Comments on US trade tariffs and GCC trade ties in Energy Intelligence, Apr 2025

Dr. Nasser Saidi's comments on the US reciprocal tariffs and the GCC trade ties appeared in an article titled "Why US Tariffs Will Not Change Gulf State Trade Ties" in Energy Intelligence, published on 10th April 2025 (paywall). The comments are posted below.

The impact on Gulf economies is also marginal because trading dynamics have changed drastically over the past three decades. For instance, the US is no longer the main trade partner of Gulf states. Asian countries, namely India, China, Japan and South Korea are the main trade partners, both in imports and exports, and increasingly as investment partners, Nasser Saidi, president of Nasser Saidi & Associates, a Dubai-based economic advisory and business consultancy, told Energy Intelligence.

While markets globally are likely to remain volatile as a result of the uncertainty on tariffs negotiations and investors and companies may adopt more of a wait and see approach, the effects are likely to be a temporary. "The fundamentals in the region are strong, and its diversified linkages, especially with Asia, will benefit the countries," Saidi said. This is in addition to the large labor flows that create both remittance and investment links with the labor-exporting countries.

While markets globally are likely to remain volatile as a result of the uncertainty on tariffs negotiations and investors and companies may adopt more of a wait and see approach, the effects are likely to be a temporary. "The fundamentals in the region are strong, and its diversified

linkages, especially with Asia, will benefit the countries," Saidi said.

A sustained drop in oil prices will affect Gulf states that are less diversified and fiscally vulnerable due to high fiscal break-even oil prices, Saidi said, citing International Monetary Fund (IMF) data. The IMF sees fiscal break-even prices at $90.90/bbl in Saudi Arabia, $50 in the UAE, $124.90 in Bahrain, $81.80 in Kuwait, $57.30 in Oman and $44.70 in Qatar.

"Rising deficits could lead to a rein in of public spending and increased borrowing if project and social spending is to be maintained," Saidi said.

Still, "These are still early days as the impact of greater US protectionism unfolds, but there will be an impact on global supply chains and related investment flows," he added.

Recession fears could weaken the US dollar, which most Gulf currencies are pegged to, which would make their economies more competitive. Consequently, the optimal policy choice for Arab countries is to maintain a liberal and open trade and investment environment, Saidi said.

Gulf states are a gateway for Africa and Middle East countries as well as Southeast Asia, and they "could become even more attractive as an investment destination as countries, notably China and [others in Asia], diversify trade and investment away from the US," Saidi said.

Trump has a "transactional" nature, and when he visits the region in May, he is likely to have tariffs, non-tariff trade and investment barriers in his negotiation's toolbox, he added.

“Economic Consequences of a Trump Presidency Redux”, Op-ed for CNN Business Arabic, 14 Jan 2025

The opinion piece is available in both English & Arabic.

The Arabic version titled “التداعيات الاقتصادية لعودة ترامب” was published in CNN Business Arabic on 14th January 2025 and can be accessed here & below.

The English version of the article:

Economic Consequences of a Trump Presidency Redux

The world is in a much different configuration compared to the previous Trump Presidency years, with multiple multi-year wars, growing trade and investment fragmentation [1], burgeoning global debt [2], an expanding BRICS+, an AI transformation unfolding , while 2024 is the first year above 1.5C of global warming [3]. Cold War II and a new world order are emerging.

Domestic policies to trigger inflation and lead to higher rates for longer. Trump second-term MAGAnomics- potentially a combination of tariffs, protectionism, tax cuts and a crackdown on immigration – with an already booming US economy, is inflationary in nature, leading to even higher US budget deficits [4] and debt [5]. A flareup in inflation would lead the US Fed to delay lowering interest rates and monetary easing, while other major central banks are easing rates (including the ECB and Bank of England). MAGAnomics policies would strengthen the dollar and increase US trade deficits. Higher-for-longer interest rates and a strong US dollar will negatively affect emerging markets and countries with high external debt-to-GDP, further exacerbating a growing global debt crisis and threatening socio-economic stability at a time when 48 developing countries spend more on interest payments than on either education or health [6].

