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ASIA-GCC RELATIONS: GROWING INTERDEPENDENCE

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GCC-Asia trade relations have grown substantially over the past few years and have largely substituted for trade between the GCC and the Unites States and Europe. In the process, Asia has become the GCC's most important trading partner accounting for nearly 60 per cent of its total foreign trade. Both the GCC and Asia have become vital to the world economy as big exporters. Asia has successfully positioned itself as the centre for the manufacture of goods for export and the GCC remains the top region for energy exports. The International Energy Agency (IEA) expects energy trade between the Middle East and Asia to grow rapidly in years to come as the US moves towards energy self-sufficiency. Asia could account for up to 90 per cent of oil exports from the Middle East in the future. Yet despite this optimistic outlook, there are significant challenges awaiting the development of Asian - GCC relations in the medium and long term.

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The emergence of China and India as global powers may become inevitable and may have significant implications for the Gulf region and beyond. The U.S. National Intelligence Council in its latest report 'Global Trends 2030: Alternative Worlds', describes a world that will be radically transformed from what we know today. In a tectonic shift, by 2030, the reports says "Asia will have surpassed North America and Europe combined in terms of global power, based upon GDP, population size, military spending, and technological investment"[1]. China is projected to overtake the US as the largest economy by 2017 in purchasing power parity (PPP) terms and by 2027 in market exchange rate terms. India should become the third 'global economic giant' by 2030[2].

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Meanwhile the GCC is rapidly becoming a global trading bloc with total merchandise trade of more than $1.4 trillion in end-2012[3]. The gross domestic product (GDP) in the GCC states rose by around 6% in 2012, reaching over $1.5 trillion, making the GCC countries rank 12 globally[4]. The GCC exports have reached over $934 billion, ranking the fourth in the world after China, the US, and Germany last year[5]. The GCC imports amounted to USD 484.2 billion ranking the ninth in the world[6]. Further highlighting the importance of the GCC countries, the combined foreign assets of GCC governments, state institutions, and banking systems (i.e. excluding non-financial corporate sector), are estimated over $2.2 trillion by the end-2012 and projected to rise to US$2.5 trillion end-2013[7].

The Emerging Economic Giants

Trade is at the heart of the growing links between the countries of GCC and Asia, which centre mostly on the crude oil, petrochemicals industries. Both the GCC and Asia have become vital to the world economy as big

[1] National Intelligence Council, Global Trends 2030: Alternatives World, December 2012, p. 16.

[2] PwC, *World in 2050: The BRICs and beyond: prospects, challenges and opportunities*, January 2013, p. 2.

[3] IMF, Direction of Trade Statistics (DOTS), May, 2013, http://elibrary_data.imf.org/ and WTO, International Trade Statistics 2013, http://www.wto.org/english/res_e/statis_e/statis_e.htm, (accessed 10 May 2013).

[4] IMF, *Report for Selected Countries and Subjects*, World Economic Outlook Database, April 2013, http://www.imf.org/external/data.htm (accessed 2 May 2013).

[5] IMF and WTO, *op. cit.*

[6] *Ibidem.*

[7] G.T. ABED, *GCC Regional Overview*, Washington DC, Institute of International Finance, 12 May 2013.

exporters. Asia has successfully positioned itself as the centre for the manufacture of goods for export and the GCC remains the top region for energy exports.

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GCC countries trade with most Asian countries including Japan, India, China, (Taiwan)[8] South Korea, Singapore, Thailand, Pakistan, Malaysia, Indonesia, Hong Kong, Philippines, Vietnam, Bangladesh, and Sri Lanka. However, four countries merit particular attention, China, India, Japan, and South Korea for several reasons:

- Politically, China is a permanent member of the U.N. Security Council, while Japan has engaged in a campaign for a permanent seat on the UN Security Council. India is also bidding to join as a permanent member.
- Economically, Japan, China, South Korea and India are among GCC's six largest trade partners (EU is the top partner and the US is the fifth) and between them constitute over 72% of GCC trade with Asia and over 41% of total GCC foreign trade[9].
- In terms of energy, the emerging economies of China, India, Japan and South Korea with the U.S and Germany were the top world Oil net importers in 2012. Furthermore, the four Asian powers accounted for more than two-thirds (68% or 20.25 mb/d – almost half of it by China alone) of Asia's total oil consumption (29.43 mb/d) in 2012[10]. As for natural gas, the four countries – Japan, South Korea, China and India – accounted for about two thirds of global Liquefied Natural Gas (LNG) demand in 2012[11].
- Militarily, China and India will become very important actors, while Japan and South Korea will also play significant roles[12].

