

ISSUES

- Pre-COVID-19, almost 20 million bpd of oil and 90 million tpa of LNG transited through the Strait of Hormuz, most of which went to East Asia, mainly China, Japan, and South Korea. The Gulf countries, regional trade, and the global energy market all depended on the U.S. to ensure freedom of navigation, especially amid rising tensions with Iran.
- Gulf oil and gas producers have the lowest cost structure in the world, and it is likely that post-COVID-19, the amounts shipped to East Asia will remain the same and will still be under the U.S. naval umbrella.
- In spite of major efforts to diversify, Gulf economies are still very dependent on hydrocarbons. 80% of their budgets come from oil and natural gas sales. Where they have diversified, this has largely focused on the downstream sector: i.e. refined products, advanced chemicals, and fertilizers.
- Trade competition is growing. China has become the leading trading partner for all Gulf countries, although that trade is still carried out in U.S. dollars. Japan, South Korea, and the EU are also major trade competitors of the U.S.
- The major Gulf energy producers have massive financial reserves earned from hydrocarbons sales — an estimated \$300 billion in Qatar, \$400 billion in Kuwait, \$800 billion in Saudi Arabia, and \$1 trillion in the UAE. These reserves are mainly managed by very opaque SWFs, which often hold illiquid assets. The large majority of their investments are in U.S. dollars, and some, like Saudi Arabia, keep up to 50% of their assets in U.S. treasuries.

US INTERESTS

- The U.S. needs stable energy prices above \$40/barrel to retain its role as one of the top three suppliers of oil, maintain its economic growth at home, and keep inflation low.
- The U.S. is a major trading partner with the region. Exports of IT products, airplanes, automobiles, and arms, among other goods, greatly benefit the U.S. economy.
- The U.S. faces growing trade competition from China, Japan, Korea, and the EU and needs to maintain and improve its export position.
- Most importantly, the U.S. needs to maintain the dollar as the world's primary trading currency.

POLICY RECOMMENDATIONS

- Continue to maintain a sizable military and diplomatic footprint in the region to ensure freedom of navigation and political stability.
- Actively promote investments by U.S. firms in the region.
- Encourage Gulf firms to invest in the U.S.
- Continue to encourage a large presence of Gulf students in U.S. universities.