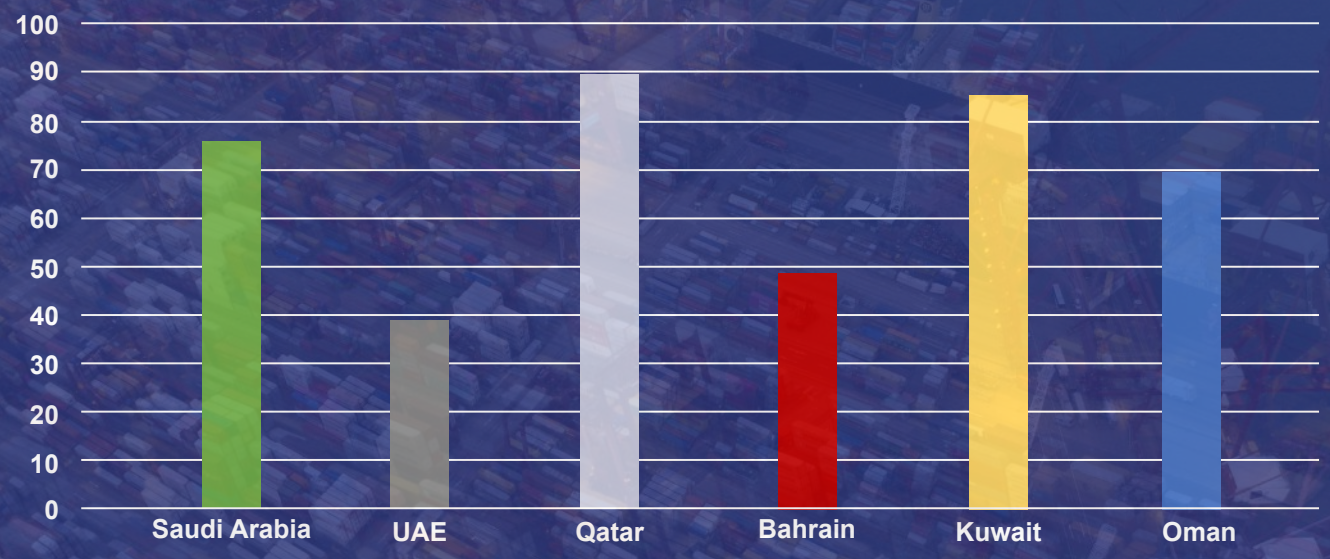
	Saudi Arabia	UAE	Qatar	Bahrain	Oman	Kuwait
No. 1	China (US $72.3 bn)	India (US$ 55.4 bn)	Japan (US$ 14.3 bn)	UAE (US $72.3 bn)	China (US$ 20.3 bn)	China (US$ 16.9 bn)
No. 2	India (US $31.5 bn)	China (US$ 50.2 bn)	China (US$ 13.2 bn)	Saudi Arabia (US$ 2.5 bn)	UAE (US$ 13.0 bn)	South Korea (US$ 10.6 bn)
No. 3	Japan (US$ 31.0 bn)	Japan (US$ 32.0 bn)	South Korea (US$ 12.4 bn)	US (US$ 1.7 bn)	India (US$ 5.1 bn)	India (US$ 10.4 bn)
No. 4	US (US$ 25.6 bn)	Saudi Arabia (US$ 24.2 bn)	India (US$ 11.9 bn)	Japan (US$ 1.66 bn)	Japan (US$ 4.5 bn)	Japan (US$ 8.0 bn)
No. 5	South Korea (US$ 23.4 bn)	US (US$ 21.2 bn)	US (US$ 6.2 bn)	China (US$ 1.65 bn)	South Korea (US$ 3.0 bn)	UAE (US$ 6.0 bn)

Source: Observatory of Economic Complexity

restrictions ease and economies reopen, demand is likely to increase further. Reduced supply has also led to upward pressure on oil prices. April 2020 saw the Organization of Petroleum Exporting Countries (OPEC) and its allies, collectively known as OPEC+, agree to a historic 9.7 b/d production cut in response to the introduction of lockdowns in various countries. This production cut has not yet been reversed, with OPEC+ in July 2021 agreeing to gradually phase out this cut by the end of 2022.

Oil makes up a significant portion of GCC-Asian trade and despite plans for economic diversification, the Gulf States will still rely heavily on exporting oil for many years to come. As Figure 7 shows, hydrocarbons and their associated products still make up the majority of exports coming out of the GCC and, as Figure 8 shows, Asian nations are the main markets for these products, with China, India, and Japan consistently representing some of the Gulf nations' largest export markets for petroleum. This means rising prices should boost the value of these exports and of trade overall. At the same time, high oil prices will also increase revenue for the Gulf states, boosting their economies, and encouraging outward FDI, including to Asia. GCC SWFs have increased their attention towards Asian markets over the last few years, an emerging trend that is discussed in section four of this report.

Figure 7: Percentage of GCC export earnings from petroleum (2019)



Source: Observatory of Economic Complexity

Figure 8: GCC top five export markets for petroleum in 2019

	Saudi Arabia	UAE	Qatar	Bahrain	Oman	Kuwait
No. 1	China (US$ 36.5 bn)	Japan (US$ 22.5 bn)	Japan (US$ 13.0 bn)	UAE (US$ 2.8 bn)	China (US$ 16.0 bn)	China (US$ 10.6 bn)
No. 2	Japan (US$ 23.6 bn)	India (US$ 10.9 bn)	South Korea (US$ 7.7 bn)	Japan (US$ 1.0 bn)	Japan (US$ 2.4 bn)	South Korea (US$ 9.5 bn)
No. 3	India (US$ 20.5 bn)	Singapore (US$ 9.1 bn)	India (US$ 9.2 bn)	Saudi Arabia (US$ 0.4 bn)	South Korea (US$ 2.2 bn)	Japan (US$ 6.1 bn)
No. 4	South Korea (US$ 18.5 bn)	South Korea (US$ 8.0 bn)	China (US$ 9.2 bn)	United Kingdom (US$ 0.28 bn)	India (US$ 1.5 bn)	India (US$ 5.3 bn)
No. 5	US (US$ 10.9 bn)	China (US$ 6.6 bn)	Singapore (US$ 4.9 bn)	South Africa (US$ 0.26 bn)	Taiwan (US$ 1.1 bn)	Taiwan (US$ 3.8 bn)

Source: Observatory of Economic Complexity

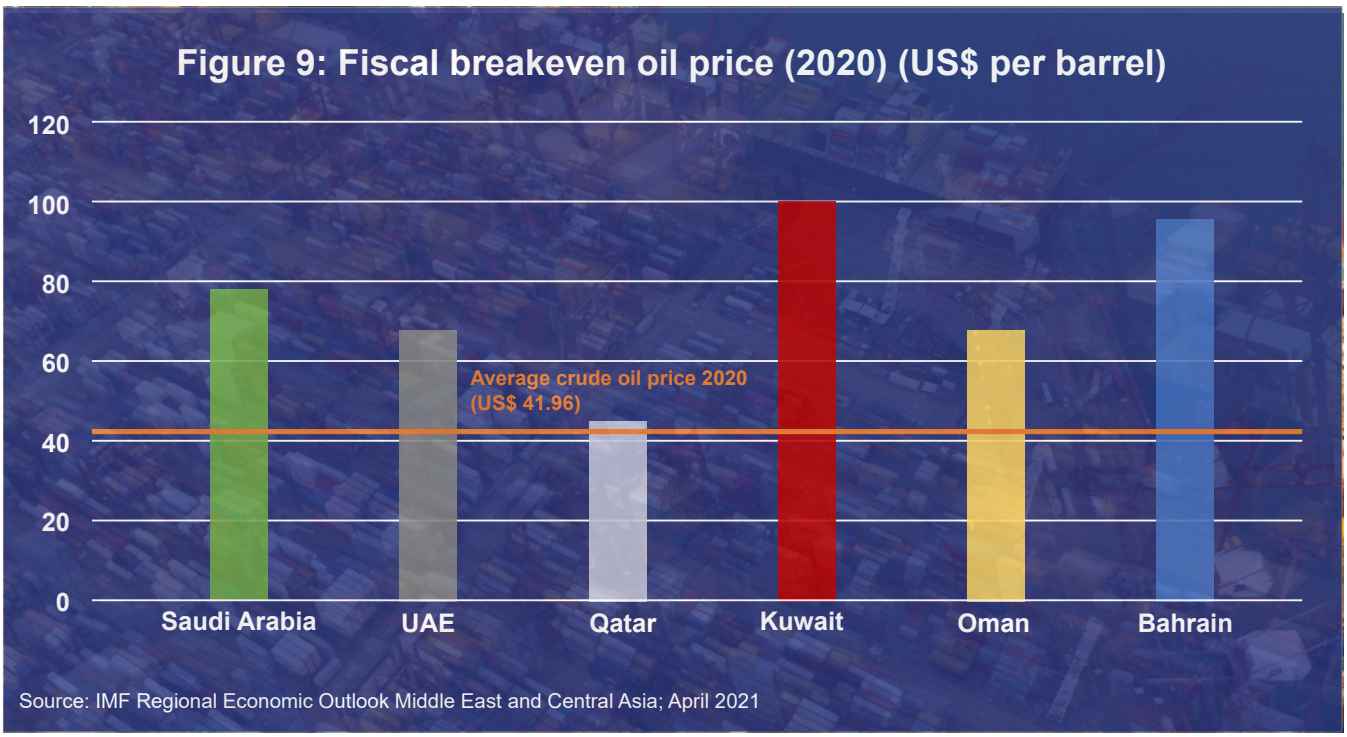
Blue ammonia: an emerging trend in GCC-Asian energy relations

Fossil fuels will continue to play a significant role in Asia's energy mix for some time and advances in carbon capture and carbon storage technologies could feasibly allow Asian economies to continue purchasing fossil fuels while honouring their climate change commitments. The Gulf states, for example, are exploring hydrogen-based fuels, such as 'blue ammonia' as a way of using fossil fuels in a low-carbon manner. Blue ammonia is produced using fossil fuels, but with the associated carbon emissions captured and re-used, mainly for enhanced oil recovery. When burned, blue ammonia produces zero carbon emissions, so could assist countries in their transition to carbon neutrality. Blue ammonia is a nascent technology and currently too costly for widespread adoption. Some scientists have also expressed concerns that the possibility of methane leakage from blue ammonia production makes the fuel less clean than advocates claim (Howarth and Jacobson, 2021)

Policymakers in several major economies are increasingly discussing the benefits of blue ammonia as a transition fuel, and the Gulf states, particularly Saudi Arabia, are investing heavily in developing the technology, arguing that the fuel could play a crucial role in decarbonisation (Neve, 2021). This has piqued the interest of Asian nations, including Japan and China. In September 2020, Saudi Arabia sent blue ammonia to Japan in a world-first shipment. Japan's ENEOS oil company recently signed a MoU with Saudi Aramco to explore establishing blue ammonia supply chains and Aramco is also exploring similar opportunities with China (Neve, 2021a) The UAE is also exploring blue ammonia as an alternative fuel, with Abu Dhabi National Oil Company (ADNOC) announcing three separate sales of the product to new Japanese customers in August 2021. The firms receiving the blue ammonia are Idemitsu, Inpex, and Itochu. Further investment into the technologies around blue ammonia and improved carbon capture/storage techniques, could increase the applicability and demand for this fossil fuel-based energy source and thereby lengthen Asian economies' interest in investing in Gulf oil extraction and Asian economies' demand for Gulf hydrocarbons.

The Middle East pivot to Asia beyond oil: The Gulf searches for new investment

While oil exports have underpinned and will continue to drive the Middle East pivot to Asia, the elevation of multiple country-specific economic diversification strategies by the Gulf states has led to Middle East-Asia ties growing in sectors beyond energy commodities, including in renewables, infrastructure, construction, and information technology, with investment flowing from both regions in these areas. These emerging relationships are explored in further detail in section four of this report.



Despite the recovery in energy prices, their comparative weakness during the COVID-19 pandemic in 2020 did reinforce the need for Gulf economies to continue to diversify their economies to make them more resilient in the face of future economic shocks, including fluctuations in the oil price. 2020 saw oil prices drop well below the Gulf states' fiscal breakeven prices, contributing to economies' growth contractions, larger budget deficits, and the introduction of new taxes to meet budgetary shortfalls (see Figure 9). In total, 2020 saw nominal GDP within the Gulf economies contract by 14.3 per cent (Arab News, 2021). The search for economic diversification opportunities has led Gulf leaders to increasingly turn their attention towards Asia for new sources of investment.