[8] GCC countries support 'One China' policy and consider Taiwan as part of China mainland.
[9] Adapted from IMF, DOTS, May 2013, http://elibrary_data.imf.org/, (accessed 15 May 2013).
[10] International Energy Agency (IEA), *The Oil Market*, 11 April 2013, http://omrpublic.iea.org/, (accessed 8 May 2013).
[11] IEA, *Developing a Natural Gas Trading Hub in Asia: Obstacles and Opportunities*, Paris, 2013, p. 20.
[12] G. KEMP, *The East moves West: India, China, and Asia's growing presence in the Middle East*, Washington DC, Brookings Institution Press, 2010, p. 229.

Table 1 - The Economics Importance of Asian Powers

	World ranking (by economy 2012)[a]	World ranking (by economy 2030)[b]	GDP (2012)[c]	World ranking (by military expenditure 2012)[d]	Ranking as trade partner with GCC (2012)[e]
China[f]	2	1	$8.2 trillion	2 [166.0 $ billion]	4th (10.8% of total = $151.4 billion)
Japan	3	4	$5.9 trillion	5 [59.3 $ billion]	2nd (12.1% of total = $170.4 billion)
India	10	3	$1.8 trillion	8 [46.1 $ billion]	3rd (10.8% of total = $152.6 billion)
S. Korea	15	14	$1.1 trillion	12 [31.7 $ billion]	6th (8.2% of total = 116.70 billion)

Source: (a) & (e) All figures adapted from IMF, World Economic Outlook April 2013 and IMF, DOTS, http://elibrary-data.imf.org/ (accessed 11 May 2013); (b) In purchasing power parity (PPP) terms, "World in 2050", p. 2; (c) Nominal; (d) SIPRI military expenditure database; and (f) Figures exclude Taiwan, Hong Kong and Macau.

The Logic behind the Economic boom

Asia's oil importers view Arab Gulf States with great importance for several reasons: (a) Their history as a reliable partner with all of its customers; (b) They are the world's largest petroleum exporter, with current crude oil production capacity at over 20 million barrels per day; (c) The GCC counties have a vast amount of oil which Asia desires. Asian states realize that nearly 30% of the world's proven oil reserves are located in GCC countries[13]. (d) The GCC as a block is one of the largest economies among the world (GDP estimates over $1.5 trillion in 2012); and (e) Asian powers recognize that GCC countries, the leading members of the Organization of Petroleum Exporting Countries (OPEC), will play (at least in the next decade) an increasingly vital role in supplying Asia's energy in the future.

On the other hand, GCC countries are adopting a 'Look East' policy and sees Asia as one of the most important strategic markets for its energy exports. Above all, the GCC states recognize that oil demand is shifting to Asia, and China (with India) is expected to account for much of the growing demand within the next two decades. GCC officials increasingly see the writing on China's 'Great Wall': China will be their biggest oil market in the future, making it important to cultivate good relations with China.

GCC countries are adopting a 'Look East' policy and sees Asia as one of the most important strategic markets for its energy exports

In this context, GCC-Asia trade relations have grown substantially over the past few years and have largely substituted for trade between the GCC

[13] «BP Statistical Review of World Energy», June 2012, p. 6

and western countries. In the process, Asia has become the GCC's most important trading partner. In the last five years alone, GCC[14]-Asia[15] trade almost doubled from $480 billion in 2008 to a staggering $814 billion last year. Asia is the largest trading partner for the GCC, accounting for over 57% of its total trade. Tellingly, over the last two decades, the US and EU accounted for 40% of GCC trade; today that figure is down to just around 21%. By contrast, China's share rose from less than 2% in 1992 to over 10.6% in 2012. India's share rose from 3% to more than 10.7% during the same period[16].

