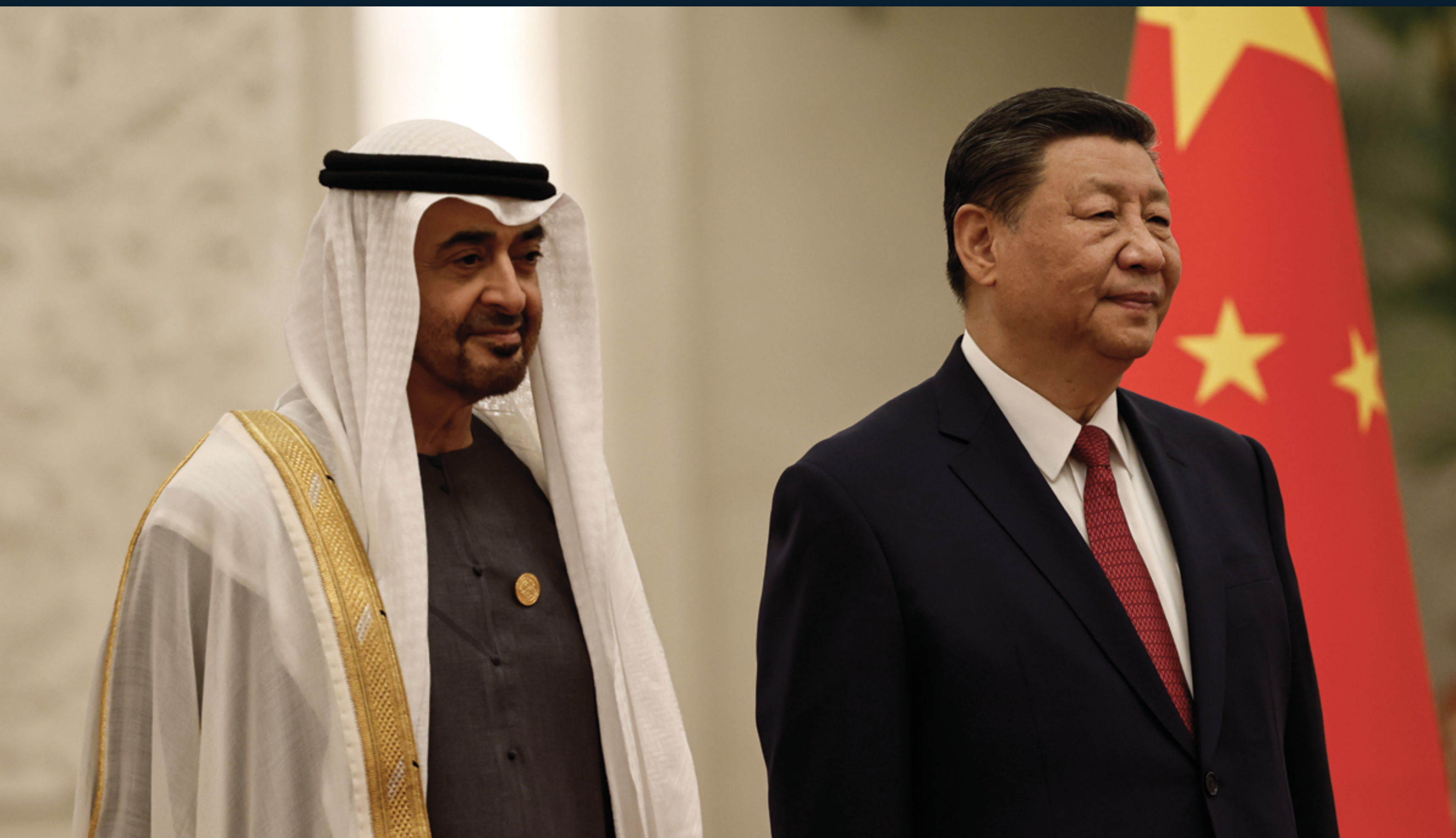
The Middle East Pivot to Asia

Growing Gulf-Asia cooperation in a new era

2024 Report



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Contents

Executive Summary

After several years of accelerated Gulf-Asia trade growth, 2023 saw a correction, driven primarily by a 17 per cent drop in oil prices. Trade value fell by 12 per cent from a record US$512 billion in 2022 to US$451 billion in 2023.

However, the IMF forecasts that Emerging Asia economies will expand 5 per cent in 2025, partly because of a growing middle class. This is likely to drive sustained demand for traded products, though fluctuations in oil prices will continue to have an impact. While Gulf-Emerging Asia[1] trade has diversified into non-oil sectors, hydrocarbons still make up more than half of the total.

Despite the drop in value, Gulf-Emerging Asia trade remains at historically high levels, and there has been growing deal-making and investment between key Gulf and Asian powers in 2024 – suggesting the trend of increasingly close economic and commercial ties continues apace.

Gulf and Asian decision-makers and business leaders increasingly recognise the geopolitical and geo-economic significance of the Middle East Pivot to Asia and are seeking to capitalise on it. In 2024, there have been important deals signed, high-level bilateral political exchanges, further investment by Gulf Sovereign Wealth Funds (SWFs) in Asia and more Asian firms expanding into the Gulf. Non-oil sectors in the Gulf, in particular, are receiving this investment, boosting future growth prospects.

The gap between Gulf-Emerging Asia trade and Gulf trade with Advanced Economies[2] has narrowed from US$193 billion in 2010 to US$82.3 billion in 2022. But despite the fact that the West (US, UK and Euro Area) is less dependent on Gulf hydrocarbons than Asia, Gulf trade with Advanced Economies proved resilient. It decreased by only 2.1 per cent between 2022 and 2023, compared with a 12 per cent fall in trade with Emerging Asia, widening the gap to US$131 billion.

Still, long-term growth trends favour Gulf-Emerging Asia trade. The largest economies in both regions enjoy good immediate and long-term prospects. Gulf economic diversification is driving non-oil growth, creating opportunities for Asian firms in construction, infrastructure, technology, sustainability and financial services. The Gulf states' economic and social reforms continue at pace, attracting Asian investment, firms and talent. New air routes between the Gulf and Asia will boost tourism and business connectivity. For these reasons, Gulf-Emerging Asia trade will keep growing and is on track to reach US$682 billion by 2030 if it continues at the 7.1 per cent average annual growth rate seen between 2010 and 2023.

1 '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.

2 '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.

The recent dip in trade has affected key Gulf-Asia bilateral partnerships. Saudi-China trade fell 7.6 per cent between 2022 and 2023, while UAE-China trade fell by 15.5 per cent. Despite this, both countries' relations with China have deepened and grown more strategic. In 2023, Saudi Arabia and the UAE were invited to join the BRICS[3] group of emerging economies, bringing them closer to Chinese strategic decision-making at a global level. The increasing use of the Renminbi (RMB) in international trade is also enhancing China's economic influence. UAE President Mohammed bin Zayed's visit to China in May 2024 cemented UAE-China cooperation across several areas and was the Pivot's most significant bilateral political exchange of 2024. The Saudi-China corridor is again the largest in the Pivot, a distinction briefly held by the UAE-China corridor in 2022, and continues to enjoy considerable growth.

We expect Gulf-China trade growth to continue outpacing Gulf-West trade. Our projections suggest Gulf-China trade will overtake Gulf-West trade in 2027, growing from US$225 billion in 2023 to US$325 billion.

Some Gulf-Asia trade corridors have bucked the recent downward trend. Oman-Emerging Asia trade more than doubled from US$4.5 billion to US$11.1 billion between 2022 and 2023. Hong Kong-Gulf trade grew from US$13 billion in 2022 to around US$32 billion in 2023. Hong Kong has invested considerable political capital in bolstering ties with the UAE and Saudi Arabia. Hong Kong Chief Executive John Lee's visit to these countries in February 2023 led to several significant deals and Hong Kong is working to position itself as a key hub for Gulf investment.

Despite the overall positive trend, there are some risks to the Middle East Pivot to Asia. Oil price volatility, the Middle East conflict and US-China tensions could all impact trade and investment. The Middle East conflict has worsened considerably over the past year, spreading from Gaza to Lebanon, Iran and Yemen. While Gulf-Asia commercial relations have been largely unaffected thus far, the conflict creates uncertainty for the region.

The incoming Trump administration could potentially impact the Pivot in several ways. The president-elect's proposed tariffs on Chinese and global imports might undermine global trade but may also encourage closer economic ties between the Gulf and Asia. There is a risk, however, that his administration may pressure the Gulf to reduce cooperation with China, particularly in technology. In addition, a return of Trump's previous "maximum pressure" campaign against Iran could intensify regional tensions. Hydrocarbons remain crucial to Gulf-Asia trade. Asia has been the biggest consumer of global energy, and the Gulf is its primary supplier due to efficient shipping routes. Asian demand for oil is projected to continue on an upward trajectory through 2030 and beyond, which will have an impact on the Pivot. China's oil consumption is expected to peak around 2030 but the world's second-largest economy will remain a key market for Gulf producers for the foreseeable future. India and the Association of Southeast Asian Nations (ASEAN) will become the largest drivers of oil demand growth past 2030.

Gulf investment continues to enhance both trade with Asia and cooperation in non-oil sectors. Partnerships in renewable energy and sustainable technologies are helping both regions achieve their climate goals, with several synergies unique to Gulf-Asia relations. Key areas of collaboration include solar power, green and blue hydrogen, ammonia and electric vehicles (EVs). China is the Gulf's primary partner in these sectors, though Japan and South Korea have also become key partners over the last two years. The Gulf's low-cost solar production is supported by China's strength as a major manufacturer and exporter of solar panels. The Gulf is also investing

3 BRICS (Brazil, Russia, India, China and South Africa) is a regional bloc of developing economies.

to further its goal of becoming a blue and green hydrogen production hub, helping to decarbonise Asian industries. Meanwhile, Gulf targets for EV growth will likely generate an uptick in imports from China, the world's largest EV producer. Green finance is essential to realising the Gulf's energy transition, and we are seeing increased green bond issuances attracting Asian investor interest.

Other non-oil sectors benefiting from Gulf-Asia cooperation include technology, construction and infrastructure. AI is one thriving area, but this has been complicated by US-China tensions. US restrictions are limiting China's access to advanced chips, undermining its AI development and prompting some Gulf firms to favour US technology. The Gulf states are seeking to strike a difficult balance between the two powers. We have seen increased cooperation in semiconductors as the Gulf works to boost its domestic production capabilities to improve supply chain resilience and to position itself as an alternative global supplier of chips. Asian firms remain central to various Gulf giga and construction projects, with Chinese companies leading the way in building ports, smart cities and other infrastructure.

Gulf SWFs continue to increase their focus on Asia, targeting not just returns but partnerships, Joint Ventures (JVs) and knowledge-sharing that can contribute to economic diversification and development. China and India continue to attract considerable attention, but developed Asian economies such as Japan, South Korea and Hong Kong are also receiving investment. While the US and Europe still account for the bulk of Gulf SWF assets, a growing shift towards Asia is reshaping global capital flows.

Indeed, another major trend is the influx of Asian wealth and asset managers establishing themselves in Gulf nations, particularly Dubai, to capitalise on the Pivot, the region's economic diversification and growing pools of sovereign and private capital. This trend has been supported by a flood of High-Net-Worth Individuals (HNWIs) and Ultra-High-Net-Worth Individuals (UHNWIs) into the Gulf following social and economic reforms.

Gulf capital market expansion is attracting Asian money. The privatisation and listing of state-owned assets, particularly through Initial Public Offerings (IPOs), has become an important method of achieving Gulf economic diversification. Gulf privatisation represents a major opportunity for global banks and is generating fees for Asian and Western institutions alike. IPOs and cooperation between Gulf and Asian bourses to encourage cross-listings is another trend that will deepen Gulf-Asia capital market connectivity over the next few years.

The Middle East Pivot to Asia represents one of the fundamental geopolitical and economic shifts of our time. Both regions are increasingly entwined in one another's growth. The Pivot will increase their importance to each other, reducing the role of Western perspectives in the strategic calculations of decision-makers on both sides. But the Pivot also represents a truly global opportunity that banks and financial services from across the globe can capitalise on.

Key Findings

- After several years of accelerated Gulf-Asia trade growth, 2023 has seen a downward correction, driven primarily by lower oil prices.
- The Gulf Cooperation Council's (GCC's) two largest economies, Saudi Arabia and the UAE, saw their trade with Emerging Asia fall by 12.1 and 13.7 per cent, respectively.
- Despite the recent dip, Gulf-Emerging Asia trade remains historically high, and 2024 has seen expanded deal-making and investment.
- Some Gulf economies fared better than others in 2023. Oman-Emerging Asia trade more than doubled in the period.
- Hong Kong has also bucked the trend. Its trade with the Gulf has more than doubled since Chief Executive John Lee's landmark visit to the UAE and Saudi Arabia in February 2023.
- Hydrocarbons still account for around half of Gulf-Asia trade. In 2023, 50 per cent of Asia's oil imports originated from the Gulf and wider Middle East.
- Gulf-Asia hydrocarbons trade will continue to rise through to 2030 as energy consumption in China, India and ASEAN expands further.
- US-China tensions have had an impact on Gulf-Asia trade over the past year, particularly in AI. US trade restrictions are limiting China's access to advanced chips, undermining its AI development and prompting some Gulf firms to hedge between US and Chinese AI technology providers.
- Gulf-Emerging Asia trade is set to grow in the future, particularly in non-oil sectors. Major economies in both regions are primed for long-term growth.
- Gulf investment in economic diversification, the introduction of economic and social reforms, growing Gulf SWF attention on Asia, Gulf capital market expansion and rising cooperation in renewables, construction, technology and financial services continue to drive the Middle East Pivot to Asia.

Outlook

- Gulf-Emerging Asia trade growth has outpaced Gulf-Advanced Economies trade growth for more than a decade. Should the former continue to expand at the average annual growth rate of 7.1 per cent seen between 2010 and 2023, it will expand from US$451 billion in 2023 to around US$682 billion by 2030.
- Gulf-China trade growth will continue to outstrip that with the West. Assuming both trade relationships continue expanding at 2010-2023 rates, Gulf-China trade will overtake Gulf-West trade in 2027.

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Introduction

The Middle East Pivot to Asia is a defining global geopolitical and economic shift, strengthening ties between the Middle East and major Asian economies, particularly across non-oil sectors. Recent years have seen dynamic growth in Gulf-Asia trade, sovereign wealth fund investments and high-level bilateral exchanges.

Although 2023 saw a 17 per cent drop in oil prices, resulting in a 12 per cent decline in Gulf-Emerging Asia trade, this partnership remains resilient and primed for future growth. Despite the recent downward correction, the Gulf-Asia trade landscape remains strong, with expanded deal-making and investment throughout 2024.

Gulf states and their Asian counterparts recognise the strategic potential of the Pivot. Gulf SWFs are making inroads in Asia, while Asian businesses are scaling up their Gulf presence, especially in sectors aligned with Gulf economic diversification. Continuing Gulf reforms, such as Saudi Arabia's new Investment Law, as well as new air routes, will put upward pressure on trade.

With Gulf economies diversifying and Asian demand for Gulf hydrocarbons forecast to remain strong, the long-term growth outlook appears robust. Asian economies' reliance on Gulf energy will continue to drive the partnership. China's demand for oil is expected to plateau by 2030, while India and ASEAN will emerge as key growth drivers in the decades ahead. Non-oil sectors such as technology, infrastructure and financial services are drawing increased Asian interest. Gulf-Asia trade could reach $682 billion by 2030 if current growth rates persist.

Gulf-China ties remain particularly strong, though bilateral trade experienced a brief correction in 2023. Saudi-China trade fell from US$105 billion to US$97 billion in the period, while UAE-China trade dropped from US$110 billion to US$93 billion. However, 2024 has seen renewed momentum in this corridor with strategic investments on both sides, while Saudi Arabia and the UAE's invitation to join BRICS aligns them more closely with Beijing. RMB currency swap agreements and RMB-denominated Gulf-China trade reflect growing economic integration. China's greenfield foreign direct investment (FDI) in Saudi Arabia, which reached US$17 billion in 2023, further solidifies the partnership. Gulf-China trade is expected to surpass Gulf-West trade by 2027, with volumes projected to reach US$325 billion.

Gulf trade with other Asian nations has also grown. Both Oman-Emerging Asia trade and Hong Kong-Gulf trade more than doubled between 2022 and 2023. Diplomatic efforts have enhanced financial ties. Hong Kong aims to attract Gulf investments by facilitating capital market connectivity through exchange-traded funds (ETFs), positioning itself as a key economic hub.

Various challenges persist. Oil price volatility, escalating Middle East conflicts and intensifying US-China tensions could disrupt Gulf-Asia trade. Gulf-Asia commercial relations have remained largely unaffected thus far, but instability underscores the precarious nature of the region's dynamics.

The incoming Trump administration may also impact the Pivot. President-elect Trump's previous tenure fostered strong US-Gulf relations. However, increased US tariffs on Chinese goods and a potential renewal of the "maximum pressure" campaign on Iran could heighten regional tensions. US pressure on Gulf states to reduce cooperation with China, especially in technology, will test Gulf resilience as the region seeks to balance ties with both global powers.

Energy trade remains crucial to the Pivot. Asia's demand for Gulf oil persists due to geographic proximity. China's oil demand is expected to peak by 2030, while post-2030, India and ASEAN are expected to drive demand. In parallel, Gulf investments in renewable energy are expanding, with projects in solar, hydrogen and electric vehicles (EVs) supporting Gulf-Asia cooperation in pursuit of shared climate goals. China, Japan and South Korea are prominent partners in these efforts.

Beyond energy, Gulf-Asia partnerships in non-oil sectors are thriving. Gulf states remain committed to technology and infrastructure advancements despite US-China tensions. Asian firms are central to Gulf plans, including Saudi giga-projects. Gulf SWFs continue to prioritise Asian markets, emphasising joint ventures and knowledge transfer.

Asian asset managers, HNWIs and financial services providers are relocating to the Gulf, attracted by economic reforms and the promise of growth in Gulf capital markets. Dubai has emerged as a hub for Asian wealth managers seeking to leverage the Pivot. Gulf states are expanding capital markets through IPOs and privatisations, attracting Asian and Western investment.

As Gulf-Asia trade and investment grow, political cooperation will likely follow to protect these economic interests. The Pivot represents a significant geopolitical realignment that increases the Gulf and Asia's respective importance to each other, reducing Western perspectives in the strategic calculations of decision-makers on both sides. The Pivot also represents a truly global opportunity that firms from across the globe can capitalise on.

1

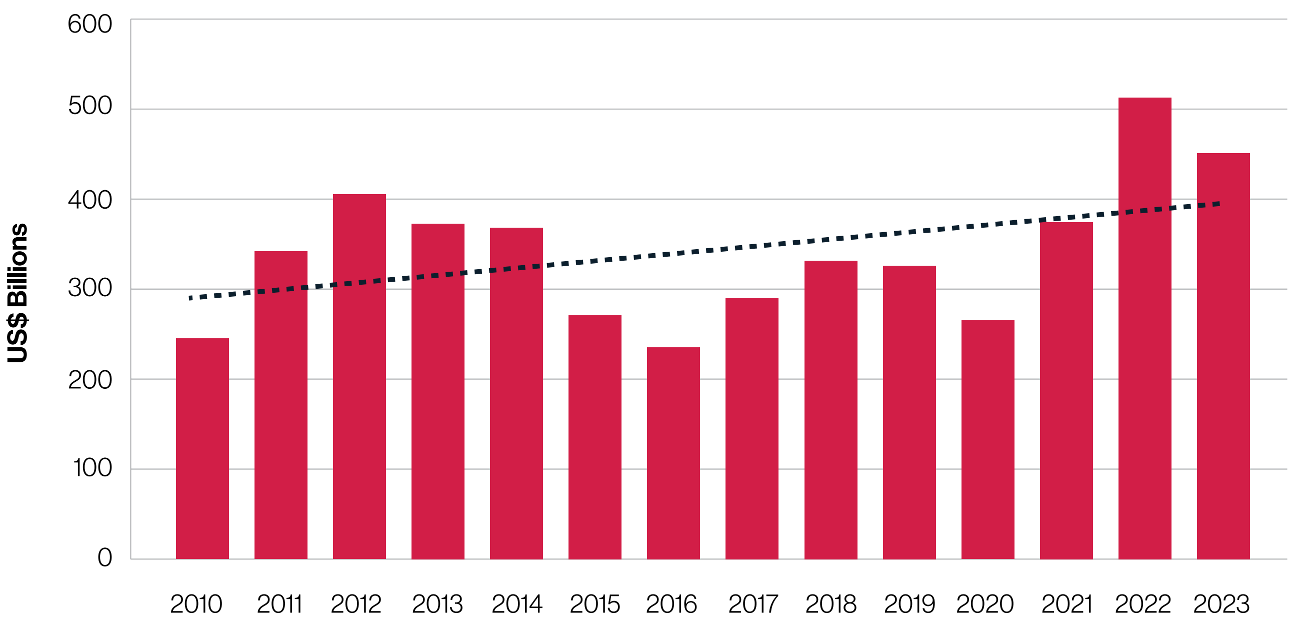
The Gulf-Asia Trade Outlook

This section explores recent trends in Gulf-Asia trade and examines the outlook over the next year and beyond. Attention is given to the impact of lower oil prices on the Pivot, along with the potential effects of both the Middle East conflict and the incoming Trump presidency.

After several years of accelerated Gulf-Asia trade growth, 2023 brought a correction. Gulf-Emerging Asia trade declined by 12 per cent between 2022 and 2023, falling from a record US$512 billion to US$451 billion. Despite this fall, Gulf-Emerging Asia trade in 2023 was higher than any other year except 2022, as Figure 1 shows.

Last year's report noted that a 2023 slowdown in Gulf-Asia trade growth was possible due to oil prices falling from the heights of 2022. This has proven true. Average OPEC Crude prices in 2023 were US$ 82.95 per barrel, 17 percent below 2022's average of US$100.08 per barrel.

Figure 1:
GCC-Emerging Asia trade (2010-2023)

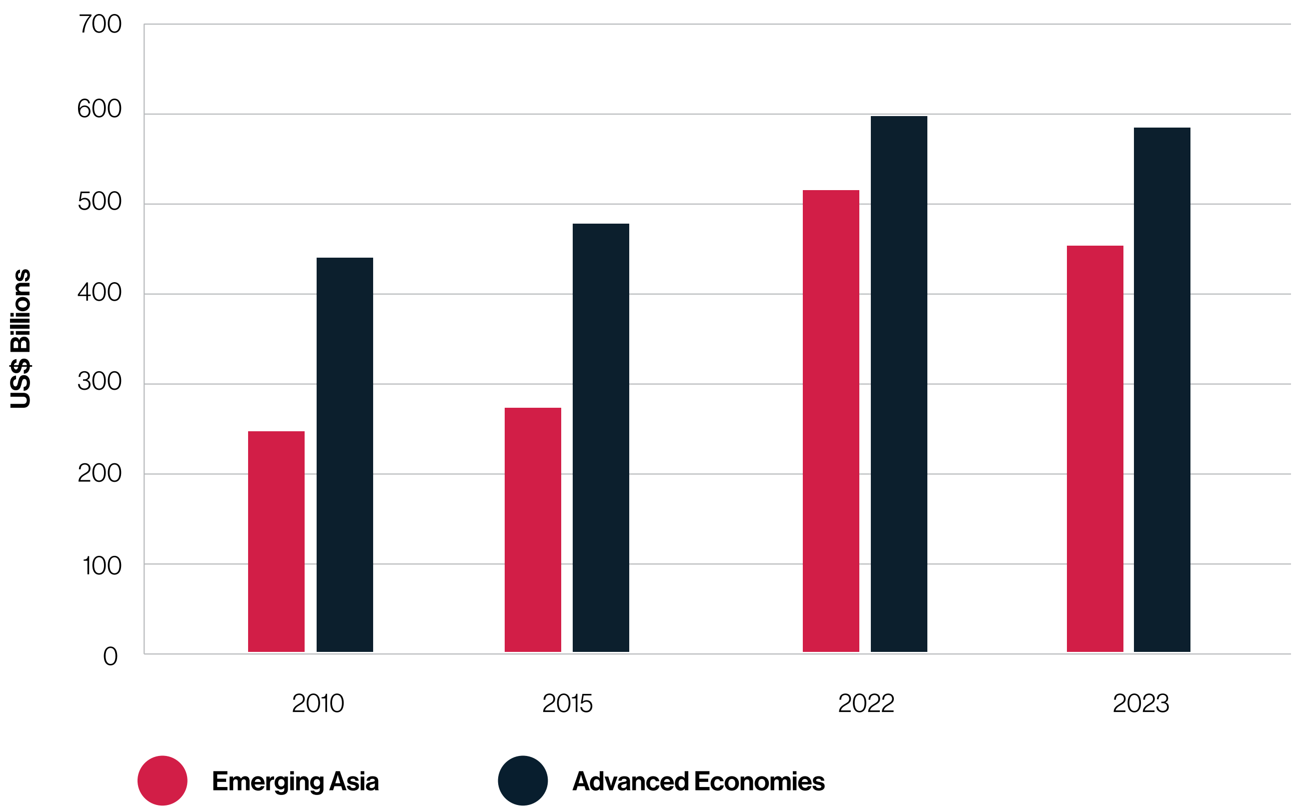


Lower oil prices led to a 9.3 per cent decline in overall Gulf trade between 2022 and 2023. But Gulf trade with Advanced Economies has been more resilient, falling by just 2.1 per cent from US$595 billion to US$583 billion. This resilience is due to the fact that Western Advanced Economies are less dependent than Asia on Gulf hydrocarbons. The last decade has seen the US increase domestic oil production and reduce Gulf imports. Between 2013 and 2023, Gulf oil exports to the US plummeted, from around 2 million barrels per day (bpd) to 600,000 bpd (U.S. Energy Information Administration, 2024). The Ukraine conflict has increased Middle East crude exports to Europe by 400,000 bpd as the region seeks to replace Russian supply (Oxford Institute for Energy Studies, 2024). But overall, the Gulf trades more hydrocarbons with Asia than it does with the West. This makes Gulf trade with Advanced Economies less correlated to oil price fluctuations than Gulf-Asia trade. Another factor accounting for greater resiliency in Gulf trade with Advanced Economies is the recent increase in the US's focus on commercial dealings in the Gulf and a willingness to go head-to-head with China in AI and other technologies. This is explored in greater detail in Section Five.

Previous reports have highlighted the fact that Gulf-Emerging Asia trade is catching up with Gulf-Advanced Economies trade. Between 2010 and 2022, the gap narrowed from US$193 billion to US$82.3 billion. This represents a major geoeconomic and geopolitical shift. As Asia gains importance in the Gulf, Asian perspectives will carry more weight in Gulf rulers' strategic decision-making. However, the recent dip in Gulf-Emerging Asia trade widened this gap to US$131 billion in 2023, as Figure 2 shows.

Figure 2:

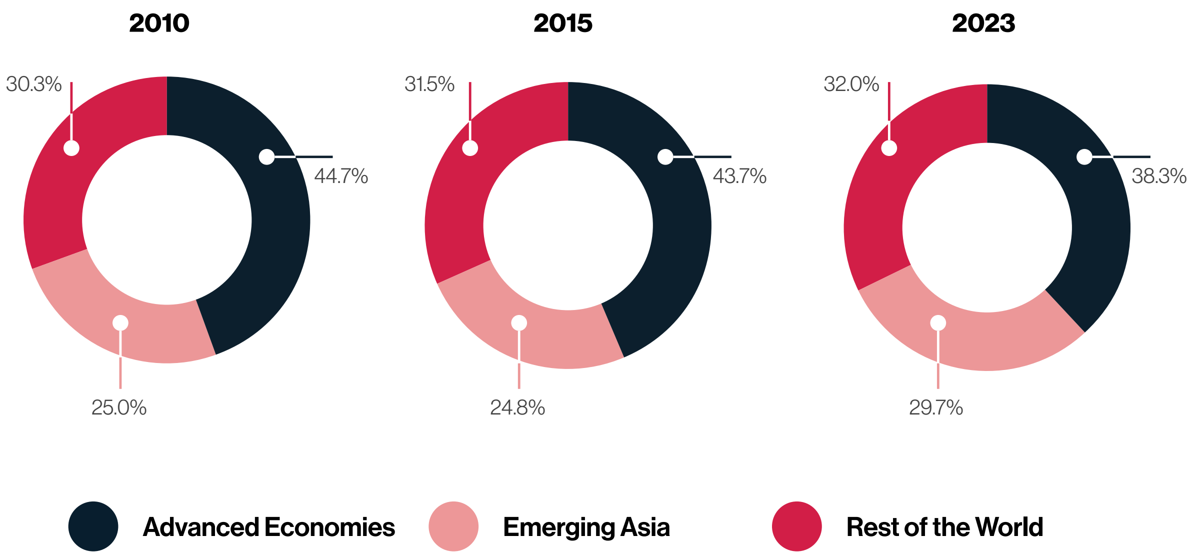
Gap between Gulf-Emerging Asia trade and Gulf-Advanced Economies trade has widened



Despite this correction, projections suggest Gulf-Emerging Asia trade will soon catch up with – and overtake – Gulf trade with Advanced Economies. Between 2010 and 2023, the average annual growth rate in Gulf-Emerging Asia trade was 7.1 per cent. By contrast, the rate for Gulf trade with Advanced Economies was just 4.3 per cent. The past decade has seen Emerging Asia's relative importance as a Gulf trading partner increase and Advanced Economies' decline.

As Figure 3 shows, Advanced Economies accounted for 45 per cent of total Gulf trade in 2010, with Emerging Asia accounting for 25 per cent. In 2023, Emerging Asia accounted for 30 per cent of Gulf trade, with Advanced Economies accounting for 38 per cent. Within this context, we have seen Gulf rulers increase their focus on diversifying their trading relationships, including with Asia, over the last decade. Section Two explores in greater detail how Emerging Asia's rising importance to the Gulf facilitates greater political cooperation and bilateral exchanges.

