

A China-GCC Strategy to Support the Next Growth Phase

Presentation to the Oman Economic Association

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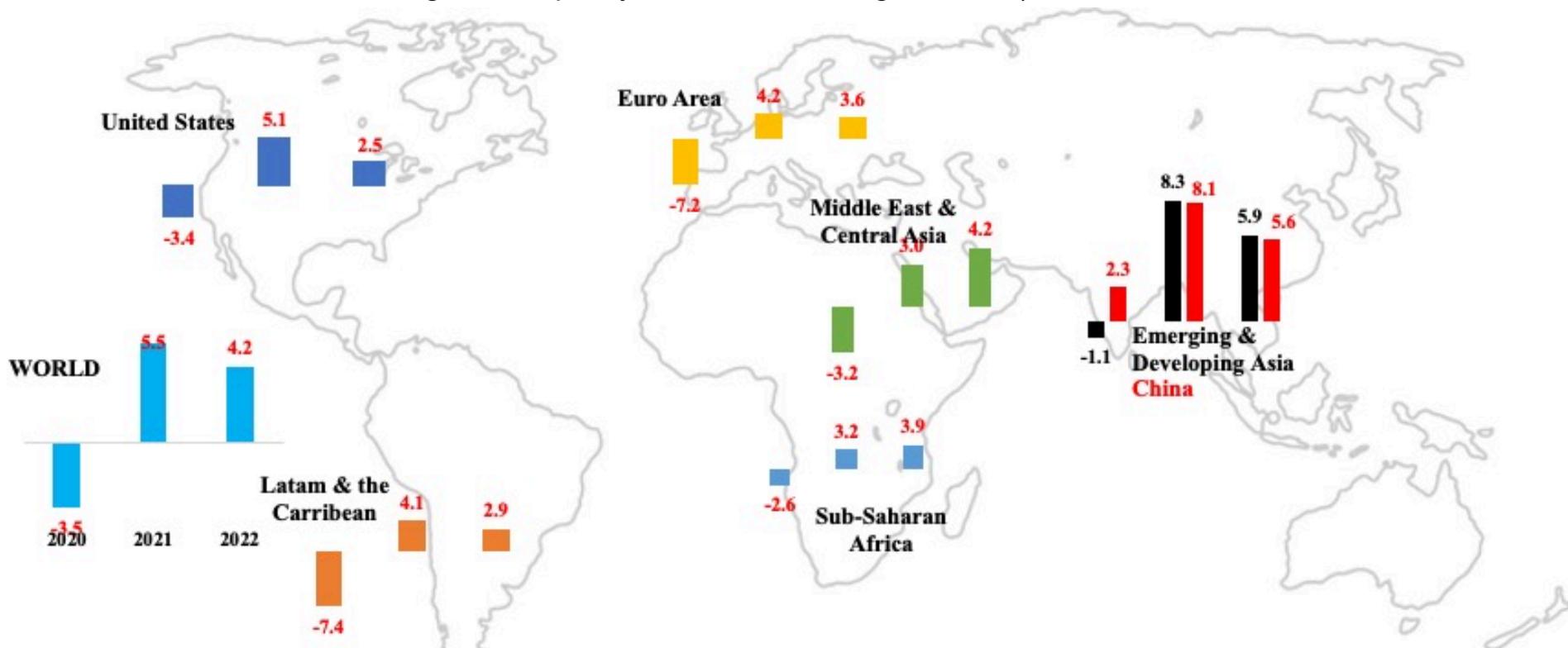
— & ASSOCIATES —

Agenda

- ✓ **COVID & its aftermath: Global & GCC consequences**
- ✓ **China has changed economic geography**
- ✓ **China and the GCC linkages**
- ✓ **China-GCC strategy: pivot to Asia for Next Growth Phase**