Drill baby drill! The Trump administration would stimulate the fossil fuel industry, remove drilling restrictions from areas extending from Alaska to the Gulf and accelerate the building of oil and gas pipelines. The US is already a major oil and gas exporter (with Russia sanctioned and displaced from EU markets), maintaining its position as the top global exporter of LNG in 2024 [7]. Deregulation of US oil and gas would increase domestic production, lead to increased supplies and a downward impact on oil prices in addition to greater competition in export markets. This could adversely affect the GCC, with a consequent negative impact on their fiscal and current account balances.

Trade tariffs and protectionism. An intensification of US protectionist policies, justified on grounds of security or strategic interest, would exacerbate global trade tensions and lead to retaliatory actions. An increase in global trade and investment barriers would be anti-competitive, disrupt markets, and further distort global supply chains [8]. Higher and more encompassing tariffs on China, given ongoing tech wars and de-coupling measures, could slow growth, but China would likely counter with countervailing trade and investment measures, expanding markets in the global South, deepening BRICS+ economic integration. Strategically, US and EU decoupling from China can play in the GCC’s favour through bilateral trade diversion and investment and economic partnership [9] with China.

Pause button on climate commitments. Even as LA tries desperately to contain blazing fires, the current Trump/ Republican narrative is one of climate denial, making it more likely that the Trump administration will repeal many of the Biden-era policies, and reverse US international climate commitments. Recall that the US exited the Paris Climate Agreement under Trump. Reduced US spending on climate risk mitigation and adaptation, as well as delays in combatting GHG pollution raises global climate risks. Climate change does not recognise any borders!

The coming decade will be hotter if the underinvestment in combatting climate change is not reversed. This necessitates massive investment in clean and renewable energy and climate tech. The shift in climate related policies in the US offers an opportunity for the GCC. The GCC can build on their comparative advantage by increasing their clean energy investments, with an aim to export renewable energy as well as related climate technology (such as solar power, hydrogen, desalination, district cooling, desert agriculture).

No more wars? Statements about the “acquisition” of Greenland or Canada as the 51st US State notwithstanding, it is widely expected that Trump will not support ongoing wars. Whether Trump will be supportive of a deal to rebuild Gaza / Lebanon / Syria [10] or how he will deal with the Russia-Ukraine war will have a direct impact on the infrastructure industry, and oil and food markets. Of more far-reaching consequence would be if there are plans for more active use of the US military [11] – the anti-China and anti-Iran stance could lead to confrontation and increased sanctions; Cold War II would become warmer. If so, higher geopolitical risk would lead to increased defence spending, higher CDS rates, reduced capital inflows and FDI and a global recession.

The bottom line is that a second Trump term will be disruptive and turbulent. Uncertainty is the name of the game as the world waits to see what policies will be implemented once the President is inaugurated come Jan 20th. A global recession is a less likely scenario unless the beggar -thy-neighbour trade measures spread through the global economy, dragging everyone down.

التداعيات الاقتصادية لعودة ترامب

اختلفت الصورة العالمية كثيراً مقارنة بفترة ترامب الرئاسية الأولى؛ حروب على جبهات متعددة مستمرة منذ سنوات، واختلافات وتوترات تجارية واستثمارية بين الدول مترافقة مع ارتفاع هائل في الدين العالمي وتوقعات بتخطيه 100 تريليون دولار هذا العام، وتوسع في مجموعة بريكس وتحول نحو الذكاء الاصطناعي، هذا بينما سجّل عام 2024 أول ارتفاع بـ1.5 درجة بحرارة الأرض. الحرب الباردة الثانية والنظام العالمي الجديد على الأبواب.

