# THE MIDDLE EAST PIVOT TO ASIA 2022

## CONTINUED GROWTH IN UNCERTAIN TIMES

2022 REPORT

## About Asia House

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# EXECUTIVE SUMMARY

## Rapidly expanding ties between the Gulf and Asia are creating a fundamental global shift that will have far-ranging implications for international trade, business and politics.

After a quicker recovery than expected from the COVID-19 pandemic, we expect trade between the two blocs to surpass that between the Gulf states and advanced economies by 2028[1]. Trade between the Gulf Cooperation Council (GCC)[2] and emerging Asia[3], which had dipped from US$320bn in 2019 to US$262bn in 2020, has now recovered to levels not seen since 2014. We expect this trade to continue growing, reaching approximately US$578bn by 2030. As GCC-Asia trade and investment rises, we will see greater bilateral political exchanges and cooperation to protect and expand these investments, making this relationship a significant pillar of global politics. Our Middle East Pivot to Asia report examines the strengthening economic and political linkages between Asia and the Middle East and underscores the business opportunities these will bring.

### GCC-Asia trade is set for further growth despite global economic headwinds

Despite a faster-than-expected recovery from the COVID-19 pandemic, global trade faces major obstacles including inflation, global monetary policy tightening, and the Russia-Ukraine conflict. Oil prices have come off the highs seen during Q2 2022 but remain above the average prices in 2021. This has not only increased the value of GCC-emerging Asia trade in 2022, but also raised revenue for the Gulf states which can be used to drive the Pivot. It supports the economic diversification that has attracted Asian investment in non-oil sectors, as well as Gulf Sovereign Wealth Fund (SWF) investment into Asia. While there are signs that growth is slowing in China, the economic outlook for Asia and the GCC economies remain broadly positive, with Saudi Arabia expected to be the fastest growing major economy in 2022 (Economist Intelligence Unit, 2022). Inflation, global monetary policy tightening and the Russia-Ukraine conflict have dampened the outlook for global trade and economic growth, but we expect GCC-Asia trade and investment to remain resilient for the following reasons:

### China is driving emerging Asia's trade with the GCC

GCC-China trade has doubled from approximately US$90.6bn to US$180bn between 2010 and 2021 (IMF, 2022a). China is already the biggest trading partner for all GCC economies with the exception of Bahrain, but we are now seeing evidence that GCC-China trade is not just outpacing the GCC's trade with the US, but also with Western economies as a whole. GCC-China trade has never been higher and 2021 was the first time it had surpassed the GCC's trade with the US and Euro Area combined. China's trade with Saudi

1 '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.

2 The GCC is comprised of Saudi Arabia, the UAE, Qatar, Oman, Kuwait, and Bahrain.

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

Arabia exceeded Riyadh's with the US and Euro Area combined for the first time in 2021. China is increasingly recognising Saudi Arabia as an investment destination.

> **"In H1 of 2022, no country received more Belt and Road Initiative (BRI) investment than Saudi Arabia, at around US$5.5bn (Wang, 2022a)."**

We also expect the UAE's trade with China to overtake that with Western economies in the future. The difference between UAE trade with China and with the US, the UK, and the Euro Area combined is narrowing, and now stands at approximately US$3.4bn. In 2010, it was US$28bn. While the oil trade is crucial to Sino-GCC ties, cooperation in non-oil sectors, particularly renewables and construction, is growing and aiding the Gulf's economic diversification. But China's centrality to the Pivot could also put the latter at risk. US-China tensions have worsened over the past year and further deterioration could bring pressure on the Gulf states to prioritise or downgrade their relations with one side or the other. The US remains an important security partner for the Gulf states, but China's status as an important economic partner for the Gulf states is cementing. OPEC's recent decision to cut production by two million barrels per day (bpd) has led to a deterioration in US-Saudi relations. A prolonged period of poor US-Gulf relations could encourage the Gulf states to enhance ties with China.

### Growing opportunities in GCC-ASEAN trade

This year has seen an uptick in economic and political exchanges between the Gulf states and ASEAN[4]. While GCC-ASEAN trade has not grown as quickly as Gulf trade with China and India over the last decade, we expect ties to grow more important with the expansion of ASEAN's middle classes and good growth prospects for both regions over the next 10 years. There are also natural synergies between ASEAN and Gulf visions for economic growth, with governments in both regions investing in digitalisation, manufacturing, and logistics infrastructure to boost exports. We expect GCC-ASEAN relations to flourish as the UAE's Comprehensive Economic Partnership Agreement (CEPA) with Indonesia takes effect, as it continues CEPA negotiations with the Philippines, and as Saudi and Thailand restore diplomatic ties after a three-decade hiatus. Gulf Sovereign Wealth Funds (SWFs) are also looking for opportunities in ASEAN, with several investments into start-ups and projects this year, particularly in Singapore and Indonesia.

### Oil remains crucial, but GCC-Asia cooperation in non-oil sectors is growing

Hydrocarbons continue to be crucial to GCC trade with Asia and there is a clear link between the oil price and the value of trade. Overall, Asian demand for Gulf hydrocarbons remains robust despite high prices in 2022 and weakened demand in China. Asia's importance as a source of hydrocarbon revenue for the Gulf states will only grow as its demand expands. Asian investment in the Gulf's oil industry is strategic and aimed at securing energy supply, with continued interest in extraction and ports. But Gulf economic diversification strategies are opening up new sectors for Asian investment and expertise. As the Gulf states transition away from fossil fuels, GCC-Asian cooperation in this sector will gradually be replaced by investment in sustainability, renewables, and developing alternative energy sources such as hydrogen. Gulf investments in digitalisation, fintech, digital assets, construction, and ports increased GCC-Asia trade in non-oil sectors throughout 2022.

4 The Association of Southeast Asian Nations (ASEAN) is a political and economic union of 10 countries. These are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Singapore is classified as an advanced economy, whereas the other economies are categorised by the IMF to be in emerging Asia.

## GCC economic and social reform is accelerating and driving the Pivot

Gulf economic and social reform has accelerated over the past year and will be a key driver encouraging Asian investment. The economic shock of COVID-19 prompted Gulf states to speed up their reform programmes, attracting foreign investment and encouraging overseas businesses and their employees to establish bases in the GCC, further driving the Middle East Pivot to Asia. The Gulf states are liberalising their visa requirements and bestowing greater rights and benefits on their expat populations to encourage them to live and work in the GCC and contribute to economic growth over the long-term. New regulations to encourage GCC capital market growth are another key recent development which will foster greater Asian capital flows into the Gulf. The Gulf states are expected to continue their economic and social reform agendas, creating new growth opportunities for both Asian and Western businesses.

## Sovereign Wealth Funds look eastwards

Gulf SWFs continue to increase their focus on Asia and are opening new offices there. As these investments grow, Asia will increase in strategic importance to the Gulf states. Interestingly for the Pivot, there has also been an increase in cooperation between Gulf and Asian SWFs in joint investments, for example in the Abu Dhabi Investment Authority (ADIA) and Singapore's Temasek involvement in GoTo's pre-Initial Public Offering (IPO) round. India has been an important destination for Gulf SWF investment in 2022 while Saudi Arabia's Public Investment Fund (PIF) and the Qatar Investment Authority (QIA) increased their focus this year on deal-making in Asia. We expect Gulf SWF interest in Asia to increase as the Pivot develops.

## Key findings

- GCC-emerging Asia trade is set to reach approximately US$578bn by 2030, surpassing the trade with advanced economies by 2028, if current growth rates are maintained.
- GCC-emerging Asia trade has recovered from the shock of COVID-19 faster than expected.
- Several important milestones have been passed. GCC-China trade reached a record high and surpassed GCC trade with the US and Euro Area combined for the first time in 2021. China's trade with Saudi Arabia stood at US$81.7bn in 2021, exceeding Riyadh's trade with the US, the UK, and Euro Area combined (US$81.4bn).
- Oil remains fundamental to the Pivot. Global oil prices closely track GCC-emerging Asia trade growth. Asian demand for oil is still expected to increase over the next few years despite higher prices. A sustained period of increased oil prices in 2022 will facilitate the Pivot.
- GCC-Asia ties have evolved from being primarily based on the fossil fuel trade to a broader relationship that crosses into multiple sectors and fulfils the strategic objectives of both regions. We expect GCC-Asia cooperation on sustainability and renewables to increase at pace in the future, driving the Pivot and encouraging Gulf economic diversification.
- Gulf economic and social reform is attracting foreign investment, expanding non-oil sectors that are benefiting from Asian expertise and investment, and encouraging Asian firms to relocate or expand into the Gulf.
- Gulf SWF investment into Asia is growing, with India and ASEAN nations the major beneficiaries. The SWFs are opening new offices in Asia to monitor investments and seek new opportunities. We expect greater Gulf SWF investment to encourage political exchanges to protect these investments.

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# INTRODUCTION

## Growing GCC-Asia economic and political ties are likely to become one of the key relationships in world trade, a fundamental shift with wide ranging implications for business, and politics.

We expect GCC-emerging Asia trade to reach approximately US$578bn by 2030, surpassing the trade with advanced economies by 2028. As GCC-Asia trade and investment rises, we expect greater bilateral political exchanges and cooperation to protect and grow these investments, accelerating the importance of GCC-Asian relations in global politics.

This report follows our earlier 'The Middle East Pivot to Asia' published in October 2021, which closely examined the strengthening economic and political linkages between Asia and the Middle East. The aim of that report was to explain the rapid growth of trade between the two regions. The GCC's trade with emerging Asia was shown to have expanded rapidly between 2010 and 2019, growing from US$247bn in 2010 to US$336bn in 2019. The report showed that should trade continue to expand at the same average growth rate, emerging Asia would become the GCC's most important partner by 2030, with trade reaching approximately US$480bn.

This 2022 edition of 'The Middle East Pivot to Asia' report revises these projections upwards. GCC-emerging Asia trade has recovered from the shock of COVID-19 faster than expected. It fell to approximately US$262bn in 2020 but bounced back rapidly to approximately US$366bn in 2021[5]. This exceeded the expectations of last year's report, which based projections on the assumption that GCC-emerging Asia trade growth would recover to 2019 levels by the end of 2022.

The outlook for GCC-emerging Asia trade has improved further since publication of last year's report. Oil prices reached near-decade highs in H1 of 2022, largely due to increased economic demand in the post-COVID-19 recovery, and geopolitical events led by the Russia-Ukraine conflict. Since oil is a crucial component of GCC-Asia trade, the value of the latter was boosted by higher prices, leading to increased revenue for the Gulf states, and encouraging investments in non-oil sectors, such as renewables, digitalisation, and construction. While the development of non-oil sectors has attracted Asian investment, higher oil revenues have also facilitated greater SWF investments into Asia, a trend that has accelerated since last year's report.

Gulf economic diversification has moved at staggering pace as Gulf leaders push for post-pandemic recovery. This has attracted Asian investment into emerging economic sectors within the GCC, such as construction, renewables, and technology. Economic diversification and Gulf development of non-oil sectors will continue in the future. Through political exchanges, Gulf states will engage with Asian markets in search of investment and expertise to assist their vision of economic diversification. At the same time, the Gulf has intensified the implementation of economic and social reforms designed to attract foreign investment, including from Asia. This year has seen several important reforms, such as changes to the UAE's working week, the introduction of Saudi Arabia's new Companies

5 Unless otherwise stated, trade figures are extracted from the IMF's Direction of Trade Statistics Database. Data points for this report were extracted in August 2022.

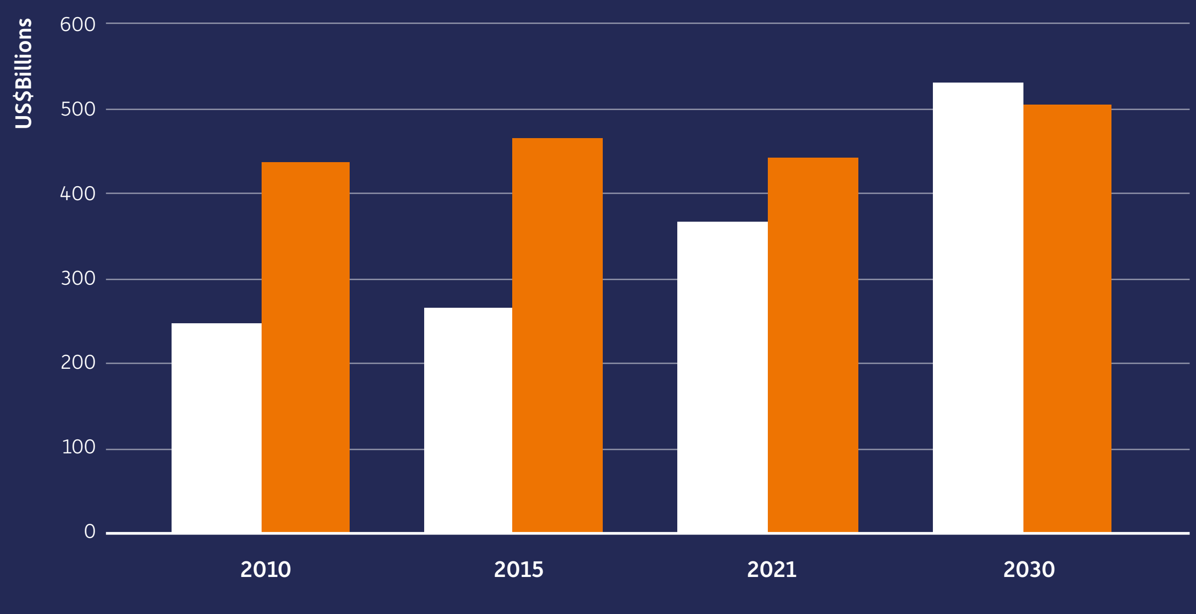
Law, and the further liberalisation of visa regimes to encourage more businesses and workers to relocate or expand into the Gulf. These reforms bring the Gulf states into further alignment with best international business practices and will be a key theme of economic development over the next decade.

GCC-emerging Asia trade growth will have a profound global impact over the next decade. Should GCC-emerging Asia trade continue to grow at the average annual growth rate shown between 2010 and 2021 (approximately 5.9 per cent), then it is set to reach approximately US$578bn by 2030.* GCC-emerging Asia trade will also surpass the GCC's trade with advanced economies faster than expected, by 2028. As Asia and the GCC grow in importance to each other's economic growth and prosperity, we expect political exchanges between the two regions to increase. This could have a profound impact on geopolitics, with the Gulf states increasingly aligning with Asian rather than Western perspectives when making key decisions both domestically and in the international arena.

Of course, there are several headwinds facing global trade that may impact the Middle East Pivot to Asia. Global monetary policy tightening has the potential to increase debt instability, particularly in Asian countries, as well as reducing consumer demand and investment, thereby slowing economic growth and undermining trade.

The Russia-Ukraine conflict has been a sharp reminder of how geopolitics can impact the global economy. The war's impact continues to reverberate across international politics and economics. The conflict triggered a spike in energy prices and increased global food insecurity, including in the Middle East. This could continue to undermine trade and investment.

**Figure 1: GCC trade with emerging Asia is catching up with advanced economies**




Source: (IMF, 2022a)

* The average annual growth rate shows the mean increase in the value of trade on an annualised basis.

The 2022 edition of the report examines the crucial drivers and obstacles impacting the Pivot. It updates growth forecasts for the GCC's trade with emerging Asia and advanced economies, which include many of the Gulf's traditional Western partners like the US, UK, and Euro Area. China and India enjoy particularly strong trading relationships with the Gulf states, but links with ASEAN also offer great potential and are given further attention in this report.

There are eight sections:

**Section One: The GCC-Asia Trade Outlook** explains why we expect trade between the two regions to accelerate over the next decade and updates our projections on GCC trade with emerging Asia and with advanced economies up to 2030. It examines the impact of inflation and COVID-19 on the global trade outlook and the Pivot. It also discusses the current economic outlook for GCC and Asian economies, and why we expect it to remain broadly positive.

**Section Two: Key Relationships in the Pivot** examines the bilateral links driving GCC-Asian ties. The relationships between Asia's two largest economies – China and India – and the GCC are vital to trade growth and are discussed at length, dissecting investment deals over the last year and looking at key growth sectors. This section also examines some of the fastest-growing trade corridors between the two regions, including within ASEAN. New economic and investment pacts between the Gulf and ASEAN are analysed.

**Section Three: Oil as a Driver of the Pivot to Asia** examines recent global energy trends and their impact. While global oil prices have dipped from their heights in Q2 2022, they remain above levels seen over the past few years, and crucially above the fiscal breakeven price that allows Gulf states to generate budget surplus and invest in economic diversification and non-oil sectors.

**Section Four: Sustainability and the Pivot** explores growing cooperation between the GCC and Asia in developing renewable and alternative energy sources. The dynamics underpinning GCC-Asia collaboration on oil come into play here as well. We expect sustainability cooperation to grow in importance as Gulf and Asian economies transition away from hydrocarbons over the next few decades.

**Section Five: The Key Sectors in The Pivot to Asia** discusses the non-oil sectors that are driving Asian investment into the Gulf. It discusses Asia's crucial role in developing the ports and infrastructure that are essential to fulfilling Gulf visions for economic diversification, but also touches on Asia's role in the Gulf's digitalisation and development of fintech and digital assets sectors. This section also analyses the recent improvement in diplomatic ties between the Gulf states and other Middle Eastern economies, such as Turkey and Israel, and discusses the implications for the Pivot.

**Section Six: GCC Economic and Social Reform: Opportunities for Asian Companies** examines the recent acceleration in reform in the region and its impact on the Pivot. These reforms not only make the GCC a more attractive destination for international businesses, including from Asia, to establish themselves or expand into the Middle East, but also aid economic growth and integration. GCC reforms are set to continue over the next decade, driving the Pivot.

**Section Seven: Obstacles to the Middle East Pivot to Asia** monitors trends that may hamper the Pivot. US-China relations are the main obstacle analysed in this section. The Gulf states recognise the advantages of maintaining good relations with both sides, but deteriorating US-China relations could make this more difficult as Washington and Beijing pressure them to favour one over the other. This section also notes that while we have seen greater economic integration in the Middle East, the Gulf's accelerated reform drive does on occasion lead to overt economic competition between the regional states that can stymie trade and growth. The Gulf states' tendencies towards localisation in their economic diversification strategies is another potential obstacle.

**Section Eight: GCC Sovereign Wealth Funds Continue to Look East** examines GCC SWFs' increased interest in Asian markets. Gulf SWFs are opening new offices in Asia to monitor investments and seek new opportunities. India and ASEAN nations have been major beneficiaries of Gulf SWF investment this year and as it increases, we expect more political exchanges between the Gulf and Asia.

SECTION 1

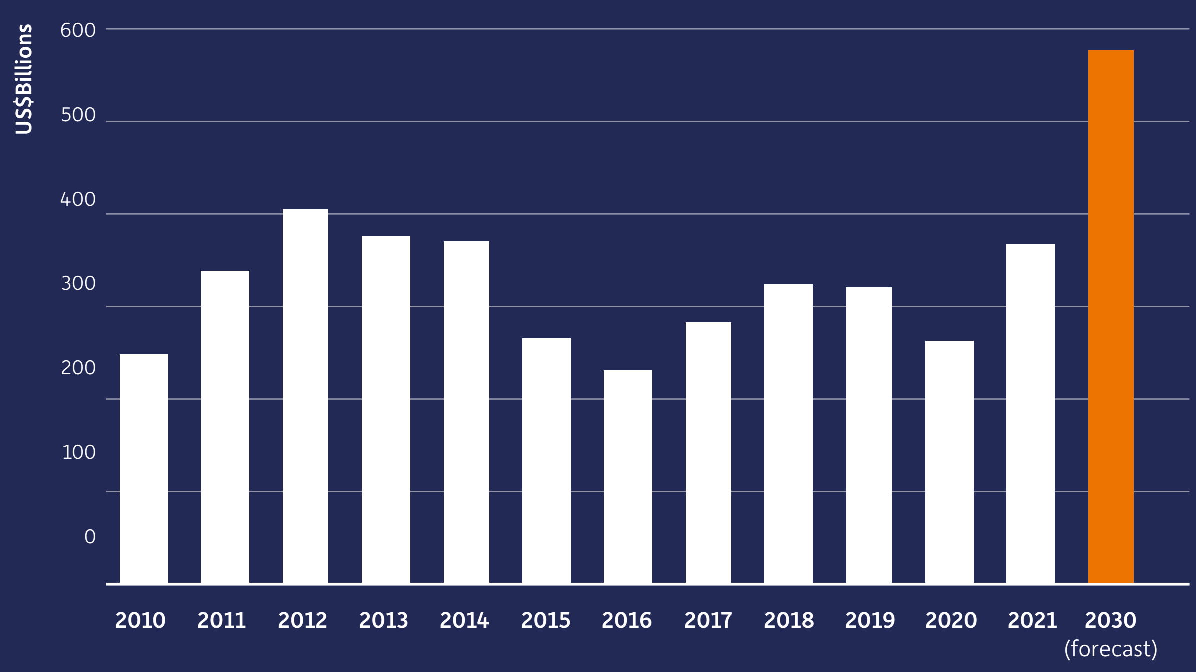
# THE GCC-ASIA TRADE OUTLOOK

## GCC-emerging Asia trade growth is set to accelerate over the next decade. It has recovered strongly since the shock of the COVID-19 pandemic and in 2021 reached levels not seen since 2014.

GCC-emerging Asia trade growth is set to accelerate over the next decade. It has recovered strongly since the shock of the COVID-19 pandemic and in 2021 reached levels not seen since 2014. This recovery is expected to put GCC-emerging Asia on a pathway to continuous growth. The 2021 Asia House 'Middle East Pivot To Asia' report projected that the GCC's trade with emerging Asia would rise to US$480bn by 2030 on the basis of trade recovering to 2019 levels by the end of 2022. But it has rebounded faster than expected. We expect growth to continue at rates seen between 2010 and 2021, meaning GCC-emerging Asia trade will reach approximately US$578bn by 2030 and surpass the GCC's trade with advanced economies by 2028.

This section outlines why the GCC-Asia trade outlook is positive and explains why we expect it to reach US$578bn by 2030. The global trade outlook has been positive throughout 2022 and while China's economic prospects have dampened because of continued COVID lockdowns, it is still expected to grow in 2022. Looking beyond China, the outlook for several Asian and GCC countries is positive. This section also examines the impact of inflation on the GCC-Asia trade outlook, noting that the GCC has been more insulated from

**Figure 2:** GCC-emerging Asia trade (2010–2021) and 2030 forecast



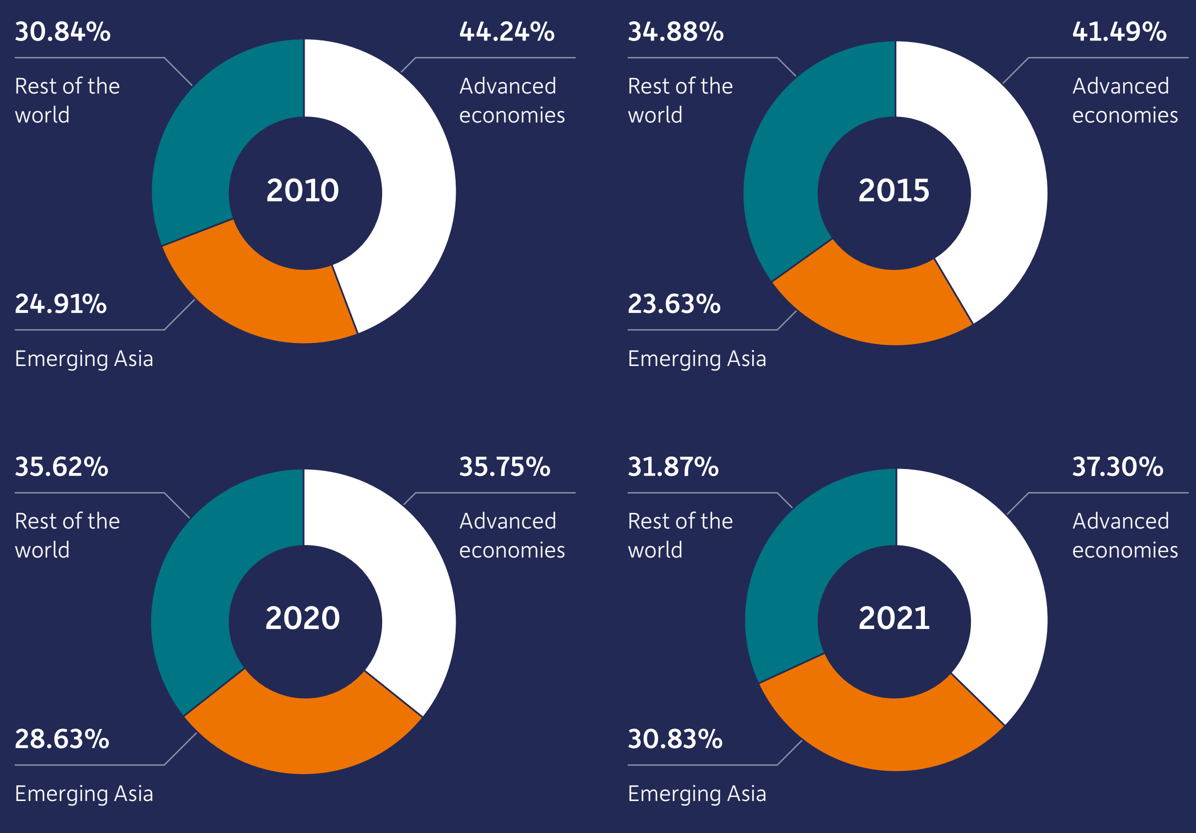

Source: (IMF, 2022a)

inflationary pressure than other global economies. We also provide an overview of GCC-emerging Asia trade trends. Subsequent sections explore the reasons behind trade growth in greater detail and the geopolitical implications of the Middle East Pivot to Asia.

GCC-emerging Asia trade has recovered strongly since COVID-19. The COVID-19 pandemic prompted trade to fall from approximately US$320bn in 2019 to approximately US$262bn in 2020, roughly an 18 per cent drop[6]. It has recovered considerably since then, and amounted to approximately US$366bn at the end of 2021, US$46bn more than in 2019 and almost a 40 per cent rise on 2020.

Sustained oil price rises in H1 of 2022 assisted this recovery. As Figure 2 shows, while GCC-emerging Asia trade has grown from approximately US$246bn in 2010 to US$366bn in 2021, at an annual average growth rate of approximately 5.9 per cent, it actually peaked at US$405bn in 2012. This likely reflects the impact of high oil prices that year on the value of GCC oil exports to emerging Asia, when the average 2012 price for OPEC Crude stood at US$109.45, the highest on record. Oil prices rose between 2020 and 2021 as demand increased following the easing of COVID-19 restrictions and can partially account for the rebound. Continued oil price rises between 2021 and 2022 have similarly aided trade growth: as of 18 October, OPEC Crude has averaged US$103.65 per barrel for 2022.

**Figure 3: Share of total GCC trade over time (per cent)**




Source: (IMF, 2022a)

6 IMF Direction of Trade Statistics are updated monthly. Since last year's Middle East Pivot to Asia report was published in October 2021, some trade figures have been updated. GCC-emerging Asia trade in 2019 has been revised downwards since last year's report from US$336bn to US$320bn.

### Table 1: The GCC's Top Trading Partners, discounting GCC nations (2021)

| UAE | Saudi Arabia | Kuwait | Qatar | Bahrain | Oman |
|---|---|---|---|---|---|
| **China** (US$70bn) | **China** (US$82bn) | **China** (US$5bn) | **China** (US$17bn) | **US** (US$2bn) | **China** (US$5bn) |
| **India** (US$66bn) | **India** (US$35bn) | **US** (US$3bn) | **India** (US$13bn) | **China** (US$2bn) | **India** (US$4bn) |
| **Japan** (US$32bn) | **Japan** (US$32bn) | **India** (US$1bn) | **Japan** (US$13bn) | **India** (US$1bn) | **US** (US$3bn) |
| **US** (US$23bn) | **South Korea** (US$11bn) | **Japan** (US$1bn) | **South Korea** (US$12bn) | **Japan** (US$0.6bn) | **Japan** (US$1bn) |

Source: (IMF, 2022a)

Importantly for global politics and trade, the GCC's trade relationship with China and India is growing in importance relative to Western partners. China and India were key to GCC-emerging Asia trade recovery after COVID-19. China-GCC trade rebounded from approximately US$133bn in 2020 to US$180bn in 2021, representing an annual average growth rate of 34.9 per cent. India-GCC trade grew by 60.7 per cent between 2020 and 2021, from approximately US$75bn to approximately US$121bn.  Both China-GCC trade and India-GCC trade are higher than before the COVID-19 pandemic. China-GCC trade stood at approximately US$147bn in 2019 and India-GCC trade was at approximately US$103bn. GCC-China trade has never been higher and 2021 marked the first time that it surpassed the GCC's trade with the US and Euro Area combined, representing a major geopolitical shift. China and India will continue growing in importance to the Gulf states in comparison to Western economies.

While the GCC's trade with advanced economies also rebounded strongly after COVID-19, it was less than the growth in trade with emerging Asia. Trade with advanced economies grew by approximately 35.6 per cent from approximately US$327bn in 2020 to US$443bn in 2021. This confirms a trend identified in last year's report.

As Figure 3 shows, advanced economies accounted for approximately 44.24 per cent of total GCC trade in 2010, compared to emerging Asia's approximately 24.91 per cent. Representing an approximate gap of US$191bn. In 2021, this gap has narrowed to US$107bn. GCC trade with advanced economies accounts for 37.3 per cent of its total trade, compared to 30.83 per cent for emerging Asia. This could have a profound impact on geopolitics, with the Gulf states increasingly aligning with Asian rather than Western perspectives when making decisions both domestically and in the international arena.

As Table 1 shows, discounting intra-GCC trade, the region's main trading partners outside the bloc are now in Asia. China is the top trading partner of all GCC economies apart from Bahrain. It is for this reason that we can expect bilateral political exchanges between the Gulf states and Asia to increase as leaders on both sides look to maintain and grow investments. Businesses that provide the goods for GCC-Asia trade or services to streamline it will stand to benefit.