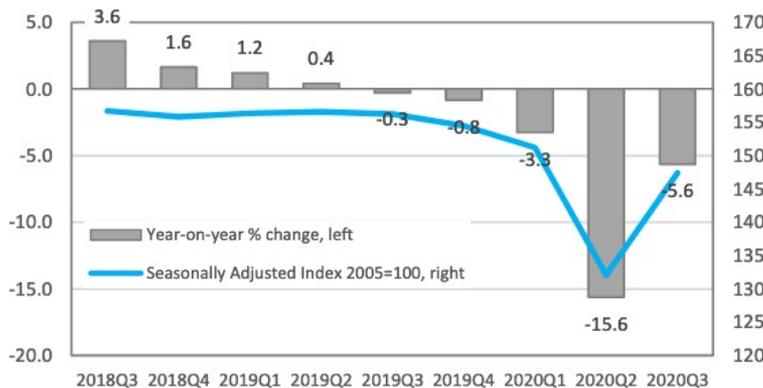
Global Impact of Covid19: divergent recoveries, scarring, vaccine exuberance

- **Large output losses:** projected cumulative output loss over 2020–2025 is forecast to be \$22trn (vs pre-pandemic projections)
- **Uneven recoveries:** China's V-shaped recovery vs second & third waves in many others
- Growth estimates are based on **continuing policy support** and **roll-out of vaccines** (its pace and logistics issues are identified as a concern) and **supportive financial conditions** (thanks to major central banks' maintaining current policy rates & QE through to 2022).

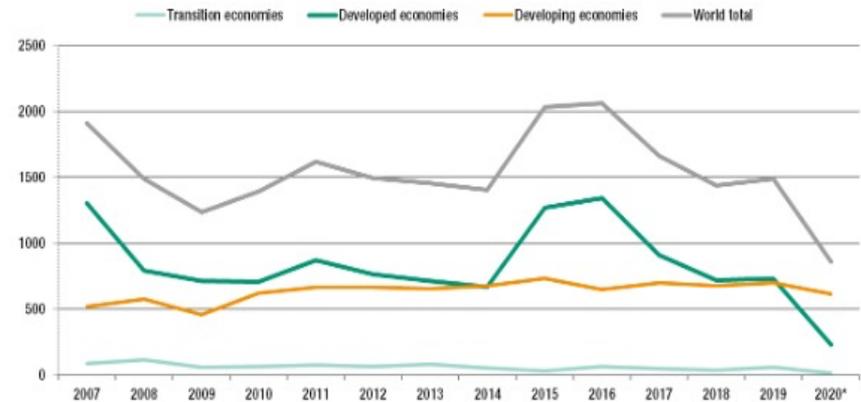


Sharp Declines in Trade and Investment: Disruption of Global Value Chains

World merchandise trade estimated to decline by 9.2% in 2020; down by 5.6% yoy in Q3



Global FDI inflows plunged by 42% to an estimated \$859bn in 2020 (\$bn)

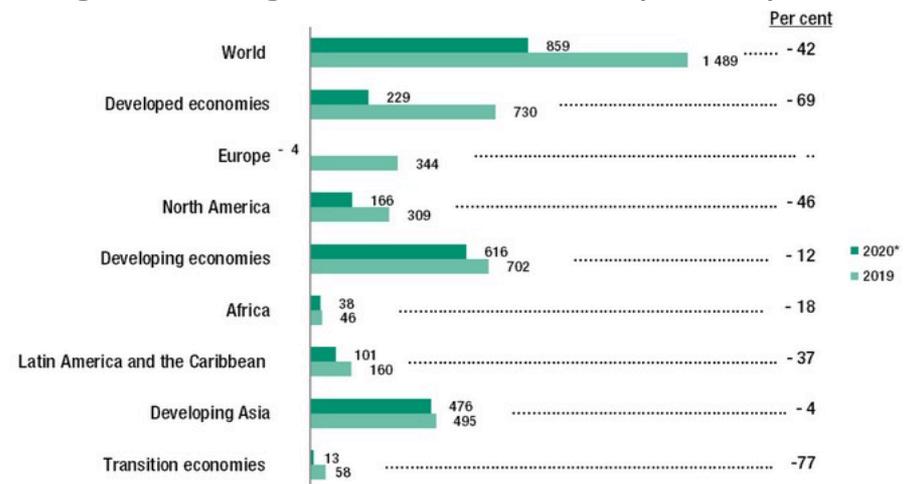


Goods Barometer signals trade recovery in Q4; Upward momentum peaked? export orders, automotive products show signs of deceleration

Component index values, trend = 100



All regions & economic groupings witnessed negative FDI growth rates in 2020 (\$bn, %)