GCC-Asia political ties have deepened since 2018

Political ties between the Middle East and Asia have deepened since Asia House's 2018 report on the Middle East pivot to Asia. Since then, numerous bilateral visits between heads of states, and trade delegations have taken place in both directions, with many investment deals and Memorandums of Understanding (MoUs) stemming from this increased diplomatic activity. Bilateral visits are mainly focussed on economic matters and rarely stray into the political affairs of either region. China in particular takes great care to be seen as a neutral mediator and non-partisan player in the region, dedicating resources to developing ties across the Middle East's political divides. As trade and investment between Asia and the Middle East increases, it is likely that political exchanges will also become more frequent as officials on both sides look to protect new economic gains and international travel restrictions imposed during the COVID-19 pandemic ease.

The most significant recent political exchange was Chinese Foreign Minister Wang Yi's tour of the region in March 2021, when he visited Saudi Arabia, the UAE, Oman, and Bahrain, Iran, and Turkey. The earlier visit of State Councillor Yang Jiechi to Qatar and Kuwait in February means 2021 is the first year that every GCC country has received a visit from Chinese officials. Some of the agreements brokered during Wang Yi's visit include:

- In the UAE, a joint venture was announced between China's Sinopharm and the UAE's G42 to produce 200 million doses of the Sinopharm COVID-19 vaccine in the UAE. Chinese vaccines, including both the Sinopharm and Sinovac vaccines, have been major components of the UAE's vaccination drive, and reflect increased cooperation over COVID-19 between the major economies of Asia and the Middle East.
- In Saudi Arabia, Minister Wang Yi proposed a five-point plan for enhancing security and stability in the Middle East, expressed his willingness to advance a China-Arab data security initiative to make the Arab World's digital economy more standardised and secure, and stated his desire to finalise the China-GCC free trade agreement.
- In Bahrain, China's technology company Tencent announced its cloud division will open a data centre in Manama.
- In Iran, the China-Iran Comprehensive Cooperation Agreement was signed, with China pledging to invest US$400 billion over 25 years. US$280 billion will be spent developing Iran's oil and gas industry and, in return, China will be allowed to buy Iranian oil and gas in yuan at a discount.

Wang Yi's regional tour was more recently followed by a grand tour by Japan's Foreign Minister, Toshimitsu Motegi, to the region in August 2021, which saw him visit Egypt, Palestine, Israel, Jordan, Turkey, Iraq, Iran, and Qatar (Ministry of Foreign Affairs of Japan, 2021).

- In Qatar, Motegi and Qatar's Foreign Minister, Mohammed Al-Thani, inaugurated the first ever Japan-Qatar Strategic Dialogue.
- In Iran, Motegi met with Iran's new president, Ebrahim Raisi, and an agreement was signed to cooperate on customs, including "implementing measures to facilitate trade… and [simplify] customs procedures" (Ministry of Foreign Affairs of Japan, 2021a).
- In Iraq, Motegi announced that Japan would extend a loan worth up to US$297 million to upgrade the capacity of a refinery in Basra (Ministry of Foreign Affairs of Japan, 2021b).

Other significant bilateral exchanges between Asia and the Middle East since Asia House's last report in 2018 include:

Indian Prime Minister Modi's visit to UAE, Bahrain, and Saudi Arabia: 2019

- In Saudi Arabia agreements on defence procurement, renewable energy, and civil aviation were signed, and the India-Saudi Arabia Strategic Partnership Council was created. Modi also addressed Saudi Arabia's Future Investment Initiative (FII). Popularly known as 'Davos in the Desert', FII is an annual event which is organised by Saudi Arabia's Public Investment Fund (PIF).
- Modi's visit to Bahrain was the first by an Indian Prime Minister to the Gulf Island nation.
- In the UAE, Modi received the UAE's highest civilian honour, the Order of Zayed, and launched the RuPay card there, India's equivalent of Visa or Mastercard, a move aimed at the 2.75 million Indian expatriates that live in the UAE (The Times of India, 2019).

Saudi Crown Prince Mohammed bin Salman's 'Asia Tour': 2019

- In Pakistan, the Saudi Crown Prince was conferred the Order of Pakistan, the country's highest civilian award, and signed US$20 billion in investment deals, including a US$10 billion oil refinery in Gwadar port, a key link in China's BRI initiative.
- In India, the Crown Prince agreed to look at initial investment in India's National Investment and Infrastructure Fund, and signed MoUs relating to tourism, housing, and broadcasting.
- In China, Saudi Aramco signed a deal to develop a US$10 billion petrochemical refinery with two Chinese firms in the Chinese coastal city of Panjin, making it the largest joint venture in China. Chinese President Xi Jinping stated that "the two countries should speed up the signing of an implementation plan on connecting the BRI with the Saudi Vision 2030", and that the two countries should press ahead with the establishment of a China-GCC free trade zone.

Abu Dhabi's Crown Prince, Mohammed bin Zayed (MbZ), visits China: 2019

- Dubai's Emaar Properties signed a US$11 billion deal with Beijing Daxing International Airport to build residential and leisure facilities.
- Abu Dhabi National Oil Company (ADNOC) signed an agreement with China National Offshore Oil Corporation to explore collaboration in upstream and downstream oil.

MbZ visit to Singapore and South Korea: February 2019

- The visit saw the signing of the Joint Declaration on the Singapore-UAE Comprehensive Partnership.
- MbZ visited GlobalFoundries' microchip plant in Singapore. GlobalFoundries owner Mubadala announced in June 2021 that it will invest more than US$4 billion to expand the factory's output to address the current global shortage in microchips (Arab News, 2021a)
- ADNOC signed a deal with Singapore's Nanyang Technological University to provide a new endowment to nurture talent within Singapore's international trading sector (Nanyang Technical University, 2019)
- In South Korea, MbZ met with President Moon Jae-in to discuss cooperation in 5G technology, information technology, security, and defence. One year later, the UAE and South Korea agreed to two-year development programmes in ten new sectors, including telecommunications, agri-tech, renewables, oil and gas, and healthcare. (WAM, 2020).

Egyptian President Abdel Fattah el-Sisi visit to China: 2019

- Deals signed included China's cooperation in building an electric railway between '10th of Ramadan City' and Egypt's New Administrative Capital (NAC), which is currently under construction.
- The deal followed a visit by Sisi in 2018 which saw US$18 billion worth of deals signed covering railway infrastructure, real estate, energy projects, and an oil refinery.
- This was Sisi's sixth visit to China since 2014. Xi Jinping also visited Egypt in 2016.

Chinese President Xi Jinping's visit to UAE: 2018

- The first visit to the UAE in 29 years. During the visit the UAE-China strategic partnership was upgraded to a comprehensive strategic partnership.
- 13 MoUs and agreements signed including an agreement for the first Chinese state-owned firms to establish themselves in the free zone, Abu Dhabi Global Market (ADGM). As of 2020, ADGM says it has established close partnerships with over 100 Chinese institutions (WAM, 2020a)
- ADNOC and China National Petroleum Corporation agreed to explore joint business opportunities.

As trade and investment between Asia and the Middle East increases, it is likely that political exchanges will become more frequent as officials on both sides look to protect new economic gains. COVID-19 has likely prevented a number of high-level visits between Asia and the Middle East from taking place. Xi Jinping, for example, has not conducted an overseas visit since January 2020. We expect Asian-Middle East bilateral visits to increase as international travel restrictions ease.

One possible consequence of increased trade and investment between the two regions is that it will increase incentives for China to adopt a more security-focussed role in the Middle East to safeguard investments and ensure trade flows freely in waters surrounding the Arabian Peninsula. China's recent investment in ports across the Arabian Peninsula have made it more involved in the region's security dynamics. The People's Liberation Army Navy has, for example, conducted several anti-piracy missions in these waters and China chose Djibouti, with quick access to the narrow Bab-el-Mandeb strait, as the site of its first overseas military base. The base became operational in 2017. Chinese military exercises in the region are also becoming more frequent. Most recently, China, Iran, and Russia announced in August 2021 that they would hold joint maritime exercises in the Arabian Gulf around late 2021 or early 2022 (Balmforth et el, 2021).

This section has detailed key aspects of the Middle East pivot to Asia. Namely an expansion in the economic and trading ties between key economies in Asia and the Middle East. This enhanced trading relationship, in turn, has encouraged more bilateral visits between the two regions, mainly aimed at expanding trade and investment ties.

The Middle East-Asia trading relationship is still heavily focussed on Middle East hydrocarbon exports. With Asian demand for oil set to increase and remain high over the next decade, this will remain a significant driver of the Middle East pivot to Asia, but so too will the Gulf states' economic diversification strategies, which is encouraging GCC-Asian economic activity in sectors beyond oil, such as construction, technology, and finance. The next section of this report examines the strategic objectives behind the pivot, from the perspectives of both Asia and the Middle East.

SECTION TWO

STRATEGIC OBJECTIVES BEHIND THE PIVOT TO ASIA

STRATEGIC OBJECTIVES BEHIND THE PIVOT TO ASIA

Section two outlines the strategic objectives behind the pivot, examining the incentives of both Asian and Middle Eastern leaders for increased engagement with one another. There are several strategic objectives underpinning the Middle East pivot to Asia. The Asia-Pacific is a fast-growing market, with McKinsey predicting the region's contribution to global GDP will increase from a third in 2000 to over 50 per cent by 2040 (Woetzel et al., 2019). For Middle Eastern economies, pivoting to Asia can help generate new sources of investment that can fuel their economic diversification strategies. For Asian economies, the Middle East is an important source of energy. But new Gulf investment to deliver various vision programmes in sectors such as construction, renewables, and financial technology, has also increased opportunities for Asian firms. There is also an element of strategic hedging involved with the Middle East's pivot to Asia. While the Gulf states want to maintain close ties with the West, fostering closer ties to Asia can help the Gulf states diversify their international partnerships and make them more resilient.

The Middle East is crucial to Asian energy security

As outlined in section one, for Asian economies, the Middle East continues to be an important source of the oil and natural gas supplies that underpin Asian economies. Asian demand for energy declined during the COVID-19 pandemic, and the severe impact on global energy demand has led many firms to predict that the pandemic will bring forward peak oil demand. Equinor for example believes global oil demand will peak around 2027-2028, two to three years sooner than the previously forecasted by the company; Vitol believes it could be within the next 10 years, whereas OPEC recently released its first ever prediction for when global oil demand will peak, arguing this would happen around 2040 (Browning, 2021). Regardless, oil demand will in the short term recover and grow, with much of this growth occurring in Asia. The IEA for example, predicts Asian crude oil demand will increase from 33.4 mb/d in 2020 to 39.3 mb/d in 2026 (IEA, 2021)

To meet demand, Asian countries see engagement with the Middle East as a key component of securing oil to fuel their economies. Asian economies do not just purchase oil from the Gulf economies, but also invest in their extraction operations, and seek Gulf investment and expertise to develop refineries at home that can process oil into fuels and petrochemicals. Asian investment in Gulf ports also increases their capacity to ship crude to Asia. Some of these investments are particularly strategic, with Asian countries investing in ports and storage facilities that would not be impacted by a closure of strategic maritime chokepoints, such as the Strait of Hormuz. Section four highlights key investments from Asia into Middle East oil production over the last few years in greater detail.

The Gulf states enjoy some of the world's lowest crude oil production costs. Saudi Aramco, for example, produces a barrel of oil at just US$2.8, the lowest anywhere (Asharq Al-Awsat, 2019). This means as global demand for oil eventually declines and prices fall, Saudi Arabia and other cheap producers of oil in the Gulf could gain greater market share as oil production becomes less profitable for its competitors. So Asian investment in the Gulf is particularly useful in creating security of supply over the long-term.

Asian demand for energy means Gulf states have an incentive to deepen ties with Asia to maintain their favourable market share in this region. While technological advancements in renewables could reduce oil demand, oil will still likely be needed as feedstock for jet fuels and a host of petrochemicals in the future. Asia, with its rising population, will remain a willing consumer for these goods.

Asia and the Middle East are mutually attractive markets

Middle East-Asia trade ties have diversified beyond oil, leading to new market opportunities for Asian firms to tap into and for the Gulf states new investors to attract. The Gulf states' various vision programmes

and economic diversification plans have led to an uptick in investment into new strategic sectors, such as infrastructure, renewables, and fintech, in the hope that this will attract foreign investment, encourage more citizens to exit the bloated public sector and enter the private sector, and create new sources of revenue for Gulf governments concerned by the prospect of a global energy transition significantly reducing the Gulf states' oil-based revenues.