## The future of GCC-emerging Asia trade growth

GCC trade with emerging Asia is set to grow considerably over the next decade. The 2021 Asia House 'Middle East Pivot To Asia' report projected that trade would rise to US$480bn by 2030 on the basis of recovering to 2019 levels by the end of 2022. GCC-emerging Asia trade recovery surpassed these expectations and at the end of 2021 already surpassed 2019 trade by US$46bn.

GCC-emerging Asia trade grew at an annual average growth rate of approximately 5.9 per cent between 2010 and 2021. Should trade growth continue at this rate, GCC-emerging Asia trade will reach approximately US$578bn by 2030, surpassing the GCC's trade with advanced economies by 2028. As Figure 4 shows, the GCC's trade relationship with emerging Asia will grow more important than with advanced economies over time. In 2021, trade with advanced economies accounted for approximately 37.3 per cent of the GCC's total and that with emerging Asia was 30.83 per cent. Asia House currently projects that by 2030, trade with advanced economies will fall to approximately 33.39 per cent while trade with emerging Asia will rise to approximately 36.41 per cent.

### Why GCC-emerging Asia trade will increase

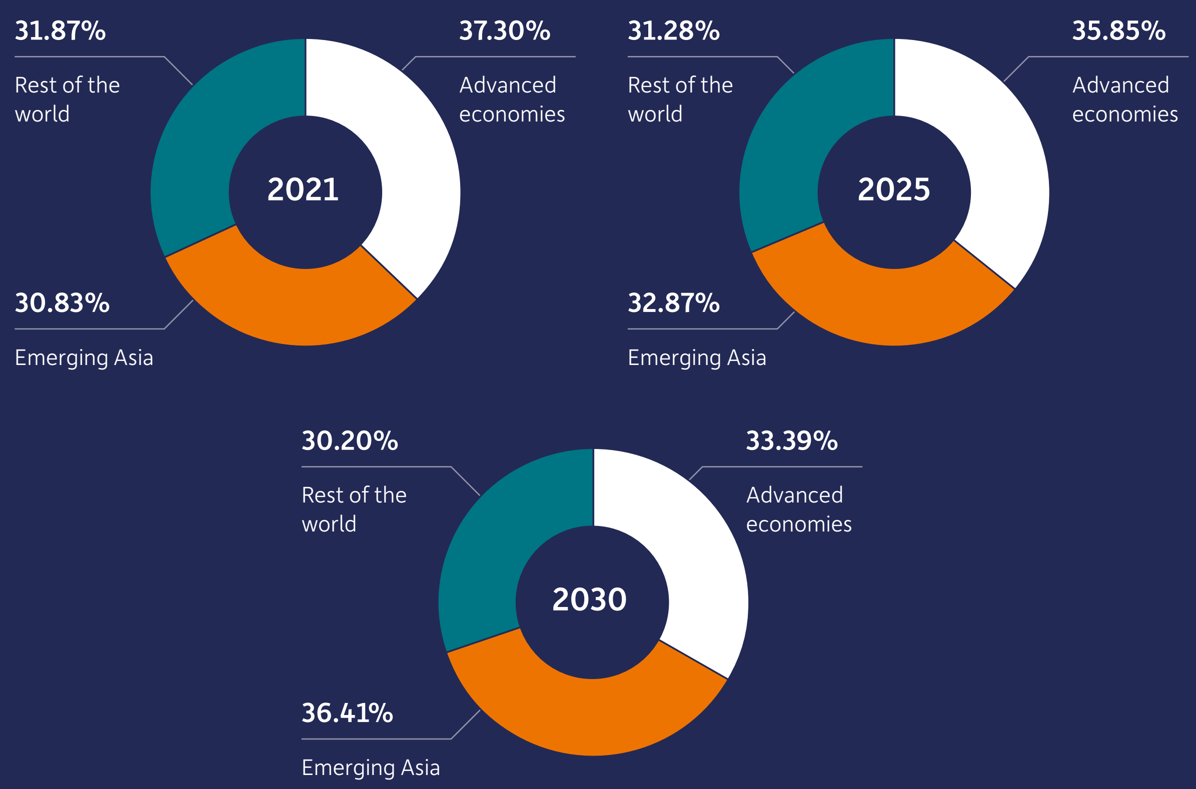
There are several reasons why we expect GCC-emerging Asia trade to increase. The global trade outlook has been positive throughout 2022. Global trade reached a record US$7.7trn in Q1 2022 - an increase of US$1trn relative to Q1 2021 (UNCTAD, 2022a). Increased economic activity following the easing of global COVID-19 restrictions has boosted demand and the global goods trade. Trade in services is also expected to rise over the next five years because of digital transformation (DMCC, 2022), an area of particular focus for the Gulf states and ASEAN nations.

A new era of multilateral trade deals could also prompt global trade growth and lower barriers. Ratified on 1 January 2022, the Regional Comprehensive Economic Partnership (RCEP) became the world's largest trade block covering almost 30 per cent of global GDP. The bloc includes Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. RCEP will encourage greater economic integration in Asia and is expected to increase global GDP by US$200bn by 2030 (CKGSB, 2022). Gulf states have also increased their activities in trade negotiations during 2022. The GCC and UK have launched talks aimed at a Free Trade Agreement (FTA), and the UAE has brokered CEPAs with India, Indonesia, and Israel. Others with Asian nations are in the pipeline. The Gulf states' willingness to broker and negotiate FTAs and CEPAs will lower tariffs and non-tariff barriers, boosting Gulf manufacturing and exports. This trend is discussed further in Section Two.

More specifically, the trade outlook for GCC and emerging Asia also remains positive. The GCC's largest trading partner, China, enjoyed a record trade surplus in 2021 of US$676.4bn, a 30 per cent increase from 2020. While China's continuation of strict lockdowns to maintain its zero-COVID policy will dampen its growth prospects, GCC and ASEAN economies have opened up since the pandemic. Hydrocarbons underpin GCC trade with emerging Asia, which is the main destination for Gulf exports, meaning rising oil prices caused by increased demand in a tight market, will drive trade between the two regions. Section Three discusses the impact of oil on the Pivot to Asia, and recent global energy trends in more detail.

At the same time, Gulf states continue economic diversification, encouraging growth in non-oil sectors and investment from Asia. Higher oil prices in H1 2022 will boost the value of GCC-Asia trade and also Gulf government revenues, with a proportion of this windfall being channelled

## Figure 4: Forecast GCC global trade share over time (per cent)



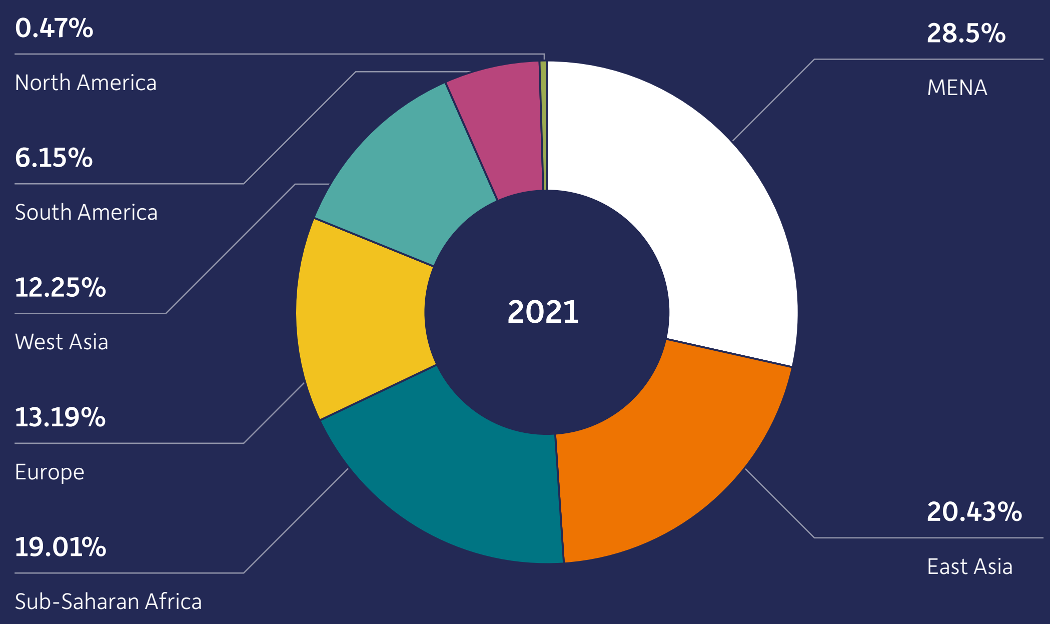

Source: (IMF, 2022a); Asia House Forecast

into non-oil sectors, encouraging further growth. Crude prices have softened over recent months. The monthly average price for OPEC crude has declined from a 2022 high of US$117.72 per barrel in June to US$95.32 in September 2022, and as of mid-October is sitting around US$94 per barrel. Despite this, current prices remain above the fiscal breakeven price for all Gulf states with the exception of Bahrain (see Figure 21) and average OPEC crude prices for 2022 are as of 18 October, currently at around US$103.65 per barrel, much higher than 2021, when they stood at US$69.89 per barrel (OPEC, 2022a).

The last couple of years have also seen positive political developments that will encourage greater regional economic integration within the GCC and wider Middle East, namely the resolution of the Gulf dispute (2017-2021) and the Abraham Accords, which saw the UAE and Bahrain normalise diplomatic ties with Israel. These developments will boost intra-regional trade and investment, but also make it easier for Asian firms to operate between jurisdictions. A key aspect of the Gulf states' vision is to implement programmes that boost exports through investments in domestic manufacturing and logistics. This would not only boost non-oil exports from the Gulf into Asia, but also offer value for Asian firms looking to bring goods into the Gulf for re-export or to develop manufacturing supply chains in the region.

Gulf economic reform has accelerated since the pandemic and is focussed on making the GCC a more attractive destination for investment, encouraging international businesses and their employees to consider expansion into Gulf markets. Recent examples include the UAE's introduction of a new working week and a new

## Figure 5: BRI spending 2021 (per cent of total)




Source: (Wang, 2022b)

Labour Law, and Saudi Arabia's new Companies Law which will take effect in 2023. The GCC in general has taken recent steps to ease foreign ownership requirements and increase liquidity in capital markets, encouraging greater investment from Asia. These reforms and their implications are given greater attention in Section Six.

> **"Saudi Arabia was the biggest recipient of BRI funding in H1 2022, receiving around US$5.5bn (Wang, 2022a)."**

Gulf economic diversification and reform will encourage greater investment from emerging Asia and boost trade. China's Belt and Road Initiative (BRI) investment continues to benefit the Gulf states. BRI investments globally stood at US$59.5bn in 2021. The Middle East and North Africa (MENA) region received the largest share at 28.5 per cent. In total, BRI investment into MENA increased by 360 per cent between 2020 and 2021.

The outlook for GCC economies is positive after solid growth in 2021. Saudi Arabia's economy expanded by 3.2 per cent and the UAE, Bahrain, and Qatar grew by 3.8 per cent, 2.2 per cent, and 1.5 per cent respectively. More significant GDP growth is expected in 2022. In April 2022, the World Bank forecast Saudi Arabia's economy to expand by seven per cent in 2022, outpacing other GCC nations (World Bank, 2022a). Indeed, Saudi Arabia's GDP rose by 11.8 per cent year-on-year in Q2 2022, its fastest rate since Q3 2011 (McGinley, 2022a). Oil was largely responsible for this gain, with oil activities increasing by 23 per cent. Meanwhile, the UAE recorded an 8.2 per cent growth in GDP in Q1 2022 (Arab News, 2022a). The UAE expects real non-oil GDP to grow by 5.4 per cent and 4.2 per cent in 2022 and 2023, respectively. Non-oil trade exceeded AED 1trn (approximately US$272.3bn) in H1 2022. This marked the first time it had reached this milestone over a six-month period. Qatar's non-oil Purchasing Managers' Index (PMI) similarly reached a record high of 67.50 in both May and June 2022 (Trading Economics, 2022a).

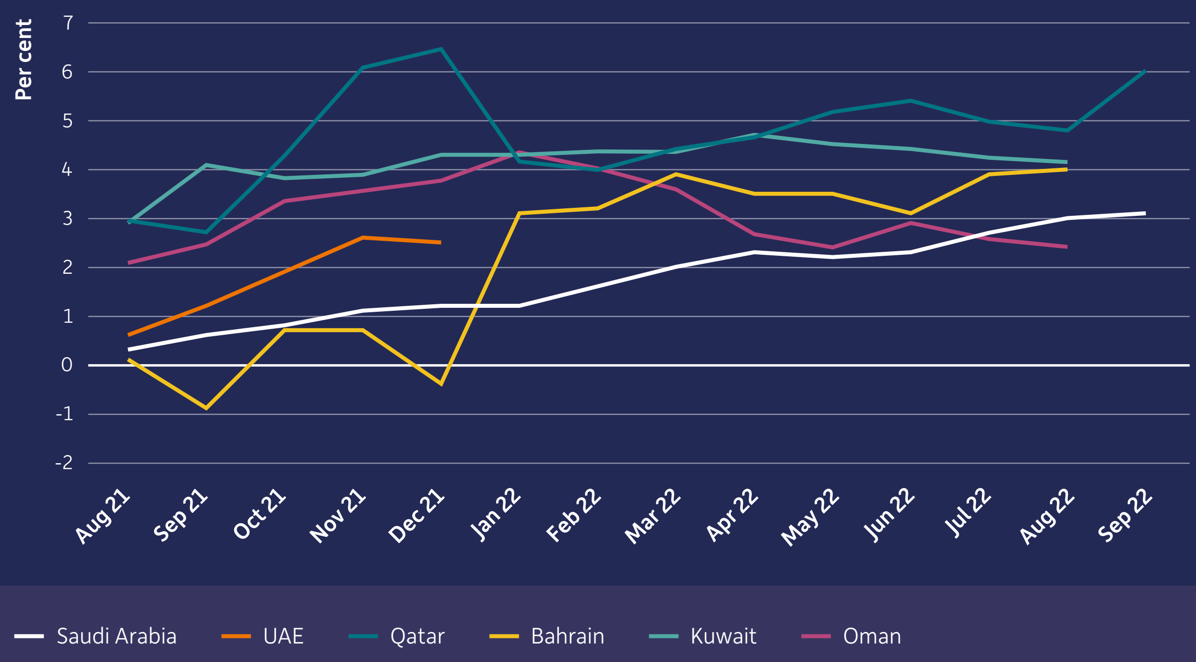
A PMI score above 50 signals expansion in a country's manufacturing sector. PMI data for Saudi Arabia and the UAE has remained above 50 throughout 2022.

The current outlook for economic growth in Asia is more mixed. The International Monetary Fund's (IMF) World Economic Outlook in October downgraded emerging Asia's 2022 growth prospects from 4.6 per cent (IMF, 2022b) to 4.4 per cent (IMF, 2022c). China's COVID-19 lockdowns throughout the year and changes to its regulatory environment have prompted a major drop in its growth prediction for 2022 from 4.8 per cent in January's World Economic Outlook (IMF, 2022d) to 3.2 per cent, but it is expected to recover to 4.4 per cent by 2023. This will likely be contingent on a strong recovery in private consumption and a further lessening of zero-COVID policy. India is expected to be one of Asia's fastest growing economies in 2022, with growth expected at 6.8 per cent (IMF, 2022c). Projected growth rates for the ASEAN Five (Indonesia, Malaysia, Thailand, Philippines and Vietnam) have remained the same at 5.3 per cent in 2022 but are projected to drop to 4.9 per cent in 2023 (IMF, 2022c). While the economic outlook for Asia is mixed, it remains positive overall with growth expected over the short-term, encouraging the Pivot.

### The impact of inflation

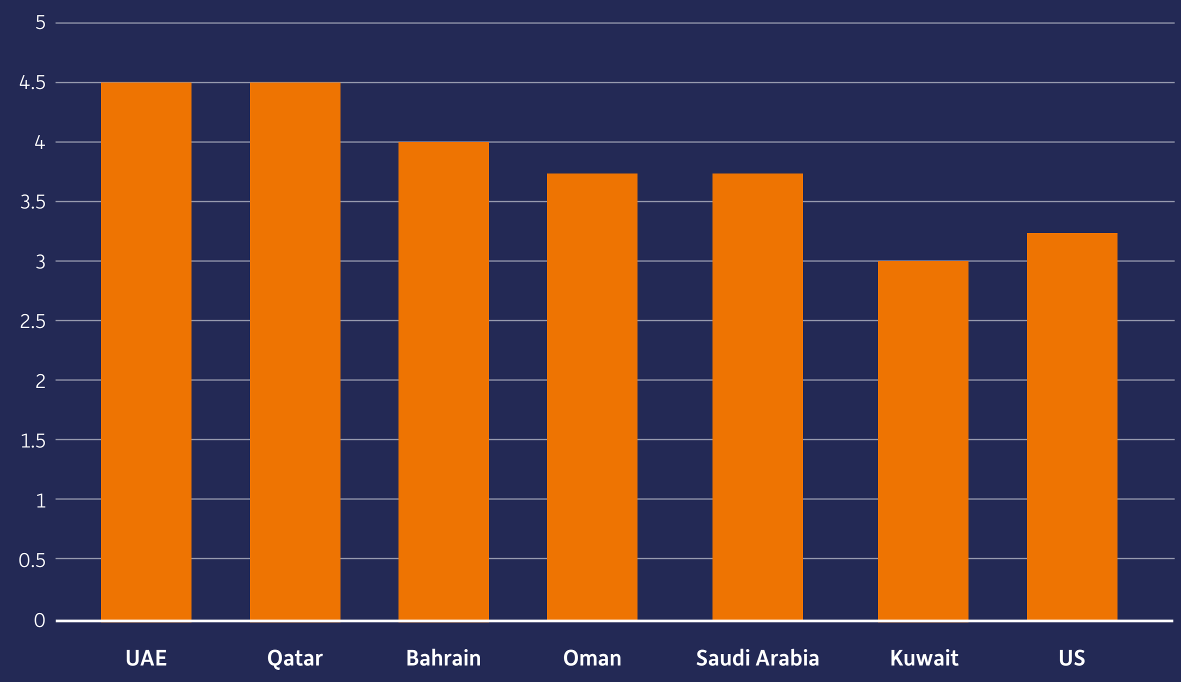
There are economic obstacles that could impact the outlook for global trade. Supply chain disruption and labour shortages caused by COVID-19 coupled with rising global consumer demand as people emerge from lockdown, have caused inflation. The Russia-Ukraine conflict has exacerbated inflationary pressure, causing a spike in already high energy prices during Q2 2022. Oil prices have since softened but remain high compared to 2021. Food price inflation has also been problematic. Russia and Ukraine are major producers of wheat and other grains and their cost has risen. At the time of writing, average wheat prices over the course of 2022 have increased by around 22 per cent

**Figure 6:** GCC monthly inflation rates (year-on-year) August 2021 – September 2022 (per cent)




Source: Trading Economics

**Figure 7:** GCC central bank interest rates (per cent) (October 2022)




Source: Trading Economics

compared to 2021, in turn, pushing up the prices of many consumer goods (Macrotrends, 2022).

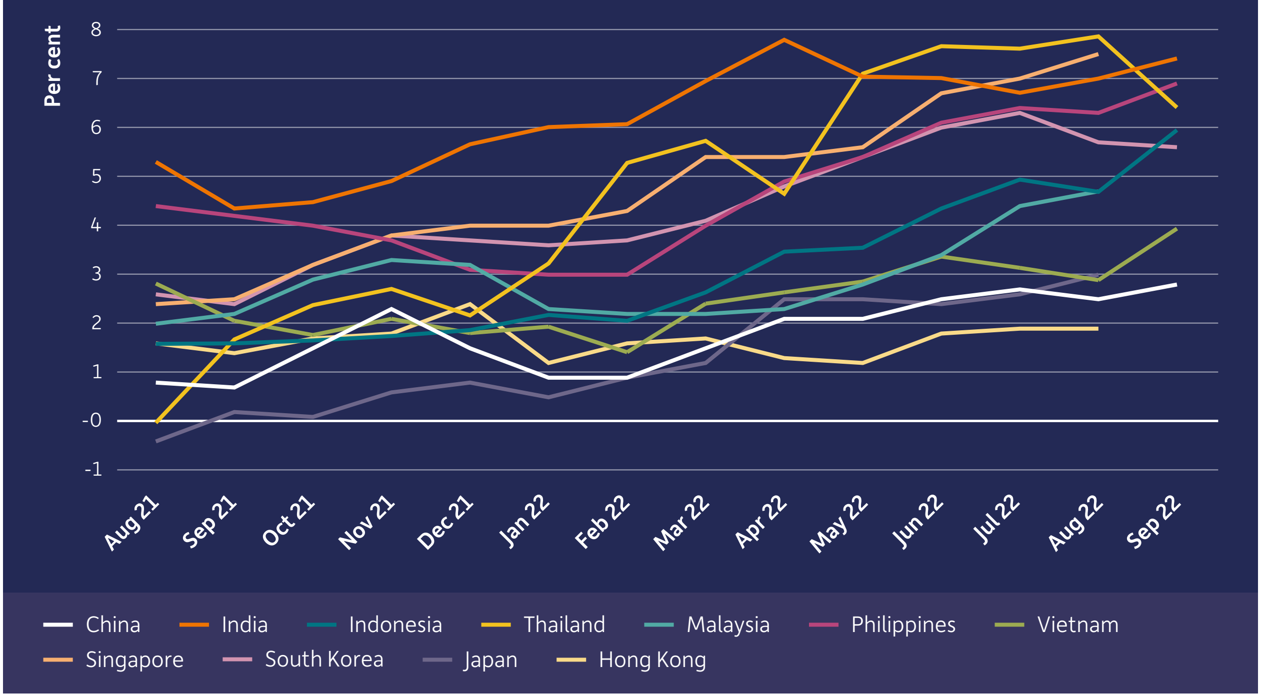
High inflation has prompted central banks to tighten their monetary policy by raising interest rates. This increases costs on businesses and for governments servicing debt, and borrowing on financial markets. Coupled with reduced consumer demand because of high prices, there are concerns about a global growth slowdown. In July 2022, The IMF revised its 2022 global growth outlook downwards by 0.4 per cent to 3.2 per cent, while forecasting a growth rate of just 2.9 per cent in 2023 (IMF, 2022b). In October's global economic outlook, growth for 2023 was revised downwards to 3.2 per cent (IMF, 2022c). Inflation, central bank monetary tightening and reduced growth could all lower trade volumes.

The GCC has been relatively insulated from elevated headline inflation. Qatar has seen the highest inflation in the region, reaching a decade-high of 6.47 per cent in December 2021. Qatar's annual inflation rate stood at 6.03 per cent in September 2022 (Trading Economics, 2022b). The UAE has not published monthly inflation in 2022, but the central bank has projected 5.6 per cent over the year, and consumer prices have risen. In July 2022, for example, the UAE increased petrol prices by around 11.5 per cent, following a 13 per cent rise in June 2022 (Arabian Business, 2022a).

Although Gulf states have been relatively insulated from inflation compared to other global economies, they have raised benchmark borrowing and lending rates. Gulf currencies are largely pegged to the US dollar[7], so the Gulf states have followed the US Federal Reserve's own rate hikes

7 All GCC economies are pegged to the US dollar except for Kuwait, whose currency the dinar, is pegged to a basket of currencies.

**Figure 8: Key Asian economies' monthly inflation data (year-on-year) August 2021 – September 2022 (per cent)**




Source: Trading Economics

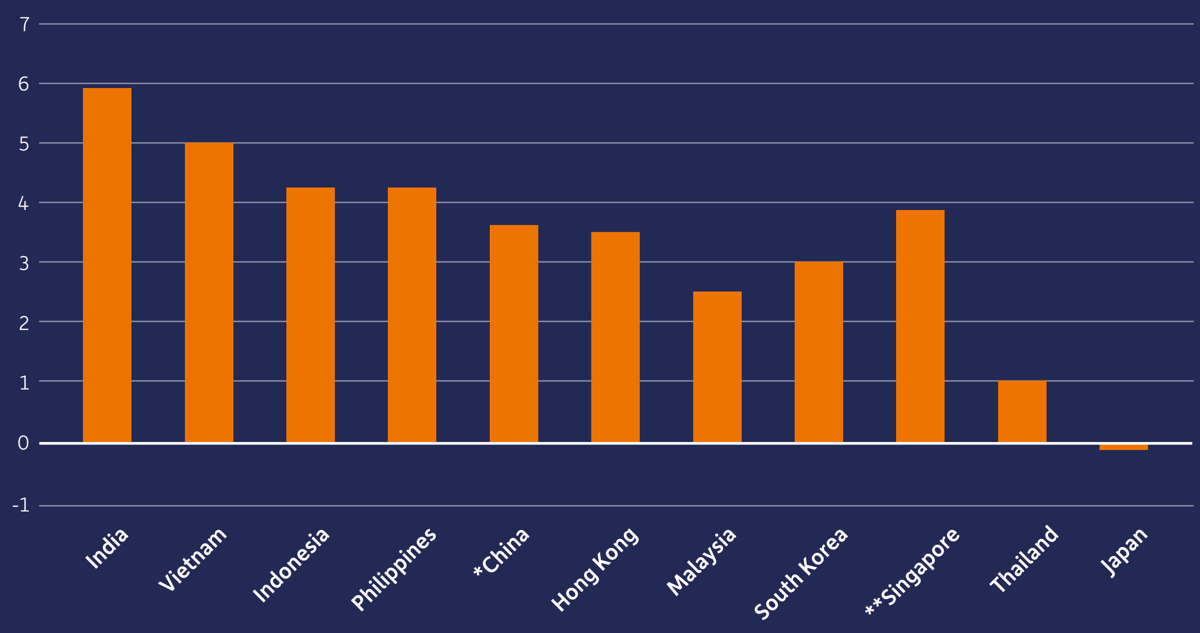
throughout 2022, which at the time of writing were at a four-decade high.

Outside the GCC, inflation is having a more adverse impact on MENA economies. In Egypt, year-on-year inflation for July 2022 stood at 13.6 per cent, with Egypt doubling fuel prices in the same month (Arabian Business, 2022b). Inflation in Turkey continues to accelerate, reaching 79.6 per cent in July 2022. In Lebanon, inflation topped out at 239.69 per cent in January 2022 and remained at 161.89 per cent in August 2022 (Trading Economics, 2022c). In Iran inflation stood at 52.2 per cent in August 2022 (Trading Economics, 2022d).

High inflation in these countries will reduce real wages, stymying growth and increasing poverty. This increases the risk of political unrest. High food prices are often cited as a contributory factor to the Arab Spring between 2010 and 2012 (Lagi et al., 2011). Several MENA countries are reliant on Russia and Ukraine for wheat, including Egypt and Lebanon, with food and beverage prices in Egypt rising by 24.8 per cent in May 2022 (Magdy, 2022). It will be important to monitor food price developments and inflation more broadly in the Middle East. Iran encountered food protests, starting in May 2022, and since September has faced wider spread and more severe protests, in reaction to the death of Mahsa Amini, a 22-year-old woman who was arrested for breaching Iran's hijab rules. Political unrest in the wider region could impact both the GCC and Asia's wider trade with the Middle East.

Asia has also faced inflationary pressure and undergone a period of central bank monetary tightening. India, Thailand, Singapore, and South Korea, in particular, are suffering inflation, with central banks raising interest rates. India has increased its interest rate in each of its last four monetary policy committee meetings, taking it to a two-year high of 5.9 per cent in September 2022. Singapore's exchange rate-based policy band has risen from 0.36 per cent in May to 3.89 per cent in October 2022, while South Korea's most recent rate

**Figure 9: Key Asian economies' central bank interest rate (per cent) (October 2022)**




Source: Trading Economics; *(one-year loan prime rate); **(exchange rate-based policy band)

change in October 2022 took rates up to three per cent from one per cent at the start of 2022.

Rising inflation in Asia could impact the Middle East Pivot to Asia. Higher central bank rates may lead to a deterioration in business confidence and depress bilateral trade and investment. Inflation is also increasing costs on Asian consumers, which could impact demand for goods, including from the Middle East. In June 2022, China raised retail prices for gasoline and diesel by 390 yuan (approximately US$58) and 375 yuan (approximately US$54) per tonne, respectively, bringing retail prices to new highs (Aizhu, 2022). Elsewhere, Asian governments are implementing measures to reduce consumer prices. Indonesia, Bangladesh, Sri Lanka, Vietnam and Laos have fixed prices for fuel, but government expenditure to pay these subsidies will increase.

Unlike other Asian economies, China has had relatively low rates of inflation over the last year and reduced its key loan prime rates (LPR) in August 2022. The one-year LPR, which is used for corporate and household loans, was reduced to a record low 3.65 per cent, while the five-year LPR, which is used for mortgages, was reduced to 4.30 per cent. China is trying to stimulate its contracting property sector and increase overall liquidity to reverse slowing economic growth caused by COVID-19 lockdowns throughout 2022.

Global inflation has been the preeminent economic trend of 2022 and impacts the Middle East Pivot to Asia. Inflation increases the price of goods and services, which can have a positive impact on the value of trade. But if it leads to decreased demand it can reduce trading volumes and the overall value of trade. The tightening of monetary policy can also lead to debt instability. Vulnerable economies may try to restructure their sovereign bonds or even default on foreign debts. For example, there are fears that Pakistan may follow Sri Lanka in defaulting, reducing growth and increasing political instability. Pakistan has external debt of US$250bn and reserves of just US$9bn.

Higher interest rates also mean companies and SMEs may not be able to service their debt, leading to bankruptcies, job losses, and economic downturns. This could impact GCC economic diversification, as entrepreneurs struggle to establish new ventures. High inflation and interest rate rises are expected to continue throughout the year and into 2023, but even when this period ends, there will be economic scarring that could dampen the global trade outlook.