Aside from commodity and manufactured products, infrastructure investment flows have also been gaining momentum between the GCC and Asia. Examples include the gas exploration activities in Saudi Arabia by China Petroleum & Chemical Corp. (Sinopec), Korea Electric Power's nuclear power plant megaproject in the UAE, and Chinese telecom and network supplier Huawei Technologies building communication networks. GCC companies also are investing in Asia include Saudi Telecom, Etilasat, Qatar Telecom's ventures in the Malaysian and Indonesian telecommunication sectors, the UAE's expansion into the semiconductor industry in Singapore, and investments by Kuwait-and Saudi Arabia-based companies in refinery projects in China[17], Indonesia, Vietnam, and India.

Asian contractors have also been prominent in the Gulf construction projects which typically use labour imported from countries such as India, Pakistan, Bangladesh and Nepal. Currently, there is $157.4 billion-worth of schemes under way in GCC. South Korean companies have won the lion's share of the Gulf's engineering, procurement and construction (EPC) awards. The companies from South Korea, China, Japan and Singapore won projects at almost $58.3 billion, with approximately $45.8billion;

[14] GCC= Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
[15] Asia= Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao P.D.R., Malaysia, Maldives, Marshall Islands, Micronesia, Hong Kong, Japan, Mongolia, Myanmar, Nepal, Papua New Guinea Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu Vanuatu, Vietnam, Pakistan, Singapore, South Korea and Taiwan.
[16] A. ALUWAISHEQ, *The GCC turns East*, Arab News, 16 December 2012, http://www.arabillionews.com/gcc-turns-east (accessed 10 May 2013) and IMF, DOTS, http://elibrary_data.imf.org/, (accessed 15 May 2013).
[17] Standard & Poor's, *Beyond Borders: The GCC and Asia Could Rev up Their Economies-And The Islamic Finance Market*, 12 September 2012, https://www.standardandpoors.com/spf/ratings/12.09.12_SukukandInfra_MR.pdf, (accessed 10 May 2013).

$7.2billion and $3.8billion and 1.5 billion-worth of work respectively[18]. Looking forward, between 2013 and the end of 2015, there are $1,458 billion-worth of projects planned or under way. These projects will certainly provide the Asian companies with great opportunities[19].
Labour and remittance flows also play an important part of GCC-Asia relations. As many as 15 million Asian expatriates could be living in the GCC States these days, and they sent to their home countries around 12% of global remittance a total of over $ 61billion which came from the six Gulf countries last year, with nearly half of this going to India, according to the latest official data from the World Bank[20]. A total of $ 29.69billion was sent home by Indian expat workers in the GCC last year, accounting for a total of 49% of remittances from the Gulf. The Pakistanis workers sent $ 5.98 billion or 9.8%, Philippines ($ 4.98 billion or 8.2%), Sri Lanka ($ 2.66 billion) and Bangladesh ($ 1.32 billion)[21].

Energy Links: the Heart of Relations

The geopolitical landscape of the world's energy demand and supply has changed. A significant shift in demand from West to East took place and oil imports from the customers which the countries of GCC have supplied for the past 50 years is declining. However, energy-hungry Asian nations, such as India and particularly China, are taking their place, refocusing the GCC's attention eastward.
The GCC oil producers export more oil to Asia than to Europe and North America combined. In fact, about two-thirds of GCC oil exports are channelled to the Asian continent. The Asian countries, individually and collectively, are heavily dependent on oil from the Gulf. According to OPEC's data, the Gulf Arab states produced about 13 million barrels per day of crude oil in 2012, about two-thirds of this amount has been exported to the countries of Asia and the Pacific[22]. The GCC countries provided China with more than a third (over 36%) of its oil imports (almost 20% from Beijing's top supplier Saudi Arabia) in 2012. India imports as much as 45%

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[18] MEED, *Top 100 Middle East Projects*, 22 January 2013.
[19] *Ibidem*.
[20] Arabian Business, *Gulf remittances 2012: Which countries sent money where?*, 13 May 2013, http://www.arabianbusiness.com/revealed-where-gulf-expats-sent-remittance-in-2012-501232.html (accessed 14 May 2013).
[21] *Ibidem*.
[22] OPEC, Oil Market Report, http://www.opec.org/opec_web/en/publications/338.htm, (accessed 13 May 2012).

of its oil from the Gulf States (19% from Saudi Arabia). As much as 70% of South Korea's oil imports originate in the Arab Gulf states while Japan meets almost 80% of it is oil imports from GCC[23].