سياسات ترامب الداخلية سترفع التضخم وتقود لفائدة أعلى لفترة أطول

والتي MAGAnomicsالولاية الثانية من سياسات ترامب المعروفة بمصطلح هي عبارة عن مزيج من التعريفات الجمركية والحمائية التجارية وتخفيض في الضرائب مترافق مع تضييق على الهجرة غير الشرعية ستأتي في ظل اقتصاد أميركي ينمو بقوة، وبالتالي ستكون ذات طبيعة تضخمية وستقود إلى عجز أعلى في الميزانية الأميركية وارتفاع في الدين أيضاً، حيث إن تمديد سياسات الخفض الضريبي التي أقرها ترامب لمدة 10 سنوات أخرى ستُضيف 4.6 تريليون دولار إلى الدين الأميركي المتفاقم أصلاً.

إن أي إشارة إلى ارتفاع التضخم ستجعل الفيدرالي يتمهل في سياسة خفض الفائدة والتيسير النقدي، فيما بقية البنوك المركزية الكبرى كالأوروبي وبنك إنجلترا تخفّض الفائدة.

ستقوّي الدولار وسترفع العجز التجاري MAGAnomicsسياسة الـ

الأميركي.
فائدة أعلى -لفترة أطول- ودولار قوي سيؤثّران سلباً في الأسواق الناشئة والدول التي لديها نسبة مرتفعة من الدين إلى الناتج المحلي الإجمالي، وبالتالي ستفاقم خطورة الوصول إلى أزمة دين عالمية، وتهدد الاستقرار الاقتصادي الاجتماعي في الوقت الذي تنفق فيه 48 دولة على مدفوعات فوائد الدين أكثر مما تنفق على التعليم والصحة.
الحفر ثم الحفر!
إدارة ترامب ستُنعش صناعة النفط الأحفوري، وستُزيل التقييدات كلها على مناطق التنقيب من آلاسكا إلى خليج المكسيك وستسرّع عملية بناء خطوط الأنابيب.
تعتبر الولايات المتحدة من أكبر مصدري النفط والغاز في العالم، لا سيما مع العقوبات على روسيا وإبعادها عن السوق الأوروبية، وقد حافظت على مركزها كأكبر مصدر في العالم للغاز المسال في 2024.
إعطاء الحرية لصناعة النفط والغاز سترفع الإنتاج المحلي وتزيد المعروض العالمي وبالتالي ستضغط على أسعار النفط وستُشعل المنافسة في سوق الصادرات العالمية.. هذا قد يحمل بعض التأثير السلبي في ميزانيات دول الخليج العربي التي تعتمد على النفط بشكلٍ كبير.
التعريفات الجمركية والحمائية التجارية
التركيز على سياسات الحمائية التجارية -المبررة بحماية الأمن القومي الاستراتيجي- سيزيد التوتر في التجارة العالمية ويقود إلى إجراءات مضادة انتقامية.
العوائق التجارية وارتفاع حدة الحمائية ستضر بالتنافسية وتعطل الأسواق وسلاسل الإمداد العالمية.
تعريفات جمركية أعلى وأشمل على الٍصين -مع الأخذ بعين الاعتبار الحرب التكنولوجية القائمة حالياً- ستضر بالنمو، لكن الصين ستتخذ إجراءات مضادة منها التجارية ومنها تقييد الاستثمارات والتوسع في أسواق "الجنوب" العالمي، بالإضافة إلى تعميق العلاقات مع مجموعة بريكس+ والٍتكامل معها.
استراتيجياً، إن فصل العلاقاتٍ أو فتورها بين أميركا والاتحاد الأوروبي مع الصين سيلعب دوراً في صالح دول الخليج العربي، التي ستستفيد من اتفاقيات تجارية ثنائية وشراكات اقتصادية مع الصين.
إيقاف الالتزامات المناخية!
حتى مع صراع لوس أنجلوس لاحتواء الحرائق الهائلة التي لم تحصل في تاريخها، لكن لهجة ترامب والجمهوريين لا تزال بإنكار كل ما يتعلق بالتغيّر المناخي، ما يجعل التوقعات تصب بأن يعكس ترامب القوانين البيئية كلّها التي صدرت في حقبة بايدن، ويعكس التزامات أميركا كافة في ما يتعلق بالمناخ.
وبالعودة إلى الوراء، لا ننسى أن الولايات المتحدة انسحبت من اتفاقية باريس للمناخ في ولاية ترامب الأولى، وقلصت الإنفاق على

تبنّي إجراءات محاربة التغيّر المناخي وتقليص مخاطره، والتأخر في محاربة التلوث الناتج عن غازات الدفيئة، لكن لم يتم الأخذ بالاعتبار حينها أن التغيّر المناخي لا يقتصر على دولة بذاتها ولا يعرف حدودا.