Figure 3:
Emerging Asia's increased importance to Gulf trade over time

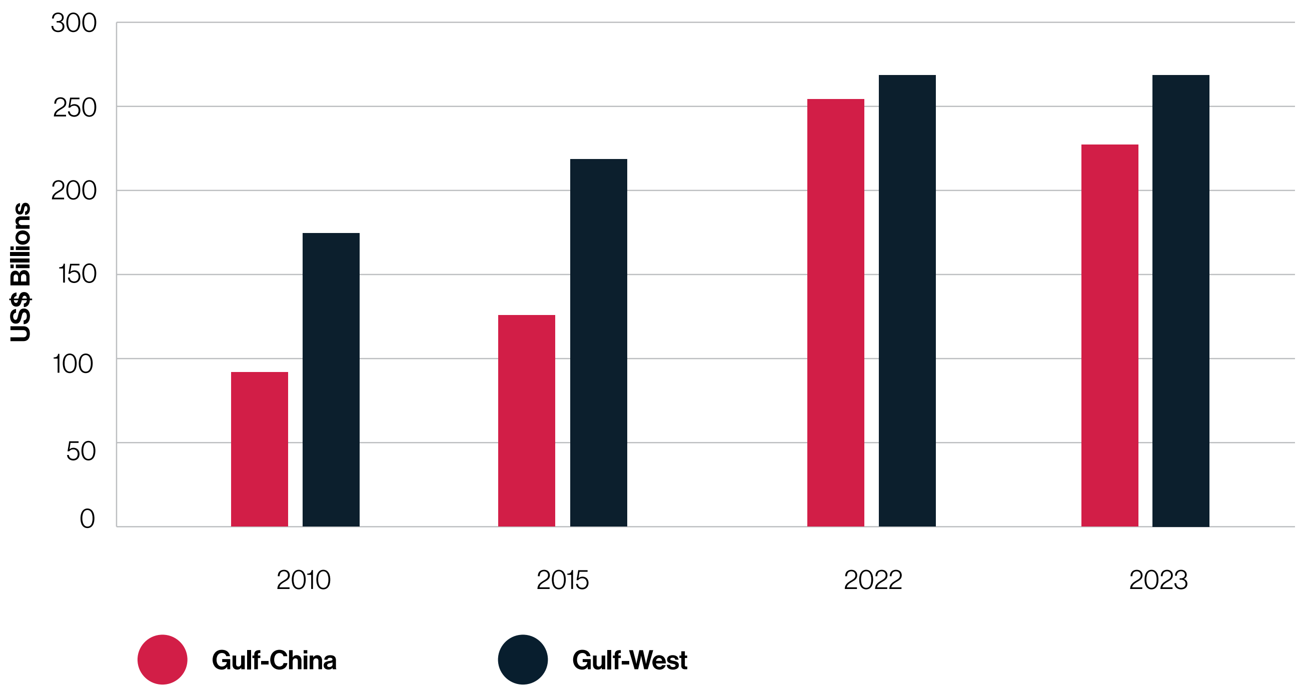


The recent dip in Gulf-Emerging Asia trade has impacted key bilateral relationships within the Pivot, particularly Saudi-China and UAE-China trade. Saudi-China trade fell 7.6 per cent from US$105 billion to US$97 billion between 2022 and 2023. UAE-China trade, meanwhile, fell by 15.5 per cent from US$110 billion to US$93 billion. Significantly, the Saudi-China corridor is once again the largest in the Pivot – a title briefly held by the UAE-China corridor in 2022.

China remains a key Gulf trading partner. Figure 4 shows it is close to surpassing the Gulf's combined trade with the West (US, UK and Euro Area[4]). Gulf-China trade has surged since 2010, nearly tripling from US$91 billion to US$252 billion in 2022. While Gulf-China trade dipped to US$225 billion in 2023, this still represented the second-highest figure on record. Gulf-West trade has also grown over the decade but at a much slower rate, rising from US$173 billion in 2010 to US$267 billion in 2023.

Figure 4:

Gulf-China trade has caught up with Gulf-West trade over the decade



4 The Euro Area is a category of countries which use the Euro currency. These countries are predominantly in Western Europe.

We see a similar pattern in the UAE and Saudi Arabia's trade with China and the West. In 2022, UAE-China trade was US$109 billion, leapfrogging UAE-West trade at US$90 billion. In 2023, however, UAE-China trade fell to US$93 billion, while UAE-West trade rose to US$98 billion. The gap between Saudi-China trade and Saudi-West trade has also narrowed. Figure 6 shows that the gap was US$47 billion in 2015, but now stands at US$16 billion. China's sluggish domestic demand, coupled with a lower oil price, accounts for reduced trade value, but as subsequent sections discuss, we are also seeing greater investment and deal-making in non-oil sectors. Despite dampened forecasts, China's economy and exports are still growing, along with its commercial focus on the Gulf. We expect Gulf-China trade to outstrip Gulf-West trade. Assuming both trade relationships achieve similar average annual growth rates to those recorded between 2010 and 2023, Gulf-China trade will overtake Gulf-West trade in 2027.

Figure 5:

UAE-China trade consistently catching up with UAE-West trade

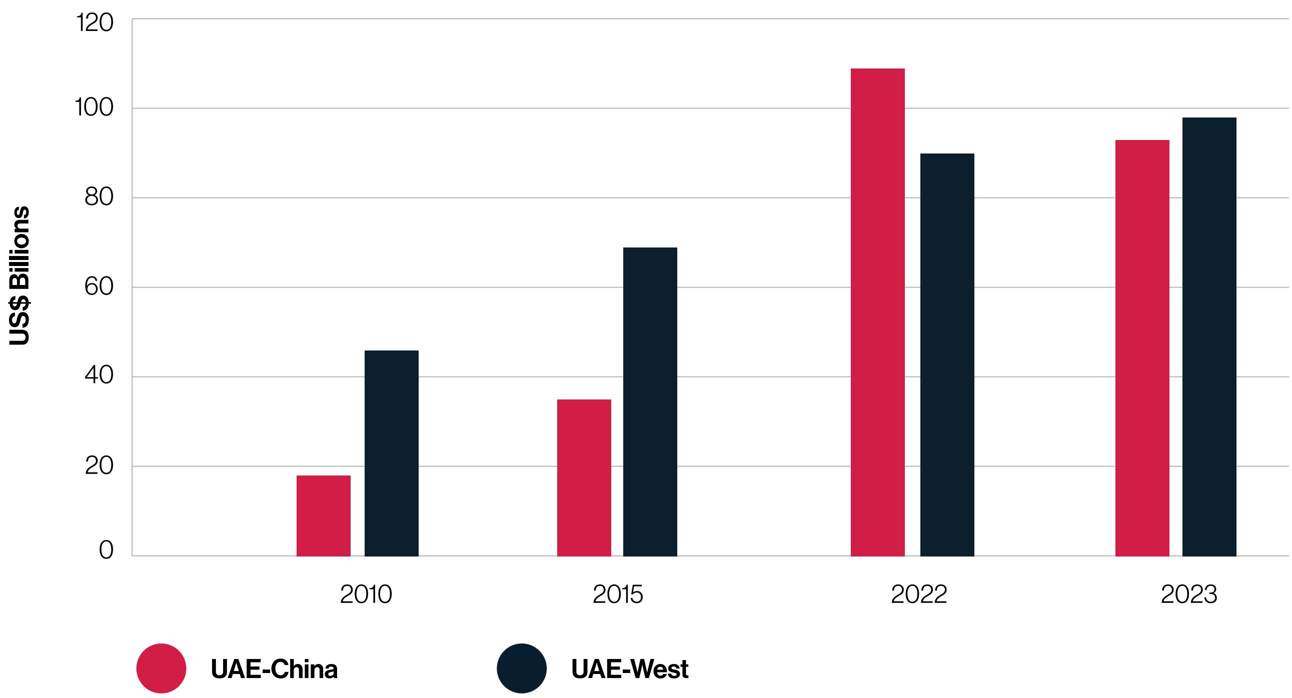
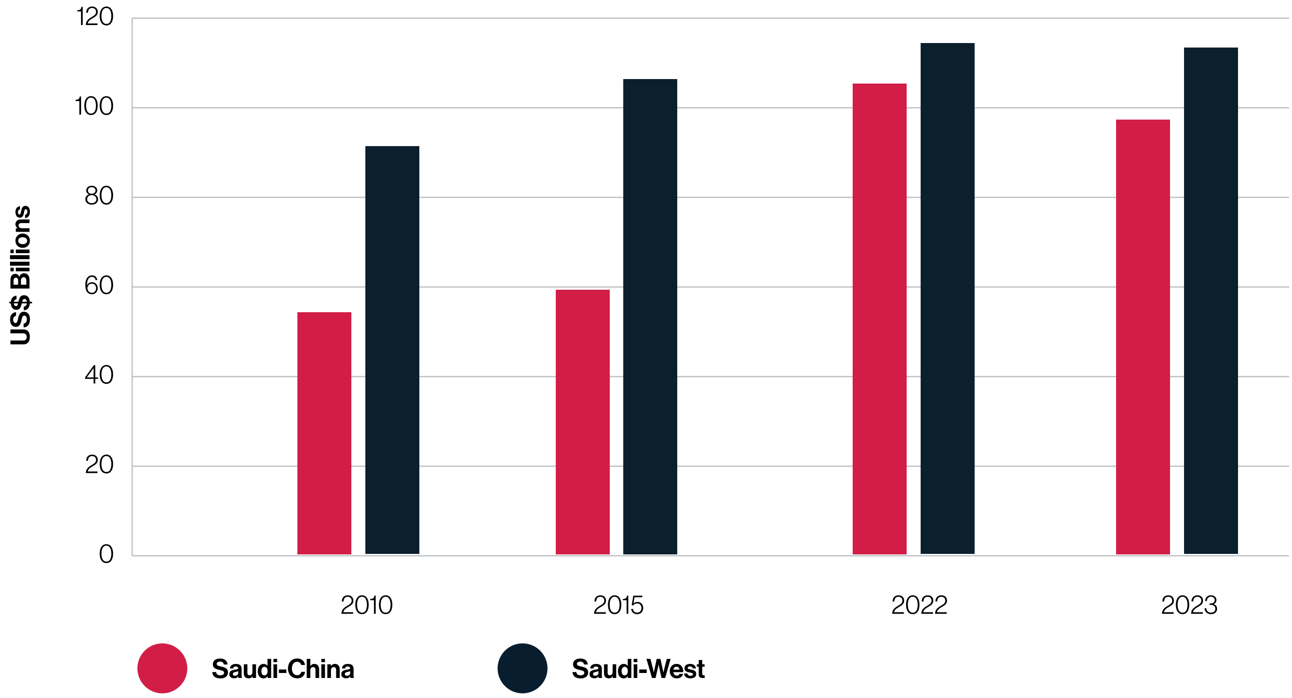


Figure 6:
Gap between Saudi-China trade and Saudi-West trade has narrowed



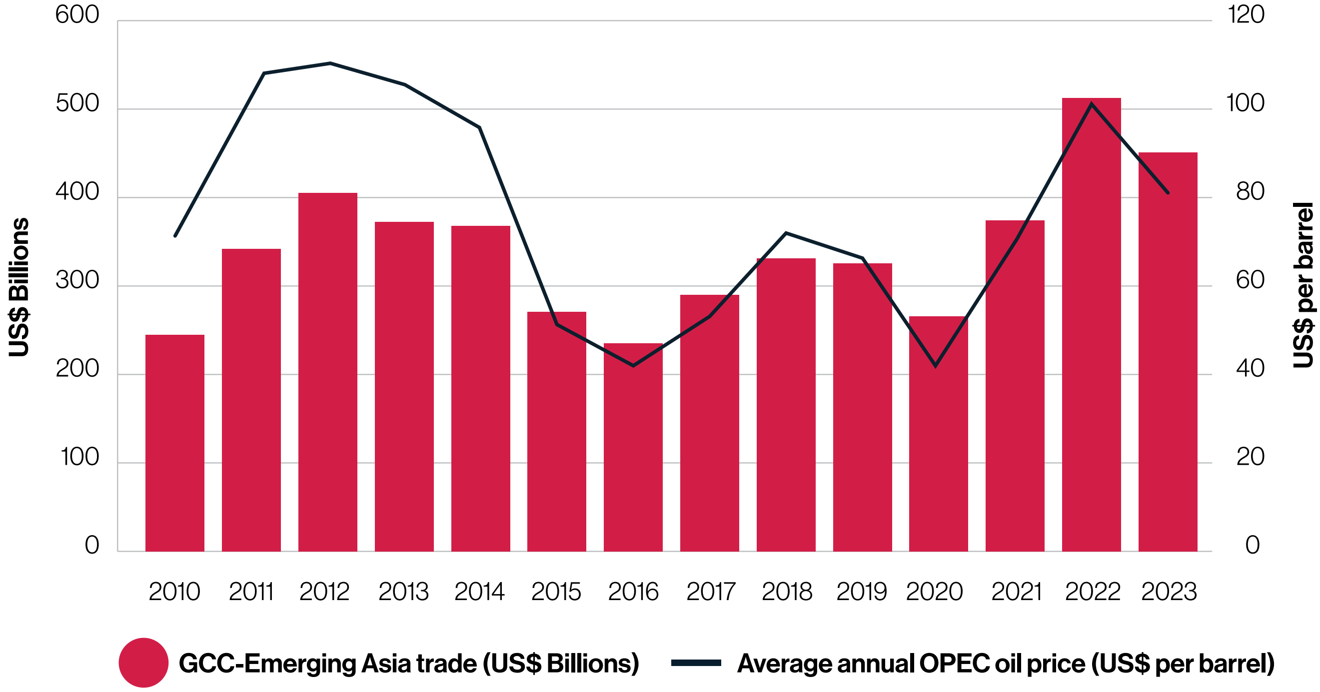
Some Gulf-Asian trading relationships fared better in 2023. Oman-Emerging Asia trade doubled from US$4.5 billion to US$11.1 billion in the period, while Hong Kong-Gulf trade more than doubled from US$13 billion to around US$32 billion. This surge followed the landmark visit of Hong Kong Chief Executive John Lee to the UAE and Saudi Arabia in February 2023, when several trade and investment pacts were signed. The Hong Kong-Gulf trade relationship will be discussed in greater depth in Section Two.

The wider impact of lower oil prices on the Pivot

Despite growth in Gulf-Asia non-oil activity over recent years, with increased trade and investment in construction, infrastructure, technology and renewables, hydrocarbons still account for around half of trade flows. This is why Gulf-Emerging Asia trade tracks closely with oil prices, as Figure 7 shows.

Figure 7:

GCC-Emerging Asia trade tracks closely with average annual OPEC oil prices



Source: Statista

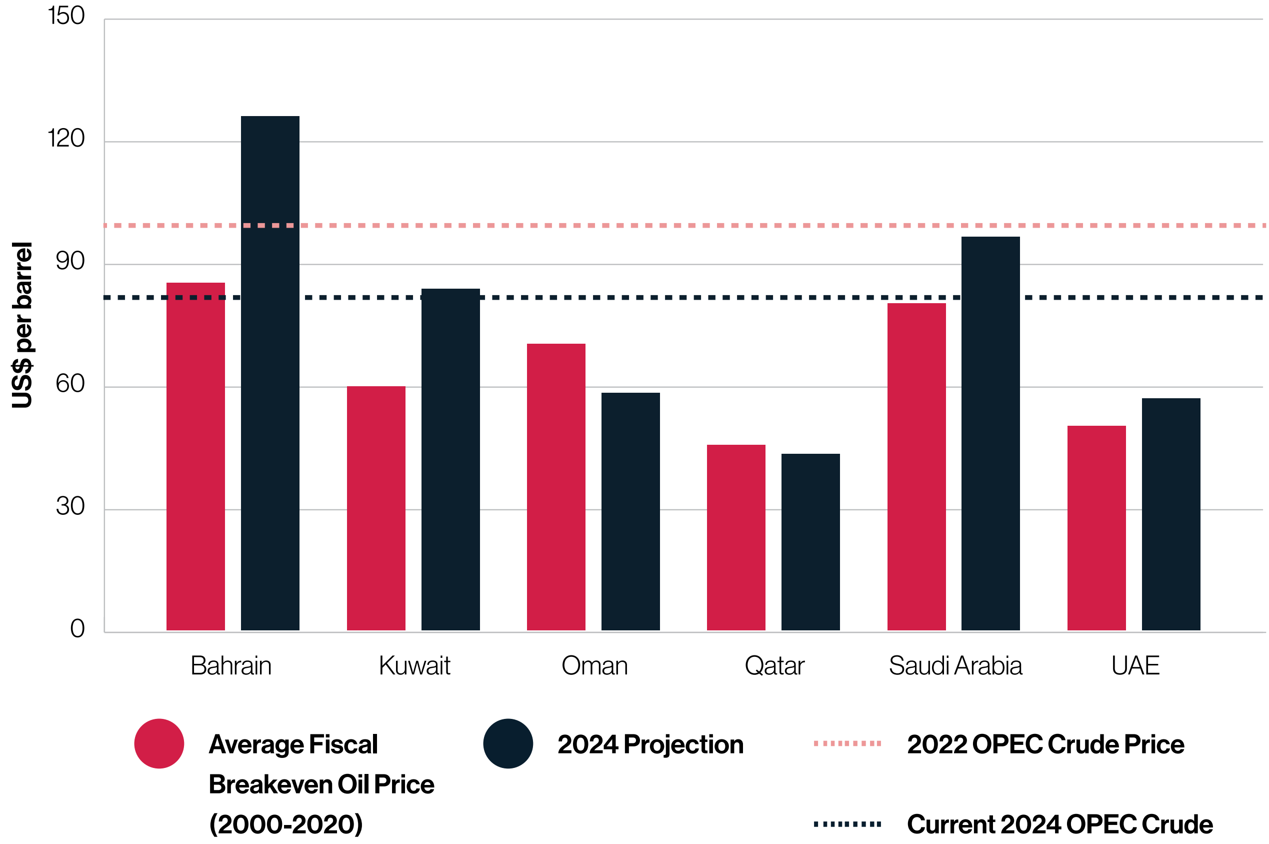
Reduced oil prices affect not only the value of Gulf-Asia trade but also Gulf fiscal policy. Cheaper oil means the Gulf has less revenue to invest in non-oil sectors and to promote economic diversification. Such diversification is a crucial driver of the Pivot, encouraging cooperation in sectors where Asia has expertise and manpower, including construction, technology and sustainability. Gulf investment in non-oil sectors creates business and contracting opportunities for Asian firms, encouraging inward investment and expansion into regional markets. A reduction in oil revenue also affects SWF coffers, putting downward pressure on investments overseas, including in Asia. Gulf economies are diversifying but are still reliant on oil. For example, Saudi Arabia's non-oil revenue has doubled since 2015, yet oil still accounts for more than 70 per cent of its export revenue (England and Al Omran, 2024). Reduced oil prices are already weighing on Gulf spending.

Saudi Arabia is reportedly scaling back certain giga-projects or phasing them over a longer period to reduce costs (Fattah and Martin, 2024). This could affect Chinese, Korean, and other Asian construction and engineering firms. The Kingdom is also reportedly scaling back its international investment to concentrate on domestic spending (Al Omran and Levingston, 2024).

Figure 8 shows that the projected fiscal break-even oil price in 2024 for Bahrain, Saudi Arabia and Kuwait is higher than current oil prices, meaning they are on track to run a deficit. By contrast, the fiscal break-even price for Qatar, Oman and the UAE is lower, leading to budget surpluses that can be reinvested in non-oil sectors. Figure 8 also shows that, in general, fiscal break-even oil prices have risen for many Gulf economies over the last 20 years as they increase spending and investment in non-oil sectors.

Figure 8:

Fiscal break-even oil price (2000-2022 and 2024 projection)



Source: IMF, 2024a [5]

Faced with low oil prices, the Gulf states have three broad options for raising revenue and reducing fiscal deficits. Firstly, dipping into existing foreign reserves; secondly, borrowing money by issuing bonds; thirdly, raising taxation. Saudi Arabia has been drawing down its foreign reserves, from around US$600 billion in 2016 to just over US$400 billion in 2024. It is also borrowing and, as of August 2024, had issued US$37 billion in bonds (England, Cornish and Masters, 2024).

Raising taxes is a less appealing option, yet there are indications they are considering this option.

Levying Value-Added Taxes (VAT) has become more commonplace in the region in recent years. Oman introduced a 5 per cent VAT in April 2021 while Saudi Arabia raised its tax from 5 per cent to 15 per cent in July 2021 and Bahrain doubled VAT from 5 per cent to 10 per cent in January 2022[6]. Other levies are being

5 Data for 2024 and 2025 are projections. Kuwait's fiscal breakeven oil price is calculated based on its fiscal balance before 10 per cent of revenue is transferred to the Future Generations Fund.

6 The UAE has a VAT rate of 5 per cent. Kuwait and Qatar do not have VAT.

introduced. In 2023, the UAE aligned with other Gulf states by introducing a corporation tax of 9 per cent on profits above AED375,000 (roughly US$102,000) for companies outside free zones. In March 2024, Dubai announced a 20 per cent tax on all foreign banks operating in the emirate except those licensed in the Dubai International Financial Centre (DIFC) (Arabian Business, 2024a). From 1 January 2025, Bahrain will also introduce a minimum 15 per cent tax on large multinational companies with global revenue exceeding US$830 million. This will be levied on profits generated in the country and is aligned with the OECD's efforts to introduce a global minimum corporation tax (Nagraj, 2024). More significantly, in July 2024, Oman's parliament pushed forward its income tax law, which, if passed by the State Council, would make it the first GCC country to implement personal income tax, if only on high incomes. Omani citizens will be taxed at 5 per cent on any income above US$1 million, whereas expats will pay on incomes exceeding US$100,000. The move could prompt other GCC countries to consider similar tax reforms, particularly for expats (Nair, 2024a).

The central dilemma of low oil prices is that they demonstrate just how crucial it is for the Gulf states to diversify their economies while simultaneously reducing the revenue available to do so. Low oil prices may, therefore, galvanise Gulf economies to compensate for reduced domestic revenue by hastening the implementation of economic and social reforms to attract foreign investment, companies and talent, including from Asia. 2024 has seen the Gulf states introduce several such reforms, including Saudi Arabia's new Investment Law and the UAE's new labour laws and health insurance expansion. These are discussed further in Section Six.

The outlook for the Middle East Pivot to Asia

This section examines the outlook for the Pivot over the next year and beyond. Falling oil prices have dragged down Gulf-Emerging Asia trade, but the fundamentals for future growth are strong. This section also explores the possible impact of the Middle East conflict and the Trump Presidency. Despite a recent fall in oil prices, Gulf and Asian economies have grown throughout 2024 and have strong long-term prospects. This has boosted trade as well as energy and investment demand. The Gulf's social and economic reforms, investment in non-oil sectors and growing people-to-people exchanges between the Gulf and Asia also bode well for stronger economic relations.

There are growing signs that Gulf-Asia trade is diversifying. In H1 2024, the UAE's non-oil trade hit a record US$381.5 billion, representing 18.4 per cent of total trade – an increase from 16.4 per cent in H1 2023 (Khan, 2024a). The proportion of non-oil exports in Saudi Arabia's total exports also rose from 23 per cent in July 2023 to 26.9 per cent in July 2024 (Business Start Up Saudi Arabia, 2024).

We expect future growth in both Gulf and Asian economies, leading to increased trade and investment between them. Emerging Asia, for example, is set to grow by 5.3 per cent in 2024 and by 5.0 per cent in 2025 (IMF, 2024b). By contrast, Advanced Economies are set to expand by just 1.8 per cent in 2024 and 2025. Economic growth fuels the Pivot in several ways. Economic growth in Asia will increase demand for both energy and consumer goods. In the Gulf, growth, particularly in non-oil sectors, will create opportunities for Asian companies and investors. In both regions, economic growth often encourages capital flows and investment within and across borders, which could benefit the Pivot and swell middle class populations, encouraging people-to-people flows.

The economies of some of the Gulf's major Asian trading partners are set to grow in 2024 and beyond. India's economy is forecast to expand by 7 per cent in 2024 and 6.5 per cent in 2025 and 2026. The economy of the ASEAN-5 trading area (comprising Indonesia, Malaysia, the Philippines, Singapore and Thailand) is expected to grow by 4.5 per cent in 2024, 2025 and 2026. In contrast, China's growth is projected to dip from 5.3 per cent in 2023 to 4.8 per cent in 2024. The IMF projects a further fall to 4.5 per cent in 2025. However, while this will slow trade growth with the Gulf it will not decrease overall trade volumes. While Chinese growth has decelerated, it remains relatively robust compared to that of Advanced Economies, which are expected to grow by just 1.8 per cent in 2024 and 2025 (ibid.). Dampened growth in China could also prompt more Chinese companies to look overseas for expansion opportunities, fuelling the Pivot. In 2023, China had the world's largest outflow of HNWIs, and in 2024, it is expected that a record-breaking 15,200 will leave (Pak, 2024). IMF data also points to good growth prospects in the Gulf, as Table 1 shows.

Table 1:
Projected Gulf Economic Growth (2024 and 2025)

Country	2024	2025
Saudi Arabia	**1.5 %**	**4.6 %**
UAE	**4.0 %**	**5.0 %**
Qatar	**1.5 %**	**1.9 %**
Kuwait	**-2.7 %**	**3.3 %**
Bahrain	**3.0 %**	**3.2 %**
Oman	**1.0 %**	**3.1 %**

Source: IMF, 2024b

Dr. Sri Mulyani Indrawati, Indonesia's Minister of Finance, in conversation with Asia House Chief Executive Michael Lawrence OBE.

Kuwait is the only Gulf economy expected to contract in 2024, although it is expected to rebound the following year. Saudi Arabia's growth rate is projected to be a modest 1.5 per cent in 2024, but this is forecast to pick up to 4.6 per cent in 2025. Emerging Asia's largest trading partner in the Gulf, the UAE, has the region's fastest expected growth rate and is set to expand by 4 and 5 per cent in 2024 and 2025, respectively.

Together, these good growth prospects and economic and social reforms are attracting foreign investment, companies and HNWIs to the Gulf, including from Asia.

- In H1 2024, the Dubai Multi Commodities Centre (DMCC) saw a 9 per cent uptick in Chinese companies joining the free zone. Some 900 Chinese companies are now in DMCC (DMCC, 2024).
- The UAE free zone, DIFC, saw a record 1,451 new companies join in 2023 – an increase of 34 per cent on the previous year (ARN News Staff, 2024).
- The UAE free zone, Abu Dhabi Global Market (ADGM), located on Al Maryah Island, is expanding into neighbouring Al Reem Island after reaching 95 per cent occupancy. The move will give it 10 times more space and make it one of the world's largest financial districts (Fattah, 2024a).
- The Qatar Financial Centre (QFC) registered 505 new companies in H1 2024, a 230 per cent increase from the same period in 2023 (Kumar, 2024a).
- Saudi Arabia issued 127 Regional HQ (RHQ) licences in Q1 2024, representing a 477 per cent year-on-year increase. By comparison, as of November 2023, 180 companies had RHQs in the Kingdom. The RHQ programme offers foreign firms exemptions, incentives and the opportunity to bid on state contracts in return for establishing their RHQ in the Kingdom. The RHQ programme is attracting Asian firms, with Japan's Mizuho Financial Group confirming it had applied in June 2024 (Narayanan and Martin, 2024). Singaporean fintech PayerMax also established its RHQ in the same month (Arab News, 2024a).

Continued Gulf investment in non-oil sectors will also drive future trade with Asia. In March 2024, the Oman Investment Authority launched the US$5.2 billion Future Fund Oman to boost economic development and attract foreign investors (Oman Investment Authority, 2024). The fund will be deployed over the next five years, with 90 per cent of investments allocated to large-scale domestic projects, 7 per cent to supporting SMEs and 3 per cent to startups (ibid.). The UAE Cabinet has also approved a record budget of US$19.5 billion for 2025, with non-oil sector growth expected to expand 5.2 per cent in 2024 and 5.3 per cent in 2025 (Khan, 2024b).

For these reasons, we expect Gulf-Asia trade to grow over the next five years. Should Gulf-Emerging Asia trade continue to match the average annual growth rate seen between 2010 and 2023 (7.1 per cent), it will reach US$682 billion by 2030 – well above 2023's US$451 billion, enhancing its status as a vital corridor within the global trading landscape.

Further oil price decreases could naturally dampen Gulf-Asia trade growth. At the time of writing, the average annual OPEC crude price for 2024 was US$80.52 per barrel, roughly US$2 lower than in 2023. This could put downward pressure on Gulf-Asia trade growth in 2024. While Asian energy demand is expected to increase over the next few years, with the Gulf meeting much of this, a sustained period of lower oil prices would reduce the total value of this trade. Amid lower global demand during the COVID-19 pandemic, OPEC introduced production cuts to try and raise prices, with voluntary cuts of 2.2 million barrels a day. In H2 2024, OPEC changed strategy, announcing it would maintain cuts until the end of November 2024, before phasing them out monthly until September 2025. This increase in production may put downward pressure on the oil price and indicates that OPEC members are prepared to accept a lower overall price in return for a higher market share. Despite lower prices in 2023, Aramco reported its second-highest ever annual profit of US$121 billion and increased its dividend to almost US$100 billion in 2024 (Wilson and Al Omran, 2024). Aramco remains a critical source of revenue for the Kingdom.

There are good reasons to believe that Gulf-Asia trade will continue to expand at pace. Both regions have good growth prospects, which will increase oil shipments between the Gulf and Asia, as well as trade and investment in non-oil sectors. The Gulf's ongoing reforms and investment in economic diversification will also create opportunities for Asian firms. There are risks to the Pivot, however. Fluctuating oil prices and rising global tensions, including in the Middle East and between the US and China, could complicate relations. But while external pressures may impact the Pivot, Gulf-Asia economic ties are set to strengthen over the coming years.

The Middle East conflict

The Middle East conflict has made the region's future more uncertain. Over the past year, it has widened beyond Gaza. In late November, Israel and Lebanon agreed a ceasefire after months of conflict, but its durability remains uncertain. Iran has launched direct missile and drone attacks against Israel and the Houthis in Yemen have disrupted Red Sea shipping by attacking Western and Israeli tankers, drawing the US, UK, and Israel into launching airstrikes against them.

Houthi actions have materially impacted global trade. The Houthis have attacked merchant ships in the Red Sea and the Gulf of Aden in support of Hamas throughout 2024. Dozens of attacks in these vital shipping lanes have disrupted global maritime trade, including from Asia and the Gulf. A large volume of trade is now being diverted from the Red Sea and the Suez Canal to a route that circumnavigates South Africa's Cape of Good Hope. This typically adds 10-12 extra days per voyage and costs an additional US$1 million in fuel. As of October 2024, just 2 per cent of ships are transiting through the Suez Canal, down from 30 per cent before the Houthi attacks (L'Anson, 2024). Coupled with higher insurance premiums, the conflict is increasing trade costs, with Saudi ports losing business (Lloyd's List, 2024). Some 65 per cent of goods that enter Saudi Arabia are handled by Jeddah Port on the Red Sea. The UAE shipping giant DP World's earnings have fallen by 59 per cent in H1 2024, from US$651 million to US$265 million (Cornish and Telling, 2024).

The conflict poses other risks, including increased potential for oil price volatility and shocks, dampened investment sentiment and greater reticence towards conducting business in the region. An oil price shock leading to higher prices could increase inflationary pressure, slowing down the reduction of global interest rates or even triggering increases. So far, the conflict has caused temporary oil price spikes but not prolonged price increases. Indeed, at the time of writing[8] , average OPEC crude prices have tracked slightly downwards since Hamas attacked Israel on 7 October 2023. As explored earlier, the conflict has not, so far, stopped Gulf economies from expanding.

The dominant risk for the Pivot is the widening of the conflict into the Gulf following a major escalation in 2024 between Israel and Iran. In April 2024, Tehran launched missiles and drones against Israel in retaliation for an Israeli air strike in Syria that killed Iran's top general and several other Iran Revolutionary Guard Corps (IRGC) commanders. In October 2024, Iran launched around 180 missiles, some of them hypersonic, in response to Israel's assassinations of Hamas political leader Ismail Haniyeh in Tehran, and Hezbollah leader Hassan Nasrallah in Beirut, along with its invasion of Southern Lebanon. These were Iran's first direct strikes against Israel. Israel responded by hitting several Iranian military targets. Sustained hostilities between the two powers are the most likely flashpoint for a broader regional war, which could draw in the US and others.