Table 2 - Asian Powers crude oil imports from GCC & Saudi Arabia (2012)

	China		India		Japan		South Korea	
	Mb/d[a]	%	Mb/d	%	Mb/d	%	Mb/d	%
World	5.44	100%	3.76	100%	3.60	100%	2.60	100%
GCC	1.88	35%	1.56	42%	2.73	76%	1.77	68%
Saudi Arabia	1.08	20%	0.67	18%	1.19	33 %	0.86	33%

Source: International Trade Centre, May 2013, http://www.trademap.org/Index.aspx (accessed 20 May 2013)
(a) Converted from tonnes metric) at one tonne = 7.33 barrels of oil

However, oil demand in Japan has been declining since 2005. This decline stems from structural factors, such as fuel substitution, an aging population, and government-mandated energy efficiency targets. In the medium and long terms, Japan's total oil consumptions and imports will continue to be flat or decline. Meanwhile, South Korea's oil consumption has remained relatively steady over the past decade and will continue in the same direction over the next two decades.

China and India are expected to remain the twin engines of growth in global oil demand over the next two decades on the back of strong economic growth. The spectacular economic growths of both countries require enormous amounts of energy to ensure that it continues over the coming decades. The numbers behind China and India's seemingly insatiable thirst for energy are mind-boggling. For instance, the Chinese demand for petroleum reached over 9.6 million barrels per day (mb / d) in 2012, and is projected to jump to around 16 mb/d in 2030. China will eventually be importing around 10-12 million barrels per day, roughly 70-80 percent of its future petroleum consumption. The numbers for India are smaller but still overwhelming. India consumed 3.6 million barrels per day, two-thirds of them imported mostly from the Middle East. According to EIA's analysis of projected trends, India will eventually be importing around 5-6 million barrels per day, roughly 90 percent of its future petroleum needs[24].

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[23] All data adapted from EIA, Country Analysis Briefs, http://www.eia.gov/countries/, (accessed 14 May, 2013).

[24] Data adapted from IEA, The Oil Market: 11 April 2013, http://omrpublic.iea.org/ (accessed 8 May 2013) and EIA, *Annual Energy Outlook 2013,* Washington DC, EIA, April 2013.

Table 3: World liquids consumption[a] (Selected regions, 2011-2040, mb/d)

	2011	2020	2025	2030	2035	2040	Annual growth 2011-2040
US	18.6	19.4	19.1	18.7	18.5	18.6	0.0%
OECD Europe	14.2	13.8	13.8	13.9	14.1	14.2	0.0%
China	9.8	13.2	14.7	15.5	16.6	17.5	2.0%
India	3.2	4.2	4.9	5.6	6.2	6.8	2.6%
Japan	4.46	4.41	4.3	4.2	4.1	3.9	-0.4%
South Korea	2.3	2.5	2.61	2.66	2.69	2.4	0.6%

Source: Adapted from US Energy Information Administration, Annual Energy Outlook 2013, April 2013, p.159

(a) Conventional liquids include crude oil and lease condensates natural gas plant liquids.

Security Partnerships: the Weakest Link

The Gulf region faces a myriad of political and security challenges, from the Iranian nuclear program, the threat of terrorism, to the political crisis in Bahrain. Currently, there is no substitute for the American defensive umbrella in the region and there is no evidence which suggests that the US-GCC relationship will sour dramatically in the near future.