العقد المقبل سيكون أكثر حرارة خصوصاً إذا لم يتم تعويض النقص الهائل في الاستثمارات المخصصة لمحاربة التغيّر المناخي.. هذا يتطلب ضخ استثمارات هائلة في الطاقة النظيفة والمتجددة وتكنولوجيا المناخ.

التغيّر في السياسات المناخية الأميركية يشكّل فرصة لدول الخليج العربي.. دول الخليج تستطيع البناء على الميزات التي تمتلكها بزيادة استثماراتها في الطاقات النظيفة، مستهدفة تصدير هذه الطاقات الفائضة بالإضافة إلى تصدير منتجات متعلقة بها كالألواح الشمسية والهيدروجين الأخضر ومشاريع تحلية المياه وتبريد المناطق والزراعة الصحراوية.

لا مزيد من الحروب!

إعلانات ترامب المتكررة عن "الاستحواذ" على غرينلاند أو جعل كندا الولاية الحادية والخمسين غالباً ما يتم تجاهلها، لكن من المتوقع ألاّ تدعم إدارة ترامب أي حروب قائمة.

مهما كان قرار ترامب بدعم إعادة الإعمار في غزة ولبنان وسوريا، وكيفية تعامله مع الحرب الروسية الأوكرانية سيكون له تأثير عظيم على قطاع البنية التحتية وعلى قطاع النفط والغذاء على حد سواء.

بالتأكيد ستكون هناك تبعات كبرى لو كانت هناك خطط قادمة لاستخدام القوة العسكرية الأميركية بشكل أكبر، اللهجة المعادية للصين والمعادية لإيران قد تفضي إلى المزيد من المواجهات أو على الأقل المزيد من العقوبات؛ الحرب الباردة الثانية ستزداد سخونة!

إذا حدث هذا، فبالتأكيد المخاطر الجيوسياسية ستؤدي إلى زيادة الإنفاق الدفاعي، وتكلفة أكبر للتأمين على وتعثر الديون أو الـCDS، وتقلص الاستثمارات الرأسمالية والاستثمارات العابرة للحدود، وبالتالي ركود عالمي.

خلاصة القول إن الفترة الرئاسية الثانية لترامب ستكون مليئة بالمطبات

عنوان المرحلة سيكون "عدم اليقين"، العالم سينتظر أي سياسات سيطبقها ترامب من لحظة دخوله إلى البيت الأبيض في الـ20 من يناير الحالي.. ركود عالمي هو السيناريو الأقل حدوثاً إلاّ إذا بدأت الدول جميعها تطبيق سياسة "أنا أولا" في التجارة الدولية -وهي السياسة التي يسوّق لها ترامب في الولايات المتحدة- وبالتالي الجميع سيخسرون.

[1] Gopinath et al (2024) find significant declines in trade and FDI flows between countries in geopolitically distant

blocs are 12% and 20% respectively lower relative to flows between countries in the same bloc since the onset of the war in Ukraine

[2] It is forecast to cross USD 100trn, with a USD 5trn increase since 2023.

[3] https://www.reuters.com/business/environment/2024-was-first-year-above-15c-global-warming-scientists-say-2025-01-10/

[4] Trump's 2017 Tax Cuts and Jobs Act's reduction in corporate taxes was permanent, but much of the rest of the law, including cuts to personal income taxes, is set to expire at the end of 2025. If Trump extends these cuts for the next decade, a highly probable scenario, it could add approximately USD 4.6 trillion to the burgeoning national debt, according to a Congressional Budget Office report.