The advent of the Trump administration could have an impact on the conflict. The first Trump administration (2016-2020) was favourable to Israel, with several pro-Israel policies implemented, including the shift of the US Embassy to Jerusalem, which it designated as Israel's capital, and the recognition of Israeli sovereignty over the Golan Heights. Trump's first administration was also marked by a "maximum pressure" campaign against Iran, which saw the US withdraw from the Iran nuclear deal and impose punitive sanctions. Israel's Prime Minister Benjamin Netanyahu was the first leader to call Trump to congratulate him on his latest election victory. Trump has said he wants to end the conflict, but he is also sympathetic towards Israeli actions to defeat Hamas and degrade Hezbollah in Lebanon. US action against Iran could also increase under Trump, with more sanctions possible in response to Iran's salvo of missiles against Israel.

China has sought to act as a neutral mediator in the conflict. It has gained plaudits within the Arab World for its supportive position on Palestinian statehood, in contrast to the US, which is viewed as favouring Israel. Chinese diplomatic activity has included brokering the Beijing Declaration on fostering unity between Hamas and Fatah, which runs the West Bank's Palestinian Authority, and holding the Arab States Cooperation Forum in Beijing in May 2024 to promote greater dialogue.

The US and China will continue to be at odds in their approach to the conflict under President Trump, and a resumption of Trump's "maximum pressure" campaign against Tehran could undermine China's significant investments in Iran as well as Iran's role as a major energy provider to China.

Further escalation of the conflict could undermine the Pivot by weakening investment or capital flows into the region.

The impact of the US presidential election

Trump's presidency could affect the Pivot in several ways. The first Trump administration (2016-2020) was broadly favourable to Gulf interests. Officials were less vocal than previous US administrations on Gulf domestic and international policy, there

8 29 November 2024

was a high level of US-Gulf bilateral engagement and commercial dealings and Trump adopted a tougher stance towards Iran. There is reason to expect this to continue, with the Trump administration likely to seek Gulf investment to drive the president-elect's pro-growth agenda.

During Trump's election campaign, he suggested applying a 60 per cent tariff on all Chinese goods and a 10 per cent tariff on other foreign goods. Such a move would likely spark retaliatory tariffs and measures, dampening global trade. On the other hand, it could also strengthen Gulf-Asia economic ties as US tariffs on Gulf and Asian firms and even higher tariffs on Chinese companies could push them to explore new markets or double down on existing ones.

As explored further in Section Five, US-China tensions have already had an impact on AI and technology cooperation between China and the Gulf, with Washington imposing trade restrictions on China to limit its capabilities, positioning the US as the Gulf's preferred AI partner. US-China tensions could worsen during the new Trump administration, particularly on the economy, with neither side likely to pursue détente. Trump's anti-China tendencies may make him more robust than Joe Biden in pressuring the Gulf to curtail its trade and cooperation with China, particularly in technology.

Before the election, the US and Saudi Arabia were reportedly close to a defence and civil nuclear deal. This would provide formal US guarantees to defend the Kingdom, along with greater access to advanced US weaponry in exchange for Saudi Arabia halting Chinese arms purchases and limiting Chinese investment (Spetalnick and Shalal, 2024). The Trump administration could push forward with this, undermining China-Saudi relations. In 2024, there was evidence of increased military and security cooperation between China and the Gulf states. In June, Saudi Arabia's Minister of Defence Prince Khalid bin Salman visited China and met the Vice Chairman of the Central Military Commission, Zhang Youxia. They discussed strengthening defence cooperation (Arab News, 2024b). In the same month, China's Ministry of Foreign Affairs said China and the UAE would share experiences on defence and security to enhance mutual military and security capabilities (Reuters, 2024a). Despite this, China has only made small advances in defence relations with the Gulf, which still relies on the US for regional security (Meyer and Burke, 2024).

While US-Gulf ties were strong during the last Trump administration, Gulf leaders were unhappy with Trump's withdrawal of US forces from Iraq and Syria, which they viewed as a reduction in US commitment to the region. This trend continued under the Biden administration, with the US withdrawal from Afghanistan and the September 2024 announcement of further troop drawdowns in Iraq. Trump's instincts will be to continue reducing US military forces in the region. Still, he may try to temper Gulf concerns and discourage military cooperation with China by selling advanced weaponry to the Gulf. Some US military equipment, such as advanced drones and the F-35 fighter jet, so far remain off-limits for the Gulf states.

The Trump administration may attempt to re-energise efforts towards normalisation between Israel and the Arab world. His last presidency brokered the Abraham Accords, under which the UAE and Bahrain normalised ties with Israel, spurring a flurry of diplomatic and economic agreements, including a UAE-Israel Comprehensive Economic Partnership Agreement (CEPA). The Abraham Accords were followed by Sudan and Morocco normalising ties with Israel. Trump will want to continue normalisation efforts, with Saudi Arabia as the big prize, but the Middle East conflict will make this much more difficult. The Kingdom has publicly stated that there must be credible prospects for the establishment of an independent Palestinian state before normalisation.

As noted above, Trump's presidency could improve Gulf-US ties but also encourage greater Gulf-Asia trade if he follows through with his promise to impose heavy tariffs. His policies could worsen relations with both Iran and China and pressure the Gulf to curtail economic ties with China in sensitive sectors, such as technology and defence. Recent evidence suggests the US is becoming more willing to commercially compete with China in the Gulf, particularly in the UAE. The US has doubled its greenfield FDI[9] in the UAE to almost US$4 billion. By contrast, the latter received only US$935 million from China (Sambidge, 2024a). As discussed in Section Five, several large US-UAE commercial deals have been signed in 2024, including a US$1.5 billion investment by Microsoft in the UAE's premier AI firm, G42. This year also saw a landmark state visit by UAE President Mohammed bin Zayed to the US, the first by a sitting UAE leader.

In general, Trump looks likely to be more transactional than Biden. Past performance also indicates that he is prepared to act unpredictably, reverse positions and surprise allies and opponents, if he thinks this will be advantageous in negotiations. Trump's tariffs may fuel the Pivot by pushing the Gulf and Asia towards one another in trade. On the other hand, Trump may want to strengthen US-Gulf ties, through commercial and security cooperation and a tougher stance on Gulf trade and investment with China.

9 Greenfield FDI is when a foreign entity establishes operations in a foreign country by building facilities from the ground up.

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 since we spoke to you last year?

Last year, I highlighted the growing trade relationship between the Arabian Gulf and Asia, driven by the Middle East's investment-led transformation and Asia's post-pandemic economic recovery. Twelve months later, a series of economic and geopolitical factors are converging to potentially further reshape global trade and capital flows. Within the Middle East, as well as the tragic and considerable humanitarian consequences of the continuing conflict, it has caused ongoing disruption to global shipping routes and has drawn trade stability into sharper focus. Despite this challenging backdrop, commercial ties between Asia and the Middle East have continued to grow.

The Gulf's economies have demonstrated considerable resilience, driven primarily by domestic demand, expansionary public policy and a resolute ongoing commitment to economic diversification. These factors are driving companies from both the Middle East and Asia to invest in a broad range of non-oil sectors. For instance, greenfield foreign direct investment from Asia to the Gulf surged from US$4 billion in 2018 to US$26 billion in 2023, according to FDI Markets.

Additionally, Gulf markets have found strong reception among local, regional and international investors. For example, while global IPO markets have seen a modest slowdown in the year, Middle East markets have been a bright spot of activity, with capital raised from IPOs increasing more than 70 per cent year-on-year in the third quarter.

What is the outlook for trade ties between the Gulf and Asia over the next five years?

The Middle East's significant economic transformation drive, Asia's ongoing economic dynamism, and the necessity of creating sustainable economies are coming together to create substantial business opportunities. HSBC, positioned at both ends of the Middle East-Asia corridor and with more than a century of history in each, is directly supporting clients to capitalise on these trends.

According to HSBC Global Research, the annual total value of the trade of goods between the Middle East and Asia is projected to more than double, increasing from approximately US$950 billion in 2022 to over US$1.9 trillion by 2035.

Higher levels of government-to-government ties and strategic policy initiatives are supporting increased investment flows. China reconfirmed its status as the GCC's largest trade partner following its Premier's multi-day visit to the region in September 2024, and a flurry of trade agreements with other Asia-Pacific countries are set to increase and broaden these trade flows. For example, the UAE signed agreements with South Korea in May, and with Australia in September. When fully implemented, the Australia-UAE CEPA will eliminate tariffs on over 99 per cent of Australia's exports to the UAE by value, making it the most liberalising FTA the UAE has agreed to date. High-level meetings, such as the Dubai Business Forum in Beijing held in August, have become essential platforms for sealing commercial deals against a backdrop of strong government support.

Which non-oil sectors have particularly benefitted from the Middle East Pivot to Asia?

Economic diversification in the GCC countries continues to create significant opportunities in infrastructure. Governments are directing unprecedented sums towards urban development, transport infrastructure and tourism. Indeed, capital spending plans of the Gulf nations total more than US$3 trillion (Halligan, 2024a).

Saudi Arabia leads in such spending commitments. Since 2016, the Kingdom has awarded US$250 billion worth of construction contracts and, last year, set a record for greenfield investments by Chinese companies in Saudi Arabia (HSBC, 2024). GCC project owners have contracted Chinese, South Korean, Japanese, Singaporean and Indian businesses, drawing on their expertise in design, construction and operation.

The energy transition is another promising area, most notably in relation to renewables infrastructure, transport electrification and new green technologies. Saudi Arabia plans to spend US$270 billion on clean energy by 2030, while the UAE's ambitions include spending of up to US$200 billion over the same period.

A huge push is underway to step up wind and solar power generation. The UAE is the regional leader in renewables, accounting for more than 60 per cent of renewable capacity in the GCC and a little less than 70 per cent of investments in renewables. Saudi Arabia is also a significant opportunity for foreign investors, accounting for more than half of energy consumption in the GCC and tendering several multi-gigawatt renewable projects.

The deployment of renewables infrastructure alongside the Gulf's hydrocarbons industries creates openings for Asian contractors, exporters and investors. From 2020 to 2023, around one-fifth (19 per cent) of Chinese investment in Saudi Arabia's energy sector was in alternative energy, according to the American Enterprise Institute's China Global Investment Tracker.

These are just some of the examples of the non-oil industries growing thanks, in part, to the strength of the GCC-Asia corridor.

Gulf capital markets continue to expand with new listings and trading products. What material progress have we seen to connect the two regions' capital markets?

For a long time, investors in developing economies deployed much of their savings in Western markets. Today, Asia's rising share of global GDP, productivity and wealth is causing these funds to reallocate themselves within the region. The traditional retail investor in emerging Asia has also grown richer and more sophisticated, with access to more asset classes, more hedging products and better advice.

In terms of Asia and the Middle East specifically, there are significant pools of investible capital in both regions, held by both the private sector and sovereign wealth funds, and they have dynamic equity markets hosting profitable companies.

In terms of comparative growth, total financial assets in Asia-Pacific (excluding Japan) are projected to grow at 8 per cent a year from 2023 to 2028 and at a rate of 9 per cent in the Middle East and Africa – both of which outpace the global average of 6 per cent.

Hong Kong's equity market offers a particularly potent source of capital for listed Middle East companies. Hong Kong Exchanges and Clearing added the Abu Dhabi Securities Exchange and the Dubai Financial Market as recognised stock exchanges, allowing companies listed on them to apply for second listings in Hong Kong.

We are in the early phases of this relationship, but we have already seen a lot of enthusiasm. For example, new Chinese ETFs tracking Saudi Arabian shares were well received on launch in Shanghai and Shenzhen.

I am confident we will continue to see more indicators of capital market development and interconnectivity between the two regions based on closer integration and a wider diversity of investors in both regions.

What are the energy transition or new economy opportunities that have most potential between the regions?

First, governments and companies on both sides of the corridor are looking to connect capital, technology and industrial capacity to find solutions to the green transition.

The role of regional investors was clear in the hosting of consecutive COP events – COP27 in Egypt and COP28 in the UAE – illustrating the leadership role the broader region can play. The COP28 Presidency made clear that the Middle East has an important role to play in supporting the transition as part of its wider economic growth agenda, and we expect this to continue to translate into greater opportunities for businesses across the trade corridor with Asia. We have seen renewable energy companies from the Middle East winning large power projects in Asia.

Second, the innovation which was once so concentrated in Silicon Valley or Shenzhen – is flourishing across more cities like Dubai, Abu Dhabi and Riyadh and extending across a broader range of industries.

2

Key Bilateral Relationships in Focus

This section examines the key Gulf-Asia bilateral relationships driving the Pivot. While falling oil prices between 2022 and 2023 decreased trade across several important corridors, the past year has seen substantial dealmaking and investment activity between the Gulf and Asia, particularly in non-oil sectors.

As Gulf-Asia economic cooperation grows, so to do bilateral political exchanges to protect and grow investments. This section explores the outcomes of several high-profile visits over the past year, including those by Indian Prime Minister Narendra Modi to Abu Dhabi and UAE President Mohammed bin Zayed to South Korea and China.

China is Asia's largest economy and naturally a key driver of the Pivot. This section delves deeper into how China's relations with the Gulf's two largest economies, Saudi Arabia and the UAE, have developed over the past year. The Saudi-China bilateral relationship is the most significant in the Pivot, amounting to US$97 billion in 2023 and overtaking the UAE-China bilateral relationship, which was in the top spot throughout 2022.
While Gulf-Asia trade has dipped, some bilateral relationships have expanded over the past year. Most notably, Hong Kong has invested considerable political capital to bolster its ties with the UAE and Saudi Arabia. This section provides granular detail on key deals signed in 2024 between key powers in Asia and the Gulf, including India, South Korea, Japan, Singapore and ASEAN.

China-Gulf ties grow more strategic despite a dip in trade

China's trade with the Gulf's two largest economies, Saudi Arabia and the UAE, declined in 2023. Saudi-China trade dipped from US$105 billion to US$97 billion, whereas UAE-China trade slipped from US$110 billion to US$93 billion. Falling oil prices account for much of this reduction. China's crude imports increased from 508 million tonnes to 554 million tonnes between 2022 and 2023, yet their value decreased from US$366 billion to US$338 billion (UN Comtrade Database, 2024). Saudi Arabia and the UAE accounted for 15.5 per cent and 7.5 per cent of China's total crude imports in 2023, respectively, so overall trade value has suffered accordingly.

Despite this dip, recent months have seen China's relations with Saudi Arabia and the UAE grow more strategic and deepen politically. In August 2023, the BRICS group announced it was inviting six new countries to join: Saudi Arabia, the UAE, Egypt, Iran, Ethiopia and Argentina. In January 2024, the UAE officially joined BRICS as a full member. Saudi Arabia has not formally joined yet but is attending meetings.

Ralph Gonzalez Recto, the Philippines' Secretary of Finance, in a briefing with Asia House Corporate Members, moderated by Asia House Chief Executive Michael Lawrence OBE.

The most recent BRICS Summit in Russia in October 2024 was attended by Saudi Minister of Foreign Affairs Prince Faisal bin Farhan and UAE President Mohammed bin Zayed. Closer ties to BRICS puts the two largest Gulf economies closer to Chinese-influenced geopolitical organisations and alliances, increasing their involvement in strategic discussions led by Beijing. Saudi and UAE membership of BRICS could offer new avenues for economic and political collaboration with China and India.

The RMB's growth as a global trade currency also enhances China's sway in the Gulf. In July 2024, the RMB's share in global payments reached an all-time high of 4.74 per cent compared with 2.2 per cent two years earlier (Swift, 2024). As Gulf-China trade increases, there will be a greater incentive to settle in RMB. This could boost trade by making it cheaper and more efficient. It would also reduce costs associated with converting currencies into US dollars before executing a trade and mitigating some currency settlement risk. The past several months have seen RMB-denominated Gulf-China trade develop. Most notably, in November 2023, China and Saudi Arabia signed their first local currency swap agreement, a deal worth US$7 billion (Abuljadayel and Liu, 2023). In April 2024, Saudi renewables firm ACWA Power secured a US$80 million loan from the Bank of China. This was the first RMB loan deal between a Chinese Bank and a Saudi firm. 50 per cent of the loan is in RMB, and the rest in US dollars (Sambidge, 2024b). In June 2024, Saudi Arabia joined mBridge, a Chinese-led digital currency project in which the UAE is already involved. The project could lead to instant cross-border payments and settlement between the central banks of Saudi Arabia, the UAE, China, Thailand and the Hong Kong Monetary Authority (HKMA), including using China's Central Bank Digital Currency (CBDC), the e-CNY.

Gulf states do have some considerations to weigh in conducting trade in RMB. The currency is more volatile than the US dollar, so using it could possibly undermine their fiscal outlooks and their ability to deploy capital abroad. It could also weaken Gulf central banks' existing US dollar pegs. There will also be limits to the RMB's internationalisation. RMB financial instruments lack depth and quantity. For example, limitations within China's financial derivatives market make it more difficult to hedge against potential RMB volatility. The RMB is still far from challenging the US dollar's dominance. In August 2024, the dollar's share of global payments reached 49.1 per cent, a 12-year high (Rolfe, 2024). For the foreseeable future, the dollar will be easier to deploy abroad than the RMB – a reality that will play into Gulf SWF's decision-making on how much RMB they hold.

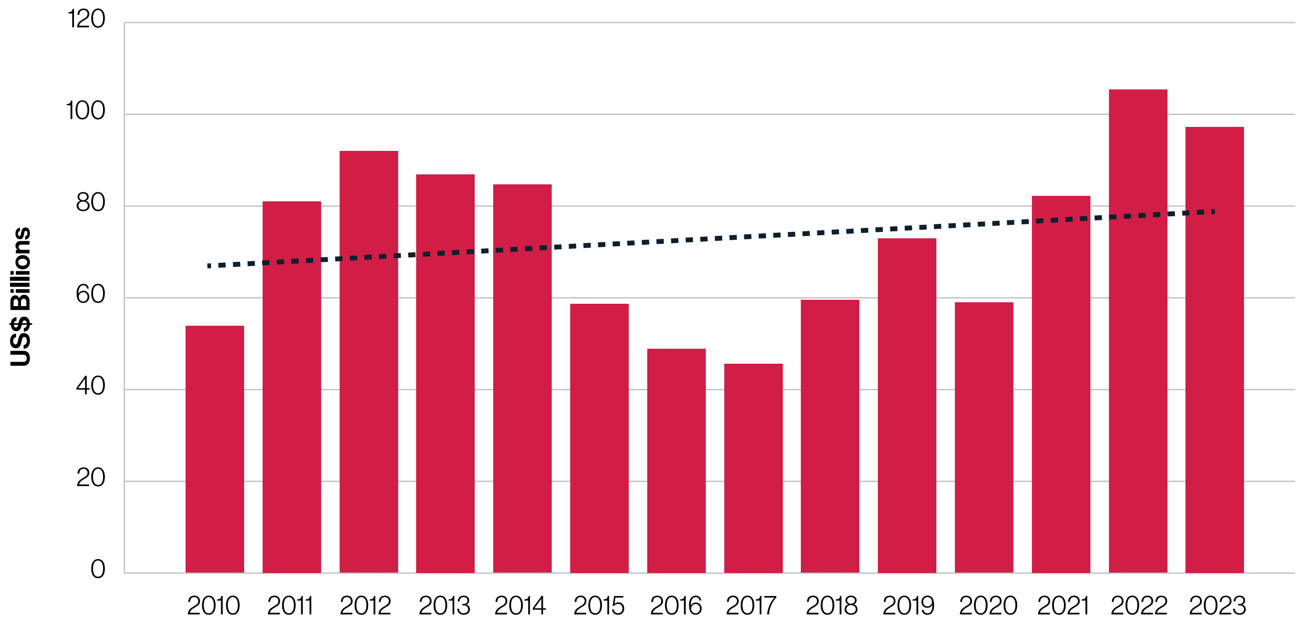
Nevertheless, the increasing internationalisation of the RMB is a key trend to monitor. China hopes its Gulf trade will advance to the point that regional states start accepting payment for oil in RMB. While there is a long way to go before the petroyuan competes with the petrodollar, there has been some movement to trade hydrocarbons in RMB. For example, in April 2023, Abu Dhabi National Oil Company (ADNOC) completed the Gulf's first cross-border RMB-settled LNG trade with China.

The RMB's internationalisation and signs of increased RMB-denominated trade could deepen Gulf-China economic cooperation. Currently, most cross-border transactions are processed via SWIFT, but China has introduced its own Cross-Border Interbank Payment System (CIPS) to conduct trade in RMB. As of October 2024, CIPS had 160 direct and 1,413 indirect participants (CIPS, 2024). This compares with 119 direct participants and 1,362 indirect participants a year earlier (CIPS, 2023). As CIPS expands, so too will the internationalisation of the RMB. Internationalisation may accelerate as China's CBDC (eCNY) develops and its bond market liberalises and digitises.

The Saudi-China relationship is the Pivot's most significant relationship

Saudi-China trade has grown consistently since 2010, at an annual average rate of 7.4 per cent. Despite a slight contraction in trade in 2023, Chinese investment in the Kingdom has increased dramatically. China's greenfield FDI in Saudi Arabia grew tenfold to nearly US$17 billion in 2023, making China the Kingdom's top greenfield FDI investor (Arab News, 2024c). In contrast, the US accounted for US$2.7 billion. The gap between Saudi-China trade and Saudi-West trade is narrowing. Saudi-West trade remained flat between 2022 and 2023 at around US$113.7 billion, leaving it just US$16.7 billion ahead of Saudi-China trade. China's rising investment in the Kingdom will generate future trade growth, and we expect Saudi-China trade to overtake that with the West over the next few years.

Figure 9:
Saudi-China trade (2010-2023)



Several notable commercial deals were signed in 2024. The most significant was in August, when the Saudi SWF the Public Investment Fund (PIF) signed a memorandum of understanding (MoU) worth up to US$50 billion with six Chinese financial institutions (Dutton, 2024). The deal followed a meeting a month earlier between Chinese Commerce Minister Wang Wentao and PIF Governor Yasir Al-Rumayyan, who led a large Saudi delegation to Beijing (ibid.). The contract is worth 1.5 times China's total 2023 FDI inflow (Xie, 2024). Given China's dampened growth prospects, this cements the Kingdom as a valued partner for China.

In July 2024, there was a major development for Saudi-China people-to-people exchanges when the Approved Destination Status bilateral agreement came into effect (Arab News, 2024d; Saudi Tourism Authority, 2024). Chinese tourists can now obtain a visa on arrival in the Kingdom and use Chinese digital payment methods at Saudi airports and tourist attractions (HKTDC, 2024a). The Saudi Air Connectivity Programme will also lead to more regular flights between China and Riyadh. China Southern Airlines and China Eastern Airlines started flying to Riyadh in April 2024 and Air China in May 2024 (Casey, 2024). The Kingdom has stated its goal to position China as its third-largest source market for international arrivals by 2030 (Arab News, 2024d). Other deals signed between China and Saudi Arabia during 2024 include:

- → In February, China Railway Construction Corporation and SAMA Construction won a US$1.8 billion contract to construct Jeddah Stadium and four surrounding sports villages for the 2034 World Cup (Chang et al., 2024).
- → In February, China Harbor Engineering Co. landed a US$1.4 billion contract from PIF's Jeddah Central Development Company to build an Oceanarium and Opera House (ibid.).
- → In May, CITIC Construction Group partnered with Saudi Arabia's National Housing Company to build 12 factories producing construction materials. The deal was signed during a visit to China by Saudi Arabia's Minister of Municipalities, Rural Affairs and Housing, Majid Al-Hogail (EqualOcean News, 2024).

- In June, Sinopec signed a US$1.1 billion deal to build pipelines for Aramco to expand LNG distribution across the Kingdom (Reuters, 2024b).

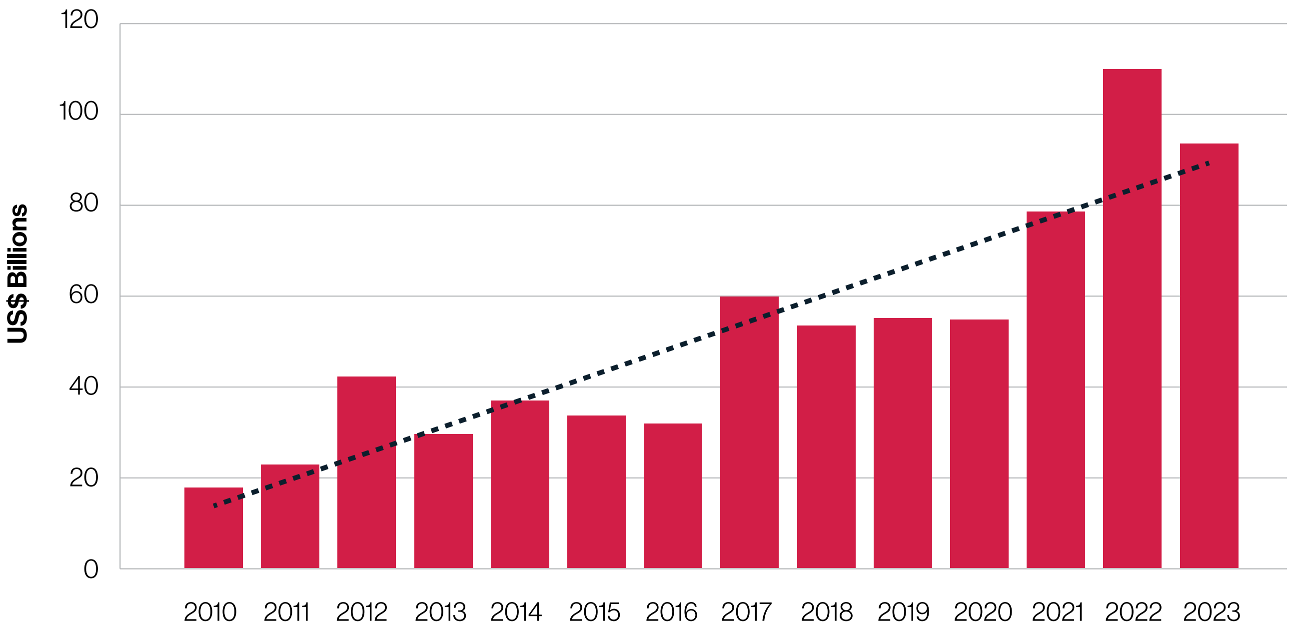
- In July, a partnership between China State Construction Engineering and El Seif Engineering was awarded a US$2 billion contract for the Saudi giga-project Diriyah Gate. The project will involve building educational institutions, cultural venues, a luxury hotel and offices.

- In October, King Salman International Airport Development Company (KSIADC) signed an agreement with PIF-backed ewpartners to establish a special economic zone to increase trade with China (Halligan, 2024b). The KSA-Sino Logistics Zone in Riyadh aims to attract over 3,000 wholesalers and 200 light industrial manufacturers from China and elsewhere in Asia (ibid.). This will improve Saudi-China logistical and e-commerce connections and support the Kingdom's aim of becoming a global logistics hub.

Mohammed bin Zayed's 2024 China visit lays groundwork for future growth

UAE-China trade growth has accelerated since 2010, at an annual average growth rate of 18.7 per cent up to 2023. Although trade fell from a record high of US$110 billion in 2022 to US$93 billion in 2023, it remains near record levels. UAE-China ties have continued to develop during 2024, with a highlight being the visit of President Mohammed bin Zayed to China, part of the Arab States Cooperation Forum in Beijing in May. Mohammed bin Zayed met President Xi Jinping to discuss expanding existing cooperation under the UAE-China Comprehensive Strategic Partnership, including in EVs, advanced manufacturing, biomedicine and the digital economy (The National, 2024a). The two presidents witnessed the signing of several MoUs and agreements relating to the Belt and Road Initiative (BRI), investment, technology, tourism and sustainability (ibid.). A UAE-China Business and Investment Forum also took place during the visit, with the UAE's Minister of State for Foreign Trade Dr Thani Al-Zeyoudi holding talks with China's Commerce Minister, Wang Wentao. 12 agreements and MoUs were signed during the forum across sectors including aluminium, communications, iron and steel, financial services, aviation, free zones and industry (Emirates News Agency, 2024a).

Figure 10:
UAE-China trade (2010-2023)



HE Dr. Thani Al Zeyoudi, the UAE's Minister of State for Foreign Trade, in a briefing with Asia House Corporate Members in Jakarta, moderated by Asia House Chief Executive Michael Lawrence OBE.

The UAE is working to attract more investment from China. The Abu Dhabi Investment Office (ADIO) opened its Beijing office in 2021 and has had some success (Cabral, 2023). According to UAE Minister of Investment Mohamed Alsuwaidi, China's investment there rose by 16 per cent to US$1.3 billion in 2023, comprising 60 per cent of China's total investment in Arab countries (Emirates News Agency, 2024a). The UAE meanwhile increased its investment in China by 120 per cent, accounting for 90 per cent of Arab countries' total investment in China (Rahman, 2024a). But there have been signs in 2024 that cooperation in AI is being curtailed following US pressure. This is discussed in greater detail in Section Five.
Other deals signed between China and the UAE during 2024 include:

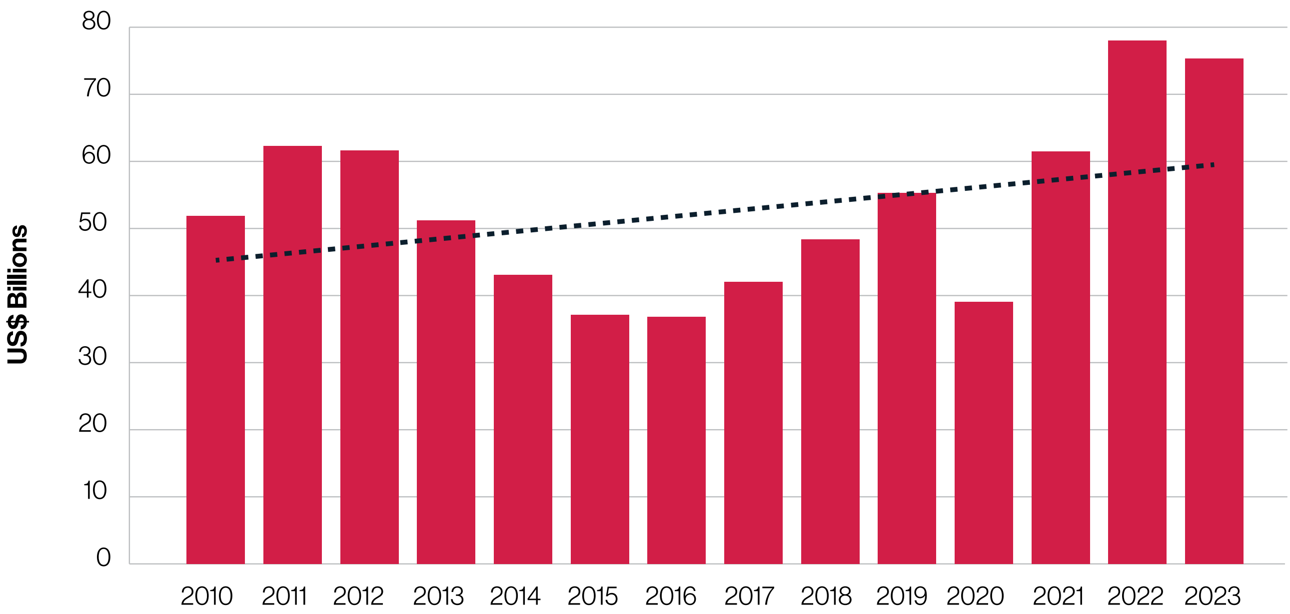
- In July, Etihad Cargo and China's SF Express airlines inaugurated an Abu Dhabi-Shenzhen freighter service. They agreed to increase the number of flights between their main hubs, Abu Dhabi and Ezhou, boosting trade (Al Helou, 2024).
- In August, Dubai Chambers signed MoUs with the Bank of China and the Industrial and Commercial Bank of China (ICBC) to enhance collaboration and cooperation with Chinese business communities (Emirates News Agency, 2024b).
- In August, Abu Dhabi-based investment company Mubadala and Asia's CBC Group acquired UCB Pharma's unit in China for US$680 million. The deal is expected to be finalised in Q4 2024 (Khan, 2024c).
- In September, AD Ports Group awarded a US$114.35 million contract to China's Shanghai Zhenhua Heavy Industries Co. to supply cranes for its terminals in the Republic of Congo and Angola (Zawya Projects, 2024a).
- In November, Dubai's Hodler Investments entered a partnership with China's GCL Group and signed a JV to develop a 200MW energy project supporting data centres in Ethiopia (Zawya Projects, 2024b).

