The Middle East Pivot to Asia

Soaring trade reshapes the global landscape

2023 Report

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Executive Summary

The Middle East Pivot to Asia has accelerated significantly over the last year, with the Gulf Cooperation Council (GCC)[1] countries experiencing a remarkable surge in trade with Emerging Asia.[2] Trade between these regions soared by 34.7 per cent, increasing from US$383bn in 2021 to US$516bn in 2022. Trade is growing faster than previous reports' projections.

Should GCC-Asia trade continue to grow at the average annual growth rate realised between 2010 and 2019 (approximately 4.9 per cent), then it is set to reach approximately US$757bn by 2030 – almost doubling in value from 2021.

Growth can be attributed to higher average oil prices in 2022 than 2021, but trade expansion extends beyond oil. Non-oil sectors, particularly technology sectors that are vital for the Gulf's economic diversification and digitalisation, have played a significant role. Sustainable cooperation between the Gulf and Asia, with a particular emphasis on China, is also rising. Synergies in renewables, hydrogen, electric vehicles (EVs), and green construction have propelled this collaboration. COP28 – taking place in the UAE at the time of this report's publication – is expected to further encourage Gulf-Asia sustainable cooperation.

The Middle East Pivot to Asia is a major geoeconomic and geopolitical shift. Asia is fast overtaking the West as the Gulf's key economic partner. Gulf trade growth with Asia continues to outstrip that with Western nations such as the US, UK, and Euro Area.[3] Gulf-Asia trade rose by approximately 34.7 per cent between 2021 and 2022; whereas the Gulf's combined trade with the US, UK, and Western Europe rose by approximately 32 per cent. Gulf trade with Advanced Economies was worth US$587bn in 2022,[4] but our projections suggest that trade with Asia will soon surpass it, potentially by 2026.

China is a key driver of the Pivot. Gulf-China trade has risen by around 50.6 per cent over the last decade, and now nearly matches the Gulf's combined trade with the US, UK, and Western Europe. China's bilateral trade with Gulf nations is accelerating at a blistering pace. The UAE-China trade relationship is now the most

1 The GCC comprises Saudi Arabia, the UAE, Qatar, Oman, Kuwait, and Bahrain.
2 '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. Emerging Asia will hereinafter be referred to as Asia.
3 The Euro Area is a category of countries which use the Euro currency. These countries are predominantly in Western Europe. The Euro Area will hereinafter be referred to as Western Europe.
4 '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.

significant in the Pivot, soaring by around 37 per cent from approximately US$78bn in 2021 to US$107bn in 2022. In both years the UAE's trade relations with China surpassed its combined trade with the US, UK, and Western Europe. Saudi-China trade has jumped by around 28 per cent from US$82.1bn to US$105bn between 2021 and 2022 and will grow further in 2023 following Chinese President Xi Jinping's visit in December 2022, which resulted in the signing of 35 deals worth US$50bn.

The continued internationalisation of the Renminbi (RMB) as a global trade currency could further enhance China's economic sway in the region. RMB use in trade settlement has tripled in the last three years. It now accounts for about 6 per cent of global trade, surpassing the Euro. China is making progress in persuading the Gulf states to accept payment for their oil in RMB. In April 2023, Abu Dhabi National Oil Company (ADNOC) completed the Gulf's first cross-border RMB-settled LNG trade with China. Further progress will accelerate the RMB's internationalisation. China's expanding economic influence in the Gulf is leading to greater involvement in regional politics, potentially reducing US influence. Saudi Arabia and the UAE's accession into the Brazil, Russia, India, China, and South Africa group (BRICS) in 2024 will place them closer to Chinese decision-making and strategic thinking on global affairs.

Besides China, the Gulf's bilateral ties with other Asian nations are flourishing. India's trade with the Gulf has grown, encouraged by the UAE-India Comprehensive Economic Partnership Agreement (CEPA). Gulf-ASEAN trade continues to recover from COVID-19. October 2023's inaugural ASEAN-GCC Summit in Riyadh underscores growing cooperation between the two regions, and the UAE's drive to broker CEPAs with ASEAN's main powers could boost trade further. Finally, Hong Kong has sought to strengthen ties with the Gulf, becoming an increasingly vital link for capital flows and business between the Gulf and Asia.

The long-term growth fundamentals for Gulf-Asia trade are robust. Trade will increase as Asia's economies, middle-class populations, and energy demand expand over the next decade. The Gulf's efforts to diversify their economies and develop non-oil sectors, especially in sustainability and technology, will further drive cooperation.

The Gulf's economic and social reforms, capital market expansion, and growing focus on Asia by Gulf Sovereign Wealth Funds (SWFs) are also expected to attract greater investment from Asia and drive the Pivot. The Gulf states have been liberalising visa access and modernising their labour practices to attract foreign investment and talent. In capital markets, there is a growing interest in dual-listing opportunities from Asian and Gulf companies, in each other's respective markets.

Still, there are challenges. The recent Middle East conflict has made the region's future more uncertain. The conflict could have an adverse impact on investment, which would worsen if the conflict broadens or deepens regionally. An escalation could impact the region's energy producers, with a negative impact on energy prices, and dampen global growth by fuelling inflation and interest rate hikes. In general, 2023 has seen a deceleration in Middle East economic growth. Key Asian economies such as China continue to tentatively recover from COVID-19 in the face of an under-performing property market, high youth unemployment and reduced private sector confidence. Coupled with oil prices declining by around 17 per cent from 2022 to 2023, this could slow Gulf-Asia trade growth in 2023.

US-China tensions have worsened over the past year and could also negatively impact the Pivot. The Gulf states seek to maintain good economic

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relations with both the US and China, but a continued deterioration in US-China relations could increase pressure on the Gulf states to curtail economic relations with one side in favour of the other. The US pressured Middle Eastern nations in 2023 not to cooperate with China on AI, with the restriction of sales of advanced US AI chips to the Middle East. Finally, while growing economic competition between the Gulf states is driving economic and social reform, there is a risk of it leading to protectionist measures that could undermine regional economic integration.

Asia's growing economic importance to the Gulf is leading to greater political engagement and cooperation, shifting global geopolitics. As the Gulf's trade and investment ties with Asia increase, we will likely see Asian viewpoints carry more weight in the strategic decision-making of Gulf rulers, and a waning of Western influence. The Middle East Pivot to Asia continues to be one of the defining geopolitical and geoeconomic shifts of our time and is worthy of greater attention and focus from global business and political leaders to capitalise on this growing opportunity.

Key Findings

- The GCC countries' trade with Emerging Asia surged by 34.7 per cent from US$383bn in 2021 to US$516bn in 2022. On the basis of past growth, we expect this trade to reach US$757bn by 2030, almost doubling the value in 2021 and overtaking trade with Advanced Economies at some point in 2026.
- Gulf-Asia trade continues to outstrip that with Western nations such as the US, UK, and Euro Area. Gulf-Asia trade rose by approximately 34.7 per cent between 2021 and 2022, whereas the Gulf's combined trade with the US, UK, and Western Europe grew by approximately 32 per cent.
- The UAE-China trade relationship is now the most significant in the Pivot. UAE-China trade has soared by around 37 per cent from approximately US$78bn in 2021 to US$107bn in 2022. Both years saw this trade surpass combined trade with the US, UK, and Western Europe.
- Saudi-China trade has jumped by around 28 per cent from US$82.1bn to US$105bn between 2021 and 2022 and will grow further in 2023 following Chinese President Xi Jinping's successful visit in December 2022.
- Gulf-China trade overall has expanded by around 50.6 per cent from US$166bn in 2012 to US$250bn in 2022. This is approaching combined trade with the US, UK, and Western Europe, which has remained flat at US$266bn over the past decade.
- Higher average oil prices in 2022 over 2021 account for much of this growth. But there has also been significant increase in non-oil sectors, particularly in technologies that are key to the Gulf's economic diversification and digitalisation, such as cloud computing, AI, and fintech.
- The coming COP28 in the UAE has driven sustainable cooperation between the Gulf States and Asia, particularly China, where there are several synergies in renewables, hydrogen, EVs, and green construction that are driving enhanced cooperation.
- The Israel-Gaza conflict poses a risk to business and investor sentiment in the region, although at the time of writing there is no evidence to demonstrate it is damaging the region's economic outlook. There may also be a slowdown in Gulf-Asia trade growth in 2023 as oil prices dip from their heights in 2022, as growth dampens in the Middle East, and stutters in China.
- Over the long-term, the fundamentals for Gulf-Asia trade growth are strong. The Gulf states' social and economic reform programmes, Gulf capital market expansion, rising energy demand and middle-class population growth in Asia, enhanced economic integration in the Gulf, and greater soft power and tourism exchanges will all drive the Pivot.

Introduction

The Middle East Pivot to Asia has accelerated significantly over the past year, with GCC trade with Asia surging 34.7 per cent, from US$383bn in 2021 to US$516bn in 2022. Higher average oil prices in 2022, compared with 2021, account for much of this growth.

But there has also been significant growth in non-oil sectors, particularly in technologies that are key to the Gulf's economic diversification and digitalisation, such as cloud computing, AI, and fintech.

The coming COP28 in the UAE has also prompted significant growth in sustainable cooperation with Asia, particularly China, where there are synergies in renewables, hydrogen, EVs, and green construction.

The Gulf's trade with Advanced Economies also saw significant growth between 2021 and 2022 off the back of higher oil prices, rising by around 32.8 per cent from approximately US$442bn to US$587bn between 2021 and 2022. But the pace of growth in Gulf-Asia trade continues to outstrip that with the Advanced Economies, and in particular Western nations such as the US, UK, and Western Europe.

The gap between Gulf-Asia trade and Gulf-Advanced Economies trade has narrowed over the past decade, as Figure 1 shows. In 2010 the gap was roughly US$191bn but by 2022 had narrowed by over 60 per cent to US$71bn. The Gulf's trade with Asia as a proportion of its total trade continues to grow in significance. In 2010, Gulf-Advanced Economies trade was worth approximately 43 per cent of the total, with Gulf-Asia trade worth approximately 24 per cent. By 2022 the figures stood at 34.5 per cent and 30.3 per cent respectively.

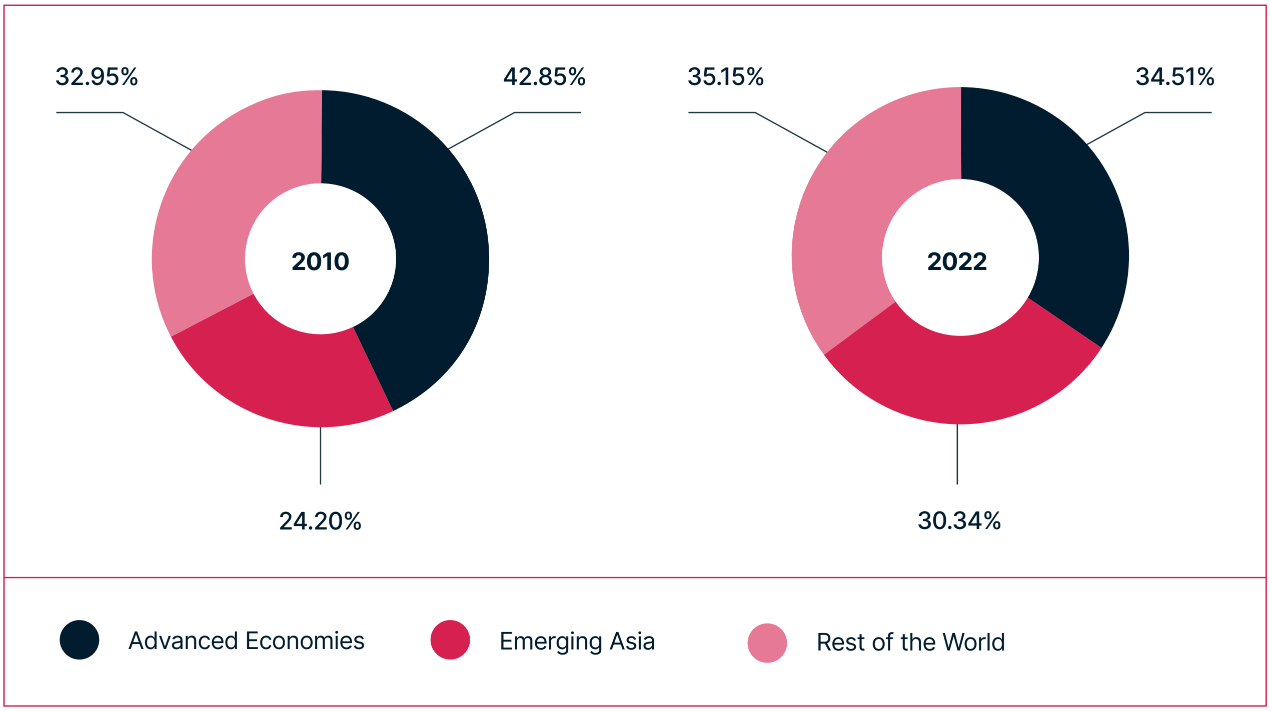
The most significant moment for the Pivot over the last year was Chinese President Xi Jinping's visit to Saudi Arabia in December 2022. This saw 35 deals signed worth US$50bn and a significant strengthening of Saudi-China relations that will act as a key driver of the Pivot over the coming years. Gulf-China trade has jumped by around 50.6 per cent from US$166bn in 2012 to US$250bn a decade later. This is approaching the Gulf's combined trade with the US, UK, and Western Europe, which has remained flat at US$266bn over the past decade.

China's trade with the Gulf's two largest economies – Saudi Arabia and the United Arab Emirates (UAE) – is growing at an even faster rate. In 2021, Saudi-China trade was US$82.1bn. In 2022 it was US$105bn, representing a rise of almost 28 per cent. UAE-China trade has soared by 37 per cent from approximately US$78bn in 2021 to US$107bn in 2022. Both years saw the UAE's trade relations with China surpass its combined trade with the US, UK, and Western Europe.

The growing use of the Renminbi (RMB) as a currency for global trade could also enhance China's economic influence in the Gulf and is a key

Figure 1:

Share of total Gulf trade with Advanced Economies, Asia, and the Rest of the World, 2010 and 2022. (per cent)



trend to monitor in the Pivot. RMB use as a trade settlement currency has tripled in the last three years and now accounts for about six per cent of total global trade, surpassing the Euro. RMB use is expected to continue to climb in 2024 (Papadavid, 2023a). The use of RMB in international trade has risen off the back of international sanctions against Russia, with Moscow accepting RMB as payment for oil exports to China, and also India. China hopes its expanding economic relations with the Gulf will advance to the point that regional economies will start accepting payment for oil in RMB. China's growing economic influence is encouraging it to be more active in the region's politics, as evidenced by it brokering rapprochement between Iran and Saudi Arabia, Saudi Arabia signing on as a dialogue partner in the Shanghai Cooperation Organisation – with Iran becoming a full member – and the UAE, Iran, Egypt, and Saudi Arabia being invited to join the BRICS group, effective on 1 January 2024. The inclusion of Middle Eastern powers in Chinese-led organisations and alliances will increasingly involve them in strategic discussions on global affairs led by Beijing. This could reduce US influence and is another key trend to monitor in the Pivot.

It is not just China's trade with the Gulf that has accelerated over the past few years. There has also been growth in India's bilateral trade in the region – spurred by the signing of a CEPA with the UAE – as well as growth in trade between the Gulf and the Association of Southeast Asian Nations (ASEAN). Hong Kong, which has been re-establishing itself as a major international financial centre since the lifting of Covid-19 restrictions at the end of 2022, has also made a concerted effort to court ties with the Gulf and is becoming an increasingly vital link driving capital flows and business with Asia. The key bilateral relations driving the Pivot are granted greater attention in Section Two of this report.

The 2023 Middle East conflict could have a detrimental impact on the Pivot. The conflict, particularly if it broadens, could undermine investment and business, and cause energy price rises that would undermine global trade and the economic outlook. There could be a slowdown in Gulf-Asia trade growth in 2023 as a consequence of oil prices falling since the heights of 2022 when the price of OPEC Crude stood at US$100.08. At the time of writing,[5] the price stands at US$83.25 per barrel for 2023. The hydrocarbon trade continues to be crucial, with oil accounting for around one half of total Gulf exports to Asia, meaning energy price changes have a significant impact on the Pivot. There has also been a deceleration in economic growth in 2023 in the MENA region. This could impact the Pivot. Economic growth in MENA stood at 5.8 per cent in 2022, but Gulf growth in 2023 will slow to 1.4 per cent (Zawya, 2023a).

China's economic growth has faced headwinds in 2023, including a lacklustre property market, high youth unemployment, and reduced private sector confidence. After a tentative recovery, it appears to be on track to meet its 2023 growth target of five per cent. China's economy grew faster than expected in Q3, expanding by 4.9 per cent year-on-year. Q2 saw year-on-year growth of 6.3 per cent (Reuters, 2023a). On a global level, inflation and central bank monetary policy tightening continue to dampen growth prospects in the West and Asia, as well as deterring investment.

Over the long-term, Gulf-Asia trade growth prospects remain strong. Trade will likely rise as Asia's economies, middle-class populations and energy demand expand over the next five to ten years. The Gulf's efforts to diversify its economies will also grow various non-oil sectors that have already spurred enhanced Gulf-Asia cooperation, such as sustainability and technology. Sustainability as a growing area of cooperation is analysed in Section Three, whereas growth in other non-oil sectors, particularly technology, is analysed in Section Four. Simultaneously, the Gulf states' economic and social reform, as well as the utilisation of capital market expansion and reform to drive growth, are also encouraging Asian investment. The key reforms over the past year, as well as emerging opportunities relating to the Middle East Pivot to Asia, are discussed in Section Five. Another driver of Gulf-Asia trade is growing focus from SWFs on Asia. As this investment grows, so too will Asia's strategic importance to the Gulf. One emerging trend is growing cooperation between Gulf SWFs and Asian financial institutions to co-invest. Recent Gulf SWF activity in Asia is discussed in Section Six.

These factors mean Gulf-Asia trade is only set to grow. Should trade continue to increase at average annual growth rates seen between 2010 and 2019, then we can expect it to reach approximately US$757bn by 2030, almost doubling from 2021. Crucially this means Gulf-Asia trade will soon exceed Gulf-Advanced Economies trade, with our projections indicating this will take place in 2026.

The Middle East Pivot to Asia therefore is one of the key geoeconomic and geopolitical shifts taking place in the world today. As Asia grows in importance to the Gulf – and vice versa – Asian viewpoints are likely to carry more weight in the strategic decision-making of Gulf rulers. The West will still remain an important economic partner of the Gulf despite the growing influence of Asia, with the region seeking to maintain cooperative ties with both. However, increasing US-China tensions pose a risk to the Pivot with the US pressuring the Gulf states to limit cooperation with Beijing in particular sectors. Other risks also exist, not least the Middle East conflict. Economic competition also continues to develop among the Gulf states, and while this has a positive impact by accelerating the rate of economic and social reform, there is a risk that it will lead to protectionist and localisation measures that may undermine integration. The risks to the Pivot are discussed in greater detail in Section Seven.

5 Accurate as of 20 November 2023.

1

The GCC-Asia Trade Outlook

This section explores in greater detail why Gulf-Asia trade has surged over the past year and why growth will likely continue over the next decade. There could be a slowdown in Gulf-Asia trade growth in 2023 as global oil prices fall from their 2022 heights. This oil price contraction will reduce the value of the hydrocarbons trade between the Gulf and Asia, which represents around one half of total trade.

It will also reduce Gulf investment in non-oil sectors which has seen it seek Asian expertise and cooperation. Still, Xi Jinping's visit to Saudi Arabia in December 2022 led to a spate of commercial deal-making that has continued into 2023 and has predominantly focussed on non-oil sectors.

The Pivot Accelerates: Why has Gulf-Asia Trade Growth Surged?

The rise in global oil prices accounts for much of the trade surge between the Gulf and Asia. In 2021, the average price of OPEC crude was US$69.89 per barrel, compared to US$100.08 in 2022. The easing of global social restrictions following the COVID-19 pandemic has increased global oil demand, and has also encouraged greater Gulf-Asia non-oil trade through increased tourism, business travel, and political delegations.

Despite higher oil prices, Asian demand for Gulf hydrocarbons remained robust over this period, pushing up the value of trade, with the exception of India (Saadi, 2023). In 2022, OPEC's share of oil exports to India fell at the fastest pace in the past 22 years, as Russia offered discounted oil in response to international sanctions on its energy sector (Arab News, 2023a). Asia is a major customer of Gulf hydrocarbons, with oil and gas accounting for around one half of total Gulf exports to Asia. This means there is a clear correlation between energy prices and the value of Gulf-Asia trade, as Figure 2 shows.

The Gulf states are actively diversifying their economies away from oil by expanding their non-oil trade with Asia, and as the global energy transition reduces demand for hydrocarbons, in turn decreasing prices, we expect to see reduced correlation between energy prices and Gulf-Asia trade.

High oil prices in 2022 have fuelled Gulf economic growth. As Table 1 shows, Saudi Arabia, Kuwait, and the UAE saw their economies expand by 8.7 per cent, 8.2 per cent, and 7.4 per cent respectively.

High oil prices give the Gulf states greater spending power to invest in non-oil sectors, encouraging economic diversification and Gulf-Asia non-oil trade. As Figure 3 shows, oil prices in 2022 were above the fiscal break-even price that allows most Gulf states to generate budget surplus. This has encouraged growth in non-oil

Figure 2:
GCC-Asia trade compared with average annual OPEC oil prices

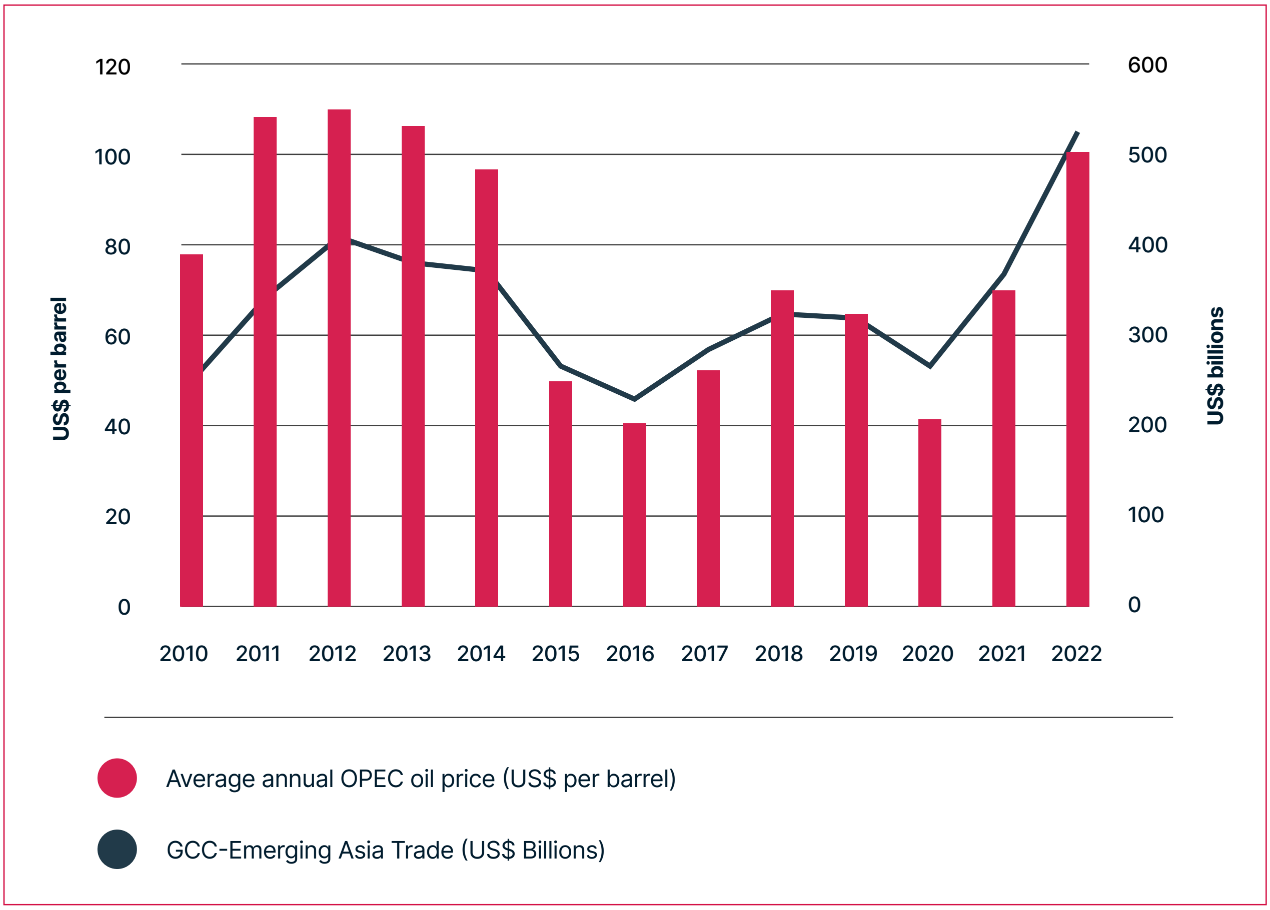


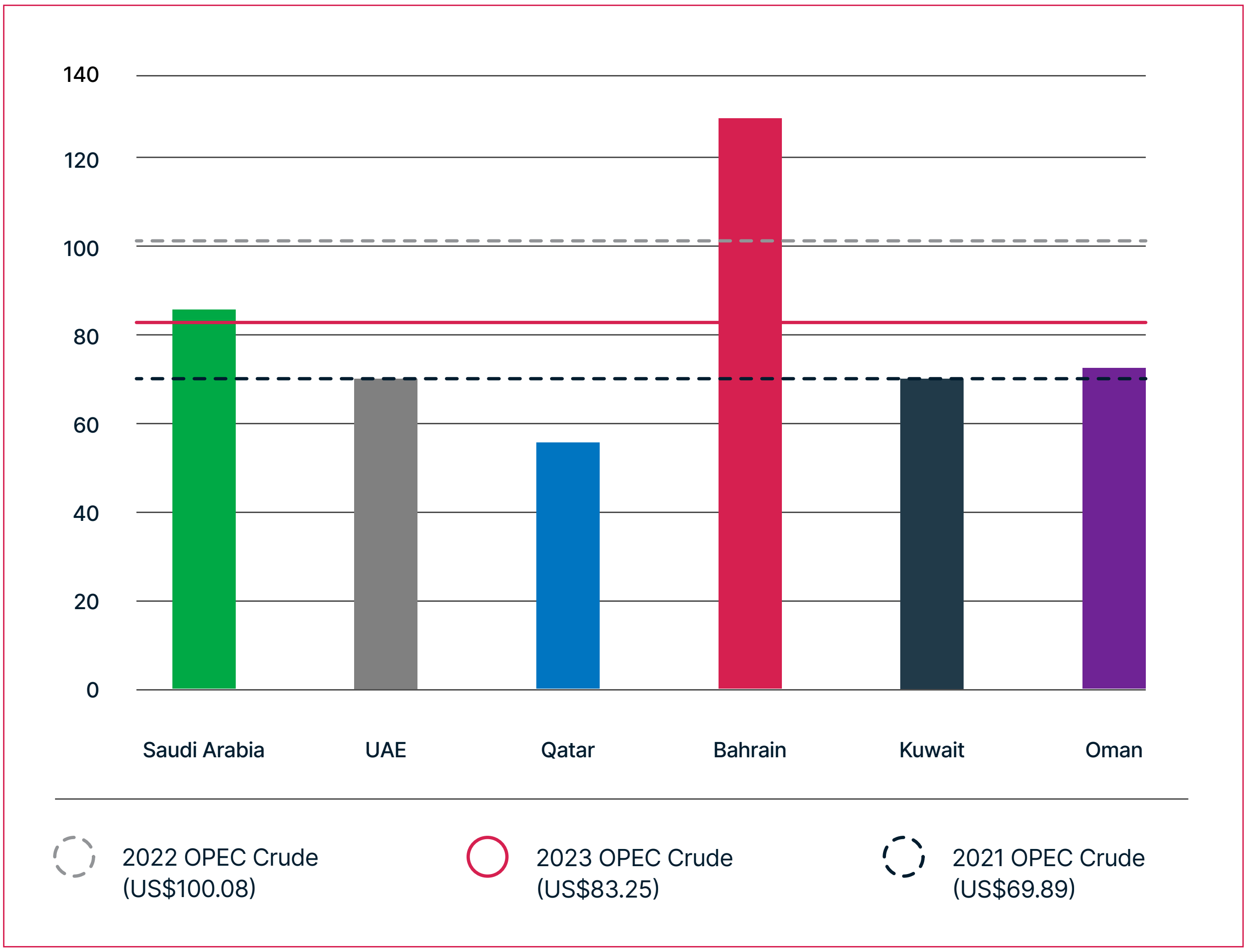
Table 1:
GDP growth in the GCC (2022)

GCC Economy	GDP Growth (per cent)
Saudi Arabia	8.7
UAE	7.4
Bahrain	4.8
Qatar	4.9
Kuwait	8.2
Oman	4.3

Source: (World Bank, 2022a).