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Due to GCC's relations with the United States, Asia-GCC military relations have been very limited. From GCC's perspective, Asia does not have the same capability to project power globally as the U.S. does. Therefore it cannot provide the same security assurances against the international threats the region faces, particularly against Iran or / and the internal dangers of terrorism. In this context, the GCC leaders understand that the U.S. is still, for now, the most effective power to cooperate with in order to protect its national security[25]. Therefore, it is difficult to see, based on current trends, any Asian military role that would supplement, let alone supplant, the current dominant position of the U.S[26].

Although the GCC countries believe that the emerging Asian countries, especially China, are not an alternative to the U.S. in the short and medium terms, the GCC countries (the Saudis in particular) are seeking to leave most of their options open. There are several other strategic and political factors that are pushing the countries of GCC to develop closer relations with Asia - in particular China and India.

[25] Y. GUZANSKY, *Saudi Arabia Nuclear Hedging*, Atlantic Council, 13 December 2011, http://cdn.www.inss.org.il.reblazecdn.net/upload/(FILE)1323850540.pdf, (accessed 1 May 2013).

[26] G. KEMP, *The East moves West: India, China, and Asia's growing presence in the Middle East*, Brookings Institution Pres, 2010, p. 232.

Firstly, the main catalyst for any Saudi decision to proliferate nuclear weapons is likely to be the concern raised over Iran's nuclear ambitions. If Saudi Arabia decided in the future to pursue the nuclear route, the two Asian countries which would be vital to the kingdom ambitions would be Pakistan and China

Secondly, the GCC Countries, already the largest suppliers of oil to China, Japan, South Korea and India, are building new refineries in Asia and increasing exports with the aim of strengthening political and economic ties with Asia's growing economic giants. These partnerships are not only a key to GCC's efforts to protect its market shares in Asia, but also to contain Iran's political influence and military power.

Lastly, through GCC's lens, China and India could be regarded as a valuable source of support as Arab Gulf states continues on a path of selective economic liberalization whilst also seeking to deflect the western pressure in the area of political reform. As current popular pressure mounts in the Gulf for democratic changes, Asia's silence on GCC domestic affairs and the GCC's intervention in Bahrain makes it seem a more agreeable partner to Gulf leaders than the west.

Looking Ahead: Gains and Challenges

The International Energy Agency (IEA) expects energy trade between the Middle East and Asia to grow rapidly in years to come as the U.S. moves towards energy self-sufficiency. Asia could account for up to 90% of oil exports from the Middle East in the future[27]. Additionally, a recent joint report by Lloyd's Register, defence firm QinetiQ and Strathclyde University 'Global Marine Trends' found that the Middle East looks set to remain the world's dominant oil exporter, with China more than making up for declining US sales. Middle East to China crude oil seaborne trade is set to grow by 4.5 times from 2010 levels of 126 million tonnes (2.5 mb/d) to a huge 571 million tonnes (11.5 mb/d) in 2030. The next biggest growth of Middle East crude sales will be to Southeast Asia, set to grow 4.2 times in the same period to 345 million tonnes (7 mb/d), the same figure as for South Asia could grow by 3.2 times[28]. In contrast Middle East – North

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[27] IEA, *World Energy Outlook 2012*, November 2012, http://www.iea.org/Textbase/npsum/weo2012sum.pdf, (accessed 2 May 2013).

[28] Lloyd's Register, defence firm QinetiQ and Strathclyde University, Global Marine Trends 2030, 9 April 2013, pp. 58-57.