The UAE-India bilateral relationship: continued cooperation

UAE-India trade fell from US$78 billion to US$75.3 billion between 2022 and 2023, and Saudi-India trade fell from US$51.87 billion to US$41.63 billion. While Saudi-India trade remains largely based around hydrocarbons, UAE-India trade has diversified into non-oil sectors. The relationship has also become more strategic with the signing of the 2022 CEPA, which reduced tariffs and non-tariff barriers to trade across key sectors. Figure 11 shows that the UAE-India bilateral trade relationship has grown consistently at an average annual rate of 5.1 per cent between 2010 and 2023.

Indian Prime Minister Narendra Modi visited the UAE in February 2024. He signed an agreement enabling the operation of the India-Middle East-Europe economic corridor, first announced at the 2023 G20 summit in New Delhi (Arabian Business, 2024b). The corridor is a shipping and railway project linking Europe and the Middle East to India. The agreement, announced between India and the UAE, alongside the US, Saudi Arabia and the EU, should strengthen India-Gulf cooperation in ports and logistics. Modi met Mohammed bin Zayed during his visit and they discussed bolstering the UAE-India CEPA and strengthening cross-border remittance networks (Arabian Business, 2024c).

Figure 11:
UAE-India trade (2010-2023)



The UAE-India CEPA has boosted bilateral non-oil trade but hit an obstacle in 2024: India reportedly wants to revisit particular terms following a 210 per cent surge in UAE imports (Cornwell and Acharya, 2024). Under the CEPA, the UAE enjoys a 1 and 7 per cent tariff on gold and silver imports, respectively. India is also seeking to close a loophole that stipulates metals with just 2 per cent platinum can be classified as platinum, allowing material containing 98 per cent gold to be imported without any duties (Merani, 2024a).

Still, UAE-India relations continue to thrive. In January 2024, Dubai's DP World announced plans to invest US$3 billion in Gujarat, India, over the next three years to develop new ports, terminals and economic zones (Kumar, 2024b). At the India-UAE Business and Investment Forum in Mumbai in September 2024, which was attended by Abu Dhabi Crown Prince Sheikh Khaled bin Mohamed, private sector firms landed several deals, including (TradeArabia, 2024):

- G42 launched an open-source Hindi LLM, Nada, to support the growth of India's AI ecosystem.
- LuLu Group and India's Agricultural and Processed Food Export Development Authority agreed to source and import Indian organic produce into the UAE.
- AD Ports Group and India's Ministry of Ports, Shipping and Waterways agreed to develop a virtual UAE-India trade corridor.
- The Abu Dhabi Chamber of Commerce and Industry and the Confederation of Indian Industry agreed to enhance private sector investment opportunities.
- The UAE's International Resources Holding and Oil India Limited signed a strategic partnership to cooperate in the mining sector.
- UAE trade facilitation company Rorix Holding and Indian logistics company Adani Ports and Special Economic Zone Limited agreed to integrate advanced technology into Indian infrastructure.

As UAE-India trade has increased, there has been a greater push for more rupee-dirham payments. India's Central Bank is reportedly pressing for this, encouraging Indian lenders to settle at least part of their payments to the UAE using rupees and dirhams (Hamill-Stewart, 2024). Eliminating US dollar conversion transaction fees would reduce trade costs, encouraging growth.

UAE-India trade has been boosted by the two countries' geographic proximity and the CEPA, which cut red tape and lowered tariffs by 90 per cent. As explored in Section Three, India's growing energy demand will drive the Gulf-India hydrocarbons trade. In 2023, India became the world's most populous country with a total population of 1.4 billion. This and expected growth in middle classes demanding digital and other services, make India an attractive destination for UAE investment. India's ties to other Gulf countries also continue to develop. India and Oman are in the final stages of negotiating a trade deal. India-Oman trade more than doubled from US$2.1 billion to US$5.5 billion between 2022 and 2023. Oman is strategically important to Asian energy security because it bypasses the Strait of Hormuz—a maritime chokepoint that Saudi, Emirati and Qatari hydrocarbons flow through (Acharya, 2024). Given the slow progress on an India-GCC trade deal, India has shifted to seeking bilateral deals with members such as Oman and the UAE.

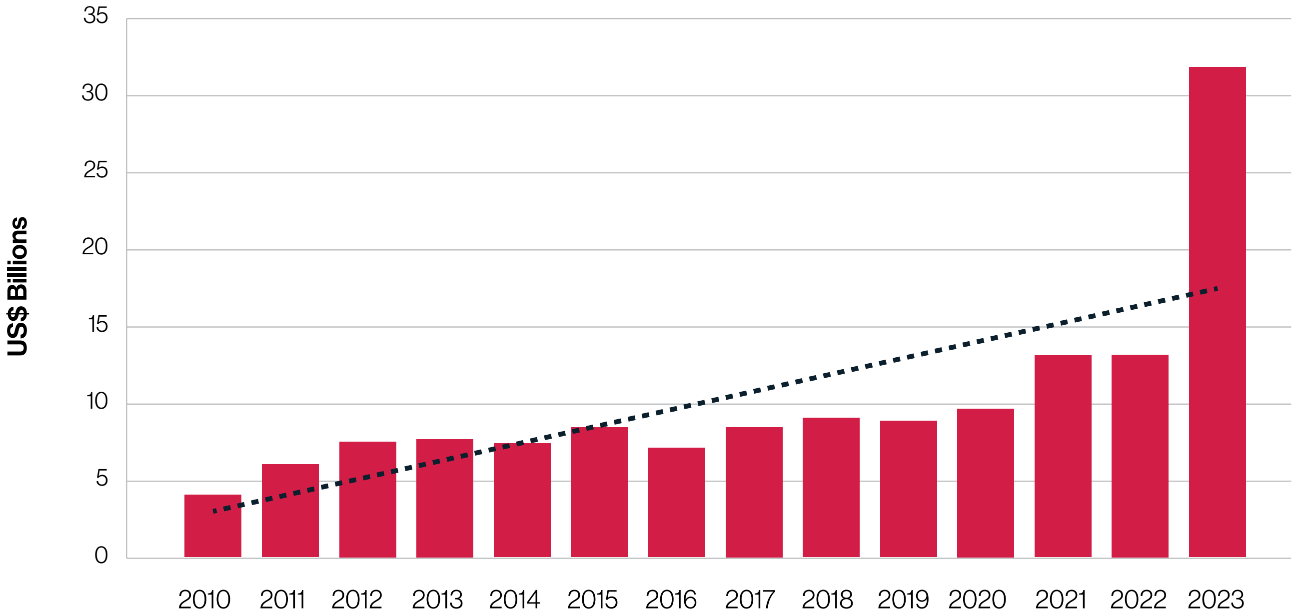
Hong Kong-Gulf trade and investment surges

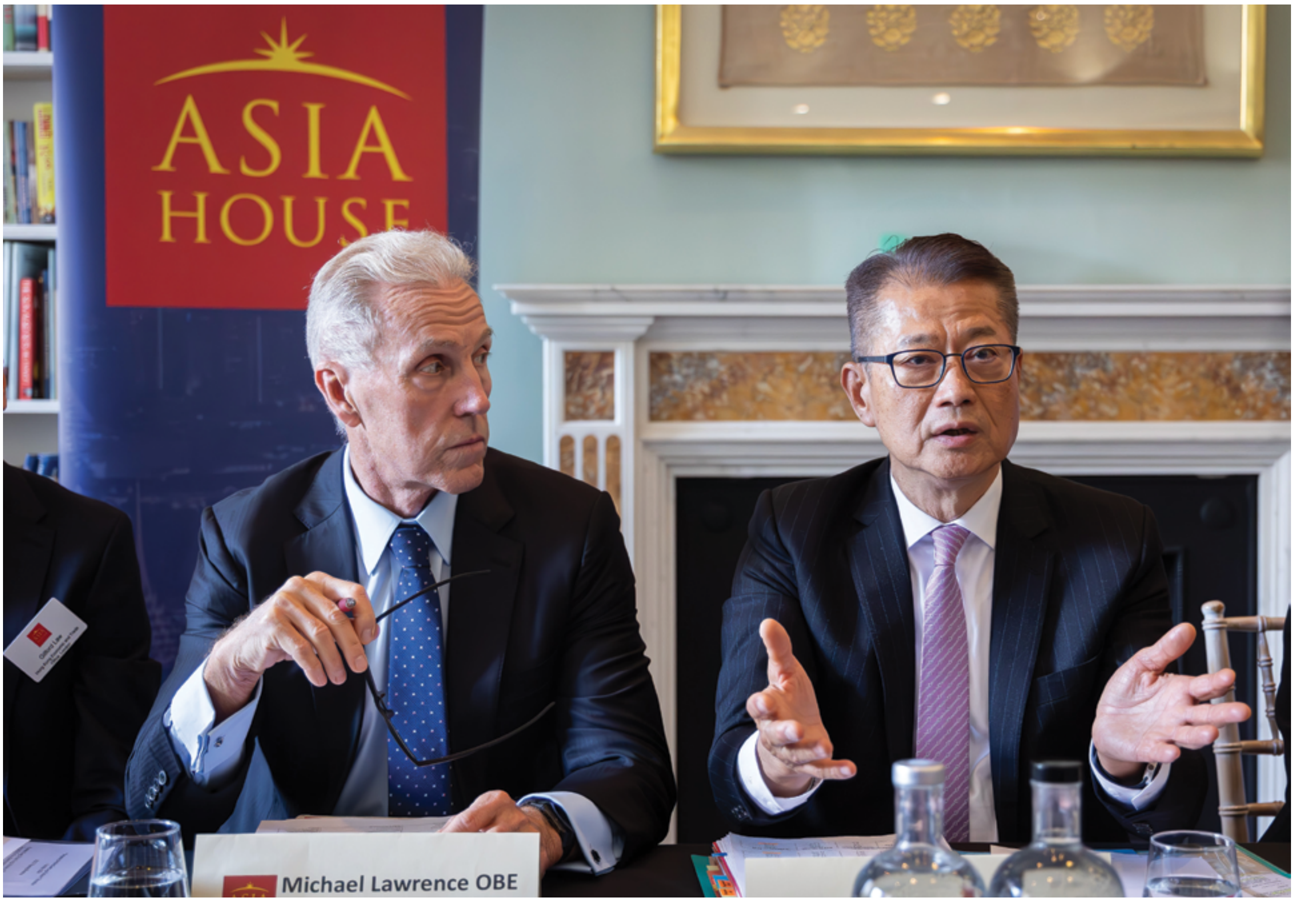
Hong Kong-Gulf trade has nearly tripled since the landmark visit of Hong Kong Chief Executive John Lee to the UAE and Saudi Arabia in February 2023. It surged from US$13 billion in 2022 to a record high of around US$32 billion in 2023. Trade has grown at an average annual rate of 21.7 per cent between 2010 and 2023.

Hong Kong is working to position itself as a Gulf investment and business destination. It is expanding its Islamic finance offerings, deepening Gulf SWF collaboration and launching ETFs specifically designed for Gulf investors to enhance capital market connectivity. It is also increasing Arabic-language services and promoting Halal food options to encourage Gulf tourism. The Gulf is similarly interested in tapping into Hong Kong's status as Asia's top capital market and as a gateway into mainland China and wider Asia.

Figure 12:

Hong Kong-Gulf trade (2010-2023)





Paul Chan Mo-po, Hong Kong's Financial Secretary, in a briefing with Asia House Corporate Members, moderated by Asia House Chief Executive Michael Lawrence OBE.

The Hong Kong-UAE relationship accounts for most of Hong Kong-Gulf trade. Trade between the two has nearly tripled from US$11.2 billion in 2022 to US$29.3 billion in 2023. Trade with the Gulf beyond the UAE is also flourishing. Hong Kong-Qatar trade almost doubled from US$329.71 million to US$621.31 million. Saudi-Hong Kong trade rose slightly from US$1.3 billion to nearly US$1.4 billion, but future trade is likely to be boosted by Hong Kong's engagement at the Future Investment Initiative (FII) in October 2024, which saw several significant deals signed. Hong Kong Financial Secretary Paul Chan travelled to Riyadh for FII and witnessed the signing of several deals, including:

- → HKMA and PIF agreed to establish a new investment fund of up to US$1 billion to invest in manufacturing, renewables, fintech and healthcare (Hong Kong Monetary Authority, 2024).
- → The Hong Kong Science and Technology Parks Corporation (HKSTP) and Saudi Arabia's FII Institute signed an MoU to facilitate companies setting up in Hong Kong and Saudi Arabia (HKSTP, 2024).
- → HKSTP and Beta Lab, a Saudi Venture Capital (VC) firm, signed a strategic cooperation agreement to provide Hong Kong fintech companies with financing via a new US$300 million investment fund. Knowledge and expertise will also be shared in AI, biotechnology and green technology (Yiu, 2024a).
- → Cathay Pacific announced it would resume direct flights between Hong Kong and Riyadh, which were stopped in 2017 (Cathay Pacific, 2024). Riyadh Air and Cathay Pacific also began talks on a code-sharing accord to fly passengers to more destinations (Yiu, 2024b).

Hong Kong is particularly attracted to the Gulf as a source of investment and liquidity for its capital markets. As explored further in Section Six, 2024 has seen the development of greater capital market connectivity between Hong Kong and the Gulf. In October 2024, Saudi Arabia listed its first ETF tracking Hong Kong-listed shares on the Saudi Stock Exchange (Zhen, 2024). Once listed, the Albilad CSOP MSCI Hong Kong China Equity ETF became the Middle East's largest, raising US$1.2 billion (Xinhua News Agency, 2024). It will allow Saudi Investors to trade Hong Kong equities directly. Asia's first ETF tracking Saudi equities debuted in Hong Kong in November 2023. At FII, Hang Seng Bank announced it would work with SAB Invest to create a new feeder ETF that fully invests in the Tracker Fund of Hong Kong, which tracks Hong Kong's largest shares (Yiu, 2024a). These ETFs increase capital market access for Gulf and Asian investors and are becoming a key mechanism driving the Pivot. Beyond FII, Hong Kong-Gulf cooperation has deepened in the following ways recently:

- → In November 2023, Hong Kong's Arte Capital Group announced it would open its first overseas office at ADGM and launch a US$1 billion fund to help Chinese companies in the Gulf (Cabral, 2024).
- → In May 2024, Joseph Chan, Hong Kong's Under-Secretary for Financial Services and the Treasury, attended the Dubai FinTech Summit, where he noted Hong Kong was a gateway for Chinese companies into the Gulf and Africa.
- → In July 2024, InvestHK signed an MoU with the Abu Dhabi Chamber of Commerce and Industry to collaborate on investment promotion exchanges and mutual support (InvestHK, 2024).
- → In September 2024, HKMA and the Dubai Financial Services Authority (DFSA) signed an MOU to advance sustainable finance (HKTDC Research, 2024b).

UAE-South Korea relations flourish during Mohammed bin Zayed's visit

UAE-South Korean trade rose by more than 5 per cent between 2022 and 2023, from US$18.9 billion to US$19.9 billion and ties have recently blossomed. South Korean President Yoon Suk Yeol's visit to the UAE in early 2023 saw the latter pledge US$30 billion to invest in South Korea's nuclear, defence, hydrogen and solar energy sectors (Kim and Yim, 2024). This was followed by President Mohammed bin Zayed's visit to South Korea in May 2024. The UAE-South Korea CEPA was formerly signed during the visit (Benny, 2024). The CEPA cut import duties and forged closer business and investment ties to boost trade (Kim and Yim, 2024). All tariffs on South Korean arms exports will be removed (Reuters, 2024c). The UAE will also drop automobile import duty over the next decade in return for South Korea removing oil tariffs. The deal will eventually lead to both sides removing over 90 per cent of tariffs.

During the visit, Sheikh Mohammed met leaders from South Korea's largest conglomerates, including Samsung Electronics' Jay Y. Lee, SK Group's Chey Tae-won and Hyundai's Eui-sun Chung (Kim, 2024). Other developments during the visit included:

- → DMCC signed an MoU with Seoul Business Agency to boost support and assistance to startups and entrepreneurs. DMCC is home to half of the UAE's Korean businesses, hosting 100 companies (Zawya, 2024a).
- → ADNOC signed a letter of intent with Hanwha Ocean and Samsung Heavy Industries to receive at least six LNG carriers worth an estimated US$1.5 billion (Kim and Yim, 2024).
- → Mubadala signed an MoU with the South Korean Ministry of Economy and Finance to invest US$6 billion in expanding their investment cooperation framework (ibid.).

Asia House Chief Executive Michael Lawrence OBE moderates a panel on 'How BRICS is reshaping the physical precious metals trade' at DMCC's Dubai Precious Metals Conference 2024.

As for Saudi-South Korean relations, Aramco's US$500 million VC arm, Wa'ed Ventures, invested US$15 million in South Korean startup and chipmaker firm, Rebellions (Arab News, 2024e). The fund's first such investment will enable Rebellions to accelerate AI chip development and expand into the Kingdom. Defence ties have also expanded. In February 2024, an MoU was signed to establish a joint working group on weapons production (Reuters, 2024d). In the same month, South Korean defence firm LIG Nex1 won a US$3.2 billion deal to provide the Kingdom with a mid-range surface-to-air missile defence system (Reuters, 2024e).

More broadly, Gulf-South Korea ties will benefit from the GCC-South Korea FTA that was signed in December 2023. It was the GCC's second trade deal of 2023 after one with Pakistan and came shortly after the conclusion of UAE-South Korea CEPA negotiations. The agreement will see South Korea scrap tariffs on almost 90 per cent of products, including LNG, while the GCC will remove duties on 76.4 per cent of products and 4 per cent of traded goods (Uppal and Elimam, 2023). The FTA will also streamline trade via mutual provisions on government procurement, SME cooperation, customs procedures and intellectual property (IP) (ibid.).

Saudi-Japan business summit fosters cooperation

A Saudi-Japan business forum was held in Tokyo in May 2024 with Saudi Arabia's Energy Minister Abdulaziz bin Salman, Investment Minister Khalid Al-Falih, and Minister of Communications and Information Technology Abdullah Alswaha attending (Ministry of Economy, Trade and Industry, 2024).

Yoshitaka Shindo, Japan's Minister of State for Economic and Fiscal Policy in a briefing with Asia House Corporate Members moderated by Asia House Director of Corporate Affairs Charlie Humphreys.

More than 30 MoUs were signed at the event, covering manufacturing, healthcare, finance and tourism. They included deals between Aramco and Japanese refiner Eneos Holdings, Japan's Sumitomo Mitsui Financial Group and Mizuho, and also Saudi Arabia's ACWA Power (Burke and Nohara, 2024). Marubeni Corporation and Saudi Power Procurement Company signed a Power Purchase Agreement (PPA) on the Kingdom's largest wind project (Ministry of Economy, Trade and Industry, 2024).

As explored further in Section Six, PIF has recently increased its focus on Japan. The low yen has given Japanese equities more attractive valuations, and PIF has invested in technology and gaming firms to boost its domestic gaming sector. In February 2023, PIF purchased a 5 per cent holding in Japanese video game firm Capcom and increased its stake in Japanese gaming giant Nintendo from 7.08 per cent to 8.26 per cent. A month later, PIF increased its stake in Japanese entertainment company Toei Company from 5 per cent to 6.03 per cent (Asia House, 2023).

Japan's ties with the UAE are also set to expand, with an agreement to commence CEPA negotiations in September 2024 (Kamel, 2024a). Japan-UAE trade was around US$45 billion in 2023.

Recent developments in Singapore-Gulf ties

Following Singaporean Prime Minister Lee Hsien Loong's visit to Saudi Arabia in October 2023, there have been several ministerial visits between the two countries. In March 2024, Singapore's Minister for Home Affairs and Law, Kasiviswanathan Shanmugam, visited Saudi Arabia and met Attorney General Saud Al-Mujab (Saudi Press Agency, 2023). In August 2024, Saudi Justice Minister Dr Waleed Al-Samaani visited Singapore and met with minister Shanmugam (Bahrain News Agency, 2024). In September 2024, Saudi Arabia's Minister of Industry and Mineral Resources, Bandar Alkhorayef, met Singapore's Minister of Manpower and Second Minister for Trade and Industry, Tan See Leng, as part of Alkhorayef's tour of Asia, including China (Saudi Press Agency, 2024). They discussed Saudi investment opportunities and strengthening industrial cooperation, specifically in automation, smart manufacturing and human capacity development (Saudi Gazette, 2024a). The latter chimes with Saudi Arabia's shift from relying on foreign labour to investing in domestic talent, localisation and automation.

Singapore-UAE commercial ties continue to grow, particularly in real estate. UAE property development firm DAMAC has recently begun expanding into Asia. In May 2024, it opened an office in Singapore (DAMAC Group, 2024). It also established an office in Shanghai in December 2023 and in Beijing in May 2024. Singapore's Mapletree Investments, a property development firm and unit of Singapore's Temasek, announced plans in July 2024 to open an Abu Dhabi office (Zawya, 2024b).

Developments in Gulf-ASEAN ties

After a couple of years of double-digit growth, Gulf-ASEAN trade dipped by around 17 per cent from US$134 billion in 2022 to US$111 billion in 2023. Trade, however, grew at an average annual growth rate of around 6 per cent between 2010 and 2023.

The UAE-Indonesia relationship, in particular, is emerging as a key corridor. In May 2024, Prabowo Subianto, then Indonesia's president-elect, visited the UAE to meet Mohammed bin Zayed and discuss defence and security cooperation (Tanamal, 2024). In July 2024, Indonesia's then-President Joko Widodo made a state visit to the UAE, with discussions centring on bolstering strategic ties through their CEPA agreement, signed in July 2022, and in nuclear energy, investment and financial services (Emirates News Agency, 2024c; The National, 2024b). Despite this CEPA, trade has dipped from a record high of US$5.9 billion in 2022 to US$4.3 billion in 2023.

The UAE continues to broker CEPAs throughout ASEAN. It has signed CEPAs with nearly half of ASEAN's powers in just over two years. It signed one with Malaysia in October 2024. Malaysia's Minister of Investment, Trade and Industry, Tengku Zafrul Aziz, said the deal would boost trade by removing tariffs on strategic Malaysian imports such as electronics, jewellery, fruits, palm oil and rubber (Halligan, 2024c). It was Malaysia's first trade deal in the Gulf and follows UAE CEPAs with Indonesia and Cambodia. Soon afterwards, the UAE and Vietnam also signed a CEPA, Vietnam's first Middle East trade deal. Under the agreement, the UAE will eliminate tariffs on 99 per cent of Vietnamese trade while Vietnam will remove 98.5 per cent of tariffs on imports from the UAE (Reuters, 2024f). CEPA negotiations with the Philippines are ongoing.

In recent years, GCC-ASEAN relations have become more formalised through political and economic cooperation frameworks. A significant milestone was the inaugural ASEAN-GCC Summit held in October 2023 in Riyadh. It was co-hosted by Indonesia's President Joko Widodo and Mohammed bin Salman. The next summit will take place in Malaysia in 2025, focusing on enhancing trade, investment and intra-regional market integration. Malaysian Prime Minister Anwar Ibrahim called for the two regions to begin FTA negotiations during the 2023 summit, which suggests this could be on the 2025 agenda.

Some recent Gulf-ASEAN investment and commercial deals include:

- In July 2024, the Saudi Authority for IP (SAIP) and Indonesia's Directorate General of IP signed an MoU to deepen IP cooperation (Front Row, 2024).
- In July 2024, Thailand's Board of Investment opened its first Middle East office in Saudi Arabia, which will focus on attracting Saudi investment into targeted Thai industries and supporting Thai entrepreneurs looking to invest in the Middle East (Merani, 2024b). This follows a recent spate of Saudi-Thai cooperation following the restoration of diplomatic ties in 2022 after a three-decade dispute.
- In July 2024, DIFC and Indonesia's Nusantara Capital City Authority signed an MoU to develop Indonesia's Nusantara Financial Centre (DIFC, 2024a). The UAE has already invested considerably in Indonesia's new capital, Nusantara.
- In August 2024, Indonesia's state-owned electricity company, Perusahaan Listrik Negara (PLN), signed a PPA with Saudi Arabia's ACWA Power to develop the Saguling Floating Solar Project in Indonesia's West Java province (Lai, 2024). This is ACWA Power's first project of its kind. The PPA builds on a 2023 announcement that ACWA Power would work with PLN and Indonesian chemicals company Pupuk Indonesia on a green hydrogen project, due to start operations in 2026 (ibid.).
- In September 2024, Abu Dhabi awarded Malaysia's Petronas an oil and gas exploration concession covering 7,320 square km in the Al Dhafra region (Kumar, 2024c).

Interview with Paul Chan Mo-po, Financial Secretary of Hong Kong SAR

Mr Chan is a Certified Public Accountant. He is a former President of the Hong Kong Institute of Certified Public Accountants.

Before joining the Government, Mr Chan held a number of public service positions including member of the Legislative Council and Chairman of Legal Aid Services Council.

Mr Chan served as Secretary for Development from July 2012 to January 2017. He has been Financial Secretary since 2017.

Our report finds that Hong Kong-Gulf trade has nearly tripled since Hong Kong Chief Executive John Lee visited the UAE and Saudi Arabia in February 2023. What accounts for this surge? Do you expect this trend to continue?

In 2023, Hong Kong's total merchandise trade with GCC countries reached US$22 billion. This marks an increase of 10.8 per cent compared to 2022 and a remarkable 34 per cent compared to 2021. Notably, this growth has accelerated from an average annual increase of just 2.9 per cent during the five years leading up to the pandemic (2015-2019).

To foster closer ties with these economies, the Chief Executive as well as myself and other key officials from the HKSAR Government have visited the Gulf. Our goal was to strengthen trade, investment and people-to-people connections. We highlighted Hong Kong's unique advantages under the "one country, two systems" framework, particularly our strategic role in linking markets and investment opportunities in China and Asia with the rest of the world. We actively promoted the "Hong Kong brand", showcasing our top-tier financial and professional services; excellent project design, construction and management services; innovative solutions by our tech sector; extensive international networks; business practices that adhere to the best global standards, and more.

Many Gulf countries are working to diversify their economies, as seen in initiatives like Saudi Arabia's Vision 2030. They are also looking to diversify their investments geographically, particularly to Asia which is fast rising as a key economic powerhouse. Hong Kong is ideally positioned as a gateway and platform for the Gulf countries to expand their market presence in this part of the world to facilitate their business expansion and investments into this region.

Looking ahead, we anticipate that our trade, investment and cultural relationships with the Gulf countries will continue to strengthen.

You were recently in Riyadh for the Future Investment Initiative. What does the future hold for Saudi-Hong Kong ties?

Saudi Arabia's Vision 2030 seeks to transform the country through industrial diversification, green transition, digitalisation, and more. This resonates well with our country's far-reaching Belt and Road Initiative and Hong Kong's own strengths and advantages. In many areas, Hong Kong can contribute to Saudi Arabia's development, creating mutually beneficial opportunities.

Building on the solid foundation laid by the entire Hong Kong SAR Government team, I led a 100-strong delegation to Riyadh in October 2024. We made good progress in a number of fronts, including:

→ **Launch of ETFs:** We celebrated the listing of two ETFs on the Saudi Exchange tracking Hong Kong stocks, one of which has become the largest ETF in the Middle East.

→ **Co-investment fund with Saudi Arabia's PIF:** HKMA and PIF signed an agreement to establish a US$1 billion investment fund aimed at investing in the enterprises from Hong Kong and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) expanding into Saudi Arabia.

→ **Institutional cooperation:** HKSTP and the Hang Seng Indexes Company Limited each signed cooperation agreements with their Saudi counterparts, namely the FII Institute and the Saudi Tadawul Group, to enhance collaboration, knowledge sharing and capacity building.

→ **Startup partnerships:** Several Hong Kong startups signed MoUs with Middle East enterprises to explore joint ventures; another startup signed business deals with its local partners.

→ **Regulatory cooperation:** Financial regulators from both regions have agreed to explore further collaboration in product and services development, talent training and regulatory matters.

These outcomes highlight the significant breadth and depth of our bilateral cooperation. Our partners in Saudi Arabia do recognise the value of the "Hong Kong brand". We see more exciting opportunities to further enhance our financial connectivity, foster innovation and technology collaboration, cooperate on the digital economy and green transition, and strengthen people-to-people exchanges.

Which sectors do you see as having the most significant growth potential in terms of trade and investment between Hong Kong and the Gulf? How is Hong Kong positioning itself as an investment destination and capital market for Gulf investors?

One area with tremendous growth potential between Hong Kong and the Gulf countries is financial services. We will open up more conduits of financial connectivity and encourage companies in the region to list on the Hong Kong Stock Exchange. We will also support cross-listing and trading of a wider range of financial products such as ETFs, REITS (real estate investment trusts), etc. Other areas such as asset and wealth management, family offices, fintech, and green and sustainable finance, also show great promise.

With the increasing use of the RMB in trade settlement, Hong Kong's offshore RMB services will offer Gulf countries and their enterprises a wider portfolio of investment, risk management and treasury tools.

As our innovation and technology firms and startups strengthen ties with their counterparts in the Middle East, technology collaboration will be another key focus. Quite a number of Hong Kong startups, ranging from fintech to greentech, have already gained market entry into the region. Some have even set up production bases there. We will continue to encourage businesses in Hong Kong and the GBA to expand their manufacturing and operational facilities there.

