Dodge the Swinging Pendulum

By Michelle Meineke, Editor, Gulf Intelligence

If China and the US cough, other countries can catch the flu; so significant is the economic ripple effect of these two behemoths. Trade tariffs and diverging policies towards North Korea are among a growing list of issues that will likely drive discord this year. Energy stakeholders cannot afford to ignore the yo-yo of cooperation and frustration between these two titans.

China is the world's biggest buyer of oil, surpassing the US in annual gross crude oil imports in 2017 with 8.4m b/d compared to the US' 7.9m b/d. Last December, preliminary data from China's General Administration of Customs showed that China's crude oil imports rose 15.7% year-on-year to a record high of 10.48m b/d in November. Plus, the Asian Development Bank expects energy demand to almost double in the Asia and Pacific region by 2030; music to Middle Eastern energy exporters' ears.

> **"How to plot a safe path through this year's geopolitical wilderness? Shun isolationists and make more friends."**

To the west, the boomerang nature of the US' energy industry suggests more surprises await in the 2020s. The US has been a net energy importer since 1953, but the continued growth in petroleum and natural gas production means the country will be a net energy exporter by 2020, according to the US' Energy Information Administration (EIA). This is an astonishing turnaround, especially considering UN data shows that the country's population more than doubled from 158 million in 1950 to 324 million in 2017. Take the LNG market alone: having become a net natural gas exporter on an annual basis in 2017, the US could be the world's largest exporter by the mid-2020s.

When it comes to economic growth, China takes the crown. Beijing will manage the world's largest GDP by 2050, while the US' position on the global scoreboard slips one spot to third place, detailed PwC. Yes, China is experiencing its lowest growth rate since 1990 and some justifiably anticipate another deceleration post-2020, towards 5% annual growth. But perspective is vital; President Trump would be delighted if the US steadily posted 5% annual growth. For now, the International Monetary Fund (IMF) expects China's GDP growth this year to be 6.2% versus the US' growth of 2.5%.

90
Punches in the trade war between China and the US were suspended in a 90-day ceasefire. Is this the end of the boxing match?

2050
China will be the top dog in terms of GDP size by 2050. India and the US come in second and third, respectively.

2022
Friends with deep pockets are vital. Meeting electricity demand alone in MENA by 2022 comes with a $260 billion price tag.

$8trn
Allies in China are especially coveted; investments under Beijing's One Belt, One Road initiative range from $1 trillion to $8 trillion.

2024
The US' population more than doubled from 158 million in 1950 to 324 million in 2017. Comparatively, China will be home to 1.44 billion people by 2024. Opportunity or hindrance?

2020s
The US is on track to embed its role as the world's biggest oil and LNG exporter on the global energy stage in the 2020s. Underestimate the country's might at your economic peril; more surprises await.

Simmering tensions between the two will undoubtedly persist. Beijing tends to act without much political fanfare, while President Trump is more vocal but often has less of a bite. Still, the consensus among Middle Eastern energy stakeholders is that codependence will prevail over strategic mistrust – for now. Making more friends is the Middle East's best hedging tool. With some strategic quid pro quo, a worst-case scenario can see the region grappling with a cold while isolationists battle the flu. ■

Make Friends

How can Middle Eastern energy stakeholders plot a safe path through this year's geopolitical wilderness to remain competitive and have energy security? Ignore isolationists and make more friends. Middle Eastern countries are relatively small; the entire economy of the GCC roughly equates to that of India. While it's important to be friends with the US, it's no longer enough. Alliances with China, India, wider Asia, Europe and the fastest-growing hubs in Africa are also critical.

For example, the Middle East must attract investments from China's One Belt, One Road initiative (OBOR), as well as India's Think West policy. Popular estimates for Chinese investment under the OBOR initiative range from $1 trillion to $8 trillion, according to the Center for Strategic and International Studies. Comparatively, the Marshall Plan after World War II provided the equivalent of $800 billion in reconstruction funds to Europe. Meanwhile, India's efforts to integrate itself deeper into geopolitical dimensions, economies and transnational networks are gaining traction. The country's $2 trillion economy recently overtook France to become the world's sixth largest economy, according to Acuité Ratings and Research. PwC expects India's GDP growth to overtake the US by 2050, securing the number two spot behind China.

Clearly, nurturing friendships in such high places – the world's fastest growing economies and biggest energy consumers – can support the Middle East's coffers while minimizing the bruises caused by the sharp elbows of geopolitics. Saudi Arabia-based Apicorp said the Middle East and North Africa (MENA) must invest $260 billion in its power sector alone to meet rising electricity demand in 2018-2022. This is just one example of where friends with deep pockets and a reliance on imports can help the Middle East scale its cliff of energy demand.