Figure 3:

Fiscal break-even oil price (2022) (US$ per barrel)



Source: (IMF, 2023b).

sectors. According to the International Monetary Fund (IMF), Saudi Arabia's non-oil growth, for example, rose by 4.8 per cent in 2022 (IMF, 2023a), while the UAE's increased by six per cent (UAE Ministry of Economy, 2023a).

With the exception of Bahrain, all other Gulf states had a fiscal break-even price below the average 2022 oil price, assisting with generating budget surpluses. Oil prices have dipped since 2022, and at the time of writing,[6] the average 2023 OPEC Crude price stands at US$83.25. While this will impact spending on Gulf economic diversification projects, it still sits above the fiscal break-even price of all Gulf states except Bahrain and Saudi Arabia.

The Pivot has also accelerated in 2022 because Asian economies enjoyed strong growth as the easing of COVID-19 restrictions allowed a resumption of economic activity. India, Indonesia, and Vietnam grew by 7.0 per cent, 5.3 per cent, and 8.0 per cent respectively (World Bank, 2022), encouraging Gulf-Asia trade growth. China lifted COVID-19 restrictions right at the end of 2022, meaning growth in 2022 was at a more sluggish three per cent. Economic growth in China has struggled to pick up since then. Finally, Gulf-Asia trade was boosted by a spate of dealmaking. Xi Jinping's visit to Saudi Arabia in December 2022 was particularly significant, with 35 deals worth US$50bn signed. The impact of this visit is explored in greater detail in Section Two.

6 Accurate as of 20 November 2023.

Energy Price Outlook: The Continued Importance of Hydrocarbons to the Pivot

Hydrocarbons continue to be crucial to the Pivot, with oil accounting for around one half of total Gulf exports to Asia, which is a major source of Gulf government revenue and the funds it uses to diversify its economies. For example, eight per cent of Saudi Arabia's GDP, and one-third of Oman's is linked to exports to China (Dagres, 2023). The Gulf is vital to Asia's energy security. Asia often makes strategic investments in the Gulf's oil industry aimed at securing supply by increasing extraction or capacity at Gulf ports used to ship oil. China for example has invested around US$10.7bn to develop Oman's Duqm Port, which crucially bypasses the Strait of Hormuz, a maritime chokepoint between Iran and Oman. In the past Iran has threatened to close the strait, a major route for oil tankers.

The most important hydrocarbon supply deal in 2023 was a 27-year agreement between QatarEnergy and China National Petroleum Corporation (CNPC) under which China will buy four million tonnes of Liquified Natural Gas (LNG) from Qatar per year. Under the deal CNPC will take a five per cent stake in one of the LNG trains in Qatar's North Field, the world's largest LNG reservoir (Kerr and England, 2023). In another major deal in June 2023, Abu Dhabi's ADNOC awarded China Petroleum Engineering and Construction (CPECC) a contract to increase oil and gas processing capacity by 20 per cent on one of its fields (Yihe, 2023). The project is part of ADNOC's goal of increasing production from four million bpd to five million bpd by 2025.

The Gulf is increasingly investing in the Asian downstream refineries that receive its oil. For example, in March 2023, Aramco CEO Amin Nasser visited China and announced the building of a US$10bn integrated refinery and petrochemical complex in Panjin City. Aramco will supply up to 210,000 bpd once the project is fully operational in 2026. The deal was first announced in 2019. In 2023 Aramco also purchased a 10 per cent stake in Rongsheng Petrochemical Company for US$3.6bn. It will provide 480,000 bpd, around four per cent of the kingdom's total production capacity. More recently, in September 2023, Aramco began talks with Jiangsu Eastern Shenghong Company to acquire a 10 per cent stake in its refinery subsidiary (Kumar P., 2023a). These deals help lock in China as a reliable customer.

Gulf Energy cooperation extends beyond China. In July 2023 ADNOC Gas signed a 14-year LNG supply agreement of 1.2mn metric tonnes with India's largest refiner, Indian Oil Corporation Limited (Sharma and Benny, 2023). The next month it signed a roughly US$500mn five-year LNG supply deal with Japan Petroleum Exploration Co. (Reuters, 2023b). Aramco has also broke ground on a US$7bn project to produce petrochemicals in South Korea's port city of Ulsan and in December 2022, Oman LNG agreed to provide Japan's JERA, Mitsui & Co, and Itochu with 2.25mn tonnes of LNG per year between 2025 and 2035 (Tan and Aizhu, 2023; LNG Prime, 2022).

Global oil prices have fallen since the heights of 2023 as high inflation and central bank monetary policy tightening have reduced global demand. Russia, in the face of international sanctions, has also sold oil at discounted prices, undercutting many Gulf suppliers. Indeed, Russia overtook Saudi Arabia as China's top oil supplier in Q1 2023 (Verma, 2023). OPEC has cut oil production in response to this falling demand. In April 2023, OPEC+ cut production by around 1.16mn barrels per day (bpd) and in July 2023, Saudi Arabia said it would implement a voluntary one million bpd production cut, which can be extended, leading to a gradual rise in OPEC oil prices throughout Q3 2023.

Asian demand for hydrocarbons will rise over the next few years, boosting the Pivot. China will become the world's largest importer of LNG in

2023 and its demand may double through to 2040 (Bloomberg News, 2023), with Qatar, as the Gulf's largest producer, most likely to benefit. In H1 2023, China imported record volumes of crude, averaging 11.4mn bpd (U.S. Energy Information Administration, 2023) and the International Energy Agency (IEA) predicts its demand for oil will increase further before peaking in 2030 (McMillan, 2023). ASEAN's oil demand is also expected to increase, with the Gulf states standing to benefit. According to the IEA, the amount of crude oil that will be shipped from the Middle East to Southeast Asia will double from around two mn bpd in 2020 to over four mn bpd by 2050 (IEA, 2022). The Gulf states are responding by increasing their production capacity. Qatar, for example, is spending US$30bn to increase LNG production from 77mn tonnes to 110mn tonnes by 2025 and then to 126mn tonnes by 2027 (Kerr and England, 2023). Saudi Arabia wants to increase production capacity from 12mn bpd to 13mn bpd by 2027. While Section Three explores how Gulf-Asia sustainable cooperation is on the rise, hydrocarbons will remain crucial to the Pivot and will continue to drive Gulf-Asia trade growth.

The Outlook for the Pivot in 2023: Growth Still Expected but at a Slower Rate than 2022

We expect Gulf-Asia trade to continue expanding in 2023, but potentially at a slower rate than in 2022. While the MENA region experienced 5.8 per cent growth in 2022, it is expected to decelerate to 1.7 per cent in 2023, with Gulf growth specifically slowing to 1.4 per cent (Zawya, 2023a). This is expected to sharply impact trade, with the World Trade Organisation (WTO) predicting that Middle East export growth will decline from 9.9 per cent in 2022 to just 0.9 per cent in 2023. Import growth will also slow from 9.4 per cent to 5.5 per cent (Wragg, 2023). This will slow Gulf-Asia trade, as will lower oil prices in 2023, which could reduce Gulf spending on non-oil sectors. For example, the IMF believes Saudi Arabia will run a budget deficit of 1.1 per cent of GDP in 2023, contrary to government expectations (Magdy, 2023). This will impact the kingdom's declining foreign reserves, which reached their lowest level in 13 years in April 2023, down 44 per cent from a peak in 2014.

The Gulf has been somewhat insulated from the inflationary pressures facing other global economies, largely due to government subsidies and cheaper energy prices. Inflation has mainly impacted Gulf imports, with food and other goods from abroad rising in price. Global inflation has also affected Gulf interest rates. Since Gulf currencies are largely pegged to the US dollar,[7] Gulf central bank interest rates have followed the US Federal Reserve's own rate hikes. This period of central bank monetary policy tightening has reduced Gulf businesses access to finance, dampening the overall investment environment. Global inflation and central bank monetary policy tightening has also impacted Asia, reducing the appetite for investing overseas or considering international expansion.

Gulf-China trade growth accelerated between 2021 and 2022, but since the lifting of COVID-19 restrictions in late 2022, Beijing's economic recovery has been tentative. China's year-on-year growth for Q2 2022 was 6.3 per cent, but it declined to 4.9 per cent in Q3 2022 (Reuters, 2023a). Weak domestic consumption, weak demand in its property sector and rising youth unemployment have all stymied the country's growth prospects. China has been wary of introducing too many stimulus measures for its property market, concerned that this could add to high local-government debt and fuel inflation, preferring to use monetary policy to stimulate the economy through interest rate cuts (Mao, 2023). Overall, the economic slowdown is harming Chinese manufacturers, particularly of construction materials and household goods, in turn hitting exports. China's slowdown and declining exports could hurt Gulf-China trade growth.

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

The outlook for economic growth in Emerging Asia as a whole in 2023 and 2024 is strong. The IMF's October 2023 World Economic Outlook forecasts that growth rates for Emerging Asia will increase from 4.5 per cent in 2022 to 5.2 per cent in 2023, before dipping to 4.8 per cent in 2024. This outpaces economic growth within Advanced Economies, which is expected to decline from 2.6 per cent in 2022 to 1.5 per cent in 2023 (IMF, 2023c). Indian growth will remain strong and is projected to be 6.3 per cent in both 2023 and 2024. Positive growth in Emerging Asia will encourage the Pivot and compensate for more lacklustre performance in the Middle East.

Future GCC-Asia Trade Growth: Updates to Asia House Projections

There are several reasons why we expect GCC-Asia trade to grow. Rising oil demand from Asia over the next several years will boost hydrocarbon trade. Increased oil demand could maintain oil prices at or over the Gulf states' fiscal break-even prices. A high oil price over the last 18 months has filled the coffers of Gulf SWFs, stimulating investment into Asia, in turn driving the Pivot.

We expect expanded Gulf-Asia cooperation in non-oil sectors over the coming years. This will not only boost trade, but make it more resilient in the face of oil price fluctuations. As Section Three and Section Four explore in greater detail, there has been growing cooperation in sustainability, technology, advanced manufacturing, and logistics; the Gulf's development of these sectors has attracted greater Asian investment and expertise. Gulf economic diversification will continue to expand non-oil sectors, with Asian firms benefiting, and Gulf-Asia services trade also rising as the Gulf and ASEAN adopt digital transformation strategies.

Gulf economic and social reform has continued at pace. This is attracting Asian investment and businesses, in turn driving trade growth. In 2023 alone Saudi Arabia launched four new special economic zones, the UAE created a new Investment Ministry, and Saudi Arabia introduced a Civil Transaction Law, encouraging Asian investment into the Gulf. Continued visa liberalisation is also encouraging more Asian businesses and workers to expand into and relocate to the Gulf.

Table 2:
Gulf interest rates and inflation rates; accurate as of 1 November 2023

	Current Interest Rate (per cent)	Inflation Rate (per cent)
Saudi Arabia	**6.0**	**1.6** (October 2023)
UAE	**5.4**	**3.81** (September 2023)
Bahrain	**6.25**	**-0.1** (September 2023)
Qatar	**6.25**	**2.52** (October 2023)
Kuwait	**4.25**	**3.8** (October 2023)
Oman	**6.0**	**0.3** (October 2023)

The Gulf states are focussed on developing their advanced manufacturing and logistics sectors in a bid to drive non-oil exports. The UAE's push to negotiate CEPAs will also drive trade. The UAE has brokered CEPAs with large markets such as India and Indonesia, and has its sights set on further ASEAN powers, including Thailand, Malaysia, and Vietnam, in a bid to reduce tariffs, eliminate non-tariff barriers and boost its manufacturing and exports.

As both Asian and Gulf middle classes and economies expand, trade between these two regions will naturally increase. The IMF forecasts that the Asia-Pacific will supply 70 per cent of global economic growth in 2023, with China and India accounting for one half of this activity. This means that Asia itself is becoming more important to global trade, which will naturally support the Pivot, as Gulf companies look towards Asia for growth. Indeed, there has been a recent uptick in the number of Arab Banks looking to the Asia-Pacific for growth and expansion opportunities (Domat, 2023).

Asia House's 2022 Middle East Pivot to Asia Report projected that GCC-Asia trade would reach approximately US$578bn by 2030. But it is growing much faster than expected, surging from US$383bn in 2021 to US$516bn in 2022. While some of this growth is linked to a high oil price, we have also seen growth in non-oil activities. Should GCC-Asia trade continue to grow at the average annual rate realised in 2010-2019 (approximately 4.9 per cent), then it is set to reach approximately US$757bn by 2030, almost doubling the 2021

Figure 4:

GCC trade with Asia is catching up with Advanced Economies

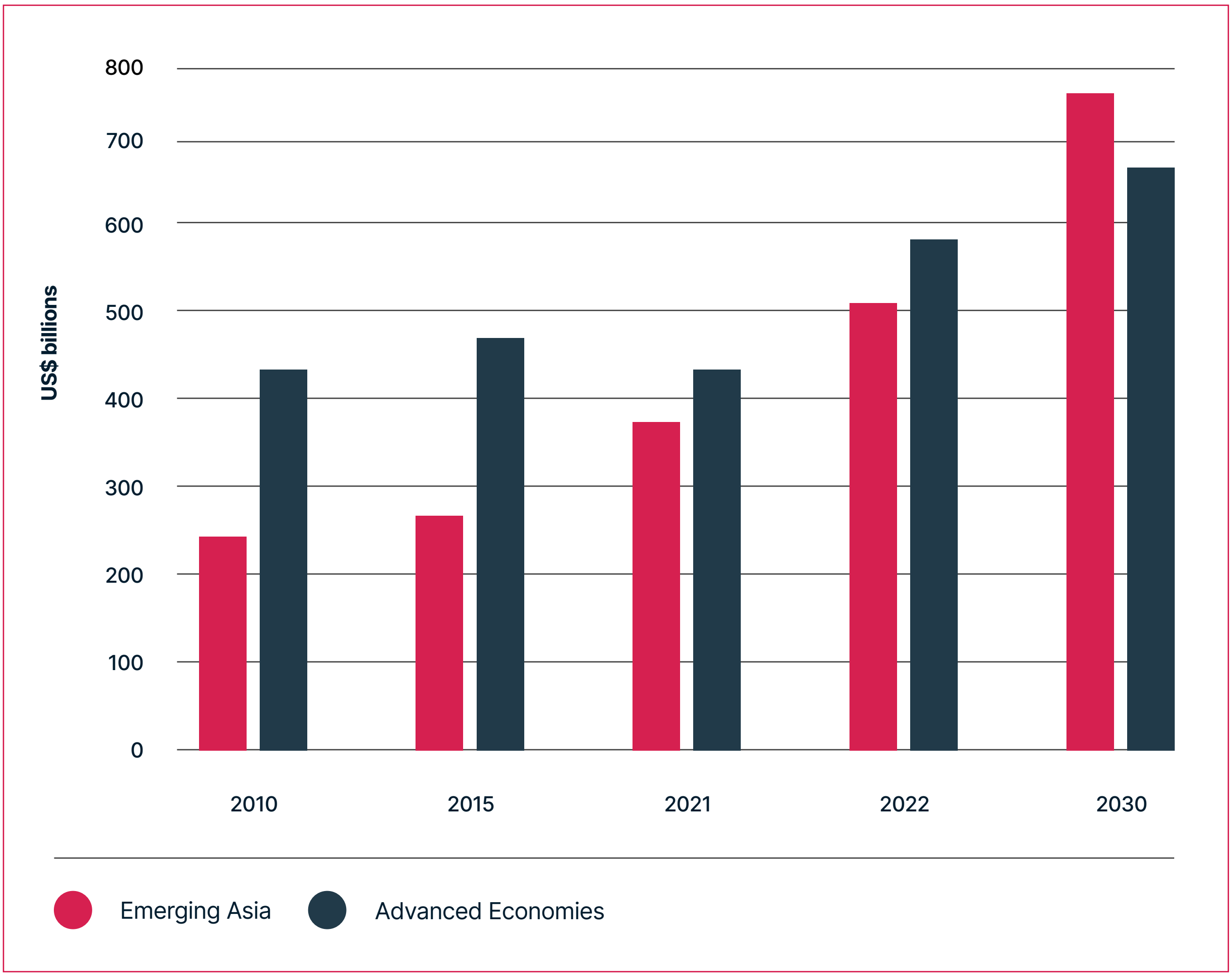
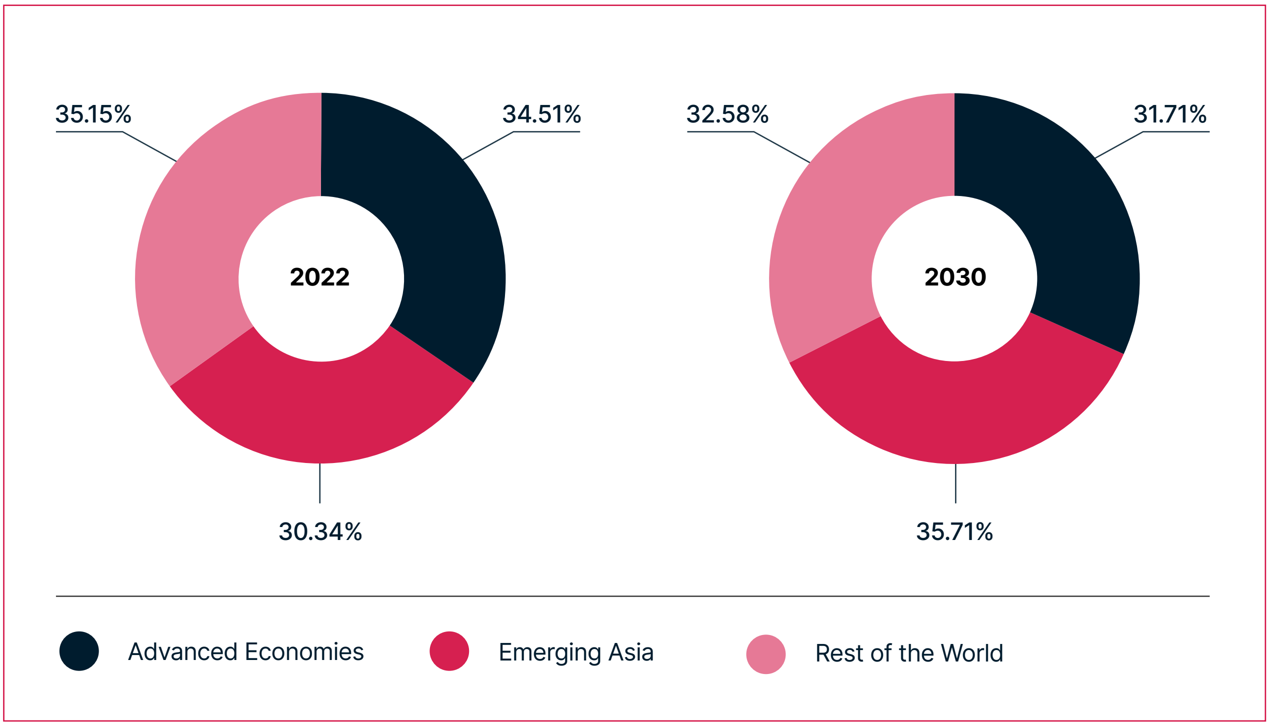


Figure 5:
Current GCC regional trade and forecasted GCC regional trade in 2030 (per cent)



value. Crucially, this will move forward the date we expect Gulf-Asia trade to overtake that with Advanced Economies, which we now predict to occur at some point in 2026, rather than 2028. Our projections suggest that Gulf-Advanced Economies trade will be worth US$672bn by 2030.

This will have profound geopolitical implications. As Figure 5 shows, Asia will continue to become more important to the Gulf's overall trade. In 2022, Asia represented approximately 30.3 per cent of the Gulf's total trade, with Advanced Economies representing approximately 34.5 per cent. By 2030, Asia will leapfrog the Advanced Economies, making up approximately 35.7 per cent of the Gulf's total trade, with the Advanced Economies at approximately 31.7 per cent.

While the Gulf's trade with Advanced Economies will continue to make up a sizeable portion of its total, clearly the centre of gravity is shifting eastwards. Asia will grow more important to the Gulf's trade and economic fortunes, increasing Gulf leaders' incentives to enhance political ties and consider Asian perspectives in strategic decision-making, possibly to the detriment of the West. Furthermore, as GCC-Asia trade and investment rise, we will see greater bilateral political exchanges and cooperation to protect and expand these investments, making the relationship a more significant pillar of global politics.

Riyadh skyline.

Interview with HE Dr Thani Al Zeyoudi, UAE Minister of State for Foreign Trade

HE Dr Thani Al Zeyoudi has been Minister of State for Foreign Trade since July 2020. He was previously UAE Minister of Climate Change and Environment.

The UAE's trade with Asia has grown considerably over the past few years. Why has UAE-Asia trade boomed over recent years?

The UAE and Asia are both centres of global growth that share a vision of economic diversification, technological integration, industrial modernisation, and trade facilitation, so it is natural for commercial exchange to flourish between our regions. We are also politically close and enjoy stable, positive relations based on trust and mutual respect.

The UAE has been able to leverage our geographical location to become a supply-chain nerve center and a genuine global gateway. Our unrivalled connectivity and world-class logistics infrastructure offers a compelling platform to connect goods and commodities from Asia to the rest of the world, particularly Africa and Europe. Similarly, we have been able to facilitate trade flows into Asia from these important markets.

Our relationship with Asia has been a major contributor to our record non-oil foreign trade. In the first half of 2023, it reached a value of US$337 billion, the highest ever for a half-year and an increase of 14.4 percent over the same period in 2022. Importantly, our non-oil exports are also climbing, growing 11.9 percent to reach US$55.8 billion – more than we achieved in the whole of 2017.

Do you expect UAE-Asia trade to continue growing over the next decade? If so, why? And what are the key drivers of this growth?

I do – and it will. In the past 18 months, the UAE has concluded Comprehensive Economic Partnership Agreements, or CEPAs, with India, Indonesia, South Korea, and Cambodia, which have removed or reduced tariffs, removed unnecessary barriers to trade, enhanced market access for both merchandise and service exports and harmonised digital trade with some of the most dynamic markets in the world.

Importantly, Asia remains one of the world's principal manufacturing hubs and also an important center of innovation, which will ensure a significant flow of products into the UAE and, via our ports and freezones, to markets right across the world. The UAE recognises the opportunities for our own exporters in the consumer spending power of the emerging middle class in Southeast Asia and India.

As our relationship with Asia deepens, we see considerable potential for investments and joint ventures in sectors such as manufacturing, logistics, food production and energy that will accelerate the exchange of goods and services across what we envision being a new corridor of opportunity. In Indonesia, for example, our national clean energy champion Masdar has partnered with Indonesia's state-owned power company to develop one of the world's largest floating solar plants, while DP World has invested US$510 million to develop a new container terminal in the state of Gujarat.

"Importantly, our non-oil exports are also climbing, growing 11.9 percent to reach US$55.8 billion – more than we achieved in the whole of 2017. "

The UAE has undertaken a concerted campaign to negotiate CEPAs globally. Many of these negotiations focus on Asia. What underpins this strategy? Which Asian countries can we expect future CEPAs to emerge from?

We launched our CEPA programme in September 2021 as a core component of our vision to double the size of our economy by 2030. We are a firm believer that free, inclusive trade, with its stimulative effect on industrial output, innovation, and inward investment, is a key driver of economic growth, which was why we sought to secure a new network of trading partners that could provide preferential access to new markets, new customers, new ideas and new products and commodities. We are planning to complete 27 CEPAs with nations and trading blocs, with the aim of covering 95 percent of global trade. The countries of Asia, with similar histories of trade and exchange, were natural partners in this strategy and their positive response to our CEPA approaches reflects a shared vision. In addition to the completed deals with India, Indonesia, South Korea, and Cambodia, we have started negotiations with Thailand, Malaysia, Vietnam and hope we can conclude those before the end of Q1, 2024.

What has the impact of the UAE's existing CEPAs with Indonesia and India been? How have they impacted UAE trade with these geographies?

Our CEPA with Indonesia only came into force on September 1, 2023, so we don't yet have sufficient data on which to draw, although we are projecting that bilateral non-oil trade will reach US$10 billion by 2030. In terms of India, our second-largest trade partner, we can see that the CEPA has helped to maintain the upswing in bilateral trade amid a general downturn in global trade volumes. In the first 12 months of the CEPA, which came into effect on May 1, 2022, non-oil trade reached US$50.5 billion, which is a 5.8 per cent increase on the corresponding period a year earlier – and sets us on the path towards bilateral trade of US$100 billion by 2030. But these CEPAs were designed for long-term growth not short-term gain, and we are confident they will benefit us both for decades to come.

"In the first 12 months of the CEPA, which came into effect on May 1, 2022, non-oil trade reached US$50.5 billion, which is a 5.8 per cent increase on the corresponding period a year earlier – and sets us on the path towards bilateral trade of US$100 billion by 2030."

Beyond brokering CEPAs, how else is the UAE seeking to grow its non-oil exports?

Since beginning the CEPA program, we have launched two additional trade initiatives. The first is the Services Export Strategy, which will create new market opportunities for our services sector. According to the World Trade Organisation (WTO), the UAE is the 12th-largest service exporter in the world. In 2022, we exported US$154 billion in services, which represents 2.2 per cent of the global total and underlines the huge potential to expand further in this direction. Our focus will be on leveraging our trading partnerships to develop the export potential of travel and tourism, ICT, professional services, financial services, education, medical tourism, Islamic financial services, the creative economy, and logistics.

The second is The National Agenda for Re-Export Development 2030, which is designed to expand the geographical reach of our re-exports, identify new product sectors with high value-add potential, and remove bottlenecks and other process barriers. Re-exports contribute 6.6 per cent of the UAE's GDP, supporting around 1.3 million jobs in logistics, banking and finance, insurance, communication, hospitality, transport, healthcare, and recreation.

Which non-oil sectors have the biggest growth potential over the next few years, and how might Asian expertise and investment assist these sectors' growth?

Services will be a major focus for us, so we expect the likes of financial and professional services, fintech, contracting, and travel to all experience strong growth – and our CEPAs with Asian nations will provide huge opportunities to expand their global reach. We also see considerable potential in the opportunities created by Net Zero and the green economy, including the likes of renewable energy, electric and hybrid vehicles, energy storage and fuel cell technology, agri-tech, and water technology. We definitely see technologically advanced nations such as Korea supporting these efforts, as they already have with the development of the Arab world's first nuclear power station in Abu Dhabi.

Our Middle East Pivot to Asia report finds that UAE trade with China has been greater than the UAE's trade with the US, UK, and Euro Zone economies combined over the last couple of years. What accounts for the UAE's trade growth with China? Is China becoming more crucial to the UAE's economic growth?

UAE-China trade has certainly enjoyed robust growth in recent years. In the first half of 2023, non-oil bilateral trade reached US$38.2 billion, confirming China as the UAE's single largest trading partner globally. As an important trading hub, we offer Chinese products a vital gateway into Europe, Africa, and the wider Middle East, which we have sought to enhance in recent years through joint ventures such as the Traders Market megaproject in Jebel Ali – a retail and wholesale marketplace that is now an important node on the Belt and Road Initiative.

It is important to note that the UAE enjoys increasingly positive trading relations with nations and regions across the world, with non-oil trade with both the US and Europe growing consistently in recent years. The goal of our CEPA programme is to broaden our global trading network, which includes deeper ties with not only Asia but also other emerging markets in Africa, Eastern Europe, and South America.

