THE BOUNTIFUL SOUTH

Trade between the Middle East and Asia looks set to grow, reflecting a fundamental shift in the world's trade axis, writes Faraz Haider

The growth in trade has been one of the hallmarks of the global economy in recent decades. Globalisation has extended supply chains and opened up new markets. Consequently, trade, while moving in tandem with global economic growth, has outpaced GDP growth at between 1.25-1.4 times GDP levels[1]. During the financial crisis of 2008 and the economic slowdown that followed, the outperformance of global trade relative to GDP fell a little, but, as recovery has taken hold since 2011, it has once again increased to 1-1.25 times global GDP growth, indicating the renewed vigour of global trade.

Two regions that have been most vibrant for trade in recent years are Asia and the Middle East, which have both enjoyed sustained export growth despite the turbulence in the global economy since 2008. Between 2005 and 2012, Asia's share of world exports grew from 24% to 30% (to $5.6 trillion), while the Middle East's share rose from 3% to 4% (to $1.4 trillion), according to the World Trade Organization (WTO).

This trend continued in 2013, with WTO figures revealing that Asia's exports increased by 3%, while the Middle East's leapt by 8%, indicating that above-average increases in export growth in these regions may be a permanent feature of the post-crisis global economy. Moreover, during 2005-12, Europe's share of world exports fell by 5%, while North America's rose gradually by 3%. Meanwhile, the Commonwealth of Independent States countries and Africa posted single-digit growth in their share of global exports – despite coming off low bases.

Trade takes off

The growing export strength of the Asian and Middle Eastern regions is not an isolated phenomenon: trade between the two regions has also increased significantly. Middle Eastern exports to Asia increased from 48% to 54% between

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2005 and 2012, and by 11% year-on-year in 2013. Similarly, the share of Asia's overall exports reaching the Middle East grew from 3% to 5% between 2005 and 2012, and by 7% in 2013, according to the WTO. In contrast, Asian exports to Europe declined on a relative basis between 2005-12, with the region's share falling from 18% to 15% and dropping a further 8% in 2013.

The continuation of these trends – growing Asian and Middle Eastern trade as a component of global trade and increased intra-regional trade between the two – demonstrates their permanence, particularly since many Organisation for Economic Co-operation and Development (OECD) countries have recovered from the post-crisis slowdown. Indeed, the majority of the increase in Asia-Middle East trade in recent years has been at the expense of the decline in trade flows to and from Europe. This is partly due to the declining nature of many European economies – resulting in little demand for Asian exports. It also reflects a more fundamental shift in the world's trade axis, however.

South-south trade

One of the principal features of the post-crisis trade landscape has been the growth of south-south trade or trade between different emerging-market regions that does not involve the US, Europe or other OECD countries. To some extent, this trend has been driven by the huge growth of China in recent decades. China's growing demand for commodity products to fuel its manufacturing base has massively strengthened trade links with commodity producers in Latin America and Africa. South-south trade is far from a purely China-focused phenomenon, however. Growing prosperity and improved economic stability in many countries have spurred investment and economic activity.

As a result, south-south flows are opening new trade corridors that are expected to increasingly characterise the 21st century's emerging-market-led growth. In addition to the strong growth of Middle East-Asia trade, flows between Africa and Asia, and Latin America and Asia, have also increased significantly. Within the Middle East-Asia trade corridor, India has emerged as the largest trading partner, with volumes reaching $135bn in 2012 compared with less than $10bn in 2004, according to *Gulf News*. Similarly, *Gulf News* reports that the United Arab Emirates (UAE) has become the largest importer of goods and services from India (taking over from the US), and by 2012, India's exports to the UAE were $40bn compared to around $35bn to the US in the same year.

Soaring commodity prices were a prominent feature of the global economic boom from 2003 to mid-2008 and were a clear driver of south-south trade flows. While commodity prices had recovered from the initial shock of the financial crisis and reached levels close to their pre-crisis peaks by the end of 2010, the recovery was short-lived and prices fell sharply as the global economy slowed down in 2011. Since 2012, commodity prices have been relatively stable. Inevitably, the stagnation of commodity prices, which few expect to be reversed in the near future given the slowdown of China's growth, will affect the growth of south-south trade flows, especially those involving commodity-producing regions such as Africa and Latin America.

There are considerable grounds for optimism regarding south-south trade, however, and especially for Middle East-Asia trade flows. Overall costs associated with trade, such as financing, risk mitigation, logistics, insurance and communications, have steadily fallen in recent years. By making trade easier and less expensive, trade between countries in these two regions – especially in sectors where demand is expected to remain strong – is likely to be bolstered.

Both the Middle East and Asia have export sectors that play a crucial role in the other region's economy. Asia's power needs are largely fed by Middle Eastern oil and will therefore continue to drive export growth over the next two to three years. Over the same period, European and North American demand is expected to remain weak (or, at best, grow slowly by historical standards). Consequently, further strengthening of Asia-Middle East trade flows – on a relative basis at least – can be expected. More generally, there are predictions that more than three-quarters of the global energy demand will come from emerging markets in the future[2], ensuring that the Middle East will remain at the heart of south-south trade flows.

Equally, many of the larger Middle Eastern markets, especially those in the Gulf Cooperation Council, remain strongly investment-oriented. This investment is characterised by huge infrastructure projects that have strong government support and long-term commitments to increase spending. Saudi Arabia, for example, has pledged to spend $100bn over the next 10 years solely on upgrading its transportation infrastructure in order to realise its potential as a leading global transport and logistics hub, according to the Saudi Arabian General Investment Authority. Similarly, the UAE plans $58bn of investment just on roads and bridges, while Qatar has allocated $20bn for roads and highways and $35bn for rail infrastructure[3]. Dubai's successful bid for the World Expo 2020 is also expected to boost project spending in the UAE.

Crucially, this unprecedented investment in infrastructure relies on skills (and labour) from outside the region. China, India, Korea and other leading Asian economies already play a huge role in Middle Eastern infrastructure projects and bilateral discussions have taken place to further cement this important relationship. The long-term ability of infrastructure investment to boost Middle East-Asia trade therefore appears to be robust, as does the long-term outlook for continued trade growth between the two regions more generally.

1 Source: Citi Research/Citigroup Global Markets
2 Source: *Gulf News*, UAE
3 Ventures Middle East, quoted in *Arab News*, www.arabnews.com/news/465835

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