

## WORLD TRADE

# Back to the future

The Gulf countries stand to enhance their global position from growing trade and diplomatic relationships with Asia

**I**N the past, the Gulf looked East – Arab dhows sailed the Indian Ocean and Asian caravans transported textiles and spices across the desert's trade corridors. More recently, having acquired oil wealth and an increasingly important role in the global economy, the Gulf Co-operation Council (GCC) countries have developed deeper and stronger ties with the West. These ties cover a broad spectrum, from geopolitical interests to pegged currencies, and with time have built a sense of mutual trust.

As oil rose to constitute one-third of its gross domestic product (GDP) and three-quarters of annual government revenues, the GCC has looked to the US as a partner and guarantor of security. It has also invested heavily – almost 75 per cent of its foreign assets – in the US and Europe, comfortable with their developed and transparent judicial systems.

But, going forward, can this recipe work as well? The world is changing rapidly. The recent crisis has hit the West hard. The Gulf needs investments and manpower. Its fast-growing population, up from 28 million in 1998 to 39 million in 2008, is one of the youngest and highest spending in the world.

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All GCC countries are now members of the World Trade Organisation, with a string of free-trade agreements expected over the coming years. At the same time, China has become the world's leading exporter, and a voracious importer of oil and other natural resources.

The GCC's relations with Asian countries, until recently confined to political and diplomatic domains, are expanding. In just 10 years, trade and investment between the Middle East and Asia quadrupled, and over the next decade are expected to rise further. Energy dominates trade. About 50 per cent of China and India's energy imports come from the Gulf, as does more than one-third of China's crude oil needs. But non-energy trade is also growing fast: the GCC's non-oil exports to Asia are now 40 per cent of total exports, and Saudi Arabia recently became the leading petrochemical supplier to China's textile industry.

Asian companies seek out Gulf markets for their goods. Chinese corporations are building railways in Saudi Arabia. A South Korean group recently won a \$40 billion deal to build

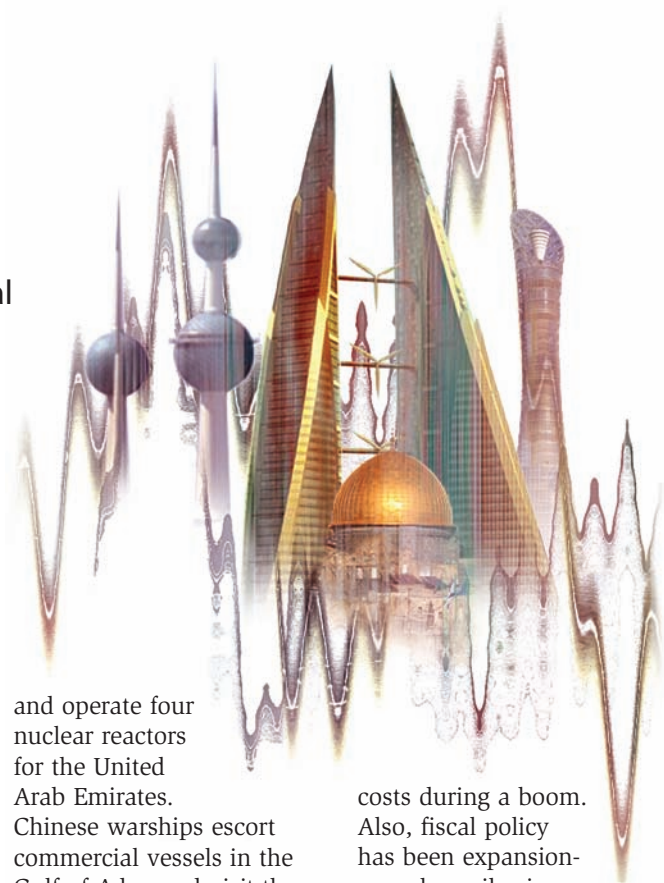


Illustration: Tim Gravestock

and operate four nuclear reactors for the United Arab Emirates. Chinese warships escort commercial vessels in the Gulf of Aden and visit the region's ports.

Within 10 years, the GCC is expected to provide nearly one-quarter of the world's oil supplies, as well as increasing quantities of petrochemicals, metals and plastics. Where are the buyers? As much as 60 per cent of the world's population lives in Asia, where the urban numbers will grow by 900 million over the next two decades. The "new Silk Road" is re-emerging as an important East-East corridor and a major trading bloc.

Additionally, the Gulf's monetary and fiscal policies are struggling to achieve price stability and sustainable growth. Rising inflation and differing economic cycles from the US have raised questions about the dollar peg. In 2007, a pegged exchange rate forced the GCC central banks to follow US interest rates, de facto decreasing financing

costs during a boom. Also, fiscal policy has been expansionary when oil prices are high, rather than when the business cycle is in a contraction.

The GCC is finding its place in a fast changing world, where Asia is the new engine of global growth. The oil-rich Gulf and an "energy hungry" Asia are intensifying their political relations and boosting their financial ties. This rapprochement makes strategic, political, economic and financial sense.

Over the course of the 21st century, the Gulf's substantial financial liquidity will be available to finance Asia's high growth, and the region will achieve a stronger global position. ■

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