[5] Trump added USD 4.8 trillion in non-Covid debt, and Biden added another USD 2.2 trillion, according to the Committee for a Responsible Federal Budget.

[6] UNCTAD, June 2024.

[7] LNG exports hit 88.3 million metric tonnes (MT) in 2024, up from 84.5 MT in 2023, according to LSEG data.

[8] The Smoot-Hawley Tariff Act of 1930, which raised average tariffs on imports by around 20% and incited a tit-for-tat trade war, was devastatingly effective: global trade fell by two-thirds. Simon Evenett (2024) outlined various scenarios with retaliatory measures to US tariffs: in the case where the US imposes tariffs and countries retaliate against the US, the attractiveness of US as an export base declines; in a scenario where countries retaliate to US tariff hikes with tariffs on all its trading partners, there would be a tariff-drive contraction in global goods trade, eventually leading to a competitive devaluation spiral.

[9] https://nassersaidi.com/2024/12/11/uae-china-partnership-for-a-transforming-global-economic-geography-presentation-at-the-china-uae-investment-summit-abu-dhabi-finance-week-10-dec-2024/

[10] https://www.agbi.com/opinion/development/2024/11/trump-must-focus-on-rebuilding-a-war-torn-middle-east/

[11] The US already spends more on its military than the rest of the top 10 highest spending countries combined.

"How the US elections matter for the Middle East", Op-ed in The National, 2 Nov 2020

The op-ed by Dr. Nasser Saidi, titled "How the US elections matter for the Middle East", appeared in The National on 2nd Nov 2020 and is reposted below.

How the US elections matter for the Middle East

The bottom line is that the outcome of the US elections will directly impact a host of global issues

The opinion polls largely predict a win for Joe Biden on

Tuesday.
FiveThirtyEight, a political analysis website, in its extensive analysis and simulations too favours Mr Biden, barring a major polling error. But a contested election is probably on the cards, given the likelihood that more than 90 million postal ballots – mostly Democrats – are likely to be systematically challenged by Republicans.
With a day left for the US Presidential elections, what would a potential change of guard at the White House mean for the Middle East? What is at stake?
First, a potential return to multilateralism and international co-operation from the current unilateral policies of withdrawal from the Paris climate accord, the Trans-Pacific Partnership or the World Health Organisation or the Iran nuclear deal.
International co-operation – such as the Global Access Facility – will be critical when the vaccine for Covid-19 is ready and needs to be distributed globally.
A widespread availability of vaccines is a global public good. A discriminatory or preferential national treatment would be detrimental to the global economy and hamper recovery from the pandemic.
More broadly, a US reversion to multilateralism would be welcomed internationally. This would mean less confrontation on trade, tariffs and investment policies with China, the EU, Canada-Mexico and others. This would lead to a win globally and – by encouraging non-US trade and investment – result in a cheaper dollar.
Significantly, under a Biden administration, global policy uncertainty, which has been peaking, would diminish. This would, in turn, encourage trade, investment flow and global economic recovery.
Lower, volatile oil prices and a strong dollar along with US tariffs on aluminium and steel, have cost a number of Arab countries over the past four years.
Currently, GCC members are pegged to the dollar. Oil is priced in dollars, trade is dollar denominated – a strong dollar

penalises sectors like trade, tourism, transport and logistics that these countries have relied on for economic diversification.
Given the Covid-19 lockdown and the global energy transition away from fossil fuels, it is unlikely – given weaker demand – that oil prices will revert to levels seen a few years ago: the IMF's latest World Economic Outlook puts oil prices, based on futures markets at $41.69 in 2020 and $46.70 in 2021 versus an average price of $61.39 last year.
But a likely cheaper dollar under Mr Biden would support an economic recovery in the region, driven by the non-oil sector, tourism and services exports – and as countries reopen in phases – also in foreign investment in real estate.
The impact on the oil market will be more important.

