Is the Middle East Ready for China?

The Middle East Pivot: China’s BRI

Middle East Institute Annual Conference

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Agenda

- Diverse MENA region: transition, tensions & turmoil
- Middle East’s Growing Links with China: Trade, Investment & Beyond
- Building Blocks of a Strategic China-Middle East Partnership
MENA: 47.6% of world’s proven oil reserves but youth unemployment is 27% with wide inequality in wealth, resources & incomes. Many countries in transition, tension or turmoil.

Population, millions (2018)
GDP per capita, USD (2018)

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<thead>
<tr>
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<tbody>
<tr>
<td>Morocco</td>
<td>10,457,000</td>
<td>3,355.4</td>
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<tr>
<td>Tunisia</td>
<td>11,723,000</td>
<td>3,573.4</td>
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<tr>
<td>Jordan</td>
<td>9,920,000</td>
<td>4,227.5</td>
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<tr>
<td>Lebanon</td>
<td>4,620,000</td>
<td>12,453.7</td>
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<tr>
<td>Egypt</td>
<td>96,920,000</td>
<td>25,728</td>
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<tr>
<td>Syria</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>Libya</td>
<td>6,500,000</td>
<td>6,638.6</td>
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<td>Sudan</td>
<td>41,900,000</td>
<td>791.3</td>
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<td>Yemen</td>
<td>30,800,000</td>
<td>925.6</td>
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<tr>
<td>Morocco</td>
<td>3,900,000</td>
<td>1,309.9</td>
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Countries in Transition/Tensions/Turmoil

Regime change

Job creation & economic diversification are policy priorities

Source: IMF World Economic Outlook database; NS&A economics
China-Middle East links are growing, but trade & investment mainly energy

- Asia now accounts for 45% of Middle East trade; share of US and Europe at 7% and 14% respectively
- MENA imports from China almost doubled in 10 yrs (2018 vs. ‘08);
- Energy dominates China-Middle East trade
- China eclipsed UAE (in 2016) to become the leading investor in MENA
- China’s investments & projects in the Middle East are mostly in energy; other opportunities abound with $3.5tn of projects
- Active cooperation in Banking & Finance: Bilateral swap agreements w/ UAE, Qatar & Egypt CBs; ADGM opened representative office in Beijing
- KSA & UAE were the top tourist destinations in the ME (~85 mn total visitors in 2017); UAE attracted 770k Chinese visitors in Jan-Nov 2018.
1+2+3 cooperation pattern of China’s Arab Policy

High and new tech fields of nuclear energy, space satellite & new energy as the 3 breakthroughs → Infrastructure construction, trade & investment facilitation as the two wings → Energy cooperation as the core

- China's proposed initiatives of jointly building the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road", and industrial capacity cooperation have been well received by Arab nations
- Both sides have broad consensus on safeguarding state sovereignty and territorial integrity, defending national dignity, seeking political resolution to hotspot issues, combating extremism, and promoting peace and stability in the Middle East
## China’s Arab Policy Building Blocks

<table>
<thead>
<tr>
<th>Political cooperation</th>
<th>Investment &amp; trade</th>
<th>Social development</th>
<th>Cultural</th>
<th>Peace and Security</th>
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</thead>
<tbody>
<tr>
<td>High-level exchanges</td>
<td>BRI</td>
<td>Healthcare</td>
<td>Exchanges Among Civilizations and Religions</td>
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<td>Intergov't consultation &amp; cooperation</td>
<td>Cooperation on production capacity</td>
<td>Education &amp; HR dev’t</td>
<td>Military Cooperation</td>
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<td>Exchanges between local govt's</td>
<td>Investment cooperation</td>
<td>Cooperation in Science &amp; Tech</td>
<td>Anti-terrorism Cooperation</td>
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<td>Cooperation on international affairs</td>
<td>Trade</td>
<td>Agricultural cooperation</td>
<td>Consular, Immigration, Judicial and Police Cooperation</td>
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<td>Energy, Infrastructure, space, financial, civil nuclear cooperation</td>
<td>Cooperation on Addressing Climate Change, Envt’al Protection &amp; Forestry</td>
<td>Exchanges b/n Non-gov’t Orgs, Youth &amp; Women</td>
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<td></td>
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<td>Cooperation on Tourism</td>
<td>Non-Traditional Security</td>
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Building Blocks for a Strategic China-Middle East Alliance

- Belt & Road Initiative
- AIIB, NDB, ABRD
- Services/Tourism
- Banking, Investment & Payments
- Technology Institutes
- Digital Silk Road/Tech Silk Road
- Free Trade & Investment Agreements
- Clean Energy & Technology
- Cultural

NS
Belt & Road Initiative

• Major Belt & Road Initiative projects are centered on the construction of high-speed railway links and energy and telecommunications infrastructure, but largely bypass GCC & ME.

• Egypt is listed as one of the top five destinations for M&A activity under the BRI.

Strategic opportunities:

• **Participation and JVs** between GCC/ME infrastructure, transport & logistics enterprises (many of which are SOEs & GREs), in BRI projects.

• Would **allow GCC/ME to integrate into China’s GVCs**.