## The ongoing impact of COVID-19

While there remains a risk that the emergence of a new COVID-19 variant could lead to lockdowns and supply chain disruption, undermining global trade, economies have largely remained open during 2022 as global vaccination programmes take effect and societies adapt to living with the disease.

Still, at the time of writing, restrictions remain in place within several major Asian economies – such as China, Japan, and Hong Kong – which is impacting their growth prospects as well as Middle East-Asia ties. During 2022 financial hub Shanghai locked down for three months and most recently in September 2022, Chengdu, with a population of 21mn, also locked down. Strict entry requirements have remained in place in Japan for a large portion of 2022, harming its tourism industry despite avowed intentions to loosen COVID-19 restrictions. On 31 August, Japan announced that it would increase the daily entry cap from 20,000 to 50,000 (Nakamaru, 2022). In Hong Kong, stringent quarantine regulations for international travellers throughout the COVID-19 pandemic have stymied business-to-business exchanges and further undermined business confidence although mandatory quarantine for international travellers, previously as long as three weeks, was shortened to three days in August 2022 (Master and Lo, 2022).

Lockdowns and social-distancing measures have hampered these Asian nations' economic recovery. China's GDP annual growth stood at just 0.4 per cent in Q2 2022 compared to the preceding year. While economic slowdown in these countries hampers the Middle East Pivot to Asia, one interesting emerging trend is the movement of High-Net-Worth Individuals (HNWIs)[8], Ultra-High-Net-Worth Individuals (UHNWIs)[9], and family companies out of Hong Kong. Singapore has been one destination of choice, but Dubai is another. The UAE is expected to attract the largest net inflow of HNWIs globally in 2022, according to a report by investment advisory firm Henley Global Citizens. Around 4,000 HNWIs are expected to move to the UAE, with most coming from Russia, India, Africa, and the Middle East. The same report expects around 3,000 HNWIs to move out of Hong Kong. (Henley & Partners, 2022). Dubai's non-oil economy climbed to a three-year-high in June 2022 and has been buoyed by a return of tourism and Expo 2020, in 2021 to 2022 (Khan, 2022a).

The movement of capital and commerce from Hong Kong to Dubai could be a trend that continues even after COVID-19. Broader concerns over Hong Kong's political future and business environment have reduced its global appeal. International businesses and asset managers with outposts in Hong Kong have been worried by the National Security Law, which was introduced in June 2020, and has led to doubts over Hong Kong's judicial independence and attractiveness in terms of arbitration and dispute resolution (Yiu, 2022). The appeal of UAE economic free zones, many of which use English Common Law to arbitrate business disputes, has been bolstered as a result.

8 HNWIs is typically used to describe an individual with over US$1mn in liquid financial assets.
9 UHNWIs is typically used to describe an individual with over US$30mn in liquid financial assets.

2

SECTION 2

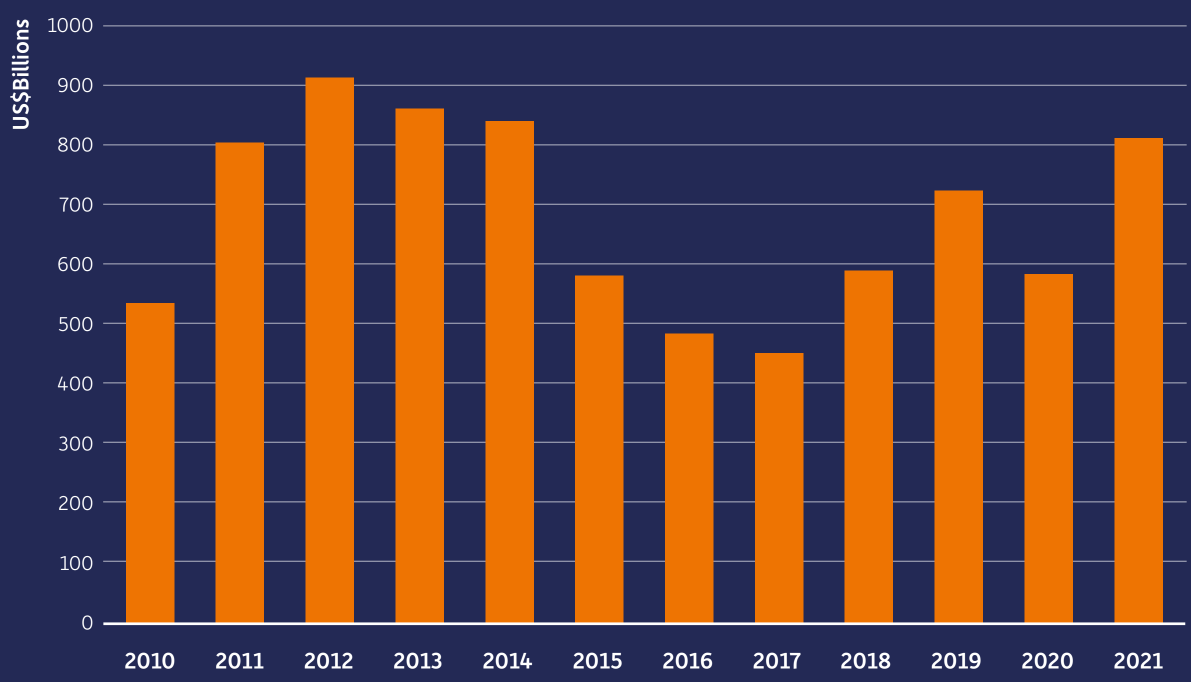
# KEY RELATIONSHIPS IN THE PIVOT

## The GCC's trade with emerging Asian economies is growing more important, with several important milestones for the Pivot passed in 2021.

GCC-China trade has never been higher at US$180bn and for the first time surpassed the GCC's trade with the US and Euro Area combined. China's total trade with Saudi Arabia stood at US$81.7bn in 2021, exceeding Saudi Arabia's total trade with the US, the UK, and Euro Area combined. UAE-China bilateral trade is also growing in significance compared to the UAE's trading relationship with Western economies. The gap between the UAE's trade with China and with the US, the UK, and the Euro Area combined, now stands at approximately US$3.4bn. In 2010, it was US$28bn. India is another vital component of the Pivot. This year has seen UAE-India ties strengthen following the signing of a CEPA. This should drive UAE-India trade by reducing customs duties, simplifying import and export procedures, and lowering tariffs by 90 per cent. The CEPA aims to increase UAE-India non-oil trade to US$100bn from US$45bn over the next five years (Oommen, 2022a).

This section also discusses the GCC's ties with ASEAN nations, highlighting key relationships. There are natural synergies between ASEAN and Gulf visions for economic growth, with their governments investing in digitalisation, manufacturing and logistics infrastructure to grow exports. We expect GCC-ASEAN relations to flourish as the UAE's CEPA with Indonesia takes effect, as the UAE continues CEPA negotiations

**Figure 10:** Saudi-China trade (2010–2021)




Source: (IMF 2022)

with the Philippines, and as Saudi Arabia and Thailand restore diplomatic ties after a three-decade hiatus. The easing of COVID-19 restrictions in Asian and GCC countries is encouraging a new wave of important bilateral visits. Expo 2020 in Dubai was an important staging point for these bilateral exchanges when it took place between October 2021 and March 2022 following its 2020 postponement due to COVID-19.

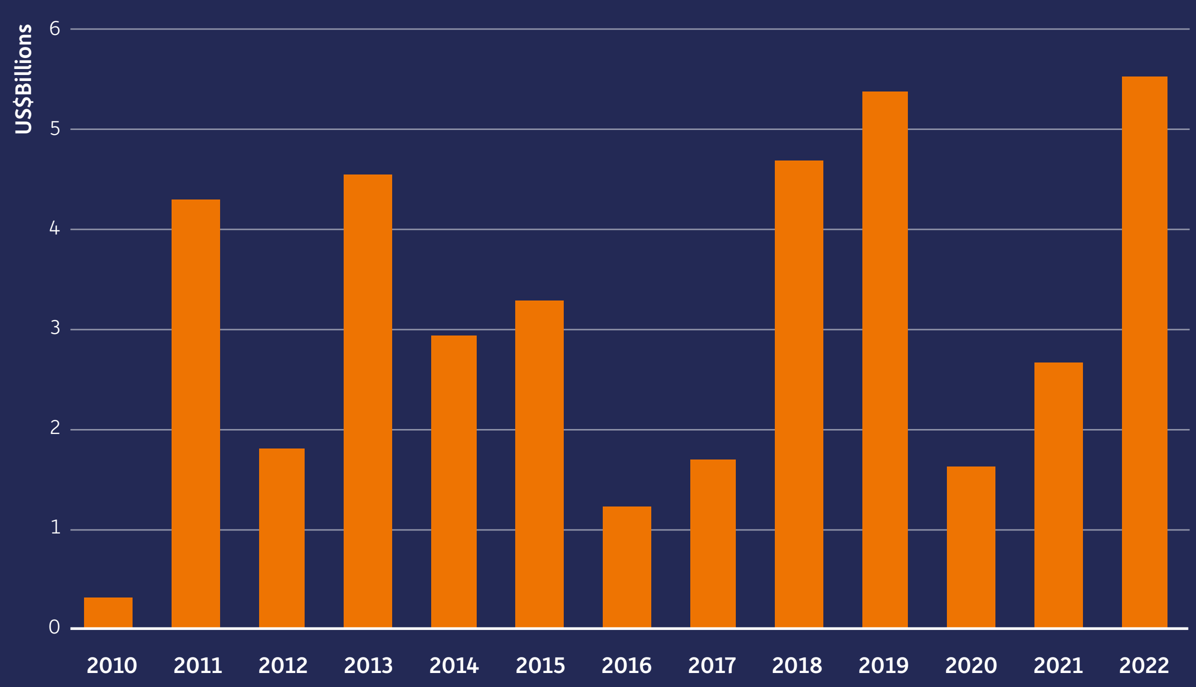
### The Saudi-China bilateral relationship

The Saudi-China bilateral relationship is the most significant in the Pivot. Both are economic leaders in their respective regions making it a crucial relationship to follow in monitoring the Pivot. China's total trade with Saudi Arabia stood at US$81.7bn in 2021, exceeding Saudi Arabia's trade with the US, the UK, and Euro Area combined (US$81.4bn) for the first time. This represents a key milestone in the Middle East's Pivot to Asia. Saudi-China trade has grown by approximately 51.9 per cent since 2010, when bilateral trade stood at US$53.8bn, increasing at an average annual rate of 6.77 per cent between 2010 and 2021. Saudi-China trade has also rebounded from the pandemic, largely due to higher oil prices in 2021 but also increased investment from China into Saudi Arabia. Saudi-China trade declined from US$72.9bn in 2019 to US$58.9bn in 2020 but in 2021 now stands at US$81.67bn.

Oil is fundamental to Saudi Arabia's trade with China. Saudi-China trade reached US$91.9bn in 2012, when the average price for OPEC Crude stood at US$109.45, the highest level on record. As of 18 October, OPEC Crude has averaged US$103.65 per barrel in 2022, meaning it could be another record year for bilateral trade. Chinese investment in the Kingdom largely revolves around oil.

The China-Saudi Arabia bilateral relationship is consolidated by Beijing's BRI investments. In H1 2022, Saudi Arabia was the biggest recipient of BRI investments, receiving around US$5.5bn, of which

**Figure 11: Chinese investment in Saudi Arabia (2010–2022)**




Source: (American Enterprise Institute, 2022), China Global Investment Tracker; accurate as of 5 September 2022

US$4.6bn was spent on oil and gas projects (Wang, 2022a). As Figure 11 shows, 2022 is already a record year for Chinese investment in Saudi Arabia. China is also increasing its investments in state-owned oil company Aramco, Saudi Arabia's largest company. In February 2022, China's state-owned Silk Road Fund was a part of the international consortium that bought a 49 per cent stake in Aramco's gas pipelines subsidiary for US$15.5bn (Silk Road Fund, 2022). The Silk Road Fund's share of the investment is worth around US$4.65bn. A more recent deal between Aramco and China's Sinopec signed in August 2022 will see them establish a local manufacturing hub in King Salman Energy Park. By increasing its investments in Saudi Arabia's oil industry, China enhances its energy security and also integrates itself within a key Saudi economic sector, enhancing its influence.

There will likely be further investments and cooperation relating to oil, as media reported last year that Chinese investors could take a one per cent stake in Aramco (Wu et al., 2021). While this is a small stake, it would be the largest outside the Saudi government. Perhaps more significantly for the global energy markets, in March 2022, The Wall Street Journal reported Beijing was in talks with Saudi Arabia to price some of its oil sales to China in yuan (Said and Kalin, 2022).

Pricing oil in yuan would certainly benefit Chinese energy security and resilience against any potential future US sanctions aimed at China's use of the dollar. It would also weaken the US dollar's dominance in global oil markets. But there are factors that may dissuade Saudi Arabia from pursuing such an arrangement. The yuan is a less stable currency than the dollar, so replacing dollars could undermine its fiscal outlook and hamper its ability to peg its currency to the dollar. Of course, this does not necessarily rule out a deal to price a nominal number of oil exports in yuan, as a symbolic gesture.

China is Saudi Arabia's most important customer for oil and Aramco is also interested in investing in China, for example in petrochemicals and refineries. Aramco CEO Amin Nasser said in February 2022 that Saudi Arabia was discussing potential investments in China, noting that the country is "an important part of Aramco's base". In March 2022, Aramco finalised its decision to participate in the development of an integrated refinery and petrochemical complex in Panjin City, with a capacity of 300,000 bpd (Aramco, 2022a).

China's investments in Saudi Arabia are not limited to oil. Beijing is aiding Saudi Arabia's economic diversification by investing in strategic non-oil sectors such as ports, logistics, construction, technology, and renewables. Section Five explores Chinese investment in Gulf non-oil sectors, but significant investments in 2022 include:

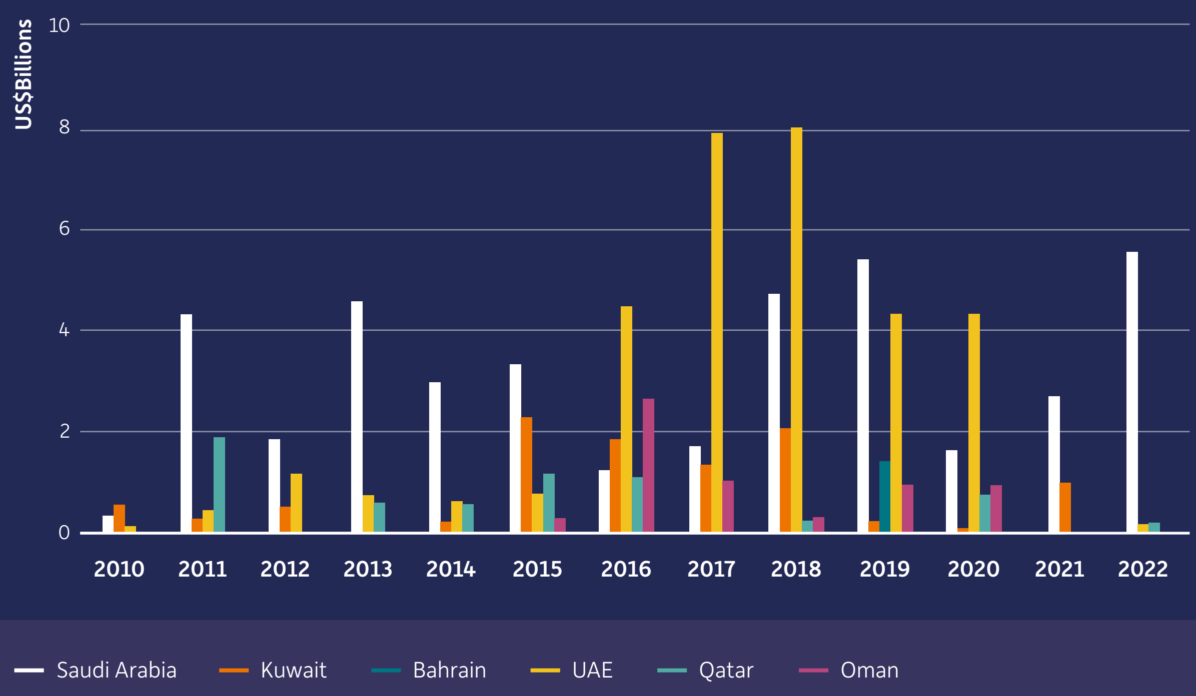
- In February 2022, Huawei announced it would set up a 'Cloud region' in Saudi Arabia (Arabian Business, 2022c). Huawei will soon establish a data centre in Riyadh, its second in the Middle East after Abu Dhabi (Arab News, 2022b).
- In February 2022, eWTP Arabia Capital, a fund backed by Chinese firm Ali Baba and PIF, indicated it would support Indonesian logistics firm, J&T Express in setting up a regional HQ in Riyadh and building the largest smart logistics industrial park in the Middle East (Trade Arabia, 2022a).
- In March 2022, China's State Power Investment Company took a 39.9 per cent stake, worth US$180mn, in a power purchase agreement between Saudi Arabia's ACWA Power and its Power Procurement Company (SPPC) to develop a 700MW Solar Plant in Al Qassim province (Whitlock, 2022).
- In May 2022, China's Alibaba partnered with Saudi national telecoms provider STC to establish Alibaba Cloud, which will develop Cloud services in Riyadh. The deal is worth US$238mn and also involves eWTP Arabia, Saudi Company for Artificial Intelligence, and Saudi Information Technology Company (SITE) (Wamda, 2022).

As Figure 12 shows, while Chinese investment in the UAE peaked in 2019, Saudi Arabia has received the most investment from China out of any other GCC economy, receiving over US$40bn in investment between 2010 and 2022.

Chinese investment in Saudi Arabia is expected to increase, with mining a likely sector for new finance. Saudi Arabia is working to encourage economic diversification by developing its mining sector to attract US$170bn of investment by the end of the decade, capitalising on growing demand for metals crucial to the energy transition. This could lead to further cooperation with China, which is the world's largest producer of rare earth metals, accounting for 60.63 per cent of production in 2021 (Statista, 2022a). These metals are critical to developing the solar panels, batteries, and electric vehicles needed for the energy transition. Saudi Arabia's mines may try to increase production of rare earth metals for its own energy transition, so there could be opportunities for further China-Saudi cooperation in this area, although no significant deals have been announced at the time of writing.

China's increasing strategic investments in Saudi Arabia could open the way for more defence cooperation. In January 2022, Saudi Arabia's Deputy Defence Minister, Prince Khalid bin Salman – brother of Crown Prince Mohammed bin Salman – had a call with China's Minister of National Defence, Wei Fenghe, where they discussed ways to strengthen military coordination (Arab News, 2022c). In March 2022, Saudi Arabia and China Electronics Technology Group Corporation (CETC) signed an agreement to build UAV payload systems locally in Saudi Arabia. Saudi Arabia still regards the US as its primary defence and security partner, so there may be limits to China-Saudi cooperation (Saudi Gazette, 2022a). Although Saudi Arabia believes the US commitment to the region is waning and has seen defence cooperation stripped back under the Biden administration, Riyadh will be wary that the acquisition of particularly sensitive systems from China, such as air defence,

**Figure 12: Chinese investment into GCC economies (2010–2022)**




Source: (American Enterprise Institute, 2022); accurate as of 5 September 2022.

might lead to a withdrawal of Western defence support. As Section Seven discusses in further detail, US-China relations could be an obstacle for the Pivot, with the Gulf states needing to carefully balance their ties between Beijing and Washington.

In August 2022, there was media speculation, particularly in The Guardian, that Chinese leader Xi Jinping could soon visit Saudi Arabia in his first overseas trip in over two years (Chulov, 2022). This did not happen, but could be expected in the near future. That would underline Saudi Arabia's importance to China and could set the scene for announcements relating to oil and non-oil investments, as well as commitments from Chinese companies to set up their regional headquarters in Riyadh. The visit may build on the GCC ministerial visit to China in early January 2022, by further advancing free-trade negotiations. Saudi Arabia has also underlined its focus on building ties with China by appointing its former governor of the General Authority for Foreign Trade, Abdulrahman Al-Harbi, as ambassador to Beijing.

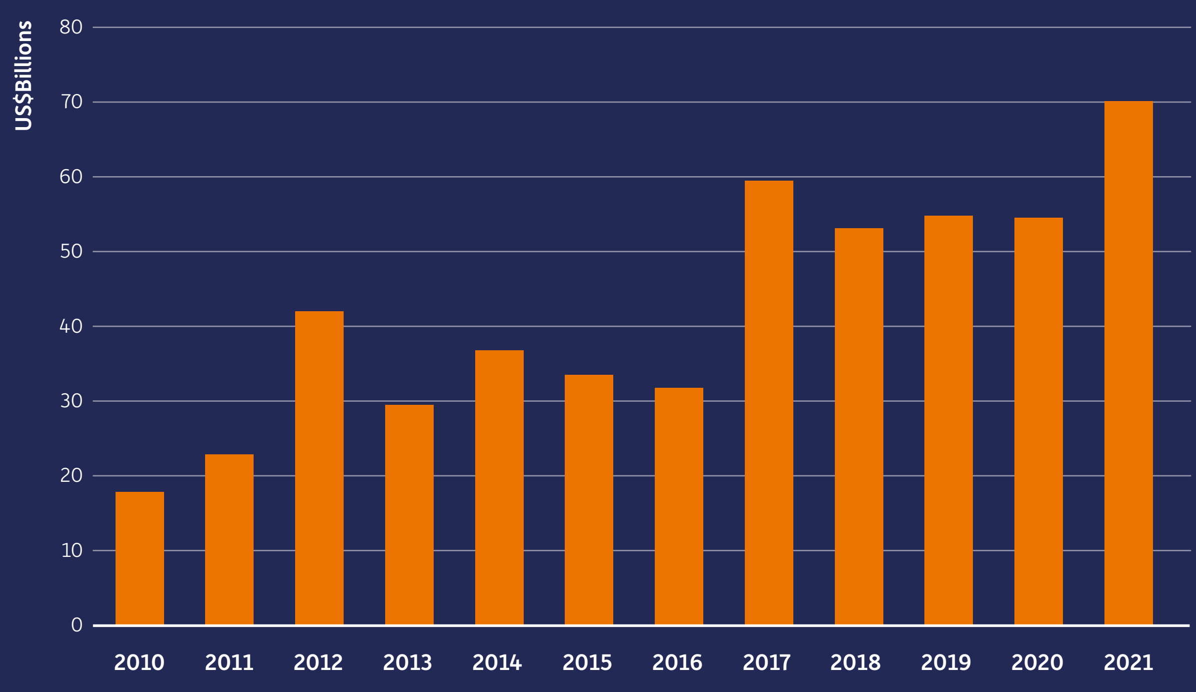
The China-Saudi trade relationship is expected to grow over the next decade and will be a key driver of GCC-emerging Asia trade growth. Rising oil prices will increase the value of trade and continued Chinese investment in Saudi Arabia will encourage trade in non-oil sectors. Saudi Arabia is also increasing its interest in investing in China, with its Public Investment Fund (PIF) SWF focussing increasingly on the Asian giant, as Section Eight discusses in greater detail. In November 2021, the PIF applied for a Qualified Foreign Institutional Investor license in China and in February 2022 announced it had opened a new subsidiary in Hong Kong (Azhar, 2022), presumably to be closer to Chinese markets and increase investments there. The outlook for both countries' economies remains positive for the time being, which will encourage bilateral trade growth. Saudi Arabia is the fastest growing economy in the G20 and recent IMF estimates suggest it will grow by 7.6 per cent in 2022 (Mati and Rehman, 2022).

While China's economic outlook remains positive, its growth is slowing. The IMF has downgraded China's growth forecasts for 2022 from 4.8 per cent in January's World Economic Outlook (IMF, 2022d) to 3.2 per cent in October's World Economic Outlook (IMF, 2022c). Lockdowns continue and China has introduced new regulations adversely impacting its largest tech players that could hit investor sentiment. These regulations, largely introduced in Summer 2021, impose more stringent rules for how companies handle user data. China has also clamped down on companies listing overseas. Ride hailing app DiDi, was fined US$1.2bn in July 2022 by Beijing over alleged violations in cybersecurity, data security, and personal information protection, which resulted from its overseas listings. The US's 2020 Holding Foreign Company Accountability Act (HFCAA) is leading to compliance issues for Chinese tech firms listing in the US, meaning they could be removed for failing to meet US auditing requests. Firms under pressure include Alibaba, Mogujie, and Exchange Commission. Shares in several Chinese tech companies, such as Alibaba Group and Tencent have fallen sharply over recent months and may deter Gulf investment. China's economic outlook is important to Gulf-Asia relations, given China's dominance as a trading partner, investor, and purchaser of hydrocarbons. Poor economic performance in China would likely hamper the Pivot.

### The UAE-China bilateral relationship

China remained the UAE's largest trading partner in 2021, with total bilateral trade rising to a record US$70.4bn. Trade has grown at a rapid pace as Figure 13 shows. In 2010, bilateral trade was US$17.7bn but it has increased at an annual average growth rate of 18.44 per cent up to 2021. UAE-China trade is becoming more significant than that with Western economies. In 2010 the gap between the UAE's trade with China and with the US, UK, and the Euro Area combined stood at approximately US$28bn. In 2021, this gap had closed to approximately US$3.4bn. Like Saudi Arabia, the UAE's trading partnership with China is expected to overtake its combined partnership

**Figure 13:** UAE-China trade (2010–2021)




Source: (IMF, 2022a)

with the US, the UK, and the Euro Area over the next few years.

Looking ahead, trade growth may be hampered by China's zero-COVID policy, which is impacting people-to-people exchanges, commercial and political links. Etihad Airways, for example, only resumed direct passenger flights from Abu Dhabi to Beijing on 29 June 2022, becoming the first regular direct international passenger flight to recommence from Beijing since early 2020 (Etihad, 2022). Should China's economy open up to international travel in a more concerted manner, then we can expect greater exchanges between the two economies.

As Figure 12 shows, the UAE received over US$31bn in Chinese investment between 2010 and 2022. The process goes both ways, with recent data showing Emirati investments in China amounting to approximately US$544.5mn. UAE-China trade ties will be enhanced by a spate of deals since the publication of last year's report in October 2021. Dealmaking has been particularly focussed on non-oil sectors, such as technology, aiding the UAE's economic diversification. The largest deal recently announced was between China's Jinsha Holding Group and the UAE's Royal Strategic Partners in November 2021. This will see US$2bn invested in several sectors, including blockchain, finance, the internet, entertainment, real estate, and medicine (Trade Arabia, 2021). Other deals announced since last year's report include:

- In November 2021, First Abu Dhabi Bank (FAB), the UAE's biggest, announced it would open its first China branch in 2022, in Shanghai. The branch is intended to assist Chinese clients to support their growth in the Middle East as well as provide a gateway to China for FAB's clients closer to home (The National, 2021). We expect more Gulf and Asian banks to set up branches in each other's regions as the Pivot develops.
- In December 2021, Dubai South, Dubai's largest urban master development, announced a strategic partnership with Huawei to develop a smart transportation system (Menon, 2021).

- In December 2021, Emirates Global Aluminium signed a three-year supply deal with China's Bosai Minerals Group to provide several million tonnes of bauxite ore – the source of aluminium – from the Republic of Guinea each year (Emirates Global Aluminium, 2021).
- In April 2022, UAE telecom company, 'du' and Huawei signed an MoU to train UAE talent in the UK and Germany in technologies such as 5G and IT. Several of Huawei's deals with the Gulf states have an emphasis on upskilling Gulf populations – an important consideration for countries looking to diversify their economies (W.Media, 2022).
- In June 2022, The Abu Dhabi Department of Economic Development signed an MoU with Shandong province to exchange expertise, data, and training between Emirati and Chinese companies in the industrial sector (Al-Monitor, 2022).

Although UAE-China relations are developing at speed, as discussed in Section Seven, US-China tensions need to be carefully navigated by Gulf states in managing their ties with Beijing. According to The Wall Street Journal, in November 2021 Washington pressured the UAE to stop Chinese construction on facilities in Khalifa Port because Washington believed they could have military applications (Lubold and Strobel, 2021). The UAE has also reportedly faced pressure from the Biden administration to remove Huawei from its telecommunications network within the next four years, otherwise it will not receive delivery of the long sought-after F-35 fighter jet (Wadhams and Westall, 2021). A further deterioration in US-China relations could increase pressure on the UAE to curtail economic activities with Beijing in sensitive sectors, particularly telecommunications, defence, and security.

