

Asia–Middle East Corridor

Seizing the opportunity of ever greater connectivity

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Economics - Asia & MENA

- ◆ Economic connectivity between Asia and the Middle East is set to soar in coming years, expanding well beyond energy trade
- ◆ Annual two-way goods trade is projected to more than double from around USD950bn in 2022 to over USD1.9trn by 2035
- ◆ Two-way investment, led by the China-Saudi and India-UAE corridors, could surge to USD36bn annually by 2035

Beyond energy. The Gulf countries and Egypt sit on over a quarter of global crude oil reserves, while Asia is home to the world's largest oil importer and a growing giant in India. Besides energy, the two regions also complement each other in many areas of trade, investment, and people exchange. And perhaps most importantly, the major economies on both sides are still committed to opening to the world. The Asia–Middle East trade, investment, and travel corridor, in other words, is set to thrive.

Trade integration. Asia is a critical export market for the Middle East. Over half of Qatari and Saudi exports, mostly crude oil and LNG, went to Asia in 2022. Although energy is the foundation of Asia–Middle East trade, many other products—from Saudi plastics to Indian pharmaceuticals—are rapidly gaining. More trade deals between the Gulf Cooperation Council and Asian partners—such as China, India, and Japan—would further bolster inter-regional trade. Asia–Middle East goods trade totalled cUSD954bn in 2022 and our projections suggest this figure could balloon to USD1.9trn by 2035. For reference, US-China trade in 2022 only totalled around USD750bn.

Investment integration. Northeast Asian investors are increasingly pouring funds into the Middle East, with flows in the opposite direction also rising. A key corridor is also emerging between the UAE and India, which recorded USD6bn of FDI in 2022 that we estimate could rise to USD14bn annually by 2035. Indian digital services are an especially promising sector for UAE investors. More broadly, cumulative FDI flows between Asia and the Middle East are expected to total over USD270bn over the next 10 years, up from less than USD140bn the previous decade. For China, renewing momentum in BRI projects in the Middle East region and further RMB internationalisation will require strong Saudi support. Meanwhile, Middle East investment projects in ASEAN are quietly expanding to cover a wide range of sectors.

People integration. Inter-regional tourism took a significant hit during the Covid-19 pandemic, but travel is slowly recovering. Boosting Chinese and Indian visitor numbers will be critical for the Middle East's tourism industry, while Southeast Asian tourism markets—such as Thailand, Indonesia, and Malaysia—look for the return of high-income Saudi and UAE visitors. Overseas remittances are another important aspect of people integration, particularly for Bangladesh, Sri Lanka, and the Philippines.

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Revisiting the Southern Silk Road

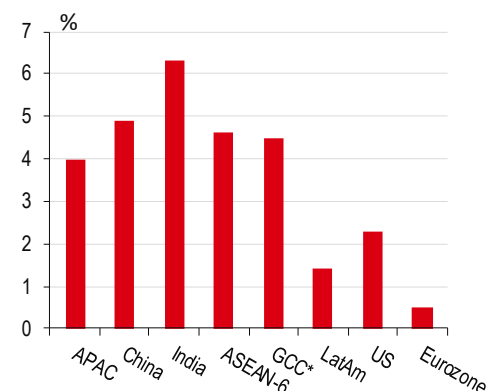
We have long argued that integration between emerging economies—or “South-South” connections—is one of the keys to unlocking global growth (see Stephen King, *The Southern Silk Road: Turbocharging ‘South-South’ economic growth*, 6 June 2011). Over the past two years, an economic slowdown in China and sluggish post-Covid-19 recoveries in many emerging markets, combined with resilient US growth, may have weakened this assumption.

We, however, remain highly optimistic about the long-term impact of greater connectivity between Global South economies. In particular, the expanding economic corridor between Asia and the Middle East—reminiscent of the ancient Silk Road—holds tremendous potential as a rising inter-regional nexus of trade, investment, technology, and people exchange.