Enhancing the awareness of Hong Kong's offerings and competitive advantages among our Gulf partners is a crucial part of our strategy. We will strengthen exchanges and deepen our presence and visibility in the region. This includes arranging and supporting more reciprocal visits by delegations, and setting up an Economic and Trade Office in Riyadh, in addition to the existing one in Dubai. Meanwhile, HKEX has also announced plans to open an office in Riyadh in 2025.

3

Hydrocarbons and the Pivot

This section explores the importance of hydrocarbons to Gulf-Asia trade. Hydrocarbons, which represent about half of total trade between the regions, underpin their mutual strategic importance, creating incentives to cooperate beyond oil and gas – both politically through bilateral exchanges and economically through trade and investment in non-oil sectors.

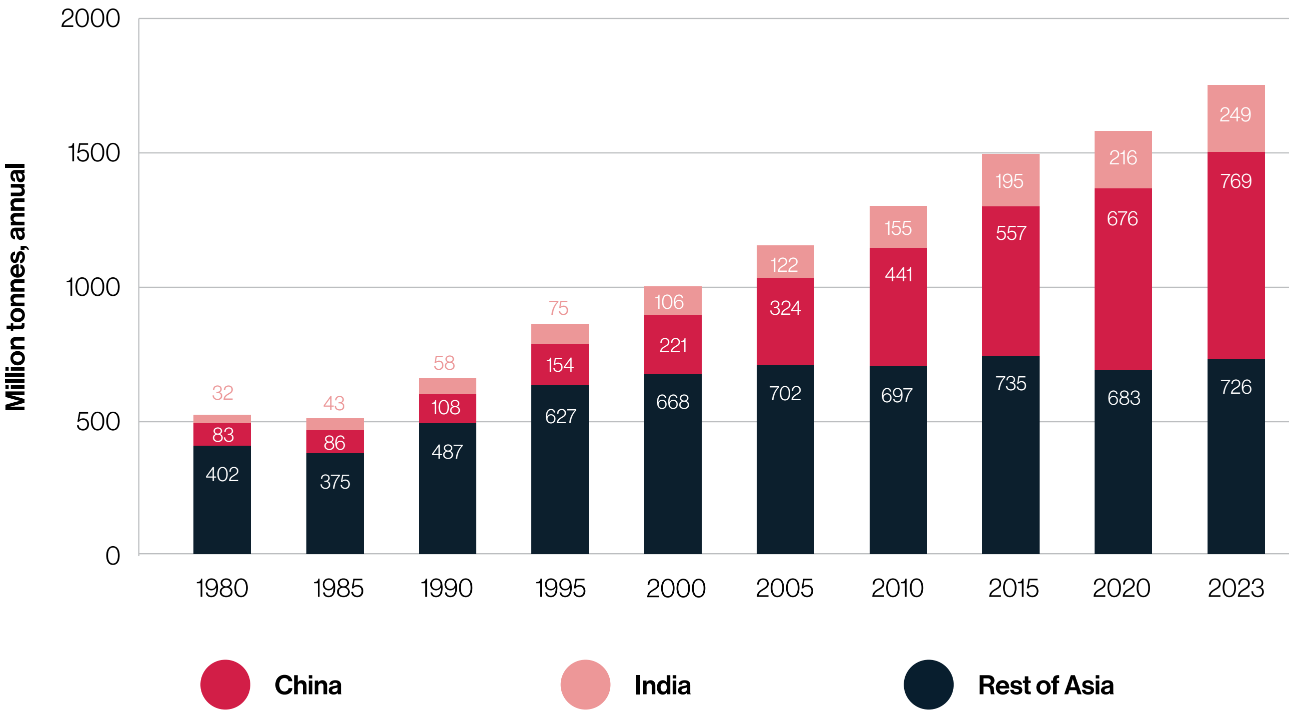
This section also examines long-term hydrocarbon market trends up to 2040 and their potential impacts on the Pivot. China will remain an important market for Gulf states in the future, but India and ASEAN will grow in relative importance.

Asia dominates global energy consumption and the Middle East is its most important supplier

Asia has been the most important driver of global energy consumption over the last two decades. Its swelling populations, fast-growing economies and rising incomes have created booming demand, especially for oil. Asia was responsible for 80 per cent of growth in global energy consumption between 2000 and 2023 (Energy Institute, 2024). The region accounted for 47 per cent of the world's primary energy consumption in 2023, up from 28 per cent in 2000 (ibid.). Mass migration to China's cities has largely driven this increase. China's population has already peaked, with the working-age population expected to fall sharply by 2030 and 2040, moderating energy demand. India and ASEAN will succeed China as the fastest-growing consumers over the next quarter century, with strong population growth through 2040 turbocharging their demand. Asia's share of global oil consumption increased to 39 per cent in 2023, up from 29 per cent in 2000 (ibid.). Asia's major oil-consuming countries have poor oil resources and increasingly rely on imports[10]. The Gulf is Asia's most important supplier. In 2023, 50 per cent of Asia's oil imports originated from the Gulf and wider Middle East (ibid.). Saudi Arabia and the UAE accounted for 21.5 per cent and 13 per cent, respectively.

10 In 2020, Asia, excluding Central Asia and the Middle East, accounted for just 3 per cent of the world's proven petroleum reserves and 8 per cent of production, far below its 38 per cent share in consumption.

Figure 13:
Asia oil consumption (1980-2023)



Source: Energy Institute, 2024

Gulf producers are the natural suppliers to Asia, with much shorter routes and transport times than rivals in North America and Africa. The distance from Saudi Arabia's main export terminal at Ras Tanura to Ningbo on China's east coast is under 6000 nautical miles, and the voyage time is roughly 19 days (London Stock Exchange Group, 2024). By contrast, the distance from Corpus Christi in the Gulf of Mexico to Ningbo, avoiding the Panama Canal, is some 14,000 nautical miles, with a voyage time of roughly 43 days.

As noted above, hydrocarbons account for half of Gulf-Asia trade. The Gulf's centrality to Asian energy supplies and security and Asia's importance as a market for the Gulf create interdependence that fuels strategic cooperation beyond oil, as explored in subsequent sections. The Gulf-Asia hydrocarbons trade is a fundamental component of the Pivot and will become ever more crucial as Asian energy and oil demand increases in the future.

The International Energy Agency (IEA) (2024) and the US Energy Information Administration (EIA) (2023) both predict Asia will essentially account for all oil consumption growth up to 2030. OPEC (2023) sees Asia contributing around half the extra oil demand by 2030. In all three forecasts, China, India and ASEAN oil consumption is forecast to grow by similar amounts up to 2030. China, the region's largest oil consumer, will see consumption peak before 2030, then remain flat or fall during the 2030s. By contrast, oil consumption in India and ASEAN will continue to grow until at least 2040. This cements Asia and the Gulf's mutual importance over the next twenty years and incentivises cooperation in other sectors, driving the Pivot.

The Gulf is investing in Asia's downstream capabilities to secure market access

Dependency runs in the other direction, with Asia accounting for more than 80 per cent of oil exports from the Gulf and Middle East, highlighting its centrality to Gulf revenues (Energy Institute, 2024). In recent years, Gulf oil producers have invested in midstream and downstream businesses across Asia to secure market access and capture more of the value chain. They have purchased stakes in refineries, petrochemical plants, fuel and lubricants distributors and retailers.

Saudi Arabia has been particularly active, including in China. In 2024, Saudi Basic Industries Corporation (SABIC) began constructing a petrochemical complex in China's Fujian province. With an estimated cost of US$6.4 billion, this amounts to Fujian's largest foreign investment (SABIC, 2024). In September 2023, SABIC and Sinopec's polycarbonate plant in Tianjin City started operations, with the capacity to produce 260,000 tonnes annually. Aramco has also been negotiating to buy a 10 per cent stake in Hengli Petrochemical Limited, which operates a 400,000-bpd refinery with integrated petrochemical units in Dalian, China (Saudi Aramco, 2024). Previously, Aramco has acquired or expressed an interest in buying stakes in China's Rongsheng, Shandong Yulong and Shenghong petrochemical companies (Saudi Aramco, 2023). China's petrochemical producers are seen as a source of growing oil demand, even if the country's demand for transport fuels peaks and declines.

The role of China in Gulf-Asia hydrocarbons trade

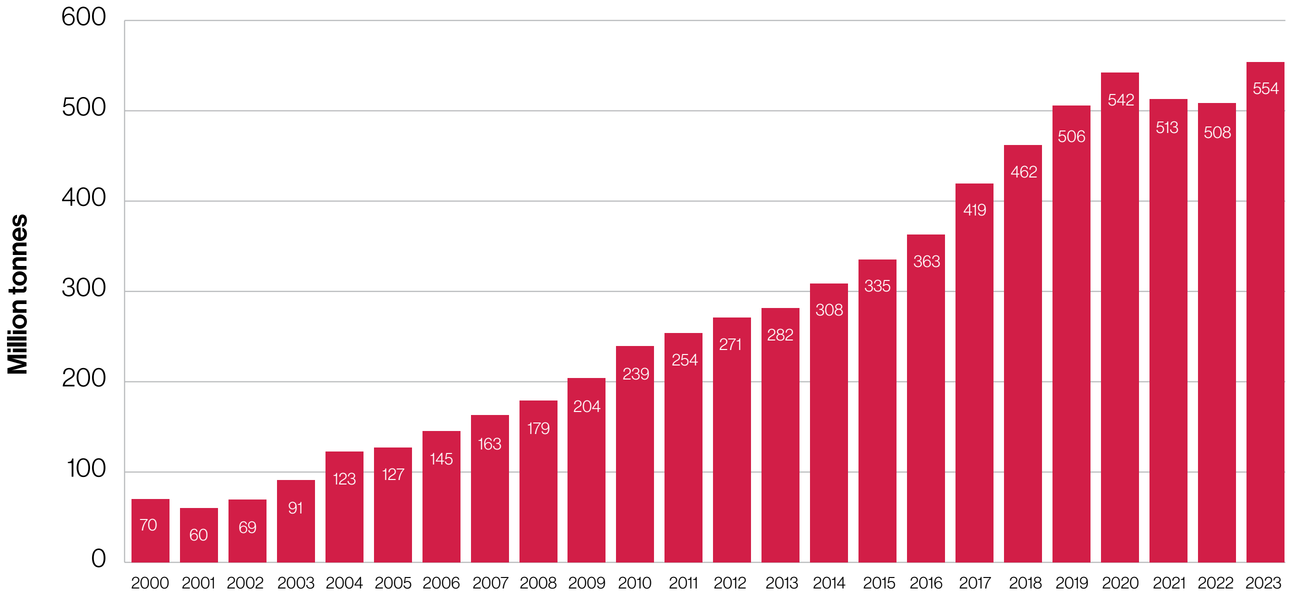
China has been the largest driver of global oil consumption over the last two decades. A growing population, rapidly rising incomes, increasing vehicle ownership and urbanisation have massively increased transport demand. China's annual consumption increased by 496 million tonnes between 2003 and 2023, compared with an increase of 324 million tonnes for the rest of the world (Energy Institute, 2024). Indeed, China's share of global consumption more than doubled to 17 per cent in 2023, from 7 per cent two decades earlier, putting it just behind the US at 18 per cent.

Oil consumption has grown much faster than domestic production, making China reliant on imports to process in its refineries. China's major onshore oilfields in the northeast have been severely depleted since they were discovered in the late 1950s. Production has barely increased despite investment in enhanced recovery and the development of new oil fields. Annual crude production increased by a meagre 39 million tonnes (compound annual growth of 2 per cent) over the two decades ending in 2023 (ibid.). To make up the shortfall, annual imports surged by 456 million tonnes (9 per cent annually).

China is the world's largest oil importer, placing an increased burden on its balance of payments and increasing its energy insecurity. Most oil is shipped from the Middle East, Africa and the Americas via the Malacca Strait and the South China Sea, creating a major vulnerability in any conflict with the US (ibid.). China has tried to reduce these risks through the rapid deployment of EVs. China will produce more than 10 million EVs in 2024, accounting for almost 40 per cent of its new car sales (National Bureau of Statistics of China, 2024a). There are signs that EVs are starting to displace a small but significant volume of oil consumption and imports, highlighting how the energy transition may impact Gulf-Asia hydrocarbons trade in the long term. Indeed, the IEA forecasts EVs will capture 70 per cent of new sales and will account for nearly one-third of China's cars by 2030.

Figure 14:

China crude oil imports (2000-2023)



Source: UN Comtrade Database, 2024

China's manufacturing-dominated economy is struggling with a slowdown in domestic consumer spending, a slump in residential construction and worsening trade relations with the US and other partners. This means some slowdown in oil consumption could be cyclical and reversed with improvements to China's economy, but longer-term structural factors will also weigh on fuel demand. China's population is ageing rapidly, with the median age rising from 31 to 39 between 2003 and 2023 (United Nations, 2024). Its working-age population (15–64-year-olds) fell by 47 million between 2013 and 2022, inevitably impacting fuel demand. While road fuel demand may slow down, though, that for jet fuel will likely continue growing through 2030 and beyond, although China is also emerging as an early leader in developing sustainable fuel sources from biomass rather than petroleum. China is promoting inbound and domestic tourism to boost its services sector, increasing passenger numbers to record highs in 2024. China-Gulf oil trade also encourages cross-border commerce in other sectors. For example, in April 2024, QatarEnergy signed the largest single shipbuilding contract ever with China State Shipbuilding Corporation. The US$6 billion deal will see 18 LNG vessels delivered between 2028 and 2031 (Kuwait Times, 2024).

For these reasons, China's oil consumption is expected to grow more slowly until 2030 before peaking. Forecasts vary. OPEC (2024) predicts China's annual oil consumption will rise by 110 million tonnes by 2030 (reflecting compound annual growth of around 2 per cent), but the IEA and EIA project around 55-60 million tonnes of annual consumption by 2030 (compound annual growth of 1 per cent) (International Energy Agency, 2024; U.S. Energy Information Administration, 2023). This will affect the Pivot over the long term. Until 2030, overall growth in China's oil consumption will fuel the Pivot. After its consumption peaks, Asian oil demand growth will come from new quarters, most notably India and ASEAN. This will increase these region's relative importance in the minds of Gulf decision-makers.

India's growing oil consumption will increase its importance to the Pivot

India is the world's third-largest oil consumer, accounting for 5 per cent of global consumption in 2023, with China and the US on 17 per cent and 18 per cent, respectively. India's annual oil consumption increased by 136 million tonnes between 2003 and 2023, accounting for 17 per cent of global growth, second only to China at 60 per cent (Energy Institute, 2024). But over the rest of the decade, India will replace China as the world's largest driver of oil consumption growth, increasing its relative importance as a market for Gulf producers. The combination of a young and fast-growing population, rising incomes and growing car ownership are stimulating India's demand.

Similar to China, India's oil consumption has outpaced production, making it increasingly reliant on imports. In 2023, annual consumption increased to 249 million tonnes, but domestic production was just 33 million tonnes (Petroleum Planning and Analysis Cell, 2024). India's import dependence has risen over time. In 2023, imports accounted for 87 per cent of India's consumption, up from 69 per cent in 2003. Gulf producers are reaping the benefits, particularly given the fact that India lies a short distance away across the Arabian Sea. In 2023, half of India's oil imports (109 million tonnes) came from the Gulf.

Unlike China, where many forecasters predict consumption will peak before 2030, India's is expected to keep rising until at least 2040 (Kemp, 2024). India's population will increase by 185 million by 2040 (United Nations, 2024). Simultaneously, more households will become middle class and will upgrade from motorcycles to cars, increasing not only fuel demand, but also consumption of oil and consumable byproducts, including plastics and jet fuels. The three major forecasting agencies predict India's oil consumption will rise between 70-100 million tonnes by 2030, making it the biggest source of extra global consumption up to 2030, at 6-7 per cent.

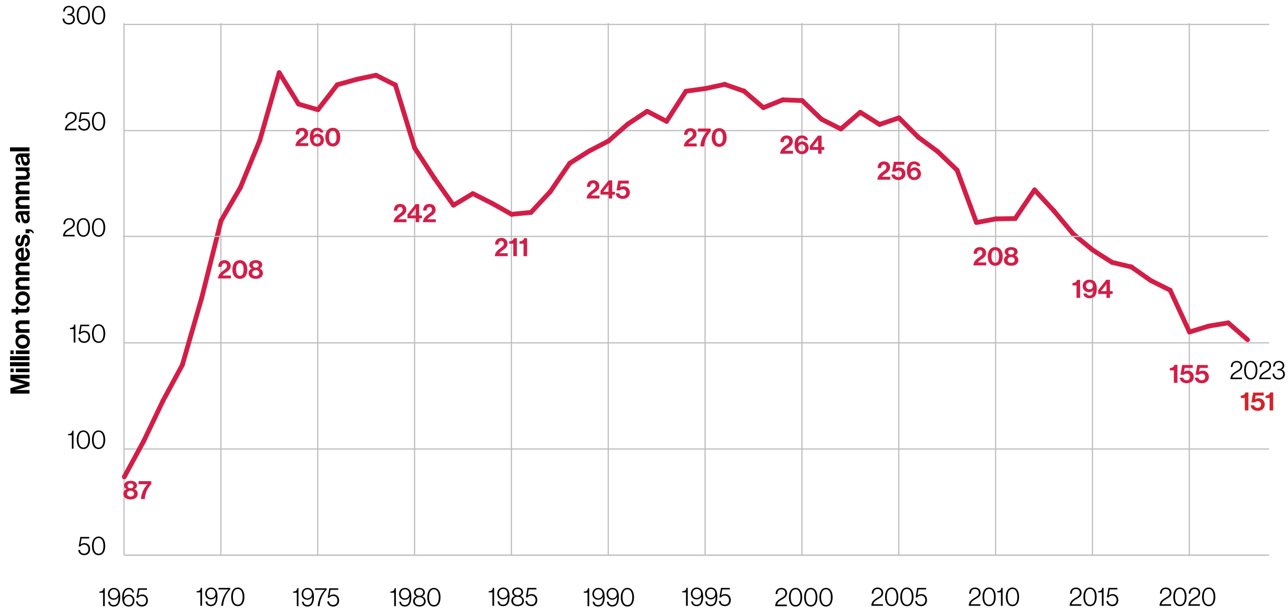
These trends will increase India's relative importance to the Gulf states as a market for its oil and may prompt greater investment. Gulf states are already investing in downstream capabilities in India. Aramco is reportedly in talks with India's Bharat Petroleum Corporation Limited (BPCL) on a new refinery project for which it is seeking around US$5.9 billion (Offshore Technology, 2024).

Japan's oil consumption slumps amid rapid ageing population

In 2023, Japan was still the world's fifth-largest energy consumer, but primary energy consumption has declined by almost a quarter since its peak in 2005 due to an ageing and shrinking population and meagre economic growth (Energy Institute, 2024). Japan's median age in 2023 was 49, up from 42 in 2003. Its population peaked in 2009 and has since declined by almost 4 million, equivalent to the entire population of Abu Dhabi. Its working-age population peaked in 1995 and has since slumped by over 14 million (United Nations, 2024).

As a result, Japan's oil consumption has fallen by more than 40 per cent over the last two decades, sliding from 264 million tonnes in 2000 to 151 million tonnes in 2023 (Energy Institute, 2024). Japan has almost no proven reserves, so essentially all oil is imported from the Middle East. In 2023, 95 per cent of Japan's 126 million tonnes of oil imports came from the Middle East. Saudi Arabia and the UAE accounted for 40 per cent and 39 per cent of Japan's total imports, respectively, underpinning the importance of these nations to Japan's energy security and decision-making. Gulf producers are also providing petrochemicals to Japan. In June 2024, QatarEnergy agreed to supply six million tonnes of naphtha, commonly used as a solvent, to Idemitsu Kosan Company over the next ten years and nine million tonnes of naphtha to Japan's largest refining and petrochemical company, Eneos Corporation (Kumar, 2024d). Middle East producers have been capturing a growing share of a shrinking market, resulting in fierce competition among producers to retain customers.

Figure 15:
Japan oil consumption (1965-2023)



Source: Energy Institute, 2024

Asia to remain the world's fastest-growing gas market

Asia's energy system is still dominated by coal, with gas playing a smaller role than in other parts of the world, but gas consumption is growing rapidly and the region will account for most global growth up to 2030. Asia is critical for Middle East LNG exporters, accounting for 80 per cent of the Middle East's global exports in 2023 (International Group of Liquefied Natural Gas Importers, 2024).

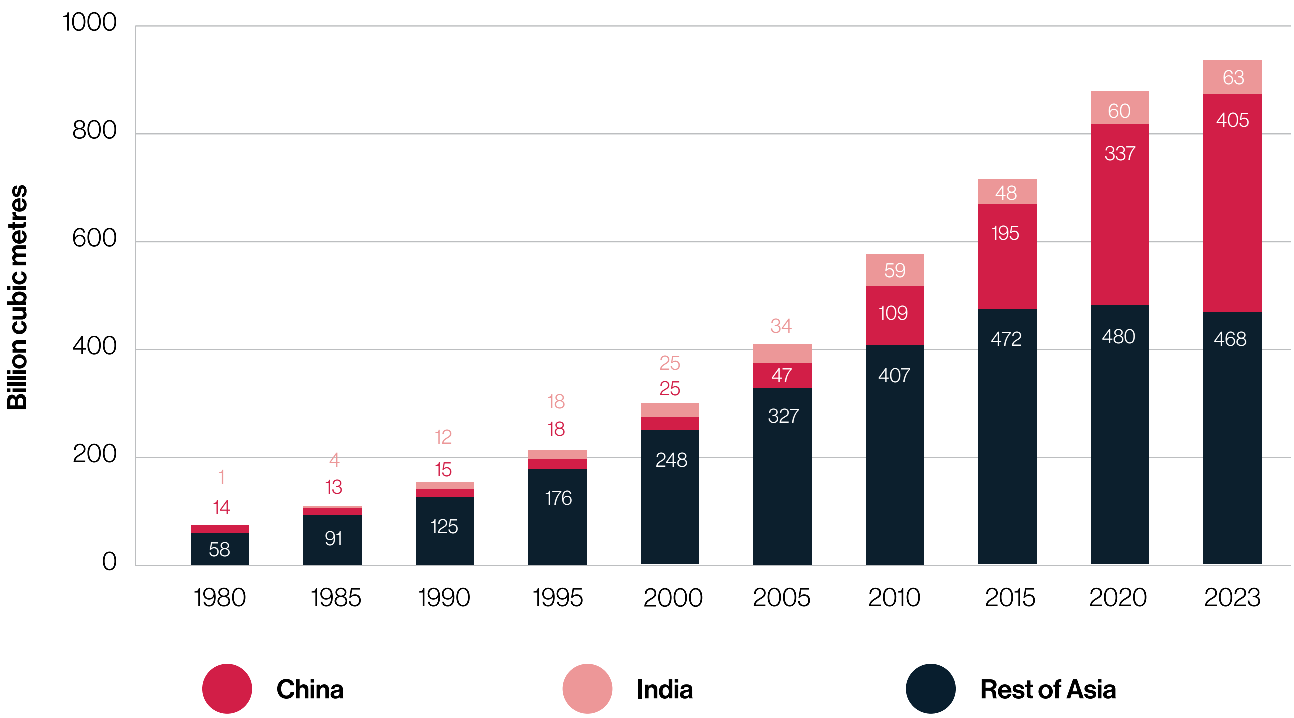
In 2023, gas accounted for 12 per cent of the region's primary energy consumption compared with 34 per cent in the rest of the world (Energy Institute, 2024). But consumption has increased at a compound annual rate of 4.9 per cent compared with 1.6 per cent in the rest of the world over the last two decades, increasing Asia's importance to the industry. Asia accounted for about 40 per cent of the global increase in consumption over the last 20 years, making it the most important growth market for exporters (Energy Institute, 2024). The fastest growth has come from China, where gas has replaced coal in heating systems in urban areas, under government plans to reduce air pollution, and is playing an increasingly important role in petrochemicals (Kemp, 2014).

China's gas consumption has increased at an extraordinary compound annual rate of 13 per cent for two decades as hundreds of millions of households and small businesses are connected to new urban distribution systems (Energy Institute, 2024). The massive expansion of the transmission and distribution network has already made China the world's third-largest consumer of gas (10 per cent of the world total), after the United States (22 per cent) and Russia (11 per cent). China will account for 40 per cent of the worldwide growth in gas consumption between 2023 and 2030, making it the single-largest growth market in the medium term and critical for LNG exporters. This will create opportunities for Middle East exporters.

With the exception of China, which receives about 40 per cent of its imports by pipeline from Russia and Central Asia, the rest of Asia relies on imports in the form of liquefied natural gas (LNG). Asia's LNG imports have increased at a compound annual rate of almost 4 per cent over the last decade and the region accounted for almost two-thirds of total world LNG imports in 2023. 50 per cent of Asia's LNG imports are sourced within the Asia-Pacific region. Most of the rest came from the Middle East (30 per cent) especially Qatar (23 per cent), Oman (4 per cent) and the UAE (2 per cent) (ibid.). Outside the Asia-Pacific region, the Middle East is the natural source of imports given shorter shipping distances and relatively faster transit times, which matter even more for than for crude given the loss of LNG in transit due to boiloff.

Asia is expected to remain the principal driver for gas consumption throughout the rest of the decade and into the 2030s, making it a key target for Middle East gas marketers, in turn driving the Pivot. Regional consumption is expected to increase by 16 per cent and account for 60 per cent of all extra global consumption by 2030, according to the IEA's World Energy Outlook (2024). Roughly two-thirds of the regional increase will come from China, with the rest evenly divided between India and South East Asia.

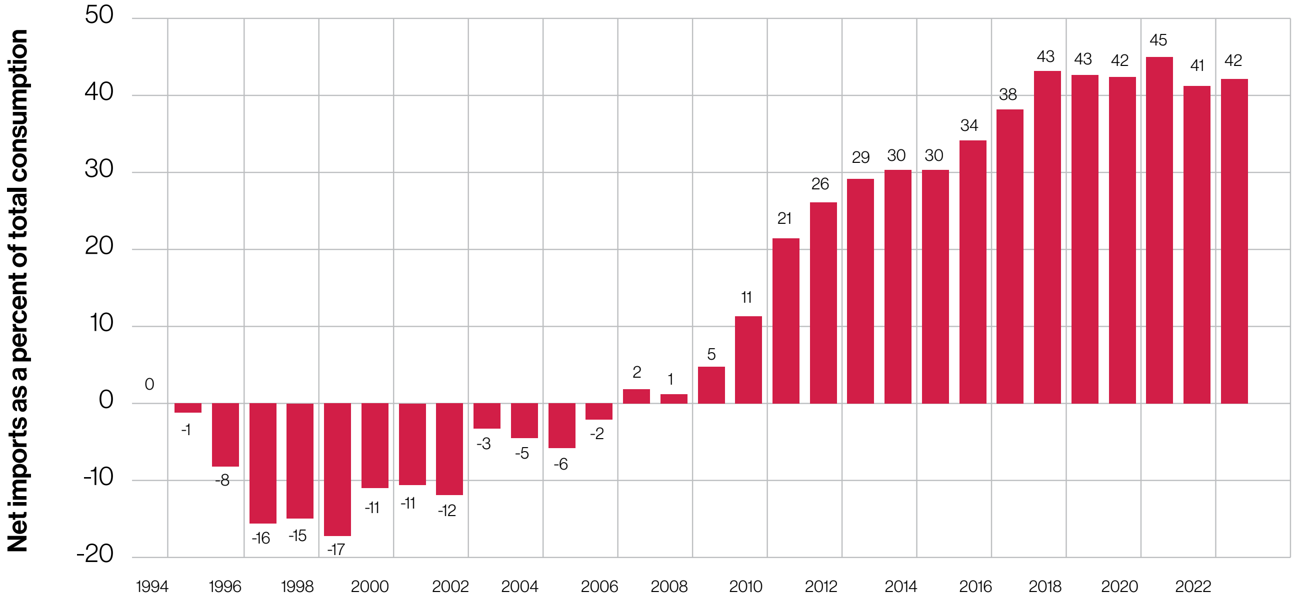
Figure 16:
Asia gas consumption (1980-2023)



Source: Energy Institute, 2024

Figure 17:

China gas net import requirement (1990-2023)



Source: Energy Institute, 2024

India's gas use and imports predicted to surge by 2030

India's energy system is still dominated by coal. Gas plays only a small role, mostly in the production of fertilisers and petrochemicals, rather than electricity generation or residential and commercial use. Gas accounted for less than 6 per cent of primary energy consumption compared with a worldwide average of 23 per cent in 2023, according to the Energy Institute's Statistical Review of World Energy (2024).

India's continued reliance on coal rather than gas is unsurprising given the country has more than 10 per cent of the world's proven coal reserves but less than 1 per cent of its proven gas reserves (ibid.).

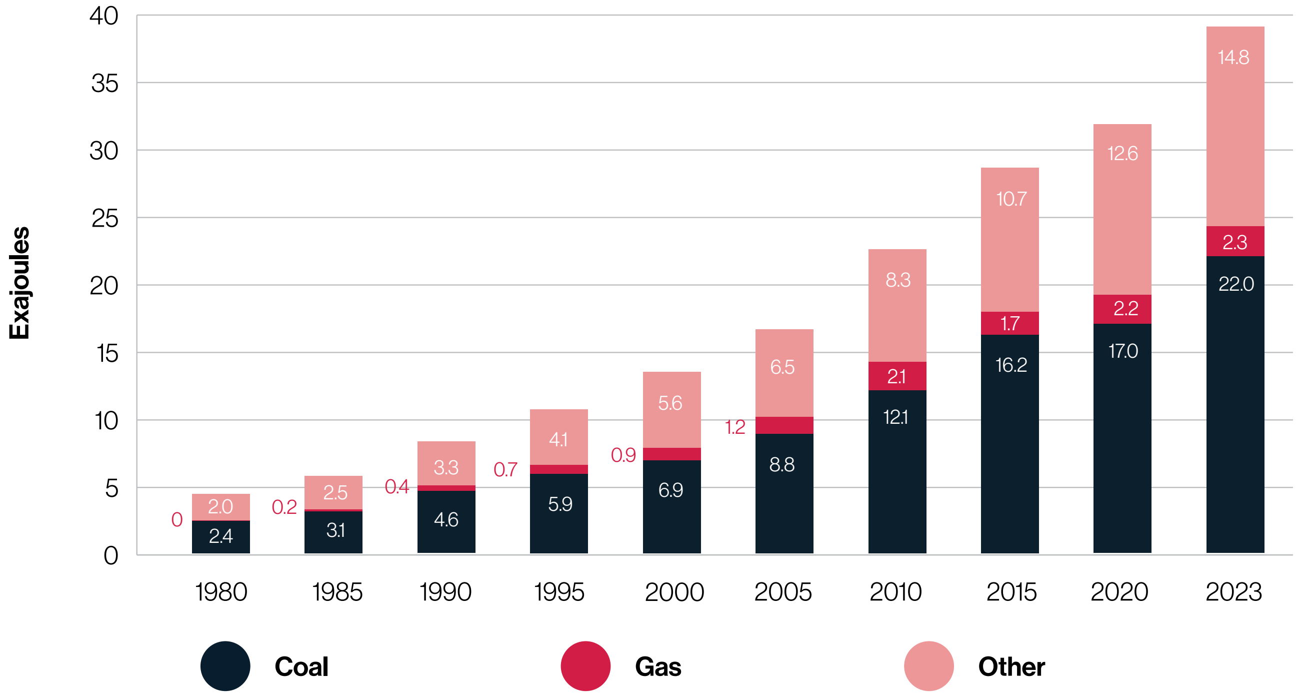
Domestic gas production was broadly flat at between 32 and 34 billion cubic metres per year between 2013 and 2023 (Petroleum Planning and Analysis Cell, 2024). As a result, India has become increasingly dependent on imports, which accounted for almost 50 per cent of total consumption by 2023/24.