For Asian businesses, these economic diversification plans all provide business opportunities. For example, the Gulf states' focus on building new infrastructure, improving their logistics capabilities, and expanding their ports, are areas that complement China's own BRI. Chinese investment in the Gulf has increased rapidly as a result, rising from US$6.1 billion in 2011 to a peak of US$15.3 billion in 2018 at an average annual growth rate of nearly 20 per cent (see Figure 9). Similarly, the Gulf states' increased interest in digital transformation, focus on fostering SME development, and interest in adopting new financial technologies, have also lent themselves to Asian expertise in this area. Collaboration in the fintech space between Asia and the Middle East is discussed further in section four.

Gulf leaders realise that in the long-term, global economies will likely transition away from oil, meaning alternative revenue streams to hydrocarbon exports are needed. The volatility in energy prices caused by the COVID-19 pandemic particularly highlighted the need to diversify away from oil, since sustained low prices throughout 2020 meant Gulf states were unable to balance their budgets, leading to deficit rises. For some Gulf states this has led to a need to introduce/raise taxes, increasing the cost of living for their populations. Oman introduced a five per cent VAT in April 2021, whereas Saudi Arabia raised its VAT from five per cent to 15 per cent in July 2021. In September 2021, it was reported that Bahrain's government was planning to double its VAT to 10 per cent. This tax rise could be implemented in January 2022 (PwC, 2021)

Gulf leaders have warned their publics to prepare for some tax rises and subsidy reductions in the future in anticipation of a future without oil, but in general have an incentive to use these fiscal tools as little as possible. Gulf leaders have typically used generous public sector salaries, minimal taxes, and subsidies to maintain their citizens' acceptance of limited political and social freedoms. Increasing revenue through economic diversification can help prevent the need for taxation and subsidy reductions in the future. Asia's projected economic growth makes it a natural choice in the Gulf states' search for new capital and investment to deliver their economic diversification strategies. As section four shows, the Gulf's sizable SWFs, are increasingly turning their attention to Asia as a key investment destination, with funds setting up new regional offices.

The West's own pivot to Asia makes Asia more important to engage with

The Middle East is not the only region looking to enhance its ties with Asia. Several other western countries are also increasingly focussed on the Asia region. For example, the UK's recent integrated review of its foreign, security, and defence policy, called for an increased focus, or 'tilt', to the Indo-Pacific (UK Government, 2021). The UK sees engagement with Asia as an important means of securing economic prosperity and has introduced several policies to embed itself more closely in the region. The UK has started formal negotiations to join the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), that includes Japan, Malaysia, Singapore, and Vietnam. The UK was also recently named a dialogue partner of ASEAN (British Embassy Manila, 2021), and was the main force behind ASEAN attending a G7 foreign and development ministers meeting in May 2021. The Biden administration, too, has stated its intention to focus more on enhancing the US' ties to Asian countries, though more out of a desire to contain and compete with China than to realise economic opportunity. An early action of the new administration was to inaugurate an informal strategic dialogue, known as 'the Quad', between the US, Japan, India, and Australia.

Greater focus on Asia by western economies strengthens and enhances Asia's status as a politically powerful region, thereby reinforcing in the minds of Middle Eastern governments the importance of engaging with Asia too.

Closer ties to Asia help the Middle East diversify between East and West

There is a degree of strategic hedging involved in the Middle East's pivot to Asia. The US, UK, and other OECD economies remain powerful and important allies for the Gulf states, particularly in the security realm. But Asia's growing economic and political power, and increased willingness to engage with the Middle East, means Middle East nations may feel some incentive to adjust their strategic balance between East and West. The US' ties with many of the region's governments remain strong, but there is a growing sense that the US is deprioritising the Middle East and committing less resources to its security. This trend was reinforced during the Trump administration with troop withdrawals from Afghanistan and Iraq, and continued under Biden, whose withdrawal of US forces from Afghanistan in August 2021 received criticism and could lead Gulf leaders to question the US' commitment to and alliances with their countries, and whether it is worth seeking new security partners in the East.

The Gulf states, particularly Saudi Arabia, have also witnessed several measures by the Biden administration to 'recalibrate' the US' ties with the Gulf states, following a period of warm US-Gulf ties under the Trump administration. Measures such as ending US support for offensive operations in Yemen, a freeze on new offensive arms sales to Saudi Arabia, and the removal of missile defence systems and military personnel from Saudi Arabia and elsewhere in the region, could reinforce perceptions in Gulf leaders' minds that the US is deprioritising them and the region. Gulf leaders will also be concerned that any return to the Iran nuclear deal without significant modifications, will leave them less secure and also highlight dwindling support from the US regarding the Gulf states' security concerns. These frustrations and a desire to signal them to the US, could be one reason why Khalid bin Salman, Saudi Arabia's deputy defence minister, and brother of Saudi Crown Prince Mohammed bin Salman, travelled to Russia in August 2021 to sign a military cooperation deal. While seemingly containing nothing concrete on procuring Russian weapons systems, the move does show some willingness to explore new military partnerships.

While continued perceptions that the US is deprioritising the Middle East could encourage the Middle East to foster deeper ties with Asia, and particularly China, for the time being GCC cooperation with Asia will be focused on the economic rather than the security realm. Asian nations are not yet in the position, nor are particularly willing, to offer the Gulf states the same security and military cooperation that the US and other western economies have. China for example, is keen to stress it will not choose sides in any regional conflict. Its approach to the region has been one of finding balance between the Middle East's adversaries and avoiding making security commitments that could see it being sucked into a regional conflict. This can be evidenced for example by China conducting naval exercises with nations from across the region's political divide, including both Saudi Arabia and Iran (Bhaya, 2020) (Reuters 2021). Gulf-China defence cooperation currently is largely confined to the transfer of UAV technology. The UAE has operated China's Wing Loong I UAVs in regional conflicts, and in 2017, Saudi Arabia signed a deal with China Aerospace Science and Technology Corp to produce China's CH-4 UAV. Saudi Arabia purchased Chinese missiles in the 1980s and there have been some reports of renewed cooperation in this area (Mattingly et al., 2019). Despite this, for the foreseeable future, the Gulf states will be wary of the potentially damaging consequences of closer security cooperation with China on their relationships with the West. There is also some hesitancy within the Gulf states about upsetting western powers by increasing cooperation with China in sensitive sectors, such telecommunications, nuclear, and cyber, though some cooperation in these areas does exist, as explored further in section four.

This section has examined the strategic objectives underpinning growing economic and political ties between Asia and the Middle East, highlighting several benefits for both sides, including energy security for Asian nations, funds to support the Gulf's economic diversification, mutual economic growth, and the opportunity to hedge between East and West. The next section outlines the key factors currently driving the pivot and trends that could either accelerate the development of Asian-Middle East ties or undermine them.

SECTION THREE

FUTURE GLOBAL DRIVERS OF THE PIVOT TO ASIA

FUTURE GLOBAL DRIVERS OF THE PIVOT TO ASIA

This section outlines the global factors driving the pivot and subsequently presents the trends and factors that could either accelerate Asia-Middle East ties or undermine them. Of particular importance to the outlook is global energy demand, the success of Gulf states' economic diversification away from fossil fuels, the geostrategic rivalry between the US and China, and the COVID-19 pandemic. Developments on these multiple fronts could significantly impact the Middle East pivot to Asia over the next decade.

Rising energy demand in Asia and rising oil prices are drivers of the pivot

Asia's growing energy demand has been the most notable driver of the Middle East pivot to Asia. The IEA predicts Asian crude oil demand will increase from 33.4 mb/d in 2020 to 39.3 mb/d in 2026 (IEA, 2021). Southeast Asia's electricity demand is the fastest growing in the world, with renewable energy only contributing 15 per cent of total energy consumption in 2019. Demand has increased due to expanded economic activity; a rising middle class that is more mobile and that is purchasing hydrocarbon-based products such as fertilizers and food preservatives; and the greater installation and use of air conditioning systems to cope with rising temperatures. Demand for electricity has increased by 80 per cent since 2000 placing significant pressure on electricity grids and leading to Southeast Asia doubling its use of fossil fuels (Rooney, 2019).

The COVID-19 pandemic impacted energy demand through the imposition of social restrictions, grounded flights, stalling of other transport, and halting of construction and trade, with total oil demand falling by 8.8 per cent from 100 mb/d in 2019 to 91.2 mb/d in 2020 (IEA, 2020). The Delta variant of COVID-19 complicated expectations for oil demand recovery, since countries with relatively low vaccination rates, several of which are in Asia, may be forced to impose new restrictions as this faster-spreading variant takes hold in their population. Summer 2021 for example has seen major economies such as the Philippines, Vietnam, and Japan impose social restrictions on their populations. But at the time of writing, demand recovery in 2021 has been strong, with the IEA expecting oil demand to return to pre-pandemic levels by the end of 2022 (IEA, 2021a). While a new variant of COVID-19 that escapes the immunity offered by the current global roster of vaccine would upend these predictions, for the time being, oil demand is recovering and expected to drive the Middle East pivot to Asia. Increased demand has also led to growing oil prices. Rising oil prices is also a driver of the Middle East pivot to Asia, since high prices will improve the economic outlook of the Gulf states, reduce their budget deficits, and could thereby encourage investment overseas, including in Asia.

Rising global pressure on countries to transition away more quickly from oil, as well as technological advances in green hydrogen, battery storage, and renewables could negatively impact demand and prices, weakening the Middle East pivot to Asia. This pressure has already seen some Asian countries increase their climate change commitments with the following commitments made over the last year:

- In September 2020, China pledged to reach carbon neutrality before 2060.
- In April 2021, Japan raised its 2030 target to reduce emissions by 26 per cent to 46 per cent from 2013 levels, and again in July 2021 released new electricity mix targets reducing the share of electricity produced from fossil fuels from 56 per cent to 41 per cent by 2030 (Nikkei, 2021).
- In June 2021, South Korea proposed a target to cut greenhouse gas emissions to at least 40 per cent by 2030, compared to 2017, and in September 2021 passed a bill committing the country to net-zero carbon emissions by 2050 (IHS Markit, 2021).

Gulf states are actively working to use their oil to produce cleaner fuels such as blue ammonia to export to Asia, contributing to Asia's green agenda, with several deals already announced for the GCC to provide this fuel to Asia. Renewables are also a factor driving the Middle East pivot to Asia. The Gulf states are also strengthening their climate change goals and increasing their commitment to reducing carbon emissions (Neve, 2021). In October 2021, the UAE became the first Gulf country to announce a net zero emissions target, pledging to achieve this 2050 (The National, 2021). Asia has been a major investment source for Gulf renewable projects, as discussed further in section four.