A re-elected Trump administration would continue its policies: supporting US shale oil, encouraging drilling, rolling back climate-related regulations, supporting US oil and gas exports, thereby weakening oil prices.
By contrast, a Biden administration would be climate and environment policy friendly, would revert to the Paris Agreement and support renewable energy.
In a scenario where fossil fuel demand is already weak, an additional push towards renewables would reduce US supply but also demand.
The affect on oil prices would depend on the balance between demand and supply effects, and not necessarily downwards. Oil exporters in the region are still highly dependent on oil. Lower oil revenue implies limited fiscal room and higher fiscal deficits.
As real oil prices trend downward, fiscal sustainability becomes increasingly vulnerable. The risk of being left with stranded assets then becomes the elephant in the room.
According to the International Energy Agency, stranded assets refer to "those investments which have already been made but which, at some time prior to the end of their economic life, are no longer able to earn an economic return".
The strategy imperative is the need to re-emphasise diversification policies, along with a policy to de-risk fuel assets.

National oil companies and state-owned enterprises, that are majority owners or operators of oil and gas assets, would need to pursue a plan of low-carbon energy transition – in addition to the unlocking of greater immediate value from fossil fuel assets.

Examples are the Aramco IPO and Adnoc’s pipeline network deals. This could be complemented by a major drive to accelerate investment in and an adoption of green energy policies, by both government entities and the private sector.

The bottom line is that the outcome of the US elections will directly impact a host of global issues – from dealing with Covid-19 and climate change, de-escalating confrontation and preventing a cold war with China, restoring confidence in multilateral agreements and institutions like the WHO, the WTO, the UN and geopolitics, along with repercussions on regional power struggles involving Israel, Iran, Turkey and a number of Arab states.

Important as these issues are, the other bottom line is the need for a renewed focus of the regions’ oil producers, on economic diversification strategies and de-risking fossil fuel assets within a well-designed, time-consistent energy transition strategy.

Dr Nasser H Saidi is a former Lebanese economy minister and founder of the economic advisory and business consultancy Nasser Saidi & Associates

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Trends in trade and investment policies in the MENA region: Policy Brief

prepared for the OECD MENA-OECD Working Group on Investment and Trade, Nov 2018

The **MENA-OECD Working Group on Investment and Trade**'s 2018 meeting was held in Dead Sea, Jordan on 27-28 Nov, 2018. *(More: http://www.oecd.org/mena/competitiveness/investment-and-trade.htm)*
A policy brief titled "Trends in trade and investment policies in the MENA region" was prepared by Nasser Saidi & Associates to aid discussions during this meeting.
The executive summary is shared below; the paper can be downloaded here.

Executive summary

The Middle East and North Africa (MENA) region accounted for only 5% of global exports and 4.3% of total imports in 2017. Merchandise exports from the MENA region to the rest of the world stood at 893bn USD in 2017 (up from just under 250bn USD at the start of this century). MENA countries are particularly vulnerable to terms-of-trade shocks because of the volatility of their export earnings, caused by the high concentration of exports in primary commodities and exacerbated by the high concentration of export markets. The region can achieve greater economies of scale if each country can better use its comparative advantage through production sharing networks and integration into global value chains.
There has been a significant shift in the region's trade patterns toward Asia over the past few decades. Asia now accounts for about 55% of the region's total trade compared to around 40% in 1999. **Regional trade remains dismal at under**

10%. MENA oil importers' share of trade within the region remains relatively high: Lebanon (44% of total exports in 2017) Jordan (43%), and Egypt (22%). Maghreb countries export the least within the region (under 10%), with much of their exports going to Europe.

FDI inflows into the region increased between 2000 and 2008, thanks to efforts to improve the business environment and investment climate and to related structural and institutional reforms. Slowdown appeared after the financial crisis in 2008 followed by regional turbulences, with limited recovery. **In 2017, investment flows into the GCC were 15.5bn USD, almost 3.5 times lower than in 2008 at their peak.** The bulk of FDI inflows into the region have gone into energy, real estate, financial services and consumer products.