• ME banks could facilitate public & private co-financing of BRI projects.
Institutional links via AIIB, NDB

Asian Infrastructure Investment Bank (AIIB) and NDB

- Egypt, Iran, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, UAE among the founding members in AIIB
- AIIB approved three projects in Oman, lending ~$600mn++; one project is for Muscat to become “fibre-ready” by end-2021; another to improve port infrastructure of Duqm

Strategic opportunity:

- GCC SWFs and Development Funds along with Islamic Development Bank to co-finance AIIB and NDB projects in ME, CA and Africa which are within the GCC economic area
- Provides investment diversification for GCC SWFs & Development Funds
Support for the creation of an Arab Bank for Reconstruction & Development

- Region has suffered wars & destruction, violence, and population displacement: Iraq, Lebanon, Libya, Sudan, Syria, Yemen.

- Reconstruction & Re-development are a priority to prevent resurgence of extremism and violence, assist countries in transition & finance regional economic integration and infrastructure.

- Reconstruction & Development Cost is some $1.4tn of which Iraq $700bn, Syria $400, Libya $100bn, Yemen $?, Sudan $40, Lebanon $20bn.

- Arab region is the only one without a dedicated bank for reconstruction & development, in contrast to ADB, AfDB, EBRD, IADB.

Strategic Opportunity:

- Set-up an Arab Bank for Reconstruction & Development (ABRD) in partnership between GCC, China/AIIB/NDB, EU/EIB/EBRD, Japan, Korea, Turkey, WB and others.
Banking, Investment & Payments

- Banking, financial infrastructure & payments systems integration needed to support China/ME/GCC trade and investment flows

Strategic opportunities:

- Link financial markets (Shanghai+DXB+AB+Riyadh): listing of Chinese and GCC/ME securities, including for BRI and ABRD projects

- Develop GCC RMB Zone
  - Internationalize the Yuan: Total RMB bilateral swap agreements exceed RMB 3trn; in the region, swap agreements exist with UAE (RMB 35bn), Qatar (RMB 35bn), Egypt (RMB 18bn)

- PetroYuan
  - GCC, Iran, and Iraq now account for ~60% of China’s imported oil
  - “PetroYuan” can be used to finance China’s oil & gas and ME imports
Free Trade & Investment Agreements and Conventions

• Negotiations began on the GCC-China FTA in Jul 2004, but efforts stalled. Negotiations reopened in 2016 and ongoing
• The FTA would abolish customs duties imposed on both sides’ imports and give a boost to trade exchanged
• The potential FTA includes not only commercial aspects but also other vital ones, including transportation & logistics, services, tourism and industries + increasing investments

Strategic opportunities:
• Finalise China/GCC and other bilateral FTAs
• Trade and Investment Facilitation Agreements and Facilities
• Participation in China International Payments System
• Bilateral & Multilateral Commissions
New Horizons via Technology

- Digital Silk Road/Tech Silk Road: AI, Block chain, Digital services (including e-commerce)
  - MENA: the highest regional percentage of population who are without access to financial services, with more than 85 million unbanked adults
  - Extend beyond current agreements to cooperate in expanding broadband access as well as encouraging cooperation in e-commerce
  - With Alipay, Baidu, and WeChat, Chinese expertise has the potential to become a game-changer in helping the region’s poor bypass conventional banking altogether
  - Network International announced seamless support of Alipay (Sep 2018)

Strategic opportunity:
- Focus on Digitalisation through Digital Silk Road & Tech Road
- FinTech for financial access and inclusion
China: Renewable Energy & Clean Tech

- China is the largest investor in renewable energy (RE)
- China produces more renewable energy than all of Europe and has more solar energy capacity than any other country
- China is and will continue to be the largest EV market in the world and dominates global battery market: of the 131 GWh of lithium ion battery manufacturing capacity globally, ~60% is in China
- ME oil producers need to diversify their energy sources and invest in their comparative advantage in RE

Strategic opportunity:

- Focus on China as a strategic partner in Renewable Energy & Clean Technology investment, production and trade
Tourism & Services: low hanging fruit

Number of Chinese tourists travelling to the GCC is expected to increase 81% from 1.6mn in 2018 to 2.9mn in 2022.

Chinese tourists have the highest average per capita expenditure in Dubai.

What has helped drive growth of tourism?

- UAE is on China’s list of “approved destinations”; “Visa on arrival” for Chinese citizens.
- Partnerships with Chinese co’s: MoUs with Huawei, Fliggy, Tencent, AliPay.
- Connectivity: Emirates (930k+ non-stop flight seat capacity), China Southern Airlines (165k+), others (216k+); increased air capacity by budget carriers.

Strategic opportunity:

- Integrate China-GCC tourism infrastructure: GCC as a hub for Chinese airlines & Maritime Silk Road.
Is the Middle East Ready for China? Need policy & instruments; overcome barriers

- Lack of a unified ‘voice’ across the Arab world, including the GCC: varied perspectives & objectives
- China advantage: no colonial or imperialist baggage
- Despite long history of relations, lack of knowledge and institutional links and limited joint cooperation in regional and international fora
- US-China growing geostrategic, power rivalry
- GCC/ME need to develop a “China Policy” and pivot East: multiple strategic opportunities
- China should be a development partner for GCC/ME
Is the Middle East Ready for China?

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