Our analysis of the Asia–Middle East corridor focuses on the economies in Northeast Asia (mainland China, Japan, South Korea, Taiwan, and Hong Kong), Southeast Asia (Indonesia, Thailand, Singapore, the Philippines, Vietnam, and Malaysia), South Asia (India, Bangladesh, and Sri Lanka), and the Middle East (Saudi Arabia, United Arab Emirates, Qatar, Kuwait, Oman, Bahrain, and Egypt).

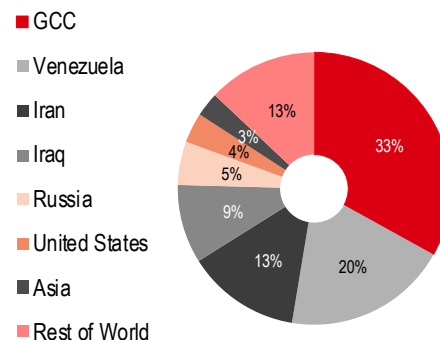
Asia's largest economies drive global growth (Chart 1) and the region is already successful in integrating supply chain networks (see Shanella Rajanayagam, *South-South trade: Following the Southern Silk Road*, 17 February 2019). Meanwhile, the Middle East holds around half of the world's crude oil reserves (Chart 2). The modern-day Silk Road combines these two sets of strengths.

Chart 1: Global GDP growth projections (2024f)



*GCC here specifically references non-oil growth
 Source: HSBC (Global Economics Quarterly: Waiting for the main act, 25 March 2024)

Chart 2: Shares of global crude oil reserves (2022)



Source: World Population Review

Unlocking the potential of greater inter-regional economic integration

Combining Asia's growth, successful intra-regional integration, and sheer size ...

... with Middle Eastern energy, wealth, and demographics

Asia–Middle East annual two-way trade could increase to USD1.9trn by 2035 ...

... while two-way FDI may reach USD36bn annually

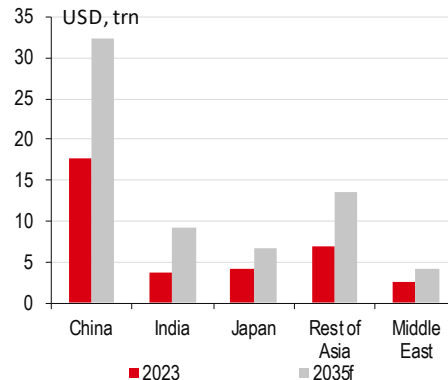
Besides high growth rates and established regional production networks, Asia offers massive economies of scale and large populations. Mainland China accounts for around half of the Asia–Middle East corridor's economic heft, while India boasts the world's largest population (Charts 3 and 4), these dynamics have fuelled Asia's seemingly insatiable appetite for Middle Eastern energy.

Oil-rich Middle Eastern economies have benefitted directly from growing Asian and Western energy demand in recent decades and higher prices. In 2023, the six Gulf nations boasted an average GDP per capita of USD41,200. Moreover, unlike many wealthy economies the Middle East has very healthy demographic trends (see Chart 6).

The impact of deeper inter-regional integration along the new Silk Road would be staggering (Chart 7). To get a sense of the immense economic shifts underway, consider that our projections have annual Asia–Middle East trade surging from USD954bn in 2022 to USD1.93trn by 2035.

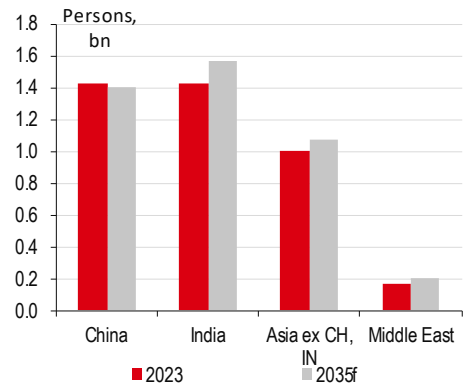
In addition, we estimate that annual two-way foreign direct investment (FDI) flows between Asia and the Middle East, which totalled around USD21bn last year, will reach USD36bn by 2035 (Chart 8).