Overall, the MENA region remains less regionally integrated in terms of trade and investment flows. **The main barriers to growth in trade and investment (including intra-regional) are multi-fold**:

- Though average tariffs have reduced over time, they remain very high; non-tariff barriers (e.g. burdensome technical regulations, import authorisation procedures, cumbersome customs clearance and border controls) are obstacles to both regional and global integration;
- MENA's trade facilitation performance – in terms of procedures, harmonisation, transparency, border agency cooperation and so on – leaves much to be desired;
- Though regional trade agreements are in place, their implementation and enforcement are lacking and benefits are not visible;
- Lack of diversification is a serious drawback, given that oil and agricultural products remain by far the most important exports;
- Regional economic integration has seen very little progress due to different factors including weak institutions, the lack of infrastructure and state-owned enterprises;

- Cumbersome licensing processes, complex regulations and opaque bidding procedures create both business and investment barriers;
- Competition legislation is particularly needed in countries where markets are highly concentrated and where barriers to imports are still high;
- Trade has been negatively affected by the wars, sanctions and political barriers in the region; and
- The scarcity of quality data and statistics on both domestic and foreign investment means a lack of evidence-based public policy and increases perceived investment risk.

While the region has undertaken significant reforms to support trade and investment – ranging from lowering tariffs to improving infrastructure to protecting minority investments to institutional investment reforms – it is evident that there is **a long way to go for greater trade integration. In this context, it is recommended that the MENA region**:

- Invest heavily in trade-related infrastructure and logistics;
- Deepen intra-regional trade through trade facilitation;
- Invest in moving towards greater digital trade facilitation;
- Use GCC countries as engines of economic integration;
- Reflect the shift in trade partners in new trade and investment agreements;
- Improve legal and institutional framework to support private sector growth and diversification
- Make a digital transformation in order to support trade and investment: from transport (electric vehicles), to banking and financial services (Fintech), commerce (e-commerce), to health and agriculture (Agrytech), and the government sector ;
- Ensure the availability, harmonisation and dissemination of regular, timely, comparable and quality statistics,

which are essential to conduct sound trade and investment policies.

Trumpian Trade Wars threaten the GCC, Article in The National, 26 July 2018

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Trumpian Trade Wars threaten the GCC

We are witnessing the demise of multilateralism and rule-based international cooperation

The protectionist stance of the current US administration has been evident since US President Donald Trump took office: the ongoing re-negotiation of the North American Free Trade Agreement (Nafta), non-participation in the Trans-Pacific Partnership (TPP), and the tariff hikes – which began with solar panels and washing machines (in January) to the latest threat of potential additional tariffs on $500 billion worth of Chinese exports.

The nationalism-protectionism of "America First" is coupled with an isolationist view of regional and international agreements on trade, investment, climate, human rights and even defence agreements (Nato). We are witnessing the demise of multilateralism and rule-based international cooperation built since the Second World War.

We have entered the phase of Trumpian Trade Wars, from the imposition of steep tariffs on steel and aluminium in early March this year, to the latest (July 6) announcement of a 25 per cent tariff on about $34bn worth of Chinese goods. China, the EU and others have announced retaliatory tariffs, which does not bode well for global trade. The *Financial Times* estimates that, should countries retaliate, the value of trade covered by the measures and countermeasures resulting from Mr Trump's trade policies could reach more than $1 trillion (some 6 per cent of world trade), which would derail global growth and recovery in the EU. The escalating economic tension between the US and Europe, after China has already rattled global stock markets, could lead to a financial crisis given the headwinds of monetary policy tightening and geopolitical turmoil.

Why is the US running large trade deficits? The main answer is that the US has a low level of savings compared to the level of investment. The personal savings rate in the US is running around 3.2 per cent compared to the thrifty Chinese rate of about 35 per cent. The US is spending more than the income it generates, running both a fiscal and a current account deficit, attracting capital inflows and borrowing to finance these deficits. The deficits look set to increase given the US fiscal stimulus package and tax cuts passed in 2017, which encourage consumption and imports at a time when the US economy is overheating.