2

Key Relationships In The Pivot

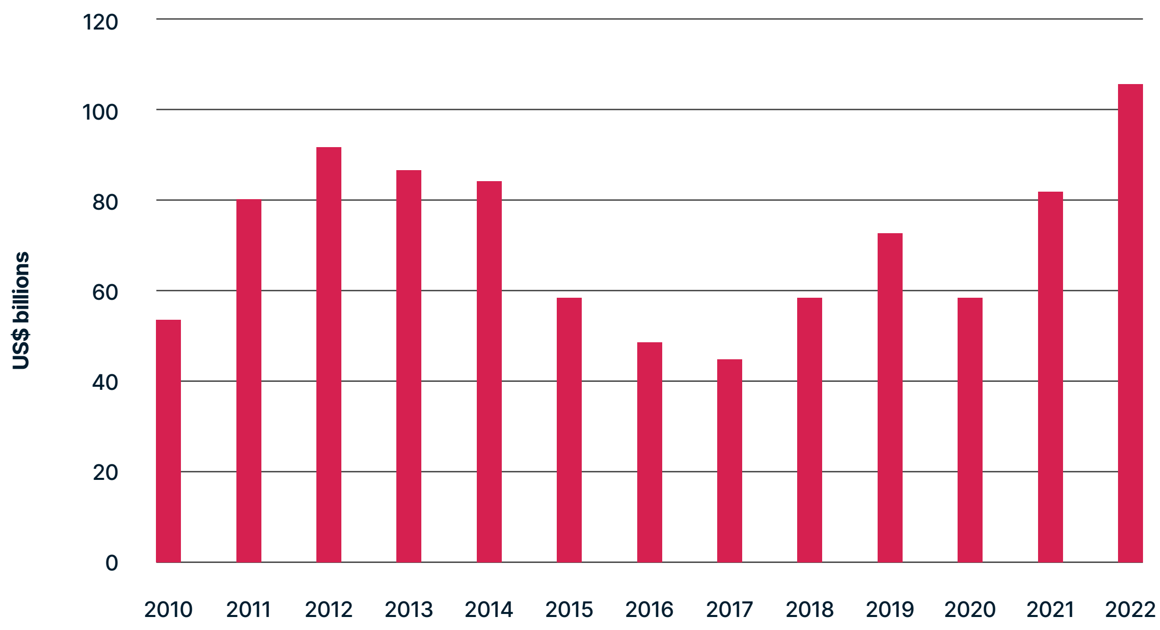
The increasing Gulf trade with Asia is outpacing that with Western economies such as the US, UK, and Western Europe. Gulf trade with China has particularly surged over the past year. The UAE-China trade relationship is now the most significant in the Pivot, followed closely by Saudi-China trade.

UAE-China trade surged by 37 per cent from approximately US$78bn in 2021 to approximately US$107bn in 2022, exceeding the UAE's combined trade with the US, UK, and Western Europe. The UAE's trade with these Western economies stood at US$90bn in 2022. This is the second time UAE-China trade has reached this milestone, having narrowly surpassed it in 2021. Saudi-China trade did the same in 2021, but in 2022, despite growing by 28 per cent from approximately US$82bn to US$105bn, it fell behind Saudi trade with these Western economies, which reached approximately US$114bn in 2022.

The China-Gulf trade relationship has traditionally been centred around hydrocarbons and construction. The Gulf provides China with oil and natural gas to fuel its economic growth, with 41 per cent of China's oil imports originating from the Gulf (Dagres, 2023). China's expertise and manpower in greenfield construction has assisted Gulf economic growth, particularly in infrastructure, new urban areas, and ports. These aspects of the China-Gulf relationship still hold, but there is now also concerted cooperation in new sectors, most notably sustainability, technology, and logistics – all key to the Gulf's economic diversification.

This section delves deeper into both the UAE-China and Saudi-China bilateral relationships, outlining why trade has grown substantially, examining recent commercial deals and exploring how cooperation is moving beyond business to become more strategic, as demonstrated by the kingdom becoming a dialogue partner in the Shanghai Cooperation Organisation and joining BRICS alongside the UAE. Other bilateral relationships within the Pivot are also exhibiting strong growth. UAE-India trade continues to thrive and has surged following the CEPA signed last year, growing from approximately US$61bn in 2021 to about US$76bn in 2022, a rate of 24.5 per cent. The Gulf-ASEAN corridor continues to grow, as shared visions for economic modernisation and reform attract mutual investment and commercial exchanges. The inaugural ASEAN-GCC Summit in October 2023 also marked the beginning of a formal cooperation mechanism between the two regions, laying the foundations for further trade growth. Gulf-ASEAN trade dipped during the COVID-19 pandemic to approximately US$67bn in 2020, but recovered to approximately US$96bn in 2021 and US$138bn in 2022, representing year-on-year growth of 43.75 per cent. The UAE continues to be the key driver of growth in the Gulf-ASEAN corridor, accounting for approximately 49 per cent of total trade. The UAE has enhanced its focus on this region in recent months, brokering CEPAs with Indonesia and Cambodia, and seeking them with Thailand, Vietnam, and Malaysia.

Figure 6:
Saudi-China trade (2010-2022)



Saudi-China Ties: A Crucial Driver of the Pivot

The Saudi-China relationship has grown significantly in the past year and is now worth US$105bn. Trade has nearly doubled since 2010 when it was worth approximately US$54bn, as Figure 6 demonstrates.

The most significant recent development in this trade was the visit of China's President Xi Jinping to Riyadh in December 2022, which resulted in 35 deals,[8] worth a total of US$50bn, according to Saudi Arabia's Ministry of Investment (Bloomberg News, 2022).

During Xi's visit, Beijing and Riyadh signed a strategic partnership agreement, elevating the status of the relationship and committing to high-level visits every two years, while emphasising the harmonies between the kingdom's Vision 2030 plan and the Belt and Road Initiative (BRI).

The Chinese delegation also participated in two regional summits in Riyadh, one focused on the GCC and the other on the wider Arab World. This highlighted China's perception of Saudi Arabia as the key interlocutor within these economic and political blocs. Beyond diplomacy and high-level meetings, a plethora of deals and memorandums of understanding (MoUs) were signed to drive Saudi-China relations.

Several of these deals clearly aligned with Saudi Arabia's Vision 2030 goals, positioning China as a key delivery partner (Neve and Mao, 2023). For example, one deal between Saudi Arabia's Ministry of Investment, Riyadh-based investment institution eWTP Arabia Capital, and Chinese gaming firm ONEMT, will see the latter establish its regional headquarters to Saudi Arabia and complete its Initial Public Offering (IPO) on Saudi Arabia's Tadawul stock exchange. In return for Saudi government support, investment, and tax incentives, ONEMT will build game development

8 Many media outlets reported that 34 deals were signed during Xi's visit to Saudi Arabia. However, an additional agreement between Saudi Arabia's Ministry of Investment, Riyadh-based eWTP Arabia Capital, and Chinese gaming firm ONEMT on the night of 8 December, became the 35th deal signed.

Asia House at the signing ceremony of the ONEMT deal; Source: picture provided by eWTP Arabia.

studios and research centres and also recruit and train local Saudi talent (China Daily, 2022). The deal closely aligns with Vision 2030 and Saudi Arabia's large investments in its digital economy and gaming to provide entertainment for its young population and create additional employment opportunities in the private sector. The relocation of ONEMT could eventually lead to the creation of gaming content tailored to the domestic Saudi market. ONEMT's commitment to list on the Tadawul also supports the kingdom's capital markets growth strategy. Crown Prince Mohammed Bin Salman has ambitions to turn the Tadawul into one of the world's top three stock exchanges (Reuters, 2022a).

Xi's visit also saw Chinese telecommunications giant Huawei sign a deal with the Saudi Ministry of Communications and Information Technology (MCIT) to support Vision 2030's digital transformation goals. Huawei will build super-fast broadband infrastructure in the kingdom, assist its uptake of cloud technology, and launch a scholarship training programme for Saudi university students that includes trips to Huawei's headquarters (Zawya, 2022). Huawei has been targeted by US sanctions, and Gulf states have previously faced US disapproval for allowing it access to telecommunications networks and in particular to deploy 5G technology across the Gulf (Fatima, 2023). US-China tensions pose a risk to Sino-Saudi cooperation and the Pivot in general, as discussed in Section Seven.

Xi's visit also brought several deals to expand the kingdom's manufacturing and logistics industry. Saudi Arabia's Ajlan & Bros, for example, signed a strategic cooperation agreement with China Harbour Engineering Company (CHEC) to jointly develop projects worth US$1.3bn in Sri Lanka, including Port City Colombo and the Colombo International Financial Centre (EconomyNext, 2022). This is a rare if not the only example of Chinese commercial cooperation with a third party, demonstrating high levels of trust between Beijing and Riyadh. Ajlan & Bros also signed a Joint Venture (JV) with Shenzhen-headquartered Linklogis to establish the kingdom's first supply

Table 3:

Other Significant Deals Announced During Xi's Visit

Company Name	Ownership	Deal's Objectives	Saudi Partner	Sector
4PARADIGM	Private	To utilise AI to upgrade Saudi Arabia's industrial capabilities.	Ajlan & Bros	Technology
BAISHAN CLOUD AND AOFEI INTERNATIONAL	Private	A JV to build a data centre and cloud computing platform in the Kingdom.	Ajlan & Bros	Technology
BGI	Private	JV to localise the manufacturing of health laboratory consumables at MODON manufacturing valley in Sudair.	Olayan Group	Healthcare
CHINA GENERAL NUCLEAR POWER GROUP	State-owned	Framework agreement to build 10 million kW of energy projects in Saudi Arabia, Laos, Bangladesh, and Azerbaijan. Energy projects will cover solar power, wind power, gas, and thermal power.	Al Jomaih Energy & Water Co.	Energy
CHINA STATE CONSTRUCTION ENGINEERING CORPORATION **METALLURGICAL GROUP** **SAGARMATHA POWER COMPANY**	State-owned and subsidiaries of state-owned companies	To provide more than 100,000 residential units by creating partnerships with real estate developers and contractors, and building factories to enable Saudi Arabia's uptake of modern construction methods. The deal is estimated to be worth around US$2.8bn.	Ministry of Municipal, Rural Affairs and Housing	Housing
CHINT	Private	JV to improve the localisation of Saudi industrial manufacturing and produce renewable energy-related equipment.	Ajlan & Bros	Industry
ELION	State-owned	Deliver Elion Kubuqi sand control technical services and transfer technology licences to Saudi Arabia.	NCVC	Environment
GENERAL HEALTHY	Private	Investment cooperation agreement to introduce pharmacy automation solutions to Saudi Arabia and the wider Middle East market.	Ajlan & Bros	Healthcare and Technology
SHANDONG ENERGY GROUP	State-owned	MoU to support Aramco's development of downstream oil facilities in Shandong Province. Both parties will also cooperate on hydrogen, renewables and Carbon Capture Utilisation and Storage (CCUS).	Aramco	Energy

chain finance technology solution provider, enhancing Saudi Small and Medium Enterprises' (SMEs) access to finance (Linklogis, 2023).

Deals were also inked on sustainability. Nine deals were signed with Saudi Arabia's ACWA Power, including a US$1.5bn agreement with Power China (Hamad, 2022). ACWA Power also signed an MoU with solar firm Jinko Power to provide 4GW worth of solar modules (Jinko Solar, 2022). In a separate deal, Chinese EV start-up Enovate announced it will build a US$500mn plant in Saudi Arabia to produce 100,000 EVs a year (Ren, 2022).

Xi Jinping's visit was a watershed in the development of Saudi-China ties. It magnified China's commercial interests in Saudi Arabia and could encourage Chinese firms to grant the kingdom and wider region greater attention. Indeed, a survey by the Shanghai Institute of International Studies and PwC China shows that 82 per cent of Chinese firms want to expand into MENA in the next three to five years, with 37 per cent already having detailed business plans (Domat, 2023). Since Xi Jinping's visit, several commercial deals have been signed, which will further drive trade growth. Ten of the largest and most important deals are on the preceding page.

Saudi-China Investment and Economic Cooperation Deals Since Xi Jinping's Visit

- During Saudi Arabia's Future Minerals Forum in January 2023, China's largest private manufacturer of aluminium alloys agreed to develop Saudi Arabia's mining industry through a dedicated subsidiary – the Red Sea Industrial Aluminium Company (RSA). RSA plans to invest around US$10bn to build an aluminium factory in the kingdom and create 5,500 jobs (Alkhirah, 2023).
- In January 2023, Shenzhen Capital Group created a US$1bn private equity (PE) fund focused on Saudi Arabia (PE Daily, 2023).
- In February 2023, the Saudi-China Entrepreneur Association was formally launched to promote engagement between business leaders. It will be run by Jerry Li, a founder and managing partner of eWTP Arabia (Yumul, 2023).
- In February 2023, Saudi Arabia's Public Investment Fund (PIF) bought a US$265mn stake in Chinese e-sports company VSPO, becoming its single largest shareholder.
- In March 2023, Aramco CEO Amin Nasser visited China where several deals were announced. Aramco acquired a 10 per cent stake in Rongsheng Petrochemical Company for US$3.6bn, with Aramco providing 480,000 bpd of oil in return (Tan and Aizhu, 2023). Saudi Arabia also announced construction of a US$10bn refinery and petrochemical complex in Panjin City. Aramco will supply 210,000 bpd once the complex is fully operational in 2026. The deal was first announced in 2019.
- In April 2023, Saudi Arabia's Ministry of Investment signed an MoU with Shanghai's Haichang Ocean Park, Asia's largest ocean theme park owner and operator, to develop various water parks, zoos, and entertainment centres across the kingdom. The total investment is yet to be finalised, but the new park aims to attract 100mn visitors by 2030, greatly boosting the kingdom's tourism sector (Arcibal, 2023).
- In April 2023, China International Capital Corp (CICC) announced plans to expand into Saudi Arabia and the UAE to facilitate business operations in the two countries and the region more broadly (Fioretti, 2023a).
- In May 2023, China's largest steelmaker, Baowu Steel, announced that it will pay US$437.55mn for a 50 per cent stake in a JV with Aramco and PIF. Under the JV the kingdom's first integrated steel manufacturing plant will be established in Ras Al Khair port and produce 1.5mn tonnes of steel plates per year (Cabral, 2023a). This will boost the kingdom's steel industry, transfer

expertise from China to Saudi Arabia and facilitate greater China-Saudi trade.

- In August 2023, China's Shanghai Lujiazui City Authority (SLFCA) opened an office in Riyadh's King Abdullah Financial District (KAFD). MoUs were signed between KAFD, SLFCA, and eWTP Arabia Capital to enhance cooperation. The new office will act as Shanghai's entry point into Saudi Arabia.

Saudi Arabia is becoming more important as a gateway for Chinese investment into the wider region. In June 2023, it hosted the tenth Arab-China Business Conference, which saw US$10bn worth of investment deals agreed across sectors including technology, renewables, agriculture, property, minerals, healthcare, supply chains, and tourism. Saudi Arabia's development of its mining industry is opening up new pathways for Saudi-China cooperation, as demonstrated by a US$500mn deal signed between Saudi Arabia's ASK Group and China National Geological & Mining Corporation, which will assist the Arabian Shield Copper Mining Project (Khan, 2023a).

As China-Saudi economic cooperation grows, so too has the number of bilateral political visits, to protect and grow these investments. Aramco's CEO Amin Nasser visited China for the China Development Forum in March 2023, while the Saudi Minister of Communications went to China in June 2023, aiming to strengthen partnerships and technological investments in the kingdom, and to seek China's support in developing the technical skills of Saudi youth (Arab News, 2023b). Saudi Arabia's Minister of Economy and Planning also visited in June to attend the World Economic Forum's Annual Meeting of the New Champions in Tianjin, China.

The recent spate of bilateral deal-making since Xi Jinping's visit, China's growing demand for oil, and Saudi investments in non-oil sectors such as sustainability and key technologies that will require Chinese assistance, mean that Saudi-China trade is likely to continue growing and to act as a key driver of the Pivot. Another major development that could boost Saudi-China trade, and indeed Beijing's trade with other Gulf states, is a GCC-China Free Trade Agreement (FTA). Progress here has been slow, but there has been increased energy towards brokering it since Xi Jinping's visit and following the first-ever China-GCC Summit in December 2022. The brokering of a GCC-China FTA could be transformative for Gulf -China trade.

UAE-China Bilateral Relations: A Year of Significant Growth

UAE-China trade surged by 37 per cent in 2022, from approximately US$78bn to US$107bn and overtook Saudi-China trade to become the most significant relationship in the Pivot. Since 2021, UAE-China trade has exceeded the UAE's combined trade with the UK, US, and Western Europe. UAE trade with these Western partners was around US$90bn in 2022.

UAE-China trade has grown significantly over the past twelve years. As Figure 8 shows, UAE-China trade was approximately US$18bn in 2010, but has since grown to almost six times that, at an approximate average annual growth rate of 21 per cent until 2022.

While oil price rises and growth in Chinese energy demand account for some of this increase, UAE-China non-oil trade has also grown, rising by 18 per cent to US$72bn in 2022 (Zawya, 2023b). Recent deals between the UAE and China cover a wide range of sectors including, nuclear, freezones, EVs, oil, and technology.

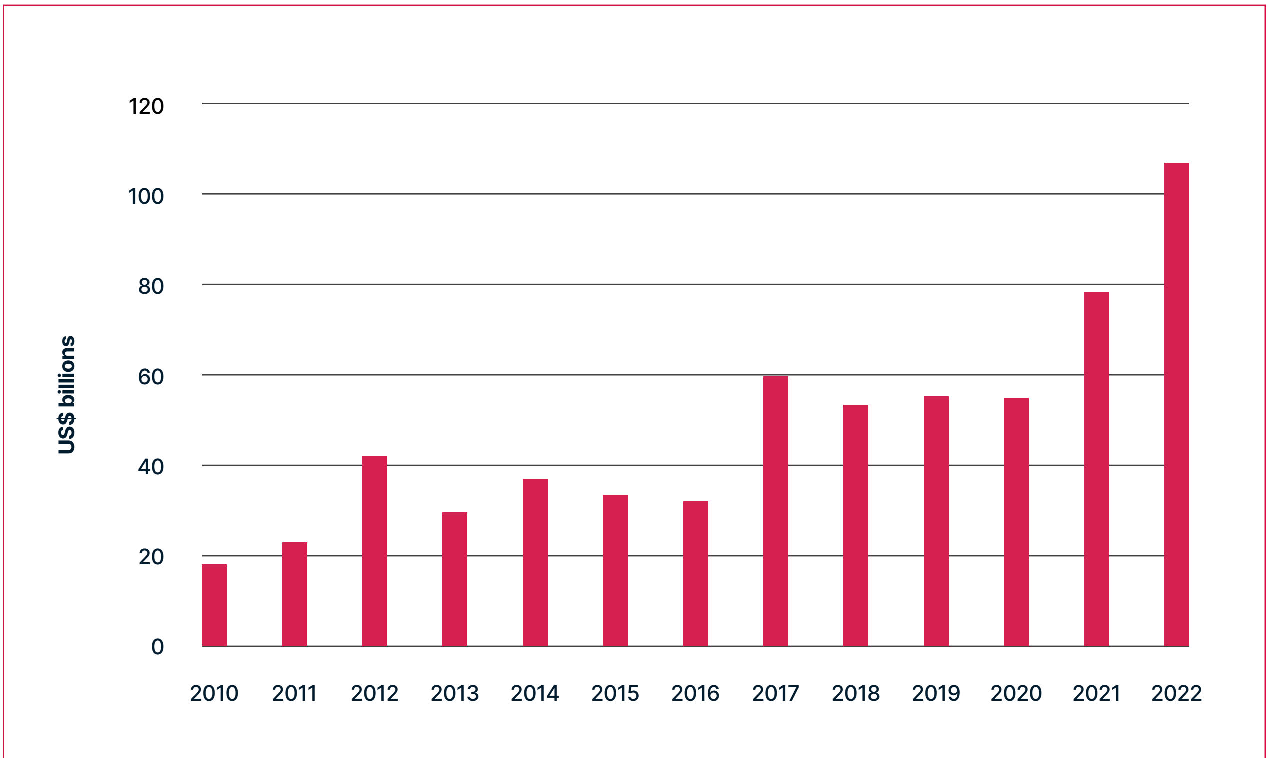
- In May 2023, the Emirates Nuclear Energy Corporation signed three MoUs with various Chinese nuclear organisations and institutions to develop the UAE's nuclear power sector (Essaid, 2023a). The UAE sees nuclear power as a key means of achieving net zero, with these MoUs positioning China as a key partner.

Figure 7:

UAE-China trade has overtaken UAE-West trade

Figure 8:

UAE-China trade (2010-2022)



- In June 2023, Dubai's free trade zone DMCC and the Dubai Authority on Commodities and Free Trade Enterprise signed an agreement with Beijing Daxing International Airport Economic Zone (BDIAEZ) to enhance collaboration and to support Chinese businesses establishing themselves in Dubai, through streamlined processing and reduced costs (Government of Dubai Media Office, 2020).
- In June 2023, Abu Dhabi purchased a seven per cent stake worth US$738.5mn in Chinese EV manufacturer, Nio. The deal gives Abu Dhabi a board seat on one of China's most well-known EV brands (Coppola, 2023).
- In September 2023, the Asia Infrastructure Bank (AIB) opened its first branch outside China in Abu Dhabi, selecting the UAE for its rapid development and strong international relations (Dayanand, 2023).
- In September 2023, the UAE and China's Hainan province agreed to enhance cooperation in technology, logistics, services and freezones. This included a cooperation agreement between Dubai Integrated Economic Zones and Hainan Airport Infrastructure, and a separate strategic partnership between the UAE's Fusion Specialised Shipping and Logistics, Hainan GLA and Hainan Logistics Group (Jain, 2023).
- In September 2023, ADNOC Gas signed an agreement with a PetroChina subsidiary to supply LNG worth US$450-550mn (Benny, 2023a).

These growing commercial links between the UAE and China have positioned the former as a key entry point into the wider MENA region, with 6,000 Chinese companies choosing the UAE as their regional HQ (Hussain, 2023). The UAE is now home to 400,000 Chinese nationals, the largest number outside East Asia (ibid.).

Cooperation has expanded beyond commercial links to become more strategic. The UAE and China are planning a joint mission to the Moon's South Pole in late 2026 (Xin, 2022), and at the beginning of 2024 the UAE will join BRICS, a regional bloc of developing economies that includes China and India.

China Develops Strategic Influence to Protect Investment

China's expanding economic stake in the Gulf has pushed it to develop its strategic influence in the Middle East to protect its investments. China sees greater regional stability and integration as key to safeguarding its financial interests (Mycroft, 2023). Beijing has pursued a policy of non-interference in the domestic affairs of Middle Eastern countries but has used its economic clout to try to enhance regional stability. In May 2023 Beijing brokered a rapprochement between traditional adversaries Saudi Arabia and Iran, which are both major energy providers to China and recipients of BRI investment. Rapprochement between Saudi Arabia and Iran therefore serves China's strategic and financial interests. The deal has led to the reopening of embassies and bilateral contacts, with Iranian Foreign Minister Hossein Amiraboddahian visiting Saudi Arabia in August 2023 and meeting Crown Prince Mohammed bin Salman. While the Israel-Gaza conflict could endanger this rapprochement, it shows China is seeking a greater diplomatic role. Beijing has expressed an interest in mediating between Israel and Hamas, and the US has asked Beijing to use its economic influence to push Iran to urge calm from Hamas and Hezbollah (Sevastopulu, 2023). On 20 November 2023, a delegation of Arab leaders led by Saudi Arabia's Foreign Minister Prince Faisal bin Farhan, visited China. According to a statement by the Saudi Press Agency, the delegation has the goal of "reaching an immediate ceasefire in Gaza" and "exert pressure to launch a serious political process to achieve lasting and comprehensive peace" (Saudi Press Agency, 2023a). The visit demonstrates China's growing involvement in regional affairs.

Aside from the conflict, growing Chinese economic influence has drawn Middle Eastern powers into greater strategic dialogue with Beijing. During 2023 Saudi Arabia became a dialogue partner within the Shanghai Cooperation Organisation and Iran was admitted as a full member. The UAE, Iran, Egypt, and Saudi Arabia will also join the BRICS group from 1 January 2024. The inclusion of Middle Eastern powers in Chinese-led or Chinese-influenced geopolitical organisations and alliances will increasingly involve them in strategic discussions led by Beijing, increasing China's influence.

Beijing is wary of making overt security commitments to the region, but has started to increase military exercises with some key powers. In October 2023, China and Saudi Arabia conducted a three-week joint naval special operations exercise in South China (Xuanzun and Yuandan, 2023). In August 2023, it was announced that China would hold its first ever military drills with the UAE in China (Helou, 2023). Increased Chinese strategic involvement in the Middle East, the growing inclusion of Middle Eastern powers in Chinese-led international institutions, and more joint military exercises are key trends to watch in the Pivot and could boost political cooperation.

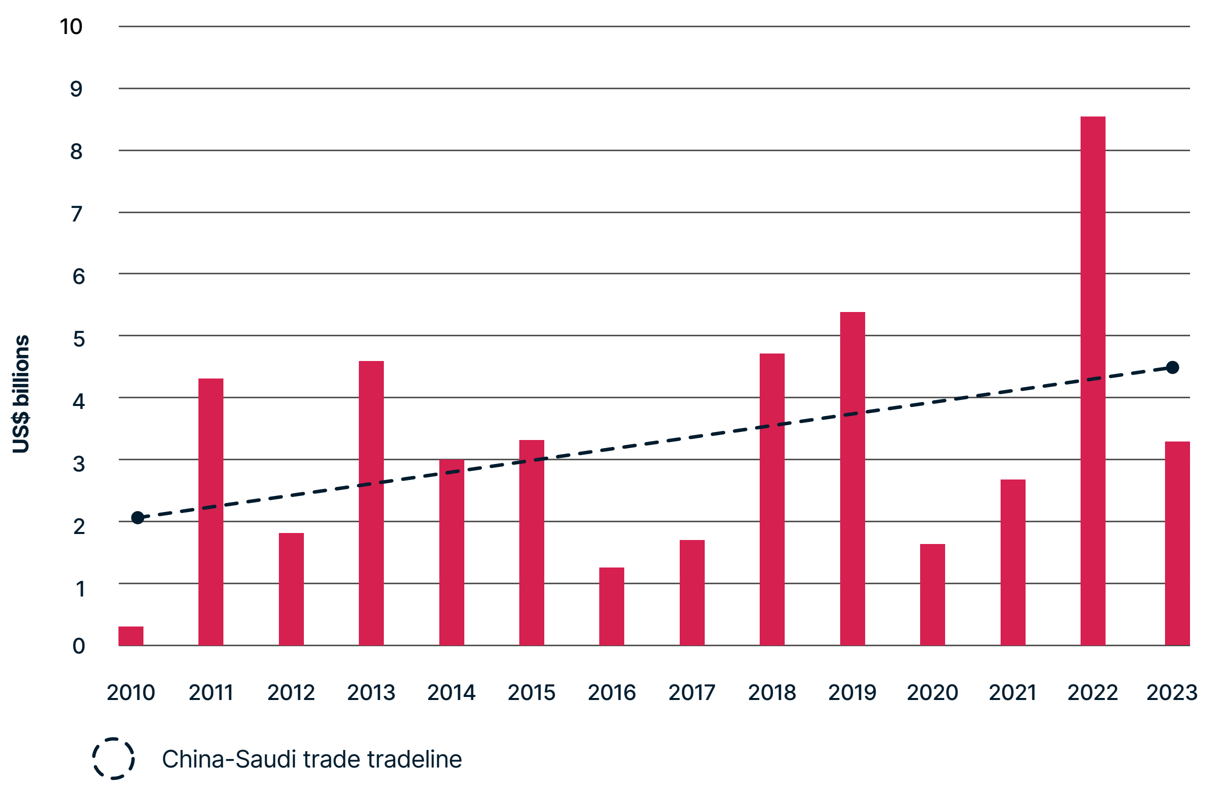
The Belt and Road Initiative in The Middle East: Recent Trends

China's BRI continues to drive the Pivot. BRI infrastructure investments in the Gulf and wider Middle East boost trade and drive economic diversification. BRI investments typically focus on energy and transport infrastructure, but the past year has seen growth in technology and green energy investments. BRI fossil fuel investments accounted for 63 per cent of overseas energy spending in 2022, but green investments also rose by 50 per cent (Wang, 2023a).