Chart 3: China accounts for half of the corridor's economic size ...



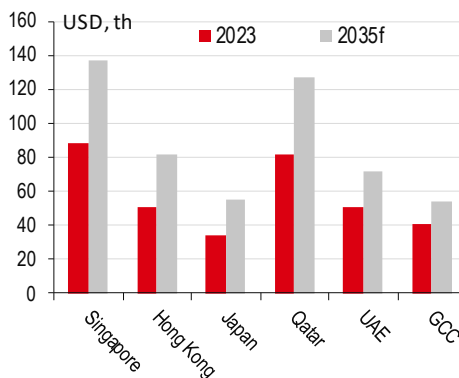
Note: 2035f is derived from straight line projection based on IMF forecasts
Source: IMF, HSBC

Chart 4: ... while India leads in total population



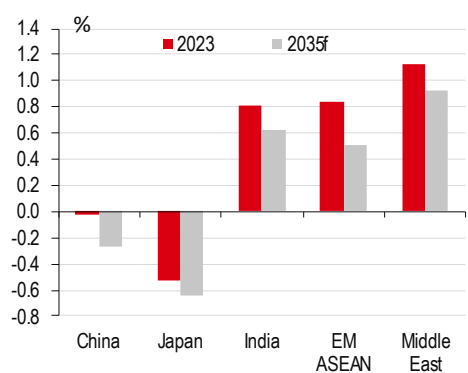
Source: UN, HSBC

Chart 5: High GDP per capita economies within the Asia–Middle East corridor



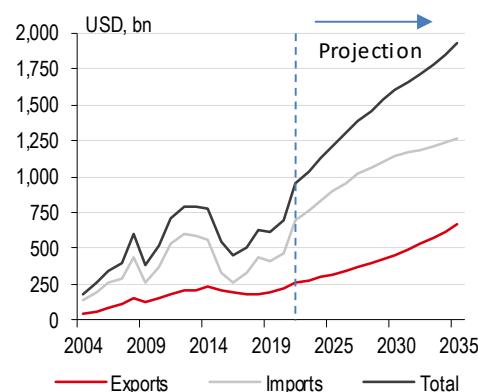
Note: 2035f is derived from straight line projection based on IMF forecasts
Source: IMF, HSBC

Chart 6: Annual population growth rates, by region



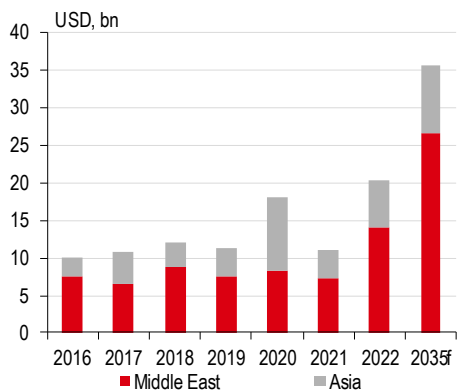
Note: EM ASEAN refers to Indonesia, Thailand, Philippines, Vietnam, and Malaysia
Source: UN, HSBC

Chart 7: Projected Asian trade with the Middle East



Source: IMF, HSBC

Chart 8: Projected annual FDI inflows from Asia–Middle East corridor counterpart



Source: CEIC, ASEAN Stats Data Portal, HSBC

Are you interested in more on the Asia-Middle East trade corridor? The full note contains a further look at the current trade integration dynamics between these two regions – including a discussion of the unrealised export potential the Middle East has to Asia, a review of the investment integration taking place – something we believe is a key pillar of the Asia–Middle East corridor, the Economic reforms and diversification efforts which have made the Middle East a more attractive investment destination, and the inter-regional efforts to expand tourism. For more details, contact your HSBC representative or email AskResearch@hsbc.com.

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