Tariffs on solar panels, steel and aluminium or cars will raise the cost to US businesses and consumers and disrupt global supply chains. A 25 per cent tariff on all cars and parts would raise US consumer prices by $1,400 to $7,000 for high-end vehicles. For the proposed auto tariffs, nearly 98 per cent of the targeted car and truck imports by value would hit key US allies: the European Union, Canada, Japan, Mexico, and South Korea. Trumpian Trade Wars are not only beggar-thy-neighbour policies, they are beggar-thy-allies.

Cars and phones are prime examples of highly globally integrated industries. Many of the goods that the US imports (such as electrical and electronics) are US designed but manufactured in China, Mexico and other countries with an advantage of lower costs, but relatively low value added in global value chains. The profits, however, are made by US businesses like Apple, Amazon and others. Economists look at “trade value added”, but unscrupulous politicians broadcast headline grabbing total trade numbers.

Although the highlighted US-China trade deficit was at $375bn last year, the US runs trade deficits with 102 nations (not just China) and has run deficits since 1975, averaging $535bn per annum since 2000. The trade deficit on goods was $810bn in 2017 but substantially less at $566bn on goods and services: the US is a major exporter of services and tends to run a large services surplus.

The notion that imposing tariffs on Chinese imports would erase US trade deficits is flawed, absent macroeconomic developments and policies that would change the saving-investment gap. On the other hand, trade retaliation might be costly for export-led China and tit-for-tat tariff hikes between the two largest economies of the world would result in slowing global trade, severe disruption of global supply chains, lower investment, derail economic growth and result in a sharp correction of financial markets.

The announcement of a widening of the scope of tariffs signals that US strategy is shifting away from the protection of local industries (solar, steel) based on “national security” to one based on intellectual property and the acquisition of new tech. The wider, more strategic objective is an attempt to prevent China’s declared ambitions of moving up the activity and trade complexity ladder, with higher value tech goods and services, the “Made in China 2025” horizon.

China is inching closer to developing an edge in AI, blockchain, Big Data, FinTech, life sciences (Crispr) and related technologies. Indeed, the EU might join the US to rein in the emergence of China as a tech frontrunner.

With the US imposing tariffs on a variety of goods, trade will be diverted to other countries. Already, China is buying soya beans from Brazil, shifting from the US. China will shift and develop new markets for its exports, reorienting its trade towards the EU, Asia, and the Middle East, leading to lower prices of affected commodities (which could lead to potential retaliation by the EU and Japan). China has other options: it could retaliate through non-tariff barriers to trade rather than imposition of tariffs; raise informal barriers to US investment in China; diminish the flow of investment in US Treasuries; as well as allow a depreciation of the yuan (justified by lower export and overall growth as a result of US tariffs). We could be entering a phase of currency wars.

The bottom line is that growing US trade protectionism will lead to a shift in global trade patterns and international alliances away from the US and the creation of new trade blocs. Already, the EU and Japan have signed a major trade agreement eliminating most tariffs, covering a market of some 600 million people and a third of the global economy.

China is likely to seek a similar free trade and investment agreement with the EU (which is already China's most important trade partner) and seek strategic partnerships with Germany and other European countries. It will likely also want to join the Trans Pacific Partnership. China will likely accelerate implementation of its Belt & Road initiative leading to a deeper integration of B&R countries into its economy and its global value chains, opening new markets. China will also accelerate and increase its investments in robotics, AI, Blockchain, Big Data, FinTech, and high tech to bring forward its ambitious "Made in China 2025" strategy. The Chinese dragon will not be contained.

What does all this mean for the GCC? The GCC exported $9.4bn of aluminium in 2017, (of which the UAE provided $5.6bn worth, representing 10.1 per cent of world exports) and is the largest exporter to the US after Canada and Russia. Already adversely affected by aluminium tariffs, the region would be additionally hurt by a decline in world trade and world growth which would lower oil prices, and particularly if China were hard-hit.

The GCC’s total trade with China was close to $110bn last year, with the largest export from the region being crude oil, and accounts for more than two thirds of China’s trade with the Middle East.

Given growing US protectionism, the time is right for the GCC to reorient their international trade agreements and pivot towards Asia, including the long delayed Free Trade Agreement with China.