America oil trades are expected to decline by 74% from 2010's figure of 88 million tonnes (1.7 mb/d) to just 32m tonnes (0.6 mb/d)[29].
Yet despite this optimistic outlook, there are significant challenges awaiting the development of Asian GCC relations in the medium and long term.
Protectionist measures in Asia represent a problem for Gulf States. Abdel Aziz Aluwaisheq, the Assistant Secretary General for Negotiations & Strategic Dialogue in the Gulf Cooperation Council, believes that "a major threat to this growing trade is protectionism, which could curtail trade with China and India, both long known for old-fashioned protectionist policies (…) Those tendencies had in the past made it difficult to conclude free trade agreements with either country"[30]. The labour issue could be another source of political tension between the GCC and Asian countries. With the Gulf States focusing domestic economic policies in creating jobs for the indigenous population, this situation will lead eventually to large numbers of foreign workers becoming unemployed.
In the medium term, OPEC production growth also faces new challenges. North American oil production will dominate world-wide supply between now and 2018. The IEA anticipates 8.4 mb/d increase in global liquids production, which includes bio-fuels and processing gains at refineries, over the next five years[31]. The ongoing dynamic as some experts are predicting could be "a recipe for crashing prices unless OPEC countries can coordinate in restricting their production in a way they haven't in a long time"[32]. On the other hand, the Arab Gulf oil- producers are building strings of big refineries both at home and across Asia challenging long-established Asian refiners in local and global fuel markets thanks to their guaranteed and relatively cheap crude-oil supplies and to geographical advantage[33].
Another challenge is the uncertainty over China's oil demand. For OPEC producers the impact of any major Chinese slowdown will be especially severe. On other side, there is concern over the unstable situation in the Middle East. The Asian Development Bank warn in its latest report 'Asia's Energy Challenge' that one of the biggest risks that could hit

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[29] *Ibidem.*
[30] "The GCC turns East", 16 December 2012.
[31] A. MAKAN, *IEA forecasts US to account for a third of new oil supplies*, in «Financial Times», 15 May 2013.
[32] *North America to Drive Oil Supply* , in «The Wall Street Journal», 15 May 2013.
[33] E. YEP, *Asian oil refiners brace for turf wars*, in «The Wall Street Journal», 27 March 2013.

GCC-Asia relations is the disrupted flow of crude oil from the Middle East for an extended period which would hit Asia hard[34].

In the long term, North American producers are competing to develop liquefied natural gas exports to Asia[35]. Qatar is likely to face growing competition following the widening of the Panama Canal, which will be completed in 2015. This will allow North American competitors easier access to the Asia Pacific market and increase competition in Asia Pacific with Doha's transported LNG[36] Australia also has several LNG export projects under development and the country is tipped to surpass Qatar by 2020[37].

Consequently, the Middle East could lose its status as the pre-eminent gas exporter of the world, as East and South Asia diversify to North America, Australia and East Africa[38]. Additionally, the growing availability in the US of low-cost unconventional gas, signs that China could step up investment in coal-to-olefin technology, and the possibility of Iraq using gas in additional petrochemicals capacity constitute major challenges to the future of the GCC (Saudi Arabia in particular) petrochemicals industry[39].

Yet Asia will remain dependent on GCC supply for the foreseeable future, but does not have to be a captive buyer by any means. The Arab Gulf oil-producers will face growing competition in what they considered their 'own marketing backyard'[40]. More broadly OPEC's geopolitical influence will be somewhat curtailed by North America and its large-scale, relatively low-cost NGL, gas and oil production[41].

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[34] Asian Development Bank, *Asian development Outlook 2013: Asia's Energy Challenge*, 2013, p. 57.

[35] J. MITCHELL, *US Energy: the New Reality*, Chatham house briefing paper, May 2013.

[36] *Qatar's Nakilat Faces LNG Market Challenges*, in «MEES», 19 April 2013, 56: 16.

[37] "Global Marine Trends 2030", p. 57.

[38] *Ibidem*.

[39] *Saudi petrochemicals sector urged to confront new competitive threats*, in «MEED», 2 April 2013.

[40] A. TRONER, *Natural Gas Liquids in the Shale Revolution*, James A. Baker III Institute for Public Policy, Asia Pacific Energy Consulting (APEC), 29 April 2013, http://www.bakerinstitute.org/publications/Troner_NGL%20vApr-29-2013-1.pdf/view (accessed 2 May 2013).

[41] A. TRONER, *Natural Gas Liquids in the Shale Revolution*,Op. cit.

Conclusion

In summary, the energy interests still largely define the GCC-Asia relations but they have developed rapidly, coupled with frequent high-level exchanges with growing mutual political trust. The relationship between GCC and Asia suggests (at least for now) that this is an energy-economic partnership and not a strategic-political alliance. However, in the long term the shift in the geopolitics of oil and gas could bring with it a shift in political relations.