GCC economic diversification will fuel investment into the region

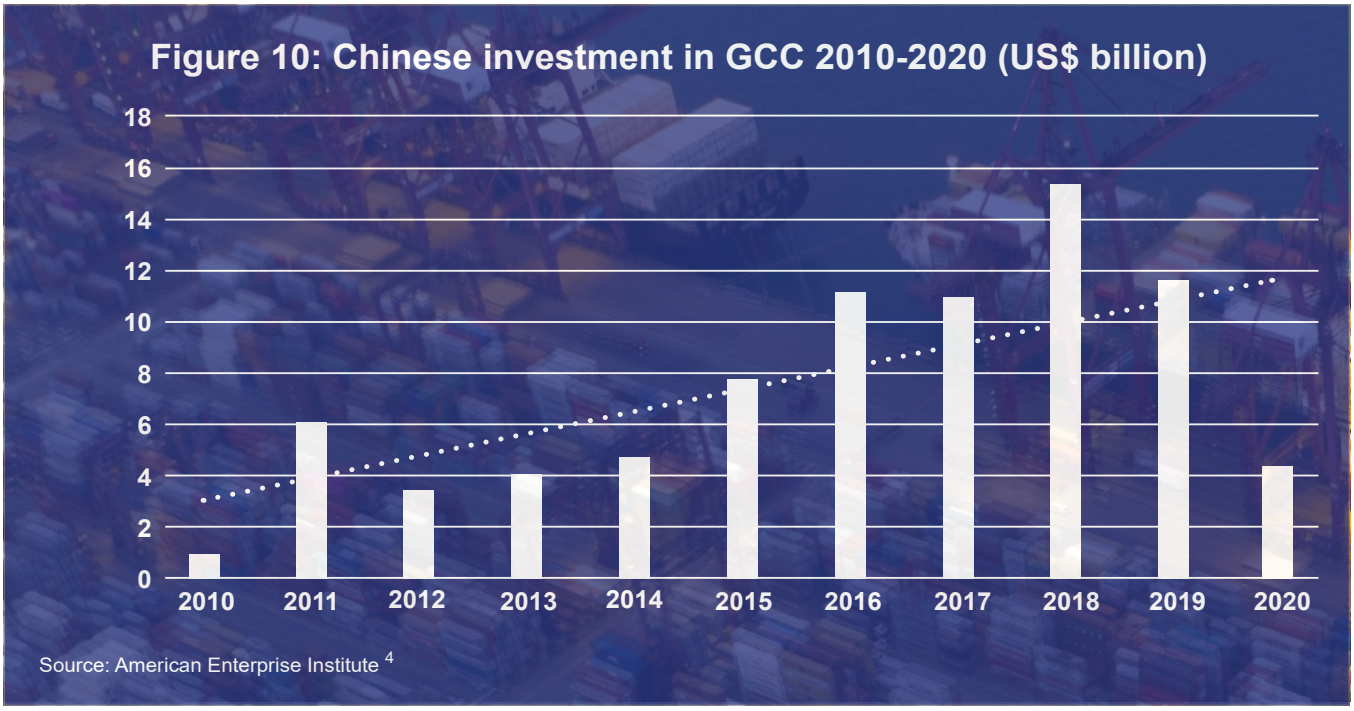
The Gulf states are instigating several strategic visions to diversify their economies away from oil. International engagement, including with Asia, is one method Gulf states utilise to drive investment into a wide range of economic sectors to help this process. Launched in 2016, Saudi Arabia's Vision 2030 is by far the most significant of the various vision projects in the Gulf. Saudi Arabia is looking to use privatisation as a means of raising new revenue and investing heavily in non-hydrocarbon-based sectors such as tourism, renewables, logistics, digitisation, and infrastructure. In the meantime, investment in human capital through education, by encouraging entrepreneurship and SME growth, and by encouraging citizens to join the private sector, are important features of Saudi Arabia's and other Gulf states' economic diversification strategies.

Attracting inward investment is key to the Gulf's success in terms of economic diversification, with Asia increasingly seen as a key market to focus on. The creation of new institutions such as the Saudi Chinese Business Council[2] and the UAE-Japan Business Council in June 2021 (Arabian Business, 2021), highlights this focus. There is a degree of competition between Gulf states in their bid to attract foreign capital and businesses. Saudi Arabia for example recently introduced 'Programme HQ' which will offer incentives to businesses, such as a 50 year tax break and exemptions from certain regulations such as 'Saudization', if they set up a regional HQ in Saudi Arabia. The UAE too has introduced a raft of economic reforms in 2021 to remain competitive and attract foreign investment, including allowing foreign investors to own 100 per cent of companies outside the UAE's free zones (Neve, 2021b).

The degree to which Gulf nations' economic diversification programmes progress and their economies become more liberalised will therefore be a driver of the Middle East pivot to Asia. Gulf states are eager to implement economic diversification, but this sense of urgency tends to increase when global oil prices decline, meaning a future period of sustained low oil prices may drive further impetus for Gulf states to look outwards for investment, including from Asia.

China's BRI and its impact on the pivot

The GCC states have recognised the opportunities arising from the BRI[3] and have focused on positioning themselves as global trading hubs open to significant Chinese investment. In particular, the Gulf states' economic diversification strategies have led to



2. Website can be found here: https://scbcouncil.com/
3. 'The BRI was created by the Chinese Government in 2013 and involves investments and infrastructure development across over 70 countries spanning the Eurasian landmass.
4. Data set can be found here: https://www.aei.org/china-global-investment-tracker/

increased focus on expanding the size of their ports to encourage international trade and shipping as alternative sources of revenue. This has aligned well with China's BRI vision to connect Asia with Europe and Africa via new infrastructure and economic corridors on land, and maritime trading hubs.

As Figure 10 shows, Chinese investment into the GCC has risen sharply over the last decade. Chinese investment in the Gulf has increased rapidly as a result, rising from US$6.1 billion in 2011 to a peak of US$15.3 billion in 2018 at an average annual growth rate of nearly 20 per cent. Chinese investment into the GCC has fallen sharply due to the COVID-19 pandemic, which has temporarily stopped or delayed work on largescale infrastructure projects, as well as slowed down the issuing of new contract tenders. It is expected that Chinese investment into the GCC will recover to pre-pandemic levels, but the speed at which it will do so will depend on how quickly the Chinese economy and GCC economies recover from COVID-19. Figures from the IMF in October 2021 suggest that China will show strong growth in 2021, with GDP expected to expand by eight per cent before slowing to 5.6 per cent in 2022 (IMF, 2021). World Bank figures from August 2021, suggest that GCC will return to aggregate growth of 2.2 per cent in 2021 (World Bank, 2021).

The BRI initiative has impacted the Gulf in three ways:

- **Improved Infrastructure:** BRI investment often focuses on infrastructure. China has invested in domestic infrastructure, such as the light railway in Saudi Arabia connecting Jeddah to Mecca and Medina, which was built in partnership with Chinese firms. Improved infrastructure assists GCC economic growth, productivity, and economic diversification.
- **Encouraging regional interconnectivity:** The BRI has invested in projects that aim at increasing connectivity within the region, and between the region and the rest of the world, for example, through the development of port projects. The China-Pakistan economic corridor, in which China is investing US$62 billion into port and power generation, along with new oil pipelines, is one key example of this. Within the Gulf, China has invested US$11 billion in Oman's Duqm Port, and in January 2021, PIF and China's COSCO Shipping Ports each took a 20 per cent stake in Saudi Arabia's Red Sea Gateway Terminal (Chazia, 2020). Expanded ports in particular will allow more Asian goods to flow to the Gulf and also across GCC borders to reach other regional markets, thereby facilitating economic growth.
- **Encouraging economic diversification:** Investments in ports and infrastructure in the Gulf encourages greater regional interconnectivity and also leads to growth in non-oil sectors. For example, Chinese involvement in Etihad Rail, a railway connecting Ghuwaifat on the UAE's western border with Saudi Arabia to the port of Fujairah on the UAE's eastern border with Oman, will increase the movement of non-oil goods across the UAE.

The Gulf's own investment into port development and infrastructure should also act as a driver for the Middle East pivot to Asia. As recently as July 2021, Saudi Arabia launched a National Transport and Logistics Strategy. Plans include a new airline to complement its existing national carrier, Saudia, and to increase its railway network to 8,080 km of track from 5,330km at present. The new plan also calls for a land bridge connecting the Kingdom's ports to the Red Sea Coast (Alshammari, 2021). The new strategy is already leading to investment opportunities. In July 2021, the Saudi Ports Authority (Mawani) announced investment opportunities to develop and operate terminals in eight of Saudi Arabia's ports, including Jizan Port, which has already benefited from Chinese investment (Arab News, 2021b). Chinese firms already involved in BRI projects throughout the Gulf, and familiar with Gulf contract tendering processes, could stand to benefit from Gulf investment in its infrastructure.

While the BRI is based around infrastructure development, there have also been developments linked to the BRI within finance and trade. For example, Abu Dhabi Global Market (ADGM), an international finance centre and economic free zone, partnered with the Shanghai Stock Exchange in 2018, creating the 'Belt and Road Exchange', a platform designed to help Chinese investors and businesses operate in the UAE. ADGM has recently launched its first international office, in Beijing, to attract more Chinese firms to base themselves within the free zone. One joint project between ADGM and China's National Development and Reform Commission (NDRC) will explore and establish a BRI investment and financing centre to support joint projects (ADGM, 2017).

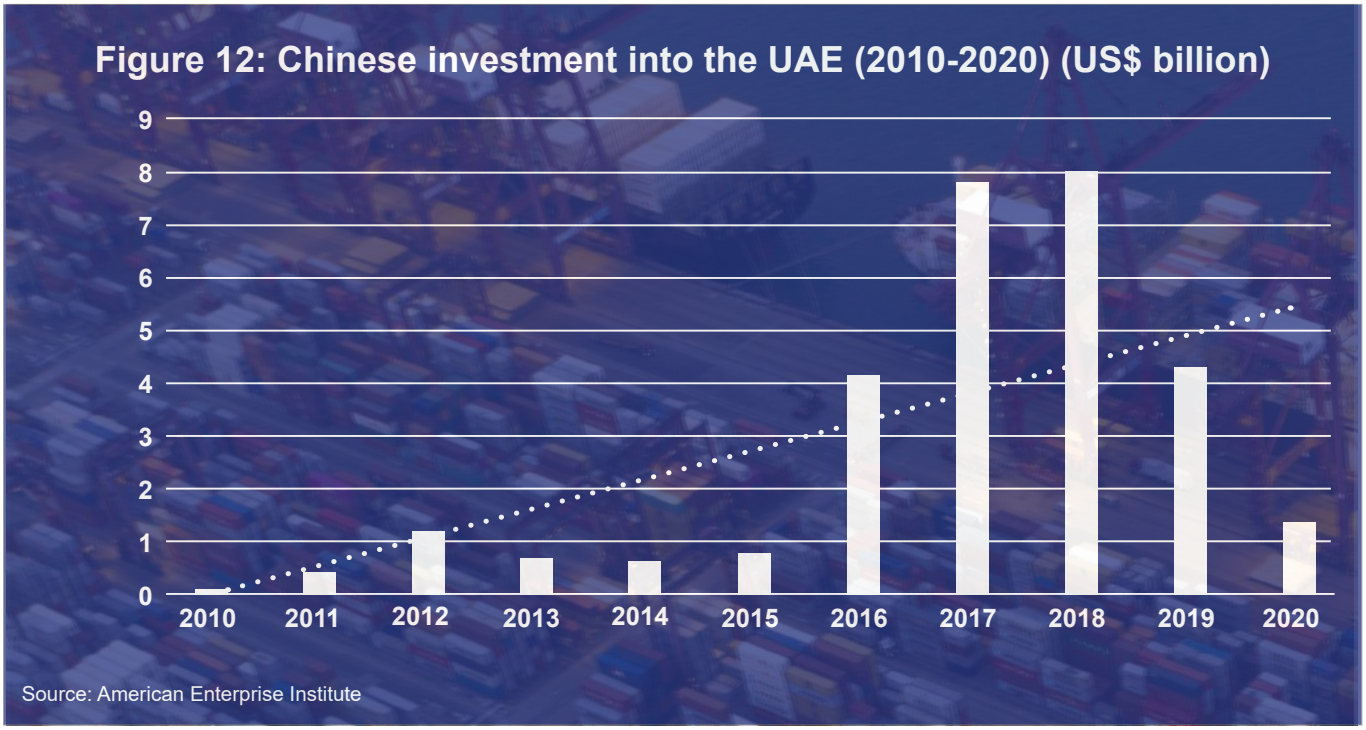
Similarly, the Chinese state-owned Everbright Group signed an MoU with Dubai International Finance Centre (DIFC) to look at the implementation of the financial aspects of the BRI. Currency swaps and Renminbi (RMB) clearing centres are a key sign of the Gulf's growing relationship with Asia and China in particular. In 2015, Industrial and Commercial Bank of China (ICBC) became the first bank in the Gulf, through its clearing centre in Qatar, to allow trade priced in RMB to be cleared locally (Lehr, 2018). 590 billion yuan (US$86 billion) in transactions were cleared in the first two years of the clearing centre's operations. As China seeks to increase the use of RMB throughout the world as an alternative currency to the US dollar, any growth in RMB transactions within the Middle East would increase the country's influence at the expense of the US.