India is unable to import gas overland from Central Asia or Iran because of the lack of pipeline connections across Afghanistan and Pakistan. The country instead relies entirely on seaborne liquefied natural gas (LNG). India imported 22 million tonnes in 2023, according to the Annual Report compiled by the International Group of Liquefied Natural Gas Importers (2024). India had become the world's fourth-largest importer after China (71 million tonnes), Japan (66 million) and South Korea (45 million).

Half of India's imports were sourced from Qatar (11 million tonnes) with most of the rest from the US (3 million) and the United Arab Emirates (3 million tonnes). India's gas consumption is predicted to increase by more than 6 per cent per year on average over the rest of the decade, according to the IEA's World Energy Outlook. India's gas consumption is predicted to increase by more than 6 per cent per year on average over the rest of the decade, according to the IEA's World Energy Outlook (2024).

Figure 18:

India's primary energy consumption (1980-2023)



Source: Energy Institute, 2024

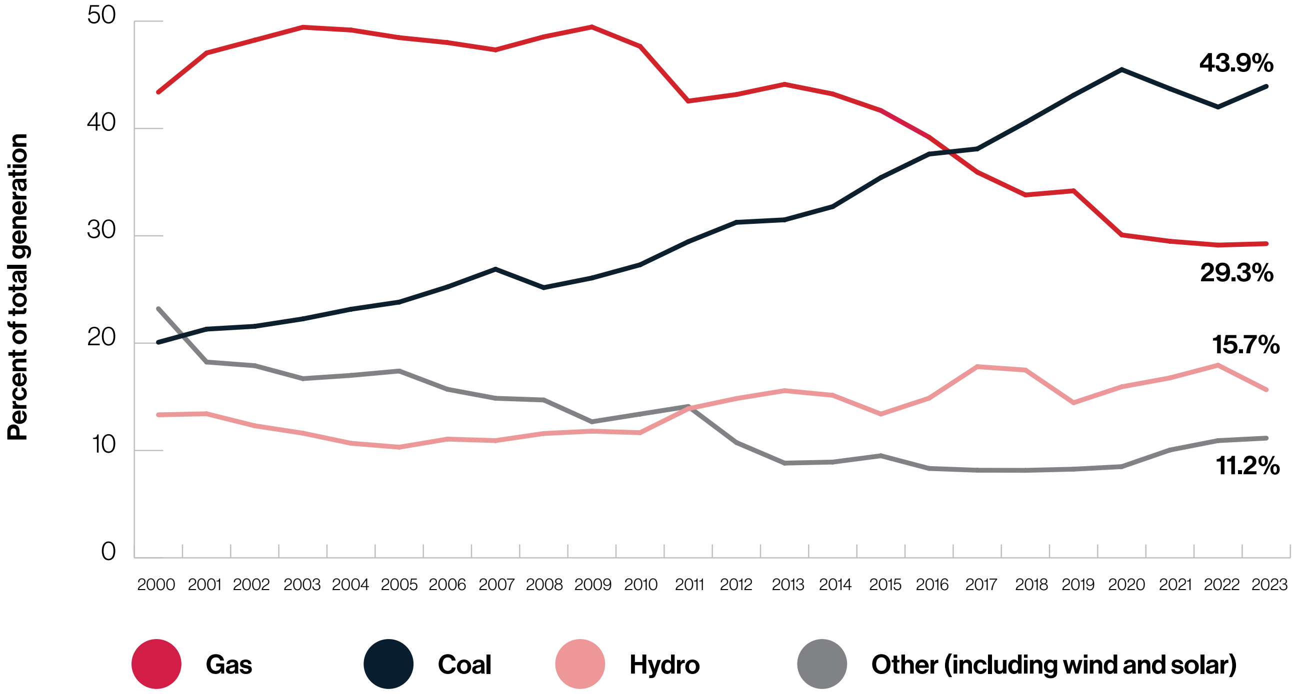
From a relatively low base, India is set to be the world's second-largest source of consumption growth after China (ibid.).

Southeast Asia's battle between coal and gas

Southeast Asia's energy consumption is dominated by oil for transportation and coal for electricity generation with gas playing only a relatively minor role. Nevertheless, the International Energy Agency forecasts that the region's annual gas consumption will increase by 25 million tonnes or 2.6 per cent per year by 2030 (ibd.). Southeast Asia is projected to account for almost 14 per cent of the increase in global consumption and almost 24 per cent of the increase in Asia over the rest of the decade, again presenting opportunities for Middle East exporters.

ASEAN accounted for less than 6 per cent of the world's primary energy consumption and less than 5 per cent of gas use in 2023 (Energy Institute, 2024). But energy consumption in the region is rising quickly as a result of a growing population and its increasing importance as a manufacturing hub, which has been driven by low labour costs and US-China trade tensions. ASEAN's population increased by more than 62 million or 1 per cent per year over the decade to 2023, with most of the extra population in prime-consuming age groups between 15 and 64 years old (United Nations, 2024). Urbanisation, industrialisation and rising incomes have turbocharged the increase in demand for energy services.

Figure 19:
ASEAN electricity generation (2000-2023)



Source: Ember, 2024

The region's rapidly growing demand for electricity has mostly been met by extra generation from coal, with smaller contributions from hydro, solar and wind sources, while gas has become relatively less important (Ember, 2024). Coal-fuelled generation has proved much more affordable than gas, and is more reliable, with fewer intermittency issues, than wind, solar and hydro, making it more suitable to meet the growing base load.

However, Vietnam and the Philippines have announced ambitious plans to build more gas-fired generation supplied by imported LNG over the rest of the decade.

Concluding remarks

Hydrocarbons are fundamental to Gulf-Asia trade and investment, underpinning the importance of each region to the other's strategic calculations and driving cooperation beyond energy.

Asia's surging demand, driven by rapid industrialisation and urbanisation, coupled with the Gulf's supply capacity and relative proximity, have cemented the latter as Asia's supplier of choice. Recent years have also seen the Gulf states expand partnerships with Asia in its downstream sectors to secure market access. While China's oil consumption growth is expected to slow post-2030, India's and ASEAN's demand is forecast to continue climbing through 2040.

4

Gulf-Asia Cooperation in Sustainability and the Energy Transition

Gulf-Asia investments and JVs in sustainable energy and technologies continue to grow, providing mutual benefits in achieving climate pledges. China remains the Gulf's partner of choice, but Japan and South Korea have also established significant partnerships throughout 2023 and 2024.

Cooperation is being driven by a number of important synergies between the Gulf and Asia in renewable energy, green and blue hydrogen and ammonia and EVs:

- → Gulf countries have some of the world's lowest-cost solar energy but currently lack access to essential materials and manufacturing facilities for solar panels. China is the world's largest manufacturer of solar panels, with Japan and India also in the top five global producers.
- → Gulf nations are becoming hubs for green and blue hydrogen, which release zero carbon emissions when burned. Large-scale production of these fuels and shipment to Asia can reduce the carbon footprint of its energy-intensive industries.
- → Saudi Arabia and the UAE, in particular, are working to increase EV usage and improve domestic manufacturing expertise. China, South Korea and Japan are among the world's top five exporters of EVs (Workman, 2024a). Tariffs placed on Chinese EVs and batteries by the EU, US and Canada in 2024 will likely encourage it to seek further business in the Gulf.

Global reliance on hydrocarbons, and especially natural gas, will continue. But Gulf and Asian ambitions to reduce carbon emissions, Asian expertise coupled with the Gulf's technological development goals and the Gulf's plentiful capital have created significant opportunities for collaboration. This section explores these synergies and recent commercial and political cooperation between the Gulf and Asia.

Recent advances in Gulf and Asian sustainability initiatives

The hosting of COP28 by the UAE in November 2023 demonstrated the region's growing leadership in sustainability. It concluded with participating nations committing to "transition away" from fossil fuels "to achieve net zero by 2050 in keeping with the science" (Council of the European Union, 2024). Agreement was also reached on tripling renewable energy production and doubling energy efficiency by 2030 and promoting a new architecture for climate finance (COP28 UAE, 2023).

Alongside these multilateral agreements, Gulf states have also made individual climate pledges to reduce emissions and promote sustainability, as Table 2 summarises. Gulf states are uniquely positioned to pursue these targets, having access to the capital required to develop and procure cutting-edge sustainable technologies. The Gulf's geography and weather are also highly suitable for solar power generation, offering large areas of unpopulated land and high-intensity sunlight (PwC Middle East, 2024). The Gulf's rapidly growing populations are also generating new transport, infrastructure and construction projects. These are being built with sustainability in mind to align with the Gulf's climate commitments, opening up opportunities for sustainability engineers and consultants.

Table 2:
Summary of Gulf climate targets

Country	Year target for carbon neutrality	GHG (greenhouse gas) 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 per cent by 2030	National Climate Change Plan
Oman	2050	7 per cent by 2030	Oman Vision 2040
Bahrain	2060	7.4 per cent by 2035	National Adaptation Plan
Kuwait	2060	30 per cent by 2025	National Environmental Strategy

Recent Gulf milestones in sustainability include the UAE's clean energy firm Masdar achieving 26,700GWh worth of generation in 2023, avoiding 14 million tonnes of carbon emissions – equivalent to taking 870,000 cars off the road (Masdar, 2023a). In March 2024, it was confirmed that Saudi Arabia's Hydrogen Innovation Development Centre, established by NEOM Green Hydrogen Company, will be operational this year and produce 8 tonnes of green hydrogen daily (Levesque, 2024). The project will be powered with 4 GW of renewable electricity and will produce 1.2 million tonnes of green ammonia annually, enough to power around 60,000 homes (ibid.). Ammonia's current power generation capacity is not yet competitive with alternative fuels. But early investment into this relatively underdeveloped sector increases clean energy capacity and could position Saudi Arabia as a future competitor in the low-carbon economy.

Asia is also progressing towards its climate goals as it feels the impact of climate change. Japan had its hottest summer on record in 2024, and flooding in southern China led to the evacuation of more than 100,000 people (Al Jazeera, 2024). Asia has increased efforts towards carbon neutrality in response. China is the world's largest producer of rare-earth metals and the leading exporter of solar power and EVs (Nguyen and Onstad, 2023l Workman, 2024b; Workman, 2024a). In 2024, it reached 1,200 GW of wind and solar capacity, six years ahead of the target, with renewables now comprising 54.5 per cent of its energy capacity (Climate Action Tracker, 2024). The country is targeting a 2060 carbon neutrality target. India achieved 180 GW of carbon-free capacity in 2024, with plans to reach 500 GW by 2030 (Deb and Roy, 2024). Japan has updated its hydrogen strategy with a goal to produce 12 million tonnes annually by 2040, with a 2050 carbon neutrality target (Sethuraman, 2024). The intensified development of clean energy technical expertise, alongside Asia's production and manufacturing capabilities, benefits the Gulf states by supplying the solutions necessary for their own energy transition and economic diversification goals.

Table 3:
Summary of key Asian climate targets

Country	Year target for carbon neutrality	GHG emissions reduction target	National plan
China	2060	No pledge	14th 5-Year Plan (2021-2025)
India	2070	No pledge	National Action Plan on Climate Change
Japan	2050	46 per cent by 2030	Climate Change Adaption Plan
South Korea	2050	No pledge	Climate Change Adaption Plan
Indonesia	2060	32 per cent by 2030	National Action Plan for Climate Change Adaption

Synergies and opportunities for Gulf-Asia sustainable cooperation

Solar

Investing in renewable energy assists the Gulf states in diversifying their economies and upholding climate pledges. The Gulf's geography and weather mean solar power is its primary investment focus. China, the world's leading solar panel manufacturer, is heavily involved in large-scale solar projects across the Gulf.

Most significantly, the UAE's Al Dhafra Solar Photovoltaic (PV) Project, the world's largest single-site solar farm, was completed in November 2023 (Masdar, 2023b; Xin, 2023). The project comes under China's BRI and will reduce the UAE's carbon emissions by 2.4 million tonnes, 1 per cent of the country's total emissions (Xin, 2023). This partnership underscores the strategic role of Asian clean energy suppliers in rapidly scaling Gulf renewable capacity. By collaborating with Asian firms on such ambitious projects, Gulf economies are becoming renewable energy production leaders.

In December 2023, Oman's Manah-1 Solar IPP project secured US$301.8 million in funding from financial institutions, including the Export-Import Bank of Korea. The project will be developed with partners, including Korea Western Power Co. (KOWEPO). This is in addition to the 500MW Manah-2 Solar IPP, which is being developed through a JV between Singapore's Sembcorp Industries and China's Jinko Power Technology (Kumar, 2023). Such initiatives highlight Asia's role in supporting Gulf sustainability efforts as a source of financing rather than solely as a technology provider.

More recently, in July 2024, Chinese solar firms Jinko Solar and TCL Zhonghuan, announced JVs with PIF to localise solar module and solar wafer production in the Kingdom, involving factory investments worth more than US$3 billion (Xue, 2024a). This deal advances Saudi Arabia's strategic ambitions to boost its domestic industry and renewable energy sector. Producing solar panels domestically will provide employment opportunities for Saudis. It will also remove the shipping costs of Chinese imports.

However, until they are made at scale, Saudi solar panels will struggle to compete with China on cost. Recent developments in Gulf-Asia cooperation and investment in renewables include:

- In December 2023, Indonesia's state-owned electricity company, PLN, and Saudi Arabia's ACWA Power announced a partnership to construct two floating solar power plants in Indonesia, costing an estimated US$105 million (Lai, 2024). This follows the 145 MW Cirata floating PV project completed in November 2023, and funded through an undisclosed investment from the UAE's Masdar (Tharayil, 2024).

- In April 2024, Indian solar firm Bhageria Industries was awarded a 10-year contract for a US$10 million solar project at the Khalifa Bin Salman Port in Bahrain (Chandak, 2024). The project aims to make the port fully self-sufficient through 20,000 solar panels (Geyer, 2024).

- In May 2024, UAE SWF Mubadala announced an undisclosed investment in Japan's PAG Renewables' renewable energy platform, PAG REN I, to supply solar power to Japanese corporations (Mubadala, 2024).

- In June 2024, Chinese solar cell manufacturer Hainan Drinda New Energy Technology signed an agreement with the Oman Investment Authority (OIA) to construct a manufacturing facility in Oman. The total investment for the project is estimated at US$699.4 million (Shaw, 2024).

- In July 2024, Chinese solar modules producer Q-SUN signed an agreement with Muscat-based Bakarat Capital Investment to build an advanced solar PV module and cell production facility (Enterprise, 2024).

- In August 2024, China Energy Engineering secured a US$972 million contract to build a 2GW solar power plant in Saudi Arabia. The project will be developed through a JV between a China Energy Engineering consortium, PIF, ACWA Power and Saudi Arabia's Aramco Power Company (Middle East Monitor, 2024).

- In September 2024, the UAE's Mohammed bin Rashid Al Maktoum Solar Park commenced commercial operations. A consortium of ACWA Power, The Silk Road Fund and Shanghai Electric owns the project (Dubai Electricity & Water Authority, 2023). It is expected to reduce UAE carbon emissions by 1.6 million tonnes yearly (Huaxia, 2024).

Hydrogen and ammonia

Gulf states want to become key hubs for green and blue hydrogen and ammonia production. Green ammonia is made from renewable energy, and blue ammonia is derived from fossil fuels with associated carbon emissions captured. Crucially, green and blue ammonia emit zero carbon emissions when burned. These fuels appeal to Gulf and Asian economies as they aim to decarbonise hard-to-abate sectors: oil and gas in the Gulf and shipping and heavy industry in Asia. By developing production facilities for blue ammonia, the Gulf can leverage its hydrocarbon industry while contributing to global carbon emissions reduction and increasing Asia's access to low-carbon fuels. Ammonia production for power generation is an emerging sector, with substantial infrastructure and investment required to make the industry cost-effective. Since green and blue ammonia prices are tied to costs associated with renewable energy and hydrocarbon generation, respectively, there is uncertainty regarding future profitability (Burgess, 2024). However, with the intensive development of global electrolyser manufacturing and renewable energy production, ammonia is predicted to become more competitive (Cesaro et al., 2020).

One interesting recent development has been the inauguration of the first phase of a 3,000-ton-per-year green hydrogen project in Uzbekistan by Saudi Arabia's ACWA Power, which is being developed with an unidentified Chinese company (Čučuk, 2023a;

Airlangga Hartarto, Indonesia's Coordinating Minister for Economic Affairs, in a briefing with Asia House Corporate Members moderated by Asia House Director of Corporate Affairs Charlie Humphreys.

Kun.uz, 2024). Project costs are estimated at around US$88 million (ibid.). This marks a significant step in Saudi-China sustainable cooperation as the joint development of sustainable projects in a third market indicates high mutual confidence.

Furthermore, in December 2023, Vietnam's Lilama delivered its first four electrolyser modules to Saudi Arabia's NEOM as part of an agreement to provide 110 modules (Duc, 2023). This reflects the Kingdom's ambition to incorporate clean energy infrastructure into its economic diversification projects. Asian companies have a strong presence across all stages of the supply chain. In August 2024, Japan's Mitsubishi Power received an order from Samsung C&T Corporation to supply a hydrogen-ready gas turbine for an industrial steam and electricity cogeneration plant project in Saudi Arabia (Mitsubishi Power, 2024). Gulf countries are making strides toward localising clean energy production, but collaboration with Asian companies will likely continue in the medium term before they achieve self-sufficiency.

Recent developments in Gulf-Asia cooperation include:

- In November 2023, it was announced that the Chinese firm Wisdom Motor would provide the GCC's first zero-emission hydrogen city bus to the UAE (Nasir, 2023). Three such buses are expected to be on Abu Dhabi roads by late 2024 (Sito and Xue, 2024).

- In December 2023, South Korea's Samsung C&T Corp announced its participation in Oman's Salalah H2 green ammonia project, which aims to produce 1 million tonnes of green ammonia annually. Construction will begin in 2027 and finish in 2030 (Kim, 2023).

- In December 2023, ACWA Power, Indonesia's PLN, and Indonesian fertiliser and chemical producer PT Pupuk Indonesia announced a collaboration on Indonesia's largest green hydrogen facility. The Garuda Hydrogen Hijau (GH2) Project will be operational in 2026 and produce 150,000 tonnes of green ammonia annually, enough to power almost 100,000 homes (Njovu, 2023). Its estimated cost is more than US$1 billion (Čučuk, 2023b).

- In May 2024, the UAE's ADNOC announced the world's first bulk commercial shipment of blue ammonia, loaded from the company's Fertil production facility in Al Ruwais for delivery to Japanese conglomerate Mitsui (Arab News Japan, 2024). Blue ammonia has previously been shipped from the Gulf to Asia, but not in a bulk container, demonstrating the viability of transporting large quantities of ammonia in single shipments.

- In June 2024, Japan's Mitsui announced the start of construction for the Al Ruwais ammonia plant alongside partners including South Korea's GS Energy and ADNOC subsidiaries TA'ZIZ and Fertiglobe. The project aims to be operational by 2027 and will produce 1 million tonnes of ammonia annually (Obayashi, 2024).

- In June 2024, Chinese startup Jiangsu Guofu Hydrogen Energy Equipment signed an agreement with the Abu Dhabi government to build a hydrogen energy equipment factory in the emirate to assist with localising production (Sito and Xue, 2024).

- In July 2024, China's JinkoSolar contracted with India's Larsen & Toubro to supply one GW of solar modules for the NEOM green hydrogen project (Zawya Projects, 2024c).

- In October 2024, Saudi Arabia was reported to be establishing a new company, Energy Solutions Co., to facilitate the financing of green hydrogen production. The company would be controlled by PIF, which will invest at least US$10 billion (Martin and Abuljadayel, 2024). This investment will likely encourage Gulf-Asia cooperation in hydrogen and ammonia.

EVs

Gulf states view electrification and EV adoption as key to both decarbonisation and economic diversification efforts. By reducing fuel consumption, Gulf states not only cut emissions but also reduce citizens' petrol and diesel consumption, aligning with COP28 commitments to phase out fuel subsidies. Reducing fuel consumption also frees up more oil for export, which is a more efficient revenue generator than selling subsidised fuel domestically. Ambitious Gulf transport decarbonisation goals can be seen in the UAE, which wants 50 per cent of all vehicles sold by 2050 to be EVs or hybrids, with 10,000 EV charging stations installed by 2030 (Hilotin, 2023). In 2023, there were 914 (ibid.). Saudi Arabia has a target of 30 per cent of vehicles in Riyadh to be EVs by 2030 (Gnana, 2021). Qatar aims for 35 per cent of its vehicles and 100 per cent of its buses to be electric by 2030 (Zawya, 2023).

China is a key source of components for EV batteries and has around 70 per cent of the world's lithium refining capacity (Quiggin and King, 2023). It is seeking export opportunities to compensate for over-production and sluggish domestic demand (Guo, 2024). US and EU tariffs on Chinese EVs may also push China to focus on the Gulf as an export market. From a Gulf perspective, investment in Asian EV companies promotes the transfer of design and production expertise to foster local development. For example, in February 2024, China's Nio Technology entered a software and intellectual property sharing agreement with Abu Dhabi-based Forseven Limited to develop and manufacture vehicles, supporting knowledge transfer to the growing UAE EV market (NIO Inc., 2024). This illustrates how Gulf SWF investments in Asia are often strategic and aim to generate returns beyond profit, such as by achieving strategic economic diversification and net zero goals. Though China is the Gulf's main partner in this transformation, recent months have also seen several agreements with Japanese and South Korean providers. Recent EV-related deals between the Gulf and Asia include:

- In October 2023, South Korea's Hyundai signed a US$500 million deal with PIF to jointly construct a car manufacturing facility in King Abdullah Economic City (KAEC). This will be Hyundai's first EV production site in the Middle East (Bin, 2024).
- In December 2023, China's Nio announced a US$2.2 billion investment from the UAE's strategic investment fund CYVN Holdings, which increased the latter's ownership of the company to roughly 20 per cent (Wagasugi, 2023).
- In March 2024, South Korea's Hyundai announced a partnership with Saudi Arabia's tourism giga-project Red Sea Global to collaborate on eco-friendly mobility initiatives in the Kingdom's luxury Ummahat Islands and Amaala resort (Bin, 2024).
- In June 2024, Saudi Arabia's Ceer signed a US$2.2 billion partnership with South Korea's Hyundai Transys to supply EV drive systems for Ceer vehicles (Aguinaldo, 2024).
- In June 2024, Singapore's commercial EV maker SingAuto received preliminary approval to build what it says will be the world's largest commercial EV industrial district in Abu Dhabi (Cabral, 2024a).
- In August 2024, Taiwan-based Zerova Technologies and Muscat Gas announced a partnership to construct a reliable EV charging network across Oman (Zawya, 2024c).
- In September 2024, Indian EV maker Wardwizard Innovations & Mobility announced its intention to form a JV to construct an assembly plant and an EV cell plant in Saudi Arabia (Reuters, 2024g).
- In October 2024, Chinese Smart EV company XPENG launched in the UAE (XPENG, 2024).

Critical minerals

According to the World Trade Organization (WTO), annual trade in energy-related critical minerals has increased from US$53 billion to US$378 billion over the past 20 years (Worrall, 2024). These resources are essential for developing batteries, EVs and renewable energy infrastructure. China, which currently produces about 60 per cent of the world's rare earth minerals and handles nearly 90 per cent of their processing and refining, will remain a key player in critical minerals over the medium term (ibid.). However, the growing importance of an independent metals and minerals sector can be seen in the GCC states, which are establishing mining operations and supply chains to support renewable and clean energy sectors (ibid.). In the long term, this could reduce China's market share and position the Gulf states as alternative providers of critical minerals, particularly for buyers who want their supply chains to be insulated from US-China tensions.

Most notably, Saudi Arabia's national mining company, Ma'aden, has established the world's largest single exploration programme. The country holds an estimated US$2.5 trillion in resources (Baskaran, 2024). Many of the minerals for which it is prospecting are crucial to electrification and battery technology, which, in the long term, could make the Kingdom a player in global critical minerals and batteries.

Ma'aden announced a significant gold discovery in late 2023 and has made considerable acquisitions over 2024, which will strengthen its capabilities and expertise (Mining Technology, 2023). These include a 10 per cent stake in Brazilian miner Vale for US$2.5 billion and a 20 per cent stake in Aluminium Bahrain for an undisclosed price (Reuters, 2024h; Mining.com, 2024). The Kingdom is also investing in metals processing and will soon start constructing a US$4.5 billion low-carbon steel plant with investment from India's Essar Group (Press Trust of India, 2024).

Sustainable finance

The Gulf's focus on the energy transition has increased the demand for sustainable finance for green projects. In 2023, the UAE and Saudi Arabia led green bond issuance in the Middle East with more than US$15 billion worth of bonds, double the amount issued in 2022 (Zawya, 2024d). This creates opportunities for Asian companies to become financial stakeholders in the Gulf's clean energy initiatives. They can provide technology and expertise and build deeper economic ties by actively investing in Gulf sustainability. For example, in July 2024, ADNOC and Japan Bank for International Cooperation signed a US$3 billion green financing facility (Arabian Business, 2024d). This deal underlines the UAE's track record of encouraging global support for its green initiatives. In 2023, it launched a US$3 billion Green Bond to promote investment in international renewable energy projects (Gulf Today, 2024). More recently, in September 2024, Dubai's DFSA signed an MoU with the Hong Kong Monetary Authority to further explore contributions to the green bond market (Xue, 2024b).

While UAE bond issuance is mostly through banks and corporates, the majority of Saudi bonds in 2023 were sovereign through PIF (Hawser, 2024). Though fewer Saudi deals with Asian investors have been publicised, 2024 has seen significant developments regarding green bond issuance in the Kingdom. These include the publication of its Green Financing Framework in March, which will facilitate government issuance of green bonds and could lead to greater Asian involvement in the Kingdom's financing of green projects (Lewis, 2024).

Concluding remarks

Gulf and Asian nations increasingly collaborate in sustainability. China leads these efforts, particularly in developing the Gulf's solar energy sector, but Japan and South Korea have also become increasingly important partners. The Gulf states' ambitions to diversify further into hydrogen align well with Asia's decarbonisation goals in hard-to-abate sectors.

COP28 in the UAE reinforced Gulf commitments to transition from hydrocarbons to renewable and clean technology. Asia is involved in some of the Gulf's flagship green projects, including the UAE's Al Dhafra Solar Project, NEOM's Green Hydrogen project and Oman's Manah solar developments.

Though hydrocarbons remain central to Gulf economies, Gulf-Asia sustainable investments and JVs economic diversification. This, combined with investments in mining and critical minerals, will help develop Gulf clean technology and further the region's transition to net zero.

5

The Non-oil Sectors Driving the Pivot

This section highlights key non-oil sectors beyond renewables that are encouraging deeper Gulf-Asia trade, investment and cooperation. Gulf economic diversification away from oil has created new opportunities for collaboration with Asian firms and investors.

The need to develop Gulf non-oil sectors is increasing demand for knowledge, talent and technological solutions with Asia playing a key role. This section shows how Asia is becoming increasingly central to delivering the Gulf's ambitious 'vision' projects in critical areas such as digitalisation, construction and infrastructure, highlighting several examples of Asian firms realising opportunities in the Gulf's non-oil economy. It delves into AI as a growing area of collaboration, but one that comes with complex geopolitics.

Traditionally, Asia was primarily a source of consumer electronics for the Gulf. This remains the case, but Gulf-Asia trade has now broadened. The Gulf is procuring Asian expertise to push forward its digitalisation plans with the development of AI, cloud technology, 5G, fintech and digital assets. The Gulf's diversification strategies have spurred a construction boom marked by various giga-projects, urban construction and tourism projects. Asian greenfield FDI in the Gulf surged from US$4 billion to US$26 billion between 2018 and 2023, with China accounting for around US$17.5 billion of last year's investment. Over the same period, US greenfield investment has increased from US$4 billion to US$7 billion (The Economist, 2024). The Gulf is one of the largest centres for greenfield projects worldwide, with the UAE accounting for 1,280 greenfield FDI projects in 2023, an increase of 32 per cent from the previous year and second only to the US globally (Sambidge, 2024c). Asian firms and contractors have been central to developing these projects across the Gulf and delivering their associated infrastructure, driving the Pivot. Saudi Arabia's economic diversification is also attracting foreign investment into non-oil sectors. In 2023, the sectors that received the most foreign investment were automotive (US$5.6 billion), metals (US$5.5 billion), semiconductors (US$4.4 billion), chemicals (US$2.3 billion) and software and IT (US$1.9 billion) (ibid.).

Gulf non-oil trade has been driven by non-oil GDP growth, which has outpaced real GDP growth in most GCC economies, as Table 4 shows.

Table 4:
2024 Gulf Real GDP and Non-Oil GDP Growth Compared

Country	Projected Real GDP Growth (2024)	Projected Non-Oil GDP Growth (2024)
Saudi Arabia	1.5 %	4.8 %
UAE	4.0 %	3.2 %
Qatar	1.5 %	2.4 %
Kuwait	-2.7 %	2.1 %
Bahrain	3.0 %	4.0 %
Oman	1.0 %	2.7%

Sources: Fitch Ratings, 2024; IMF, 2024b; World Bank, 2024

The UAE is the only Gulf nation where non-oil growth is not expected to outstrip real GDP growth, but individual emirates are following the overall trend. Abu Dhabi's non-oil economy expanded by 9.1 per cent in 2023, whereas real GDP growth was 3.1 per cent. In particular, construction, finance services, transportation and storage sectors contributed more than 53 per cent to GDP (Abu Dhabi Department of Economic Development, 2024), Non-oil sector GDP growth in the Gulf provides a strong base for Gulf-Asia trade. Indeed, Saudi Arabia wants 50 per cent of non-oil GDP to come from exports by 2030. In 2023, it was around 15 per cent (The Economist, 2024). This will lead to demand for new factories and manufacturing facilities to drive exports, with Asian firms constructing them. The Gulf states will continue channelling investment into the non-oil economy. Saudi Arabia is expected to put 73 per cent of its total investments into non-oil sectors by 2030, with an expected US$1 trillion being pushed into renewables, mining and technology (Omar, 2024). Increased Gulf investment will lead to opportunities for closer Gulf-Asia collaboration.

AI: Increasing cooperation and complexity in Gulf-Asia ties

AI is not a new technology, but the release of ChatGPT in November 2022 with its potentially transformative impact across sectors has captured the imagination of governments, businesses and investors. The Gulf states recognise AI's potential to drive economic efficiency and innovation, fostering growth. This has led to significant investments and collaboration with Asian and Chinese technology firms to increase AI adoption in key industries.

