

ECONOMY

New trade, old routes

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LAST month, Kuwaiti Emir Shaikh Sabah al Ahmad al Sabah travelled to China. During the four-day state visit, the two governments signed five agreements – in the fields of energy, infrastructure, education, sport and environmental protection.

Why are Kuwait and China strengthening their relationship? Because, slowly but surely, the globe's centre of economic gravity is moving to Asia. This tectonic shift in the world economy often gets overlooked.

Remarkably, in the midst of this global recession, the Middle East and Asia keep growing and their links keep strengthening. Almost daily, the oil-rich Gulf and an energy-hungry Asia are intensifying their political relations and boosting economic ties. Over the last 10 years, trade and investment between the two regions quadrupled, and are expected to rise further over the next decade.

Co-operation between Kuwait and China has also deepened. In 2008, the Sino-Kuwaiti trade volume hit a record high of \$6.78 billion, up by 85 per cent from \$3.67 billion of 2007. Last April, Kuwait awarded a \$403 million contract to the China Petroleum and Chemical Corporation, known as Sinopec, to build five oil and gas rigs on Kuwaiti soil in order to achieve by 2020 an oil production capacity of four million barrels a day.

While this is impressive, it is far from new. The truth is that, day after day, the Arab world and Asia are rediscovering their

history, a legacy of trade ties and investment corridors. In short, it is new trade on old routes.

Dubbed the “new Silk Road”, this road is regularly travelled by a growing number of heads of state, paying each other visits, building mutual trust, and enhancing economic ties. In 2006, after his succession to the Saudi throne, King Abdullah chose China for his first official trip. The Chinese President Hu Jintao returned the visit the very same year and, in early 2009, he was back in Riyadh. In 2007, the United Arab Emirate's Prime Minister, Shaikh Mohammed bin Rashid al Maktoum, visited India to promote bilateral strategic co-operation. Each of these trips resulted in dozens of agreements and signed deals.

Of course, there are challenges. The global crisis has hit Asia hard. Historically, economic growth has been fuelled by exports and by international financing. But worldwide demand for Asian products has collapsed and deleveraging has dramatically reduced available resources.

Asian governments are reacting with forceful policies, such as sustained reductions in interest rates and sizeable fiscal stimuli. However, to fully recover, the region's economies need to await an improvement in the global economy and, above all, they need to rebalance their growth model – from exports to domestic demand. The recent crisis has revealed that flying on just one growth engine is too risky, especially in

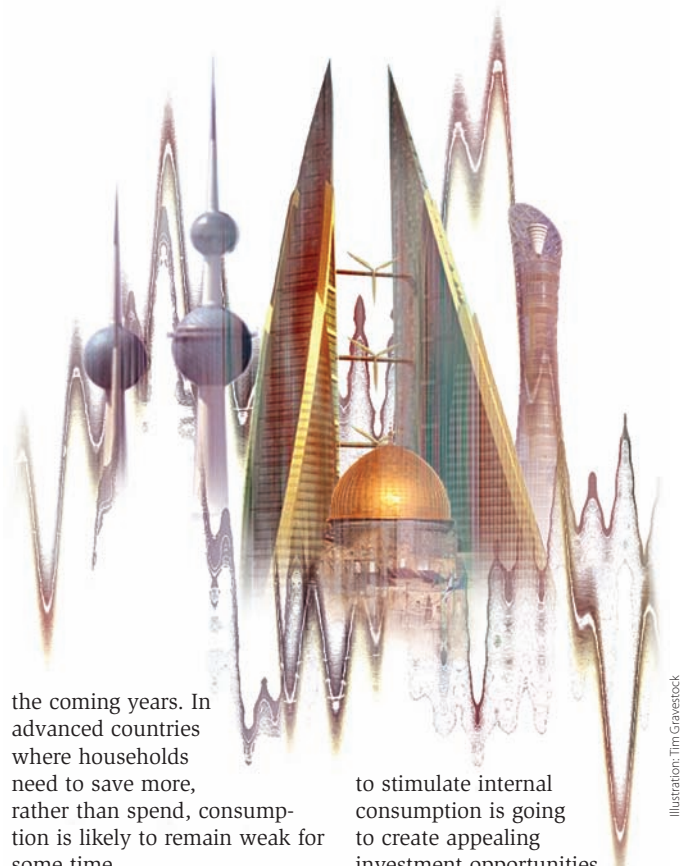


Illustration: Tim Gravestock

the coming years. In advanced countries where households need to save more, rather than spend, consumption is likely to remain weak for some time.

Asian policymakers know all too well what happened in Japan during the 1990s. Export dependence can be dangerous; and to avoid a Japan-like stagnation, Asia is actively promoting local demand. China's recent policy actions are designed to stimulate domestic consumption, such as auto sales, healthcare and rural income. Most Asian countries are also considering structural reforms, such as plans to reduce precautionary savings, for example, to meet health, education and retirement expenses, by modernising their tax and financial systems and establishing social protection schemes.

In short, Asia is turning to domestic demand for its future growth. Given Asia's size – it is the largest continent in the world, with four billion people, or 60 per cent of the world's total population – the push

to stimulate internal consumption is going to create appealing investment opportunities for the Gulf countries in energy, infrastructure, real estate and financial services.

The new Silk Road is re-emerging as an important eastern trade corridor. In the past, Arab dhows sailed the waters of the Indian Ocean, and Asian caravans transported textiles and spices across the desert. Today, Middle Eastern resources – above all, capital and energy – spur East Asian growth, and Asian governments seek supplies for their domestic demand and markets for their goods in the Arab world. ■

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