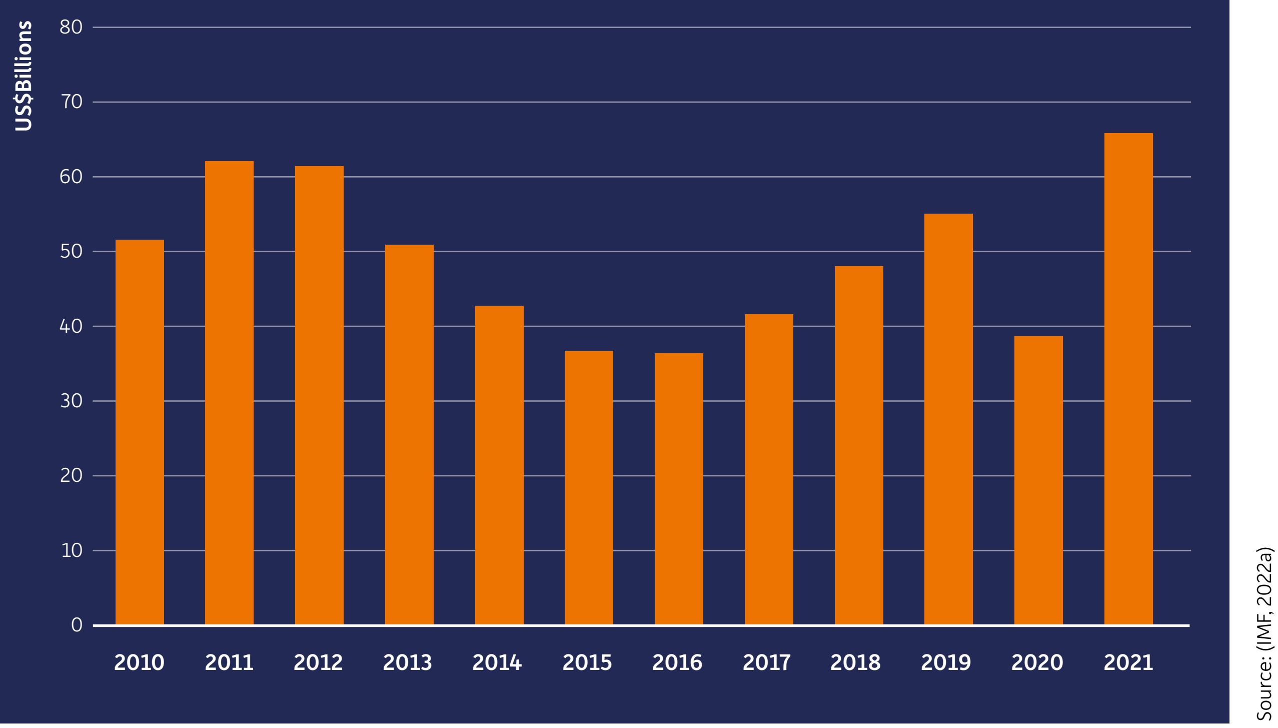
### The UAE-India bilateral relationship

The UAE-India trading partnership shows potential for great and accelerating growth over the next decade and this year the two countries signed a CEPA reducing tariffs and other barriers. India-UAE trade totalled approximately US$66.0bn in 2021 and has grown at an average annual growth rate of 4.98 per cent between 2010 and 2021. COVID-19 caused bilateral trade to drop from US$55.3bn in 2019 to US$39.1bn in 2020, but it has since rebounded strongly. Both countries see the other as an important export destination. India is the UAE's second-largest trading partner after China, and largest export destination, totalling US$40.6bn in 2021. The UAE is India's third-largest trading partner and second-largest export destination after the US. The relationship greatly benefits from India's large diaspora in the UAE – approximately 3.5 million out of the UAE's ten million residents are Indian nationals – and relatively close proximity across the Arabian Sea. The UAE is an important source of remittances for India, even more so following the Indian rupee's approximate eight per cent depreciation against the Emirati dirham in 2022.

The most significant development for UAE-India relations in 2022 was the signing of a CEPA, which came into effect on 1 May. The CEPA has reduced custom duties and reduced red tape between the two markets, lowered tariffs by 90 per cent and introduced clearer bilateral market protocols. The CEPA improves market access for both sides and, considering the size of UAE-India bilateral trade, could encourage significant GCC-emerging Asia trade growth. Indeed, the CEPA aims to increase UAE-India non-oil trade to US$100bn over the next five years and the UAE expects the deal to add US$9bn to its GDP and create 140,000 jobs by 2030 (Oommen, 2022a).

The CEPA was the first comprehensive strategic partnership signed by India in over a decade, highlighting the UAE's importance to New Delhi (Dutta, 2022). Bilateral exchanges have increased in 2022 following the easing of COVID-19 restrictions in both countries. Indian Prime Minister Narendra Modi visited the UAE in June 2022 to offer his condolences following the death of President Sheikh Khalifa Al-Nahyan (The Hindu,

**Figure 14:** UAE-India trade (2010–2021)




2022). India also announced a day of national mourning, a rare honour. It was Modi's first visit since 2019. India's Vice President, M. Venkaiah Naidu, also visited in May 2022. UAE Minister of Economy Abdulla bin Touq and Minister of State for Entrepreneurship and SMEs, Dr Ahmad Al Falasi, visited India in May 2022 to explore future investments following the CEPA. In July 2022 the UAE and Indian foreign ministers met on the sidelines of a G20 ministers meeting in Bali to discuss bilateral ties (Arabian Business, 2022d).

The UAE-India relationship has proven to be particularly strategic at times, most recently in terms of food security. In June 2022, the UAE announced it would ban the re-export of wheat entering the UAE from India for at least four months, in response to India's decision to exempt the UAE from its own ban on wheat exports. There is, nevertheless, occasional friction in India-UAE bilateral ties. Some sectors, most notably gold, still have trade barriers. In July 2022, India raised the import duty on gold from 7.5 per cent to 12.5 per cent, impacting bilateral trade. The UAE is the second-largest exporter of gold to India (Matthew, 2022a).

As Section Eight explores in more detail, India has been on the receiving end of Gulf SWF investment, attracted by India's large population, which is growing more affluent and demanding access to digital services and other technologies. In particular, India offers start-ups an excellent environment in which to scale up and deliver a high return on investment. UAE capital has flown into India throughout 2022. As India's economy grows, businesses looking to expand into the Middle East view Dubai as a logical base, given its expat Indian population and good flight and trading routes with India. There has been a spate of dealmaking in 2022 between India and the UAE, which should cement trade and investment ties. Recent deals include:

- In January 2022, Chimera Capital, an investment firm overseen by UAE National Security Advisor Tahnoun bin Zayed, joined forces with New

York-based venture capital company Alpha Wave to deploy US$10bn, with a focus on Indian firms yet to go public (Elbahrawy et al., 2022).

- In January 2022 a new US$150mn UAE-India venture capital fund was created with an aim to create 10 Unicorns by 2025. A Unicorn is a privately-held company with a valuation of US$1bn or more. The programme was announced at the India Pavilion during Expo 2020 in Dubai, highlighting its role in driving GCC-Asia investment. (Arabian Business, 2022e). In general, there has been increased Gulf interest in pre-IPO Indian firms, as further explored in Section Eight.
- In June 2022, India's National Investment and Infrastructure Fund, (NIIF) acquired a US$300mn stake in Hindustan Ports Private Limited, which is a subsidiary of Dubai's port operator, DP World. Hindustan Ports operates five container terminals in India and is the NIIF's largest investment to date (Kamel, 2022). Investments in ports and logistics is a major trend in the Middle East Pivot to Asia and is explored in further detail in Section Five.
- In June 2022, Sequoia Capital India led a Series A funding round for UAE property-technology start-up, Huspy, receiving a total of US$37mn (Oommen, 2022b).
- In June 2022, Abu Dhabi Investment Authority (ADIA) purchased a 20 per cent stake, worth roughly US$28mn, in IIFL Home Finance, a subsidiary of IIFL, one of India's top financial service providers (The Economic Times, 2022)
- In July 2022, UAE conglomerate, LuLu Group expanded into northern India by launching a supermarket in Uttar Pradesh. The Abu Dhabi-based group already has supermarkets in Kochi, Bengaluru, and Thiruvanthapuram (Business Standard, 2022).
- In July 2022, the UAE pledged US$2bn to develop "food parks" in India to tackle food insecurity by equipping farmers, processers, and retailers with technological solutions to reduce waste, increase yields, and preserve water. The pledge followed a quadrilateral meeting between the UAE, Israel, India, and United States (Lubell and Verma, 2022).
- Between 2021 and 2022 ADIA acted as an anchor investment in Indian firms Paytm and Life Insurance Corporation of India (LIC). LIC raised US$2.7 bn in May 2022, in India's biggest ever IPO (Tripathy and Joshi, 2022).

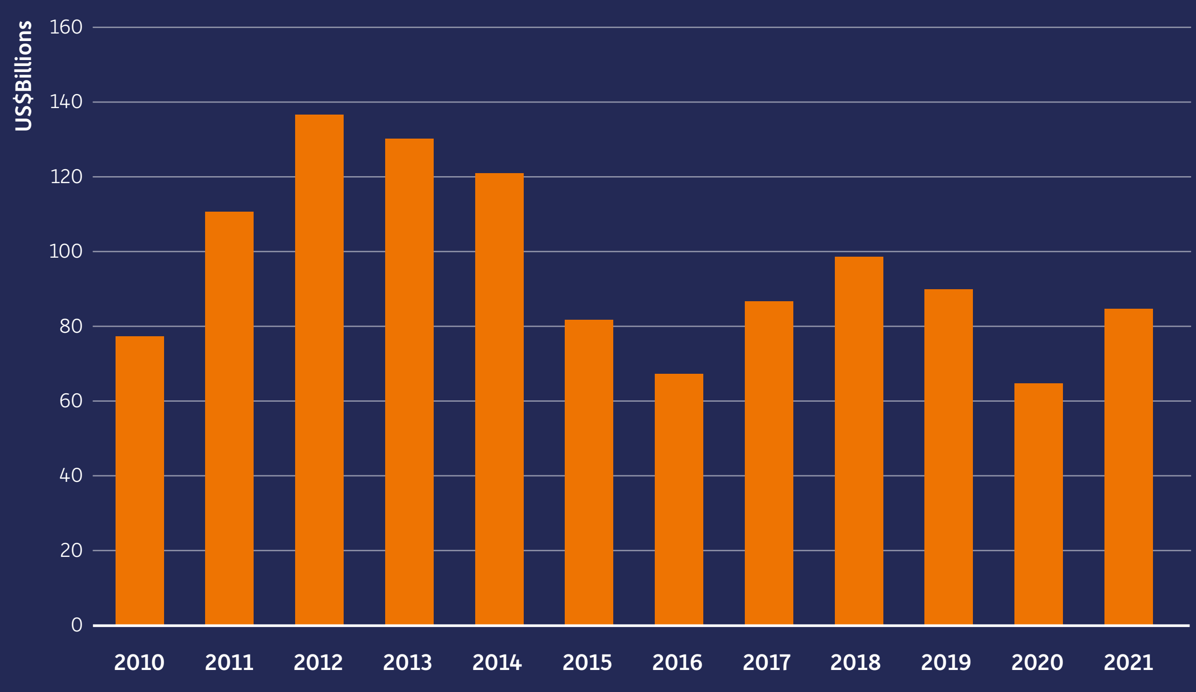
The UAE is reportedly India's eighth largest source of FDI, with investments totalling US$18bn, while Indian investments in the UAE are estimated at around US$85bn (Arabian Business, 2022f). The UAE-India bilateral relationship is one of the most significant in the Pivot. The CEPA and the recent spate of dealmaking have the potential to encourage even further bilateral trade growth.

## GCC-ASEAN trade: A crucial component of the Pivot

This year has seen an uptick in economic and political exchanges between the Gulf states and ASEAN nations. GCC-ASEAN trade increased from US$77.87bn in 2010 to US$85.23bn in 2021 – growing at an average annual rate of approximately 3.7 per cent. While trade growth is not as fast-paced as with other emerging Asian economies such as China and India, the GCC-ASEAN relationship contains individual bilateral relationships that are growing fast. Leaders in both blocs are devoting greater time and attention to cultivating ties, with bilateral investments into non-oil sectors such as renewables, digitalisation, and logistics.

We expect GCC-ASEAN ties to grow more important in the future with the expansion of ASEAN's middle classes and good growth prospects for both regions over the next decade. There are also natural synergies between ASEAN and Gulf visions for economic growth, with governments investing in digitalisation, manufacturing, and logistics infrastructure as a means of growing exports. We expect GCC-ASEAN relations to flourish as the UAE's CEPA with Indonesia takes effect, as the UAE continues CEPA negotiations

**Figure 15:** GCC-ASEAN trade (2010–2021)




Source: (IMF, 2022a)

with the Philippines, and as Saudi and Thailand restore diplomatic ties after a three-decade hiatus. Gulf SWFs are also looking for investment opportunities in ASEAN, with several moves this year into start-ups and projects in Singapore and Indonesia, in particular this year. These are discussed in greater detail in Section Eight. GCC-ASEAN trade has recovered strongly since the pandemic. COVID-19 led to a 27.75 per cent fall in trade from US$90.38bn in 2019 to US$65.30bn in 2020, greater than the fall in the GCC's trade with India (27.0 per cent) and China (9.2 per cent). But it has subsequently recovered, increasing by 30.5 per cent between 2020 and 2021.

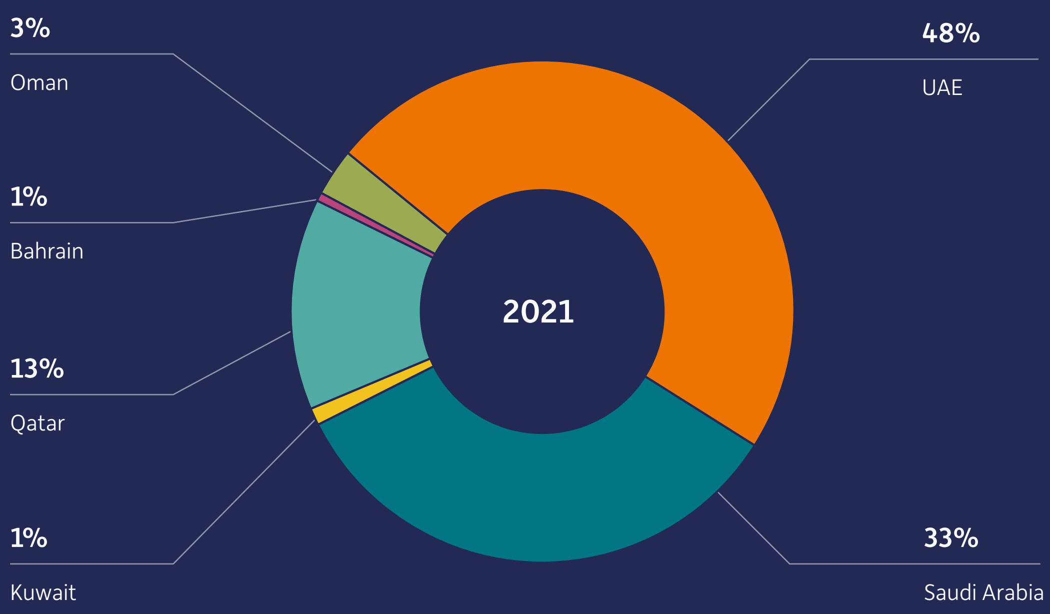
Oil is important to GCC-ASEAN trade, comprising around 43 per cent of the GCC's exports to the region (WAM, 2021). As Figure 15 shows, GCC-ASEAN trade peaked at US$136.91bn in 2012. This likely reflects the impact of high oil prices on the value of GCC exports that year, when the average price for OPEC Crude stood at US$109.45, the highest on record. OPEC Crude averaged US$41.7 per barrel in 2020 during the COVID-19 pandemic when GCC-ASEAN trade reached its lowest point. As of 18 October, OPEC Crude has averaged US$103.65 per barrel for 2022, which will likely increase the value of GCC-ASEAN trade this year.[10]

### Key trends in GCC-ASEAN trade

The UAE's trade with ASEAN represents the highest proportion among GCC countries, accounting for approximately 48.34 per cent of the total in 2021. UAE-ASEAN trade has also shown the greatest growth between 2010 and 2021, rising from US$27.08bn in 2010 to US$41.20bn in 2021 – an average annual growth rate of approximately 7.75 per cent. By contrast, Saudi Arabia's trade with ASEAN fell by 13.38 per cent from US$32.87bn to US$28.47bn between 2010 and 2021. Saudi-ASEAN trade peaked in 2012 at

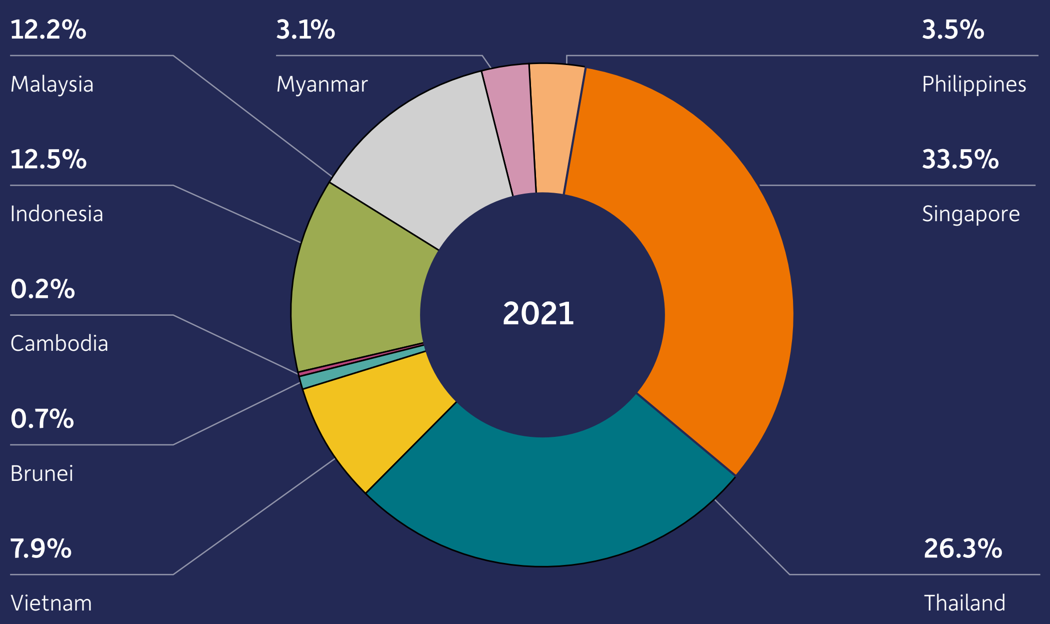
10 Data on average annual oil prices was accessed here: https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/

**Figure 16: Proportion of total GCC trade with ASEAN (2021) (per cent)**




Source: (IMF, 2022a)

**Figure 17: Proportion of total ASEAN trade with GCC (2021) (per cent)**




Source: (IMF, 2022a)

US$58.94bn, when OPEC crude prices were at their peak. Saudi-ASEAN trade fell to US$24.52bn during the COVID-19 pandemic in 2020.

The GCC's top five ASEAN trading partners in 2021 were 1) Singapore (US$28.58bn); 2) Thailand (US$22.41bn); 3) Indonesia (US$10.66bn); 4) Malaysia (US$10.39bn); and 5) Vietnam (US$6.77bn).

By way of comparison, in 2010 the GCC's top five trading partners in ASEAN were 1) Singapore (US$28.87bn); 2) Thailand (US$25.11bn); 3) Malaysia (US$10.65bn); 4) Indonesia (US$6.32bn); and 5) The Philippines (US$4.69bn). Out of these trading partners, Vietnam and Indonesia have enjoyed particularly strong trade growth with the GCC, growing by 235 per cent and 69 per cent respectively between 2010 and 2021. Notable GCC-ASEAN bilateral relationships that exhibited particularly strong growth between 2010 and 2021 include:

- The UAE-Vietnam trade relationship, which rose from US$0.55bn in 2010 to US$5.24bn in 2021, representing an average annual growth rate of 57.15 per cent.
- The Kuwait-Singapore trade relationship, which rose from US$126.47mn in 2010 to US$357.26mn in 2021, representing an average annual growth rate of 66.51 per cent.

## Table 2: GCC-ASEAN bilateral trade values (2021)

| Total Trade (US$ millions) | UAE | Saudi Arabia | Kuwait | Qatar | Bahrain | Oman | Total GCC |
|---|---|---|---|---|---|---|---|
| **Brunei** | 197.78 | 307.47 | 0.03 | 66.72 | 0 | 0.21 | **572.21** |
| **Cambodia** | 123.91 | 7.67 | 3.87 | 5.68 | 5.33 | 8.21 | **154.67** |
| **Indonesia** | 3,914.43 | 5,370.52 | 132.33 | 734.26 | 90 | 422.88 | **10,664.42** |
| **Laos** | 9 | 2.55 | 0.21 | 0.88 | 0.02 | - | **12.66** |
| **Malaysia** | 5,225.3 | 3,692.21 | 214.52 | 695.59 | 104.86 | 454 | **10,386.48** |
| **Myanmar** | 199.13 | 2,157.01 | 5.33 | 282.29 | 4.41 | 17.35 | **2,665.52** |
| **The Philippines** | 1,162.98 | 1,505.85 | 27.36 | 276.3 | 17.21 | 20.28 | **3,009.98** |
| **Singapore** | 13,437.72 | 7872.7 | 357.26 | 6,163.41 | 165.19 | 584.25 | **28,580.53** |
| **Thailand** | 11,692.35 | 6430.6 | 300.2 | 3,013.03 | 285.22 | 687.78 | **22,409.18** |
| **Vietnam** | 5,240.39 | 1126 | 61.45 | 179.65 | 15.02 | 148.97 | **6,771.48** |
| **Total ASEAN** | **41,202.99** | **28,472.58** | **1,102.56** | **11,417.81** | **687.26** | **2,343.93** | **85,227.13** |

Source: (IMF, 2022a)

- The UAE-Indonesia trade relationship, which rose from US$1.71bn in 2010 to US$3.91bn in 2021, an average annual growth rate of 11.07 per cent.
- The UAE-Singapore trade relationship, which rose from US$7.39bn in 2010 to US$13.44bn in 2021, an average annual growth rate of 14.87 per cent.

### The future of GCC-ASEAN trade

As the economies of ASEAN and the GCC expand, we can expect to see trade grow. ASEAN's middle class is predicted to increase by more than two thirds in size from around 135 million in 2019 to 334 million in 2030 (US-ASEAN Business Council, 2019). Both ASEAN and the GCC have youthful demographics, underpinning growth prospects. Over 380 million people are under the age of 35 in ASEAN (58 per cent of the population) and two thirds of Saudi Arabia's population is aged under 35 (Godinho, 2020). There are also natural synergies between ASEAN and Gulf visions for economic growth, with governments investing in digitalisation, manufacturing, and logistics infrastructure.

In 2022 the UAE signed a CEPA with Indonesia and a joint statement on a proposed CEPA with the Philippines, during a visit by Ramon Lopez, Secretary of the Philippines Department of Trade and Industry, to Expo 2020 (WAM, 2022). The visit also saw GCC companies sign letters of intent representing US$600mn of investment to generate 4,000 job opportunities in the Philippines. Southeast Asian countries are developing a thriving tech start-up scene that could encourage Gulf SWFs to invest. Southeast Asian start-ups raised a record US$25.7bn in 2021, more than double 2020 (Iwamoto, 2022). Twenty-five start-ups from six Southeast Asian countries became Unicorns in 2021, with a combined valuation of US$55.4bn. As of May 2022, Southeast Asian and Indian venture capital firms had raised US$3.1bn, already close to the US$3.5bn raised in the whole of 2021 (Suzuki, 2022). In June 2022, Saudi Foreign Minister Prince Faisal bin Farhan visited Indonesia where he met President Joko Widodo. An agreement between the PIF and the Indonesia Investment Authority to strengthen ties was signed during the visit.

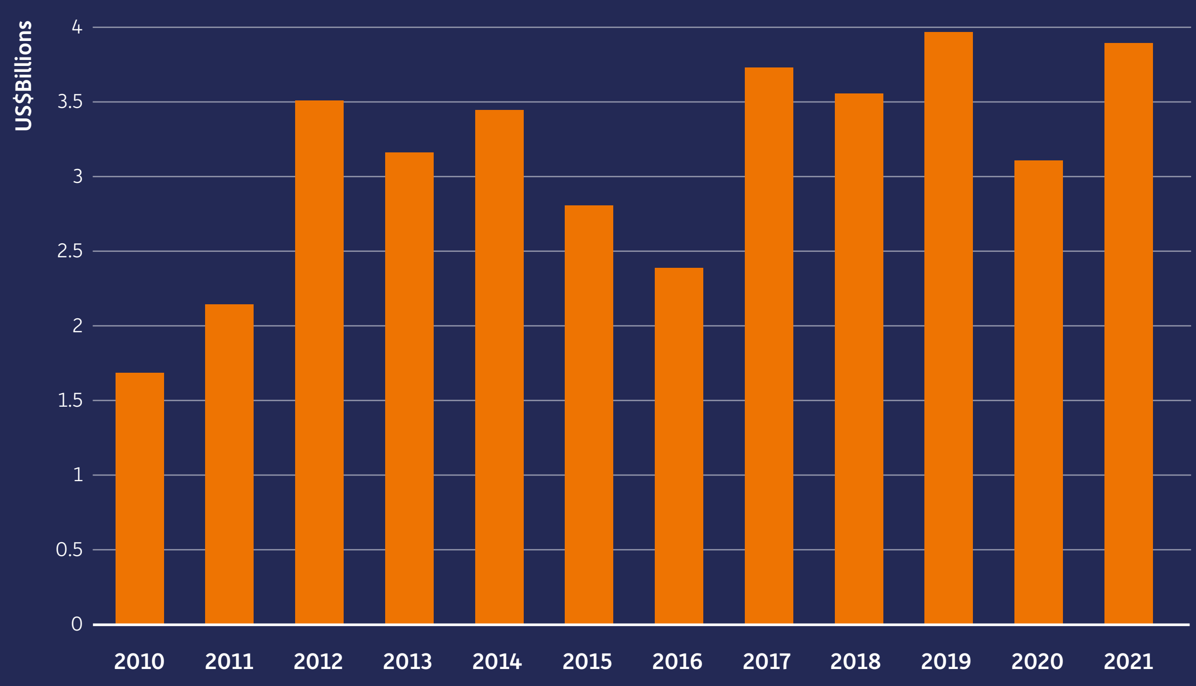
> **"GCC-ASEAN trade is emerging as a key corridor within the Middle East Pivot to Asia."**

### The UAE-Indonesia bilateral relationship: primed for growth

UAE-Indonesian trade stood at approximately US$3.91bn in 2021. Indonesia is the UAE's fourth-largest trading partner in ASEAN but is also one of its fastest growing relationships. UAE-Indonesian trade expanded at an average annual rate of 11.07 per cent between 2010 and 2021. Indonesia is fast becoming an attractive investment destination for the UAE and other GCC economies. It is the world's fourth-most populous country with 270 million people and its economy is projected to grow 5.1 per cent in 2022 and 5.3 per cent in 2023 (World Bank, 2022b). Indeed, McKinsey research forecasts Indonesia could become the seventh largest economy in the world by 2030 (McKinsey, 2012). It is currently sixteenth (World Bank, 2022c). Indonesia will host the G20 in November 2022, highlighting its importance in global affairs. As Indonesia's economy expands, we expect UAE investments to expand as well, reinforcing its position as an attractive destination for Gulf investment.

The UAE-Indonesian bilateral relationship has improved considerably throughout 2022, with the most significant development being the signing of a CEPA in July 2022 during a visit by President Joko Widodo to Abu Dhabi. The deal removes about 94 per cent of existing tariffs and is predicted to boost bilateral trade to more than US$10bn annually within five years (Sambidge, 2022a). As part of the deal the UAE will invest US$10bn in the recently established Indonesia Investment Authority. A portion of the funds are set to be allocated to building Indonesia's new capital, Nusantara, on the Island of Borneo,

**Figure 18:** UAE-Indonesia trade (2010–2021)




Source: (IMF, 2022a)

while the rest will be invested in infrastructure, food security, logistics, healthcare and the digital economy (Tisnadibrata, 2021a). The UAE-Indonesia trading relationship is primed for growth, with several recent investments focussed on Indonesia's logistics and commerce sector.

Recent deals between the UAE and Indonesia include:

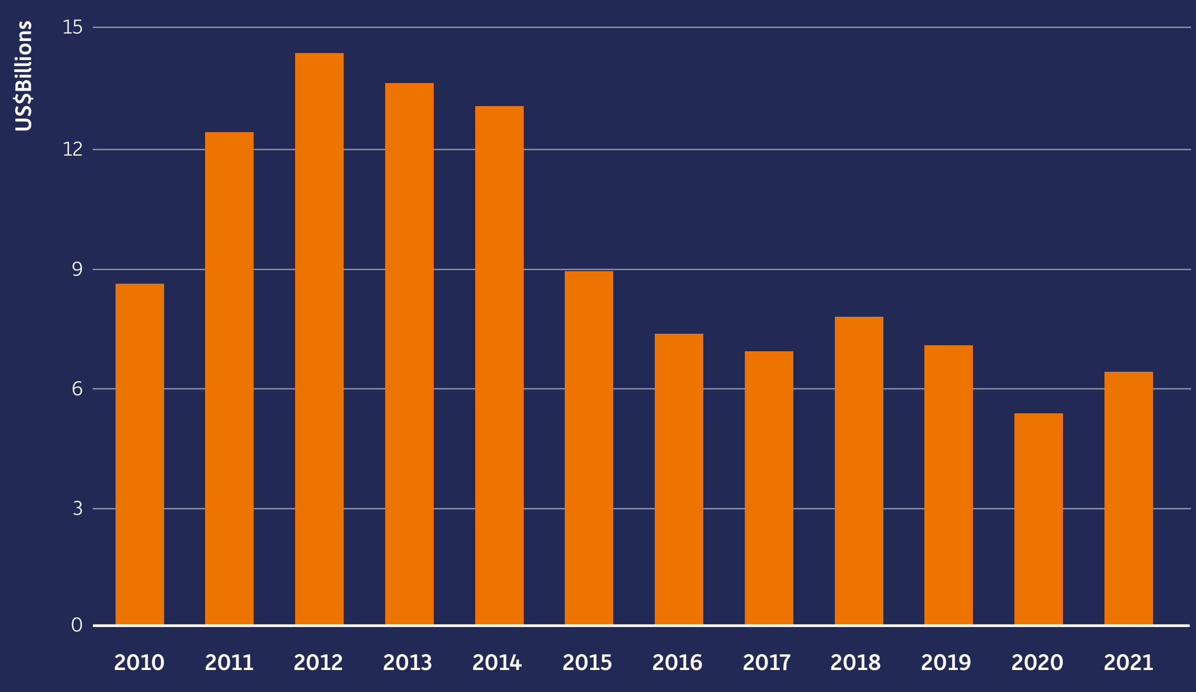
- In October 2021, DP World and the Indonesia Investment Authority signed an estimated US$7.5bn deal over 30 years to develop Indonesia's sea ports. The deal was signed at Expo 2020 (Kamel, 2021).
- In March 2022, the UAE and Indonesia agreed to develop an island tourism resort near Aceh worth US$500mn, and a port in East Java worth US$1.2bn (Tisnadibrata, 2021b).
- ADIA made a US$400mn pre-IPO commitment to Indonesian e-services provider GoTo (Nair and Lee, 2021). GoTo achieved a market capitalisation of US$32bn during its first day of trading on Indonesia's stock exchange in April 2022.