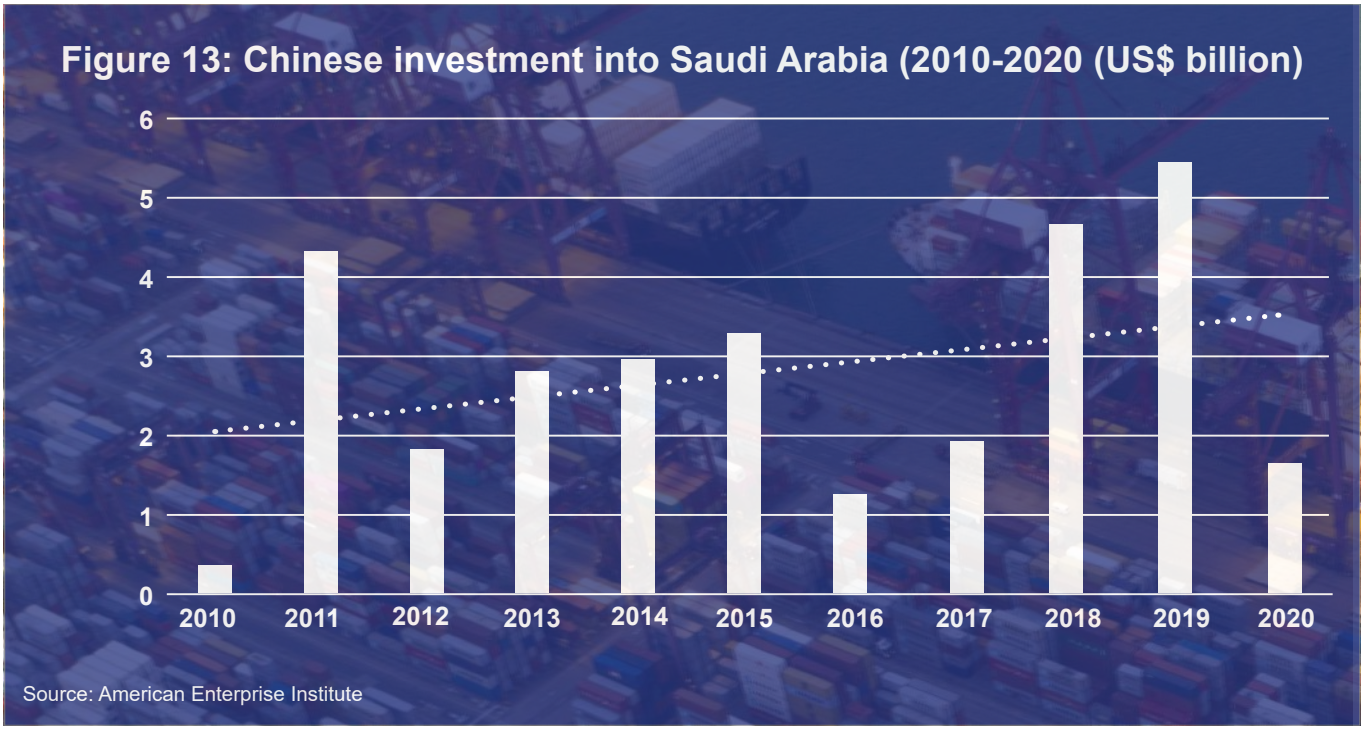
As Figure 11 shows, the UAE and Saudi Arabia have been the main GCC destinations for Chinese investments, receiving US$29.5 billion and US$30.6 billion respectively between 2010 and 2020, and dwarfing the amounts received by other GCC states. This is largely due to the size of both the UAE and Saudi economies in comparison to other GCC states, as well as these countries' investment in economic diversification leading to a large number of contracts tendered.

While Saudi Arabia received marginally more Chinese investment than the UAE in 2020, investment into the UAE has grown at a faster rate (Figures 12 and 13). Chinese investment into the UAE reached its pre-pandemic peak of US$8 billion in 2018, representing an average annual growth rate of approximately 95 per cent between 2011 and 2018. Chinese investment into Saudi Arabia reached its pre-pandemic peak of US$5.5 billion in 2019, reflecting an average annual growth rate of approximately 21 per cent between 2011 and 2018.

China's BRI and its focus on trade and infrastructure aligns with aspirations within the Gulf States' various 'vision' projects. So far, growing Gulf-Chinese economic ties have not come at the expense of the Gulf's relationships with the West. But growing scepticism towards China among western policymakers could complicate developing investment ties between China and the Gulf, particularly if investment takes place in sensitive infrastructure and technologies.

The BRI is not without some criticism, with some projects encountering delays or being abandoned all together. Some have accused BRI projects of facilitating unstainable loans to poorer nations, leaving them in 'debt traps'. For the time being, the Gulf states are eager to be involved in the BRI, but increased instances of stalled or failed projects may reduce enthusiasm in the future. Western policymakers have also explored the possibility of setting up rival infrastructure funds to compete with China. In June 2021, the G7 announced it would establish a global infrastructure plan to help developing nations. A successful implementation of this policy, and greater availability of infrastructure funding from the West into the Middle East, could





reduce the BRI's influence as a driver of the Middle East pivot to Asia. Still, Chinese investment in the BRI will play an important role in the Middle East pivot to Asia for some time. While COVID-19 has led to delays to some infrastructure projects, 2021 has shown signs of new investment flowing out of China.

COVID-19 has slowed the Middle East pivot to Asia, but has strengthened political ties

The COVID-19 pandemic has reduced global economic activity and has undermined the Middle East pivot to Asia by dampening Asia-Middle East trade and reducing people-to-people flows between the two regions. But it has also increased cooperation between the Middle East and Asia, improving political ties, thereby laying good foundations for enhanced economic cooperation in the future.

In the economic sphere, larger budget deficits in both Asia and the Gulf resulting from the pandemic could lead to increased hesitancy on both sides regarding overseas investment. Asia has been slower to vaccinate its population than the Gulf, which may reduce people-to-people exchanges between the regions over the near future. This could impact

growth in the Gulf's tourism sector, a key pillar of several Gulf economies' visions for diversification, as well as business dealings. The economic impact of COVID-19 on the Middle East pivot to Asia will ultimately be determined by how quickly vaccines are rolled out and whether variants of the disease emerge that escape the current level of protection offered by existing vaccines, resulting in further lockdowns and economic disruption. But the pandemic has also improved political relationships between the two regions, with cooperation on vaccines, PCR testing, and in the humanitarian sphere, laying the groundwork for deeper economic and trading relations in the future. Chinese cooperation helped the UAE build a COVID-19 testing lab in March 2020, allowing it to develop one of the world's most effective PCR testing regimes. The UAE was a significant backer of China's Sinopharm vaccine, acting as a major testing ground for initial trials of the vaccine and widely deploying Sinopharm throughout the country. In April 2020, Chinese genomics company BGI expanded into Saudi Arabia, signing a US$265 million deal for six laboratories there (Kerr, 2020).

Gulf nations were also quick to offer aid and assistance to Asian countries during an upswell in COVID-19. During the early days of the pandemic, the UAE lit up the world's tallest building, the Burj Khalifa, with the Chinese flag in solidarity with China. Both the UAE and Saudi Arabia have delivered humanitarian aid to India, including oxygen cylinders in Spring 2021 while India dealt with a brutal wave caused by the Delta variant. Deeper political ties resulting from the COVID-19 pandemic could drive forward economic and trading relations in the future.

Increased US-China tensions could undermine the pivot

As discussed, there is a degree of strategic hedging between East and West inherent within the Middle East's pivot to Asia. Increased US-China tensions could ultimately undermine the pivot if it leads to increased pressure on Gulf states to curtail their economic relationship with China or at least limit it to non-sensitive economic sectors. The Gulf states have an incentive to maintain good relations with the West, so could acquiesce to such pressure. The West is an important security partner for the Gulf states and there will be a reluctance by Gulf leaders to jeopardise this. The Gulf states recognise the superiority of western military technology compared with Chinese military technology and will be wary that seeking out major military systems from China could result in sanctions and restricted access to the US weapons, maintenance, and related services, that are a fundamental part of many of the Gulf states' militaries.

Of course, a major breakdown in Gulf-West relations would likely lead to a more concerted effort to acquire Chinese military technology. US-Gulf tensions are colder under the Biden administration than they were under the Trump administration. This is largely due to actions taken by the Biden administration immediately after taking office, such as banning offensive weapons sales to Saudi Arabia, and removing Yemeni militia, the Houthis, from the US designated terrorism list, as well as concerns that the US could return to the Iran nuclear deal, granting sanctions relief that the Gulf states believe will only be used to fund Iranian proxies in the region. But US-Gulf relations are not in any sort of terminal decline and at the time of writing it is unlikely that there would be a breakdown.

The US is already using its status as a major security and arms provider to the Gulf states to try to curtail Gulf economic ties with China. For example, Huawei is blacklisted in Washington and reportedly the Biden administration is pressing the UAE to remove Huawei from its telecommunications network within the next four years, otherwise it will not receive delivery of the F-35 fighter jet, a long sought-after piece of military hardware for the UAE (Wadhams and Westall, 2021). The US Senate has also expressed concerns to its Middle East allies regarding investment from Chinese firms in sensitive areas, reportedly giving Israel an ultimatum over a deal which saw Shanghai International Port Group manage Haifa port (Kempeas, 2019).

US-China relations do not look set to improve in the near term. This was recently shown by US Vice President Kamala Harris' visit to the Indo-Pacific region in August 2021. While there, she issued a sharp rebuke to China, telling Vietnamese officials that there was a need to pressure Beijing over its actions in the South China Sea, and accusing the country of bullying tactics. US Deputy Secretary of State, Wendy Sherman, met with State Councillor and Foreign Minister Wang Yi on 26 July, where tensions were evident. Wang was quoted as saying "it requires serious consideration for the US side to make correct choices as to whether the bilateral ties will head to confrontation or improvement." In the run up to the meeting, China imposed sanctions on several American individuals, including former US Commerce

Secretary, Wilbur Ross, following the US sanctioning Chinese officials in Hong Kong. But there is a high degree of economic interdependence between the two countries that should act as a protection against relations descending into open hostility. For the time being, the Gulf states will try to balance East and West to maximise the economic potential of their relations with both, probably by deepening ties with China in non-controversial areas such as infrastructure, finance, renewables, and non-nuclear energy, and seeking less economic activity in security and telecommunications. The Gulf states may also play to the US' and UK's focus on competing with China by deepening their ties with other Asian nations, such as India and Japan. Finally, growing confrontation in the West towards China could reduce China's appetite to invest in these economies, and thereby could elevate the relative attractiveness of Middle East economies for investment.

SECTION FOUR

THE SECTORS AND SWFS BEHIND THE MIDDLE EAST PIVOT TO ASIA

THE SECTORS AND SWFS BEHIND THE MIDDLE EAST PIVOT TO ASIA

This section details the key sectors where Asian-Middle Eastern economic ties are growing. This includes technological innovation, shipping and port infrastructure, construction, oil and gas energy projects, and renewables. Gulf economic diversification projects are focussed on these sectors, encouraging inflows of capital from outside the region. As Gulf economies, particularly Saudi Arabia, become more open and business-friendly under their economic reform programmes, we expect financial inflows from Asia to increase, particularly in growth sectors such as fintech, renewables, and hydrogen.

This section also examines the increased focus of the Gulf's SWFs on Asian markets. This not only relates to increased investment, but also to dedicating resources to establish physical offices in these markets in the search for new opportunities. SWFs are the main vehicles for foreign direct investment from the Gulf states. They are therefore politically important, and their investments reflect the strategic thinking of the Gulf's policymakers. Key investments from the SWFs into Asia remain largely focussed on uncovering new growth opportunities for established Gulf energy companies. Investment into Asia increasingly complements the Gulf's own economic diversification projects, with key investments taking place in renewables and tech firms.

Asia's economies, financial markets, and asset classes are expanding in breadth, depth and scale. In light of this, the expectation is that GCC SWFs will continue to invest in the region at potentially a more rapid pace. Bilateral investment and particularly portfolio inflows into Asia's region will depend in large part on the risk appetite of the GCC's SWFs, the availability of capital to invest in these markets, evolving investment strategies in the light of the Gulf states' economic diversification strategies, and finally, on the oil market, with high oil prices generating more revenue for SWFs to invest.

1. GULF STATES SEEK OUT ASIA'S TECHNOLOGY EXPERTISE

Digitisation, e-governance, and technological innovation, particularly fintech, underpin the Gulf economies' drive for economic diversification. Asian expertise in these areas provide one source for Asian-Gulf engagement as the four case studies below demonstrate.

Huawei's roll-out of 5G infrastructure in region

Huawei has secured partnerships across the Middle East, with Gulf telecom firms from the UAE, Saudi Arabia, Qatar, Bahrain, Oman, and Kuwait signing 11 contracts for Huawei's 5G technology (Halligan, 2019). In particular, 5G is a crucial component of Dubai Expo 2020, the Gulf's first global expo, which began in October 2021 following its postponement due to COVID-19. The roll-out of Huawei's 5G assists the Gulf's digital transformation agenda and solidifies Chinese-Gulf trade relations.