BRI investments in the Middle East increased by 16.5 per cent between 2021 and 2022 but declined in 2023. The Middle East received US$8.1bn in H1 2023, a significant decline compared with the US$12.3bn in H1 2022. Saudi Arabia is a major recipient of BRI funding. In H1 2023, US$3.8bn and US$1.5bn, were allocated to Saudi construction and Saudi energy projects respectively – around one half of China's total BRI spending in the Middle East (Wang, 2023b). In H1 2022, no country received more BRI investment than Saudi Arabia, at around US$5.5bn (Wang, 2022). US$4.6bn was spent on oil and gas projects, via a single investment in Aramco's Gas Pipelines Business, but US$210mn was also spent on a solar project in Saudi Arabia via Jinko Solar (Wang, 2023a). 2022 was a record year for Chinese investment in Saudi Arabia, as Figure 9 shows.

The BRI has undoubtedly enhanced China's economic influence in the region, prompting Western countries to inaugurate competing projects. In 2022, the G7 announced a new fund to mobilise US$600bn in public and private funding for global infrastructure by 2027. The EU similarly announced its own €300bn "Global Gateway" fund to challenge the BRI. Evidence of concrete progress remains limited, though some contracts have been awarded, including a US$600mn deal with US firm SubCom to connect Singapore to France via Egypt and the Horn of Africa via submarine telecommunications cables (The White House, 2022). The 2023 G20 summit also saw a major announcement between the UAE and India, alongside the US, Saudi Arabia, and the EU, to form the India-Middle East-Europe Economic Corridor – a shipping and railway project linking Europe and the Middle East to India.

Figure 9:
Chinese investment into Saudi Arabia (2010-2023)



Source: American Enterprise Institute (2023); Accurate as of 18 October 2023

Hong Kong Increases Focus on the Pivot: Recent Outreach in the Gulf

In February 2023, Hong Kong Chief Executive John Lee visited the UAE and Saudi Arabia. Since then, commercial engagement between one of Asia's foremost financial centres and the Gulf has accelerated.

John Lee's trip was one of his first major visits since becoming Chief Executive and one of the first by a Hong Kong government leader since COVID-19. In the UAE, Lee had a bilateral with UAE Prime Minister and Ruler of Dubai Sheikh Mohammed bin Rashid (Khaleej Times, 2023). While in the UAE, Lee also met the head of the UAE's Mubadala Investment Company and Managing Director of the Abu Dhabi Investment Authority (ADIA) to discuss potential collaboration with Hong Kong enterprises. Lee also met Xiao Peng, the CEO of UAE AI company, Group 42 (G42), inviting it to invest in Hong Kong (Wong, 2023a).

Lee said that both countries would "have much to gain" from a Hong Kong-UAE FTA but no time frame has been signalled (Wong, 2023b). The UAE is already Hong Kong's largest trading partner in the Middle East. A Hong Kong-UAE FTA would further boost trade and build on the Hong Kong-UAE Investment Promotion and Protection Agreement (IPPA), which has been in place since 2019.

In Saudi Arabia, following Lee's meeting with Saudi Minister of Investment Khalid Al Falih, agreement was reached to negotiate a Hong Kong-Saudi Arabia IPPA to strengthen bilateral investor confidence (Neve and Mao, 2023). The Hong Kong chapter of the Saudi Arabia-China Entrepreneurs Association (SCEA) was also launched during Lee's visit, which aims to boost private-sector collaboration and bilateral ties. It comprises more than 100 Saudi and Chinese businesses, government entities, non-governmental organisations, and academic institutions. Hong Kong will host SCEA's head office.

In total 13 MoUs were signed during Lee's visit to Saudi Arabia and the UAE, including one between the Federation of Hong Kong Industries and Trade Development Council and the Abu Dhabi Chamber of Commerce (Wong, 2023a) and another between Riyadh Chamber of Commerce and the Hong Kong General Chamber of Commerce (Wong, 2023c). Separate MoUs were signed covering sectors including finance, green finance, innovation, business, energy, and transport. Several commercial deals were also reached during Lee's visits, some reflecting Hong Kong's strengths in technology and logistics and designed to position the city as a key partner in the delivery of Gulf economic diversification. Highlights included:

- A deal between Riyadh's KAFD financial district and Hong Kong's SenseTime to develop smart city capabilities. SenseTime also signed a Letter of Intent with Saudi event management firm Sela (Sense Time, 2023).
- A deal between Nesma Holding and Hong Kong's Templewater to deliver zero-emission commercial fleet vehicles in the Middle East (Templewater, 2023).
- A deal between Hong Kong ports group, Hutchison, and King Salman Energy Park

Hong Kong Chief Executive John Lee touring Aldar Properties in Abu Dhabi during his visit to the UAE in February 2022.

(SPARK), an Aramco-owned industrial zone, to build on previous cooperation. The two entities have already signed a JV to manage and operate an inland dry port and bonded logistics zone in SPARK (Ellis, 2021).

Lee's visit followed shortly after Xi Jinping's tour of the kingdom and focussed on demonstrating Hong Kong's dual credentials as a major capital market for the Gulf's various mega-projects and a gateway for Gulf investment into mainland China (Neve and Mao, 2023). A reported aim was to encourage Aramco to consider a secondary listing in Hong Kong, with John Lee and Aramco's CEO, Amin Nasser, meeting at the Saudi technology conference, LEAP (Wong, 2023c; Lindberg and Pacheco, 2023). Since Lee's visit, Aramco is reportedly considering the listing selling a stake of up to 1.5 per cent, worth around US$50bn (Reuters, 2023c).

Saudi Arabia's Tadawul stock exchange and HKEX signed an MoU to explore listing opportunities and collaborate in fintech and ESG. Commenting on the deal, Tadawul CEO Khalid Al-Hussan said: "As we seek to position the Saudi capital market as an investment hub between East and West, we are seeing increased interest from issuers and investors in Asia" (Arab News, 2023c). This comes as Saudi Arabia is introducing new regulations to expand its capital markets, and building closer ties to international stock exchanges to enable cross-border listings. Gulf investors are attracted by Hong Kong's status as an established financial hub and capital market, coupled with its position as a gateway for Gulf investors to enter the US$1.78trn South China Greater Bay Area and wider mainland Chinese markets.

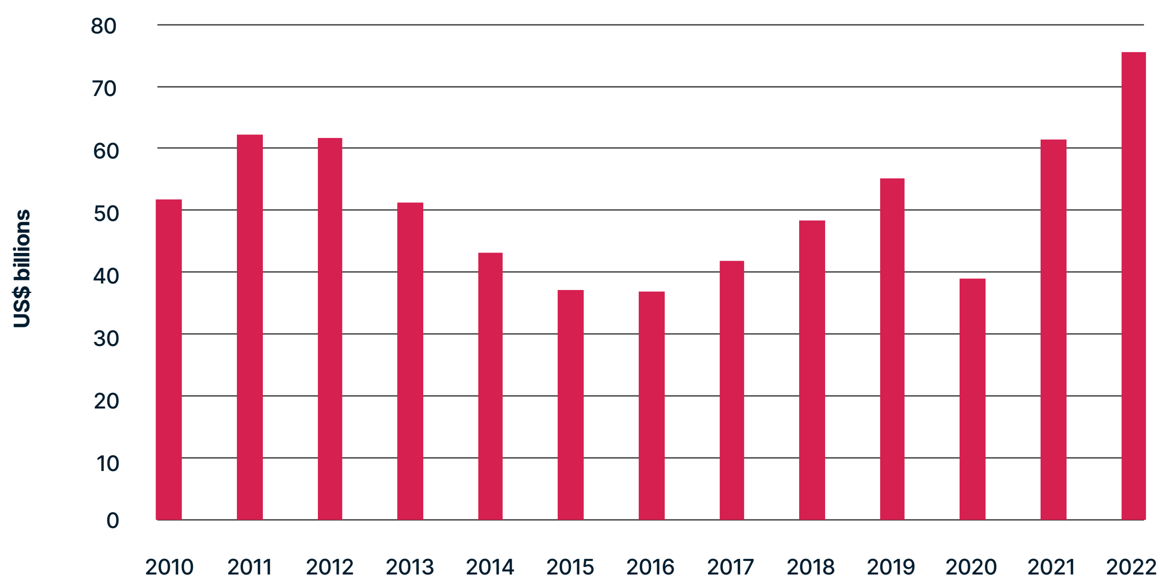
Lee's visit was followed by further cooperation between the Gulf and Hong Kong. In May 2023, the Hong Kong Monetary Authority (HKMA) sent a delegation to meet the UAE Central Bank. During the meeting discussions were held on creating financial infrastructure and policies to promote cross-border payments, trade in RMB products, and on regulations governing virtual assets and ESG financing. Discussion around how UAE corporates can better use Hong Kong as a gateway to the Greater Bay Area and Asia were also discussed (HKMA, 2023). Eddie Yue, the Chief Executive of HKMA, noted the visit was the first step in promoting the use of RMB among Middle Eastern companies in Hong Kong and enticing SWFs to invest there (Yiu, 2023). HKMA followed this trip with a delegation to Riyadh in July 2023, where an MoU with the Saudi Central Bank was signed. The two sides discussed strengthening collaboration in financial infrastructure development, open market operations, fintech, and monetary policy (Arab News, 2023d).

Hong Kong's increased engagement with the Gulf follows a period of inactivity during the COVID-19 pandemic. Strict COVID-19 restrictions in Hong Kong led some firms, family offices, High-Net Worth Individuals (HNWIs), and Ultra-High-Net Worth Individuals (UHNWIs) to relocate from Hong Kong to Singapore, Dubai, and other financial capitals. Hong Kong may see engagement with the Gulf, and Dubai in particular, as a way to regain business, but also recognises the broader commercial opportunities. Ultimately the Pivot will benefit from seamless business operations between Gulf cities, such as Dubai, Riyadh, and Abu Dhabi, and Asian financial centres such as Singapore and Hong Kong. Regional banks may be able to assist by establishing operations in competing centres to encourage greater cohesion. Singaporean Bank DBS, for example, is reportedly reviewing business plans to increase its presence in Dubai, using it as a gateway to markets in the region and Africa (Khan, 2023b).

The UAE-India Bilateral Relationship: Continued Growth and Cooperation

UAE-India trade has shown significant growth since their CEPA came into effect in May 2022. It aims to increase bilateral non-oil trade to US$100bn by 2030, and is encouraging this by reducing custom duties and red tape, lowering tariffs by 90 per cent,

Figure 10:
UAE-India trade (2010-2022)



and introducing clearer bilateral market protocols. UAE-India trade has grown from approximately US$61bn in 2021 to a record high of approximately US$76bn in 2022, representing an annual growth rate of around 24.5 per cent.

The UAE-India CEPA is diversifying bilateral trade away from oil. Between Q1 2022 and Q1 2023, Indian exports to the UAE reached a record US$32bn. Key items included gemstones, jewellery, coffee, tea, automobiles, iron, and steel (Kumar P., 2023b). The UAE's Minister of State for Foreign Trade, Dr. Thani Al-Zeyoudi, expects UAE-India non-oil trade to exceed US$50bn in 2023 – a seven per cent boost since the CEPA's introduction (Kamel, 2023a).

The UAE and India have since signed an agreement to use their currencies for cross-border transactions. Announced during Prime Minister Narendra Modi's visit to the UAE in July 2023, the deal allows India to reduce the cost of trade by eliminating transaction fees on US dollar conversions. This will also make it easier for businesses on both sides to engage with each other's markets and benefit the 3.5mn Indian expats in the UAE who regularly send remittances home (The National, 2023a). In August 2023, India's largest refiner, Indian Oil Corp, paid ADNOC in rupees, for one mn barrels of oil. In another deal in August 2023, India purchased 25kg of gold in rupees, worth US$1.54mn (India Today, 2023).

Other recent UAE-India Investment and Economic Cooperation Deals include:

- In February 2023, UAE-based retail giant Lulu Group signed an MoU with the Federation of Indian Chambers of Commerce and Industry to accelerate exports from India to the UAE.
- In February 2023, EDGE, a UAE technology and defence group, signed an MoU with Hindustan Aeronautics Limited, an Indian aerospace firm,

to explore cooperation on joint design and development of missile systems and drones.

- In March 2023, the UAE Central Bank and the Reserve Bank of India signed an MoU to collaborate on innovation in fintech and Central Bank Digital Currencies (CBDCs) (Salian, 2023). The agreement calls for technological collaboration and knowledge sharing, reducing transaction costs, and increasing efficiency in cross-border deals relating to remittances and trade.
- In May 2023, the UAE's global investment platform Investopia signed an MoU with the Confederation of Indian Industry to promote investment opportunities across economic sectors in both markets.

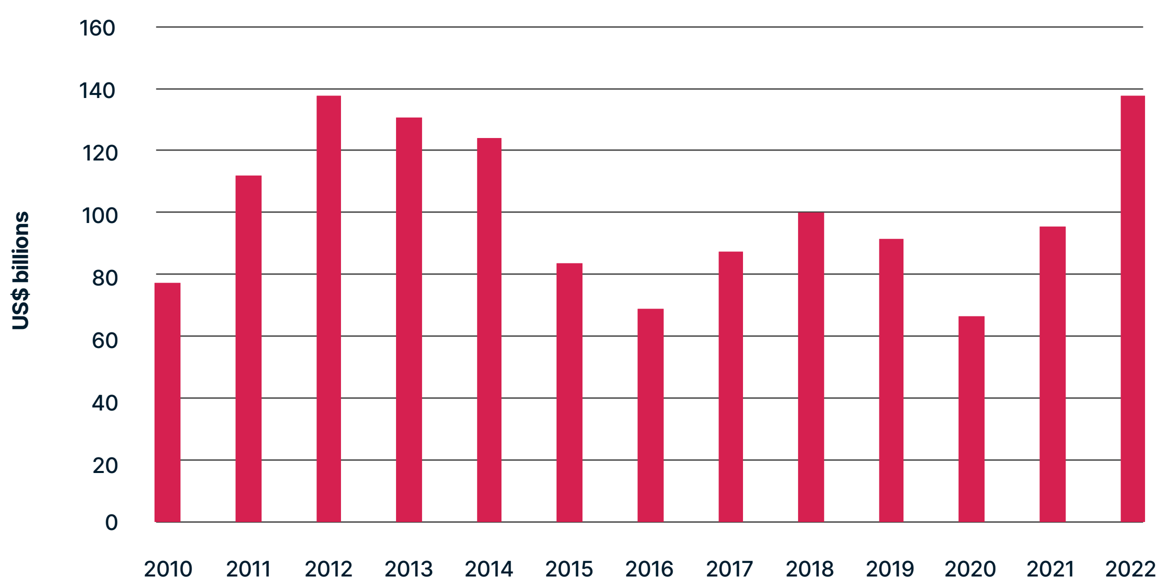
UAE-India trade is growing at a fast pace, boosted by the CEPA, the agreement to use their respective currencies in cross-border transactions, and various economic cooperation deals. Saudi-India trade is also growing fast, by around 48.5 per cent between 2021 and 2022 from US$35bn to US$52bn. In 2023 India became the world's most populous country. This and an accompanying expected growth in middle classes demanding digital and other services, make India an attractive investment destination for Gulf companies and SWFs. This is explored in greater detail in Section Six.

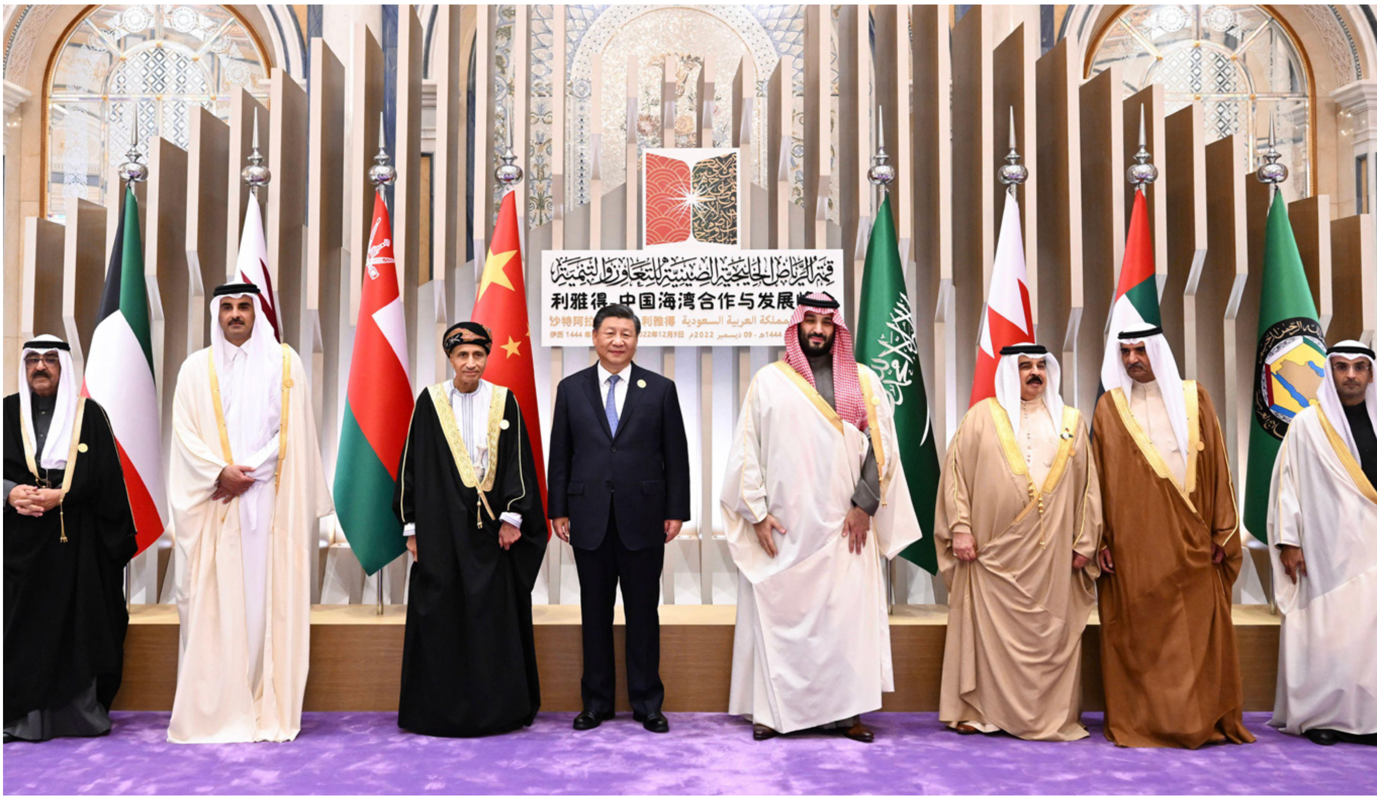
The Gulf-ASEAN Economic Corridor Continues to Grow

While China and India are the Gulf's largest trading partners, we are witnessing growth within the Gulf-ASEAN corridor as well. Here trade fell to a low of US$67bn in 2020 but recovered to US$95bn in 2021. Since then, it has surged to US$138bn in 2022, growing by approximately 45 per cent on the previous year.

The inaugural ASEAN-GCC Summit in October 2023 was a major development in relations. Taking place in Riyadh and jointly hosted by Indonesia's President Joko Widodo and Crown

Figure 11:
GCC-ASEAN trade (2010-2022)





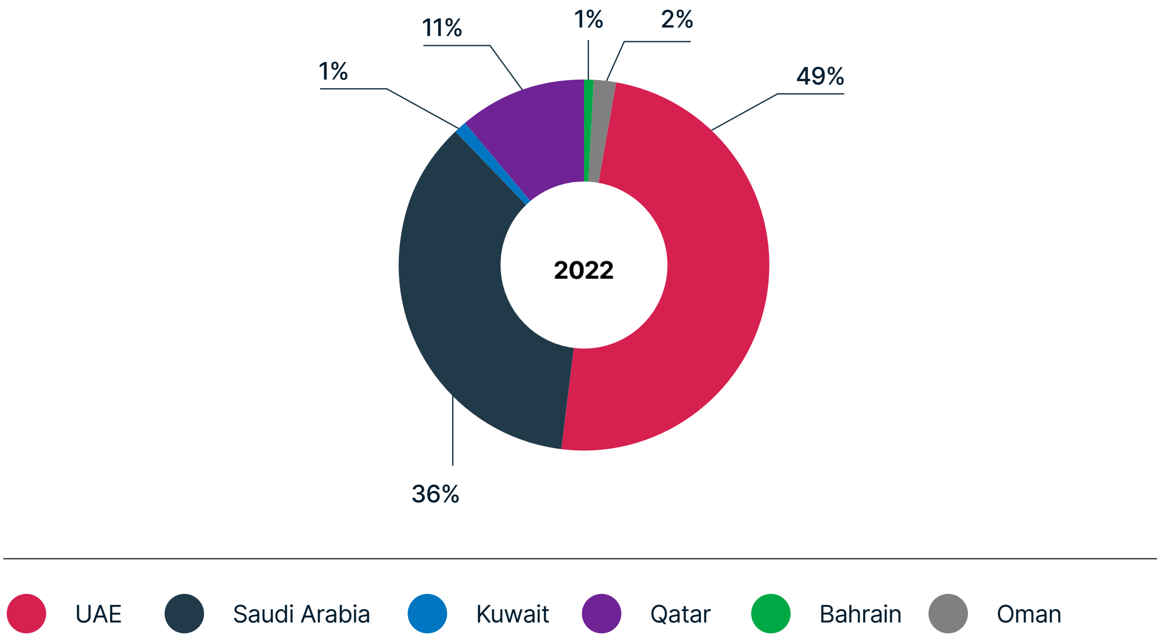
Chinese President Xi Jinping with Gulf leaders during the China-GCC Summit in Riyadh, December 2022.

Prince Mohammed bin Salman, the summit marked the beginning of a formal cooperation mechanism between the two regions and will lay the foundations for further trade growth (Asia House, 2023). Two communiques emerged from the summit. The first agreed to a formal inter-regional engagement mechanism, the ASEAN -GCC Framework of Cooperation (2024-2028), outlining areas of political cooperation, security dialogue, trade, and investment. The second focussed on Israel-Gaza, calling for a "durable ceasefire" and condemning attacks against civilians. It "expressed grave concerns over the developments in the Middle East." While there were no binding agreements, the summit will encourage region-to-region trade and investment. Malaysian Prime Minister Anwar Ibrahim called for the two regions to begin negotiations towards an FTA. While such an agreement could boost trade, bilateral deals will likely make faster progress in the short term.

The GCC-ASEAN relationship contains bilateral links that are growing fast, with the UAE acting as a major driver, accounting for approximately 49 per cent of GCC-ASEAN trade, and overtaking Saudi Arabia. Riyadh has 36 per cent. A decade ago, it was ASEAN's largest trading partner, responsible for 43 per cent of total trade.

UAE-ASEAN trade was worth US$46bn in 2021 and rose to US$67bn in 2022, an increase of around 46 per cent. The UAE has been on a concerted drive to grow trade by brokering CEPAs with ASEAN countries. In May 2022 the UAE signed a CEPA with Indonesia, which came into force on 1 September 2023 (WAM, 2023a). The deal removes or lowers tariffs on around 94 per cent of the total lines traded between the two countries and also encourages cooperation in digital trade, SMEs, origin of goods provisions, healthcare, automation, renewables, and cloud computing. UAE-Indonesia trade was worth approximately US$6.5bn in 2022,

Figure 12:
Proportion of GCC trade with ASEAN (2022) (per cent)



around 10 per cent of its total trade with ASEAN. The CEPA's removal of tariff and non-tariff barriers is likely to boost it further. Both sides aim for bilateral non-oil trade to reach US$10bn within five years (UAE Ministry of Economy, 2023b). Indonesia's large population, expanding middle classes, recent economic reforms opening up to foreign investment, and rapid digitalisation have caught the eye of the UAE and other GCC countries as a potential investment destination and target for trade.

In June 2023, a UAE-Cambodia CEPA was signed, with the agreement expected to start in Q4 2023 (Sambidge, 2023a). While UAE-Cambodia trade makes up a fraction of the UAE's total trade with ASEAN, there is still ambition for the CEPA to boost non-oil trade from US$407mn in 2022 to over US$1bn in the next five years (Reuters, 2023d). The CEPA will also have strategic benefits, most notably improved UAE access to Cambodia's agricultural sector to boost UAE food security (Nair D., 2023).

CEPAs are now in the pipeline with other major ASEAN economies such as Thailand, Vietnam, and Malaysia. CEPA negotiations with Vietnam were launched in 2022 and with Thailand and Malaysia in 2023. The negotiations take place against the background of existing UAE trade growth with ASEAN. UAE-Thailand trade, for example, has grown by 61.5 per cent, from approximately US$13bn to US$21bn between 2021 and 2022. 2023 has seen further UAE-Thailand trade activity with the launch of a new joint business council and a doubling of daily flights between Abu Dhabi and Bangkok in March 2023 (Nagraj, 2023). The UAE also believes a CEPA with Vietnam will be particularly beneficial to its wider ASEAN trade. UAE Minister of State for Foreign Trade Dr. Thani Al Zeyoudi has noted that Vietnam is one of the UAE's fastest growing trade routes. In 2022, non-oil UAE-Vietnam trade was worth US$7.9bn, with the aim to increase this to US$10bn by 2030 (Sharma, 2023).

The UAE is negotiating these trade deals outside the confines of the GCC, which itself is attempting to negotiate FTAs with major economies such as China and the UK. GCC-wide trade deals have been slow to broker, with internal GCC competition to protect certain sectors and industries potentially frustrating negotiations. This has prompted the UAE to pursue a more bilateral track, calculating that brokering trade deals under its own terms will most effectively boost its trade with Asia.

In 2023 Gulf and ASEAN leaders have devoted greater time and attention to cultivating ties, focussing on non-oil sectors such as renewables, digitalisation, and logistics. Vietnam's Vice President, Vo Thi Anh Xuan, visited Abu Dhabi in May 2023 and met UAE President Mohammed bin Zayed. They discussed future collaboration in investment, sustainability, economic development, food security, and COP28 (Morgan, 2023). Abu Dhabi's Crown Prince, Sheikh Khaled bin Mohamed Al Nahyan visited Kuala Lumpur in May 2023, where negotiations towards a UAE-Malaysa CEPA were launched (WAM, 2023b). In September 2023, UAE Minister of State for Foreign Trade Dr. Thani Al-Zeyoudi led a delegation to Jakarta to attend the ASEAN Business and Investment Summit (ABIS), where he held bilateral meetings with the trade ministers from Indonesia, the Philippines, Malaysia, Cambodia, and Vietnam (UAE Ministry of Economy, 2023b).

Another positive development for Gulf-ASEAN ties has been the restoration of diplomatic relations between Saudi Arabia and Thailand after a three-decade dispute, leading to several bilateral deals in oil extraction, hydrogen, and tourism. Bangkok-Riyadh flights have been restored and Saudi Arabia will invest US$8.5bn in Thailand (Sambidge, 2023b). In November 2022, Crown Prince Mohammed bin Salman visited Thailand to observe the Asia-Pacific Economic Cooperation Summit. During the visit MoUs were signed in tourism, energy, and renewables, with Saudi Minister of Investment Khalid Al Falih visiting an EV battery factory in Bangkok (Regalado, 2022). In January 2023, Prime Minister Prayut Chan-o-Cha visited Saudi Arabia and in May Foreign Minister

During his visit to Jakarta for ABIS, UAE Minister of State for Foreign Trade, HE Dr Thani Al Zeyoudi gave a private roundtable briefing for Asia House Corporate Members.