## The Saudi-Thai bilateral relationship: a new element in the Pivot

In 2022, Saudi Arabia and Thailand restored full diplomatic ties after a long-standing dispute over a 1989 jewellery heist in which three Saudi diplomats were murdered. The announcement of restored relations was made during a visit by Thai Prime Minister Prayuth Chan-O-cha to Saudi Arabia in January 2022, the first visit by a Thai leader in over three decades and represents a significant development in GCC-ASEAN ties.

While Saudi Arabia and Thailand continued trading during the diplomatic dispute, trade declined from US$8.64bn in 2010 to US$6.43bn in 2021, a fall of 25.61 per cent. The restoration of ties has the potential to stimulate trade growth. Prime Minister Chan-O-cha's visit was followed

**Figure 19: Saudi-Thai trade (2010–2021)**




Source: (IMF, 2022a)

by a Saudi-Thai Investment Forum in Riyadh, featuring Saudi Arabia's investment minister, foreign minister, and industry minister, as well as Thailand's Deputy Prime Minister and Foreign Minister Don Pramudwinai (Saudi Gazette, 2022b). Several deals were announced during the forum, including:

- The launch of direct flights between Saudi Arabia and Thailand. This was followed by an agreement between Saudi travel firm Almosafer and Thailand's tourism body to cooperate in boosting tourism between Thailand and the GCC (Arab News, 2022d).
- An MoU signed between Aramco and Thailand's national oil company, PTT to strengthen cooperation in oil sourcing, refining, petrochemicals production, and blue and green hydrogen (Aramco, 2022b).

Thailand is Southeast Asia's second-largest economy and Saudi Arabia is the Gulf's largest, so the restoration of relations is a significant moment in terms of the Pivot, with the potential to drive GCC-ASEAN trade, as well as wider GCC-Asian relations.

### A new era of Gulf-Asia trade deals

During 2022 there has been increased activity by Gulf states to negotiate trade deals, lowering both tariff and non-tariff barriers. Much of this activity focussed on Asia. As previously discussed, 2022 has seen the UAE broker CEPAs with India and Indonesia. The UAE is also negotiating with the Philippines and South Korea, the latter announced during a visit by South Korea's former president, Moon Jae-in in January 2022 (The National, 2022). As trade deals are implemented and barriers are lowered, there could be encouragement from businesses for the UAE to negotiate further deals in Asia and beyond.

During 2022 the GCC has increased its focus on negotiating FTAs as a bloc, recently appointing a chief negotiator to lead discussions worldwide.

In November 2021, India confirmed a working group had been set up to work on a GCC-India FTA (Suneja, 2021), and the GCC is also negotiating FTAs with South Korea (Asharq Al-Awsat, 2022), New Zealand and China. Underscoring the GCC's commitment to new FTAs, in January 2022 foreign ministers from Saudi Arabia, Kuwait, Oman, and Bahrain, along with GCC Secretary-General, Nayef al-Hajraf, travelled to Beijing for a five-day visit to discuss a GCC-China FTA (Al-Jazeera, 2022a). Former South Korean President Moon Jae-In's visit to the region in January 2022 included a meeting with Secretary-General Al-Hajraf to discuss a GCC-South Korea FTA.

The GCC has brokered FTAs with Singapore (2008) and the European Free Trade Association (2009)[11], but has previously struggled to negotiate them elsewhere (Neve, 2022). Negotiations with China have been ongoing since 2004, for example, but were suspended in 2009 when China decided to maintain tariffs on GCC petrochemical exports (Pe'er et al., 2022). The Gulf states are not homogenous. They have differing economic and strategic priorities and differing regulatory environments. While their economies are becoming more integrated, there remain differences that can make it difficult for the GCC to negotiate from a united front. Still, it is worth monitoring GCC negotiations with Asian nations, as new trade agreements could drive trade and the Middle East Pivot to Asia.

11 The European Free Trade Association consists of Iceland, Liechtenstein, Norway, and Switzerland.

**Interview with Stephen Moss**
Regional Chief Executive Officer – Middle East, North Africa, and Turkey, HSBC

**Stephen Moss** is Regional Chief Executive Officer for the Middle East, North Africa and Turkey. Stephen Moss was appointed to the role of Regional Chief Executive Officer in April 2021 and has been a Group Managing Director since December 2018.

### What opportunities exist to further develop trade and commercial ties between Asia and the Middle East?

HSBC has a very significant business in Asia where we have strong history and heritage. We were the first bank established in several countries across Asia.

Similarly, HSBC has been in the Middle East since 1889 when the Imperial Bank of Persia was founded, and we recently celebrated 75 years of doing business in the UAE – again a place where we were the first bank to open for business. So, we are well placed to service the business between the Middle East and Asia, and this is a core part of our strategy. Specifically, we support clients along the key trade and investment corridors that exist between the Middle East into Europe, the US, and of course Asia-Pacific.

**"Growth in the Middle East-Asia Pacific corridor has been significant and we believe it will continue to show strong growth in the years ahead."**

China is a major player in this corridor, and is the number one trading partner of the UAE in non-oil foreign trade, with a total value of AED173.9bn or 12.4 per cent of the UAE's total non-oil trade with the world in 2020 (UAE Ministry of Economy, 2021). Asia is also heavily investing in supporting infrastructure development across the Middle East in line with the Gulf states' various national development 'Vision' plans. For example, walking around Downtown Dubai, you can see Chinese and Korean companies constructing new buildings.

The economic diversification across the Gulf is encouraging trade. These changes are motivated by further reducing the contribution of oil and gas to the region's economic output, and by companies across the world looking to develop renewable capabilities including in the Middle East and Asia-Pacific. The announcements of the UAE's Comprehensive Economic Partnership Agreements (CEPA) with India, Indonesia, and Israel are also another significant development that we have seen in 2022.

**The economic outlook for the GCC region is currently positive and boosted by high oil prices. Will this slow down the Gulf's energy transition? Or will increased revenues be diverted into renewable energy projects? The GCC has also remained insulated from inflationary pressure. Can we expect this positive outlook for the region to continue over the next few years?**

Historically, when oil and gas prices have been high, sometimes we have seen reduced pressure to implement economic reforms. However, that's not the case today, with a clear focus on investment in renewables region-wide. There are a couple of reasons for this. Due to deft handling by their Governments, many GCC economies were not as negatively impacted by COVID-19 as other regions and consequently, by not having increased debt to cope with the pandemic, they have not had to divert investments to fund higher borrowing. Another reason is that increased revenues are going into GCC sovereign wealth funds, which are investing in non-oil sectors, including renewables. Far from slackening the pace, I would say that the large energy companies here are accelerating such investments. Finally, oil and gas inflation will not affect the Middle East as much as other regions, but we are seeing other imported goods being affected by inflationary pressures.

**Will that impact the region's economic outlook?**

If the rest of the world enters a significant recession, then that will inevitably impact the Middle East, due to falling global demand. Although the GCC economies are diversifying, oil and gas remains key, and a price shock here would negatively impact growth. But our view is that we will not see a significant global recession. Europe and the UK are projected to be more impacted than the US, as the latter's balance sheets are more resilient, but the Middle East is more insulated because of fiscal discipline, the lower impact of COVID-19 on economies and debt, and the boost from higher oil prices. The region as a whole is very resilient and I would argue is well-positioned to weather any forthcoming economic shocks.

**We are noticing an uptick in SWF interest in Asia. Is this a trend that you are seeing?**

It is important to understand that all SWFs are different, with different structures, targets, investment priorities and appetites. That being said, I see evidence of increased interest from Middle Eastern SWFs in Asia, be it in the form of opening new offices, exploring investment opportunities, or even just growing awareness of and interest in the region's economies. Given our heritage and global presence, we are a trusted advisor on Asia, and SWFs are increasingly coming to us to learn more about how to do business there. I have had enquiries from SWFs about topics including the Chinese business environment, Asian capital markets, and the Asian mergers and acquisitions environment. SWFs are carefully studying the region as part of their investment plans in China and other Asia-Pacific markets and I can only see that interest growing.

A key part of our Middle East – Asia Pacific strategy is closely engaging with SWFs across the region. Now, with the positive performance of GCC economies, and the surpluses from oil and gas, SWFs are benefiting, meaning they have more capital to invest. So there is an even bigger pipeline of funding for investments, and they are looking to Asia as a potential destination for these funds.

**“Trade between the two countries is very much two way, and projected to grow from US$60 billion to US$100 billion over the next five years.”**

**China and India have been driving growth in emerging Asia’s trade with the GCC. What do you think accounts for China and India’s interest in the GCC market, and vice versa, the GCC’s interest in China and India?**

Here in the UAE, the population is around 10 million, comprising an Indian diaspora of approximately 3.3 million (Embassy of India, UAE, 2022). There is considerable Indian heritage, wealth and business spread across the United Arab Emirates, increasing the UAE’s importance to India and vice versa. The UAE-India relationship is built on and deepened through trade, and India’s proximity to the Gulf is also important. Trade between the two countries is very much two-way, and projected to grow from US$60bn to US$100bn over the next five years. Pharmaceuticals is a sector that both countries are developing, with Indian pharmaceutical businesses looking towards the UAE as a means of diversifying their manufacturing base. The UAE is also undertaking activities to increase the value-add of establishing manufacturing hubs there, increasing interest in the UAE not just as a transitional trade hub, but also as a manufacturing hub.

With China the GCC’s most significant trading partner, the focus is very much on oil and gas, but also on construction and infrastructure projects. There have been trade agreement talks between the GCC and China for some time now and a deal would clearly boost GCC-China trade further.

3

SECTION 3

# OIL AS A DRIVER OF THE MIDDLE EAST PIVOT TO ASIA

## Oil is a crucial component of the Middle East Pivot to Asia. The oil price is closely linked to the value of GCC-emerging Asia trade.

Higher oil prices during 2021 are one of the reasons why GCC-emerging Asia trade has recovered from the COVID-19 pandemic so strongly, and further price increases in 2022 could make it a record year. Asian oil demand is expected to increase over the next five to ten years, providing important revenue for the Gulf states.

This section discusses oil's importance to the Pivot and examines the impact of recent global energy trends on GCC-Asia hydrocarbons trade. Hydrocarbons make up a sizeable proportion of the GCC's trade with Asia, roughly 51 per cent in 2019 (Asia House, 2021). Asia is the main destination for GCC hydrocarbons, as Table 3 below shows, and an important source of revenue for the Gulf states. When the oil price is above the fiscal breakeven price for Gulf states to balance their budgets, as is the case currently except for Bahrain, we tend to see additional revenue channelled into economic diversification projects and growing non-oil sectors, which in turn encourages Asian investment in the Gulf.

Saudi Arabia sent more than 75 per cent of its hydrocarbon exports to Asia in 2020, with China, Japan, South Korea, and India its biggest customers. Similarly, around 80 per cent of Qatar's Liquified Natural Gas (LNG) went to Asia in 2021 (Carpenter et al., 2022). China is the main customer of GCC hydrocarbons and is the top hydrocarbon export destination for Saudi Arabia, Oman, and Kuwait.

### Table 3: The GCC's top five export destinations for hydrocarbons (2020)[12]

| UAE | Saudi Arabia | Kuwait | Qatar | Bahrain | Oman |
|---|---|---|---|---|---|
| **Japan** (US$12.1bn) | **China** (US$24.7bn) | **China** (US$7.9bn) | **South Korea** (US$3.66bn) | **UAE** (US$1.58bn) | **China** (US$11.3bn) |
| **China** (US$8.6bn) | **Japan** (US$15.1bn) | **South Korea** (US$4.78bn) | **India** (US$3.0bn) | **Japan** (US$0.24bn) | **India** (US$0.85bn) |
| **India** (US$6.34bn) | **South Korea** (US$12.8bn) | **Japan** (US$3.41bn) | **China** (US$2.99bn) | **South Korea** (US$0.21bn) | **Taiwan** (US$0.47bn) |
| **Thailand** (US$3.84bn) | **India** (US$11.1bn) | **India** (US$2.95bn) | **Japan** (US$2.99bn) | **Singapore** (US$0.15bn) | **Japan** (US$0.29bn) |
| **South Korea** (US$3.18bn) | **US** (US$6.59bn) | **Vietnam** (US$2.76bn) | **Pakistan** (US$1.21bn) | **Malaysia** (US$0.98bn) | **South Korea** (US$0.18bn) |

Source: Observatory of Economic Complexity

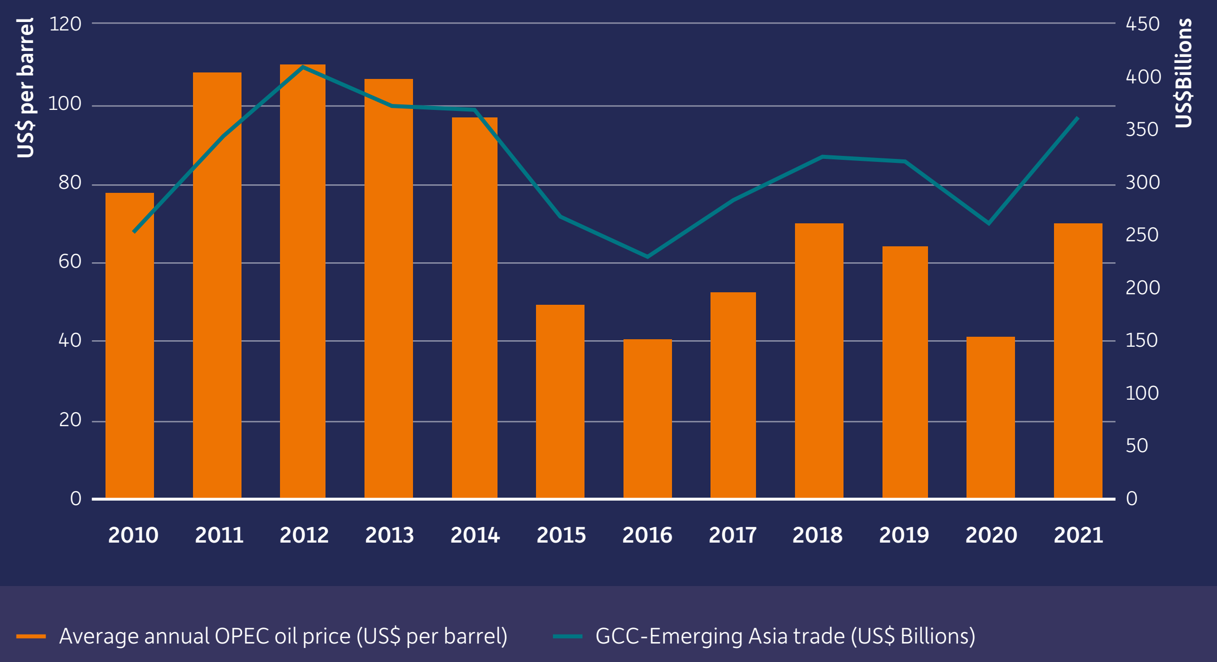
12 Qatari data relates to the export of LNG. Bahraini data relates to refined petroleum. All other data relates to the export of crude petroleum.

The Gulf region is regarded by Asian economies as vital to their energy security. Gulf oil is a facilitator of Asian economic growth, which is why Asia has become an important investor not just in Gulf oil extraction, but also in ports used to ship oil to Asia. These investments are aimed at securing supply. One particularly strategic investment partnership is the Abu Dhabi National Oil Company (ADNOC) and South Korea's SK E&C's deal to build the world's largest underground oil storage facility in the UAE's emirate of Fujairah. Costing US$1.2bn, this facility will be able to store 42 million barrels of oil, which importantly could be shipped to global markets without going through the Strait of Hormuz, a maritime chokepoint between Iran and the Arabian Peninsula. The facility is expected to be completed by 2023 (S&P, 2022a). Asian nations also seek Gulf expertise to develop refineries closer to home to process Gulf crude into petrochemical products and fuels for their consumers.

As Figure 20 shows, GCC-emerging Asia trade closely follows the price of oil. Rising oil prices throughout 2021 can account for some of the recovery in GCC-emerging Asia trade between 2020 and 2021. The average annual price of OPEC crude rose from US$41.47 a barrel to US$69.89 a barrel in 2021. The price of oil has only increased since then. OPEC crude so far has averaged US$103.65 per barrel throughout 2022 and the prices at which Gulf states are selling their oil to Asian customers have also reached record levels over the course of 2022 (Cang and Di Paola, 2022). While oil prices have softened over the last couple of months and as of mid-October are sitting at around US$94 per barrel, they remain above 2021 levels. This will push up the value of trade in 2022.

Despite rising prices, Asia's demand for oil has not deteriorated. Asian buyers are still taking on their contractual volumes of oil and natural gas from Middle East producers. Asian oil demand has increased since the publication of last year's report. Saudi crude exports have risen from 6.6 million bpd (mbpd) in June 2022 (Market News, 2022) to 7.6 mbpd in August 2022, their highest level in over

**Figure 20: GCC-emerging Asia trade compared with average annual OPEC oil prices**

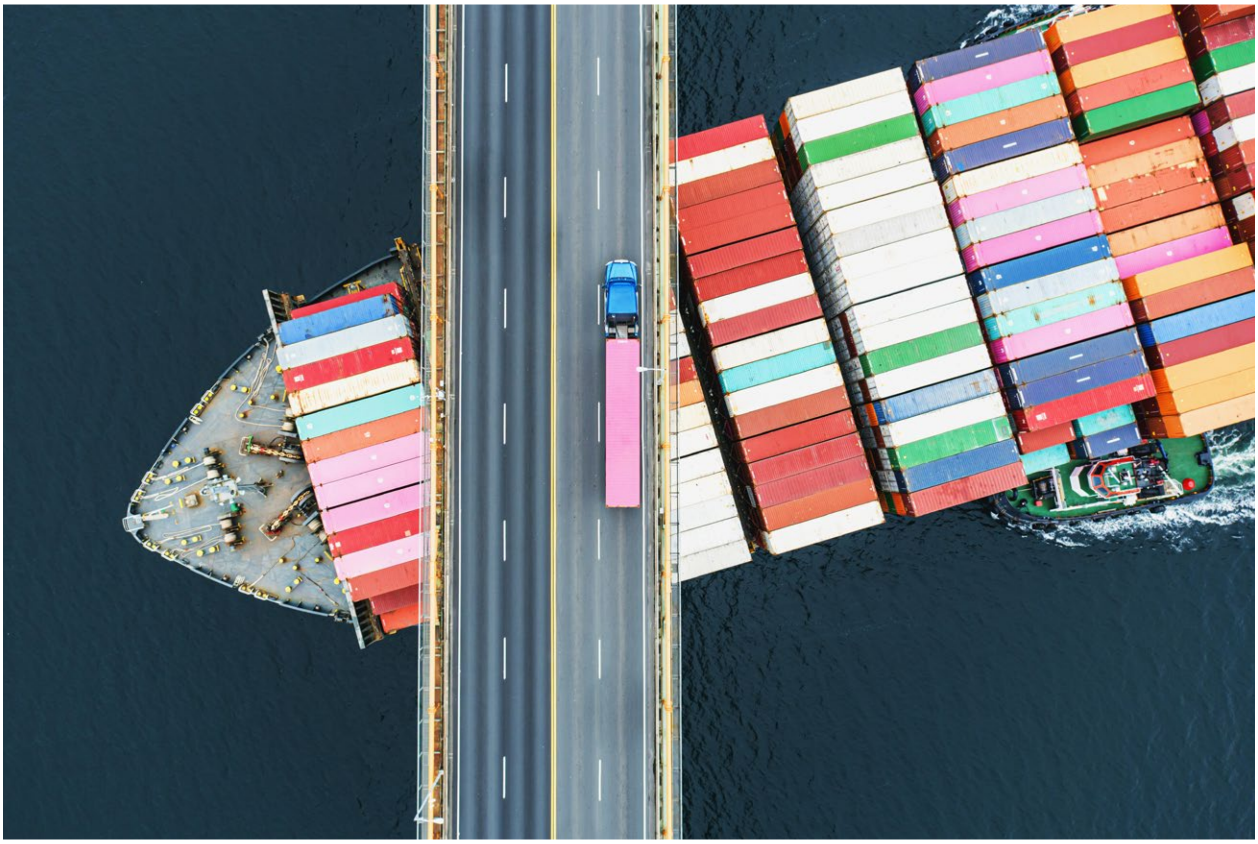



Source: Statista (2022b); (IMF, 2022a)

two years (Patel and Varghese, 2022). Shipments to China in July stood at 1.8 mbpd, representing almost 25 per cent of Saudi Arabia's total exports that month. Asian oil demand is forecast to grow by 716,000 bpd in 2022 (S&P, 2022b). However, this figure has been downgraded from a previously predicted increase of 1.08 mbpd, largely due to lockdowns in China reducing demand. Indeed, recent Energy Aspects analysis believes that Chinese oil demand could contract by around 380,000 bpd in 2022 due to the zero-COVID policy curtailing economic activity. This would be the first time Chinese oil demand had contracted since 2002 (Xu, 2022).

In the medium-term, however, Asian and Chinese energy demand is set to increase, as economies expand and middle-class populations grow, demanding more consumer goods derived from oil. China's oil consumption is expected to peak in 2030 on the back of increased demand for petrochemicals, according to research by China National Petroleum Corp's Economics & Technology Research Institute (Xu and Munroe, 2021). OPEC's monthly report for September 2022, forecasts China's oil demand to rise from 14.97 mbpd in 2021 to 15.79 mbpd in 2023, and forecasts India's demand for oil to rise from 4.77 mbpd in 2021 to 5.40 mbpd per day in 2023 (OPEC, 2022b). According to the International Energy Agency (IEA), citing the stated policies of ASEAN nations, demand for oil in that bloc is set to increase from around 4.74 mbpd to 7.3 mbpd per day by 2035. The IEA forecasts that demand will increase before that to 5.61 mbpd by 2030, even under a sustainable development scenario (IEA, 2022).

While oil prices have softened over recent months, further rises are possible. Global energy markets are currently very tight. While OPEC+ recently accelerated the return of oil supply to pre-COVID 19 levels over the summer months, it agreed to cut two mbpd, an equivalent of two per cent of global supply, from production targets in October, in response to recent lowering of crude oil prices (Ghaddar et al., 2022). Supply remains relatively constrained and Western sanctions on Russian oil have reduced it further, with the EU announcing



in May a ban on the import of oil and petroleum from Russia (Fleming et al., 2022). This ban exempts oil delivered by pipeline to grant some EU nations time to reconfigure their supply chains, but it is expected to cover 90 per cent of Russian exports by the end of the year. As the northern hemisphere enters winter and energy demand increases, there are concerns that prices could rise further. OPEC's Monthly Oil Market Report for September 2022 anticipates global oil demand could rise by 2.69 mbpd in 2023 to 102.72 mbpd (OPEC, 2022b). This would require the cartel to increase production to as much as 32 mbpd by the end of 2023, a level that the cartel could struggle to provide (Wilson, 2022). The IEA believes OPEC's maximum production capacity is 34 mbpd, meaning OPEC spare capacity would become limited. In a tight market with limited spare capacity, there is a greater risk of supply shocks leading to a surge in prices. Gulf oil installations have previously been threatened by drone and missile strikes from the Houthis in Yemen, with several attacks in 2022. In early October, a six-month ceasefire in Yemen expired, which could lead to an escalation in hostilities and increased risk that future attacks could lead to a spike in prices.

For the time being, higher oil prices have not reduced Asian demand. While we may see a softening in Chinese demand in 2022 (Xu, 2022), this is largely due to COVID-19 restrictions and economic slowdown, rather than a concern about higher prices. That said, a resurgence of higher prices may prompt Asian governments to accelerate their energy transitions, leading to investment in renewables and reducing Asian demand for GCC oil. This would put some downward pressure on GCC-Asia trade, but as Section Four explores in greater detail, the GCC and Asia are cooperating on sustainability in ways that encourages trade, for example through the development of hydrogen technology. On the other hand, as Section One discussed, higher oil prices are one of the contributing factors to rising inflation in Asia and the Middle East. Higher fuel and transport costs could depress consumer demand, undermining GCC-Asia trade. But at the time of writing, high prices do not appear to have impacted the trading relationship in non-oil goods between the Middle East and Asia.

Higher oil prices do not just lead to a boost in GCC-Asia oil trade but can also positively impact trade and investment in non-oil sectors. A sustained period of high oil prices will increase GCC government revenues, boosting their economies and their willingness to invest in Asia and in economic diversification projects at home, in turn encouraging greater non-oil trade. Oman for example has said it will use revenues from high oil prices to reduce public debt and support spending on government projects (Nagraj, 2022). Recent IMF analysis estimates that the Middle East can expect to receive an extra US$1.3trn in oil revenues over the next four years (England, 2022). Gulf energy majors will also become more profitable. Aramco for example became the world's most valuable company in May 2022 after oil prices increased the company's worth to US$2.43trn (Toh, 2022). Some of this money will likely be diverted into increasing production and spare capacity, but we can also expect some to be invested in Research and Development (R&D) relating to renewables, Carbon Capture Utilisation and Storage (CCUS), and Hydrogen. That said, should the recent softening in oil prices continue into the long-term, then these plans and expected increases in Gulf revenues could decelerate.

### Recent Asian investments in the GCC hydrocarbon sector

The GCC and wider Middle East region is vital for Asian energy security, meaning Asian countries see engagement with the Middle East as a key component of securing oil to fuel their economies. In the face of tight supply, investment in enlarging the Middle East's production capacity will become more attractive. There have been several Asian investments in the GCC hydrocarbon sector in 2022, as well as GCC investment in Asian refineries. New hydrocarbons trading routes are being established between Asia and the Gulf. For example, China's Qingdao terminal received its first shipment of LNG from Qatar in April 2022. The shipment is part of a 10-year agreement signed between Sinopec and QatarEnergy in 2021.

Key investment activity in 2022 includes:

- In February 2022, China's state-owned Silk Road Fund was a part of the international consortium that bought a 49 per cent stake in Aramco's gas pipelines subsidiary for US$15.5bn (Silk Road Fund, 2022).
- In March 2022, Aramco finalised its decision to participate in the development of an integrated refinery and petrochemical complex in Panjin City, with a capacity of 300,000 bpd (Aramco, 2022a).
- In March 2022, Bloomberg reported that India's Adani Group was exploring the possibility of buying a stake in Saudi Aramco, with Adani Group owner Gautam Adani offering Saudi Arabia's Public Investment Fund (PIF) opportunities to invest in Indian infrastructure (Narayanan et al., 2022).
- In June 2022, Bloomberg reported that China National Petroleum Corp. and Sinopec are in talks to invest in Qatar's US$29bn North Field East, the largest LNG project in the world (Bloomberg, 2022).
- In August 2022, Aramco signed an agreement with Sinopec to develop projects and collaborate in upstream and downstream businesses, engineering and construction, oilfield services, CCUS, and Hydrogen. The deal also outlined a possibility of Sinopec establishing a local manufacturing hub in King Salman Energy Park (Arabian Gulf Business Insight, 2022).

This section has highlighted oil's continued importance to the Middle East Pivot to Asia and to GCC trade. Higher oil prices in 2022 will likely drive the Pivot as Asian nations continue to invest in the Gulf to secure supply.

4

SECTION 4

# SUSTAINABILITY AND THE MIDDLE EAST PIVOT TO ASIA

GCC-Asia cooperation in renewables and sustainability is set to become a vital component of the Pivot. Cooperation is growing in the development of renewable energy and alternative energy sources.

The dynamics underpinning GCC-Asia collaboration on oil come into play here as well, with Asian firms seeing investment in Gulf renewables and alternative energy as a means of enhancing energy security and fulfilling their climate change pledges. For the Gulf states, investing in renewables aids diversification and their transition away from oil. The last year has seen several net-zero pledges and enhanced sustainability commitments from the Gulf states, increasing the importance of renewable investments.

Asia is seen as an important centre of expertise and investment in renewables, with China a key source of the rare earth metals required for electrification, as well as an important manufacturer of solar, wind and electric vehicle technology. This section details recent examples of GCC-Asia renewable investment and cooperation. There are several natural synergies between Asia and the GCC that will enhance this cooperation, most notably in solar power, electric vehicles, and hydrogen. Sustainability and renewable energy are set to grow more important to the Pivot. This will lead to increased investment and trade in goods related to the development of the renewable energy sector.

## Opportunities for Asia-Gulf sustainability cooperation

As the GCC and Asian countries announce tougher pledges on reducing carbon emissions, new areas will emerge for regional cooperation to assist energy transitions. With COP27 being held in Egypt in November 2022, followed by COP28 in the UAE in November 2023, the Middle East is set to become more important for the global debate on sustainability and climate change, with opportunities for dialogue and collaboration between Asian and Middle East businesses and governments.

The Middle East is particularly vulnerable to climate change. Middle Eastern countries' summer temperatures could rise twice as quickly as average global warming (Max Planck Institute, 2016). These temperature increases could potentially destabilise regional food and water security – and fuel conflict. Increased desertification, dust storms, and coastal erosion could also reduce tourism and investment, undermining Gulf economic diversification strategies. This is one reason why Gulf states have given greater attention to climate change recently.

Since mid-2021 we have witnessed an acceleration in Gulf states' climate change pledges, which will help drive Asia-Gulf sustainability cooperation. The Gulf states have strengthened their climate change goals since mid-2021. The UAE became the first Gulf country to announce a net-zero emissions target in October 2021, pledging to achieve it by 2050. Just prior to COP26 in Glasgow, Saudi Arabia announced it would reach net-zero by 2060, pledging to invest over US$180bn to achieve this goal (BBC News, 2021). Bahrain followed with its own pledge to become net-zero by 2060 a day later. The other Gulf states have not announced net-zero goals but have declared other stringent targets. Qatar will reduce greenhouse gas emissions by 25 per cent by 2030 and Oman by seven per cent by the same date, while Kuwait has said it will reduce emissions by 7.4 per cent by 2035. COP27 and COP28 could lead to further commitments from the Middle East, particularly the UAE, who will want to position itself as a regional and global leader on climate change ahead of COP28 in 2023.

