THE GULF: A GROWING TRADE HUB FOR THE GLOBAL ECONOMY, May 2025

*Contributed by **Lluis Dalmau**, Senior Economist at Allianz Trade Group*

As President Trump visited the Gulf, his first international tour of his second term, seeking investment in the US and security deals, the region came back to international headlines as a growing place to do business.

During the trip, Saudi Arabia committed up to USD600bn of investment in the US over the next decade. In addition, the two countries agreed on a broader pact that includes US defence sales valued at nearly USD142bn, providing Saudi Arabia with equipment and services from over a dozen defence firms. Additionally, Riyadh's sovereign wealth fund placed an order for 30 Boeing single-aisle aircraft and reached agreements with the US concerning energy and mineral resources. The UAE also pledged USD1.4trn over the same period. Qatar is expected to make its own sizable pledge during President Trump stop in Doha, where he will also discuss the controversial new Air Force One. While past experiences suggest that the entirety of the promises are unlikely to fully materialize, this brings attention to the region and its capacity to be a center for business, trade, and investment.

The White House trade policy decisions had a relatively softer tariff shock on the Gulf.

The region was targeted with a 10% tariff rate but given its exports of energy products, mainly crude and refined oil and natural gas, the average tariff rate came out lower. The Kingdom of Saudi Arabia's (KSA) tariff rate stood at 3.9%, while the UAE's was slightly higher at 7.4%, given the greater diversity of the Emirate's exports. In the region Bahrain has been particularly hit, thanks to its role as an important exporter of aluminum, which has been tariffed at 25% by the US since March. Aluminum destined for the US accounts for 6% of Bahrain's exports so the tariff will have a major negative impact on the industry and economy overall, with export losses valued above USD200mn.

A trade deal between the US and Gulf countries is likely given the nature of trade and small size of the GCC trade to the US.

Reducing tariffs to zero between the US and the bloc would represent export gains to the region of around USD1.5bn, a small amount compared to total trade. The Gulf Cooperation Council (GCC) and US total trade is currently below USD100bn, which represents a drop since the peak before the global financial crisis in 2008 and the fracking revolution in the US, which reduced US oil imports from the region. Meanwhile, total trade with China since 2008 has doubled to above USD300bn in 2023. While tariffs have not been a major blow to the region's economy, the projected drop on global GDP growth and global uncertainties have hit the region's main revenue source: oil prices have collapsed below 70USD / barrel. This alongside moves in yields throughout the Gulf sets the stage for intensified financial tightening.

What can the Gulf get in exchange?

Leaders across the region are aiming to reach broader deals including access to tech, energy, security guarantees, geopolitics and trade. In the early read outs of the deals agreed between Riyadh and Washington, these included increased purchase of US weapons (valued above USD100bn), gas turbines valued at USD14bn and the pledge of US tech firms to invest up to USD80bn further in the region. It is no secret that Saudi Arabia is developing its own nuclear energy program powered by US technology, which would allow the Kingdom to decarbonize part of its very energy-intensive economy but also to keep up with Iran's enriching capacity. In parallel, Saudi aims to increase its access to the latest US technology and defense. In recent weeks, Washington has signaled that it will allow the sale of advanced chips and weapons to the region.

The Gulf, a growing trade hub for global trade.

As a new trading system emerges with China and the US with lesser direct links, the Gulf region is becoming a re-exporter hub for businesses across the world. Notably, the UAE has become a world leading financial and service export hub, as the Emirates is the most diversified economy in the region. The UAE ranks #1 in our list of Next Generation Trade Hubs, as the Jebel Ali port – among the top 10 largest global ports – enables trade between Asia, Europe and Africa, as well as to North America. As supply chains seek to derisk exposure to potential tariffs in the US and China, hubs such as Saudi Arabia and the UAE can take leverage and lead bringing new businesses.

Oil prices collapse during the month of April do bring fiscal headaches to the region. Saudi Arabia's drop estimated at USD22bn on the back of 6% drop on non-oil GDP.

Kuwait is projected to have the largest drop of non-oil GDP revenue of around -16%, an estimated USD13bn. Oman and the UAE are to follow with -6% and -4% respectively (USD4bn and USD13bn). Qatar has been spared as it is a major natural gas exporter and continues to enjoy elevated prices. The significant drop in oil prices could force policymakers to downsize their ambitious spending projects on everything from new futuristic cities to stadiums to host international sports events. We also see these investment deals as de-escalation efforts which will pump up oil prices and provide relief to the region. Meanwhile, the region is likely to rely on debt to fill the fiscal gap. The drop in oil prices has not yet decreased investment in Saudi Arabia as the oil-rich nation has relied on debt to continue spending, as it did in 2016-2017. In Q1 2025, spending increased by 5% y/y, taking the fiscal deficit to the highest level since 2021, above USD15bn. The oil price decline of 2015-2017, which brought prices below USD50 for more than 48 months, saw a decline in government spending of -54%. Together with Abu Dhabi, Riyadh has been among the most active issuers of USD denominated debt in recent years. Likewise, Kuwait recently passed a new law to allow for new debt issuance.