“GCC can emerge as ‘Middle Powers’ in second Cold War”, Op-ed in Arabian Gulf Business Insight (AGBI), 9 Jan 2024

The opinion piece titled “GCC can emerge as ‘Middle Powers’ in second Cold War” appeared in the Arabian Gulf Business Insight (AGBI) on 9th January 2024.

The article is published below.

GCC can emerge as ‘Middle Powers’ in second Cold War

Three factors will enable the GCC to benefit from the fragmentation

We are living in a second Cold War. A multipolar world is evolving as governments adopt policies that are leading to increased economic and financial fragmentation.

Trade, foreign direct investment and financial flows are increasingly encumbered by regulatory and legal restrictions.

The number of global trade restrictions introduced each year has nearly tripled since the pre-pandemic period, reaching almost 3,000 last year, according to the International

Monetary Fund.

The result is a restructuring of global supply chain networks. Political decisions dubbed “friend-shoring”, “near-shoring” or “on-shoring” imply increased geo-political fragmentation and de-globalisation.

While the speed of globalisation slowed after the 2008 financial crisis, a major trigger of de-globalisation was the Trump administration’s policy of “China decoupling”.

This was subsequently relabelled “China de-risking” and described in Washington as a policy that aimed to prevent Beijing from emerging as a global tech power.

This tech war, which started with restrictions on access to high-performance chips, has expanded. Now barriers have been imposed on trade, foreign direct investment and financial flows.

The Russia-Ukraine war, the conflict in Gaza and the spillover effects have widened the geo-economic-political fragmentation, resulting in the second Cold War.

Two blocs, but allies don’t always agree

Two major blocs are emerging: the US and its allies, and China-Russia and their allies. Other countries fall into a multi-faceted, multi-interest grouping.

Even within the blocs, there is increased political fragmentation and divergence of interests – notably between the US and the European Union. The upshot of geo-strategic confrontation is a ratcheting up of military spending, at the cost of addressing economic development and investment.

Strategic mistakes, miscalculation and events may lead to the Cold War becoming hot.

National security narratives are increasingly dominating economic policy decisions. Trade is weaponised, while investment (inward and outward), finance and payment systems are affected. National security interests imply a re-engineering and redesigning of food, energy and tech supply chains towards greater self-reliance.

National security logic has also led to the weaponisation of the US dollar, imposing restrictions on its use in international payments and the freezing of “unfriendly” or “enemy” foreign assets.

This threatens dollar-based international payments and the financial architecture built over the past decades of global financial liberalisation.

The same logic is leading to the weaponisation of access to and diffusion of modern tech and AI, widening the global tech divide and reducing productivity and general growth.

The new Cold War could result in a massive 7 percent loss of global GDP according to the IMF, as a result of global supply chains becoming less efficient, inward-looking self-sufficiency policies being disguised as re-shoring, and restrictions on access to tech and critical resources such as rare earths.

The GCC as emerging ‘Middle Powers’

For the GCC countries, this ominous scenario has a silver lining. It offers a geo-strategic opportunity, allowing them to emerge as Middle Powers between the two global blocs.

The GCC has built its soft power through successfully hosting international events and diplomatic mediation. Next up is the building of economic and financial power.

Three strategic factors represent the building blocks that will enable the Gulf states to benefit from the fragmentation.

First is the GCC’s geography between Africa and Asia and the nations’ promising demographics.

Second, the member states are unique in being old and new energy powerhouses.

Third, the economic diversification of the GCC – combined with investments in trade facilitating logistics, transport, and infrastructure – means the six countries are integrated in global supply chains.

The GCC nations need to enhance and develop economic and financial tools to enable them to become effective Middle Powers. A priority is to accelerate their economic and financial integration, starting with core infrastructure to achieve economies of scale and greater efficiency.

GCC economic and financial integration is a building block for overhauling and implementing the GCC common market, allowing the Gulf countries to negotiate as an empowered economic bloc.

Already, GCC members are participating in international blocs – Brics+ and the India-Middle East-Europe Economic Corridor – along with trade deals that include a likely GCC-China agreement in 2024 and various comprehensive economic partnership agreements.

Cop28 has highlighted that climate change will pose geo-strategic challenges in the coming decades. The GCC states possess the technologies and financial resources to make regional and global investments in climate adaptation, and building and retrofitting infrastructure to make it climate resilient.

These tools underpin the evolving “regional globalisation” policies of the GCC, which will lead to the growing economic integration of the Mena region and African countries. This regional globalisation will reduce the risks of the new Cold War.

Comments on Saudi Arabia’s & UAE’s invitation to join the BRICS in AGBI & The National, Aug 24 2023

Dr. Nasser Saidi’s comments appeared in an article in AGBI titled “New Middle East members expand Brics reach” published on 24th August 2023.

The comments are posted below.

“It is an important geo-strategic move, the bloc can focus on issues and objectives relevant to them as opposed to a Bretton Woods agenda set by the West,” said Nasser Saidi, a prominent Lebanese economist and former government minister.

Dr Saidi said that the current and future Brics members are not holding common currency discussions. But the potential for using local currencies for trade financing and settlement is critical if the announcement is to have lasting significance.