Asia's major economies have also recently introduced more stringent climate change targets:

- In September 2020, China pledged to reach carbon neutrality before 2060.
- India announced plans to achieve net-zero by 2070 during COP26 and in August 2022 introduced a new target for its electricity generation to be derived from non-fossil fuel energy sources by 2030 (Chaudhary, 2022).
- In June 2021, South Korea proposed a target to cut greenhouse gas emissions to at least 40 per cent by 2030 and in September 2021 passed a bill committing the country to net-zero carbon emissions by 2050 (IHS Markit, 2021).
- Japan raised its 2030 target to reduce emissions from 2013 levels to 46 per cent from the previous 26 per cent. In July 2021 it released a new target to reduce the share of electricity produced from fossil fuels from 56 per cent to 41 per cent by 2030. (Nikkei, 2021).
- In ASEAN, the Philippines last year committed to renewables accounting for 50 per cent of energy generation by 2040. In July 2022, Vietnam approved its National Climate Change Strategy, targeting net-zero emissions by 2050 (Enerdata, 2022).

There are several natural synergies between Asia and the GCC on sustainability.

### Solar Power

China is the world's largest producer of rare-earth metals and minerals that are critical for the next generation of batteries and electrification.

China is also the largest global producer of solar panels, while the Gulf region produces some of the world's cheapest solar power due to its climate and abundant cheap land. There are several large-scale solar projects underway in the Gulf involving Chinese firms which have also made large investments in Gulf renewable energy companies, such as ACWA Power and Alcazar Energy (Weekes, 2021).

### Hydrogen

The Gulf states are investing in hydrogen technology, such as blue and green ammonia. When burned these fuels produce no carbon emissions, so can assist Asian countries with their energy transitions. Asian countries are growing increasingly interested in hydrogen with several MoUs signed with Gulf energy companies to develop the technology. Green ammonia is produced entirely from renewable sources, whereas blue ammonia uses fossil fuels with carbon emissions captured and utilised elsewhere, such as for enhanced oil recovery. This means blue ammonia can enable the Gulf states to continue monetising their hydrocarbon resources, while assisting Asia with their energy transitions.

There have been several investments, joint ventures, and MoUs between Asia and the GCC to develop the Gulf's hydrogen industry over recent years (Asia House, 2021). This past year has seen continued activity with a number of notable projects announced:

- In November 2021, ADNOC and Japan Bank for International Cooperation (JBIC) signed an MoU and agreed a US$3bn financing agreement to advance developments in hydrogen, ammonia, and CCUS. Under the agreement, JBIC will provide US$2.1bn with several Asian banks, including SMBC, MUFG, Mizuho, and HSBC funding the remainder (Energy & Utilities, 2021).
- In January 2022, PIF signed an MoU with South Korean Samsung C&T and POSCO to study and develop a green hydrogen production project

in Saudi Arabia for export purposes. PIF owns a 38 per cent stake in POSCO. In the same month, Saudi Aramco signed an MoU with Korea Electric Power Corporation (KEPCO) for a pre-feasibility study on blue ammonia and blue hydrogen (Arab News, 2022e).

### Electric Vehicles

The Gulf states have pledged to increase the uptake of Electric Vehicles (EVs). Encouraging EV usage assists the GCC's decarbonisation strategies but also reduces domestic consumption of hydrocarbons, which frees up more to export and sell without subsidies. China is the world's largest producer of EVs, accounting for 60 per cent of production. It led the world with 500,000 EV exports in 2021, an increase of 160 per cent on 2020 (Kawakami et al., 2022). Given China's importance in the development of sustainable and renewable technologies, we expect it to play a central role in GCC-Asia sustainability cooperation.

### Afforestation and Reforestation

The Gulf states and Asia have also announced several afforestation and reforestation projects to create natural carbon sinks, the most notable being the Saudi Green Initiative which aims to plant 450 million trees by 2030. There have been some interesting examples of these projects being converted into carbon credits to assist Asian and Gulf firms' transition to net-zero. For example, in January 2022, Abu Dhabi Global Market (ADGM) became the world's first carbon-neutral financial hub when it offset its 2021 emissions through the Rimba Raya project in Indonesia (Arabian Business, 2022g).

## Examples of Gulf and Asian investment in renewables and sustainability

Gulf energy majors are looking to diversify their revenue streams away from hydrocarbons and become global renewable energy producers in their own right. While Gulf firms are involved in projects at home, they are also moving increasingly into overseas enterprises including within Asia. Asian companies are investing in solar and other renewable energy projects in the Gulf, while Gulf SWFs are providing the investment required for Asian economies to hasten their energy transitions.

There has been considerable activity in Asia-Gulf sustainability cooperation over the past year, with notable projects and investments including:

- In December 2021, South Korean agritech firm, N.THING, partnered with UAE vertical farm, Smart Acres, to develop nutritionally-enhanced crops in Abu Dhabi. The aim is to develop crops that can help patients with severe diabetes, heart conditions, and kidney disease (Vertical Farm Daily, 2021).
- UAE renewable energy firm Masdar has begun work constructing a US$2bn floating power plant in Indonesia capable of generating 145MW of electricity and exporting power to Singapore. The project is expected to be completed in January 2024 (Bellini, 2021).
- In January 2022, Saudi Arabia's Ministry of Investment signed an agreement with Samsung C&T to develop construction technologies and green products. This deal was brokered during a visit by then South Korean President Moon Jae-In to Saudi Arabia (Arab News, 2022e).
- In March 2022, China's Jinko Power was awarded a contract to develop the 300MW Saad solar plant. It will cost US$213m to deliver and will power 132,000 homes in Saudi Arabia (Energy & Utilities, 2022a).

- In March 2022, China's State Power Investment Company took a 39.9 per cent stake worth US$180mn in a power purchase agreement between Saudi Arabia's ACWA Power and Power Procurement Company (SPPC) to develop a 700MW solar plant in Al Qassim province (Whitlock, 2022).
- In May 2022, ACWA Power was selected as the preferred bidder to develop two solar projects in Indonesia. The projects will be based in Sumatra and Java and serve the state-owned Indonesian electricity firm, Perusahaan Listrik (Arab News, 2022f).
- In May 2022, Emirates Transport and NEV Investment signed an MoU during Abu Dhabi's Electric Vehicle Innovation Summit (EVIS), to establish a JV developing and constructing the New Energy Vehicle (NEV) project in the UAE (Gulf News, 2022).
- In May 2022, Chinese firm Longi was awarded a contract to supply 400MW capacity of solar panels for Saudi Arabia's Rabigh project. Longi is also supplying solar panels for Saudi tourism project the Red Sea Development Company (Energy & Utilities, 2022b).
- In June 2022, UAE-based Masdar and Korea Electric Power Corporation (KEPCO) signed an MoU to explore opportunities in offshore wind energy and other clean energy sectors. Green hydrogen, battery storage, and energy trading will also be explored (Durakovic, 2022).
- In September 2022, Abu Dhabi Ports Group's Khalifa Industrial Zone Abu Dhabi (KIZAD) signed a lease with NWTN, a Chinese EV manufacturer, to establish an EV facility (Lucente, 2022).

Gulf SWFs are also investing in Asian renewable energy projects and businesses:

- In April 2022, UAE SWF Mubadala, together with BlackRock, agreed to invest US$525mn in a 10.53 per cent equity stake in Tata Power Renewables, one of India's largest renewable energy firms (Mubadala, 2022a).

5

SECTION 5

# THE KEY SECTORS IN THE MIDDLE EAST PIVOT TO ASIA

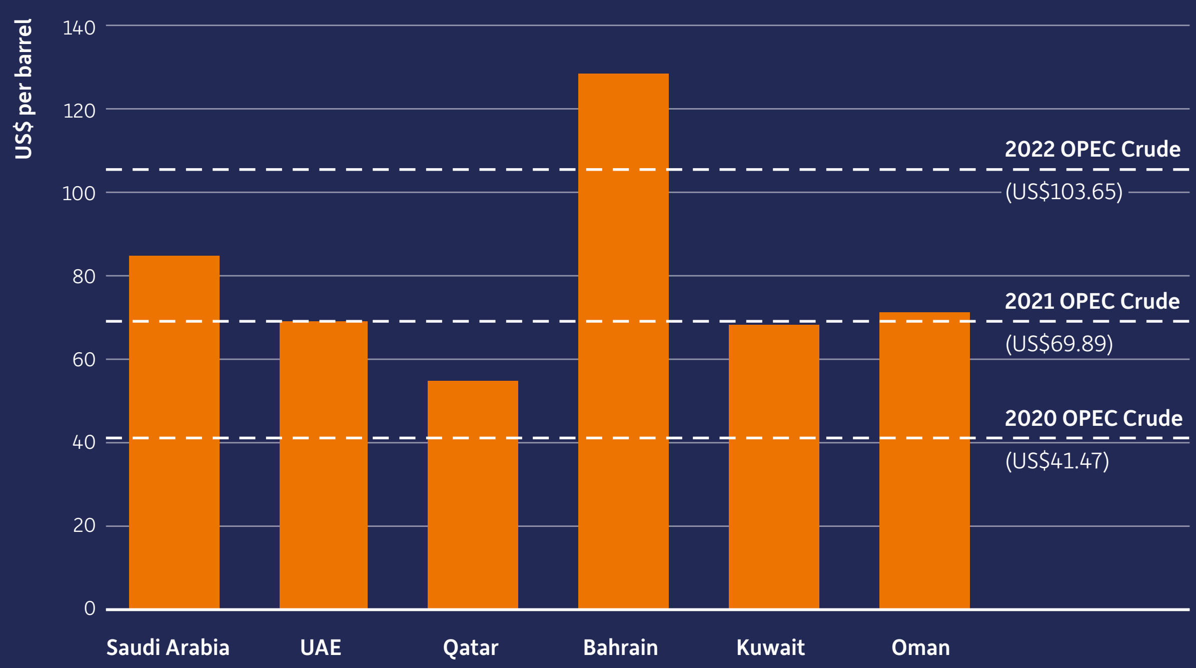
## The Gulf states' desire to diversify their economies away from oil has developed several non-oil sectors in the GCC that are expanding quickly and attracting growth and investment from Asia.

These non-oil sectors include ports, logistics, infrastructure, digitalisation, fintech, and digital assets. We expect these sectors to transform Gulf economies over the next decade and beyond, and in turn drive Asian investment into the Gulf. This sector also examines diplomatic activity over the past year that has encouraged greater economic integration within the Middle East, creating new opportunities for businesses.

Gulf leaders recognise that as global economies transition away from oil, they will need alternative revenue streams to hydrocarbons. Gulf government revenues are currently benefiting from higher oil prices, but oil markets have shown volatility over the last decade. It is only as recently as 2020 that we saw OPEC crude prices fall to a year average of US$41.47 per barrel and as low as US$14.12 in April 2020 (Nasdaq, 2022). While a sustained period of high oil prices is good for Gulf government revenue, a sustained period of low oil prices leads to fiscal problems and budget deficits.

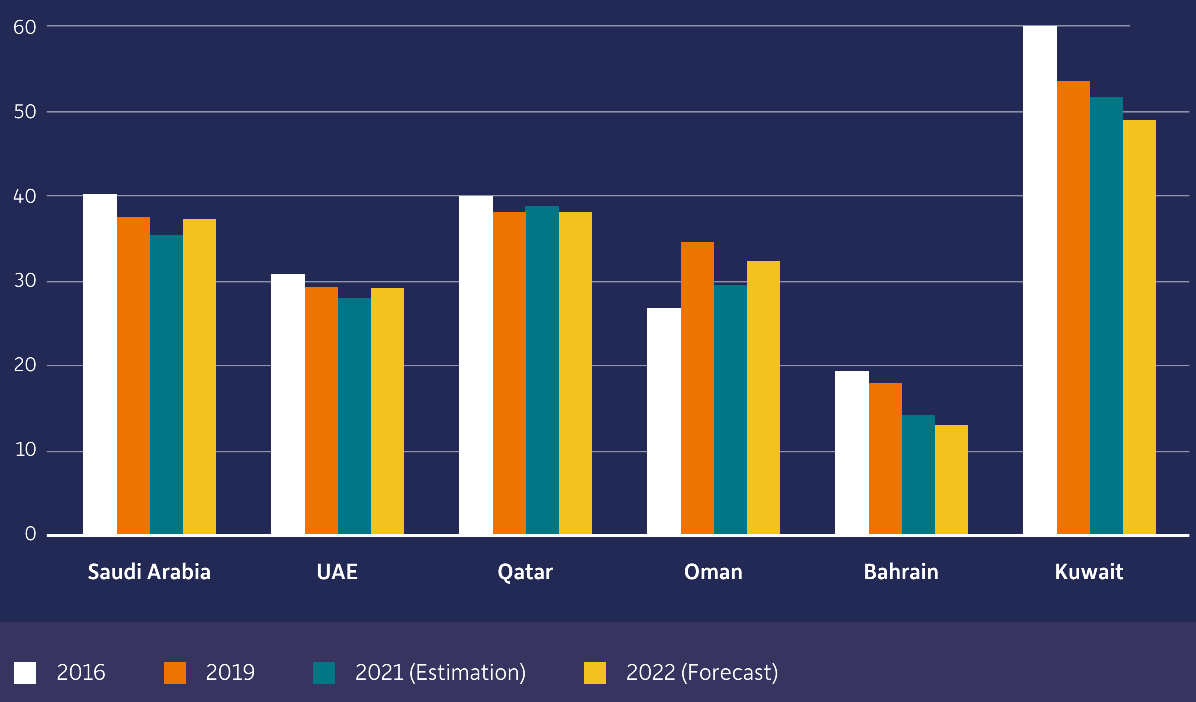
As Figure 21 below shows, the fiscal breakeven prices for Gulf states vary. While average OPEC crude prices are currently above the breakeven price required by Gulf states to balance their budgets, in all economies apart from Bahrain,

**Figure 21:** Fiscal breakeven oil price (2021) (US$ per barrel)




Source: (IMF, 2022e)

**Figure 22: The hydrocarbon sector as a share of GDP (per cent)**




Source: (World Bank, 2022d)

in 2021 only Qatar had a fiscal breakeven oil price significantly lower than the price of OPEC crude for that year. This highlights the need for Gulf states to diversify their economies even when oil prices are higher, to make them more resilient and a safer destination for foreign capital.

In the face of budgetary shortfalls, there will be greater pressure on Gulf states to raise revenue through taxation. They have introduced more taxes over recent years, as seen by the UAE's nine per cent corporation tax, which will come into effect on 1 June 2023[13]. But, generally the Gulf states have an incentive to use fiscal tools as little as possible to raise revenue, since generous benefits and subsidies coupled with low taxation have often been used to maintain citizens' acceptance of limited political freedoms. Still, more taxation for Gulf citizens could be on the horizon. Oman is reportedly close to becoming the first Gulf state to introduce a personal income tax. It may be introduced in the first half of 2023 and impose a 5-9 per cent tax on high earners (Castelier, 2022).

There is evidence that GCC economic diversification strategies are working. Figure 22 shows the size of GCC hydrocarbon sectors as a proportion of total GDP over time. With the exception of Oman and Saudi Arabia, the size of Gulf states' hydrocarbon sectors as a proportion of the total economy is falling gradually, suggesting growth in non-oil sectors. OPEC crude prices have risen since 2016, so the fact that hydrocarbon sectors are still becoming less integral to Gulf economies suggests non-oil sectors are growing strongly.

The World Bank estimates that the non-hydrocarbon economies of Saudi Arabia, UAE, Kuwait, Qatar, Bahrain and Oman, have expanded in 2021 by 5.1 per cent, 4.5 per cent, 5.1 per cent, 3.0 per cent, 3.9 per cent, and 1.8 per cent, respectively (Word Bank, 2022d). This has

13 The tax will not apply to foreign companies and institutions based in economic free zones that do not derive income on an ongoing and regular basis from conducting business with the mainland.

exceeded or matched estimated hydrocarbon sector growth in all GCC economies apart from Oman. The following sub-sections explore particular non-oil sectors that are expanding in the GCC and driving the Middle East Pivot to Asia.

### Fintech and Digital Assets

Financial Technology (fintech) and digital assets are growing sectors in both the GCC and emerging Asia, with both regions attracting mutual investment. Gulf economies recognise the efficiency gains that fintech and digital payments can give to businesses and consumers, thereby driving economic growth, and have introduced several initiatives to develop the sector. The fintech industry is growing fast and according to UBS is expected to expand from US$150bn in 2018 to US$500bn in 2030 (Finextra, 2020). Gulf and Asian investments in domestic fintech ecosystems and cross-border start-ups are an emerging trend in the Middle East Pivot to Asia that warrants attention. Fintech companies from the Middle East seeking the next stage in their expansion are increasingly looking towards Asia for scale-up opportunities.

Saudi Arabia has, for example, established 'Fintech Saudi' to assist entrepreneurs and develop tech incubators. The Saudi Venture Capital Company has also been established to provide financing for Saudi start-ups. Saudi Arabia's Monetary Authority (SAMA) has inaugurated new regulatory sandboxes to develop the fintech landscape. The UAE is also encouraging growth within its fintech sector. In July 2022, the UAE launched a new campaign called "NextGenFDI" to attract over 300 global technology firms by offering benefits including faster incorporation, bulk visas, and commercial lease incentives (Arabian Business, 2022h).

GCC-Asia fintech collaboration has been growing. In June 2022, Invest India and Invest Qatar launched a new 'Start Up Bridge' to develop start-ups. Saudi bank AlJazira has also partnered with Japan's JCB International to enhance Saudi Arabia's payments landscape (Rahal, 2022a). The agreement will enable visitors to utilise JCB cards, which are used by 140mn cardholders. Recent research by Wes Schwalje, a co-founder of Tahseen Consulting, has found around 15 GCC tech start-ups have opened offices in Southeast Asia, more than half in 2022 (Schwalje, 2022). The same research notes that Dubai is a hub for Asia-GCC tech collaboration and acts as the regional entry point for 95 per cent of Southeast Asian start-ups. Many of these begin life in Singapore, suggesting these developments could lead to competition between Dubai and Asian tech hubs Singapore and Hong Kong.

Dubai has made a concerted effort in 2022 to become a global digital assets hub. In March 2022, it established the Virtual Assets Regulatory Authority (VARA), the first of its kind globally. VARA is headed by the Director-General of Dubai's Department for Economy and Tourism, highlighting the importance Dubai's leadership has given to developing a digital assets sector. VARA will regulate cryptocurrencies and provide services including management, clearing, and settlement. The new body is encouraging crypto-firms to establish themselves in Dubai, including from Singapore and Hong Kong. The most notable example is Binance, the world's largest cryptocurrency exchange by trading volume. Binance's Singapore entity withdrew its licence application with the Monetary Authority of Singapore (MAS) in December 2021, and the firm's CEO, Changpeng Zhao has relocated from Singapore to Dubai. Binance has since obtained licences from Dubai (Binance, 2022a) and Bahrain (Binance, 2022b).

Indeed, relocations of cryptocurrency and digital asset firms from Asia to Dubai is an emerging trend. Such firms have struggled to obtain licences in Singapore. As of December 2021, just three out of 176 cryptocurrency firms that had applied for a licence in Singapore have been granted regulatory approval (Kaaru, 2021). One hundred-and-three of these applications were rejected outright and 70 were pending. Singapore-linked Crypto.com and Bybit have recently established bases in Dubai. Cryptocurrency firms based in Hong Kong are also relocating or expanding into Dubai, with Hong Kong-listed Huobi being granted a licence to operate there in July 2022 (Arabian Business, 2022i). FTX, one of the world's largest cryptocurrency exchanges, has also secured a licence in Dubai. FTX had been headquartered in Hong Kong before moving to the Bahamas. China banned cryptocurrency trading in 2021 and uncertainty over Hong Kong's regulatory future may be pushing firms to relocate. Cryptocurrency firms outside Hong Kong and Singapore are also moving to Dubai. In July 2022, Komainu, a digital asset custody provider backed by Japanese investment house Nomura, was granted initial provisional regulatory approval to operate in Dubai (Komainu, 2022).

The UAE has also made moves towards the adoption of digital currencies, leading to cooperation with China. In February 2021, the UAE Central Bank joined a project involving the People's Bank of China, the Bank of Thailand, and the Hong Kong Monetary Authority to explore the use of blockchain for regional payments (Crawley, 2021). China's digital currency development is advanced compared to other central bank pilot initiatives (Papadavid, 2021). The West has been slower to develop digital currencies, with some nations indicating they may not accept digital currency payments in the future, meaning the UAE could stand to gain by integrating itself with leading developers of this new global financial trend. As of June 2021, the UAE is the Middle East's third-largest cryptocurrency market, following Turkey and Lebanon, with an exchange volume of around US$26bn (Anderrson, 2022), but is set to grow.

Digital assets are becoming the latest node in the Middle East Pivot to Asia, but their future remains uncertain. 2022 has seen a heavy devaluation in cryptocurrencies. Cryptocurrency Luna and its sister stablecoin Terra suffered a 99.9 per cent crash in May 2022 after Terra failed to maintain its peg to the US dollar. Stablecoins are designed to provide a link between cryptocurrencies and the mainstream financial market and allow traders to

keep portfolio value in between making trades, and therefore are a vital component of the ecosystem.

The cryptocurrency correction has reduced trading and fees, and forced digital asset firms to downsize or file for bankruptcy. Turmoil in the digital assets space has undermined investor sentiment and confidence and increased calls for regulation. A clampdown on cryptocurrencies through regulation or outright bans could encourage more companies to relocate to Dubai but may also complicate Dubai's relationship with certain jurisdictions. Still, the development of Dubai's digital assets environment, as well as the relocation and expansion of Asian crypto-currency firms into Dubai, is a key trend to monitor in terms of the Pivot.

### Asia's contribution to GCC digitalisation

The Gulf states are investing heavily in digitalisation as part of their economic diversification strategies. Digitalisation can improve business efficiency, particularly for Small & Medium Enterprises (SME), thereby driving economic growth. Digitalisation can also boost trade by reducing paperwork, delivery times and costs associated with doing business across jurisdictions. The Gulf states recognise that these outputs benefit economic diversification and can encourage entrepreneurship, helping the transition from the public into the private sector.

Indeed, the GCC digital economy could reach US$255bn by 2030 (El-Darwiche et al., 2021). But the Gulf states' digital transformation still lags other advanced economies, leading them to seek Asian expertise and investment. Huawei, for example, has secured partnerships across the Middle East and has rolled-out its 5G technology in the region. Recent examples of collaboration since last year's report was published include:

- In November 2021, China's ByteDance invested in Dubai-based iMile Delivery LLC, a courier start-up that services Chinese online vendors. The funding will help iMile hire more engineers in China (Parasie, 2021).
- In December 2021, Dubai South, Dubai's largest urban master development, announced a strategic partnership with Huawei to develop a smart transportation system (Menon, 2021).
- In February 2022, Huawei announced it would set up a 'Cloud region' in Saudi Arabia (Arabian Business, 2022c) and will soon establish a data centre in Riyadh, its second in the Middle East after Abu Dhabi (Arab News, 2022b).
- In April 2022, the UAE's du and Huawei signed an MoU to train UAE talent in 5G technology (W.Media, 2022)
- In May 2022, Alibaba partnered with Saudi national telecoms provider STC to establish Alibaba Cloud, which will develop services in Riyadh. The deal is worth US$238mn (Wamda, 2022).
- China's Jinsha Holding Group, in partnership with UAE's Royal Strategic Partners, will make strategic investments in the UAE worth AED7.2bn (US$2bn) in 2022 in several sectors, including blockchain technology and the internet (Trade Arabia, 2021).
- In July 2022, Indian firm, 'ShopDoc' announced it will pilot the first metaverse primary clinic project for schools, with the pilot being tested in 100 schools across the UAE (Matthew, 2022b). The UAE has started work to develop its metaverse sector. The Dubai Metaverse Strategy announced in early 2022 aims to increase the metaverse's contribution to Dubai's economy to US$4bn by 2030 or one per cent of GDP.

While Gulf states see Asian tech firms as offering a range of digital capabilities and solutions, there are some challenges. Certain Chinese digital tech firms, such as SenseTime and Huawei, have been hit by US sanctions, and Gulf states have reportedly faced US pressure over allowing Huawei access to their telecommunications networks.

Some GCC and Asian economies, particularly China, also have restrictive data regulations and have introduced data localisation regimes which could stymie trade and digitalisation.

The Gulf states do not rely solely on Asia for digitalisation expertise. Western tech firms have also won considerable business in the Gulf. The UAE for example, has opened three Amazon Web Services (AWS) centres in 2022, while Saudi Aramco Development Co. has recently begun cooperating with Google Cloud to provide services to Saudi customers (Aramco, 2020). A recent Saudi-IBM deal has similarities to Huawei initiatives in the region. So, although digitalisation is a driver of the Middle East Pivot to Asia, this does not appear to be at the expense of the Gulf's digital cooperation with Western companies.

### Asian investment key to Gulf development of ports, logistics, and manufacturing

A key component of Gulf states' economic diversification programmes is to modernise and expand their domestic ports, while simultaneously enhancing logistics capabilities and manufacturing industries. These projects will drive Gulf exports and GCC-Asia trade. UAE and Saudi exports in particular are set for considerable future growth, with a recent report by Standard Chartered projecting UAE exports will grow at an average annual rate of over six per cent to reach US$299bn by 2030 (Standard Chartered, 2021). The same report projects Saudi exports to surpass US$354bn by 2030 and cites China and India as key export corridors for both the UAE and Saudi Arabia.

At the same time, Gulf investment in ports is benefiting from Asian, and in particular, Chinese expertise. Chinese money has been spent on developing some of the region's largest ports, including Khalifa (UAE), Duqm (Oman), Jizan (Saudi Arabia), and Jeddah Islamic Port (Saudi Arabia). Over 80 per cent of global merchandise trade is carried by sea, so these investments will not only raise Gulf exports to Asia, but also drive the Pivot.

The Gulf states have recently announced several initiatives to grow their domestic logistics and manufacturing sectors. Saudi Arabia's National

Transport and Logistics Strategy, for example, includes plans to expand its railway network from 5,330 km of track to 8,080 km and to operate terminals in eight of Saudi Arabia's ports. In the UAE, Operation 300bn is a decade-long programme to boost the industrial sector's contributions to GDP to 300bn dirhams (roughly US$81.67bn) (UAE Government, 2022a). A crucial component of this initiative is the In-Country Value Program (ICV), which encourages higher public spending on developing new local industries and localising supply chains (UAE Ministry of Industry and Advanced Technology, 2022). Finally, in June 2022, Abu Dhabi announced a new industrial strategy to invest US$2.7bn in enlarging its manufacturing sector and increase non-oil exports by 143 per cent.

Digitalisation is one means of making ports and logistics centres run more efficiently, and Asian firms are winning contracts in this area. Huawei for example, has won contracts to make Dubai airports smarter (Huawei, 2017) and is cooperating with Omantel and Hutchison Ports Sohar, to deploy 5G capabilities in Oman's ports (Arab News, 2022g). Gulf investments in modernising their ports are already delivering benefits. According to a global index of 370 ports put together by the World Bank and S&P Global Market Intelligence, four out of five of the world's most efficient ports are in the Gulf (World Bank, 2022e). These ports are Saudi Arabia's King Abdullah Port, which ranked first, Port Salalah in Oman, Hamad in Qatar, and Khalifa in the UAE.

### Asian involvement in GCC construction

The GCC's various economic diversification strategies require considerable investment in new infrastructure, housing, and ambitious projects, known as 'giga' projects. Saudi Arabia in particular is focussed on delivering 'giga' projects, the largest and most ambitious being NEOM, a new city in northwest Saudi Arabia that aims to be a carbon-neutral hub for futuristic technology. Within NEOM will be 'The Line', a sustainable eco-city with zero-carbon emissions oriented on a 170-km straight line. Other Saudi '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.

These projects have expanded the Gulf's construction sector and over the last few years a plethora of large-scale construction and infrastructure enterprises have been awarded to Asian companies, including a US$2.3bn contract to South Korea's HanmiGlobal to create project management systems for "The Line"; a US$218mn contract for China Railway No.5 Engineering Group to build 597 houses and public buildings in Kuwait; and a US$270mn contract to build the UAE's four-tower Aykon City. Chinese BRI investment is a large source of the funds for these projects. As Figure 12 shows, Chinese investment in the GCC between 2010 and 2022 reached US$96.8bn.

Other notable contracts finalised this year include.

- In February 2022 Saudi developer Dar Al Arkan opened an office in Beijing to enable joint ventures with Chinese real estate developers (Dar Al Arkan, 2022).
- In July 2022, Saudi real estate developer, Al Saedan for Development signed a joint venture with Japanese Aizawa High Pressure Concrete Co. Ltd to transfer skills and technology to help develop Riyadh. The deal will see a factory build near Riyadh, with Aizawa transferring technology for digital cloning and 3D printers, as well as delivering a programme to upskill Saudi engineers (Azhari, 2022).
- In 2022, Saudi Arabian Industrial Investments Co. (Dussur), Saudi Aramco, and Doosan Heavy Industries and Construction signed an agreement to establish a high-efficiency iron moulding and forging factory in Ras Al-Khair (Kim, 2022). The ground-breaking ceremony for this project took place in March 2022 and is expected to be completed in Q1 2025 (Gulf Construction, 2022).

- In January 2022, South Korea's Kumho Tire and Saudi Arabia's Al-Sahm Al-Usud for Tires signed a deal to establish a production facility with capacity for 15mn tyres annually (Kim, 2022).

The GCC construction sector is expected to continue to grow, driving the Middle East Pivot to Asia, with the total value of planned and unawarded projects in the GCC expected to reach US$2trn in the next few years (Sambidge, 2022b).