Don Pramudwinai followed suit. The UAE is currently Thailand's largest trading partner, but we expect the restoration of diplomatic ties to drive Saudi-Thailand trade. Saudi Arabia is the GCC's largest economy and Thailand is ASEAN's second largest, so the restoration of diplomatic ties has the potential to drive the Pivot more widely. In 2022, Saudi-Thailand trade stood at approximately US$9.8bn.

Singapore is the Gulf's largest trading partner in ASEAN, followed closely by Thailand. In 2022, Gulf-Singapore trade totalled approximately US$37.4bn. The UAE is Singapore's largest trading partner in the Gulf. UAE-Singapore trade increased by 23.5 per cent from US$13.6bn in 2021 to US$16.8bn in 2022.

In October 2023, Prime Minister Lee Hsien Loong visited the UAE where he met President Mohamed bin Zayed. A green economy framework agreement and several MoUs on education, cybersecurity and AI were signed. Saudi-Singapore trade has also grown strongly, by around 50 per cent from 2021 to exceed US$12bn in 2022. The third session of the Saudi-Singapore Joint Committee was held in Riyadh in October 2023. Seven MoUs were signed on trade, investment, education, transportation, and logistics (Arabian Business, 2023a).

The long-term outlook for Gulf-ASEAN trade is strong. Both regions have young populations, priming their economies for growth, innovation, and entrepreneurship. Over 380mn people in ASEAN (58 per cent of the population) and two-thirds of Saudi Arabia's population are aged under 35. The Gulf states' economic diversification programmes are developing and growing new sectors beyond oil that are attracting investment, including from ASEAN, and will boost trade. Indeed, there are various synergies between ASEAN and Gulf visions for economic modernisation, with governments in both regions investing in digitalisation, manufacturing, and logistics infrastructure to boost exports. The UAE's push for CEPAs with ASEAN nations has in particular driven Gulf trade with the region and indeed the wider Pivot. The prospect of future CEPAs with Vietnam and Thailand promise good trade growth prospects. ASEAN's long-term economic outlook is also positive. It is the fifth-largest economy in the world and will become the fourth by 2030, underscoring the potential for Gulf-ASEAN ties to flourish (Sadaqat, 2023). Gulf-ASEAN trade will also be boosted by the latter's growing middle class, which is expected to swell from 135mn in 2019 to 334mn in 2030. This will increase ASEAN's demand for consumer goods, travel, and oil and create surplus investment capital. As a key supplier of hydrocarbons to ASEAN, the Gulf stands to benefit from ASEAN's growing energy demand. Various Gulf-based funds are recognising the opportunities in ASEAN. For example, UAE-based private equity firm, Gulf Capital, has announced a new US$750mn fund to raise money for a buyout vehicle focussed on ASEAN companies. GC Equity Partners IV will target Southeast Asian firms looking to expand into the Gulf (Teo, 2023). Gulf-ASEAN trade will also benefit from renewed focus on the corridor after the ASEAN-GCC Summit in October 2023. The summit will convene every two years, with the next meeting in Malaysia in 2025.

Increased Gulf-ASEAN trade could have wider implications. China's own growing trade and economic influence in ASEAN could create opportunities for Gulf states to co-invest with China in ASEAN projects (Hussain, 2023). Forging closer ties with ASEAN can also enable the Gulf states to diversify their supply chains and hedge against geopolitical uncertainty originating from deteriorating US-China ties. As Section Seven explores in greater detail, the West has occasionally pressured the Gulf states over Chinese investment, particularly in sensitive technologies such as nuclear power, telecommunications, and defence. While the Gulf states seek to maintain balance between China and the West, enhancing trade and investment ties with ASEAN does not come with the same political baggage as closer ties with China.

Recent Developments in Other Gulf-Asia Bilateral Relationships

The Gulf's relations with established Asian economies are also improving, most notably with Japan and South Korea. These countries are sources of expertise and innovation that can assist Gulf growth across various sectors.

Saudi Arabia's PIF, for example, has been steadily increasing its stake in Japanese gaming giant, Nintendo. PIF bought a five per cent stake in May 2022, increasing to 8.26 per cent in February 2023. This investment closely aligns with Vision 2030, which has seen Saudi Arabia invest substantially in its digital economy and gaming to create employment opportunities in the private sector for its young population. During 2023, PIF has also invested in Japanese film company, Toei, and gaming companies Capcom and Nexon. The Qatar Investment Authority (QIA) acquired 32 residential assets in Japan in 2022, and Bahrain's Investcorp announced it would open an office in Tokyo in March 2023 (Sambidge, 2023b).

Gulf-Japan trade has expanded by 38 per cent from approximately US$86bn in 2021 to around US$119bn in 2022. The UAE accounts for approximately 46 per cent of this trade and Saudi Arabia 39 per cent. Japanese-Gulf ties will likely grow following Tokyo's announcement of visa-free travel for Emiratis and the introduction of electronic visas for Saudi nationals in March 2023. In July 2023 Japan and the UAE signed 23 agreements and MoUs on sectors including AI, space, transport, and circular economy approaches to climate change (The National, 2023a). UAE COP28 President Sultan Al Jaber visited Japan twice in 2023 to enhance sustainable cooperation. During the first visit, he met then Foreign Minister Yoshimasa Hayashi and discussed ongoing joint projects in decarbonisation and the hydrogen economy (Ministry of Foreign Affairs Japan, 2022). The UAE is Japan's top source of oil, but Tokyo sees hydrogen as an alternative fuel to assist its decarbonisation, with several MoUs signed between Japanese and Gulf energy companies. Al Jaber visited again in September 2023, meeting Prime Minister Fumio Kishida and discussing the UAE's COP28 preparations (Esmail et al., 2023). Saudi Arabia's Crown Prince Mohammed bin Salman also visited Japan in November 2022 for the sixth Saudi-Japan Vision 2030 meeting. Agreements were signed for the Japanese Aerospace Exploration Agency to assist the kingdom's space programme and for Japan to create a Research and Development centre in Namie Town, Fukushima which will train around 100 Saudi engineers every year (Hydrogen Central, 2022).

Gulf-South Korea ties have also flourished recently with trade soaring by 56 per cent from US$50bn to US$78bn between 2021 and 2022. Trade has flourished further following the visit of South Korea's President Yoon Suk Yeol, to the UAE in January 2023, when he met UAE President Mohammed bin Zayed. This visit was followed by a major announcement in March 2023 under which the UAE will invest US$30bn in South Korea (WAM, 2023c). Yoon also visited Saudi Arabia in November 2022 to strengthen ties in energy, smart technology, manufacturing, defence, and construction (Lee and Choi, 2022). South Korean companies signed investment agreements worth US$30bn with the kingdom. Samsung C&T, Hyundai, and POSCO Holdings were major beneficiaries (SaudiGulf Projects, 2022). Aramco also committed to invest US$7bn in a petrochemical project in Ulsan, the largest foreign investment in South Korea. Construction was initiated in 2023 and once complete will produce 3.2mn tonnes of petrochemicals. Gulf-South Korea trade will be boosted by the UAE and South Korea signing a CEPA in October 2023. This is South Korea's first CEPA with a Middle Eastern country and once in effect will see around 90 per cent of tariffs on traded items lifted over a ten-year period (Theresia, 2023).

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

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. Stephen Moss started his career with HSBC in 1992 and has held a series of roles in Asia, the UK, and the Middle East since joining.

How and where have Gulf-Asia trade and commercial ties developed over the past year?

Trade between the Arabian Gulf and Asia is accelerating, re-energising one of the world's oldest business corridors. The Middle East's ambitious investment-led transformation drive, Asia's economic reopening from the Pandemic, and the global drive towards net zero are combining to create very substantial business opportunities. As the world's largest trade bank with an international network covering 90 per cent of global GDP, trade and financial flows, HSBC is supporting our clients to participate in those opportunities.

The bright spots are plentiful, and the Arab World's trade with China shines through strongly, with two-way trade almost doubling over the last decade to US$431.4bn (Jennings, 2023). Drill down and we see that China is now the UAE's primary trade partner and bilateral trade is expected to reach US$200bn by 2030 (Zawya, 2023c). More than 6,000 Chinese companies have located operations in the UAE and multiple agreements were inked earlier this year to open further new trade opportunities, including in technology, infrastructure, and renewables (Government of Dubai, 2023).

A surge in economic diplomacy between the two regions has further supported the investment opportunity. Saudi Arabia has strengthened its ties in Asia as it makes further progress on the ambitious economic transformation agenda that underpins its Saudi Vision 2030 development blueprint. The Kingdom has signed 23 bilateral trade agreements with South Korea in areas including infrastructure, medicine and green-tech, and the nation's huge SWF, PIF, plans to open an office in Gujarat state as part of a $100bn investment push in India (Kumar P., 2023c).

The UAE continues to build its position as a global trade and logistics hub through the signing of CEPAs. Having signed its first bilateral trade agreement with India in 2022, the country has added others since, including with Turkey and Indonesia, with more in the works, including Australia (Australian Government, 2023).

Qatar's economic diplomacy has continued to grow over the years, boosting its trade and investments with Asia. The country's SWF, the Qatar Investment Authority, has invested US$1bn in India's Reliance Retail Ventures and has stated its intention for further public and private investments in China's retail, healthcare, tech, and logistics sectors (Cornish, 2023; Reuters, 2023e).

In short, billions of dollars of trade and investment are flowing between China and the Middle East, including a notable shift in the sophistication of such trade and an increase in high-end technology manufacturing opportunities.

Where does the potential lie for trade ties between the Gulf and Asia?

What lies ahead for trade between the Gulf and Asia promises to be even more exciting. For instance, we think there is US$178bn of untapped export potential between China and the Middle East between 2022-2027 (Zawya, 2023d).

Yet it is not only in North Asia where opportunity awaits. While trade between the ASEAN bloc and the Gulf does not match the levels of China's, its demographic fundamentals put it in a strong position to prosper from the corridor. As of 2021, the 29 countries of ASEAN and the Middle East accounted for just 7 per cent of global GDP but were home to 15 per cent of the global population, and their relatively youthful populations suggest further growth into the future (HSBC, 2023a).

"China is now the UAE's primary trade partner and bilateral trade is expected to reach US$200bn by 2030"

These are figures that we only expect to increase – and at pace – backed by Asia's pro-growth policies and the Middle East's transformation agenda. The size of the project pipelines in the Middle East reflects the extent of the opportunity. The UAE has 1,965 major infrastructure projects in the advanced planning, or execution phases, with contracts worth an estimated US$616bn.[9] Take Saudi Arabia's Vision 2030 as another example, the total value of Giga projects encompassing the Kingdom's transformation programme is estimated to value US$879bn.[10] HSBC, positioned on both ends of the Middle East-Asia corridor with more than a century of history in each, is enabling that expansion – a generational megatrend that will have far-ranging implications for international trade, business, and politics.

We have witnessed growing sustainable cooperation between the Gulf and Asia. Is this a trend that you are seeing, and how will COP28 impact this cooperation?

9 HSBC Global Research calculations.
10 MEED, HSBC Global Research calculations.

For over 2,000 years the Silk Road has been a conduit of business and investment, yet the dynamics playing out along its 6,400km expanse are now moving at a different pace, and in large part due to the energy transition.

Governments and companies on both sides of the corridor are now looking to connect capital, demographics, technology, and industrial capacity to find new solutions to the green transition. This is why any conversation about the two regions is incomplete without highlighting the massive drive to reach net zero. More than half of investments required in power projects, almost half of the industrial investments, and 40-45 per cent of investments in real estate, will be made in Asia and the Middle East (HSBC, 2023b).

The efforts of the economies in our Middle East, North Africa, and Türkiye region to diversify economically are globally important and the hosting of consecutive COP events – COP27 in Egypt and COP28 in the UAE – illustrate the leadership role the region can play.

The COP28 Presidency has made it clear that the Middle East has an important role to play in supporting the transition to net zero as part of its wider economic growth agenda, and we expect this to translate into greater opportunities for businesses across the trade corridor with Asia.

How can companies on either side of the Gulf-Asia trade corridor capitalise on growing sustainable opportunities in these two regions?

The most dynamic markets of the Middle East have introduced investment-led "Vision" plans to reshape, diversify and accelerate their economies in the decades ahead. Sustainability is a central factor as the region looks to move away from hydrocarbons.

The UAE's 'We the UAE 2031' is one such example; among several other goals, in the coming 10 years, the UAE aims to double GDP from approximately US$817bn, and generate US$217bn in non-oil exports (Government of the UAE, 2023). The country's national energy strategy will see domestic renewable capacity rise more than seven-fold by 2050. The UAE is already one of the world's leading renewable energy investors, having invested around US$50bn in renewable energy capacity across 70 countries and it plans to invest another US$50bn in the decade ahead.

Being able to combine that track record and ambition in renewables investments with China, the world leader in solar manufacturing capacity and capability, will create vast potential. With trade and investment links between the two economies growing fast, this is an opportunity that is generating real business outcomes.

That is just one of the ways in which the profound shift in opportunities heralded by the transition to net zero can be leveraged between places with strong, historic trade ties – and a shared experience of world-leading economic innovation, diversification, and development.

We have seen SWF interest in Asia continue to grow. What in particular is attractive about Asian markets for Gulf investors?

With in excess of US$4trn of assets in support of economic diversification, SWFs in the Middle East seek to invest in emerging technologies and new or growing industry sectors that will shape the future. In general, the Gulf SWFs have been underweight in Asia compared with the US and Europe. However, backed by ambitious vision strategies and a commitment to sustainable economic diversification, we have seen an increasing shift towards opportunities in Asia. This is in part due to Asia's robust growth outlook: HSBC analysts forecast Asia ex-Japan GDP growth of 4.4 per cent in 2023, and 4.2 per cent in 2024.[11]

One area of notable change in the last year is in the private markets, where the Gulf's SWFs are taking larger positions in Asian IPOs or through M&A.

The emergence of new sovereign vehicles in Asia is also drawing investment from Middle East SWFs looking to deploy funds in the region's infrastructure transformation. The UAE has already invested over $10bn in the Indonesian Investment Authority which seeks to attract foreign co-investors to support economic infrastructure development (Embassy of Indonesia in Abu Dhabi, 2021; Daga and Ngui, 2022).

The continued opening of China's onshore financial market is enabling SWFs to be nimble, flexible, and manage their risk exposures in the world's second largest economy and is drawing more interest. Earlier this year, the city of Shenzhen set up a Middle East-China cooperation fund with PIF to stimulate post-pandemic growth (Ruehl and Liu, 2023).

On the other hand, the assets of the region's combined SWFs are also strong and clear indicator of the size of the opportunity for Asian investors, entrepreneurs, specialists in sustainable manufacturing and expertise in developing new industries.

All of these flows are built upon a diplomatic foundation of increasing depth and resilience, and it is this combination of geopolitical friendliness and underlying trade and investment that suggests there are good reasons for the Middle East-Asia corridor to expand.

11 HSBC Global Research: Asian Economics Quarterly, 29 September 2023.

3

Sustainability and The Middle East Pivot to Asia: A New Nexus of Cooperation

Gulf-Asia cooperation in sustainability is emerging as a vital component of the Pivot with several synergies that are encouraging greater trade and investment – particularly with China.

- China is the world's largest manufacturer of solar panels while the Gulf produces some of the lowest cost solar power, with Saudi Arabia producing the cheapest.
- China is the world's largest producer of rare-earth metals and minerals that are critical for the next generation of batteries and electrification, while Saudi Arabia is making significant investments in developing its own mining sector.
- China is the world's largest exporter of EVs, while Saudi Arabia and the UAE are increasing EV usage.
- The Gulf states want to become key hubs for producing blue and green hydrogen. These fuels release zero CO_2 when burned, meaning once produced at scale they can assist Asia's decarbonisation targets.

This creates opportunities for Asian firms involved in the upstream production of solar panels, batteries, and EVs. The Gulf states' ambitions to become global hydrogen hubs will assist Asia's decarbonisation, with trade in hydrocarbons gradually replaced by alternative fuels. This section explores these synergies in greater detail, as well as recent commercial and political cooperation.

COP28, taking place in Dubai between 30 November and 12 December, at the same time as publication of this report, could galvanise Gulf-Asia cooperation in sustainability and stimulate technologies underpinning the Gulf's vision for future decarbonisation, such as solar power, hydrogen and Carbon Capture Utilisation and Storage (CCUS).

Hong Kong's Under Secretary for Financial Services and the Treasury, Joseph Chan speaks with Asia House Chief Executive Michael Lawrence OBE during his visit to Dubai in November 2023.

Table 4:
Current Climate Goals of the Gulf States

Country	Year target for carbon neutrality	GHG emissions reduction target	National plan
UAE	2050	40 per cent by 2030	National Climate Change Plan
Saudi Arabia	2060	30 per cent by 2030	Saudi Vision 2030
Qatar	No pledge	25 percent by 2030	National Climate Change Plan
Oman	2050	7 per cent by 2030	Oman Vision 2040
Kuwait	2050	7.4 per cent by 2035	National Adaptation Plan
Bahrain	2060	30 per cent by 2025	National Environmental Strategy

Recent Advances in Gulf Sustainability Strategies

Oil and Gas nevertheless remain a key driver of Gulf revenue, with the region's 7.3 per cent GDP growth in 2022 largely attributed to energy production and higher prices. But the Gulf states have enhanced their commitment to decarbonisation over recent years, announcing net zero emissions targets, and increasing investment in renewables and hydrogen production (Madaghjian, 2023). The Gulf states agree that pursuing sustainability will contribute to economic diversification and growth. In 2021, the UAE became the first Gulf nation to announce a net zero target, pledging to achieve it by 2050. Saudi Arabia, the Gulf's largest emitter, has since followed suit, pledging to reach net zero by 2060, and to meet one half of its electricity demand through renewables by 2030. Qatar plans to supply 20 per cent of its electricity through solar energy by 2030 (Madaghjian, 2020).

The UAE's hosting of COP28 has increased global attention on the Gulf's sustainability strategies and how they will balance their role as major oil and gas producers with wider global decarbonisation aims. The months leading up to COP28 have seen the Gulf states strengthen their climate commitments. In July 2023, the UAE pledged to cut carbon emissions by 40 per cent by 2030, an increase from its previous 31 per cent target (Sanli, 2023). ADNOC has also brought forward its net zero target from 2050 to 2045. It has said it will scale up its CCUS operations to achieve this, aiming to capture five mn tonnes of CO_2 per annum by 2030.

During COP28, the Gulf States will argue that oil and gas production is compatible with net zero. This viewpoint was seen during MENA Climate Week in Riyadh in October 2023, where Saudi, Emirati, and Qatari energy ministers argued that the oil and gas industry should be adapted via CCUS, hydrogen, and other technologies, rather than be overhauled. This could boost these

Asia House Chief Executive Michael Lawrence OBE moderated the 5th KAFD Dialogue on Sustainability, featuring sustainability practitioners and experts from Aramco, Shell, HSBC, Jacobs, and Careem.

technologies, in which there has been increased Asia-Gulf cooperation.

The development of carbon markets could offer the Gulf states a pathway towards greater environmental sustainability. During October's MENA Climate Week, Saudi Arabia launched its Greenhouse Gas Crediting and Offsetting Mechanism, a local initiative designed to achieve climate goals and help businesses cut emissions (Kamel, 2023b). In recent months, ADNOC has announced it would start a carbon trading desk with credits created from ADNOC's emission reduction projects. Similarly, PIF and the Tadawul founded the Regional Voluntary Carbon Market Company (RVCMC) in 2022 to develop carbon offsets in the MENA region. The RVCMC aims to be among the top global carbon markets by 2030, supporting the region's decarbonisation efforts. In June 2023, the RVCMC held its largest auction to date in Nairobi, selling over 2.2mn tonnes of carbon credits, with significant purchases by companies like Aramco, ENOWA, and the Saudi Electric Company (RVCMC, 2023).

Recent Developments in Asian Sustainability Strategies

As climate change becomes a more significant priority, Asian nations have enhanced their commitments and introduced sustainability strategies over the past year. China, the world's largest emitter, has pledged to peak carbon emissions by 2030 and achieve carbon neutrality by 2060. China set new records in 2023 for temperatures, rainfall, and drought, forcing it to increasingly contend with the reality of climate change. China's renewable energy development plan for the 14^{th} Five-Year Plan Period (2021-2025), set targets for renewables to supply 33 per cent of domestic electricity by 2025. While changes in China's emission standards and sustainability goals have remained relatively steady over the past several years, it has increasingly invested in developing clean energy technologies, to strengthen its position as a renewable energy leader.

In 2022, China invested US$546bn in new energy technologies, including solar, wind, EVs, and batteries (Hou, 2023). It is set to double its renewable capacity and produce 1,200GW of solar and wind energy by 2025, five years ahead of its 2030 goal (Hawkins and Cheung, 2023). In June 2023 Kela, the world's largest hybrid solar-hydro power plant, in Sichuan, began producing electricity (Tong, 2023). China has doubled its 2017 levels of wind power capacity, and this will be bolstered by new projects in Inner Mongolia, Xinjiang, Gansu, and along China's coastal areas, to increase the global wind fleet by nearly one half (Ibid.).

With the world's second largest population and ranked third globally in terms of carbon emissions, India has also committed to climate pledges. These include becoming net zero by 2070, reducing the emission intensity of its GDP by 45 per cent by 2030, increasing renewable electricity generation capacity to 500 GW by 2030, and meeting 50 per cent of its energy requirements by 2030 (Deb and Kholi, 2022). India is the third largest producer of renewables globally, generating 42 per cent of its power from clean sources (Mehrotra and Kalia, 2023). ASEAN has also enhanced its climate pledges, with nine out of 10 its members committing to reach net zero by 2050.

The Synergies and Opportunities for Gulf-Asia Sustainable Cooperation

The logic behind Gulf-Asia hydrocarbon cooperation also underpins cooperation in sustainability. Asia sees the Gulf's growing investments in alternative fuels such as hydrogen as a potential source of future energy security and a means of fulfilling its decarbonisation goals. The Gulf views Asia as an attractive customer base for these new fuels, particularly given its high and growing energy demand. The Gulf also recognises Asia as a crucial centre of manufacturing and expertise on the technologies required to achieve its own decarbonisation goals, such as solar panels, batteries, and EVs.

Pursuing decarbonisation is becoming a key means for the Gulf states to diversify their economies. Solar power is the main target of investment. Abundant sunlight and cheap land allows the Gulf to produce the world's cheapest solar power. China, as the biggest global producer of solar panels and farms is involved in multiple large greenfield solar projects throughout the Gulf, enhancing Beijing's strategic importance in the region. Chinese solar farms are often deployed in dry desert conditions so many of its solar panel designs are particularly effective in the Gulf.

As the Gulf develops its expertise deploying solar and renewable projects, it is also entering into JVs with Chinese and Asian firms to build solar and renewable capacity outside the Gulf. Perhaps the most significant project by a Gulf firm in Asia is UAE clean energy firm Masdar's, US$2bn investment in a floating solar power plant in Indonesia. The plant will be able to power 50,000 homes with 145MW of power and was opened in November 2023 in the presence of Indonesia's President Joko Widodo and UAE Minister of State for Foreign Trade, Dr. Thani Al Zeyoudi (Masdar, 2023). There has been a plethora of recent Gulf-Asia solar and renewable deals signed, with the most significant recently being Masdar's US$8bn investment in Malaysia. Significant deals include:

- China is involved in developing one of the world's largest solar plants, Mohammed bin Rashid Al Maktoum Solar Power. This park will produce 5GW of power by 2030, more than twice that generated by today's largest plant, India's Bhadla Solar Park (Madaghjian, 2023).
- In August 2022, QatarEnergy signed a contract with South Korea's Samsung C&T to build two large solar plants in Mesaieed Industrial City and Ras Laffen Industrial City. The projects are

expected to start electricity production in 2024 (The Peninsula, 2022).

- In October 2022, Qatar inaugurated its first solar plant utilising Chinese technology. The Al-Kharasaah plant has a capacity of 800MW and can supply approximately 10 per cent of Qatar's peak power demand. The plant uses two mn panels purchased from Chinese firm LONGI (Tse, 2022).
- In February 2023, Masdar entered Indonesia's geothermal energy sector by investing in a unit of state-owned Pertamina Geothermal Energy. Masdar did not reveal the size of the investment (Benny, 2023b).
- As of March 2023, China's Jinko Solar has added 4GW of solar capacity in the UAE. It has also signed deals for more than 5GW of solar projects in Saudi Arabia over the next two years.
- In May 2023, Dubai-based technology investment firm, Mensha Ventures signed a preliminary agreement with the Asia Development and Investment Group, Hoover Investment Group, and Shenzhen Sinomaster Investment Group, to invest US$1bn in sustainable energy projects across the Gulf (Cabral, 2023b).
- In June 2023, Saudi Arabia's ACWA Power collaborated with Energy China Group Corp to create a solar power project in Tashkent, Uzbekistan (Arab News, 2023b).
- In June 2023, ACWA Power signed a three-year revolving credit facility agreement with China Construction Bank, giving it access to a US$100mn credit facility that will help upscale its power and water generation portfolio in the Middle East and countries along China's BRI (ACWA Power, 2023a).
- In September 2023, ACWA Power signed an MoU on clean energy agreements with two Chinese firms, China Southern Power Grid International Company and MingYang Smart Energy Group Limited. The agreements aim to increase collaboration in China on green hydrogen and ammonia, global renewable energies, and smart energy systems (ACWA Power, 2023b).
- In September 2023, ACWA Power signed an MoU with the Bank of China covering financing, investment, engineering procurement, and construction contracts, as well as renewable energy equipment procurement for clean and renewable energy projects (Arab News, 2023e).
- In September 2023, a consortium led by China's Jinko Power Technology, secured a US$315mn contract to construct a 400MW solar plant in northern Saudi Arabia (Shihua, 2023).
- In October 2023, Masdar announced it would invest US$8bn in renewable energy projects in Malaysia that would produce 10GW of power by 2035 (Kumar P., 2023d). This deal was signed during the visit of Malaysian Prime Minister Anwar Ibrahim to the UAE.

Hydrogen is another growing area of Gulf-Asia sustainable cooperation. The Gulf states are focussed on developing both blue and green ammonia. Green ammonia is produced entirely from renewable sources, whereas blue ammonia uses fossil fuels, but with the carbon emissions captured and utilised elsewhere, for example in enhanced oil recovery. Crucially neither fuel produces carbon emissions when burned, making them attractive decarbonisation fuels for both Asian and Western countries, particularly in hard-to-abate sectors such as shipping, which currently accounts for 3-4 per cent of global carbon emissions. Blue ammonia's reliance on the fossil fuel industry, means developing this fuel could offer the Gulf states pathways to continue monetising their hydrocarbon resources as global oil demand decreases.

Asia has signed a plethora of MoUs, JVs, and investment deals with the Gulf states to develop hydrogen technology, with some instances of Asian-Gulf cooperation being particularly ground-breaking, such as the world's first ever shipment of blue ammonia in 2020 between Saudi Arabia

In November 2023 Asia House and Invest HK held a landmark conference in Dubai exploring Hong Kong-Gulf economic connectivity. This panel on sustainability cooperation between Hong Kong and the Gulf includes senior representatives from HSBC, Tap Payments, Gulf Capital, and Trina Solar.

and Japan. Recent Gulf-Asia hydrogen deals cover both blue and green ammonia projects. The most significant deal is ACWA Power's US$7bn investment in developing green hydrogen plants in Thailand. Other significant deals include:

- In November 2022, ACWA Power signed an MoU with Indonesia's state-owned electricity provider, PT Perusahaan Listrik Negara (PLN), to explore developing a green hydrogen/ammonia facility powered by hydroelectricity (ACWA Power, 2022).
- In November 2022, ACWA Power signed a US$7bn agreement with two Thai state-owned companies to develop green hydrogen in Thailand (L, 2022). One of the aims is to build a plant capable of producing 225,000 tonnes of hydrogen per year (Phoonphongphiphat, 2023).
- In December 2022, Saudi Arabia made its first commercial shipment of blue ammonia to South Korea. The vessel held 25,000 metric tonnes of ammonia (Arab News, 2023f).
- In March 2023, Oman's Hydrom signed six deals worth US$20bn with companies from Japan, Singapore, India, the UAE, Japan, Germany, Kuwait, and the Netherlands to develop green hydrogen projects across Oman. A total 15 GW of electricity will be produced in Al Wusta and Dhofar (Gibbon, 2023a).
- On the sidelines of the G7 meeting in Japan in April 2023, Mitsui entered into a strategic collaboration agreement with ADNOC and Japan's JOGMEC and Inpex to conduct a joint study investigating reducing the carbon emissions of a clean ammonia project in the UAE. The agreement aims to boost future exports of ammonia to Japan (Mitsui & Co., 2023).
- In April 2023, ADNOC signed agreements to strengthen the low-carbon hydrogen

value chain between the UAE and Japan. One agreement was signed with Kawasaki to collaborate on the production, liquefication, and transportation of hydrogen to key global markets (Arab News Japan, 2023a).