Saudi Arabia has become one of the most significant overseas markets for Huawei. Telecommunications firm Zain KSA has signed a deal with Huawei to use its 5G technology and, in January 2021, Huawei announced plans to establish a flagship store in Riyadh, the largest store outside China (Reuters, 2021a). Huawei has also involved itself intimately with Vision 2030 by offering to upskill 20,000 Saudi students in several fields, including AI, big data, and IoT (Internet of Things) through a partnership with Saudi Arabia's Technical and Vocational Training Corporation (TVTC).

The Gulf states, with youthful populations and high rates of internet penetration, represent an alluring market for Asian tech firms in general. In October 2018, a white paper produced by Analysis Mason estimated that 5G could generate cumulative new revenue opportunity worth US$273 billion over 10 years (Calabrese, 2019). But these developments come at a time when Huawei is the focus of geostrategic tensions between China and major western powers, including the US, EU, and UK. In particular, China's involvement in Gulf telecommunications has prompted some discomfort in Washington, where Huawei is blacklisted. As discussed, the Biden administration is reportedly pressing the UAE to remove Huawei from its telecommunications network within the next four years, otherwise it will not receive delivery of the F-35 fighter jet (Wadhams and Westall, 2021). So US-China tensions could impact the involvement of Huawei and other Chinese tech companies looking to invest in the Middle East.

Digitisation, AI, and smart city development

Asian investment has also been directed to Gulf states' ambitious smart city developments and investment in digitisation, particularly in Saudi Arabia and the UAE. Estimates suggest that by 2030 AI buildout in the Middle East could be worth US$320 billion, representing a substantive market for Asian investors (Robinson, 2020).

Beginning in 2016, 'Smart Dubai 2021'[9] is a roadmap aimed at helping Dubai meet its digital transformation goals and become a thriving futuristic city with three focuses: customer happiness, economic growth, and resource and infrastructure resilience. There has been a significant degree of Asian involvement in this project. The director general of the Smart Dubai office, Aisha bin Bishr, has said that AI is an important field of cooperation between China and Dubai, with agreements on technological exchanges being signed between the UAE and China under the BRI. Dubai has also explored introducing smart pay technology from Chinese firm Alibaba to help transition the city to a cashless society. It also has a deal with Alibaba Cloud for it to provide services in transportation, telecommunication, and infrastructure construction to help Dubai become a world-leading smart city (Leng, 2019).

In 2020, Saudi Arabia's National Center for Artificial Intelligence (NCAI) signed an agreement with China's Alibaba Cloud and Huawei for projects to harness AI for smart city developments and workforce transformation (Flinders, 2020). Huawei will support NCAI in training AI engineers and students, while Alibaba's involvement will see improvements in safety and security, and utilisation of data to enhance drivers' experience and reduce road congestion in Saudi Arabia (Bhaya, 2020).

Digital currency cooperation

In February 2021 it was announced the UAE Central Bank would join a project involving the Digital Currency Institute of the People's Bank of China, the Bank of Thailand, and the Hong Kong Monetary Authority, exploring the use of blockchain technology for regional payments. The "Multiple Central Bank Digital Currency Bridge" (m-CBDC) project will explore the use of distributed ledger technology in facilitating cross-border multi-currency payments (Crawley, 2021).

Recent Asia House research shows that China's digital currency development is advanced compared to other central bank pilot initiatives (Papadavid, 2021). Central Bank Digital Currencies are likely to play a role in the future financial system, and over time could replace cash altogether and crowd out commercial banks and other payment platforms, meaning the UAE stands to gain by ingratiating itself with leading developers of this new trend in global finance.

Fintech collaboration

Several of the UAE's free zones are attempting to position themselves as centres for fintech. A part of this agenda involves greater collaboration with Asian firms and investors that are innovating in this area, as well as reaching out to Asian markets to persuade fintech start-ups to consider market entry into the Middle East by establishing themselves in their territory. Key examples include:

- In 2017 Abu Dhabi Global Markets (ADGM) announced a collaboration between the Singapore Monetary Authority and ADGM, which aims to foster 'close cooperation on developments and initiatives that nurture fintech entrepreneurship and support innovation and financial services in both Singapore and Abu Dhabi' (ADGM, 2017).
- In 2018, Dubai Financial Services Authority (DFSA) and the Financial Services Agency of Japan (FSA) signed a cooperation framework to cooperate in fintech, ensure efficient entry of financial innovators into the respective markets, and foster innovation within DIFC (Finextra, 2018)
- In July 2020, Dubai International Financial Centre (DIFC) signed a deal with Jiaozi Fintech Dreamworks, a China-based fintech innovation and entrepreneurship platform, to collaborate on blockchain, AI, big data, and cloud computing (Abbas, 2020).

2. ASIAN INVESTMENT IN GULF SHIPPING AND PORT INFRASTRUCTURE COULD FUEL ECONOMIC GROWTH

The Arabian Gulf is a global trade centre and has been a transhipment hub for goods manufactured in Asia since the early Silk Road maritime routes. This is still the case today, with the UAE acting as a gateway to about 60 per cent of China's exports to regional

5. See here for further details: https://2021.smartdubai.ae/

markets (Carvalho, 2017). The Gulf states are focused on developing their port and shipping infrastructure as part of their economic diversification strategies, and it is in this area that Asian investment is at its most significant, with China in particular investing heavily in the Gulf's new ports.

Khalifa Port, UAE

In 2017, five Chinese companies agreed to spend a total of US$300 million in a deal with Abu Dhabi Ports, deemed a "milestone" by CEO Mohamed Juma Al Shamisi. The Chinese firms involved in the deal are Hanergy Thin Film Power Group, Jiangsu Fantai Mining Development (Group) Co Ltd, Xuzhou Jianghe Wood Co, Jiangsu Jinzi Environmental Technology Co, and Guangzheng Group (Crabtree, 2017). This once again is in line with China's BRI ambitions and further strengthens the relationships between the two regions. The investment comes after an initial joint investment fund of US$10 billion set up in 2015 between the UAE and Chinese governments. In 2016, Chinese shipping company COSCO, the world's largest container operator, chose Khalifa Port as its hub for the Middle East, and announced investment of US$400 million to expand the port's annual capacity to six million 20-foot shipping containers (Carvalho and El Dahan, 2016). Chinese companies have invested more than US$1.7 billion in the China-UAE Industrial Capacity Cooperation Demonstration Zone Project within Khalifa Industrial Zone Abu Dhabi (KIZAD), the free zone linked to Khalifa Port. As of 2019, 20 Chinese firms were operating from KIZAD. East Hope Group is also exploring a possible manufacturing development within KIZAD worth US$10 billion (Construction Week, 2019).

Duqm, Oman

Chinese companies plan on investing US$10.7 billion in Oman's Duqm port. Its strategic location connects China with South Asian countries such as India and Pakistan, as well as East Africa. Its desirability as a Gulf port lies in the fact that it bypasses the Strait of Hormuz, a narrow sea passage in the Arabian Peninsula, that Iran has occasionally threatened to close in the event of a major military operation against it. Once completed, the Sino-Oman Industrial City could be the largest Special Economic Zone in the MENA Region (Siddiqi, 2019). Chinese companies are also involved in building railway infrastructure in Oman to help energy flow from other Gulf producers to Duqm.

Jizan, Saudi Arabia

In 2017, Saudi Aramco awarded the China Harbour Engineering Company (CHEC) a SAR344 million (US$91 million) contract for the construction of a commercial port at Jizan Economic City, located in the southwest of Saudi Arabia (Aguinaldo, 2017). In February 2021, Hong Kong headquartered Hutchison Ports signed a deal with the Royal Commission in Jubail and Yanbu to invest and operate the port in Jizan City for Primary and Downstream Industries (JCPDI). JCPDI is Saudi Arabia's closest port to Asia (Port Strategy, 2021).

Jeddah Islamic Port, Saudi Arabia

In January 2021, COSCO Shipping Ports Limited signed agreements with Saudi Arabia's Red Sea Gateway Terminal for a 20 per cent investment in the Jeddah Islamic Port for US$280 million (Port Technology, 2021).

Egypt is also a focus of China's investment in ports, particularly given the amount of Chinese trade that flows through the Suez Canal. China is the biggest investor in the Suez Canal Area Development Project (Shinn, 2021). COSCO has a 20 per cent stake in the Suez Canal Container Company and CHEC has built a US$219 million quay at the Suez Canal's northern end and a US$1 billion quay at the southern end.

China's mass investment in ports across the Arabian Peninsula and Middle East, and dependence on the waters around these areas for shipping its goods, has made China more conscious of the security dynamics in the Arabian Gulf, Gulf of Oman, Gulf of Aden, and Red Sea. The People's Liberation Army Navy has conducted several anti-piracy missions in these waters and China chose Djibouti, with quick access to the narrow Bab-el-Mandeb strait, as the sight of its first overseas military base. The base became operational in 2017.

Asian investment in port expansion stands to drive the Middle East pivot to Asia in the future, since port expansion assists with GCC economic growth and diversification, as well as allowing more trade to flow between Asia and the Middle East.

3. ASIAN CONSTRUCTION AND ENGINEERING FIRMS GAIN FROM GULF CONSTRUCTION AND MEGAPROJECTS

Between 2015 and 2020, there was a significant fall in the number of construction projects awarded in the Gulf. In 2018, US$63.4 billion worth of construction and transport project contracts were awarded in the GCC, the lowest since 2012. 2019 was meant to be a turning point, with international investments coming in prior to Expo 2020 and making Dubai the driver of construction projects in the Gulf. However, the oil price fall of 2020 and the COVID-19 pandemic led to cuts to the number of projects, with the total value of construction projects awarded in Saudi Arabia during Q3 2020 collapsing by 84 per cent (MEED, 2019).

Global vaccination campaigns and easing of COVID-19 restrictions mean there are tentative signs of recovery in the Gulf. During 2019 the pipeline for construction projects was looking stable, with US$578 billion of construction and transport projects executed and projects worth US$597 billion planned. A further US$1.1 billion of planned developments have been promised through megaprojects such as Saudi Arabia's US$500 billion NEOM City, although many of the projects within these megaprojects have yet to be defined (MEED, 2019). Asian investment is therefore important to the Gulf's continuing with these domestic projects.

Key projects in the Gulf to highlight with Asian investment

- The light railway connecting Jeddah to Mecca and Medina, built in partnership with the China Railway Construction Corporation (CRCC).
- Sheikh Jaber Causeway, one of the world's longest sea bridges at 48.53km long, which connects Kuwait City with Subiyah New Town, as well as better connecting the free zone known as 'silk city'. The contract was won in 2013 by South Korean Hyundai for US$2.6 billion and was completed in May 2019.
- Lusail Stadium, the opening and closing venue for the 2022 FIFA World Cup, is a joint project with CRCC and Qatari company HBK Contracting.
- In June 2021, the Financial Times reported that PIF and an Asian institution would invest in a US$800 million Gulf infrastructure fund established by Aberdeen Standard Investments, and Bahrain-based Investcorp (Kerr, 2021)
- In 2019, Etihad Rail awarded a US$1.2 billion contract to the CRCC and Abu Dhabi-based Ghantoot Transport & General Contracting to build a railway connecting Ghuwaifat, on the UAE's western border with Saudi Arabia, to the Port of Fujairah on the UAE's eastern border with Oman. A separate US$408 million contract on this project was awarded to China State Construction Engineering Corporation (CSEC) and South Korea's SK Engineering and Construction. The project should also have a positive environmental impact by taking 375,000 vehicles off the roads and cutting greenhouse gases by more than 2.2 million tonnes annually (Webster, 2021).

Many of these projects are focused on enhancing inter-connectivity in the Gulf, and those with Chinese funding are clearly aligned with China's BRI. Many Chinese construction projects in the Gulf are also linked to building new residential cities and new homes to assist with the Gulf States' economic diversification strategies. Some key projects include:

- In October 2018, China's PowerChina International Group signed a US$2.7 billion MoU with the Saudi Ministry of Municipal and Rural Affairs, and Housing, to build 17,000 homes over the next six years. These projects will both assist one of the Saudi government's key aims under Vision 2030 to increase home ownership among Saudi families to 70 per cent by 2030. A Saudi-Chinese partnership named Sany has also agreed to cooperate with the government in real estate development (Torchia and Goodman, 2018).
- In 2019, Saudi Arabia's National Housing Company and China State Construction Engineering Corporation (CSCEC) agreed to a US$666.7 million deal to build over 5,590 housing units in Riyadh (Ball, 2019).
- Dubai's Motor City residential development is being built by the China State Construction Engineering Corporation. Starting in 2018, the project is worth US$2.2 billion (Foreman, 2018).
- In 2019, the Bahraini Ministry of Housing signed contracts with China Machinery Engineering Corporation (CMEC) to initiate construction on the East Sitra City Project, which will include 3,000 housing units. The project costs US$689 million. The first stage of construction began in April 2021 and will be completed in an estimated 30 months (Xinhua, 2019).