### Improved diplomatic ties in the Middle East encourage economic integration

Diplomatic ties between some of the region's major economies have improved over the last couple of years, fostering economic integration. Such integration encourages growth and presents Asian investors with new opportunities. It also enables Asian businesses to operate better across the Middle East and Asian goods to flow more freely, thereby driving the Pivot.

### The Abraham Accords and Arab normalisation with Israel

The most significant change to Middle East politics over the last two years has been the Abraham Accords, which saw the UAE normalise ties with Israel in August 2020, and Bahrain follow suit a month later. The Abraham Accords' impact on intra-regional trade and economic integration has been considerable. Ambassadors have been exchanged, new flight routes between Israel and the two Gulf nations have been established (Asmar, 2022), and business and trading ties have flourished. UAE-Israel trade crossed US$2.5bn within two years of normalisation, and a CEPA was signed in May 2022 that could boost it further (Oommen, 2022d). The UAE believes the CEPA could increase the value of non-oil bilateral trade to over US$10bn within five years (Arabian Business, 2022k).

Other Arab nations, Morocco and Sudan, followed the UAE and Bahrain in normalising ties with Israel, but no others have joined in since. There is uncertainty over whether Saudi Arabia will follow suit. The Kingdom's stated policy is that it will not normalise ties with Israel until the latter accepts the 2002 Arab Peace Initiative, which envisages the establishment of a Palestinian state with East Jerusalem as its capital. But Saudi-Israeli ties have nevertheless improved since the signing of the Abraham Accords. President Biden's visit to Saudi Arabia in July 2022 brought an agreement from Riyadh allowing all commercial aircraft flying to and from Israel to use Saudi airspace. This will reduce flight times and costs for Israelis travelling to Asia, potentially enhancing economic integration between Asia and the Middle East.

Israel's relations with other non-signatories have also improved. Qatar for example, has said that Israelis will be able to attend the 2022 World Cup (Al Arabiya, 2022), itself expected to add around US$17bn to Qatar's non-hydrocarbon economy (Foxman and Ismail, 2022). Allowing Israelis to attend is notable because the UAE, as a precursor to the accords, began increasing sporting and cultural exchanges. Israel's President Isaac Herzog visited Turkey in March 2022, the first such trip by an Israeli head of state in over a decade (Yackley, 2022). This was followed in May 2022 by Turkish Foreign Minister Mevlüt Çavuşoğlu visiting Israel, the first such official visit in fifteen years (Alçi, 2022). Turkey and Israel had expelled each other's ambassadors in 2018. As the UAE and Bahrain reap economic benefits from normalisation, we could possibly see more Arab states build economic relations with Israel.

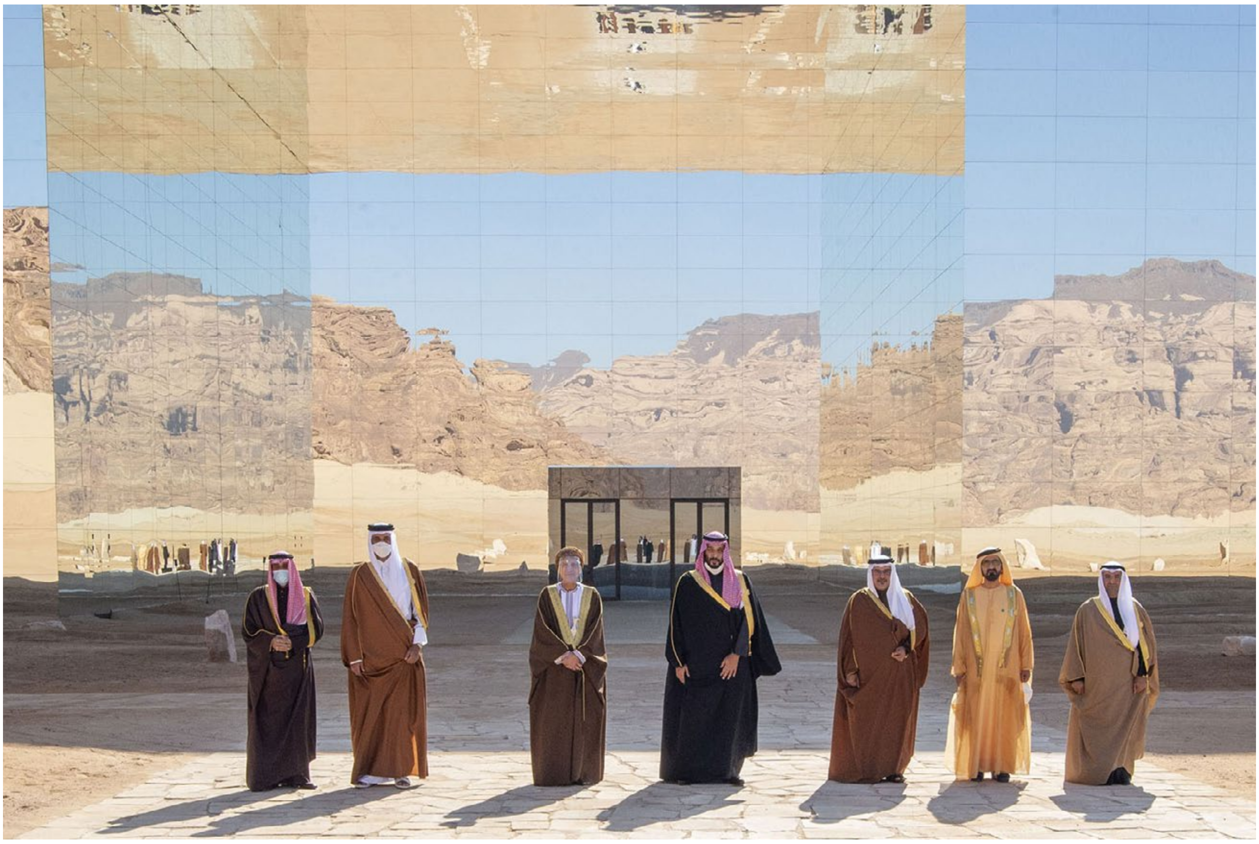
### The end of the Gulf Dispute

A significant development for intra-GCC relations was the Al-Ula declaration, which ended the so-called Gulf Dispute, which began in 2016 and saw Qatar isolated diplomatically and economically by Saudi Arabia, the UAE, Bahrain, and Egypt – known as the Quad. The Al-Ula declaration enabled the resumption of political and economic cooperation. In March 2022, Saudi Arabia's Deputy Defence Minister, Khalid bin Salman visited Qatar to discuss defence cooperation with Qatar's ruler, Emir Sheikh Tamim bin Hamad al-Thani (Arab News, 2022h). Tamim also visited Egypt in June 2022 where he held talks with President Abdel Fatah Al-Sisi (Samir, 2022). Just prior to the visit, Egypt and Qatar signed an MoU on the sidelines of the Qatar Economic Forum on financial policy coordination. The Al-Ula agreement could revive long-held plans for GCC economic integration. Qatar's transport minister announced in February 2022 that a project to build a railway between Saudi Arabia and Qatar will start soon (Trade Arabia, 2022b). This would bring the long-stalled GCC rail network a step closer and increase the movement of people and goods within the GCC.

### Gulf rapprochement with Turkey

Another positive regional diplomatic development is improved ties between Turkey and the GCC states. Turkey's relations with Saudi Arabia, the UAE and Bahrain had deteriorated since the Arab Spring started in 2010, because of differing positions on the Gulf dispute, political Islam, the Libya conflict, and the Mediterranean. Saudi ties with Turkey were severely damaged by the murder of Jamal Khashoggi in Istanbul in 2018, resulting in a curtailment of relations and an unofficial Saudi boycott of Turkish goods (Rashad et al., 2021). But since last year's Pivot report there has been rapprochement between Ankara and the Gulf States.

In November 2021, Mohammed bin Zayed, then the Crown Prince of Abu Dhabi, visited Turkey, pledging US$10bn in investment. A US$4.9bn Turkey-UAE currency swap deal was signed shortly afterwards in January 2021 to assist Turkey's ailing lira and curb high inflation, and in February 2022, President Recep Tayyip Erdogan travelled to the UAE for his first official visit in nine years, including a meeting with Crown Prince Mohammed bin Zayed, and talks in Dubai aimed at doubling bilateral trade from US$13.7bn to US$30bn within five years (Kerr, 2022). An agreement was also



signed to launch free trade negotiations. Turkish-Saudi relations have also improved. In April 2022, President Erdogan visited Saudi Arabia for the first time since Khashoggi's murder and Crown Prince Mohammed bin Salman visited Turkey in June 2022 (Al-Jazeera, 2022b). Restrictions on trade, flights and TV programmes have been lifted, and there has been a cessation of mutual hostile media coverage. (Coskun and Gumrukcu, 2022).

### Increased Gulf-Iran dialogue

Finally, while Gulf-Iran relations remain adversarial, with the Gulf states particularly concerned that a return to the Iran nuclear deal and a lifting of sanctions will give Tehran a financial windfall that it will use to support its regional proxies, there has been greater dialogue over recent months. Saudi Arabia and Iran cut diplomatic ties in 2016, but improved dialogue in recent months. In April 2022, Iran and Saudi Arabia had a fifth round of direct talks, with some discussions focussing on sending 40,000 Iranian pilgrims to participate in the Hajj (The New Arab, 2022). Qatar continues to play a mediating role between the US and Iran over nuclear talks.

Recent regional rapprochement and new alliances between Middle Eastern nations and Israel all fuel greater economic integration, foster stability, and improve the economic outlook. This makes the region a more attractive destination for Asian investment and commerce. The Middle East's various dividing lines could still flare up. Gulf-Lebanese relations, for example suffered a major set-back in October 2021, after Saudi Arabia, Kuwait, Bahrain, and the UAE cut diplomatic ties with Beirut following comments from Lebanon's information minister criticising Saudi military action in Yemen. There has been some rapprochement with Saudi Arabia and Kuwait announcing they would reinstate their ambassadors to Lebanon in April 2022. In general, there has been greater rapprochement and diplomatic engagement within the Middle East over the last two years, which will encourage economic and political stability and drive the Pivot.

**Interview with Chermaine Lai**
Country Head – Hong Kong, Mashreq Bank

**The Country Head and CE of Mashreq Hong Kong,** as well as its Regional Head for East Asia, Chermaine Lai has worked for the bank since 2008. She has more than 20 years of institutional banking experience covering Asia Pacific and the Middle East, having held roles at various global and regional banks. Lai represents the bank in the Consultative Council of the Hong Kong Association of Banks, and in the Hong Kong General Chamber of Commerce.

**You have represented Mashreq in Hong Kong and East Asia for several years. Have you seen investment rise between the Gulf and East Asia during this period? Which sectors in particular has investment flowed into?**

There has been a definite rise in investments both ways. Interestingly, investment has moved away from hydrocarbons and pivoted into technology-focused sectors. While hydrocarbons are still of paramount importance to most Asian countries, we are seeing growing customer inquiries and investments around sectors such as IOT [the internet of things], the development of smart-city infrastructure, data centres, and Cloud technology. In the UAE, along with a rise in newer projects led by Chinese and Asian contractors, the focus on clean and renewable energy has also been a growing theme this year.

> **"Equipped through this two-way investment flow, the Gulf has been able to successfully procure the essential technological capabilities while in return their Asian clients are able to operate in the Gulf through Joint Ventures (JVs) in order to deliver on these projects."**

**What has COVID-19's impact been on Gulf-Asian commercial ties? What is the outlook for recovery?**

Although the outlook in China turned gloomier owing to Covid-led lockdowns, one positive that emerged is the notable growth in smart-city technologies. Since the framework for these technological developments were already in place before COVID-19, the pandemic only accelerated the investments into the growth of smart-city infrastructure and operating these cities sustainably using clean energy. With regards to trade, while volumes have not increased substantially, inflation has definitely added to per transaction value. Looking forward, significant recovery is expected in 2023 as manufacturing activity rises owing to the ease in lockdowns. The extent of recovery is dependent on the policy outcomes of the National Congress of the Chinese Communist Party (CCP) later this year.

**As you mentioned, investment in renewables is growing. Will high oil prices increase Asian customers' interest in renewables?**

The increased and favourable business interest in renewables is largely government-led or necessitated by policy. We believe the development of mandatory ESG [environmental, social and governance] reporting and high prospect of greater taxation on emissions has increased the interest in renewables.

**The China-UAE relationship is significant in terms of driving growth in emerging Asia's trade with the GCC. What do you think accounts for China's interest in the UAE market and vice versa?**

With regards to the UAE, there is an increasing reliance on the advanced and commercially competitive technological solutions provided by Chinese corporations. The UAE and other Gulf countries have awarded projects to Chinese tech giants notwithstanding the political pressure from traditional Western blocs.

Whereas China's interest in the UAE increased due to the UAE's neutral stance during the China-American trade war, as a form of strategic hedging. Additionally, the UAE's prized status as a re-export hub has empowered China to reach global markets, particularly in Africa which is in line with its interest in free trade and economic cooperation zones.

Moreover, Chinese firms are expanding into markets outside of Asia which happen to be significant from Mashreq's point of view. For example, investments into 5G and industrial projects in Egypt and construction of newer manufacturing bases in the Middle East.

**Dubai has introduced a range of reforms, including changes to the working week, new visas, and a strategy to expand its capital markets, to name a few. Has this enhanced Asia's and Hong Kong's interest in Dubai?**

Mashreq endeavours to seamlessly accommodate capital flows between the GCC and Asian corridors. An interesting trend that we have observed over the last year is the number of Hong Kong based UHNWIs and family offices being set up in Dubai, inquiring about investing in funds offered by commercial banks. Additionally, there are a growing number of inquiries about golden visas to set up new offices in Dubai. We expect this trend to increase, thus indicating the rising interest in Dubai.

**The UAE is undertaking several initiatives to encourage digitalisation, fintech, and digital assets. Hong Kong has experience and expertise in these areas. Will this encourage Hong Kong firms to expand into the Middle East? What opportunities exist for Hong Kong businesses to share their expertise with the UAE?**

In May 2022, Hong Kong and the UAE participated in a government-led webinar wherein both economies agreed to collaborate towards mutual investment flows, bilateral trade and tech collaboration – which will be deployed in areas such as fintech and smart-city infrastructure.

**"The trade between the two economies has been overshadowed by the focus on increasing UAE-China trade relations, and Hong Kong's nominal interest in domestic sectors outside the technology and fintech space."**

However, we anticipate a plethora of opportunities to take shape in the coming times as the two countries actively collaborate on developing cutting-edge technological solutions and breakthroughs.

6

SECTION 6

# GCC ECONOMIC AND SOCIAL REFORM: OPPORTUNITIES FOR ASIAN COMPANIES

## This section examines the recent acceleration in economic and social reform in the GCC region and its impact on the Middle East Pivot to Asia.

The Gulf states have been liberalising their economies for several years, introducing economic and social reforms to attract new foreign investment, business, and talent. The shock of COVID-19 sped up this process. Economic reform not only attracts international businesses, including from Asia, to establish a presence in the Gulf, but also fosters growth and integration, thereby driving the Pivot to Asia. This section summarises some of the main GCC reforms over the last year, mainly in the region's two largest economies, Saudi Arabia and the UAE. There are signs that the strategy is working. In 2021, the UAE was the largest recipient of FDI in the Arab World, rising from US$19.88bn in 2020 to US$20.7bn in 2021 (UNCTAD, 2022b). There is further room for economic and social reform in the Gulf states, which we expect to be a key driver of the Pivot.

### New visas introduced throughout the Gulf

The Gulf states have introduced several new visas for existing expatriates, as well as foreign businesses and their employees looking to expand in or relocate to the region. Expatriates make up the majority of residents in the UAE, Qatar, Kuwait, and Bahrain. The introduction of visas bestowing greater rights and benefits for expatriates is designed to encourage them to remain in the country, maintain their investments and continue contributing to the economy.

The UAE has recently introduced several new visas and entry permits that offer greater benefits and privileges to expatriates, tourists, and business travellers. Introduced in 2019, the "Golden Visa" is a renewable residency permit valid for 10 years and can be obtained without an employment sponsor. A Golden Visa holder can sponsor their spouse, children, and domestic workers (UAE Government, 2022b). As of July 2022, the UAE has issued around 65,000 such visas. Other recent new types of visa introduced by the UAE include a five-year multiple entry permit allowing business travellers and tourists to enter several times over a year; a job exploration visa that allows graduates from the world's top 500 universities to live in the UAE while searching for employment; a new business visa focussed on entrepreneurs and investors looking to finance or establish new businesses in the UAE. The UAE is also offering bulk visa issuances as an incentive for companies to establish themselves in the country[14]. There are signs that visa liberalisation is helping attract new business. Dubai recorded a 25 per cent increase to 45,653 in new licences issued in H1 2022 (Sharma, 2022).

Saudi Arabia is also exploring visa liberalisation. Since May 2022, expatriates can now apply for Saudi Arabia's Premium Residency Visas through a dedicated office. There are two types of residency visas, SP1 and SP2. The SP1 visa allows permanent residency for an unlimited period for a one-off fee of 800,000 Saudi Riyals (around US$213,000), while the SP2 visa is valid for one year with an annual renewal fee of 100,000 Saudi Riyals (around US$26,600). Both visas allow foreigners to buy and own real estate, conduct business, employ domestic workers, work in the private sector, and have freedom of entry and exit.

14 See for example the "NextGenFDI" campaign, which was discussed in Section Five.

Bahrain also launched a golden residency visa scheme in February 2022. To qualify for the visa, individuals need to have lived in Bahrain for at least five years and earn an average salary of 2,000 Bahraini Dinars per month (around US$5,306). Highly talented individuals and those who own a property above a certain value are also able to apply for a golden visa. Since its launch, 2,000 people have acquired the visa (Zawya, 2022).

### Greater benefits and protections for expatriates in the Gulf

In addition to visa regulation changes, the Gulf states are introducing other reforms to give greater privileges and benefits to expatriates. The most significant change since last year's report has been the introduction of a new UAE labour law in February 2022. It recognises new modes of working such as flexible and part-time employment. Among other benefits, the new law extends maternity benefit to 60 days of paid leave and introduces greater clarity regarding rights, and more protections for employees, including against harassment. In May 2022, the UAE announced that unemployed workers in the UAE will get 60 per cent of their salary up to 20,000 AED a month (around US$5,445), provided residents pay between 40AED and 100AED (roughly US$10-27) a year into the scheme (Oommen, 2022e). New unemployment insurance is designed primarily to provide greater incentives for entrepreneurs to start businesses, growing the contribution of SMEs to the UAE's economy, but will also make the working environment more favourable, encouraging people and businesses from Asia and elsewhere to relocate.

In March 2022, Oman also introduced a new regulation to allow foreigners to purchase private property outside Integrated tourism complexes and gain a residency permit based on their purchase (Times of Oman, 2022). First-class residency will be granted to those who buy property worth over 500,000 Omani Rials (roughly US$1.29mn). Second-class residency will be granted to those who purchase property valued between 250,000 and 500,000 Omani Rials (roughly US$649,000-US$1.29mn). Foreigners can buy residential property valued lower than 250,000 Omani Rials but will have to do so through the existing Integrated Tourism Complex project.

### Changes to the UAE working week

Another impactful reform introduced was the UAE's change of its working week from Sunday to Thursday to a four-and-a-half-day week spanning Monday to Friday. This came into effect on January 1, 2022. The change moves the UAE in line with both Asian and Western markets, increasing the number of hours that UAE businesses can interact and engage with foreign businesses. The change also moves the UAE's capital markets in line with international ones, increasing the number of hours that Asian traders can operate in UAE markets, and vice versa. This should increase capital flows between the UAE and Asia, although it does move the UAE away from alignment with GCC markets to the detriment of regional economic integration. On the other hand, it could also push other GCC markets to follow suit to remain internationally competitive.

### Gulf capital market reform

The last couple of years have seen the Gulf states introduce reforms governing their capital markets to encourage growth and increase liquidity and trading. Recent expansion and development of these markets offers opportunities for Asian and Western institutional and retail investors and could encourage greater capital flows between Asia and the Gulf. Gulf states are diversifying their economies by floating state-owned assets, leading to a recent surge in IPOs. The floating of state-owned assets is set to continue, meaning Gulf capital markets are on a pathway to growth that could attract greater institutional investment from Asia, making Gulf growth important to Asia's.

Saudi Arabia has overseen 37 new IPOs since 2019, with 15 new issuances in 2021 alone. In total, MENA IPOs raised over US$13bn in H1 2022 (Arabian Business, 2022l). The largest IPO in 2022 was the flotation of state-owned utility Dubai Electricity and Water Authority (DEWA), which raised over US$6bn and was oversubscribed by 37 times. This was MENA's largest IPO since Aramco's record breaking US$29.4bn in December 2019 when a 1.5 per cent stake was floated. Abu Dhabi has also had a particularly active 2022 on capital markets, launching its largest ever IPO with petrochemical firm Borouge listed on the Abu Dhabi Stock Exchange (ADX). The listing raised US$2bn and was oversubscribed by 74 times.

The Gulf's IPO boom has attracted interest from Asian investors, with the India-based Adani family reportedly a key investor in the Borouge IPO (Khawaja, 2022). There will be more Gulf IPOs on the horizon. Dubai had been relatively inactive in terms of new issuances in recent years, but in 2021 introduced a new capital markets strategy to list ten state-owned companies. Since the announcement of the strategy, DEWA has listed, as has business park operator, TECOM group, which raised around US$463mn (Derhally, 2022a). In September 2022, Dubai toll-road operator Salik raised just over US$1bn from its IPO on Dubai Financial Market. The IPO was more than 49 times oversubscribed (Derhally, 2022b).

Saudi Arabia is also looking at ways to expand and develop its capital markets. In July 2022, Crown Prince Mohammed bin Salman announced plans to list PIF-owned companies, including NEOM, the latter by 2024 (Saba, 2022a). The announcement is part of a broader strategy to transform the Tadawul into one of the top three stock exchanges globally. In the more immediate future, Saudi Aramco is reportedly considering floating its trading unit, Aramco Trading Co, to take advantage of higher oil prices and raise US$30bn (Fioretti et al., 2022). Aramco is also considering listing its refining company, Luberef, which could raise US$1bn (Martin and Parasie, 2022). Gulf SWFs may assist capital market growth by listing their assets to realise a return on their investments. Abu Dhabi's Mubadala, for example, enjoyed a 70 per cent rise in income in 2021, partly due to listing satellite company Yahsat on ADX, and semiconductor manufacturer, GlobalFoundries on Nasdaq (Khan, 2022b). The listing of Global Foundries shows that SWFs can opt to list their assets on exchanges outside the Middle East, including in Asia.

Beyond IPOs, 2022 has seen the Gulf states introduce new capital market reforms to increase liquidity and their exchanges launch new investment products and derivatives trading to encourage growth. Saudi Arabia's Tadawul introduced the trading of single-stock futures in 2022 following a decision in 2020 to allow trading in index futures. The launch of single-stock futures will increase liquidity and give greater flexibility to traders, encouraging capital to flow into Saudi Arabia. In July 2022, Riyadh launched its first Sharia-compliant index, which will track the performance of the Tadawul's Sharia-compliant companies (Kamel, 2022). The CEO of Boursa Kuwait has also announced plans to establish a central counterparty clearing house that will trade derivatives by the beginning of 2023 and discussed his willingness to soon launch a fixed-income market for corporate bonds and Sharia-compliant sukuk (MacDonald and Elbahrawy, 2022). In May 2022, the UAE created the Middle East's first Special Purpose Acquisition Company (SPAC). ADC Acquisition Corp raised US$100mn when it listed on the ADX. A SPAC is a publicly listed shell company that is designated to raise capital through an initial public offering. Once the capital is raised, the SPAC will look to merge with a private company, making it public. The UAE became the first country in the GCC to implement a SPAC framework in January 2022 and this may encourage other Gulf economies to follow suit. SPACs have been criticised for favouring insiders, but they also offer the UAE a new financing tool that it can use to grow its capital markets by allowing companies to expedite going public.

GCC capital markets are becoming more integrated. In July 2022, ADX and Bahrain launched a digital exchange hub called Tabadul which would allow investments across the two bourses and enable investors to trade on both exchanges through licensed brokers (Cabral, 2022). The move will make GCC capital markets more integrated, aiding cross border capital flows and company listings.

There is clear energy and drive from Gulf states to develop and grow their capital markets. These changes are fast-paced. Saudi Arabia for example only eased qualifying criteria for foreign investors on its capital markets in 2017. The measures increase opportunities for Asian investors and encourage Asian capital to flow into the GCC. Another potential implication is that as Gulf capital markets develop, there could be opportunities for Asian firms to list there, and vice versa. There are some early indicators that this is the future direction of travel. In August 2020, Nasdaq Dubai signed an agreement with South Asia's Zhongtai Financial International and Tian Tai Law Firm to allow Chinese companies to list on the Middle Eastern international stock market. Asian companies and governments may also opt to raise debt on Gulf financial markets. For example, Commercial Bank of China listed two bonds worth US$1bn in 2019 and in 2020, China Construction Bank issued two bonds worth US$1.2bn on Nasdaq Dubai. In May 2019, the Indonesian government became the largest sukuk issuer on Nasdaq Dubai (Sambidge, 2022a). The development of Gulf capital markets is a crucial trend in terms of the Pivot and is set to encourage opportunities for Asian investors in the GCC's economic diversification. As more Gulf firms list on capital markets, we will also see enhancements to corporate governance and likely enhanced ESG reporting in the region, both important to economic development.

### Saudi Arabia's new Companies Law

Saudi Arabia introduced a new Companies Law in July 2022 which will move it closer to best international business practices. The law allows Saudi firms to raise revenue in new

ways, establishes clearer frameworks to govern mergers, and provides greater clarity and rights for shareholders. It also introduces a new type of unit in Saudi Arabia, called a 'simplified joint stock company', which does not have a minimal capital requirement, encouraging greater entrepreneurship. The new law also exempts SMEs from the requirement to appoint an auditor, again simplifying their operations and encouraging SME growth. The new law will come into force 180 days from 22 July, the date it was published in Saudi Arabia's Official Gazette. It should increase business confidence in Saudi Arabia, including for Asian firms, and is likely to encourage the Pivot.

### Saudi judicial reform

In February 2021, Crown Prince Mohammed bin Salman announced the drafting of four new laws to reform judicial institutions and increase clarity and consistency in Saudi legislation and judicial decisions (Al Arabiya, 2021). In December 2021 the first law was introduced. The 'Law of Evidence' aims to reduce discrepancies in court cases and rulings (Al-Kinani, 2021). This was followed by passage of the 'Personal Status Law' in March 2022, which improves the legal status of Saudi women and children, and gives them greater protections and privileges, including better rights for divorced women to demand alimony and become legal guardians of their children, as well as protections such as preventing girls under the age of 18 from being married off without their permission (Fatima, 2022). The two other statutes, the 'Civil Transactions Law' and 'Penal Code for Discretionary Sanctions' have not yet been introduced. Saudi judicial reform should contribute to a more socially liberal atmosphere, increasing foreigners' confidence and willingness to live and work in the Kingdom. Greater clarity and consistency in Saudi Arabia's judicial system should also increase confidence in doing business and investing there.

This section has highlighted several recent economic and social reforms in the GCC. The process is moving quickly and has the potential to drive the Middle East Pivot to Asia. Reform not only aids economic growth in the GCC, but also makes it a more attractive destination for international businesses, including from Asia.

**Interview with Waleed Rasromani**
Corporate/M&A
Partner – Linklaters

**Waleed** is a partner at the international law firm Linklaters. He leads the firm's Corporate/M&A practice in Saudi Arabia, advising regional and international clients on a range of transactions including inbound and outbound investments and joint ventures.

**The Middle East Pivot to Asia report identifies and projects significant growth in GCC-Asia trade over the next decade, and particularly the GCC's trade with emerging Asian economies, such as China, India, and many of the ASEAN nations. What opportunities exist to further develop trade and commercial ties between these two regions?**

There has been a clear shift eastward in the GCC's trade partners. Asia, over the course of the past decade, has overtaken the US and Europe as the GCC's main trading partner. It started as an energy relationship and, while energy continues to be a big component of this trade, there is now growing cooperation in other areas. The BRI is a good example. There was a period when the Middle East, the Gulf in particular, was not on the map for the BRI. But China is now increasingly paying attention to trade routes through the GCC and the wider MENA region. Hence, we see Chinese logistic companies increasingly involved in UAE and Saudi ports, and Chinese construction companies playing a greater role in Middle Eastern infrastructure projects. Since sustainability and the push for net-zero have grown in importance to business leaders and governments, we see more cooperation on energy innovation such as the development of hydrogen. There is also greater cooperation within the overall technology sphere, whether in terms of R&D in hydrocarbons or exploring other areas like e-commerce, fintech and payment services. In short, while GCC-Asian ties were initially based around energy, we are now seeing a wider relationship develop across a broad range of non-oil economic sectors between Asia and MENA.

**You touched on some non-oil sectors during your answer. Which non-oil sectors have the biggest growth potential over the next five years in terms of encouraging the Middle East Pivot to Asia?**

There will be greater engagement in developing greener energy, with the Middle East exploring alternative energy sources, such as ammonia, hydrogen and nuclear energy. For nuclear energy, it is yet to be seen whether they partner with China or turn to their more traditional trading partners, the US and Europe, but China will certainly have an interest in developing Gulf nuclear energy capabilities. Logistics will also become more important going forward, given China's global trade ambitions, and there will be greater technology collaboration as well. Food security has always been an important topic in the MENA region, but recent geopolitical events have increased the importance of agriculture and food for the Gulf. The Gulf will not only explore increasing trade with China in these sectors, but also with trade partners across Asia and Southeast Asia. We can expect more trade and technology transfers between the two regions to shore up their respective domestic food security situations.

**Will this result in greater Asian investment in the Gulf's capacity to grow their own food, for example through vertical farms, or will this cooperation occur through greater trade in foodstuffs?**

GCC governments are very focused on diversifying supply for basic foodstuffs. They are investing in basic food infrastructure and brokering arrangements to purchase food across Asia. There is also a desire across the GCC to onshore certain value and production chains related to food, to enable local production of food as much as possible.