The Gulf states see electrification and adopting EVs as key to decarbonisation. Cutting emissions by reducing fuel consumption saves the Gulf states money on domestic subsidies and frees up more fuel for export. Again, China is a key partner in the Gulf's electrification goals. It is a main producer of the rare-earth metals needed for electrification and battery technology, and is the world's largest producer and exporter of EVs. In 2022, it accounted for 60 per cent of global production (Kawakami et al., 2022). While most of the EVs that China produces are for its domestic market, it is ramping up exports. In 2021, China exported 500,000 EVs globally. In 2022, this number had increased to around 800,000. Saudi Arabia is China's second-largest export destination for vehicles in general, accounting for seven per cent of the total (Tu, 2023). While China is the Gulf's main partner in electrification, Indonesia is pushing to leverage its critical mineral resources and nickel deposits to develop an indigenous battery industry for international export.

The biggest Asia-Gulf EV deal of 2023 was the Abu Dhabi government's acquisition of a seven per cent stake worth US$738.5mn in Chinese EV manufacturer Nio (Coppola, 2023). The June 2023 deal will give Abu Dhabi a board seat and sway over the decision-making of one of China's largest EV brands. Other recent examples of Gulf-Asia cooperation in electrification, batteries, and EVs include:

- In April 2023, UAE manufacturer Monarch Holding announced a partnership with China's EHang Holdings to create electric passenger and cargo drones in Abu Dhabi using a world-first facility (Arabian Business, 2023b).

- In May 2023, Bahrain's Investcorp purchased a controlling stake in China's Jianuo which provides components for EV power management, battery charging infrastructure, solar and wind power generation, and 5G base station infrastructure (Rahman, 2023a).
- In June 2023, during the Arab-China Business Conference in Riyadh, Saudi Arabia's Minister of Investment and Chinese EV firm Human Horizons signed a US$5.6bn JV to produce and sell EVs (Khan, 2023a).
- In July 2023, Indian startup Pravaig Dynamics signed an MoU with the Saudi Inda Venture Studio. The former will create an EV production facility in the kingdom capable of producing one million units. The deal is expected to create economic opportunities worth over US$31bn (Arab News Japan, 2023b).
- In September 2023, South Korea's HD Hyundai Electric won a US$51mn contract to provide NEOM with substation equipment. Work will be completed by February 2025 (Zawya, 2023e).

Asian construction expertise has long driven the Pivot, but Asian expertise in sustainable and green buildings is now further enhancing cooperation with the Gulf states as they look to sustainably deliver their urban construction, renewal, and expansion projects. Recent Asia-Gulf cooperation in sustainable and green construction includes:

- In February 2023, Hong Kong startup Negawatt Utility signed an MoU with Masdar City in Abu Dhabi to provide smart city solutions to enhance sustainability (Hong Kong Trade Development Council, 2023).
- In May 2023, Dubai-based Mensha Ventures, a technology investment company, signed preliminary agreements with several Chinese firms to invest US$1bn in sustainable energy projects (Cabral, 2023b).
- In August 2023, Saudi Arabia's Minister of Municipal and Rural Affairs and Housing, Majid Al-Hogail, met China's CITIC Group and CITIC Construction in Beijing to discuss cooperation in green and sustainable housing technology (Asharq Al-Awsat, 2023a).

As Gulf states look to decarbonise and deliver green projects, we will also see greater need for green finance, with Asia as a key source of this capital. Gulf green bond and sukuk issuances rose to a record US$8.5bn in 2022, compared with US$605mn in 2021 (Wragg, 2023). The Gulf debt market raised more funds for sustainable than fossil fuel projects in 2022 for the first time. Growth in green finance has continued in 2023. PIF sold its second green bond in February 2023, raising US$5.5bn in a six-times oversubscribed issuance, while Masdar raised US$750mn in a 10-times oversubscribed notes auction. The Gulf's growing use of green finance could lead to greater cooperation with Asia. For example, in 2023, the Bank of China's Dubai and Luxembourg branches issued their first green bonds dedicated to BRI projects in the Middle East, with a total value of US$770mn. They have been listed on Nasdaq Dubai and will fund environmentally-friendly projects in the UAE and Saudi Arabia (Sambidge, 2023d).

The several Asia-Gulf synergies in sustainability will increase trade in batteries, EVs and solar panels, eventually replacing the hydrocarbons trade. COP28 and its aftermath will likely see further Gulf-Asia sustainability deals.

Conclusion: The Impact of COP28 on Gulf-Asia Sustainable Cooperation

COP28 could further boost Gulf-ASEAN sustainable cooperation. Hosts UAE have made several policy announcements and set ambitions for the conference that lend themselves to cooperation with Asia. COP28 President Sultan Al-Jaber has said the conference must open up negotiations to triple renewable energy and double hydrogen usage (Rathi and Ainger, 2023). The UAE will likely seek Asian support to approve these targets, particularly given the high level of Gulf-Asia cooperation in this field. Sultan Al-Jaber also wants COP28 to be inclusive of developing economies, with UAE Minister of Climate Change and the Environment Mariam Almheiri targeting US$100bn for green projects in developing countries. Some of these funds will be directed towards Asia's poorer economies, such as Cambodia and Laos (Gamal El-Din and Cranny 2023). This initiative to increase green finance could uncover co-investment opportunities for the Gulf and Asia.

Sultan Al-Jaber has already directed significant outreach towards Asia preceding COP28. China, as a significant carbon emitter, but also mass producer of sustainable technologies and a source of manpower to deliver global green renewable projects, has been targeted in particular. In April 2023, Al Jaber made a two-day trip to China, noting its example to other countries wishing to simultaneously pursue economic growth and decarbonisation, and saying the UAE-China partnership would be crucial to mutual energy transitions (The National, 2023b). Al-Jaber was also in China in September and October. In September he argued for a global goal on climate adaption and establishing a fund for loss and damage (Duncan, 2023). Al-Jaber noted that China played a key role in the global energy transition through its cooperation with developing economies and the BRI. During 2023 Al-Jaber visited India and Japan. As one of the world's largest emitters, India will be a key stakeholder during COP28.

Gulf-Asia sustainable cooperation is set to herald a new era for the Pivot. There is a strong correlation between the Gulf's ambitions to become a renewable energy hub and Asia's upstream supply chains manufacturing the solar panels, batteries, and EVs that will realise this vision. The Gulf's hydrogen ambitions also correlate with Asia's exploration of this fuel to aid its decarbonisation. Oil will remain an important facet of the Pivot, but increasingly Gulf-Asia sustainable cooperation is greening their trade. This reconfiguration will not only assist energy transitions in both regions, but will fuel Gulf economic diversification.

4

Other Key Sectors Driving the Pivot

This section explores other key sectors driving Gulf-Asia cooperation, trade, and investment. Gulf-Asia technology trade has traditionally focussed on the Gulf purchasing consumer electronics from Asia and seeking Asian expertise to modernise its logistics capabilities.

But as the Gulf states implement their economic diversification strategies, Gulf-Asia technology trade has broadened into the digital services area and procurement of Asian expertise to advance the Gulf's digitalisation agenda and develop new growth sectors. These include AI, communications technology, cloud technology, 5G, semiconductors, health tech, fintech, and food technology. Gulf-Asia cooperation has accelerated since COVID-19 and recent examples are analysed in this section.

Gulf-Asia Technology Cooperation

The Gulf and Asia recognise the mutual benefits of technology to grow their economies, improve their populations' livelihoods, and make efficiency gains for the public and private sector. The Gulf also sees technology investment as a means of diversifying away from oil. Innovation is rising in both regions with start-ups and entrepreneurs creating new solutions and attracting mutual investment.

The Gulf is investing heavily in digitalisation as part of its economic diversification, seeking Asian expertise, manpower, and solutions. This has made the Gulf an attractive market for established Asian technology firms and startups. Dubai has benefited in particular and is the entry point into the Gulf for 95 per cent of ASEAN startups, with a 35.5 per cent increase in ASEAN firms registered with the Dubai Chamber of Commerce between 2018 and 2021, increasing to 3,300 firms (Schwalje, 2022; Sadaqat, 2021).

Saudi Arabia's Vision 2030 has led to an increase in domestic technology investment, but the UAE is also making considerable investments. In June 2023, Dubai launched a digital strategy to add US$27.2bn to the sector (Arabian Business, 2023c). The strategy aims to double the technology industry's contribution to UAE GDP to 10 per cent by offering incentives to startups to set up in Dubai. These policies could attract further Asian technology entries into Dubai (Arabian Business, 2023d).

Asia is a source of technology knowledge and expertise for the Gulf and an attractive technology investment destination. As Asia's middle classes grow, so too will its demand for digital services. ASEAN's internet users will rise from 130mn to 300mn by 2030 and Indonesia's internet economy is expected to double in value to US$146bn by 2025 (Sadaqat, 2021; Tan, 2023). Digital and fintech adoption across Asia has encouraged entrepreneurialism and SME growth, leading to fundraising opportunities and Gulf SWF investment as discussed further in Section Six. During 2023 the UAE's AI technology firm G42, has made considerable investments in Asia. In February 2023, G42 announced a hiring spree to support a US$10bn emerging technology fund with a particular focus on Jakarta, Singapore, and Shanghai (Bartenstein, 2023). G42 appointed Jason Hu, an executive from Chinese e-commerce giant JD.com, to lead its Shanghai office (Arabian Business, 2023e). G42 also bought a US$100mn stake in Chinese technology firm ByteDance.

Bahrain's Investcorp has sought to leverage opportunities in Asia's technology sector, launching an expansion strategy in 2017 that has committed over US$1bn in China and ASEAN. This capital has been divided between a China pre-IPO technology fund, the Asia Good Growth Platform to invest in food and beverage companies in China and the Asia Pacific, and a China pre-IPO healthcare portfolio (Investcorp, n.d.). Investcorp has also partnered with Hong Kong-based Fung Capital via a US$500mn fund focused on the Greater Bay Area.

Communications, Network, and Cloud Technology

Asian technology firms have been instrumental in Gulf digitalisation, especially in developing the necessary communications and network infrastructure. China's Huawei has been particularly active, securing partnerships with Gulf telecom firms to build 5G infrastructure. This technology focusses on wireless services such as mobile terminals, but Huawei is also involved in developing the Gulf's Fixed 5G (F5G) infrastructure for wired services such as fibre broadband with particular applications for businesses and homes. Huawei is also developing the Gulf's cloud infrastructure, building data centres to meet a growing demand. Advanced telecoms infrastructure improves efficiency across the Gulf's business landscape, contributing to economic growth and enabling industries to go digital and leverage intelligent technologies. This positions Huawei as a key partner for the Gulf states with several recent deals announced:

→ In December 2022, Huawei signed an MoU with Saudi Arabia's Ministry of Communications and Information Technology to build super-fast broadband infrastructure, assist its uptake of cloud technology, and launch a scholarship training programme for Saudi students that includes trips to Huawei's HQ (Zawya, 2022).

→ In March 2023, Huawei signed an MoU with Saudi telecoms and technology giant STC, on the F5.5G era (Huawei, 2023a). F5.5G will advance the kingdom's digitalisation by increasing broadband speeds and network efficiency by ten times.

→ In March 2023, UAE telecoms firm du signed an MoU with Huawei on 5.5G strategic cooperation, deepening their network collaboration (Huawei, 2023b).

→ In July 2023, Huawei signed an MoU with Dubai Electricity and Water Authority (DEWA) to collaborate in the energy sector, digitalisation, decarbonisation, and in developing a power communication network to increase Dubai's grid efficiency.

→ In September 2023, Huawei opened a cloud data centre in Riyadh to serve as a bridge for Chinese companies in the kingdom (Reuters, 2023f). The centre will support the Saudi government's digital services and allow for AI applications and Arabic Large Language Modules (LLMs) to train AI systems. In 2023, Huawei said it plans to invest US$400mn in Saudi Arabia's cloud region over the next five years (Reuters, 2022b).

The Gulf also seeks the support of Asian technology firms outside China to develop its communications infrastructure.

→ In May 2023, the UAE's telecommunications firm etisalat and enterprise (e& enterprise) completed a JV with South Korea's Bespin Global. Under the deal, e& will invest US$60mn in Bespin Global and join its board of directors, expanding its global reach through access to markets in South Korea, China, Japan, Singapore, Vietnam, Indonesia, and the US (etisalat& enterprise, 2023).

- In May 2023, etisalat& also announced a JV with Singapore-based Circles to roll out digital telecommunications in Abu Dhabi. This is Circles's first entry into the Middle East market (Cordon, 2023).

There are some challenges that could hinder Gulf-Asia digital cooperation. Some Chinese technology firms, including 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. The most notable episode in recent years was the Biden administration's suspension of a deal to supply the UAE with the US's next generation fighter jet, the F-35 (Wadhams and Westall, 2021). The move was reportedly intended to pressure the UAE to remove Huawei from its communications network. In February 2023 the US State Department said a deal to deliver the F-35 to the UAE could still take place, but may now be years away from being finalised (Roque, 2023). As discussed in Section Seven, a continued deterioration in US-China relations could put further pressure on the Gulf to limit technology cooperation with China. Another challenge is that some Gulf and Asian economies, particularly China, have restrictive data regulations and data localisation regimes that could stymie digitalisation and wider data sharing and cooperation.

Western technology companies such as Google, Microsoft, and Amazon Web Services have also won contracts to build the Gulf's communications, network, and cloud technology infrastructure. But Asian technology firms will likely remain instrumental in Gulf digitalisation. These companies are well-positioned to assist the Gulf in delivering future network technologies such as 6G, which is expected to come online by 2030 (Becher, 2023). This could be 1,000-times faster than 5G, speeding up Internet of Things (IoT), AI, and other digital applications. With the Middle East's digital economy expected to reach US$500bn by 2030, there will be big opportunities for Asian technology firms and investors to shape the region's digitalisation, enhancing Gulf-Asia technology cooperation (Arabia Business, 2023h).

Semiconductors

Securing reliable supply chains for semiconductors is crucial to digitalisation and advanced technologies, including AI. The Gulf has looked to China to develop its semiconductors. For example, in June 2023, Saudi Arabia's King Abdulaziz City for Science and Technology signed an MoU with China Electric Power Equipment and Technology and Beijing GL-Microelectronics Technology to establish a centre for designing and manufacturing semiconductors for use in energy digitalisation, smart cities, and smart grid applications (Saudi Press Agency, 2023b). This cooperation could be vulnerable to US-China tensions, with Washington restricting the sale of Nvidia's AI chips to the Middle East, out of concern they could be shared with China (Fenton-Harvey, 2023). Nvidia is a leader in semiconductor manufacturing with its chips underpinning many of the computer systems used to train LLMs and develop AI.

Artificial Intelligence (AI)

While AI has developed over several years, the release of ChatGPT in November 2022 captured the imagination of businesses, governments, and civil society regarding the technology's potentially transformative applications. It generated debate about AI's future applications and the regulation required to govern it. The Gulf is no exception, with government and business leaders recognising AI's importance to digitalisation and its potential to transform fundamentally how industries, businesses, and societies operate, increasing productivity across all economic sectors.

Gulf governments are working to realise AI's potential. The UAE was the first in the region to adopt a national AI strategy and the first globally to appoint an AI minister in 2017 (Schaer, 2023). Saudi Arabia has established dedicated government bodies, such as the Saudi Data and AI Authority (SDAIA) to create a dedicated regulatory framework, as well as to train and reskill Saudis in AI. Separately, the kingdom has established the PIF-owned Saudi Company for AI (SCAI) to promote AI growth in the private sector by forging international partnerships and investing in AI startups (KAFD, 2023).

Recognising Asia's importance as an AI development hub, Gulf firms, incubators, and relevant ministries are entering into partnerships and JVs to collaborate on AI:

- In 2020, Huawei and Saudi Arabia's SDAIA launched the National AI Capability Development Program, to support Saudi government, businesses, and research institutes to find AI technology partners and develop their talent (Huawei, 2023c).
- In September 2022, SCAI invested US$207mn in a JV with Hong Kong-headquartered SenseTime to boost Saudi AI through a dedicated R&D centre focussed on applications for smart cities, healthcare, and education (Arab News, 2023g).
- In December 2022, Saudi Arabian Minister of Communications and IT Abdullah Al-Swaha signed a strategic partnership plan with China's Minister of Industry and IT, Wang Zhigang, to promote AI research and innovation (Arab News, 2022).
- In December 2022, during Xi Jinping's visit to Saudi Arabia, King Abdullah University of Science and Technology (KAUST) and China's Sinovation Ventures signed an MoU on AI (Lucente, 2022a). The MoU will cover employment opportunities in technology, Arabic AI applications, and potential AI investment ventures (Saudi Press Agency, 2022).
- In October 2023, Saudia Arabia's KAUST university launched AceGPT, an Arabic-focused LLM, in collaboration with the Chinese University of Hong Kong and the Shenzhen Research Institute of Big Data (Kerr, Al-Atrush, et. al., 2023).

AI's future impact remains unknown and regulatory challenges must be overcome to maximise its benefits. Regulatory frameworks that govern data security, consumer data privacy, and AI's wider development will be needed to ensure long-lasting benefits. There is a risk that a complex and fragmented global regulatory landscape could emerge, potentially split between US and Chinese-led frameworks. This could stifle innovation. Navigating these tensions will be a key consideration for countries wishing to maintain productive relations with both sides. Indeed, US-China tensions are already impacting the Middle East's AI development, following the restriction of Nvidia chips to certain Middle Eastern countries to prevent re-export to China.

AI's future is uncertain, but we expect burgeoning Gulf-Asia cooperation to be a driver of the Pivot with the productivity gains offered by AI in streamlining business operations, supply chains, and trade also having a positive impact.

Pharmaceutical and Health Technology

The Gulf states are developing their local manufacturing capabilities with the pharmaceutical and health technology sectors being these key targets. These sectors are expanding at pace with the Middle East's pharmaceutical sector expected to double to US$25.7bn between 2018 and 2028 (Khan S., 2019).

Saudi Arabia and the UAE have been the most active. Mubadala is collaborating with G42 to establish a biopharmaceutical manufacturing campus in Abu Dhabi. Both the UAE and Saudi Arabia are embracing health-tech to enhance efficiency across their healthcare systems. The UAE is improving access to healthcare through digitalisation and Saudi Arabia aims to digitise 70 per cent of its patient activities by 2020 (Medi-

Tech Insights, 2023). Saudi Arabia's Ministry of Health has also launched digital applications such as Mawid, Tabaud, and Seha to increase virtual consultations. Gulf and Asian companies are cooperating in pharmaceutical and health technology:

- In 2023, Hong Kong's Insilico Medicine entered the Middle East market by launching an AI powered biotech research centre in the UAE.
- In June 2023, Chinese genetics company BGI and Saudi healthcare firm Tibbiyah Holding jointly announced the establishment of Genalive, a clinical laboratory to offer genetic testing and medicines. Located in Riyadh, the laboratory is one of Saudi Arabia's largest and most advanced clinical labs.
- In 2023, Dubai health authorities announced that a gastroenterology hospital will be opened in 2026, the first of its kind in the region. South Korea's Asan Medical Centre is leading the development, integrating the latest technologies and equipment (The National, 2023c).
- Mubadala has co-led a US$315mn funding round alongside CBC Group for China's Hasten Bipharmaceutic.

Food Technology

The Gulf's arid climate and water scarcity has traditionally stunted development in agriculture and food production. GCC countries are reliant on imports for around 85 per cent of their food (Ghazaly et al., 2020). COVID-19 and the Russian invasion of Ukraine have highlighted the limitations of the Gulf's outsourcing of food security. To insulate from supply chain disruptions, climate change and future pressures on global food systems, the Gulf states are investing considerably in technology, such as vertical farms and agri-tech, to strengthen their food production. The UAE, Saudi Arabia, and Qatar are at the forefront of Gulf efforts in this area. The UAE had a dedicated food security minister between 2017 and 2021, and in 2021 launched the Food Tech Valley Project to triple Dubai's production (Almazrooi et al., 2023). Saudi Arabia's NEOM aims to produce 600,000 tonnes of food by 2030 (Forward Fooding, 2023). The nearly four-year diplomatic, trade and travel embargo imposed on Qatar by Saudi Arabia, Bahrain, the UAE, and Egypt ended in 2021. But it led Qatar to invest heavily in local food production.

In addition to these domestic efforts, the Gulf has looked to Asia to cooperate on food technology. Over the past year, the UAE has invested US$2bn in Indian crop-growing "food parks" to tackle food insecurity in the Middle East and South Asia. These parks aim to increase India's food yields by three-times in five years, by bringing farmers, processors, and retailers together and using technology to minimise production waste and maximise crop yields, focusing primarily on potatoes, rice, and onions (Lubell and Verma, 2022). Similarly, in June 2023, Saudi Arabia and China announced they would cooperate on food security via a US-China JV between California-based Calysseo and Chinese feed additive company, Adisseo (Lo, 2023a). Looking to microbiology for solutions, Riyadh and Beijing have also agreed to build a plant in the kingdom that uses bacteria to turn methane into animal feed. The 35 per cent sale of Singapore's Olam Agri, one of the world's largest agricultural commodity traders, to PIF, also helps Saudi Arabia secure food supply.

Fintech and Digital Assets

Fintech and digital assets are expanding sectors in the Gulf and Asia, with both regions attracting mutual investment. Gulf economies recognise the productivity gains that fintech and digital payments provide to businesses and consumers and have introduced several initiatives to develop the sector. The kingdom, for example, has established "Fintech Saudi" to grow the

Asia House Chief Executive Michael Lawrence OBE in conversation with HE Khaled Al-Dhaher, Vice Governor at the Saudi Central Bank, and Nick Ogden, founder of WorldPay, ClearBank, and RTGS.global at the 2nd KAFD Dialogue on The Future of Fintech in December 2022.

industry, with the Saudi Central Bank inaugurating regulatory sandboxes, introducing an Open Banking Framework in November 2022, and granting digital banking to STC Bank, Saudi Digital Bank, and D360 (KAFD, 2022). Bahrain's "Fintech Bay" has long been a regional innovation centre, and the UAE's "NextGenFDI" campaign, launched in July 2022, aims to attract over 300 technology companies to the UAE through bulk visas, reduced rates on commercial leases, and faster incorporation. The Gulf payments landscape is becoming increasingly digitised, with electronic payments accounting for 62 per cent of the total in Saudi Arabia in 2021, an increase from 44 per cent in 2019. Ninety-four per cent of Saudi payments are contactless, which is the highest rate in the MENA region (KAFD, 2022).

The wide availability of capital in the Gulf and its growing number of PE and VC firms offers an attractive environment for fintech startups. Indeed, the region's start-up scene is expanding with forecasts estimating the Middle East will have 100 unicorns[12] and 250 "soonicorns" by 2030 (Mathew J., 2023). At the time of writing, the UAE had four unicorns and 45 "soonicorns"[13]. The Middle East's young population is one reason for this shift, but Gulf leaders are also encouraging greater entrepreneurialism as a way of channelling its talent into the private sector.

As the Gulf's fintech ecosystem expands there will be more access to financing for Gulf entrepreneurs and reduced financial friction and its associated costs. This will drive Gulf economic growth. Asia has several synergies with the Gulf when it comes to developing fintech capacity and we expect a growing trend of established fintechs expanding into Asian and Gulf markets. There have been several recent examples of Gulf-Asia fintech

12 A "Unicorn" is a private startup company with a valuation of over US$1 billion.
13 A "Soonicorn" is a fast-growing startup with a potential to become a Unicorn.

cooperation and investment, with MoUs between Asian and Gulf central banks being a particular source of cooperation. Recent Gulf-Asia fintech cooperation and investment includes:

- In January 2023, UAE-based Al Fardan Ventures and Japanese fintech startup Canaan Advisors announced a partnership to launch a block chain real estate investment platform in the Middle East (Zawya, 2023f).
- In May 2023, the HKMA and the UAE Central Bank met to discuss financial services through joint fintech development and knowledge-sharing (HKMA, 2023). They agreed to strengthen cooperation in financial infrastructure, financial market connectivity and digital asset regulations and development.
- In August 2023, the HKMA and the Saudi Central Bank initiated a partnership to develop financial innovation projects and fintech (Castagnone, 2023). They signed an MoU to integrate tokenisation within their respective financial systems, as well as collaborate on supervision technologies and payment infrastructure, particularly as Hong Kong seeks to become a hub for digital currencies (Zawya, 2023g).
- In August 2023, Network International, the Middle East e-commerce enabler, and Tencent Holdings introduced WeChat Pay acceptance on Network International's payment terminals across the UAE. This will increase convenience for Chinese visitors and could encourage greater spending (Zawya, 2023i).
- In October 2023, UAE-based Al Etihad Payments signed an agreement with the National Payments Corporation of India to implement the domestic payment card scheme in the UAE (Kumar A., 2023). It will be based on India's RuPay card and aims to facilitate digital transactions and UAE e-commerce growth.
- In October 2023, the Saudi Central Bank signed a fintech cooperation agreement with the Monetary Authority of Singapore to enhance information exchange and improve the use of fintech in both Saudi Arabia and Singapore (Asharq Al-Awsat, 2023b).

In terms of digital assets, Dubai has attempted to position itself as a hub for this financial technology, establishing the Virtual Assets Regulatory Authority (VARA) in March 2022, the first organisation of its kind globally. This move has encouraged several digital assets firms to establish themselves in Dubai, including from Singapore and Hong Kong, with Binance, the world's largest cryptocurrency exchange, recently granted a licence there. The past couple of years have been challenging for cryptocurrency firms after the bankruptcy of the world's second largest exchange, FTX, undermined confidence in cryptocurrencies and increased calls to regulate digital assets.

Dubai has become stricter towards digital assets firms since FTX's bankruptcy, for example requesting further information from Binance and issuing an alert against BitOasis, a platform tailored to the Middle East market, for failing to fulfil mandated requirements. Other Gulf countries are cold to digital assets. In 2023, Kuwait banned the use of virtual assets and cryptocurrency as a tool of payment and means of investment, arguing this would combat money laundering and terrorism financing (Arabian Business, 2023f). Still, the digital assets sector continues to attract investment and the entry of firms into Dubai. Asian nations are also enhancing their positions as digital assets hubs, creating opportunities for collaboration. Hong Kong for example is working on attracting digital assets firms and created a new licensing regime in 2023.

While the future for cryptocurrencies as a digital asset class looks uncertain, central bank CBDCs will probably become a more established feature. Asia and the Gulf are exploring the development of CBDCs and cooperating in this area. In February 2021, the UAE Central Bank joined the "m-CBDC Bridge Project" involving the

People's Bank of China, the Bank of Thailand, and the HKMA to explore the use of blockchain and distributed ledger technology for cross-border payments, contributing to greater financial integration between these economies (HKMA, 2021).

Gulf Advanced Manufacturing and Logistics Sectors Seek Out Asian Expertise

The Gulf states want to boost their non-oil exports and become key global trading hubs as part of their economic diversification. This requires two developments. Firstly, the expansion of existing industrial bases and advanced manufacturing centres to produce these goods. Secondly, the building of advanced logistics centres, as well as the modernisation and expansion of domestic ports, to export the output. Realising this vision will boost Gulf exports globally including to Asia.