Highlighting the growing importance of AI in the Gulf, in June 2024, Dubai's Crown Prince Sheikh Hamdan bin Mohammed appointed 22 chief AI officers to ensure it is integrated across government (Arabian Business, 2024e). Saudi Arabia has also invested significantly to show leadership in AI, creating a national strategy and new institutions such as the Saudi Data and AI Authority (SDAIA), and investing to upskill Saudis (Asia House, 2024). The Kingdom has also established the PIF-owned Saudi Company for

AI (SCAI) to forge international partnerships, leverage the private sector and invest in the technology. Qatar announced at the Qatar Economic Forum in May 2024 a US$2.47 billion AI incentive package to encourage widespread digital transformation (Farraj, 2024a).

Notwithstanding data protection regulations, the Gulf has not yet implemented any specific AI legislation, preferring to release national strategies or guidelines that are broadly friendly towards business interests (Hayward, 2024). This approach has attracted foreign firms, including Asian, to seek opportunities within the Gulf's AI sector.

We have seen various partnerships, investments, and JVs emerge between the Gulf and Asia, particularly China, over the last few years:

→ In 2020, Huawei and Saudi Arabia's SDAIA launched the National AI Capability Development Program to support the Saudi government, businesses, and research institutes identify technology partners and develop their talent (Huawei, 2020).

→ In September 2022, SCAI invested US$207 million in a JV with Hong Kong-headquartered SenseTime to boost Saudi AI via a dedicated R&D centre focusing on smart cities, healthcare and education (SenseTime, 2023).

→ In December 2022, during Xi Jinping's visit to Saudi Arabia, the King Abdullah University of Science and Technology (KAUST) and China's Sinovation Ventures signed an MoU on AI, covering employment opportunities, Arabic AI applications and investment (Saudi Press Agency, 2022).

→ In October 2023, KAUST launched AceGPT. This Arabic-focused LLM was built in collaboration with the Chinese University of Hong Kong and the Shenzhen Research Institute of Big Data (Olcott, 2024a).

→ In September 2024, the UAE AI company G42 launched an open-source Hindi LLM, Nada, to support the growth of India's AI ecosystem (Zawya, 2024e).

→ In September 2024, Saudi Arabia's Minister of Industry and Mineral Resources, Bandar Alkhorayef, announced that the Kingdom is exploring AI investment collaborations with Asian firms following his visit to Hong Kong, China and Singapore.

→ In October 2024, Singapore-based startup Dyna.Ai said it was in the process of registering on the Saudi market and opening a domestic office in the Kingdom. Dyna.Ai embeds AI in the financial services and fintech sectors (El-Shaeri, 2024).

However, this cooperation is not immune from difficulties arising from US-China tensions. Unlike other technologies, such as cloud, data centres, and communications, where the Gulf has successfully balanced between Washington and Beijing in procuring key technologies from both sides, there are growing signs that US-China tensions over AI are creating pressure for the Gulf states to choose sides. For example, whereas the Gulf was able to integrate Huawei's 5G communications technology across much of its network, US concerns over China gaining access to its advanced AI chips, such as those produced by Nvidia, are creating problems for the Gulf. Some Gulf entities have publicly announced strategies that overtly favour US providers.

Pressure started in August 2023, when the Biden administration banned some US investments in China's AI sector. Later, in October 2023, the US restricted licences to export advanced chips to the Middle East and Central Asia over fears they would be diverted to China (Hawkins and King, 2024). This impacts Gulf AI development. The export restrictions have prompted Nvidia to market a new set of lower-powered chips to China, such as the adapted H2O chip. Still, the politicisation of AI chip technology has reduced Chinese technology firms' ability to compete

(Bradshaw and McMorrow, 2024). This may account for some Gulf firms starting to favour US technology.

In February 2024, 42XFund, the investment arm of the UAE's leading AI company G42, divested from China, including around US$100 million in TikTok owner ByteDance (Cornish and Wiggins, 2024). Two months later, in April 2024, Microsoft announced a US$1.5 billion investment in G42, giving Microsoft a minority stake and a board seat and signalling a long-term US-UAE technology partnership. Indeed, the UAE's AI Minister, HE Omar Al Olama, told The Financial Times that this deal was the start of greater US-UAE technology collaboration and "complete alignment between the UAE and the US" in AI (Harris, 2024). Before the divestments, reports suggested there was building US pressure on G42. In June 2023, the White House reportedly expressed concerns to G42 chair and UAE national security advisor, Sheikh Tahnoun bin Zayed. In January 2024, the House Select Committee on the Chinese Communist Party called for an investigation into G42's ties to sanctioned Chinese entities (Clemmensen, Redlich and Rumley, 2024).

The Microsoft-G42 deal has spurred new UAE-US cooperation in AI. In September 2024, BlackRock, Global Infrastructure Partners, Microsoft and Mubadala-backed AI investment firm MGX announced the Global AI Infrastructure Investment Partnership (GAIIP) to invest in new data centres and the energy infrastructure to power them, as well as the expansion of existing centres (Microsoft, 2024). The fund targets US$100 billion in investments (Cos, 2024).

Qatar has also prioritised US partnerships in AI. In June 2024, Nvidia signed a deal with the country's largest telco, Ooredoo, to deploy AI technology in Qatar's data centres (Mills, 2024). The deal made Ooredoo the region's first company to have direct access to Nvidia's AI technology and was also Nvidia's first large-scale launch in the region. It also appears contrary to US restrictions on AI chip exports to the Middle East, suggesting possible US government support for the deal (ibid.). The partnership means that Ooredoo will have priority access to any new chipsets.

While 2024 has seen the UAE and Qatar move closer to the US, Saudi Arabia has continued to invest in Chinese AI capabilities and leverage them to develop its domestic capabilities:

→ In February 2024, SenseTime signed an MoU with the King Abdulaziz and His Companions Foundation for Giftedness and Creativity (Mawhiba) to train and upskill students in AI. This collaboration spans several initiatives, including an AI programme in Shanghai that trains Mawhiba graduates (Zawya, 2024f).

→ In May 2024, Prosperity7, a fund that is part of Aramco's VC arm, invested US$400 million in Chinese AI startup Zhipu AI. The company aims to develop a version of ChatGPT (Olcott, 2024b). This is the first known foreign firm to back a leading Chinese entity in generative AI (Zhang, 2024).

Nevertheless, some Saudi firms acknowledge the increasing difficulty of striking a balance between the US and China. For example, the CEO of Alat, a Saudi AI and semiconductor investment firm, said that if it was forced to choose, it would divest from its Chinese partnerships, stating that the US is "the number one market for AI, chips and [the] semiconductor industry" (Halftermeyer and Hawkins, 2024). Western firms still contribute to developing Saudi Arabia's AI ecosystem by building out cloud technology and data centres. At LEAP 2024, Saudi Arabia's international technology conference, a total of US$12.4 billion in deals was signed (Arabian Business, 2024f). Among the most significant were Amazon Web Services' US$5.3 billion investment to open a high-capacity cloud zone in 2026 and train local Saudi developers, IBM's US$250 million investment in a software development centre, and ServiceNow's US$500 million investment to launch its first data hub in the region (Khalil, Li and Sertin, 2024).

A key risk for the Pivot is that further deterioration in US-China ties could add pressure on the Gulf states to curtail their technological links with China. China's rising economic importance to the Gulf and fears this will translate into deeper Gulf-China AI cooperation may have spurred the US to compete with Beijing on AI in the region. Further US actions to stifle China's AI development could strengthen Washington's position as the partner of choice in the Gulf. It could also prompt the region to seek Asian expertise and technological solutions in AI from outside China.

Semiconductors and Gulf-Asia cooperation in other advanced technologies

Semiconductors are crucial in developing several sectors where Asia-Gulf cooperation is expanding, including AI, EVs and other advanced technologies. Global chip manufacturing is concentrated in Taiwan with other key hubs elsewhere in Asia, including China, South Korea, and Japan. The Gulf states are adopting long-term strategies to develop semiconductor manufacturing to expand their technological knowledge base and advanced industries. This would make local supply chains more resilient, shifting them away from Taiwan and its tense relationship with China and insulating the Gulf from trade barriers, such as the Biden administration's restriction on chip sales to the Middle East.

In June 2024, Saudi Arabia announced a semiconductor strategy and the National Semiconductor Hub to promote industry localisation. Under the plan, the Kingdom would design simple chips for manufacture internationally, at least in the medium term. Saudi Arabia also announced it wanted to attract 50 semiconductor firms by 2030 (Abuljadayel and Martin, 2024). The strategy will be supported by a US$266 million deep tech VC fund, with access to an additional US$40 million from the Kingdom's National Technology Development Program (Al-Barakati, 2024).

The UAE is also trying to become a producer of advanced semiconductors and is looking to the US for support, whereas Qatar, for the moment, does not seem to want to produce semi-conductors and is content to import them from suppliers like Nvidia (Heyes, 2024; Newman, 2024). Of course, manufacturing advanced semiconductor chips in the region will likely face obstacles, including the lack of talent and expertise, meaning collaboration with international partners in Asia and the US will be important. For example, Saudi Aramco's US$500 million VC arm, Wa'ed Ventures, recently invested US$15 million in South Korean startup and chipmaker Rebellions (Arab News, 2024e). The investment will enable the latter to accelerate its development of AI chips, including expanding into the Kingdom (ibid.).

Greater Gulf-Asia semiconductor cooperation could be on the horizon. In September 2024, The Wall Street Journal reported that executives from the world's largest chipmaker, Taiwan Semiconductor Manufacturing Co. (TSMC), had recently visited the UAE to discuss building a plant complex. South Korea's Samsung has also reportedly held similar discussions (Fitch, Ward and Sohn, 2024).

While Gulf-Asian AI cooperation has been complicated by US-China tensions, cooperation in other advanced technologies continues to develop. 2024 has seen more Asian companies expand into the region, including via deals involving Gulf investment. Saudi Arabia, for example, is increasingly tying investment to companies establishing a presence in the Kingdom.

PIF subsidiary Alat is particularly active in this area. In February 2024, it announced a US$200 million partnership with Dahua Technology, one of China's largest surveillance equipment manufacturers, to produce smart city cameras in the Kingdom and establish an R&D centre there (Reuters, 2024i). In the same month, Alat announced a US$150 million partnership with Japan's SoftBank Group to manufacture advanced robotics and establish a manufacturing and engineering hub in Riyadh. The first factory is expected to open in December 2024 (SoftBank Group, 2024). Similarly, in May

2024, Chinese computer manufacturer Lenovo issued US$2 billion in convertible bonds to Alat in exchange for the company establishing an RHQ and manufacturing plant in Saudi Arabia. SenseTime, Meituan and Tencent Cloud are reported to be engaging in similar deals (Olcott, 2024b).

Cybersecurity is crucial to protecting any digital economy and to increasing business and consumer confidence. There has been Saudi-Asia cooperation in this area during 2024. PIF's technology subsidiary, The Saudi Information Technology Company (SITE), announced a partnership with South Korean cybersecurity giant AhnLab to develop and localise cybersecurity technologies in the Kingdom (Arab News, 2024f). SITE will hold a 75 per cent stake in the JV, and AhnLab the remaining 25 per cent, with SITE investing more than US$133 million to carry out R&D and acquire a 10 per cent stake in the South Korean company (Kumar, 2024e).

Health tech, food security and gaming are other areas seeing increased cooperation. In health tech, the Qatar Computing Research Institute (QCRI) and Huawei recently developed the Smart Individualised Health Analytics (SIHA) platform, which can integrate data from Huawei's wearable GT 4 watch and access the real-time health data of Qatari residents to provide personalised healthcare (Heyes, 2024). Saudi gaming investments are also leading to enhanced cooperation through the brokering of a three-year partnership with China's Tencent to develop Saudi Arabia's gaming industry (Mathew, 2024). Finally, in September 2024, the UAE's Future Food Foundry (3F), an agri-food technology company, announced a more than US$20 million investment in NextGen Farms and Sustenir Group to create Singapore's largest plants superfoods ecosystem (Zawya, 2024g).

The Gulf is also trying to develop its VC industry to support entrepreneurs and startups in technology innovation. This is attracting Asian investors. Chinese VC firm MSA Capital plans to raise US$1 billion to back Middle Eastern tech startups (Abuljadayel, 2024). Backed by PIF's Jada Fund of Funds, MSA manages US$2.5 billion in assets. Should it successfully raise the targeted funds, it will become the largest VC firm focused on the region.

Fintech and digital assets

Fintech and digital assets sectors continue to expand in the Gulf and Asia, with both regions recognising the productivity gains that they can provide to businesses and consumers. The expansion is attracting mutual investment and cooperation and positioning the Gulf states as key hubs. The number of firms in the UAE's DIFC free zone that focus on fintech and innovation grew from 811 to 1,081 between H1 2023 and H1 2024 (DIFC, 2024b). The UAE also continues to implement new regulations to drive further fintech growth. In June 2024, the Central Bank of the UAE (CBUAE) issued the new Sandbox Conditions Regulation to attract global fintech startups and deploy a supervised regulatory framework to support innovation (Fintechnews Middle East, 2024a). While Saudi Arabia is earlier in its fintech development than the UAE, its ecosystem is growing. In 2023, 113 fintechs received licences from the Saudi Central Bank (SAMA), double the 51 licenced in 2021 (Fintech Saudi, 2023). As the Gulf fintech sector continues to grow, there will be more demand for filling talent and capital gaps, which could encourage greater Asian investment (Fintechnews Middle East, 2024b).

Digital assets and currencies are also developing in the Gulf. In March 2024, the DIFC enacted the world's first Digital Assets Law, which provided regulation, guidance, and increased legal certainty for investors using and transferring digital assets (Arabian Business, 2024g). The CBUAE also introduced a licensing system for stablecoins in July 2024. The UAE's work to create a favourable regulatory environment is attracting Asian digital asset firms. In April 2024, Singapore's Crypto.com was given a licence to trade in Dubai following approval from the Virtual Assets Regulatory Authority (VARA) (Arabian Business, 2024h). Singapore's Bybit moved its headquarters to Dubai in 2023, and Binance, the world's largest cryptocurrency exchange, which originated in Asia, gained a full operational licence for Dubai in April 2024 (Cabral, 2024b). In June 2024, South Korean crypto investment firm Hashed expanded into Abu Dhabi in partnership with Abu Dhabi's tech ecosystem Hub71 (Shen, 2024).

SAMA appointed a Crypto Chief in September 2022 but, in general, has been more cautious in introducing regulations on digital assets. But in recent months, the Kingdom has become more active in developing wholesale CBDCs. In June 2024, Saudi Arabia joined a China-dominated CBDC cross-border trial, Project mBridge, and will eventually become a full participant (Jones, 2024). Project mBridge was launched in 2021 between the central banks of China, Hong Kong, Thailand and the UAE, to use CBDCs as a cross-border payment method. The project could permit instantaneous currency settlements between these banks, paving the way for enhanced trade. While the future for cryptocurrencies as a digital asset looks uncertain, central bank CBDCs will probably become a more established feature.

Other recent examples of Saudi cooperation with Asian fintech and digital assets firms include:

- → OneDegree, Asia's first licensed insurer for digital assets, formed a partnership with Saudi Arabia's Walaa Cooperative Insurance Company. Walaa will support OneDegree as a reinsurer for its digital asset products (Zawya, 2024h).

- → Singapore's CODA Payments partnered with Saudi Arabia's Mobily telecommunications company in 2023 to facilitate payment solutions for mobile gaming and digital services (Zawya, 2024i).

- → Singapore's cross-border payments company, Thunes, collaborated with Saudi D360 Bank in 2023 to facilitate B2B payments and remittance services (Global Private Capital Association, 2024).

- → In May 2024, Saudi Arabia's Ministry of Investment signed an MoU with China's Ant International. Ant will establish itself in Saudi Arabia and offer payment solutions for merchants, including Alipay+ (Finexta, 2024).

- → During FII in October 2024, HKSTP and Beta Lab, a Saudi VC firm, signed a strategic cooperation agreement to provide Hong Kong fintech companies with financing from the new US$300 million investment fund (Yiu, 2024a).

Infrastructure, construction and desalination

The Gulf's economic diversification strategies have led to a construction boom, marked by the introduction of several giga-projects, urban construction, urban renewal and tourism projects. Asian firms have been central to several of these and are winning large contracts to deliver them. China's expertise and manpower in greenfield construction have assisted Gulf economic growth, particularly in infrastructure, ports, new urban areas, and real estate. China has invested heavily in Gulf ports, seeing them as important to securing oil supply. It has stakes in at least six Gulf ports, but Chinese influence goes beyond this because of the labourers and technological expertise it provides to build and modernise ports and infrastructure across the region (Liu, 2024).

We expect Saudi Arabia's hosting of large-scale events over the next decade to drive further Asian and Chinese cooperation in construction. The Kingdom is due to host the 2027 Asian Cup, the 2029 Asian Winter Games in Trojena, the 2030 Expo, the 2034 Asian Games in Riyadh and the 2034 FIFA World Cup. Under current plans, 11 new stadiums will be built for the latter. China is also involved in building and financing Saudi Arabia's NEOM mega city. Recent deals in construction and infrastructure that are not linked to hydrocarbons or renewables include:

- In January 2024, Dubai's DP World announced plans to invest US$3 billion in Gujarat, India, to develop new ports, terminals and economic zones over the next three years (Kumar, 2024b).

- In February 2024, Abu Dhabi and Shenzhen signed a Twin City agreement to share knowledge and collaborate on smart city projects across infrastructure, city planning, transportation, advanced technology, green mobility, sustainability and urban development (Arabian Business, 2024i). The agreement was signed during the inaugural Abu Dhabi x Shenzhen Innovation Forum (ibid.).

- At the same event, Abu Dhabi's Department of Municipalities and Transport signed strategic agreements with Shenzhen Urban Transport Planning Centre, Huawei, Templewater Hong Kong Limited and Kowloon Motor Bus Company to develop urban transport networks, enhanced data centres, IT infrastructure and sustainable public transport solutions (ibid.).

- In February 2024, China Railway Construction Corporation and SAMA Construction won a US$1.8 billion contract to construct Jeddah Stadium and four surrounding sports villages for the 2034 World Cup (Chang et al., 2024).

- In February 2024, China Harbor Engineering Co. won a US$1.4 billion contract from PIF's Jeddah Central Development Company to build an Oceanarium and Opera House (ibid.).

- In May 2024, China's CITIC Construction Group partnered with Saudi Arabia's National Housing Company to build 12 factories producing construction materials (EqualOcean News, 2024).

- In July 2024, a subsidiary of China's Baowu Steel announced it would increase its investment in a new Saudi facility to US$1 billion (The Economist, 2024).

- In July 2024, a partnership between China State Construction Engineering and Saudi Arabia's El Seif Engineering was awarded a US$2 billion contract for projects within the Saudi giga-project Diriyah Gate. They will build educational institutions, cultural venues, a luxury hotel and offices.

Asia House Chief Executive Michael Lawrence OBE Chairs the KAFD Dialogue on the 2024 Investment Outlook in Riyadh.

Gulf states are making significant investments in domestic industry, manufacturing and logistics to promote export growth and become global trading hubs. A key player in the Kingdom is the Saudi Authority for Industrial Cities and Technology Zones (MODON), which in 2024 announced a 63 per cent increase in new investments to US$3.9 billion (Arabian Business, 2024j). The UAE's strategic initiatives to boost exports appear to be paying off. Programmes such as its flagship National In-Country Value Programme, through which more than US$64.5 billion spent outside the UAE has been redirected locally, have boosted significant industrial growth (Arabian Business, 2024k). Asian expertise has been leveraged to deliver new industrial sites, ports and port modernisation. These new facilities and the Gulf's export drive are creating new market and expansion opportunities for Asian firms looking to set up in the region.

Finally, Asia is important to developing critical national infrastructure for the Gulf states. Water desalination and brine mining, particularly, are a key area of Saudi-China collaboration, which could grow further given expected increases in the Kingdom's population and domestic industry. In January 2024, the General Manager of Saudi Arabia's Saline Water Conversion Corporation (SWCC), Mohammed Al-Ghamdi, announced at the Future Minerals Forum the construction of two new plants for the extraction of essential minerals and salts from brine water in collaboration with Chinese partners (Asharq Al-Awsat, 2024). Once operational in Q1 2026, these plants will reduce waste from the desalination process and ease Saudi Arabia's reliance on mineral imports. In July 2023, a consortium including Power China and its subsidiary SEPCOIII was awarded the engineering, procurement and construction (EPC) contract for the Rabigh 4 Independent Water Plant on the Red Sea coast (ACWA Power, 2023).

This section has explored non-oil sectors that continue to benefit from enhanced Gulf-Asia ties. Gulf states, eager to push forward their digital transformation agendas, are increasingly procuring Asian expertise in emerging fields such as cloud technology, 5G, fintech and digital assets. AI is one area facing added complexity, with some Gulf states moving closer to the US following its restrictions on China. Expanding Gulf-Asia cooperation reflects the broader economic diversification strategies undertaken by the Gulf nations, where Asian firms play a central role in construction, infrastructure development, and the execution of giga-projects.

This trend is underpinned by the rapid growth of non-oil sectors across the region, often outpacing overall GDP growth. As Gulf economies continue to focus on these key areas, the region is poised to remain a pivotal market for Asian expertise and investment, enhancing cooperation between the two regions.

Interview with George Nazi, CEO, Saudi Company for Artificial Intelligence (SCAI)

George Nazi became CEO of SCAI in June 2024. Before joining SCAI, George served as the Global Vice President for the Telecom, Media & Entertainment, and Gaming industries at Google Cloud. He has also held senior roles at Accenture, Alcatel-Lucent, and British Telecom.

How can AI contribute to Saudi Arabia's economic diversification and digital transformation goals? In which Saudi sectors will AI have a particularly transformative impact?

Saudi Arabia recognises AI as one of the critical pillars of its economic diversification and digital transformation strategies, given its potential to drive innovation, establish knowledge-based industries, unlock new revenue streams, attract foreign investment, and create employment opportunities. These contributions align with the Kingdom's long-term vision of sustainable growth and global competitiveness.

Under Vision 2030, Saudi Arabia prioritises the integration of advanced digital technologies, with AI playing a vital role. With industry estimates highlighting AI's transformative economic potential in the region - AI is projected to contribute US$320 billion to the Middle East's economy by 2030, of which Saudi Arabia alone is expected to generate US$135.2 billion – it will have a decisive role in powering the Kingdom's economic development.

AI's transformative impact spans nearly all priority sectors outlined in Vision 2030, with particularly significant applications in healthcare, energy, education, finance, infrastructure, sports, and entertainment. To realise these opportunities, Saudi Arabia is proactively building robust digital infrastructure to support AI innovation and scalability and fostering an ecosystem of research, entrepreneurship, and public-private collaboration to propel AI advancements. The Kingdom is also strengthening its regulatory frameworks to ensure the ethical and responsible deployment of AI technologies. Through these initiatives, Saudi Arabia is positioning itself not only as a leader in AI adoption but also as a global standard for leveraging digital transformation to achieve sustainable, inclusive growth.

What is the Kingdom doing to establish itself as a global AI hub? How might engagement with Asia help accelerate progress towards this goal?

Saudi Arabia is strategically investing in advanced digital infrastructure and enhancing its digital policies and frameworks to position itself as a future-ready global AI leader. Central to these efforts is fostering partnerships with globally renowned AI and tech firms and hosting events like the Global AI Summit (GAIN), which showcase the Kingdom's growing prominence in the AI landscape and facilitate valuable knowledge exchanges.

The Kingdom is emphasising education and workforce development in AI to ensure it has the talent needed to drive its AI ambitions. It is equipping its workforce with cutting-edge expertise by integrating AI-focused training into educational systems and leveraging global partnerships. This approach is complemented by its collaboration with leading global tech companies and its active participation in international AI forums, signalling its commitment to advancing both local and global AI ecosystems.

In Asia, Saudi Arabia has built strong ties with tech giants in several countries. These partnerships aim to accelerate knowledge transfer, drive research and development, and facilitate the seamless implementation of AI across key Saudi sectors. Recent discussions include collaborations on AI, smart technologies, and automation with companies in Singapore and Hong Kong, and joint initiatives with South Korea on smart city innovations and projects.

Moreover, Asian nations stand to gain significantly from Saudi Arabia's export of innovative AI products and services, creating a mutually beneficial dynamic that strengthens Gulf-Asia ties while contributing to the global AI ecosystem.

What regions or countries in particular is the Kingdom looking to for partnerships and expertise in AI and digital transformation?

Saudi Arabia actively seeks partnerships with regions and countries that can contribute to advancing its AI and digital transformation objectives. Recognising the need for an accelerated approach to achieving its ambitions, the Kingdom is focused on key priorities such as strengthening digital infrastructure to enhance internet and technology access, bridging skill gaps in the workforce, incentivising private sector engagement in the digital economy, and attracting foreign investment to fuel innovation.

Saudi Arabia prioritises collaborations with leading AI nations, including Asian powerhouses such as India, South Korea, and Japan, as well as European leaders like Germany and the UK. Saudi Arabia also values its longstanding relationship with the US for its technological expertise. It is also committed to fostering regional innovation by collaborating with GCC neighbours on joint AI initiatives and advancing the regional digital ecosystem. In addition, Southeast Asian nations like Singapore and Malaysia, as well as Africa, present compelling prospects for collaboration in AI-driven growth.

Ultimately, Saudi Arabia aims to leverage global expertise and establish strategic partnerships that accelerate its journey to becoming a global hub for AI and technological innovation.

To what extent is Saudi Arabia collaborating with Asia on AI research, development and innovation to advance its own AI capabilities?

Saudi Arabia is actively collaborating with globally renowned institutions and companies across various domains, including AI-powered solutions, R&D, technology innovation, talent development, and knowledge exchange. These partnerships underscore the Kingdom's commitment to building a world-class AI ecosystem.

The King Abdullah University of Science (KAUST) has been instrumental in recruiting students and professors from top Asian universities and forging research partnerships that advance Saudi Arabia's AI capabilities.

Saudi Arabia's AI startup accelerator, GAIA, has supported startups from Asian technology leaders such as Taiwan and South Korea as part of its broader strategy to attract and nurture global AI talent.

On the corporate front, Saudi companies collaborate with leading Asian tech firms to develop solutions tailored to the Kingdom's needs. For example, NEOM's joint venture with Pony.ai focuses on manufacturing and deploying autonomous vehicles, autonomous driving services, and smart vehicle infrastructure, besides establishing a regional R&D and manufacturing headquarters aligned with Saudi Arabia's localisation goals.

These collaborations illustrate Saudi Arabia's strategic approach to leveraging global expertise while building a robust and localised AI ecosystem.

Looking ahead, what is your vision for Saudi-Asia collaboration in AI? Which sectors do you believe hold the greatest potential for partnerships?

Saudi Arabia's growing emphasis on AI makes its collaboration with Asia a dynamic and evolving partnership poised to strengthen further in the years ahead. Both Saudi Arabia and its Asian counterparts stand to benefit by leveraging complementary strengths in innovation, talent, and investment capacity to seize current and emerging opportunities. These partnerships will also play a pivotal role in addressing shared challenges such as achieving sustainability goals, improving quality of life, and combating global issues like climate change. Moreover, Saudi Arabia's ambition to establish itself as a global AI hub creates avenues for mutually beneficial exchanges of expertise, technology, and investments.

The Saudi-Asia collaboration in AI is likely to deepen through bilateral agreements, joint ventures, and participation in regional forums and platforms. With Saudi Arabia prioritising advancements in digital infrastructure and technology investments, there is significant scope for expanded cooperation. The Kingdom actively seeks AI-driven investments across sectors such as energy, biotechnology, Smart City development, healthcare, education, financial services, sports, and entertainment, in line with the transformative goals of Vision 2030.

As AI integration becomes central to Saudi Arabia's economy, the Kingdom will rely on both its indigenous capabilities and strategic partnerships to develop innovative solutions. According to industry forecasts, AI will contribute US$19.9 trillion to the global GDP through 2030, and the Saudi AI market will grow at an impressive CAGR of 42.6 per cent between 2024 and 2030. These projections underscore the immense potential for Saudi-Asia collaboration to not only advance their respective AI ecosystems but also make a substantial contribution to the global AI landscape.

6

Ongoing Trends Driving the Pivot

This section explores the key trends driving the Pivot, which are worth monitoring for businesses and policymakers. The three main trends are: growing SWF focus and investment in Asia, an exodus of Asian wealth and asset managers to the Gulf, particularly Dubai, and new regulations and programmes to develop the Gulf's capital markets, encouraging Asian capital flows

This section also explores the Gulf's shifting business and policy landscape and analyses its impact on the Pivot. The Gulf introduced more economic and social reforms in 2024, which will attract foreign investment, talent and businesses, including from Asia. Further steps have been taken towards economic integration, which can drive the Pivot by boosting Gulf growth and making it easier for Asian firms to operate between jurisdictions. Finally, Gulf-Asia trade and investment growth has prompted governments to liberalise visa policy and airlines to establish new routes, promoting greater people-to-people exchanges.

Rising Sovereign Wealth Fund interest in Asia

Gulf SWF interest in Asia continues to grow. These SWFs account for a large pool of capital within the global economy. In 2023, their assets topped US$4.1 trillion, about one-third of the US$12.7 trillion in SWF assets globally (Global SWF, 2024; Zawya, 2024j). Furthermore, in 2024, Gulf funds accounted for 54 per cent of the US$96 billion deployed by global SWFs – the highest amount since 2009 (Muzoriwa, 2024).

This capital is deployed in strategic sectors that the Gulf wants to develop to help diversification and create returns for future generations. SWF investment is often tied to knowledge-sharing and JVs that lead to company expansions and projects in the Gulf. SWF investment can also lead to seats on company boards and influence on decision-making.

