

“China-GCC FTA will be a game changer”, Op-ed in Arabian Gulf Business Insight (AGBI), 25 May 2023

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China-GCC FTA will be a game changer

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Chinese President Xi Jinping’s historic visit to Saudi Arabia in December 2022 marked a transformation of the thus-far transactional relationship between the regions – leading to the long-awaited revival of negotiations of the China-GCC free trade agreement.

The meeting also spurred the signing of a comprehensive strategic partnership agreement and 34 investment agreements.

The visit birthed an active diplomatic role for China in the region, resulting in the reopening of relations between Saudi and Iran, while Saudi and the UAE assume observer status in the Shanghai Cooperation Organisation.

These developments herald détente and stabilisation in the Middle East, thereby favouring trade, investment and growth, and facilitating the potential reconstruction of countries destroyed by war and violence – starting with Yemen.

Economic diversification

China already accounts for one-fifth of the GCC’s total trade,

a larger share than trade with the EU or US. China is the largest export market for the GCC – with energy at its core – as well as a major source of investment.

In 2022 the GCC accounted for around 8 percent of China's total imports, according to the PRC General Administration of Customs. Oil accounted for 90 percent of the GCC's exports to China last year. China is also the largest non-oil trading partner and second-largest trading partner of the Mena region.

A China-GCC FTA, potentially by 2024, is a game changer that would galvanise Middle Eastern economic transformation. An FTA that removes trade barriers – with tariffs expected to decline by 90 percent – would boost trade and investment linkages.

A China-GCC FTA is likely to be a deep trade agreement, going beyond international trade to encompass agreement on non-tariff barriers, direct investment, tech, e-commerce and services, labour standards, taxation, competition, intellectual property rights, climate, the environment, and public procurement (including mega-projects).

Laws and regulations would be modernised to accommodate the provisions of the FTA, thereby accelerating domestic economic reforms in the GCC.

These gains from trade, investment and technology transfer would generate higher incomes and growth rates for the GCC and, through spillover effects, raise growth rates in the wider Mena region.

Energy is essential

What are the main building blocks of an FTA? Energy will remain at the centre of a China-GCC FTA. However, the energy sector itself is transforming, driven by the global energy transition, with decarbonisation policies and net-zero targets leading to an acceleration of renewable energy investments, including by the GCC.

The Russia-Ukraine war created an energy crisis and put security at the forefront of energy policies. This, along with sanctions on Russian oil and gas, has increased dependence on Middle East resources.

China, as a world leader in renewable energy tech, will become the strategic partner for the GCC as it diversifies its energy mix through investment in renewables and climate tech.

A China-GCC FTA would also be a major building block for the economic diversification 2.0 strategies of the GCC and expansion of the non-oil sector.

Given the size and diversification of China's economy, an FTA would lead to a rapid expansion of trade and investment in digital trade and financial services, hi-tech, renewable energies and climate tech, AI, automation and robotics.

Tourism growth

Tourism would boom as Chinese outbound travelling recovers post-Covid, as other GCC countries join the UAE on China's "approved list".

The FTA would strengthen linkages and integration in infrastructure, transport, logistics and even space travel.

What's more, the GCC, as major capital exporters, would benefit from linking financial markets to Shanghai and Hong Kong, greatly facilitating financial flows, thereby multiplying and diversifying investment opportunities.

These could include expansion of China's Belt & Road construction projects in the GCC, participation in the financing of GCC privatisations, mega-projects, public-private partnerships, and the transfer of technology.

GCC investors would have privileged access to Chinese opportunities, free of exchange and capital controls. A natural outcome of the FTA and financial market linkages would

be the linking of payment systems, including the development and use of the Petro-Yuan to finance China-GCC trade and eventually for financial transactions and investments.

A China-GCC FTA would also deepen the symbiotic relationship between Chinese and GCC sovereign wealth funds, the largest in the world, controlling assets worth more than \$6 trillion, enhancing their global financial market power.

And finally, the China-GCC FTA would result in positive spillover effects through increased trade and investment for the Mena trade partners of the GCC, with trade creation effects outweighing any potential diversion.

The GCC would negotiate as a bloc and start exercising its considerable economic power in signing other FTAs, potentially with Asean, the EU and the United States-Mexico-Canada Agreement.

The China-GCC FTA deal is expected to potentially lead to a more than doubling of non-oil trade in three to five years from implementation, with greater global and regional integration of the GCC and the Mena region.

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