Saudi Arabia is focussed on developing into a global logistics hub. In August 2023, Crown Prince Mohammed bin Salman announced a plan to build 59 logistics centres. Once completed in 2030, the centres will cover 100mn square metres and have a particular focus on developing the kingdom's expanding e-commerce sector which is facilitating SME growth. Simultaneously, Saudi Arabia is expanding and modernising its ports. It wants to quadruple containerised trade to 40mn containers by 2030 and is investing substantially to realise this goal, with several key projects inaugurated. US$2bn has been invested to develop NEOM port, with the first advanced terminal opened in 2025. Other projects under development include the PIF-owned King Abdullah Port, the Red Sea Gateway Terminal, and Oxagon Port in NEOM. The kingdom is also modernising its ports and integrating key technologies such as automation, 5G, cybersecurity, and cloud computing through its 'Smart Ports Initiative', to drive operational efficiency and boost trade.

The UAE, already an established player in the Gulf's logistics sector, is also seeking to enhance its capabilities, particularly in advanced manufacturing. The UAE has recently launched several initiatives to develop its industrial sector and encourage greater foreign investment. 'Operation 300bn', for example was launched in March 2021 and seeks to increase the industrial sector's contribution to UAE GDP to 300bn dirhams (roughly US$81.7bn) by 2031. In June 2022, Abu Dhabi announced a new industrial strategy to expand its manufacturing sector and increase non-oil exports by 143 per cent through a US$2.7bn investment. The UAE's "National In-Country Value" scheme also works to boost the private sector's participation in the economy, diversify outputs and localise the production of critical supply chain components. The UAE's hosting of the WTO's 13th Ministerial Conference in 2024 will also highlight its ambition to bolster its position as a global trading hub. The UAE's exports strategy is showing signs of success with its non-oil foreign trade reaching a record US$338.3bn in H1 2023, representing 14.4 per cent growth compared to H1 2022 (Zawya, 2023j).

The Gulf's ports, railways, and logistics network is becoming more interconnected. This trend is discussed further in Section Five, but is making it easier to transport goods across the region, boosting trade. The UAE's Etihad Rail network – which is benefiting from Chinese expertise – will connect four ports, seven logistics areas, and ultimately facilitate the transport of 60mn tonnes of goods annually (Arabian Business, 2023g). Saudi Arabia is also expanding its rail network, developing new tracks, and expanding its rail freight operations. The Saudi Landbridge Project, for example, is a planned railway line connecting Jeddah and Riyadh, Dammam and Jubail, as well as upgrading other tracks. In total there will be 1,500km of new tracks, with Saudi ports and logistics centres, such as King Abdullah Port, Yanbu Industrial City, and King Khalid Airport Logistics Centre becoming better connected. The project will cost US$7bn. Saudi Arabia is in talks

Saudi Arabia's Minister of Investment, HE Khalid Al Falih, attended a private roundtable discussion with Asia House's Corporate Members in September 2023.

with a Chinese-led consortium to lead the project (Aguinaldo, 2023).

Asian construction and engineering firms have benefited from the Gulf's port expansion, modernisation, and logistics projects. Gulf port operators are increasingly also winning contracts in Asia, with the most significant recent deal being DP World and the Indonesia Investment authority signing a US$7.5bn contract in October 2021 to develop Indonesia's sea ports over the next 30 years. Recent cooperation in ports and logistics include:

- → Indonesian logistics firm, J&T Express, will set up a regional HQ in Riyadh and build the largest smart logistics industrial park in the Middle East.
- → In August 2022, The Supply Chain and Logistics Academy, a programme partner of Workforce Singapore and YCH Group, signed an MoU with the Saudi Logistics Academy to develop human capital in Saudi Arabia's logistics sector (YCH, 2022).
- → In August 2022, Abu Dhabi Ports Group (AD Ports) and Hong Kong-headquartered Hutchison Ports formed a strategic partnership

(AD Ports, 2022a). The deal relates to joint investment and business opportunities in feedering, logistics and port activities across the GCC, Africa, and Asia.

- In August 2022, AD Ports and India's largest integrated ports and logistics company, Adani, signed an MoU to build railways, maritime services, port operations and an industrial zone in Tanzania (AD Ports, 2022b).
- In November 2022, DP World's Jebal Ali Freezone signed an MoU with the Shanghai free trade zone, "Lin-Gang Special Area", to benefit customers in both zones through service offerings and deployment of the "World Logistics Passport" (a UAE global freight loyalty programme), aimed at providing Chinese businesses faster and cheaper access to markets in Asia, Latin America, and the Middle East.
- In March 2023, DP World signed a contract with South Korea's Pusan Newport Corporation (PNC), to begin engineering and design work to deploy its "BOXBAY" high-bay storage system in Pusan, South Korea, the 10th largest port in the world. This technology will increase PNC's efficiency and reduce truck serving time by 20 per cent (DP World, 2023).
- In May 2023, DP World signed agreements with China's Ningbo-Zhoushan port and Zhejiang Seaport to cooperate on automobile logistics (Essaid, 2023b).
- In October 2023, the Saudi Ports Authority and Singapore's port operator PSA agreed to create a logistics zone in Saudi Arabia's King Abdulaziz Port. Approximately US$267mn will be invested in the project with 13,000 jobs created (Reuters, 2023g).

Ultimately, as the Gulf develops its domestic industrial base, advanced manufacturing capabilities, and modern logistics centres we could see more Asian manufacturers viewing the Gulf as a viable option for their gateway into European and African markets. Regionalisation, a growing global trade trend, may further encourage Chinese and Asian manufacturers to base themselves in the Gulf to insulate against geopolitical shocks and improve supply chain resilience by conducting trade across shorter distances. Regionalisation has other benefits, including reduced transport costs and carbon emissions. Sino-US tensions have been a key driver of regionalisation, with Chinese and other international companies looking to "reshore" or "nearshore" their supply chains away from China. The Gulf could benefit from this trend, with Asian firms adopting "China Plus One" strategies. One challenge is guaranteeing the availability of resources and manpower to deliver the Gulf's ambitious projects.

Mining: A New Sector for Gulf-Asia Cooperation?

Mining is emerging as a new Gulf growth sector, with Saudi Arabia particularly recognising the benefits that producing minerals could play in its economic diversification and decarbonisation. The kingdom believes it has around US$1.3trn in untapped mineral reserves and through Ma'aden is investing heavily in developing the sector (Asharq Al-Awsat, 2022). The kingdom is also investing internationally to secure access to strategic minerals, with Ma'aden most recently acquiring a 10 per cent stake in South American metals firm, Vale (Pooler, 2023). The UAE is exploring mining as a potential growth sector. In September 2023, Khaled Al Hosani, Director of the UAE's Geological and Mineral Resources Department, said the UAE aims for mining to eventually account for five per cent of its GDP (Arabian Business, 2023h). Qatar has also invested internationally and is a major backer of Glencore (Biesheuvel and Lorinc, 2023). As the Gulf develops its mining sectors, we expect to see greater investment and JVs originating from Asia. China, with considerable mining capabilities of its own, could become a key partner. As the Gulf states look for international opportunities, we may see Asian mining firms benefit from Gulf investment.

Abu Dhabi skyline.

Interview with HE Dawood Al Shezawi, President of AIM Congress

HE Dawood Al Shezawi is the President of the AIM Congress (Annual Investment Meeting). AIM Congress is an annual conference in Abu Dhabi which provides a platform for networking and partnership building, enabling governments and investors to connect and explore opportunities for global economic development. It is held under the patronage of His Highness Sheikh Khaled bin Mohamed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Chairman of the Abu Dhabi Executive Council.

What opportunities exist to further develop trade and investment ties between the UAE and Asia?

There are several opportunities and these can be realised through platforms such as AIM Congress and AIM Global Foundation, which play a critical role in holding meetings and facilitating discussion between bureaucrats, business leaders, and investors on potential investment destinations and their legal regulations and regimes. The UAE has a state-of-the-art infrastructure and Asia has technological capabilities that can form the basis of cooperation across several areas such as AI, fintech and renewable energy. Cooperation can also encompass sustainable investments through cultural exchanges and even the creation of economic free zones. Furthermore, considering Asia's large and growing demographics and the UAE's inventive farming approaches, cooperation in food security and trade is also a prospect. Eventually, these potential synergies will be realised through the activities of the AIM Global Foundation.

Which countries in Asia account for the greatest inward investment into the UAE? What accounts for these countries' interest in the UAE market?

Some key Asian countries investing heavily in the UAE include China, India, Japan, and South Korea. Their interest in the UAE is driven by several factors: The UAE's strategic position as a link between the East and West, strong infrastructure, a conducive business environment, and the drive to expand the economy away from oil. Furthermore, online systems such as AIM Congress and AIM Global Foundation also assist in mobilising FDI, creating networks and dialogue that cut across stakeholders, and promoting awareness about the UAE's investment potential. This has enabled Asian nations to grow their investments and create opportunities in various UAE sectors, including technology, solar, and finance.

"The UAE has a state-of-the-art infrastructure and Asia has technological capabilities that can form the basis of cooperation across several areas such as AI, fintech and renewable energy. "

Which non-oil sectors in the UAE do you believe have the biggest growth potential over the next five years?

Non-oil sectors where we expect to see rapid growth include technology, renewables, logistics and transport, financial services, and fintech. These sectors are often focussed on in conference notes, congress reports, and annual reports issued by the AIM Congress. These are areas that are being transformed through a unique blend of Asian expertise and the UAE's strategic vision.

We are noticing an uptick in Gulf SWF interest in Asia. Is this a trend that you are seeing, and what accounts for this trend?

The AIM Congress and AIM Global Foundation are key platforms that will develop an understanding of the shifting SWF focus from the West to Asia. Against this backdrop, these funds recognise the investment potential of Asian giants such as China and India whose economies are growing rapidly. Investing in Asia's tech sectors has emerged as another driver for diversification as Gulf SWFs aim at reducing dependence on traditional oil-based assets. The AIM Congress and AIM Global Foundation act as a guide and amplifier for this transition by facilitating dialogues, fostering connections, and offering insights.

We've seen a concerted effort by the UAE to develop and expand its capital markets. What future developments will there be in this regard, and will this encourage additional investment from Asia?

This fact underscores the UAE's aspiration to be a world-class financial hub, which is demonstrated by its move to strengthen its capital markets. In the future, it is anticipated that UAE capital markets will have a greater offering of financial products, more efficient regulatory frameworks, and will deploy advanced technology to make the overall investment environment more attractive. These developments would undoubtedly be of considerable interest to Asian investors prompting more capital to flow from the East into the UAE's growing financial sector.

5

Opportunities in the Middle East Pivot To Asia

There are several opportunities that will drive the Middle East Pivot to Asia over the coming years. One recent major development has been the Gulf states undertaking concerted and fast-paced economic and social reform.

Economic liberalisation and creating a more relaxed social environment aims at attracting foreign investment, talent, and firms to expand into the Gulf. This section analyses recent Gulf economic and social reforms, and their impact on the Pivot. Reform has often materialised through social insurance provisions and the relaxation of visa and citizenship requirements, encouraging greater tourism and business travel, and giving expats greater rights to stay and contribute to Gulf economic development for longer. The introduction of new regulations and programmes to grow the Gulf's capital markets is also encouraging Asian capital flows, while the internationalisation of the RMB could allow the Gulf to play a key role in Beijing's ambitions to increase international usage of its currency. Finally, growing economic integration within the Gulf, as well as growth in Gulf-Asia soft-power and tourism exchanges are other key trends to watch.

Gulf Economic and Social Reform is Driving Growth and Encouraging the Pivot

GCC economic and social reform has continued to develop over the past year, as Gulf states seek to attract foreign investment. This trend has accelerated since the COVID-19 pandemic as the Gulf recovers. This is attracting both Western and Asian investment and enticing Asian businesses to establish Gulf bases, encouraging more expats to relocate to the Gulf. Economic reform is also boosting diversification and growth, encouraging greater trade with Asia.

Recent significant reforms include the launch of four new Special Economic Zones (SEZs) in Saudi Arabia. These are spread across the kingdom and each zone has a specific focus. The Jazan SEZ focuses on food processing and distribution to tackle regional food insecurity while the Ras Al-Khair SEZ focuses on the maritime value-chain, including shipbuilding and offshore drilling. The Cloud Computing SEZ is aimed at digital innovation, cloud computing and emerging technologies. The King Abdullah Economic City SEZ is directed towards advanced manufacturing and logistics (PwC, 2023). The SEZs will give benefits to companies that set up there, including competitive corporate tax rates, exemptions from customs duties and crucially, allow 100 per cent foreign ownership. Saudi Arabia will likely announce further SEZs as its economy continues to open up to international investment.

Saudi Arabia also introduced a Civil Transactions Law, which standardises procedure in settling disputes. This will improve business and investor confidence in Saudi Arabia by reducing uncertainty over contracts and dispute resolution. Previously, there were no rules regulating legal contracting (Mackenzie et al., 2023). The Civil Transactions Law is the third of four laws promised by Crown Prince Mohammed bin Salman in 2021 to increase clarity and consistency in Saudi legislation and

Asia House Chief Executive Michael Lawrence OBE moderating a discussion with HE Mohammed El Kuwaiz, Chairman of Saudi Arabia's Capital Market Authority and Cyrus Taraporevala, then President and CEO of State Street Global Advisors at the inaugural KAFD Dialogue on the Future of Saudi Arabia's Capital Markets in October 2022.

judicial decisions. The two other laws are the "Law of Evidence" which reduces discrepancies in court rulings, and the "Personal Status Law" which improves the legal status of Saudi women and children (Al-Kinani, 2021; Fatima, 2022). The "Penal Code for Discretionary Sanctions", which will codify punishments for crimes not specified in Sharia law, has not yet been introduced (Arab News, 2023h).

The Gulf countries continue to update and modernise their labour practices, offering better rights and benefits to expat workers. These reforms increase international business confidence, improve the attractiveness of the labour market for foreign workers, and increase productivity through enhanced employee wellbeing and welfare. During 2023 Saudi Arabia has introduced fines for several labour violations including hiring minors, providing insufficient childcare support, failing to pay wages, withholding passports, discriminating on the basis of sex, failing to comply with health and safety regulations and hiring foreign workers without a valid work permit (Arabian Business, 2023i). The UAE also introduced a new unemployment scheme on 1 January 2023 which grants Emiratis and expats greater unemployment entitlements and protections. Employees in freezones and working for government agencies can now subscribe to insurance that entitles them to 60 per cent of their basic salary for three months should they become unemployed. Oman has also reformed its social protection system introducing new universal child and disability benefits, family income support, and maternity benefits. Migrant workers are also granted the same social insurance benefits as Omanis (ILO, 2023). Finally, Qatar's Social Insurance Law of January 2023 offers employees contributory schemes towards pensions and monthly housing allowances.

The liberalisation of Gulf visa requirements has also accelerated over the last year, increasing tourism, and bestowing greater privileges for Gulf expats, persuading them to live and work in the Gulf for longer. Introduced by the UAE in 2019, the "Golden Visa" is a renewable residency permit that is valid for 10 years and allows holders to sponsor their spouse, children, and domestic workers. In April 2023, a new Golden Visa platform – the "One Touch" service – was created to simplify and speed up applications (Arabian Business, 2023j). Kuwait has also introduced new rules that allow public sector workers over the age of 60 to move into the private sector without invalidating their visas (Arabian Business, 2023k). Kuwait is studying giving expats residency permits for a maximum of five years and investors a maximum of 15 years, depending on their industry (Al-Maswari, 2023).

Gulf countries are liberalising their nationality requirements. In January 2023, Saudi Arabia enabled individuals with a Saudi mother, but a foreign father, to be granted Saudi citizenship provided they have permanent residency, no criminal records, and Arabic fluency (Saudi Gazette, 2023). Saudi citizenship was previously passed down only through the father's line. Oman has also allowed its citizens to marry foreign nationals without needing state permission (Barrington, 2023). Other significant reforms introduced in 2023 include:

→ In March 2023, the UAE launched the "Muwafaq Package", offering SMEs customised services and privileges to facilitate their business operations and tax compliance (Arabian Business, 2023l).

- In May 2023, Bahrain overhauled certain austere laws to create a more relaxed social environment and enhance women's rights, most notably eliminating Article 353 from the penal code, which granted rapists immunity if they married their victim (Naar, 2023).
- In July 2023, the UAE created a dedicated ministry to attract global investment by improving existing legislation and procedures. Mohammed Hassan Al Suwaidi will lead the ministry (Reuters, 2023h).
- Bahrain has introduced a golden license scheme for both local and international companies. This provides several advantages to encourage firms to establish themselves in Bahrain, including faster issuing of building permits, infrastructure services, and financing from the Bahrain Development Bank and Tamkeen Labour Fund (Rahman, 2023b).

Further GCC Capital Market Growth Could Foster Gulf-Asia Connectivity

The last few years have seen the Gulf states introduce several reforms and programmes to grow their capital markets and increase liquidity and trading. They are diversifying their economies by listing state-owned assets. In 2022 there was a surge of IPOs with Gulf energy majors in particular taking advantage of high oil prices to list their subsidiaries. The MENA region had 51 IPOs raising US$22bn, a 143 per cent increase on the previous year (Murshid, 2023). Most listings were in the UAE and Saudi Arabia. IPO activity has slowed in 2023, with inflation and global interest rate rises reducing asset valuations, dampening investor sentiment towards equities and dissuading firms from listing. In H1 2023, the GCC raised US$5.3bn from 21 offerings, a 61 per cent decrease compared with the US$13.6bn raised in H1 2022 (Muzoriwa, 2023a). Still, Gulf IPO markets have outperformed other geographies with recent expansion and reform offering opportunities for Asian and Western institutional and retail investors, in turn driving the Pivot.

The largest IPO since Aramco's record breaking US$29.4bn listing in December 2019, was in 2022, with the listing of Dubai-owned utility provider DEWA. This IPO was oversubscribed by 37-times and raised over US$6bn. Gulf governments have inaugurated programmes to encourage more listings. Dubai has introduced a capital markets strategy to list 10 state-owned companies. So far it has listed DEWA, business park operator TECOM group and toll-road operator Salik. Government privatisation in Dubai has since slowed, with Dubai Taxi Co. expected to be the first IPO in months when it lists in December 2023. (Fioretti, 2023b). Future IPOs for Emirates Global Aluminium, Dubai Taxi Corp., and Emirates Airline are expected.

Following a bumper year for Dubai and Riyadh in 2022, Abu Dhabi has led Gulf IPOs in 2023 (Al-Rashdan, 2023a). The largest Gulf listing of 2023 so far was ADNOC raising US$2.5bn by listing its gas subsidiary on Abu Dhabi Securities Exchange (ADX), giving it a valuation of US$50bn (Arabian Business, 2023m; Kane, 2023). Abu Dhabi has also introduced an AED five bn (roughly US$1.36bn) IPO fund to encourage more listings (Gulf Today, 2023).

Saudi Arabia wants the Tadawul to become one of the world's three largest stock exchanges (Reuters, 2022a). Saudi IPOs have slowed in 2023 but continue, particularly from within the private sector. The kingdom's largest 2023 listing was in October, with ADES Holding raising US$1.22bn (Reuters, 2023i). It is an oil and gas driller with 85 rigs globally, including in India. Another significant recent listing was of Aramco's base oil subsidiary, Luberef, which raised US$1.32bn through a December 2022 IPO.

Other significant IPOs in 2023 include:

- In March 2023, data analytics firm Presight AI Holding raised US$496mn in a 136-times oversubscribed IPO. Presight is owned by UAE's G42 (Nair A., 2023).

- In March 2023, Omani firm Amraj Energy Services, raised US$244mn from its IPO. At the time it was Oman's largest listing in over a decade. The Saudi Omani Investment Company, a unit of PIF, will own 20 per cent of the floated company (Al-Rashdan, 2023b).
- In April 2023, Al-Ansari Financial Services raised US$210mn in Dubai Financial Market's (DFM) first 2023 listing (Muzoriwa, 2023b).
- In May 2023, Saudi Arabia's Jamjoom Pharma raised US$336mn (ibid.).
- In June 2023, ADNOC listed a 15 per cent stake of its logistics and services arm on ADX, raising US$769mn and receiving US$125bn in orders (Fioretti, 2023c).
- In June 2023, Saudi Arabia's First Milling Company raised US$266mn in a 69-times oversubscribed IPO.
- In October 2023, Omani state energy firm OQ Gas Networks raised US$748.6mn, making it Oman's largest ever IPO. This is the second IPO in Oman's privatisation programme, aimed at expanding its bourse and diversifying revenues (Fioretti, 2023d).

We expect the Gulf's IPO boom to continue in 2024. Other major IPOs on the horizon include Saudi Arabia's MBC Group, Bahrain's Investcorp Capital, which will be listed on the ADX, Dubai-based Advanced Inhalation Rituals, and Abu Dhabi-based Edtech firm Alef Education (Fioretti and Parasie, 2023). Following the Presight AI IPO, G42 is considering further IPOs of its businesses. Gulf firms listed on Gulf bourses will need to follow certain governance and ESG reporting requirements, meaning capital market growth will enhance governance and sustainability reporting across the region.

Beyond IPOs, the Gulf states continue to introduce capital market reforms to increase liquidity, with exchanges launching new investment and derivatives products. Saudi Exchange launched a market-making framework for derivatives to increase liquidity in 2022 (Reuters, 2022a). DFM introduced a US$545mn market-maker fund in 2021. Market-making funds enhance market liquidity, improve price discovery, and diversify capital markets. In May 2023, DFM launched futures contracts on its general index, which includes its largest firms, and offers investors the ability to hedge. ADX has reduced trading commissions by 50 per cent and extended trading by one hour to enhance liquidity. The QIA is also establishing a market-making initiative that will operate over the next five years and includes a one bn-riyal (roughly US$270mn) fund to increase investor interest and deepen its capital markets. More broadly, Qatar's stock exchange is also looking to increase liquidity through IPOs, introducing exchange traded funds and derivatives trading (Mathew, S., 2023). As Gulf capital markets develop there will be greater competition, so bourses may follow their competitors with new regulations to encourage investment.

Dual Listings: An Emerging Trend in Gulf Capital Market Development

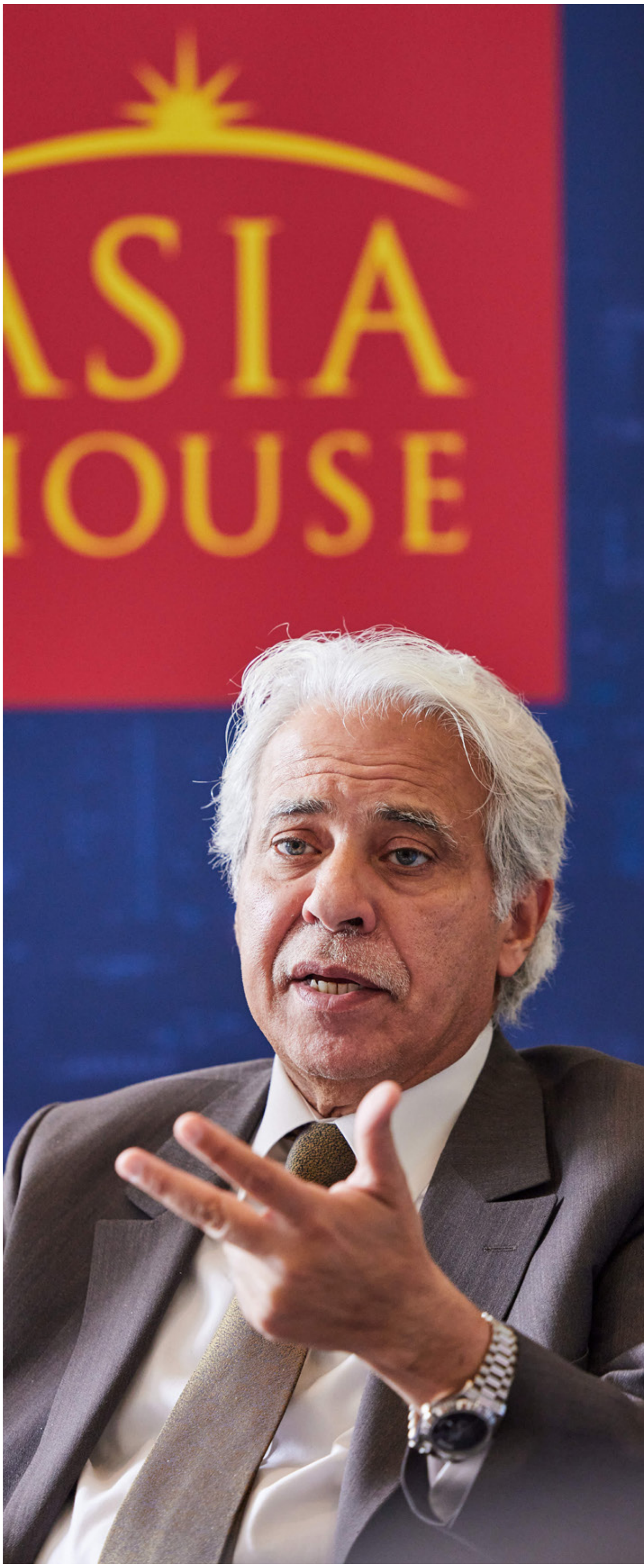
As Gulf capital markets develop, we will see greater foreign interest in dual-listings. This is already heralding a new era of Gulf-Asia cooperation between bourses. For example, HKEX recently signed a preliminary agreement with Saudi Arabia's Tadawul to collaborate on fintech, ESG standards and improving mutual access for investors (Khan, 2023a). Saudi Arabia has also signed a cooperation agreement with Singapore Exchange to cooperate on cross listings and in September 2023, Shanghai Stock Exchange agreed with the Tadawul to explore cross-listings and data sharing (Shidong and Ren, 2023; Fioretti, 2023a). In another deal, Olam Group, Asia's largest commodity trader, announced it will list its agribusiness unit in Saudi Arabia and Singapore to raise US$1bn (Fioretti, 2023a; Reuters, 2022c). The listing is expected in H1 2024 (Reuters, 2023j). Dual-listings are an emerging trend in the Pivot worth monitoring and will enhance Gulf-Asia capital flows, offering investors in both regions opportunities to diversify their revenues.

Gulf Economic Integration Could Boost the Pivot

Greater Gulf economic integration not only boosts intra-regional trade and investment, but makes it easier for Asian firms to operate between jurisdictions and offers greater value for them bringing goods into the Gulf for re-export. The development of rail links and exploration of a common GCC visa offer pathways for more economic integration.

While the GCC rail network project has long been stalled, there has been recent movement with the establishment of the Railways Authority in 2022. There has also been progress enhancing rail linkages between GCC countries, encouraging the movement of goods and people across the region. One project is the UAE's Etihad Rail, which will improve rail connectivity between the UAE's seven emirates and connect the UAE to Saudi Arabia. It will also connect Abu Dhabi to Sohar on Oman's coast. Oman and the Etihad Rail Company have invited contractors to bid on the US$3bn project (Arabian Business, 2023n). The UAE-Oman rail link will lower trading costs and enhance environmental sustainability. Qatar's transport minister also announced in February 2022 that it would soon commence building a railway connecting Qatar and Saudi Arabia – a project that was stalled by the Gulf Dispute.

The GCC is working on introducing a visa similar to Europe's Schengen, which will allow GCC residents and visitors to travel freely across the region, enhancing economic connectivity. The 2022 FIFA World Cup in Doha was seen as a successful test for easier travel between the GCC countries, with Saudi Arabia providing 60-day visas to all Hayya Card holders (Qatar's entry permit for the tournament) (Arabian Business, 2023o). In November 2023, the GCC approved the unified GCC tourist visa, with the visa



Saudi Arabia's Minister of Commerce, HE Dr Majid AlKassabi, attends a private roundtable discussion with Asia House Corporate Members in June 2023.

expected to be introduced during 2024-2025 (Dutton, 2023).

There remains room for greater Gulf economic integration. One example is the differing VAT rates, despite a 2016 agreement to implement a standard five per cent. In 2020, Saudi Arabia and Bahrain raised VAT to 15 and 10 per cent respectively. Qatar still does not have VAT, but is expected to introduce it in the near future. Differing VAT rates make intra-regional trade more difficult, reduce competition and increase compliance costs on businesses operating between jurisdictions (Smith, 2023). As discussed in Section Seven, when Gulf states compete with one another for foreign investment and talent, there is a risk that competition could lead to protectionist measures that create further barriers to broader economic integration.