- The China State Construction Engineering Corporation Middle East (CSCEC ME) is building Damac's four-tower Aykon City in the UAE. The project is worth US$270 million. (MEP Middle East, 2021).
- In June 2021, China Railway No.5 Engineering Group Co. Ltd. was awarded a US$212.8 million contract to build 597 houses, public buildings, road works, and parking lots in Kuwait (Saudi Gulf Projects, 2021).

Large-scale infrastructure and construction projects, also known as 'giga-projects' form a key part of the Gulf states' various vision programmes. Vision 2030, in particular, has led to several ambitious projects. The largest and most ambitious 'giga' project is NEOM, a new city in northwest Saudi Arabia that aims to be a hub for futuristic tech, technological innovation, and smart tech. Within NEOM will be 'The Line', a sustainable eco-city with zero-carbon emissions oriented on a 170km straight line.

Other 'giga'-projects such as Qiddiya, Al-Ula, The Red Sea Development Company, and AMAALA, are primarily aimed at boosting the Kingdom as a destination for both international and domestic tourists. Saudi Arabia is also expanding its urban areas to increase home ownership amongst its population and meet demand for expected increases in the Kingdom's expatriate population. Saudi Arabia aims to build 700,000 new homes between 2020 and 2025 and plans to construct multiple schools and hospitals over the next five years. As a result, Saudi Arabia's building and construction sector is now the second largest non-oil sector in Saudi Arabia, contributing total revenues of 330 billion Saudi riyals (roughly US$86 billion) per annum.

These various projects, and the associated contracts needed to deliver them, will be a key driver of the Gulf construction industry over the next decade. Asian firms with experience delivering such contracts could stand to benefit from this growth. There are already signs of this with South Korea's HanmiGlobal being awarded a US$2.3 billion contract in June 2021 for 'The Line' project to create project management systems over two years.

4. STRONG BILATERAL INVESTMENT IN OIL AND GAS PROJECTS IN BOTH ASIA AND THE GCC

As previously discussed, energy cooperation is central to the Middle East's relationship with Asia. The Middle East has approximately two-thirds of the world's total proven oil reserves and sophisticated infrastructure and expertise in oil transportation and refining. The Middle East therefore is an important region for rapidly developing economies in Asia searching for energy security, meaning several investment projects from Asia into the Middle East are aimed at securing supply. Key projects worth highlighting include:

- In March 2018, South Korea's Samsung Engineering signed a US$3.5 billion deal with ADNOC to upgrade its Ruwais Refinery. The project is scheduled to be completed by the end of 2023 (El Gamal et al., 2018)
- In February 2019, ADNOC and South Korea's SK E&C signed a deal to build the world's largest underground oil storage facility in the emirate of Fujairah. Costing US$1.2 billion, the facility will be able to store 42 million barrels and would be able to be shipped to global markets without having to bypass the Strait of Hormuz. The project is expected to be competed in 2022 (Nehme et al., 2019).
- In January 2020, Samsung secured a US$1.85 billion project to construct Saudi Arabia's Hawiyah Unayzah Gas Reservoir Storage (HUGRS) project (Saudi Gulf Projects, 2020).
- In March 2021, China National Chemical Corporation announced it had been awarded a US$239.3 million deal to build a crude processing unit on the island of Abu Ali (Saudi Gulf Projects, 2021a).
- In June 2021, China's Silk Road Fund joined a group investing US$12.4 billion to acquire a 49 per cent stake in Aramco Oil Pipelines Co, a new Aramco subsidiary. Samsung Asset Management were also investors.
- In June 2021, Japanese Drilling was awarded a three-year deal to continue operations in Qatar's Al-Shaheen natural gas field (Ocean Energy Resources, 2021).
- In July 2021, Daewoo Shipbuilding & Marine Engineering (DSME), was awarded a US$633.6 million contract by North Oil Company (NOC) of

Qatar to build an offshore plant to increase oil production at Al Shaheen Oil Field (Saudi Gulf Projects, 2021b).

Much Chinese investment is driven by state-owned enterprises; however, private Chinese firms have also been increasing their energy investments in the Gulf. Their ambitions are similar and, in general, the investments are also aligned with the BRI. In July 2018, for example, the Chinese Hengli Petrochemical Co. Ltd. signed an agreement with Aramco to supply it with approximately 20 million tons of crude oil for a year — reportedly the first such agreement between Aramco and a private Chinese energy firm (Rakhmat, 2019).

Chinese cooperation and involvement with Aramco have steadily been increasing. Yanbu Aramco Sinopec Refining Company (YASREF) was jointly established by China Petrochemical Corporation (Sinopec) and Saudi Aramco. YASREF has become a model for China-Saudi energy cooperation and future bilateral cooperation within the BRI (Xinhua, 2018). In April 2021, Reuters reported that major Chinese investors were in discussion to buy a one per cent stake of Aramco. This followed an announcement by Crown Prince Mohammed bin Salman that such a sale to "international" investors could take place within a year or two. Should the deal go ahead, it would equate to a US$19 billion investment and represent a major deepening of ties between China and Saudi Arabia (Wu et al., 2021).

Gulf oil producers are also looking to invest in the Asian markets to maintain and expand the market share that they enjoy there. At the same time, Gulf energy companies are also looking to invest more into their downstream businesses through refineries. Asia, with its demand for oil and associated petrochemicals, is a suitable venue for investments in this market. Recent projects include:

- Following a visit by Indonesian President Joko Widodo to the UAE in January 2020, the UAE announced investment of US$23 billion into Indonesia, through a new SWF established by Indonesia, including into infrastructure, energy, and the construction of a new capital. The visit also saw ADNOC sign a preliminary agreement with PT Pertamina and Chandra Asri to explore the development of a refinery in Indonesia (Khan, 2020).
- Saudi Aramco has a US$7 billion investment in Malaysia's Refinery and Petrochemical Integrated Development (RAPID) facility at the Pengerang Integrated Complex in the southern Malaysian state of Johor. Aramco acquired a 50 per cent stake in the RAPID project's refinery and cracker plants in 2017, agreeing to provide 70 per cent of crude feedstock for them. Trial runs began in January 2019 (Prem Kumar, 2019).
- In 2019 ADNOC signed an agreement with Indonesia's PT Pertamina for US$3 billion to upgrade a refinery. In return PT Pertamina would buy between 170,000 and 520,000 tonnes of liquified petroleum gas (Fulton, 2020).
- In April 2019, Aramco acquired a 17 per cent stake in South Korea's Hyundai Oil Bank. The investment is valued at approximately US$1.25 billion, again evidence of greater investment by Gulf States in downstream applications in Asia (Saudi Aramco, 2019).

Not all investments and joint projects go to plan. In 2018, it was announced that Saudi Aramco and ADNOC would build a new US$44 billion mega-refinery and petrochemicals complex in India's western port city of Ratnagiri. The facility would have had a production capacity of 1.2 m/bd, with Aramco and ADNOC enjoying a 50 per cent stake and management over the complex. The other 50 per cent stake would have been owned by a consortium of Indian national oil companies including India Oil Corporation (IOCI), Bharat Petroleum Corporation (BPCL), and Hindustan Petroleum Corporation (HPCL) (Erdogan, 2018). As of 2021 the programme, however, has stalled due to local opposition and bureaucracy.

Aramco also pulled out of a project with Thailand's PTT Public Company Limited in 2016 to build and operate the Binh Dinh Refinery and Petrochemical complex in Vietnam. The project required US$22 billion of investment.

5. ASIA INCREASES ENERGY INVESTMENTS OUTSIDE OIL AND GAS SECTOR

Asian interest in Middle East energy markets is not just limited to the oil and gas sector. There has also been a significant increase in Asian involvement in nuclear and renewable energy projects over recent years, and more recently in developing hydrogen technology.

Nuclear projects with Asian investment

- Barakah nuclear power plant development, the first nuclear power project in the UAE, went online in August 2020. Located in Abu Dhabi the plant was jointly developed by Emirates Nuclear Energy Corporation (ENEC) and Korea Electric Power Corporation (KEPCO) (Power Technology, 2021).
- In 2017, Saudi Arabia and China agreed to cooperate on nuclear energy projects. China National Nuclear Corp (CNNC) has signed an MoU with the Saudi Geological Survey (SGS) to promote cooperation between the two sides to explore and assess uranium and thorium resources. The state-owned Saudi Technology Development and Investment Co (Taqnia) also signed an MoU with China Nuclear Engineering Corp to develop water desalination projects using gas-cooled nuclear reactors (Shamseddine and Merriman, 2017). Chinese involvement in Saudi Arabia's nuclear sector has frustrated several US policymakers and is one area where the US could add pressure on Saudi Arabia to curtail its relationship with China (Strobel et al., 2020).

Renewable projects with Asian investment

- The US$4.4 billion fourth phase of Dubai's Mohammed bin Rashid (MBR) solar park represented the largest financial closing for a renewable project in the Middle East. It also saw significant investment from China, with an equity stake from the Silk Road Fund, and Chinese banks accounting for five out of the eight international banks financing the project (Roscoe, 2019).
- China's state-owned Silk Road Fund completed its acquisition of a 49 per cent stake in the Saudi Arabia-based ACWA Power Renewable Energy Holding in May 2020. ACWA Power is a large player in the Middle East's renewable energy sector, and in particular in Saudi Arabia, where it is involved in a range of projects. China's investment in ACWA Power is particularly strategic, because Saudi Arabia has the capacity to produce large amounts of solar power cheaply. ACWA, for example, recently agreed to sell electricity produced by its Shuaibah plant at US$10.40 per MWh, which would be the cheapest electricity produced by solar power in the world (Neve, 2021a).
- Shanghai Electric has worked on Dubai's DEWA IV phase 700 MW Solar Power and 250MW Photovoltaic integrated power plant project (Xinhua, 2020).
- In September 2021, a consortium led by China Three Gorges South Asia Investment, acquired UAE renewable energy firm, Alcazar Energy, which has a wind and solar portfolio totalling 411MW (Weekes, 2021).

Hydrogen projects with Asian involvement

- In January 2021, ADNOC agreed to cooperate on Fuel Ammonia and Carbon Recycling technologies with Japan (ADNOC, 2021). Later in April 2021, a further agreement was signed aimed at speeding up bilateral support for hydrogen production collaboration and the development of new hydrogen supply chains to Japan.
- Japanese firm Marubeni has teamed up with Masdar to build a solar-powered electrolyser to produce hydrogen (Argus, 2021)
- In August 2021, Abu Dhabi National Oil Company (ADNOC) announced it would sell blue ammonia to Japanese firm Idemitsu (Gnana, 2021). In July 2021, a preliminary agreement was signed with Japanese companies to explore the commercial production of blue ammonia in the UAE. ADNOC is part of an alliance with Mubadala and ADQ to develop a hydrogen economy in the UAE.

GCC sovereign wealth funds and their involvement in the pivot

Although the majority of investment flows are from Asia to the Gulf economies, Gulf investment into Asia is also growing. SWFs are the largest vehicles for foreign direct investment from the Gulf states and, as with most SWFs, are, in part, an extension of GCC government. The nature of the relationships between each SWF and its government is country specific and depends on the political and economic objectives of each government. Given this, SWF investments can therefore indicate the strategic and underlying objectives of each country. Four of the world's largest SWFs are based in the GCC, with combined assets totalling over US$2 trillion, making the GCC a significant presence in the global investment landscape (Arabian Business, 2021a).