**We are seeing a number of economic and social reforms emerging from Saudi Arabia, which will encourage greater foreign investment and commerce into the kingdom. Most recently we have seen the introduction of a new Companies Law. What will the impact of this new law be? And do you think it will encourage greater commerce and business from Asia into Saudi Arabia?**

The new Companies Law will take effect in January 2023 and it is part of a broader shift from a historically paternalistic approach to regulating commerce, to an approach that respects the free market, while regulating it at the same time. This new approach seeks to allow commercial parties to agree and undertake private arrangements as they see fit within the limits of the law. There are several areas of the Companies Law that are helpful to foreign investors and even for domestic shareholders.

> **"Firstly, the Companies Law will offer greater flexibility and legal certainty to all investors. Saudi Arabia has, for some time, had a stable regime for regulating foreign investment into both listed and unlisted companies."**

The changes enacted in the Companies Law are aimed more at addressing corporate structuring issues, rather than solely attracting foreign investment. For example, the new law introduces a new type of company called the simple joint stock company, which provides the benefits associated with a joint stock company, such as having distinct shares and a clear governance structure, while reducing the regulatory burden that applies to joint stock companies. Joint stock companies are increasingly being used in joint ventures, because they provide a strong governance framework, but many investors have been reluctant to use them due to concerns of additional regulatory costs. The introduction of simple joint stock companies will address this concern.

The new law also expressly recognises shareholder agreements, which is critically important. Previously, the legal status of shareholder agreements was ambiguous. The new law recognises that, apart from the constitutional documents of the company, the shareholders may agree on their own arrangements in a separate agreement, and the law will respect that. So that is a very helpful area when it comes to private investments where you have multiple investors in a company.

Finally, the law also permits multiple classes of shares, which will offer greater flexibility on shareholding arrangements. This allows companies to issue different types of shares with varying rights.

**"Overall, the law brings corporate legislation in Saudi Arabia closer to best practice in international markets and is a welcome overhaul to the previous regime."**

**So, in general, this will enable Saudi companies to engage with foreign companies in raising capital in new ways?**

Yes, with increased flexibility and increased legal certainty.

**The China-Saudi partnership is a key relationship within the Middle East Pivot to Asia. What do you think accounts for China's interest in the Saudi market and vice versa?**

China and Saudi Arabia have shared interests across geopolitical, technological and economic spheres. China has a desire to expand its global reach in commerce and it is not possible to do that without including the Middle East, and Saudi Arabia in particular. That is why Chinese companies are especially interested in ports and logistics services in the Middle East, and along the Red Sea. Saudi Arabia and China have a shared interest in exploring new forms of energy, whether that's nuclear, hydrogen or ammonia, to satisfy Asia's growing energy needs. Sovereign wealth funds in Saudi Arabia, and the and GCC more generally, are searching for investment opportunities beyond their traditional target markets in North America and Europe. This is all coupled with a growing sense of trust and reliance in Saudi companies, as they increasingly invest in China, and as Chinese companies reciprocate by investing in Saudi Arabia.

**Oil still remains a large part of the picture in terms of Asian-Gulf trade. With oil prices currently as high as they are, can we expect trade in value terms to expand? And will we see Asia increase investment in Gulf oil installations to increase supply, or will we see an acceleration in Asia-Gulf deals relating to renewables and alternative energy sources?**

We will see both. There will continue to be a need for hydrocarbons, and their derivatives like fertilisers, for the foreseeable future. The challenge will be to find methods to use those products in more sustainable ways that are less harmful to the environment. So, Asia and Saudi Arabia will benefit from exchanging knowledge in this area to find new and more sustainable ways to produce energy and to produce hydrocarbon derivatives. At the same time, with the growing energy demand in both the GCC and across Asia, there will be a need to accelerate investments in renewables and that will include solar and nuclear energy.

**On the point of nuclear energy, this is a sensitive technology and we have seen signs of US frustration towards Gulf-China cooperation in other technologies. How much of a problem will it be for the Gulf states to balance between East and West, particularly in sensitive technologies?**

I do not see the relationship between the Middle East and the West, on the one hand, and the relationship between Middle East and China, on the other, to be mutually exclusive. On both fronts, there are common strategic and economic interests. We operate within a global, integrated world, and there are some areas which are trickier to navigate than others. Where there is a natural common interest, in areas like logistics and food security, the Middle East is well placed to be a key partner of Asia. In more sensitive areas like telecommunications, certain aspects of technology and nuclear energy, balancing between East and West will be more challenging. The relationship that Gulf countries have with the US and its allies in the West will continue to be fundamentally important, while they pursue growing commercial ties with Asia. GCC governments will, no doubt, continue to be mindful of the strategic and diplomatic concerns of their allies in this respect, but this need not cause a reduction in cooperation with China in other spheres.

7

SECTION 7

# OBSTACLES TO THE MIDDLE EAST PIVOT TO ASIA

## This section tracks the various factors that could slow or undermine the Middle East Pivot to Asia.

As noted in Section One, the global economy is facing several economic headwinds that could undermine growth and trade, including in Asia and the Middle East. These clearly have potential to slow the Middle East Pivot to Asia, but this section goes beyond these factors to focus on more specific obstacles, including increased economic competition in the Gulf, GCC states' tendencies towards localisation, and US-China relations.

### GCC economic competition

While Gulf economic reform is a key driver of the Pivot it also reflects growing regional competition, with GCC states responding to the reforms of their neighbours to maintain a competitive edge. While GCC economic competition has often had positive impacts by encouraging reform, there have been times when the Gulf states have strayed towards protectionist tendencies, undermining growth.

The most recent example of this is Saudi Arabia's decision to change its customs rules in July 2021. These changes mean goods manufactured in GCC economic free zones would be subject to customs duties. The new rules state that the manufacturing or processing of the goods must represent at least 40 per cent of the value of the imported item and that at least 25 per cent of the workforce making the product must be GCC nationals. Ostensibly introduced to prevent unfair competition from firms hiring cheap labour outside the GCC, because the law was targeted towards freezones, there was speculation that the changes were designed

to harm the UAE. Saudi imports from the UAE fell by 23 per cent year-on-year in April 2022 following this decision, undermining economic integration (McGinley, 2022b).

The Gulf states do compete economically and have previously taken steps that undermine GCC economic integration. The UAE, for example, withdrew from preparations to launch a GCC currency and monetary union, just before its launch in 2010 (Ulrichsen, 2018). The Gulf Dispute 2017-2021, which led to a diplomatic and economic boycott of Qatar by the UAE, Saudi Arabia, Bahrain, and Egypt, also highlighted the way in which Gulf states have in the past tried to use economic measures to resolve political differences. While we expect Gulf economic reform and diversification to increase, the costs of such behaviour in the future, where competition leads to protectionism and economic punishment, could undermine the Pivot.

## GCC localisation

Not all aspects of Gulf economic diversification are beneficial to international business and commerce. A key part of the Gulf states' economic diversification strategy is to move their citizens away from the public and into the private sector. One mechanism to achieve this is the localisation of employment, mandating firms to ensure a certain proportion of their workforce is made up of Gulf citizens. Schemes such as 'Saudization' and 'Emiratization' can deter firms looking to relocate and companies have complained that they are arbitrary, vary across different sectors, and effectively act as a tax when firms are forced to hire local staff over more skilled foreign workers. This is why Gulf states have increased their emphasis on upskilling their populations. The localisation targets are not expected to diminish. Abu Dhabi recently reiterated its 10 per cent Emiratisation goal by 2026. But exemptions from localisation schemes may be made available to companies in return for establishing themselves in certain regions of the GCC, as is the case under Saudi Arabia's Programme HQ (Arabian Business, 2022m).

As Section Five explored in greater detail, the Gulf's focus on upskilling their citizens can create opportunities for Asian firms to offer expertise, with Huawei, for example, introducing schemes to train Gulf citizens in technology.

## The impact of the Russia-Ukraine conflict on the Pivot

The Russia-Ukraine conflict has greatly heightened tensions between Moscow and the West, leading to international sanctions, an exodus of foreign business and investment from Russia, and a spike in the prices of energy, food, and other goods originating from Russia and Ukraine. The conflict's impact on inflation and the global economy were discussed in Section One, but there are specific consequences for the Middle East and Asia.

Western sanctions against Russian oil have prompted Moscow to offer significant discounts, leading to the Gulf's biggest oil customers, India and China, increasing their purchases from Russia. The average monthly price for Russian Urals Crude in July was US$78.4 per barrel, around US$30 cheaper than OPEC's basket price. Russia has now overtaken Saudi Arabia to become the main supplier of oil to China (Energy Voice, 2022). In May 2022, China imported 800,000 barrels of Russian petroleum per day by sea, an increase of more than 40 per cent since January 2022 (Hiruta and Hama, 2022). Similarly, India's imports were zero in January, but by May stood at nearly 700,000 bpd. A long duration of the conflict and of international sanctions could lead to a sustained period of discounted Russian oil being available to Asian customers, reducing the Middle East's market share and undermining the Pivot. Not all Asian nations are enticed by these discounts, however. Japan, which is more aligned with the West in its stance towards Russia, has moved away from importing its crude, with Japanese firm Eneos stating it will begin sourcing from the Middle East (Okutsu, 2022).

International sanctions have also prompted an influx of Russian wealth into Dubai, with some property companies reporting a 100 per cent increase in Russian purchases (Turak, 2022). The UAE was added to the international Financial Action Task Force (FATF) grey list in March 2022, meaning it will now be more closely scrutinised over its compliance with anti-money laundering measures (Barrington, 2022). The influx of Russian wealth as well as the UAE's growing openness to digital assets may attract further scrutiny, with some campaigners calling for it to be put on the FATF's blacklist for not stemming the flow of Russian cash into its economy (Ungoed-Thomas, 2022). It seems very unlikely that the UAE would be blacklisted, but the issue highlights the reputational risks that exposure to Russia can have on a nation's economy.

The Gulf states have opted to remain neutral in the conflict. They will likely keep a close eye on how this strategy of balancing between Russia and the West fares, possibly seeing it as a test-case should the West's relations with China rupture in a similar way. So far, the Gulf states have not faced great pressure to revise their relations with Russia, though this could change if the conflict intensifies or broadens out. The expected rise in energy prices this winter and the prospect of energy shortages for many European economies could increase pressure on the Gulf states.

### Increased US-China tensions

Increased US-China tensions could undermine the Pivot if they lead to greater pressure on Gulf states to curtail their economic relationship with Beijing or limit it to non-sensitive sectors. There is a degree of strategic hedging involved in the Middle East Pivot to Asia. The US, UK, and EU economies remain powerful and important allies for the Gulf states, particularly as security providers, but Asia's growing economic and political power is incentivising the GCC states to beef up ties there. However, improved Gulf-China ties have not gone unnoticed in the West, and they have sometimes caused strain, especially with Washington.

The US remains an important economic and security partner for the Gulf states, and a significant destination for both sovereign and private investment, but there is a growing sense that Washington is deprioritising the Middle East and committing less resources to its security. The US's chaotic withdrawal from Afghanistan is emblematic and could lead Gulf leaders to question whether they should seek new security partners in Asia. The Gulf states recognise the superiority of Western military technology over Chinese military technology and will be wary that seeking out major military systems from Beijing could result in sanctions and restricted access to US weapons, maintenance, and related services, which are fundamental to Gulf states' militaries.

US-Gulf relations have been notably cooler under President Joe Biden. The Gulf states were disappointed by several actions by the Biden administration immediately after he took office, such as banning offensive weapons sales to Saudi Arabia and removing Yemen's Houthis from the US designated terrorism list, as well as concerns that Washington could return to the Iran nuclear deal, granting sanctions relief that the Gulf states believe will be used to fund Iranian proxies in the region. OPEC's recent decision to cut production by two million bpd has also resulted in a recent deterioration in US-Saudi relations.

But there are some signs of improving ties. US defence commitments have improved over the course of the year. In February 2022, the US announced that it would deploy a guided missile destroyer and fighter jets to the UAE after Abu Dhabi's airport and an oil depot were targeted by the Houthis. A ceasefire brokered in Yemen in April was welcomed by the Biden administration, with some analysts noting discussion on resuming sales of offensive weapons to Saudi Arabia. Biden's visit to Saudi Arabia in July led to the announcement that business and tourism visas for

Saudi nationals would be extended from five to 10 years. The US and Saudi Arabia also signed 13 investment agreements during the visit, focussing on energy, aerospace, defence, healthcare, and manufacturing. One notable deal was with IBM to train 100,000 young people over five years to boost Saudi Arabia as a technology hub (Nair, 2022).

Ultimately the Gulf states take a long-term view on their ties with the US, understanding their relationships will outlast presidents and their individual policies. A major breakdown in Gulf-West relations would likely lead to a more concerted move towards China, seeking security guarantees and military technology. But, at the time of writing, such a breakdown seems unlikely.

US-China tensions have grown worse since the publication of last year's report, most recently over the visit of US House of Representatives Speaker, Nancy Pelosi, to Taiwan in August 2022, which prompted China to conduct extensive military operations near Taiwan. US-China tensions continue to translate into protectionist measures undermining trade, with global repercussions. Biden has maintained several Trump-era tariffs on China and granted tax reliefs to domestic EV manufacturers to challenge China's domination of the sector. The US and its Western partners have also launched several initiatives designed to project power in Asia and reduce China's global influence. An early Biden administration decision revived an informal strategic dialogue between the US, Japan, India, and Australia, known as 'the Quad'.

The Quad agreement was followed by the establishment of the Indo-Pacific Economic Framework (IPEF) between the US and 13 other nations in May 2022. The IPEF outlines several areas of cooperation, including trade, digital, supply chain resilience, decarbonisation, and improved competition through strengthened tax, anti-money laundering, and anti-bribery rules (Randolph, 2022). Designed to boost the US economic presence and counter China's influence, the IPEF seeks to enhance regional cooperation rather than offer countries better market access to the US through reduced tariffs. The West is also looking to establish

infrastructure funds to rival China's own BRI. In 2022, the G7 announced a new fund to mobilise US$600bn in public and private funding for infrastructure by 2027. In 2022, The EU announced its own €300bn 'Global Gateway' fund to challenge the BRI, though currently no major projects have been announced. The UK's private capital fund, British International Investment (BII), was also recently announced, aiming to mobilise £9bn by 2025. Finally, the West's own tilt to Asia can be seen through its engagement with the 2022 ASEAN Foreign Minister's meeting in Cambodia in August. During the summit the UK announced a new Plan of Action to deepen economic and security ties with ASEAN, including opening a regional BII office in Singapore to invest US$500mn into the Indo-Pacific, and offering Royal Navy training to ASEAN nations (UK Foreign, Commonwealth & Development Office, 2022).

The West's response to the Russia-Ukraine conflict has demonstrated its capacity to act from a united position and leverage sanctions to inflict economic pain on an adversary. China will be watching closely and may attempt action that insulates itself from a similar future Western response. Persuading other nations, including the Gulf states, to use the yuan in certain transactions could be one tactic for insulating Beijing from any sanctions limiting its ability to use or access US dollars or other Western denominations. The Russia-Ukraine conflict could also encourage China to accelerate the development of its central bank digital currency (CBDC), to facilitate cross border payments, and again make it more resilient against Western sanctions.

US-China tensions, and more broadly, Western-China tensions are a crucial trend to monitor in terms the Pivot. Taiwan appears the main flashpoint that could lead to a rupture with China and push the West to pressure Gulf states to choose sides. The US and the wider West's own Pivot to Asia and the Indo-Pacific region is a sign of Asia's growing economic and political importance but also perhaps of the West's reduced commitment to the MENA region. This may induce the Middle East to focus on cultivating ties with Asia.

# 8


SECTION 8

# GCC SOVEREIGN WEALTH FUNDS CONTINUE TO LOOK EAST

## GCC SWF interest in Asia continues to grow. This reflects strategic thinking by Gulf capitals and will be a key trend defining the Middle East Pivot to Asia over the next decade.

This trend will have been strengthened by higher oil prices in 2022, which has coincided with a spate of deal-making and investments announced throughout 2022. Gulf SWFs have over US$2.5trn dollars in assets, meaning changes to their investment strategies can have a considerable impact on global finance (Sovereign Wealth Fund Institute, 2022).

Gulf SWFs are increasingly investing in Asia's markets. As of July 2022, they were involved in US$28.6bn-worth of acquisitions outside the Middle East and Africa, 45 per cent more than in 2021, with investments heading towards China, India, and Singapore (Bartenstein et al., 2022). Gulf SWFs are looking for ways to increase their exposure to Asian markets. An illustration of this is Saudi Arabia's PIF, which applied for a Qualified Foreign Institutional Investor status in China in November 2021. This would enable it to directly trade Chinese "A-shares" (Azhar, 2022).[15]

Other notable deals include:

- In February 2022, PIF and Japan Bank on International Cooperation signed an MoU to promote PIF and Japanese companies' collaborative projects in a variety of sectors such as decarbonisation, digital transformation and smart city development (Japan Bank for International Cooperation, 2022).
- In February 2022, Mubadala invested US$350mn in Singapore-based Princeton Digital Group (PDG). The investment will help PDG consolidate its position as a leading data centre operator in Asia (Mubadala, 2022b).
- In March 2022, Saudi PIF-owned Saudi Agricultural and Livestock Investment Co. (SALIC) purchased a 35.4 per cent stake in Singapore's Olam Group operating unit, Olam Agri (Cheok and Cang, 2022).
- In April 2022, PIF tasked Bain and Company to develop an India strategy to identify investment opportunities in infrastructure and the renewable energy sector (Global SWF, 2022).
- In May 2022, PIF bought a 5.01 per cent stake in Japan's Nintendo. This follows PIF's recent disclosure of stakes in two other Japanese gaming companies, Nexon and Capcom. It could pave the way for localised content to be created for the Saudi market. The weaker yen likely made these investments more affordable (Rahal, 2022b).
- In June 2022, ADIA purchased a 20 per cent stake, worth roughly US$28mn in IIFL Home Finance, – a subsidiary of IIFL, one of India's top financial service providers (The Economic Times, 2022).
- Between 2021 and 2022, ADIA acted as an anchor investment in Indian firms Paytm and Life Insurance Corporation of India (LIC). LIC raised US$2.7bn in May 2022, in India's biggest ever IPO (Tripathy and Joshi, 2022).

15 The status of this application remains unclear, but signals PIF's desire for equity exposure in Asian markets, something that is supported by PIF opening a Hong Kong office in February 2022.

The Qatar Investment Authority (QIA) has been particularly active in Asian dealmaking. Investments in 2022 include:

- In January 2022, QIA took part in a US$700mn funding round for Indian food delivery service, 'Swiggy' (QIA, 2022).
- In February 2022, QIA committed US$1.5bn to a fund focussed on media and consumer tech in India and Southeast Asia. The fund was set up by James Murdoch and former Star India chief executive Uday Shankar, and will be run through a venture called Bodhi Tree (Velezmoro, 2022). Since then, Bodhi Tree has invested US$600mn in a strategic partnership with ALLEN Career Institute to build India's biggest examination – and test – preparation company (Umarji and Chatterjee, 2022).
- In March 2022, QIA led a US$121mn Series D funding round for Singapore- headquartered consumer-tech start-up Insider, resulting in a US$1.22bn valuation (Vaswani, 2022).
- In June 2022, QIA acquired 32 residential assets in Japan through a portfolio managed by Hong Kong-based Gaw Capital Partners. The portfolio's value is undisclosed, but a Gaw Capital Partners spokesperson has stated that the goal is to grow it to US$800mn (Koh, 2022).

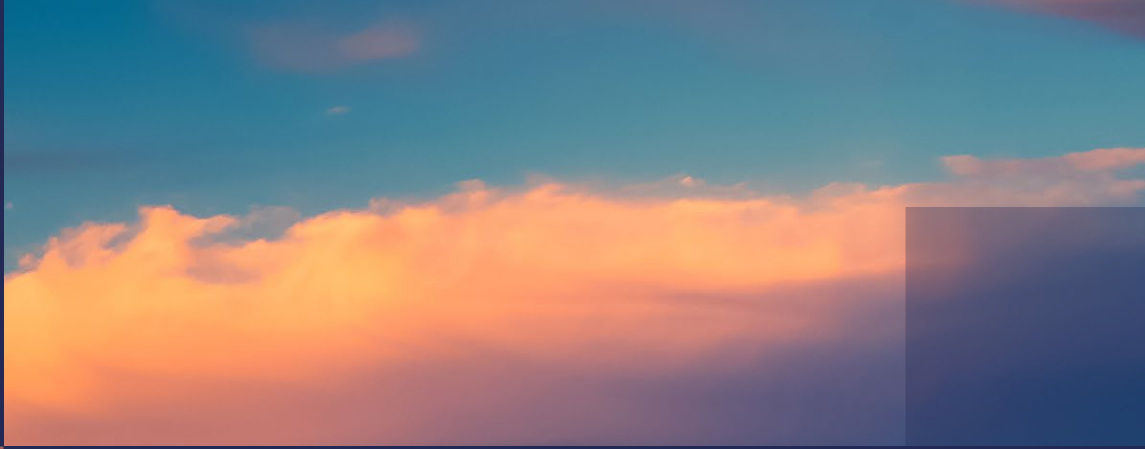
As evidenced from the deals above, India has proven a particular focal point of Gulf SWF investment in Asia over the last year. Gulf SWFs are in particular attracted to India's large population which is growing more affluent and increasingly demanding access to digital services and other technologies. In particular, India offers start-ups an excellent environment in which to scale up and deliver a high return on investment.

There is also growing co-investment by Gulf and Asian SWFs (Schwalje, 2022). In January 2022, Malaysian used-car trading platform Carsome Group raised US$300mn in financing led by funds linked to the QIA and Singapore's Temasek Holdings (Yong, 2022). Temasek and ADIA's involvement in GoTo's pre-IPO round is another

example of Gulf and Asian SWF cooperation. In August 2022, China's Taibang Biologic Group raised US$300mn in a fundraising round led by ADIA and Singapore's GIC (Zhu, 2022). 2022 has also seen Gulf nations commit to contributing funds in ASEAN, with the UAE, for example, pledging US$10bn to the Indonesia Investment Authority in July. We are also seeing increased interest by Gulf-based private equity firms in Asia. Gulf Capital, for example, is increasing its focus on emerging Asian economies as a growth market (Gulf Capital, 2021). Over the last fifteen years it has acquired 14 companies across Asia and has recently established an office in Singapore (Zawya, 2022). Some Gulf SWFs do not have significant exposure in Asia, however. Bahrain's SWF, Mumtalakat, is focussed on the Gulf and Europe, whereas the Investment Corporation of Dubai's website indicates its focus is on UAE organisations. Finally, just 4.7 per cent of the Oman Investment Authority's investments in 2021 were in the Asia-Pacific (Oman Investment Authority, 2022).

There may be a slowdown in SWF activity approaching as funds navigate global market uncertainty. Asset prices may drop as central banks tighten monetary policy and concerns over recession rise. For example, in June 2022, the managing director of the Kuwait Investment Authority (KIA) stated that the SWF was limiting its investments because he expected markets to drop towards the end of 2022, which is when KIA will look to mobilise capital (Saba, 2022b). Depressed asset prices may however lead to increased SWF purchases. Indeed, PIF invested more than US$7.5bn in US shares in Q2 2022, such as Amazon, PayPal, and Blackrock, to take advantage of falling share prices (England, 2022).

This section has shown that many GCC SWFs are increasing their focus towards Asia. Since SWFs can reflect the strategic thinking of their country's rulers, this indicates that Gulf leaders are increasingly recognising Asia's strategic potential. As investments grow, we can expect greater political exchanges and bilateral visits to protect and grow these commitments.



# CONCLUSION

## Despite global economic uncertainties, the Middle East Pivot to Asia has exceeded expectations in the last year and is likely to accelerate over the next decade, heralding a profound shift in global trade that will impact growth, business, and geopolitics.

Continuing its rapid pace over the last decade, GCC trade with emerging Asia has increased from US$246bn in 2020 to US$366bn in 2021, at an average annual growth rate of approximately 5.9 per cent. This contrasts with GCC trade growth with advanced economies, which has grown at an average annual growth rate of just 2.27 per cent over the same period. Based on our analysis of the various drivers and obstacles relating to the Pivot, we expect the GCC's trade with emerging Asia to continue to rise, potentially at an accelerated rate. Furthermore, the GCC's economic relations with emerging Asia are expected to grow faster than those with the advanced economies, eventually outpacing the latter. There is evidence that this is already happening.

The Pivot passed several important milestones in 2021. GCC-China trade reached a record high of US$180bn, surpassing GCC trade with the US and Euro Area combined for the first time. China's trade with Saudi Arabia alone stood at US$81.7bn in 2021, exceeding the US, the UK, and Euro Area combined. UAE trade with China is also fast closing the gap compared to its trade with the US, the UK, and the Euro Area combined. It now stands at approximately US$3.4bn. In 2010, it was US$28bn. These milestones have profound implications for the Gulf states' international policy and will encourage them to increase their focus on closer economic and political ties with Asia. As GCC-Asia trade and investment rises, we expect to see greater bilateral political exchanges and cooperation to protect and expand these investments. That would make GCC-Asian relations a pillar of global politics with the Pivot driven by the global oil price.

The GCC's trade with emerging Asia rebounded from COVID-19 faster than anticipated. Last year's report forecast trade growth on the assumption that it would return to pre-pandemic levels by the end of 2022. But this recovery was reached a year earlier, with GCC-emerging Asia trade exceeding pre-pandemic levels by around US$46bn. Global oil prices enjoyed sustained growth in 2021, increasing the value of GCC-emerging Asia trade and aiding recovery in the Gulf states. OPEC crude prices averaged US$69.89 per barrel in 2021, around the fiscal breakeven price required by most Gulf states to balance their budgets. The additional revenue enabled them to continue funding non-oil sectors, attracting Asian investment in a variety of areas, including renewables, technology, and infrastructure. Oil remains fundamental to the Pivot, with Asian nations considering the Gulf as crucial to their energy security and the GCC states seeing Asia as an important source of revenue.

While GCC-emerging Asia trade is closely linked to global oil prices, this link will gradually be overtaken by growth in other sectors as Gulf states' economic diversification strategies are realised and their non-oil economies grow more important as a proportion of total GDP. The Middle East Pivot to Asia is evolving from primarily being based on hydrocarbons to a broader political and economic relationship that touches on multiple sectors. In particular, this report has shown that as the Gulf states transition away from fossil fuels, GCC-Asian cooperation in that sector will likely be replaced by sustainability, renewables, and developing alternative energy sources, such as hydrogen. China, with its large market share in rare earth minerals, solar panels, and EVs will be key.

This report has outlined Gulf-Asian cooperation in non-oil growth sectors, including construction, ports, logistics, fintech and digitalisation. GCC investments in these areas have the potential to increase efficiency for businesses and consumers, boost exports and drive economic growth. The Gulf regards Asia as a centre of expertise in these sectors, with Asian construction and tech-firms involved in several projects to build Gulf infrastructure and digitalise economies. Dubai's play to become a digital assets hub this year also has interesting implications for the Pivot. The establishment of Dubai's Virtual Assets Regulatory Authority (VARA) and a focus on issuing licences to digital assets companies has led to several firms relocating or expanding into the UAE via Asian financial hubs, including Singapore and Hong Kong. This shows that the development of the Gulf's non-oil sectors encourages the Pivot but also enhances the ability of GCC capitals to compete with the traditional economic hubs of Asia.

Gulf economic and social reform is driving the Pivot and is a key trend in reshaping the relationship. The economic shock of COVID-19 prompted Gulf states to accelerate their reform programmes, attracting foreign investment and encouraging overseas businesses to establish bases in the GCC, further driving the Pivot. The Gulf states are liberalising their visa requirements and bestowing greater rights and benefits on their expat populations to encourage them to live, work and contribute to economic growth over the long-term. New regulations aimed at encouraging GCC capital market growth are another important development which will attract greater capital flows from Asia. GCC investment is also heading into Asia. Gulf SWFs continue to focus on that region, increasing their exposure and opening new offices there. The investment decisions of Gulf SWFs can reflect the strategic decision-making of government leaders. So as Gulf capital is deployed

to encourage Asian economic growth, we can expect Asia to increase in strategic importance to the Gulf.

Despite global economic headwinds, the outlook for Gulf and Asian economies remains broadly positive and it is for these reasons that GCC-emerging Asia trade is expected to grow strongly over the next decade. Should trade continue at current rates, the GCC-emerging Asia trade relationship will reach approximately US$578bn by 2030, surpassing the GCC's trade with advanced economies by 2028. This is a profound geopolitical shift. The report has shown the importance of China and India in driving this growth. It has also explored the delicate balancing act that the Gulf states will need to pursue in developing closer economic and political ties with China at the same time as US-China relations are becoming more strained. Further deterioration in Sino-US relations could lead to pressure on the Gulf states to choose a side. The US remains an important security partner for the Gulf states, but China's status as a key economic partner is cementing. OPEC's recent decision to cut production by two million bpd has led to a deterioration in US-Saudi relations. A prolonged period of poor US-Gulf relations could encourage the Gulf states to enhance ties with China.

There is also great potential for expansion in the GCC's trading ties with ASEAN. There are natural synergies between ASEAN and Gulf visions for economic growth, with both region's governments investing in digitalisation, manufacturing, and logistics infrastructure as a means of growing exports. We expect GCC-ASEAN relations to flourish as the UAE's CEPA with Indonesia takes effect, as Saudi and Thailand develop diplomatic ties after a three-decade hiatus, and as Gulf Sovereign Wealth Funds increase their focus on Asia.

Closer economic and political ties between Asia and the Gulf have the potential to enhance trade and prosperity in both regions, with Asian-Gulf ties becoming a key regional relationship to understand in navigating global trade and politics. The Middle East Pivot to Asia is a major geopolitical trend which will have a profound impact on global trade, economic growth and business.

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