Recent Rapprochements in the Middle East Could Drive Greater Economic Integration

The improvement of diplomatic ties between the Gulf states and some of the Middle East's major economies could drive economic integration. Qatar's relations with other Gulf states improved in 2023 after the nearly four-year Gulf Dispute ended in 2021, and Gulf-Turkey trade is growing following improved ties. There was initially further progress in 2023 on normalisation between the Gulf states although the Israel-Hamas conflict may stall progress.

The Gulf Dispute Unwinds

The Gulf Dispute (2017-2021) saw Saudi Arabia, the UAE, Egypt, and Bahrain (the quartet) end diplomatic ties with Qatar and launch an economic boycott over accusations of Qatari support for terrorist and Islamist groups and meddling in the internal affairs of the quartet. The Al-Ula Declaration in early 2021 restored political and economic exchanges between Qatar and the quartet. Embassies have been reopened in 2023 between UAE and Qatar (Al Jazeera News, 2023). Qatar and Bahrain also restored diplomatic relations in April 2023, with daily flights between the two countries resuming in May. The diplomatic thaw will encourage greater intraregional trade and investment.

Gulf-Turkey Ties Improve Following Erdogan's Regional Tour

Gulf-Turkey ties have improved throughout 2023. Turkey's relations with the quartet had deteriorated following the Arab Spring due to divergent positions on political Islam, the Libya conflict, and the Gulf Dispute. Turkey-Saudi relations dived following the murder of Saudi journalist Jamal Khashoggi, in Istanbul in 2018, leading to an unofficial Saudi boycott on Turkish goods.

Gulf-Turkey ties, however, began to improve after November 2021 following the visit of the then Crown Prince of Abu Dhabi, Mohammed bin Zayed, to Turkey where he pledged US$10bn in investment. The UAE and Turkey have since signed a CEPA eliminating custom duties on 82 per cent of product lines and accounting for 93 per cent of total bilateral non-oil trade (Khan, 2023c). Saudi Arabia has similarly opened up to investment and economic cooperation with Turkey. Turkey-Egyptian ties have also improved. In March 2023, Turkey's foreign minister visited Egypt for the first time in eleven years, with both nations promising to end their diplomatic dispute and discussing improving energy ties though the possible sale of Egyptian LNG to Turkey (Hacaoglu, 2023).

In July 2023, Turkey's President Recep Tayyip Erdogan made a regional tour to Saudi Arabia, the UAE, and Qatar, in a bid to attract Gulf investment and economic cooperation. During Erdogan's visit to the UAE, several deals worth US$50bn were signed relating to energy, natural resource development, space, and defence. Turkey signed two MoUs with UAE SWF ADQ. One MoU will see ADQ finance US$8.5bn worth of relief bonds to assist recovery after the February 2023 Turkey-Syria earthquakes. Under another MoU ADQ will provide US$3bn in credit facilities to support Turkish exports (Uppal and Saba, 2023). In Saudi Arabia, Erdogan signed a defence cooperation agreement for the kingdom to purchase Turkish drones and manufacture them in Saudi Arabia.

Recent Progress Towards Normalisation May Now Stall

The Abraham Accords, which saw the UAE normalise ties with Israel in August 2020 and Bahrain following suit a month later, expanded Gulf-Israeli trade. Flight routes between the UAE, Bahrain and Israel have been established, and UAE-Israel trade crossed US$2.5bn within two years of normalisation. A UAE-Israel CEPA signed in May 2022 boosted trade further (Oommen, 2022). Prior to the current Middle East conflict, there had been further signs of normalisation. In February 2023, Oman opened its international airspace to Israeli airlines, reducing the travel time between Israel and Asia (Hagedorn, 2023). This followed a similar decision by Saudi Arabia in July 2022. There were also growing media suggestions in 2023 that Riyadh was considering normalisation, with reports saying it could do so in return for US security and nuclear cooperation. In August 2023, Israeli Prime Minister Benjamin Netanyahu said there would be deeper Saudi-Israel economic and business ties across energy, transport, and communications, even if there was not full recognition (Lacqua and Bronner, 2023). However, the Israel-Hamas conflict may stall further progress, having prompted Saudi Arabia to suspend normalisation talks, and there have been protests in Morocco and Bahrain demanding the reversal of their normalisation agreements (France 24, 2023; Metz, 2023).

The Internationalisation of the Renminbi: A New Factor to Watch in the Pivot

The growing internationalisation of the RMB could have a significant impact on the Pivot. RMB use as a trade settlement currency has tripled in the last three years and now accounts for about six per cent of total global trade, surpassing the Euro. RMB use is expected to continue to climb in 2024 (Papadavid, 2023a). This rise has largely been driven by the Ukraine conflict and the use of the RMB to circumvent international sanctions on Russia (Papadavid, 2023b). The RMB is being increasingly used in cross border payments, rising by 15 per cent between 2021 and 2022 (Khan, 2023d). The expansion of China's bond market is also contributing to RMB's internationalisation with the issuance of offshore RMB bonds, known as "Dim Sum" bonds, rising by 145 per cent over the year to July 2022. Recent developments could further internationalise the RMB. In June 2023, HKEX introduced a dual-counter trading service, promoting RMB trade in shares of 24 companies (Yiu, 2023). India – Russia's largest buyer of oil – has also begun to pay for Russian imports using RMB and in March 2023, Brazil agreed to trade with China using RMB (Verma, 2023).

There are long-term reasons why RMB's use as an international trade currency could increase. The People's Bank of China has initiated policies to encourage RMB internationalisation, such as offshore clearing banks, as well as bond market liberalisation and digitalisation (Papadavid, 2023b). As China's CBDC (eCNY) develops and its bond market liberalises and digitises, we could see RMB settlement increase. Asia House expects the RMB to continue to exceed the Euro's share of global trade finance throughout 2024 with the gap possibly widening to three per cent (Papadavid, 2023a).

RMB internationalisation could have several impacts on the Pivot, with China working to persuade the Gulf states to accept oil payments in the currency – a policy that Xi Jinping mentioned during the China-Arab League summit in December 2022 (Reuters, 2022d). Gulf states are beginning to accept RMB for limited sales of oil, with ADNOC in April 2023 completing the first Gulf cross-border RMB-settled LNG trade with PetroChina (LNG Prime, 2023). There are also signs that RMB is gaining greater influence in the Middle

East beyond the Gulf. Egypt announced in 2022 that it would issue between US$1.5bn and US$2bn worth of RMB-denominated bonds and in February 2023, Iraq's Central Bank said it would allow trade to be settled in RMB (Lucente, 2022b).

As Gulf-China trade increases, the greater the incentive for Gulf states to hold a larger portion of their foreign currency reserves in RMB. Gulf states do have some considerations, however. The currency is less stable than the US dollar, so replacing it with RMB could undermine the Gulf states' fiscal outlooks, their ability to deploy capital abroad, and weaken central bank US dollar pegs. There will also be limits to RMB's internationalisation. These include a limited availability and depth of RMB financial instruments. Limitations within China's financial derivatives market for example, make it difficult to hedge against potential RMB volatility. The

RMB remains far from challenging the US dollar's dominance, with the US currency still accounting for around 40 per cent of global payments. But growing RMB internationalisation remains a key trend to monitor, with China encouraging Gulf states to increase its use for trade settlements to reduce costs and increase economic cooperation with Beijing.

Soft Power Exchanges and Tourism Flows Could Strengthen The Pivot

Gulf-Asia soft power activities such as cultural, educational, and people-to-people exchanges, could strengthen the Pivot. Soft power links can lead to greater cultural and linguistic understanding, enhancing business connectivity and encouraging tourism flows. Recent examples include:

→ According to the Saudi Ministry of Education, 174 Saudi students were attending Chinese Universities in December 2022. The kingdom offered Chinese students 477 scholarships and 668 Chinese students enrolled in Saudi universities between 2018 and 2022 (Lo, 2023b).

→ During Xi Jinping's visit to Saudi Arabia in December 2022, he highlighted language and cultural cooperation as a priority for Gulf-China relations. China will cooperate with 300 Gulf universities and schools on Chinese language teaching, setting up smart language classrooms, and establishing Chinese language learning and testing centres (Ministry of Foreign Affairs of the People's Republic of China, 2022).

→ In June 2023, Riyadh's Prince Sultan University opened the kingdom's first branch of China's Confucius Institute (Zawya, 2023k). This follows an agreement to include Mandarin language in the kingdom's school and university curriculums. China has established Confucius Institutes globally to popularise the language and spread Chinese culture, including at Zayed University in Abu Dhabi (Rakhmat, 2015).

→ In July 2023, Indian Prime Minister Modi visited the UAE to deepen ties, including promoting cross-cultural exchanges, exhibitions, and education dialogues. This follows an MoU in September 2022 in which both countries agreed to establish a UAE-India Cultural Centre. Construction of the first traditional Hindu temple in Abu Dhabi is underway and will be completed in 2024 (News On Air, 2023).

→ In September 2023, the Gulf's first China Cultural Centre launched its trial operation in Kuwait. It will conduct Chinese language training and provide information services, image exhibitions, and film and television showings (Xinhua News, 2023).

Gulf-Asia tourism exchanges are also increasing. Both Saudi Arabia and the UAE are investing in the tourism sectors to diversify their economies. Saudi Arabia wants to attract 100mn tourists by 2030 and for tourism to generate US$46bn in revenue, accounting for 15 per cent of GDP, by 2030 (Cafiero, 2023). PIF has launched a new airline called Riyadh Air and ordered 72 Boeing Dreamliners to increase travel to Saudi Arabia, planning to serve 330mn passengers by 2030 and create 200,000 jobs (Arabian Business, 2023p). The UAE wants to attract 40mn tourists by 2030 and increase the sector's contribution to GDP by US$122.5bn (Rai, 2023). Oman has also announced visa-free travel for a fortnight for nationals from over 100 countries (Gulf News Report, 2023).

Asia, and in particular China, will be an important target for Gulf tourism. Saudi Arabia is seeking to tap into the Chinese market. The CEO of the Saudi Tourism Authority, Fahd Hamiddadin, met China's Vice Minister of Culture and Tourism, Rao Quan, in March 2023, to discuss joint initiatives to attract four mn Chinese tourists by 2030. Increased tourism and people-to-people exchanges between the Gulf and Asia will boost trade and further drive the Pivot

6

Sovereign Wealth Funds Increase Interest in Asia

Gulf SWF interest in Asia continues to grow. While Gulf SWF portfolios have traditionally focussed on Western assets, with around 58 per cent of the US$89bn spent in 2022 heading to Europe and North America (Calebrese, 2023), Gulf SWF attention is increasingly flowing eastwards.

It is particularly focussed on China, India, and ASEAN with SWFs opening new offices in Asia to monitor and grow their investments. Most recently, the UAE's Mubadala opened an office in Beijing. Saudi Arabia's PIF opened one in Hong Kong in February 2022 and both Mubadala and QIA have offices in Singapore.

China is expected to be a large recipient of Gulf SWF investment as economic cooperation grows, with GCC states attracted to China's large population and attractive asset prices. Indeed, HKEX's Chief Executive, Nicolas Aguzin, forecasted that China would receive US$1-2trn in investments from Gulf SWFs by 2030 (Khan, 2023a). The SWFs are also focussed on ASEAN where total GCC investment between January 2016 and September 2021 reached US$13.4bn (Business Wire, 2021). The UAE is a major driver of this investment, accounting for 74 per cent of the total (Economist Impact, 2021).

For Gulf and global investors, ASEAN offers an attractive investment environment for several reasons:

- → The young and tech-savvy population are well-educated and becoming increasingly skilled, laying the foundations for start-ups, innovation, and scale-up opportunities for SWFs.
- → ASEAN's large population is growing more affluent and demanding more access to digital services and other technologies.
- → With the exception of Myanmar, there is a good level of political stability and general lack of labour unrest in ASEAN.
- → ASEAN economic integration has made it easier for companies established in one territory to grow and expand into another and has facilitated cross-border business and transactions.
- → ASEAN sits astride two of the world's largest trade agreements, with many members in the Regional Comprehensive Economic Partnership Agreement (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), offering Gulf firms that expand into ASEAN good market access across the Asia-Pacific.

India and China have some similar advantages to ASEAN and have received considerable SWF investment. One key trend in 2023 has been Saudi Arabia's PIF going on a buying spree for equities in Asian-listed gaming and entertainment companies. This is aimed at encouraging the development of these sectors domestically and at increasing private sector employment opportunities for its youthful population. PIF has established a domestic gaming company, Savvy Gaming Group. Recent SWF investments in Asia include:

- In January 2023, PIF and Singapore's GIC invested US$965mn in South Korea's Kakao Entertainment (Cha, 2023).
- In February 2023, Qatar Investment Authority (QIA) led a US$45mn Series B funding round for Chinese biotech company Oricell Therapeutics. QIA is looking to invest in tech, healthcare, climate technology, infrastructure, and digitisation in China and India, because of their large populations and attractive valuations (Legal Desire, 2023).
- In February 2023, PIF bought a US$265mn stake in Chinese e-sports company VSPO through its gaming unit, Savvy Games Group, and has also partnered with Shenzhen to launch a US$1bn private equity fund to invest in the city's industries (Reuters, 2023k).
- In February 2023, PIF purchased a five per cent stake in Japanese video game company, Capcom (Dealessandri, 2023).
- In February 2023, PIF increased its stake in Japanese gaming giant Nintendo from 7.08 per cent to 8.26 per cent (Frater, 2023).
- In March 2023, PIF increased its stake in the Japanese entertainment firm Toei Company, from five per cent to 6.03 per cent (Reuters, 2023l).

Doha skyline.

- In March 2023, ADIA invested US$500mn in Indian online eyewear retailer Lenskart (Cordon, 2023).
- In April 2023, Mubadala and Canada's British Columbia Investment Management Corporation became anchor investors in the private US$636.4mn listing of Cube Highways, an Indian infrastructure investment trust (Khan, 2023e). In January 2023, the CEO and Managing Director of Mubadala, Khaldoon Mubarak, told the World Economic Forum that the majority of its 2023 investments would be in Asia (Wong, 2023a).
- In April 2023, Mubadala and Asia's largest healthcare investment firm, CBC Group, invested US$315mn in Chinese Pharmaceutical firm Hasten Biopharmaceutic (Ngui and Jain, 2023).
- In May 2023, Mubadala announced it was in the late stages of finalising a deal with Japan's SoftBank Group to purchase New York's Fortress Investment Group for around US$3bn (Gara et al., 2023). The deal is currently being reviewed by the US Committee on Foreign Investment (McNeely, 2023).
- In June 2023, PIF increased its total stake in Japanese-listed gaming publisher Nexon to 10.23 per cent (Jae-Lim, 2023).
- In July 2023, The Financial Times reported that QIA was in talks to invest US$1bn in the retail arm of India's Reliance Industries – Reliance Retail Ventures, acquiring about one per cent of the company. This is not the first Gulf investment in Reliance. In 2020, PIF invested US$1.3bn for a 2.04 per cent stake in Reliance Retail Ventures.

Some of the examples above highlight another recent trend in SWF investment in Asia. Namely, increased cooperation between Gulf SWFs and Asian financiers. Asian businesses see the Middle East as a favourable location for expansion and fundraising due to the large number of capital and investment vehicles in the Gulf. In addition, the region has been less impacted by the global economic slowdown, high inflation, and interest rate hikes that have dampened the investment landscape in Europe, the US, and Asia.

Gulf SWFs had a difficult year in 2022 as economic headwinds and rising interest rates led to deflated asset prices. The value of SWF assets fell by 7.8 per cent in 2022, with PIF for example, making a US$11bn loss on investments (Gibbon, 2023b; Martin, 2023). Gulf SWFs have faced similar challenges in 2023. But oil prices above many of the Gulf states' fiscal break-even points in 2022 and 2023 will likely fill the coffers of SWFs, giving them the opportunity to buy up assets at attractive and deflated valuations, including in Asia. Indeed, the IMF has forecasted that over the next four years, MENA oil producers will realise US$1.3trn in additional revenues. As SWFs continue to increase their focus on Asia and their investments there grow, the region will increase in strategic importance for the Gulf states, with greater political exchanges to protect these investments. With Gulf SWFs constituting a major force within global finance, this is a key trend that will impact the world investment environment in coming years.

7

Risks to the Middle East Pivot to Asia

There are several risks that could slow the Middle East Pivot to Asia, not least the Middle East conflict, which could undermine global and regional growth. US-China tensions are another continuous challenge. While the Gulf states seek to maintain good relations with both sides, worsening US-China relations could create pressure to prioritise one over the other. Growing competition between the Gulf states straying into protectionism and localisation could also undermine the Pivot.

Regional Instability: The Potential Impacts Of The 2023 Middle East Conflict

The Middle East conflict has increased uncertainty and could risk deterring business and investment, although economic data has yet to be published suggesting this. This could undermine Gulf-Asia trade and investment, to the detriment of the Pivot.

The World Bank has said that oil prices could rise to between US$140 and US$157 a barrel if the conflict spreads into a full-scale regional conflict and reduces global oil supply by 6-8mn bpd (Elliott, 2023). Rising energy prices would fuel global inflation, dampening demand but also encouraging interest rate rises that will make debt more difficult to service.

Israel produced almost 22bn cubic metres of gas in 2022, with around one-third exported to Egypt and Jordan. Exports from Israel to Egypt have already dwindled (Financial Times, 2023) since the conflict began suggesting that prolonged unrest or higher energy prices could lead to further inflation throughout the Middle East. While the Gulf has been largely insulated from inflationary pressures, there are broader concerns outside the GCC, and could impact the wider region's stability. Inflation is particularly high in Iran, Turkey, Lebanon, and Egypt, with most recent inflation measures standing at 39.5 per cent, 61.5 per cent, 208 per cent, and 38 per cent respectively (Trading Economics, 2023).[14]

The conflict has already impacted the recent spate of normalisation agreements between Arab nations and Israel. The UAE, Bahrain, Morocco,

14 Accurate as of 2 November 2023.

and Sudan have normalised ties, and prior to the conflict there were reports of the US attempting to broker normalisation with Saudi Arabia. Normalisation between the Gulf states and Israel has encouraged greater economic integration over the past few years, boosting the Pivot, but the conflict could slow this down. Saudi Arabia has suspended normalisation talks (France 24, 2023). There have also been protests in Morocco and Bahrain demanding the reversal of their agreements (Metz, 2023).

The Middle East conflict has provoked differing policy stances across the international community and could lead to differences between Middle Eastern nations and certain Western and Asian counterparts, influencing political relations. The ASEAN-GCC Summit in October 2023 issued a communique suggesting a degree of cohesion. It condemned attacks against civilians, calling for hostages to be released and a "durable ceasefire" to enable the delivery of aid and humanitarian relief to Gaza (ASEAN, 2023). China has similarly called for a ceasefire and humanitarian access to Gaza, and reiterated its support for the two-state solution.

China has expressed an interest in mediating in the conflict. Chinese Foreign Minister Wang Yi has visited Washington to discuss the conflict. Washington said it would work with China towards a resolution. China is Iran's largest trading partner and has reportedly been urged by US officials to use this leverage to encourage Tehran to urge calm from Hezbollah and Hamas (Sevastopulu, 2023).

US-China Relations and their Impact on the Pivot

US-China relations remain a topic of great scrutiny. The Gulf states seek to remain neutral, preferring to benefit from cooperative relations with both sides. A degree of strategic hedging underlies the Middle East Pivot to Asia. Western economies remain important Gulf partners, particularly as security providers and investment destinations for sovereign and private wealth, but Asia's growing economic and political power is incentivising the Gulf states to develop ties with that region, and in particular China. Improved Gulf-China ties have not gone unnoticed in the West, and they have sometimes caused strain, especially in Washington. There have been points when Sino-US tensions have led to pressure, particularly from the US, on the Gulf states to refrain from economic cooperation with China in sensitive areas, including technology, nuclear, and defence. We have seen US pressure to limit cooperation with China on building Gulf communications, network, and cloud technologies, and there may now be pressure over Gulf-China cooperation in AI, following the US's export ban on Nvidia chips to certain Middle Eastern countries. China-Gulf defence cooperation has been fairly limited, with the Gulf for example, procuring drones from China (Bowman, Thompson, et. al., 2021).

A deterioration in US-China tensions could increase pressure on the Gulf states to curtail cooperation in technology and other sensitive areas, undermining the Pivot (Asia House, 2022). As China grows in economic importance to the Gulf, there will be a greater incentive to tilt towards Beijing. Similarly, a deterioration in US-Gulf relations could push the latter towards China. Global oil prices remain a source of tension in US-Saudi relations, with Washington opposing OPEC production cuts. But the Biden administration has directed its attention towards bolstering ties with the kingdom. The US was reported to be offering enhanced security ties and nuclear cooperation in return for Saudi Arabia normalising ties with Israel, but the Gaza conflict has stalled these efforts. US-Saudi ties will however benefit from the appointment in March 2023 of Michael Ratney as the first US Ambassador to Saudi Arabia in two years (Dagher, 2023).

There are also signs that the US is espousing a renewed commitment to the region's security in an effort to counter Chinese influence. In September

2023, Bahrain signed a strategic security and economic agreement with the US. The deal expands defence and intelligence cooperation, with a US commitment to coordinate a response should Bahrain be attacked. While the agreement does not commit the US to intervene – something Gulf leaders in general are seeking – the deal may serve as a blueprint for future agreements between Washington and other Gulf partners.

Ultimately the Gulf states take a long-term view on US ties, understanding their relationships will outlast presidents and their individual policies. A major breakdown in Gulf-West relations, though unlikely at the time of writing, could lead to a more concerted move towards China. This could see the Gulf seeking security guarantees and military technology from Beijing, which would further worsen ties with Washington.

Economic Competition and Localisation in the Gulf Could Undermine the Pivot

Gulf economic reform is a key driver of the Pivot, but reform is partly driven by the Gulf states competing with their neighbours to retain a competitive edge in attracting foreign investment and talent. This competition has often had a positive impact by encouraging reform, but has occasionally swayed into protectionism and localisation that undermines growth. For example, in July 2021, Saudi Arabia changed its customs rules, subjecting Gulf freezones to duties. Ostensibly the regulation was introduced to prevent unfair competition from firms hiring cheap foreign labour, by stipulating that 25 per cent of the workforce making the product must be GCC nationals. However, since freezones hire much foreign labour and the majority of freezones are in the UAE, the decision impacted Saudi-UAE trade. Saudi imports from the UAE fell by 23 per cent between April 2021 and April 2022 (McGinley, 2022).

Saudi Arabia's Programme HQ has attempted to lure foreign business away from the UAE, with incentives for companies wanting to operate in the kingdom. By the end of 2022, 70 companies had announced they would obtain a licence to move their HQ to Riyadh (Fatima, 2023).

As the Gulf States seek to diversify their economies and move their citizens into the private sector, there has been a tendency to introduce localisation measures which can act as barriers to international and other Gulf firms conducting business. Schemes such as "Saudization" and "Emiratization", which mandate firms to ensure a proportion of their workforce is made up of Gulf citizens, can be a deterrent. Localisation targets are not expected to diminish, though companies can avoid them by establishing themselves under certain freezones or subscribing to projects like Saudi Arabia's Programme HQ. A more recent localisation policy was introduced by the kingdom in early 2023 with the Saudi Local Content and Government Procurement Authority (LCPGA) publishing its Economic Participation policy. To bid on government contracts, companies will need to show their economic participation in Saudi Arabia will be at least 35 per cent of the contract's value. This applies to government contracts exceeding US$27mn (Albright Stonebridge Group, 2023). While the kingdom is leveraging increased international attention on its markets to maximise investment, companies could be deterred by the red tape.

Conclusion

The Middle East Pivot to Asia is continuing to accelerate, representing a major geoeconomic and geopolitical shift that will have significant implications for global business leaders and policymakers. By 2026, we expect Gulf trade with Emerging Asia to surpass that with Advanced Economies, and by 2030 to be worth US$757bn, almost doubling the value in 2021.

Asia's growing economic importance to the Gulf states, and vice versa, will prompt regional leaders on both sides to prioritise both these economic relations in their strategic decision-making and political engagement with the key economies of each region. The UAE and Saudi Arabia's acceptance into BRICS and Saudi Arabia joining the Shanghai Cooperation Organisation as a dialogue partner are key examples of Gulf states aligning themselves more closely with Chinese decision-making.

The most significant recent bilateral was Xi Jinping's visit to Saudi Arabia in December 2022, which saw US$50bn worth of deals signed, and will encourage greater Saudi-China trade growth over the coming years. China plays a crucial role in the Pivot, and has become a key partner in helping Gulf states deliver economic diversification, digitalisation, and sustainability. The UAE-China relationship is the most significant in the Pivot with trade surpassing that between the UAE and the US, UK, and Western Europe combined. The internationalisation of the RMB is a key trend to monitor. As China-Gulf trade increases there will be a greater incentive to settle it in RMB, potentially reducing US economic influence in the region.

Bilateral ties between the Gulf and other Asian nations, such as India and ASEAN continue to flourish. Trade growth has been encouraged by the UAE's CEPA drive, but also by strong growth fundamentals underlying bilateral trade. Asia's growing economies, middle-class populations, and energy demand, as well as the Gulf's efforts to diversify and develop non-oil sectors, will all boost trade. The inaugural ASEAN-GCC summit in October 2023 also represented a watershed and will be an important framework and platform for driving trade growth.

While oil remains a crucial component of the Pivot with both regions investing in extraction, refineries and ports to secure energy supplies, sustainability has emerged as a growing area of Gulf-Asia cooperation. The Gulf states have made significant strides in their commitment to sustainability and decarbonisation, with a strong focus on increasing renewable energy capacity and hydrogen production. Asia has proven to be an important source of expertise and investment to develop these sectors and COP28 will likely accelerate cooperation. As Gulf-Asia cooperation in renewables, hydrogen, and electric vehicles increases, the traditional hydrocarbons trade underpinning the Pivot will gradually be replaced. Gulf-Asia sustainable cooperation is heralding a new era for the Pivot, driving Gulf economic diversification, green energy transitions in both regions, and contributing to a more sustainable future.

Another driver of the Pivot has been the Gulf states seeking Asian expertise and investments to transform and diversify their economies, with a focus on digitalisation, communications technology, AI, health technology, food technology and fintech. Asian technology firms, especially China's Huawei, have played an important role. However, US-China tensions and regulatory complexities in cross-border data sharing could impact this collaboration. Nonetheless, Gulf-Asia technology partnerships continue to evolve, offering significant opportunities for both regions to drive economic growth and innovation. Asia is also assisting the Gulf states' vision to become global trading hubs through expanded industrial and manufacturing bases, as well as the modernisation and expansion of ports and logistics centres. Growing Gulf economic integration could help maximise Asian investments in these areas. As Gulf nations continue to develop their industrial and logistical capabilities, they may become an attractive gateway for Asian manufacturers to access European and African markets, whilst also enhancing their supply chain resilience in increasingly regionalised global trade.

The Israel-Gaza conflict since October has clearly made the region more geopolitically uncertain. It could have an adverse impact on investment sentiment, which would worsen if the conflict broadens or deepens, although at the time of writing, economic data has yet to be published suggesting this.

Still, the long-term prospects for Gulf-Asia trade growth remain strong. Rapid economic and social reforms in the Gulf are creating a more favourable environment for Asian companies to expand into the area. New SEZs in Saudi Arabia, the liberalisation of visa requirements across the Gulf and modernisation of labour practices all assist in attracting foreign investment and talent. At the same time, the continued growth and development of Gulf capital markets, particularly in the UAE and Saudi Arabia, are encouraging Asian investment. Although 2023 has seen a slowdown in IPOs, there are several significant offerings on the horizon. Furthermore, the emerging trend of Gulf and Asian companies looking at each other's bourses for dual-listing opportunities will likely be a future driver of the Pivot. Gulf SWFs continue to turn their attention towards Asia and are focussing on China, India, and ASEAN due to their attractive demographics, similar visions for economic development and relative political stability. PIF's investment into Asian gaming and entertainment sectors is one defining trend of 2023.

The Middle East Pivot to Asia is one of the defining geopolitical and geoeconomic shifts of our time. It warrants greater attention and focus from global business and political leaders to capitalise on this growing opportunity as both the Gulf and Asia play an increasingly central role in world trade and geopolitics.

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