Figure 14: GCC sovereign wealth funds by size (2021)

Sovereign Wealth Fund	Total assets	Global ranking in terms of size
Kuwait Investment Authority	US$693 billion	No. 3
Abu Dhabi Investment Authority	US$649 billion	No. 4
Public Investment Fund	US$430 billion	No. 8
Investment Corporation of Dubai	US$302 billion	No. 10
Qatar Investment Authority	US$300 billion (2020)	No. 11
Mubadala	US$243 billion	No. 13
Emirates Investment Authority	US$34 billion (2019)	No. 25
Bahrain Mumtalakat Holding Company	US$19 billion (2019)	No. 36
Oman Investment Authority	US$18 billion (2020)	No. 38

Source: Sovereign Wealth Fund Institute [6]

Although the portfolio investment splits of SWFs, including those of the GCC, are not typically disclosed in detail, those in the Middle East have typically looked westwards for a multitude of investment opportunities. Certainly, during the COVID-19 pandemic, Saudi Arabia's Public Investment Fund (PIF) acquired a wide variety of western equity assets at significantly reduced prices and Gulf investment in US assets jumped from US$6.48 billion in 2019 to US$14.7 billion in 2020 (Foxman, 2021). And yet, SWFs such as PIF, the Qatar Investment Authority (QIA), and the UAE's Mubadala, are beginning to look eastwards for new investment opportunities. SWFs have begun to open offices in Asia to realise opportunities there. For example, in July 2021, it was reported that QIA was building a regional hub in Singapore (Gulf Business, 2021). The Kuwait Investment Authority opened a representative office in Shanghai in 2018, its second in the country after opening a Beijing office in 2011 (SWF Institute, 2018). ADIA opened a Hong Kong office in 2016 (Li, 2016) and PIF is also reportedly studying opening a new office in Asia to "focus on China" (Asharq Al-Awsat, 2019a).

The most prominent of these investments is probably the investment by PIF and Mubadala in Tokyo-based Softbank's US$100 billion Vision Fund, which focusses on technology start-ups and disruptors. Both contributed almost two-thirds of the fund's capital, with PIF alone investing US$35 billion. A significant proportion of Vision Fund investments, which focus on high profile technology companies, have gone towards the West, though several Asian firms have also benefited, such as Chinese tech firm Didi, AI frontier firm SenseTime, online car trading platform Guazi, and India's e-commerce store Flipkart. Investment from Softbank's Vision Fund has also found its way to the Middle East. For example, investment in Trendyol, Turkey's largest e-commerce company and itself owned by Chinese e-commerce giant Alibaba, has led to Trendyol becoming Turkey's first 'decacorn', an unlisted company valued at over US$10 billion.

China is a major destination for Gulf investments. Mubadala, China Development Bank Capital, and China's State Administration of Foreign Exchange launched a UAE-China Joint Investment Fund in December 2015. As of 2019, Mubadala had invested US$2 billion into China through this fund (CPI Financial, 2019) and more recently invested US$100 million into a Chinese trucking startup, Full Truck Alliance Co. (Arab News, 2021c). China has also piqued the interest of Saudi Arabia's largest SWF, PIF, which was considering investing in the IPO of Chinese fintech firm, Ant Group, before the IPO was shelved by Chinese regulators. Should the IPO go ahead with PIF investment, it would be the fund's highest-profile direct investment into a Chinese firm (Azhar et al, 2020).

6. Website available here: https://www.swfinstitute.org/

GCC investments are also flowing to India. The Qatar Investment Authority (QIA) is a backer of Indian e-commerce firm Flipkart and was involved in the firm's US$3.6 billion funding round in July 2021 (Findlay, 2021). In June 2020, PIF invested US$1.5 billion into Indian digital services company Jio Platforms, acquiring a 2.32 per cent equity stake in the firm (Paracha, 2020). Jio Platforms has also received US$1.2 billion in investment from Mubadala and ADIA also has a stake (Shead, 2020). Jio Platforms is a subsidiary of Reliance Industries, India's largest corporation in terms of revenue. Four months later, PIF invested US$1.3 billion in Reliance Retail Ventures Limited (Yu, 2020). Reliance Industries is seeking a US$15 billion investment from Saudi Arabia for a 20 per cent stake in Reliance's refining and petrochemical assets. Reliance's Chairman, Mukesh Ambani, expects the partnership to be finalised later in 2021 (Raval et al, 2021). The appointment of PIF's managing director, Yasir Al-Rumayyan, to Reliance Industries' board could indicate that the investment is likely to go forward. In August 2021, Aramco CEO Amin Nasser said delays in finalising the deal were due to due diligence delays (Gnana, 2021a) This touted investment also confirms a growing trend of closer Saudi-Indian ties.

Another major investment of note is Indonesia's receipt of US$22.8 billion from the UAE in January 2020 for a SWF being set up by President Joko Widodo, that will focus on infrastructure and energy projects. The UAE also plans to invest in Indonesia's new capital city on Borneo Island (Rahadiana, 2020). In 2019, ADNOC and Mubadala both signed agreements with Indonesian firms to explore investment opportunities in Indonesia's tourism and energy sectors.

Because SWFs are government owned, their investment decisions are in part a reflection of the strategic thinking of the Gulf's rulers. Increased investment into Asia from SWFs, therefore, highlights the increased importance that the Gulf states attach to their ties to Asia. SWF investment into Asia will be a key trend defining the Middle East pivot to Asia over the next decade. Of course, SWF investment could be impacted in a variety of ways. SWF portfolios still have a focus on the oil and gas industry, meaning a prolonged period of low oil prices will likely impact their investment revenue and, thereby, their ability to invest. Similarly, SWFs have increased their attention on sectors that can diversify the Gulf states' economies, such as entertainment and tourism, meaning economic growth or falls within these areas could also impact SWFs' revenue. Regardless, growing interest from SWFs in Asia is an important trend worth watching over the next decade, particularly if capital outflows towards the East start gaining considerable ground on capital outflows to the West.

This section has focused on detailing Asian-Middle East economic activity beyond oil. The growth in Asian investment into the GCC's non-oil sectors is a key trend of the Middle East pivot to Asia and will assist the Gulf states' economic diversification. Construction, renewables, and technology in particular are areas where the Gulf states are seeking investment from Asian capitals. Another important trend discussed is the increased attention from GCC SWFs towards Asia. Given GCC SWFs can reflect the strategic thinking of their country's rulers, this greater interest in Asia also demonstrates that Gulf leaders are increasingly seeing the continent's strategic potential.

CONCLUSION

CONCLUSION: WHAT IS THE FUTURE OF THE MIDDLE EAST PIVOT TO ASIA?

Over the past decade, the Middle East pivot to Asia has evolved from being primarily a relationship based on fossil fuel trade to a broader relationship that crosses into multiple sectors and fulfils strategic objectives for both regions. These include the economic diversification of the Gulf economies away from a reliance on fossil fuel revenue, in which Asian investment is playing a major role. Additionally, there has been a drive by Asian economies to find new economic opportunities to expand globally and to strategically position themselves. The GCC's trading ties with Asia's emerging economies have increased over the last decade as a consequence, expanding from US$247 billion in 2010 to US$336 billion in 2019, representing an average annual growth rate of approximately five per cent.

The GCC's various vision programmes have allowed for greater international investment into the GCC, which has proved a highly attractive opportunity for Asian businesses. This will continue over the next several years as the Gulf continues to seek diversification, and Asian businesses look for expansion and growth opportunities. While COVID-19 undoubtedly has slowed down the Middle East pivot to Asia, with the Gulf's trade with emerging Asian economies contracting from US$336 billion in 2019 to US$281 billion in 2020, the GCC's trade with other regions fell more significantly. GCC trade with emerging Asian economies remained at 26.8 per cent between 2019 and 2020. By contrast, the GCC's trade with advanced economies such as the Euro Area, US, and UK, fell from 35 per cent of the GCC's total trade in 2019 to 32 per cent in 2020. The gap between the GCC's trade volumes with emerging Asia and advanced economies has narrowed. The gap amounted to approximately US$97 billion in 2019 and declined to US$58 billion in 2020. The COVID-19 pandemic, and the resulting cooperation, humanitarian assistance, and vaccine diplomacy between the GCC and Asian nations, have also deepened political ties between them, laying good groundwork for future engagement and the deepening of economic ties.

Trade in fossil fuels will remain essential in Asia-Middle East trade relations. While increased oil demand and rising oil prices look set to boost the value of Asia-Middle East trade, diversification into non-oil trade will likely continue. The last few years have seen greater investment from Asian economies into other sectors, including in construction, ports, infrastructure, and renewables. Some of these investments assist the Asian economies with securing oil supply from the Middle East. And yet, for infrastructure and trade-related industries in particular, a large factor in driving economic engagement by Asian governments and firms is the Gulf's strategic position. Investment in the Gulf's infrastructure, especially its ports, provides excellent access to the world's most sought-after shipping lanes, which in turn will benefit Asian trade-related initiatives including the BRI. Asia's involvement in trade-related infrastructure lays the foundation for further engagement with the Gulf and the wider Middle East. The Gulf's own investments into its domestic infrastructure and logistics capacity, will also benefit existing Asian investment in the region, and Asian companies with experience in these sectors could also stand to gain.

Finance hubs like Dubai are set to provide investors a gateway to the wider Middle East. This is a long-term trend as Asian firms continue to expand into markets outside their own region. While engagement in these markets has existed for some time, as businesses mature, they will develop greater regional capacities, and likely make further acquisitions of local entities in the region, particularly as Gulf states further liberalise their economies and open them up for foreign investment. The UAE's free zones in particular have increased their focus on attracting companies in Asia to establish themselves there. Gulf SWFs are also increasing their focus eastwards, seeking to open offices there and increase investment. This reflects the strategic thinking of the Gulf's rulers and SWF investment into Asia will be a key trend defining the Middle East pivot to Asia over the next decade.

China's trade and investment into the Gulf states will be key to driving the Middle East pivot to Asia in the future. It is notable that the Gulf's trading ties with advanced Asian economies, including Japan, South Korea, and Singapore, have slowed over the last few years, declining from US$217billion in 2015 to US$192 billion in 2019. By contrast, China's investment into the GCC has expanded considerably, with Saudi Arabia and the UAE benefiting. Chinese investment

into the UAE reached its pre-pandemic peak of US$8 billion in 2018, representing an average annual growth rate of approximately 95 per cent between 2011 and 2018. Chinese investment into Saudi Arabia reached its pre-pandemic peak of US$5.5 billion in 2019. Chinese investment into Saudi Arabia grew at an average annual growth rate of approximately 21 per cent between 2011 and 2018. Chinese outward FDI was resilient during the pandemic. According to The United Nations Conference on Trade and Development (UNCTAD), China's outward FDI fell by three per cent from US$137 billion in 2019 to US$133 billion in 2020, but due to falling outward FDI in other nations, China became the world's largest investor in 2020 (UNCTAD, 2021).

A key risk to China's relationship with the GCC is the future direction of its relationship with the US. Notably, the relationships between the Gulf economies and those of Asia have not yet caused a deterioration in political relations with western economies. There are early signs that security concerns around the involvement of Chinese entities in core digital infrastructure may raise some challenges in the future. GCC economies will have to carefully navigate this. Cooperation in certain areas with China, such as security, cyber, military hardware, nuclear power, and communications, may create resistance in the West. US-China relations are one area that poses risk to Asian-Middle East ties. Should US-China relations develop into open confrontation, there could be pressure from the US on the Gulf states to deprioritise their relationship with China.

The Middle East pivot to Asia goes beyond China. GCC ties have also improved with India, Japan, and several ASEAN members, with growing investor interest from the Middle East in these markets, particularly in India, and enhanced cooperation in emerging sectors such as renewables and hydrogen. As economic ties solidify and international travel resumes, we expect to see greater political focus from both sides, with an uptick in bilateral visits aimed at maintaining and enhancing existing economic cooperation.

Ultimately the growth outlook for the Gulf's trading ties with Asia's emerging economies is positive. While it is difficult to predict the course of COVID-19, and a number of other risk factors, at the time of writing, vaccination rates are rising and social restrictions are gradually easing. Given this, we expect the Gulf's bilateral trade relationship with Asia's emerging economies to recover to 2019 levels by the end of 2022. More specifically, should trade continue expanding at the average annual rate seen between 2010 and 2019 of approximately five per cent, we can expect the GCC's trade with emerging Asian economies to expand from US$336 billion in 2019 to approximately US$480 billion by 2030, likely outpacing GCC's trade with advanced economies.

The Middle East pivot to Asia looks set to remain resilient and to accelerate, on multiple fronts, over the next decade.

If you have any questions or comments about this report, or wish to find out more about Asia House Research and the Asia House Middle East Programme, please contact Freddie Neve, Middle East Associate: **freddie.neve@asiahouse.co.uk**

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