“This is extremely important for the emerging market nations which are currently dependent on dollar fluctuations and the Fed’s rate decisions,” he said, referring to the US Federal Reserve.

Comments from Dr. Nasser Saidi and Aathira Prasad appeared in an article in The National titled “Expansion of the Brics group could lead to ‘different world order’, analysts say” published on 24th August 2023.

The comments are posted below.

"Expanding the Brics to include six new members, including the UAE and Saudi Arabia from the GCC, underscores the potential for the expanded bloc to become the architect of a different world order – one that reflects the shift in global economic and financial geography towards the East," president of Nasser Saidi and Associates, Nasser Saidi, and its director of macroeconomics, Aathira Prasad, said.

"Joining the group will allow these GCC nations to diversify strategic alliances and also help set a global policy agenda.

"There are many economic challenges that are common to this set of nations including impact from climate change, energy transition, infrastructure for development, poverty as well as growing inequality across and within nations – being part of the bloc will enable these nations to tailor solutions according to their needs and interests."

Saudi Arabia and the UAE are already among the largest trading partners of the Brics in the Middle East and joining the group facilitates further expansion in trade and supports their economic diversification strategies, added Mr Saidi and Ms Prasad.

"The newly expanded bloc can follow the precedent set by the UAE and India and use local currencies for trade financing and settlement," they said.

"With Saudi on side, the

Brics can change the world", Op-ed in Arabian Gulf Business Insight (AGBI), 22 Aug 2023

The opinion piece titled "With Saudi on side, the Brics can change the world" appeared in theArabian Gulf Business Insight (AGBI) on 22nd August 2023.

With Saudi on side, the Brics can change the world

The 15th annual summit of the Brics economies begins today in South Africa.

The gathering reflects the massive shifts in economic geography since the term was coined more than two decades ago.

The Brics – Brazil, Russia, India, China and South Africa – represent about 26 percent of the world's geographic area and about 42 percent of its population.

Their share of world GDP mushroomed from 18.2 percent in 2000 to 31.6 percent in 2022, surpassing the long-established G7.

A multipolar world has emerged. The fragmentation is being accelerated by the efforts of the US and its allies to resist this new reality by decoupling from China – which they term "de-risking".

But the shift in economic power has not been reflected by a comparable shift in economic governance. The so-called Bretton Woods institutions – the International Monetary Fund, World Bank and World Trade Organisation, among others – are still dominated by the G7, which was born in the 1970s.

New institutions were needed. The Brics grouping was formed to give voice to major emerging economies on global developmental issues and enable multilateral co-operation outside the prevailing order.

The Brics group has the potential to be the architect and engineer of a different world order, if it can develop a shared vision.

Why should Saudi Arabia join the Brics?

There is a strong strategic case for Saudi Arabia to join the Brics group at this year’s summit – the first to be held in person since the pandemic – consistent with the kingdom’s Vision 2030 of modernisation, transformation and increased openness.

Saudi Arabia is already the largest trading partner of the Brics in the Middle East.

By joining the group, Riyadh can expand its trade with other emerging markets, support its diversification ambitions and deepen trade with the oil importers among its members. Greater economic integration will also attract foreign direct investment into Saudi Arabia.

Joining the Brics would give Riyadh a larger international presence and a louder voice in geo-economics and geopolitics, in addition to its G20 role.

A Brics+s would include two of the biggest energy producers in the world and the number one economy (China, when ranked by purchasing power parity). By 2050, if not by 2030, the Brics+s countries will dominate global economic activity.

What could an enlarged Brics group do?

To deepen its economic footprint, a Brics+s group should actively engage to develop intra-bloc trade, direct investment and financial flows. The establishment of the New Development Bank (NDB) in 2015 was a watershed.

Bangladesh, the UAE and Egypt are now NDB members, while Saudi Arabia is in talks to join.

As of July 2023, the "Brics bank" has only lent $33 billion to some 96 projects located in the five founder nations. Saudi membership would substantially strengthen the NDB's financial footing.

Given the disproportionately greater impact of climate change on emerging nations, the NDB can aim to become a leader in sustainable finance – along with the Asian Infrastructure Investment Bank and the Islamic Development Bank.

To exercise their power, the Brics+s countries need a reformed international financial architecture and organisations (including the NDB), along with an efficient multi-currency payment system to facilitate trade and financial flows.

This multi-year effort will require broad, deep, liquid and linked financial markets, based on China – and eventually India – opening financial markets to international investors and removing exchange controls so the yuan can become a viable alternative to the US dollar.

In the meantime, bilateral trade finance can use national currencies. The petro-yuan can be used to finance trade between China and Saudi Arabia and other GCC countries.

Similarly, the Brics Pay system – for decentralised multi-currency digital international payments – will need to expand to include Saudi Arabia and other GCC countries. The Brics interbank cooperation mechanism will also have to link Saudi Arabia and GCC banks.

The Brics+s architecture will require a "Global Monetary

Fund”, based in Beijing, which will be more representative of the new landscape.

Saudi Arabia joining Brics can transform the global economic and financial order.