

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

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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.