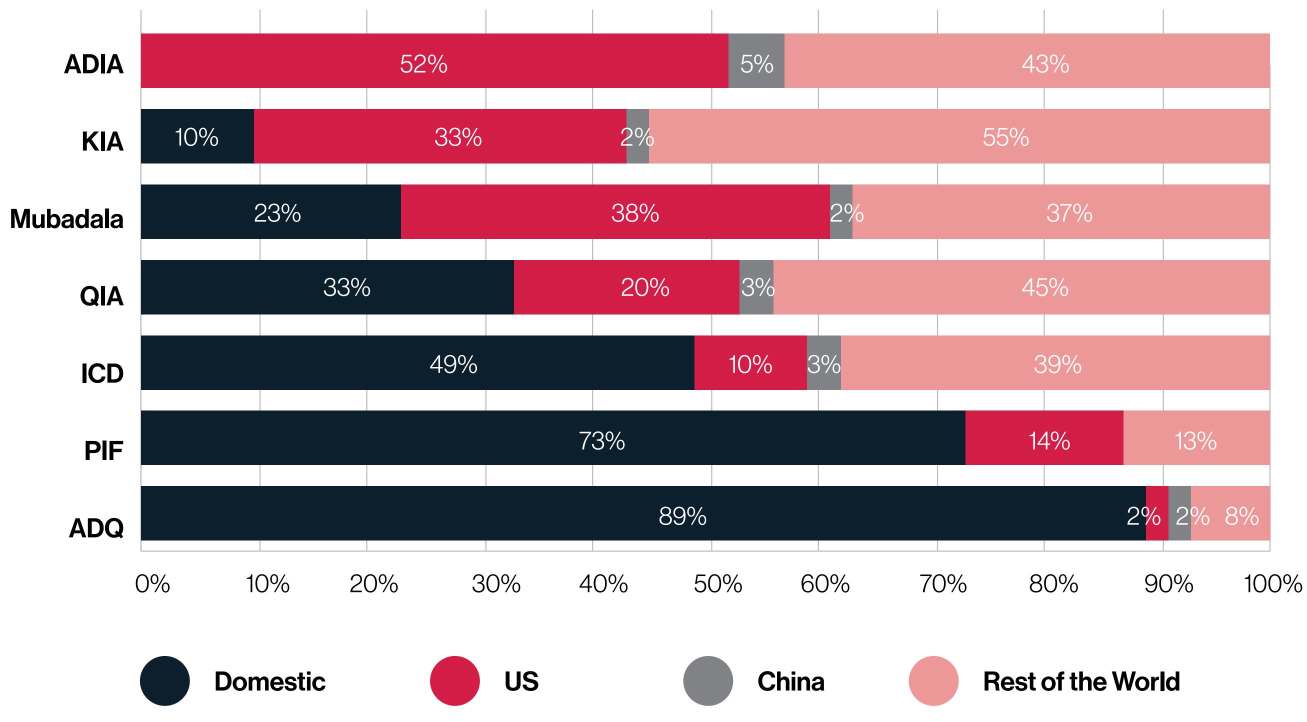
China is a significant market for Gulf SWF investments, totalling US$2.3 billion in 2023, a huge surge from US$100 million in 2022 and set to accelerate (Warner, 2024). In August 2024, PIF signed a MoU worth up to US$50 billion with six Chinese financial institutions (Dutton, 2024). According to PIF, the deals are aimed at "stimulating mutual capital flows through debt financing and capital markets". PIF opened a Hong Kong office in 2022 as a gateway to the Chinese market, and in December 2023 announced plans to open offices in mainland China (Liao, 2023). According to China's Ambassador to Saudi Arabia, Chang Hua, PIF's office in Beijing is due to open in 2024, with the fund also considering offices in Shanghai and Shenzhen (Argaam, 2023).

Other recent Gulf SWF investments in China include:

- In November 2023, the Qatar Investment Authority (QIA), alongside other backers, invested US$300 million in Chinese healthcare firm Wuxi XDC (Global Private Capital Association, 2024).
- In December 2023, PIF subsidiary Jada Fund of Funds invested in eWTP Arabia's US$1 billion growth fund aimed at tech startups in China, India, ASEAN and the Middle East (Nguyen, 2023). eWTP Arabia has since rebranded as ewpartners.
- In December 2023, QIA invested US$204.9 billion in China's Kingdee International Software Group. Kingdee is a Hong Kong-listed enterprise management software firm (Li, 2023).
- In Q1 2024, PIF increased its stake in Alibaba by 11 per cent to 1.61 million shares (Zawya, 2024k).
- In June 2024, QIA reportedly agreed to buy 10 per cent of China's second-largest mutual fund firm, ChinaAMC, from Hong Kong-based Primavera Capital. This would make QIA the third largest shareholder in ChinaAMC, which manages around US$248 billion in assets (Bloomberg, 2024a).
- In August 2024, Abu Dhabi's Mubadala and Asia's CBC Group acquired UCB Pharma's unit in China for US$680 million. The deal is expected to be finalised in Q4 2024 (Khan, 2024c).

Despite growing Gulf SWF investments in China, it is still a relatively new market for them, with funds predominantly focused on domestic markets and the US. For example, the Abu Dhabi Investment Authority (ADIA) has just 5 per cent of its portfolio allocated to China versus 52 per cent to the US. However, we are seeing Gulf SWFs form deeper partnerships with Asian General Partners (GPs), leading to more Gulf money being channelled into VC, real estate, and infrastructure funds (Global Private Capital Association, 2024).

Figure 20:
Gulf SWF investment allocations by region



Source: Global SWF, 2024

India is also receiving significant SWF investment. It is attractive because of consistently high economic growth rates, the world's largest population – with fast middle-class growth creating demand within the digital and service economies – and great potential to boost productivity through developing manufacturing and industrial sectors.

Technology has been a major theme of Gulf SWF investment in India, with landmark investments in Jio Platforms, Flipkart, Swiggy and Reliance Retail Ventures (Gibbon, 2024).

Recent Gulf SWF activity in India includes:

- In February 2024, Mubadala announced it would make an undisclosed investment in India's Manipal Health Enterprises, which runs more than 30 hospitals across India (Rahman, 2024b).

- In February 2024, ADIA was approved to set up a US$4-5 billion fund in India's newest special economic zone, Gujarat International Tec-City (Gift City) (Kumar, 2024f). In October 2024, ADIA opened a new office in the zone to accelerate its investment plans in India (Kumar, 2024g). ADIA is already heavily invested across various sectors, including energy, real estate, telecoms, retail and food manufacturing (ibid.).

- In March 2024, ADIA acquired shares in Indian budget airliner SpiceJet. No details were given about the stake or its value, but the investment could open new routes between Abu Dhabi and India, encouraging further trade and investment (Kumar, 2024h).

- In October 2024, it was reported that Adani Group was in talks with a Middle Eastern SWF to raise US$1 billion for its airport business. The SWF was not named, but Adani has previously worked with ADIA and QIA. Adani operates seven airports across India and plans to invest US$21 billion to build a new one in Navi Mumbai. Gulf investment in India's aviation sector could lead to more air routes connecting the two regions (Zawya, 2024l).

Gulf SWFs are also paying more attention to Asia's established markets. Since 2021, QIA has doubled its investments in Japan, totalling nearly US$646 million to date, largely from its Singapore base (Yamashita, 2024). One significant deal came in June 2023, when QIA took a minority stake in Kokusai Electric Corporation, a specialist semiconductor equipment manufacturer (Qatar Investment Authority, 2023). In May 2024, Mubadala signed an MoU with the South Korean Ministry of Economy and Finance to invest US$6 billion in expanding the UAE-South Korea investment cooperation framework (Kim and Yim, 2024). In July 2024, Hong Kong's ChaoShang Group signed a non-binding MoU with PIF for a potential US$500 million investment, which would provide financing to ChaoShang via US$100 million in convertible debentures and US$400 million for a loan (WAYA, 2024).

PIF has also increased its focus on Japan in recent years, investing substantially in its digital economy and gaming sectors to create private sector employment opportunities for its youth. In 2023, PIF invested in Japanese film company Toei and gaming companies Capcom and Nexon. PIF also holds a 7.54 per cent stake in Japanese video game giant Nintendo. However, this was reduced from 8.58 per cent in October 2024 (Turak and Browne, 2024). In January 2024, PIF increased its stake in another Japanese video game company, Koei and Tecmo, from 5.56 to 6.60 per cent (Arab News, 2024g).

Asian SWFs also seek to capitalise on Gulf growth and development of non-oil sectors. For example, Singaporean SWF Temasek has established a greater presence in Abu Dhabi through its property manager, Mapletree Investments, and asset management company, Seviora Holdings (Fattah, 2024b; Koh, 2024). Asian SWFs are also partnering with Gulf funds to facilitate investment. For example, in April 2024, Bahrain's Investcorp launched a US$1 billion fund with China's SWF, China Investment Corp. (CIC), to invest in Gulf and Chinese companies (Martin, 2024). Investcorp is the region's largest alternative asset manager and its largest shareholder is Mubadala, and CIC has US$1.35 trillion in assets (Martin, 2024; Nair, 2024b). The Golden Horizon Fund marks the first time CIC has invested in the Middle East (Sito, 2024).

As SWFs increasingly concentrate on Asia and expand their regional investments, the region will gain greater strategic significance for the Gulf. This shift will likely lead to increased political exchanges to safeguard these investments. Since Gulf SWFs are a major force in world finance, this trend is expected to influence the future global investment landscape.

Asian wealth managers head for the Gulf

Another growing trend is the influx of Asian wealth and asset managers setting up offices in the Gulf, and particularly Dubai, to capitalise on the region's economic diversification and warming ties with Asia. For example, Singapore's multi-family office, Farro Capital, established an office in Dubai in December 2023 while Singapore's Golden Gate Ventures opened an office in Saudi Arabia in 2023 (Global Private Capital Association, 2024). Noah Holdings, a Chinese wealth manager with US$23 billion in client assets, expects a business license in Dubai by the end of 2024 (Yu and Ngui, 2024). Hong Kong-based Tasang Group also said it planned to open offices in Abu Dhabi and Riyadh in 2024, following its entry into Dubai in 2022. Hong Kong's Landmark family office also wants to establish a presence in Dubai in 2024 (ibid.). Finally, Chinese private equity firm, CMC Capital Partners, opened an office in Abu Dhabi in February 2024 (Bartenstein, 2024). These are just a few examples of Asian wealth and asset managers' movements into the Gulf.

The surge in global asset managers entering the Gulf has been fuelled by UHNWIs and HNWIs flocking to the region. The UAE's introduction of new visas, such as the golden visa, a residency permit for expats valid for 5 to 10 years that grants holders certain privileges, to attract talented expats, is paying dividends, with wealthy citizens relocating to the UAE to enjoy the favourable tax and regulatory environment and high living standards. According to ADGM, Abu Dhabi reported a 211 per cent surge in assets between Q1 2023 and Q1 2024 (Kumar, 2024i). DFSA announced a 25 per cent increase in licences granted in 2023 (Arabian Business, 2024l). DIFC hosts more than 420 wealth and asset management firms, and as of June 2024, there were 112 funds registered in Abu Dhabi. The UAE's banking sector has grown in line with the influx of HNWIs and UHNWIs, with assets increasing by 3.1 per cent on the previous quarter in Q4 2023 to US$1.09 trillion (Arabian Business, 2024m).

The Pivot is increasing capital flows between Asia and the Gulf, creating work for asset managers and financial services firms. Cross-regional private capital deal value between the Middle East and Asia has totalled US$83 billion since 2020, compared to US$14 billion between 2016 and 2019 (Global Private Capital Association, 2024). India has been the top market in Asia for Middle Eastern funds and entities, accounting for more than half of all investment deals and 58 per cent of capital invested in Asia (Gibbon, 2024).

The influx of asset and wealth managers to the Gulf occurs in the context of competition with other Asian financial centres to manage private wealth and assets, most notably Hong Kong and Singapore. This is prompting these cities to introduce their own reforms and initiatives to compete. Hong Kong, for example, wants to deepen its status as a family office hub by offering tax and residency incentives and government support. The government wants to attract 200 family offices to the city by the end of 2025 (Feng and Ingles, 2024).

The Gulf's developing capital markets will increase Asian investment

The introduction of new regulations and programmes designed to grow the Gulf's capital markets is also attracting Asian capital flows. Over recent years, the Gulf states have introduced several reforms and products to increase liquidity and trading on their exchanges. The privatisation and listing of state-owned assets are a key mechanism of economic diversification. IPOs are becoming increasingly common across the Gulf and are often over-subscribed, demonstrating significant investor interest. This is also increasing the market capitalisation of Arab stock exchanges, which surpassed US$4.361 trillion in April 2024 (Arabian Business, 2024n). The Abu Dhabi Securities Exchange (ADX), The Dubai Financial Market (DFM) and Saudi Arabia's Tadawul reached US$754.7 billion, US$193.4 billion and US$2.87 trillion, respectively (ibid.). Increased listing activities in the region present a major opportunity for global banks and financial services firms, generating fees for both Asian and Western institutions.

The strong pipeline for Gulf IPOs continued in 2024, although H1 saw a 32 per cent decline in the value of IPO proceeds, with US$3.6 billion raised from 23 offerings (Hussain, 2024). Still, amid the continued expansion of Gulf capital markets, there will be greater opportunities for Asian investors to increase their exposure to Gulf equities and other investments. Capital market connectivity between Asia and the Gulf also increased in 2024, with Hong Kong in particular forging deeper links via ETFs.

The Gulf's largest IPO of 2024 came from Oman's state energy company, OQ, which raised US$2 billion by selling 25 per cent of its exploration and production business. This was the Gulf's largest deal since 2023, when ADNOC Gas raised US$2.5 billion (Cuesta, 2024a). One of the largest offerings in the Middle East for years came in July 2024, with Saudi Arabia raising US$12.35 billion from a secondary listing of Aramco shares and an additional US$1 billion after exercising a greenshoe option that allows banks to place more stock to meet investors' demand (Al Sayegh and Maccioni, 2024). Most purchases came from foreign sources.

Saudi Arabia continues to offer fertile ground for IPOs. In H1 2024, 59 per cent of total Gulf IPO proceeds were concentrated in the Kingdom, with US$2.1 billion raised from 19 offerings (Hussain, 2024). As of May 2024, more than 50 firms had applied to list in Saudi Arabia (Burke and Man, 2024). The hospital group Dr. Soliman Abdul Kader Fakeeh Hospital and its founding family raised US$763 million in what looks set to be the Kingdom's biggest IPO in 2024 (Bloomberg, 2024b). Saudi Arabia has recently introduced various initiatives to increase liquidity and trading, including derivatives trading, new indexes and more same-day settlements. There were high trading volumes on the Tadawul in 2024, with average daily traded value up 68 per cent from 2023 (Elbahrawy, 2024). Asia is now increasingly important to this trend, with the Hong Kong Exchanges and Clearing (HKEX) recently launching an ETF covering Saudi equities, the first of its kind in the Asia-Pacific. It tracks the FTSE Saudi Arabia index (HKEX, 2023).

It has been an active year for Gulf listings:

→ In December 2023, the Dubai government raised US$315 million from the IPO of Dubai Taxi Co (Fioretti, 2023).

→ In March 2024, the IPO of Parkin Co. PJSC raised US$400 million through a 25 per cent stake (Fioretti and Mathew, 2024).

→ Ramadan 2024 saw ADX and DFM log nine large deals worth US$435.6 million (Saleh, 2024). ADX saw five deals valued at US$186 million, including shares of e&, Emirates Insurance Company and three deals on the shares of Abu Dhabi National Hotels Company (2024d). DFM saw US$254.3 million worth of deals, including shares of Mashreq, Emirates NBD and two deals on GFH Financial Group equities (ibid.).

- → In May 2024, Rasan Information Technology Co., a Saudi fintech, raised US$224 million through its IPO. It was 129 times oversubscribed, with investors placing orders worth US$29 billion (Fioretti, 2024).
- → In May 2024, Spinneys 1961 Holding, a retail supermarket operator in the UAE and Oman, raised US$375 million in its IPO on DFM (Farraj, 2024b). It was 64 times oversubscribed.
- → In October 2024, one of the Middle East's largest hypermarket chains, LuLu Group International, floated a 25 per cent stake on the ADX, raising US$1.72 billion, with potential plans for a dual listing in Riyadh (Fioretti and Martin, 2024). The listing is the UAE's largest so far in 2024 and drew investment from Singapore's SWF, GIC (Cuesta, 2024b).
- → In October 2024, Saudi electronics retailer eXtra announced plans to sell a 30 per cent stake in its subsidiary Tasheel Finance, which provides non-banking financial services to eXtra's clients (Zawya, 2024m).
- → In October 2024, Saudi technology firm Ejada Systems announced it was considering an IPO in Riyadh to raise US$1.5 billion (Martin and Cuesta, 2024).
- → Delivery Hero announced plans to list its subsidiary Talabat, a food and Q-commerce delivery app, on DFM shortly after publication in December 2024 (Kumar, 2024j).

We expect further IPO activity. Oman has announced a privatisation strategy that could include some 30 listings over the next five years. It is seeking to be classified as an emerging market by Morgan Stanley Capital International (MSCI), which could lead to billions of dollars in passive investments (Bartenstein, 2023). Abu Dhabi's ADQ is reportedly considering listing Etihad Airways following discussions with banks (Fioretti, Parasie and Nair, 2024). The potential listing would be the first privatisation of a major Gulf hub carrier and could occur before the end of 2024 (Fioretti and Gopinath, 2024). In July 2024, PIF selected advisors to work on the floating of Saudi Arabia's largest medical procurement firm, Nupco, with ambitions to raise US$1 billion by listing a 30 per cent stake (Fioretti, Parasie and Nair, 2024). Saudi-based fintech Tabby is also planning an IPO (Lillywhite, 2024).

Currently, the flurry of listings is dominated by the floating of state-owned assets, but as Gulf capital markets grow, the nature of companies floating will change. According to a DIFC report, IPO growth in Dubai is expected in three phases: the privatisation of state-related entities, increased listings by family-owned companies and, finally, fintech and technology startup exits (DIFC, 2024c). By contrast, Saudi Arabia has many listings by privately owned firms.

Beyond IPOs and listings, 2024 has seen the forging of closer links between Gulf and Asian capital markets, with bourses on both sides exploring dual listings, which could boost mutual capital flows. Indeed, Mohammed Al-Rumaih, CEO of Saudi Exchange, recently said in Hong Kong, "we want to have a path ready" for firms ready to cross-list (Burke and Man, 2024). As of July 2024, Chinese investors can trade Saudi shares on two ETFs in Shanghai and Shenzhen (Bloomberg, 2024c). As Asian and Gulf retail investors grow richer and more sophisticated, we could see a reallocation of assets in both regions away from the West and towards Asia and the Gulf. Furthermore, HKEX and the Tadawul are working on an ETF in Riyadh that tracks Hong Kong's stock indexes. An ETF tracking Saudi shares is already listed in Hong Kong (Burke and Man, 2024). In July 2024, HKEX announced it had added ADX and DFM as recognised stock exchanges in addition to Tadawul, which was added in 2023 (HKEX, 2024). This will allow companies listed there to apply for a secondary listing in Hong Kong. The growth in potential for dual listings could allow firms on both sides to access new pools of investment and capital.

To summarise, Gulf capital markets have not just deepened and grown, fuelling Gulf economic diversification and opportunities for Asian investors, but 2024 has also seen several developments that increase Gulf and Asia capital market connectivity, accelerating capital flows between the regions and driving the Pivot.

Gulf economic and social reform attracts Asian investment and talent

Recognising the need to diversify their economies away from oil, the Gulf states have introduced fast-paced economic reforms over recent years to attract foreign investment. These have coincided with social reforms to create a more relaxed social environment and attract talent as well as tourism. Reforms have accelerated since the COVID-19 pandemic in an effort to encourage economic recovery and could quicken further as Gulf economies navigate a sustained period of lower oil prices. These reforms attract Asian investment and businesses to establish Gulf bases, encouraging more expats to relocate.

One major development over the past year has been Saudi Arabia's introduction of a new investment law. Taking effect in February 2025, it eases regulatory restrictions for domestic and international investors to boost their stakes in the Kingdom (Kamel, 2024b). The law aims to increase transparency and confidence for foreign investors to support Saudi Arabia's target of attracting US$100 billion annually in FDI by 2030. It includes guarantees of equal treatment for foreign investors, streamlined licensing requirements and more transparent dispute-resolution mechanisms (Merani, 2024c). The new law is expected to revive a backlog of deals that had fallen through due to unclear and complicated licensing processes and conditions on foreign investment (ibid.). The law will align with global standards and boost Asian investor confidence, driving the Pivot.

Bahrain's Golden License programme, introduced in 2023 to assist foreign firms with faster issuing of building permits and financing, is also working, with US$2.4 billion in investment across nine projects and 3,000 jobs created (Arabian Business, 2024o).

Other recent economic reforms include:

- In February 2024, the UAE removed the requirement for a US$272,000 advanced payment on real estate to obtain a golden visa. This means investors who own a property worth US$545,000 can qualify for a golden visa regardless of its mortgage status. This special class of residency permit for expats will attract further growth and investment (Arabian Business, 2024p).

- In February 2024, Saudi Arabia approved the Law for the Protection of Whistleblowers, Witnesses, Experts, and Victims (Arabian Business, 2024q). The law will encourage information sharing and reporting on corruption, increasing investor confidence.

- In February 2024, the UAE was removed from the Financial Action Task Force (FATF) so-called "grey list" (Norton Rose Fulbright, 2024). This move follows its introduction of compliance frameworks to strengthen Anti-Money Laundering (AML) regulations and legislation (Herbert Smith Freehills, 2024). In August 2024, the UAE amended its laws to elevate AML committees to be supervised by the Presidential Court and Cabinet (Greenberg Traurig LLP, 2024).

- In May 2024, the UAE's New Bankruptcy Law was enacted. It established new courts to improve speed and efficiency in dealing with company restructuring and insolvencies. The law moves the UAE more in line with international best practices (Addleshaw Goddard LLP, 2024).

- In July 2024, the CBUAE launched its "Zero Bureaucracy" initiative in the financial sector. This reduces bureaucratic burdens on businesses and individuals by eliminating 2,000 government procedures, halving processing times and removing other unnecessary practices (Fintechnews Middle East, 2024c).

- In August 2024, Saudi Arabia made amendments to its Labour Law that will take effect in February 2025. Full-pay maternity leave has been extended from 10 to 12 weeks. Bereavement leave has also been extended. The law also clarifies resignation procedures and probationary periods (King & Spalding, 2024).

The Gulf is also introducing social reforms to make it more attractive for foreign talent. Recent reforms include:

- In March 2024, the UAE approved expanded private sector health insurance policies to improve labour rights, taking effect in January 2025 and mandating private employers to provide health cover for all employees (Arabian Business, 2024r).

- In April 2024, Qatar introduced digital real estate registration.

- In May 2024, the UAE announced rules to clarify notice periods and contract termination. The notice period on both sides must be between 30 and 90 days (Arabian Business, 2024s).

- In June 2024, the UAE introduced reforms allowing abortions in the case of rape and incest (The Express Tribune, 2024).
  In June 2024, non-Emirati lawyers are permitted to represent clients in the Abu Dhabi Civil Family Court, which was established in 2021 to align the emirate more closely with international legal practices (Al Nowais, 2024).

- In July 2024, Saudi Arabia announced that maternity leave would now be financed through social insurance rather than employers. This reduces employer costs, improving female employment prospects and also ensures men and women pay equally for maternity leave provision (Saadah et al., 2024).

Another aspect of Gulf economic reform is encouraging more citizens to move into the private sector. By reducing public sector employment, government functions become more efficient. State revenue can be spent more productively on driving non-oil sector growth rather than on salaries for unnecessary or low-productivity public workers. Private sector growth is a key constituent of the diversification attracting Asian investment. The number of Emiratis working in the private sector reached 100,000 for the first time in May 2024, with more than 70,000 joining in the last two and a half years. The UAE wants 10 per cent of all jobs in the private sector to be taken up by citizens by the end of 2026 (The National, 2024c). Some 294,000 Saudis were hired by the private sector in the first nine months of 2024 (Saudi Gazette, 2024b).

With its significant expatriate population, one tool the UAE is leveraging to achieve labour localisation is Emiratisation, which provides companies in particular sectors with quotas to ensure a portion of jobs are filled by Emiratis. The other Gulf states have similar schemes to encourage national employment. This can, however, impose costs on companies. In January 2024, the UAE introduced new fines for companies not complying with Emiratisation (Al Shouk, 2024). In July 2024, the UAE announced further updates to include smaller companies, with 20 to 49 employees, in the Emiratisation drive (ibid.). The UAE is also investing in upskilling its local population to help companies comply with Emiratisation.

To summarise, the Gulf's commitment to economic and social reform is driving growth and foreign investment. The accelerated rate of regulatory and investment-friendly reforms, coupled with the creation of a less austere social atmosphere, is making the region an attractive destination for global and Asian talent and investment.

Gulf economic integration creates opportunities for Asian businesses

Gulf economic integration could boost regional productivity and allow Asian companies to operate seamlessly across borders. The Al-Ula declaration in early 2021 ended the dispute between Qatar and Saudi Arabia, the UAE, Bahrain and Egypt, restoring political and economic relations. Since then, several steps have been taken to integrate Gulf economies. This section examines recent developments in four areas: regulatory alignment, visas, infrastructure and cross-border investment.

Regulatory alignment

Greater GCC regulatory alignment makes it easier for Asian businesses to operate across GCC borders and boosts regional trade. The GCC has previously been slow to pursue regulatory alignment, but an early success was the 2003 establishment of a customs union with a common 5 per cent tariff on foreign goods. There has also been movement towards introducing common VAT regimes, though there are varying rates across the Gulf. In May 2024, the UAE and Qatar signed a deal to prevent double taxation and limit fiscal evasion of income taxes (Kumar, 2024k). Protecting companies from double taxation will stimulate bilateral trade (Arabian Business, 2024t).

Visas

The GCC is working towards a visa similar to Europe's Schengen scheme, allowing GCC residents and visitors to travel freely across the region. This would enhance economic connectivity and boost tourism. In June 2024, the GCC Secretary General confirmed that plans were progressing (Arabian Business, 2024u).

Infrastructure

Greater integration between the Gulf's ports, railways and logistics network would boost trade and create opportunities for Asian firms. While the GCC rail network project was stalled for over a decade, there has been some recent progress. The GCC Railways Authority was established in 2022, and the following year was given a budget and operating rules. GCC transport ministers also agreed on a deadline of December 2030 to complete the project. The UAE's Etihad Rail and Oman Rail will commence work on the US$3 billion Hafeet Rail, a railway network connecting Oman's Sohar Port to the UAE's network (Kumar, 2024l). In October the project secured US$1.5 billion in financing (Rahman and Sharma, 2024). It will benefit businesses and tourism and enhance logistics connectivity. For example, once complete it will take 100 minutes to transport over 15,000 tonnes of carbo between Abu Dhabi and Sohar Port (Arabian Business, 2024v).

Cross-border investment and trade

The Gulf states are increasingly brokering cross-border investment deals to support and realise gains from one another's diversification. In February 2024, QIA announced the launch of Qatar's first VC Fund of Funds, which will invest more than US$1 billion in international funds to create a vibrant VC and startup ecosystem in Qatar and the wider GCC (Fintechnews Middle East, 2024d). In April 2024, the UAE and Oman established investment agreements worth more than US$35 billion in multiple sectors, including digital infrastructure and technology, renewable energy and railway logistics.

The GCC and the UAE separately have also progressed and brokered trade deals with regional partners, boosting regional economic integration. In March 2024, GCC countries and Türkiye announced they would start formal negotiations towards an FTA (Reuters, 2024j). The agreement would create one of the world's largest free trade areas, with a total value of US$2.4 trillion (ibid.). The announcement also signals continued rapprochement between Turkish President Recep Tayyip Erdoğan and Saudi Arabia, the UAE and Bahrain, after previous fractious relationships.

In October 2024, the UAE signed a CEPA with Jordan, its first with another Arab nation. The CEPA aims to facilitate bilateral investment (which currently exceeds US$22.5 billion) in key industries, including industrial, energy, agriculture and food security, as well as bolster non-oil trade. This reached US$4.2 billion in 2023 and is projected to rise beyond US$8 billion by 2031 (Kumar, 2024m). The CEPA lowers trade barriers and harmonises customs procedures.

New air routes and growing people-to-people exchanges boost Gulf-Asia ties

The Pivot has increased demand for new air routes between the Gulf and Asia that will encourage people-to-people exchanges, further boosting trade, investment and tourism. Greater people-to-people exchanges will bring deeper cultural, educational, and soft power links, fostering understanding and enhancing business connectivity and tourism. More air links opened in 2024 between the Gulf and Asia to meet growing demand. The following routes were established:

→ In April, China Eastern Airlines launched three weekly direct flights between Shanghai and Riyadh (Arabian Business 2024w).

→ In April, Garuda Indonesia, the national airline, began daily direct flights between Jakarta and Doha (The Jakarta Post, 2024).

→ In June, Dubai's Emirates launched a new daily service to Tokyo Haneda Airport (Travel and Tour World, 2024).

→ In June, China Southern Airlines inaugurated direct flights from Shenzhen to Riyadh. Saudi Arabia sees China as a significant source of tourism and wants to attract 50 million Chinese visitors by 2030 (Travel and Tour World, 2024).

→ In June, Etihad signed a JV with China Eastern Airlines which is expected to commence in early 2025. The deal will see the airlines share trunk routes and revenue and could encourage more routes between Abu Dhabi and China over the long term (Kamel and Jain, 2024).

→ In October, Cathay Pacific announced it would resume direct flights between Hong Kong and Riyadh, which were stopped in 2017 (Yau, 2024).

→ In October, Bahrain's Gulf Air launched a daily service to Singapore (Welch, 2024).

→ In October, Saudia inaugurated a twice-weekly service from the centre of Saudi Arabia's oil industry, Dammam, to Beijing (Zawya, 2024n).

The above list is not exhaustive, and the opening of new air routes to Asia coincides with massive Gulf investment in aviation. Saudi Arabia wants to boost its aviation sector's contribution to GDP by tenfold to US$2 billion and attract 150 million tourists annually by 2030 (Al-Rashdan and Martin, 2024). It is investing heavily to achieve this. Saudia, the Kingdom's flagship airline, ordered 105 jets from Airbus SE in May 2024 – the largest deal in its history (Al-Rashdan, 2024). PIF has also launched a new airline called Riyadh Air which plans to serve 330 million passengers by 2030. It ordered 72 Boeing Dreamliners in 2023 and announced an order of 60 Airbus aircraft in 2024 (Smith, 2024). This will possibly lead to more routes to Asia. In June 2024, Riyadh Air signed a deal with China Eastern Airlines to enhance digital collaboration and connectivity (Arab News, 2024h). PIF has also formed strategic partnerships with Singapore Airlines and Air China to focus on codeshare arrangements, cargo services, and customer experience (Fast Company Middle East, 2024).

Conclusion

The Middle East Pivot to Asia represents a transformative shift in the global economic and geopolitical landscape. Despite temporary challenges such as fluctuating oil prices, regional conflicts and intensifying global competition, the strategic alignment between Gulf states and Asian economies continues to strengthen.

Robust energy trade, increased investments in renewable energy and expanding cooperation in non-oil sectors such as technology, infrastructure and financial services, indicate that the trend is not just continuing, but accelerating. With Gulf-Asia trade growth outpacing Gulf-Advanced Economies trade growth for more than a decade and expected to expand from US$451 billion in 2023 to around US$682 billion by 2030, and Gulf-China trade projected to surpass Gulf-West trade by 2027, trade between the regions remains on an upward trajectory. Additionally, deeper diplomatic relationships and increasing strategic investments show that the economic interdependence between these regions is poised to intensify further.

Gulf-Asia collaboration is fostering innovation, investment and integration, creating opportunities in both regions. Gulf investments in Asia are advancing joint ventures and knowledge-sharing, while Asian firms are expanding their activities in Gulf economies amid regulatory reform and diversification initiatives. As Gulf and Asian economies increasingly align their strategic priorities, they are becoming ever more pivotal to one another's growth and reshaping global capital flows and trade networks. The Middle East Pivot to Asia reflects a significant global realignment, offering extensive opportunities for stakeholders across sectors in both regions and signalling a new era of economic and geopolitical cooperation.

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