Source: WTO Goods Trade Barometer, Feb 2021

Source: Investment Trends Monitor, UNCTAD, Jan 2021

Economic Implications of COVID

Adoption of digital/broadband technology

- Work from Home
- Learn from Home
- But also increased Inequality & Tech divide

Increased investments in

- Health
- Food security
- Clean energy & clean tech

Economic & financial vulnerabilities

- Unemployment; Worsening poverty & inequality
- Crowding out healthcare for other diseases
- Record high (Public Debt/GDP) ratios
- Businesses high debt levels & potential bankruptcies

Risks from

- Nationalism
- Inequality resulting in social unrest
- Climate change

2021 - the year of transition

Structural change. Which industries will survive COVID?

- Consumer rebound + changes in shopping behaviour
- Leisure travel; but, business?
- Remote working & learning
- Shift in supply chains (based on exposure to shocks)
- Green infrastructure, recovery
- Investment in digital economy => digitally enabled productivity gains

But also...

Greater regionalism?

Gov't debt from fiscal responses

A step back for gender parity?

Triple whammy of lower oil prices, impact from Covid19 (Great Lockdown) & financial markets severely impacted MENA & GCC

| | 2000–16 avg | 2017 | 2018 | 2019 | 2020e | 2021f |
|---|----------------|-------|------|------|-------|-------|
| GDP | | | | | | |
| GCC | 4.7 | -0.2 | 1.9 | 0.7 | -6.0 | 2.3 |
| UAE | 4.8 | 2.4 | 1.2 | 1.7 | -6.6 | 1.3 |
| KSA | 4.0 | -0.7 | 2.4 | 0.3 | -3.9 | 2.6 |
| Oman | 3.8 | 0.3 | 0.9 | -0.8 | -10.0 | -0.5 |
| Fiscal deficits (% of GDP) | | | | | | |
| GCC | 7.6 | -5.6 | -1.5 | -2.0 | -9.2 | -5.7 |
| UAE | 6.1 | -2.0 | 1.9 | -0.8 | -9.9 | -5.1 |
| KSA | 4.5 | -9.2 | -5.9 | -4.5 | -10.6 | -6.0 |
| Oman | 4.9 | -14.0 | -7.9 | -7.1 | -18.3 | -16.8 |
| Total government gross debt (% of GDP) | | | | | | |
| GCC | 24.4 | 25.5 | 25.6 | 30.4 | 41.4 | 43.0 |
| UAE | 10.9 | 21.6 | 20.9 | 27.3 | 36.9 | 38.2 |
| KSA | 33.3 | 17.2 | 19.0 | 22.8 | 33.4 | 34.3 |
| Oman | 13.0 | 46.4 | 53.2 | 63.1 | 81.5 | 88.7 |
| Current account balance (% of GDP) | | | | | | |
| GCC | 14.3 | 2.8 | 8.6 | 5.8 | -1.8 | 0.4 |
| UAE | 9.8 | 7.1 | 9.6 | 8.4 | 3.6 | 7.5 |
| KSA | 13.7 | 1.5 | 9.2 | 5.9 | -2.5 | -1.6 |
| Oman | 5.8 | -15.6 | -5.4 | -4.6 | -14.6 | -12.9 |

Source: IMF Middle East & Central Asia Regional Economic Outlook, Oct 2020; headline growth for Saudi Arabia is updated with IMF WEO Jan 2021 data

Impact of Great Lockdown & Lower Oil Prices on Middle East's Oil Exporters & Importers

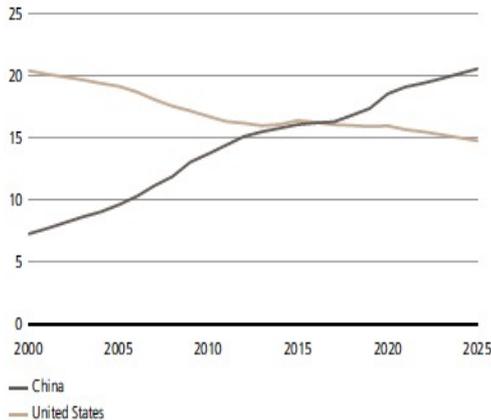
| | Oil exporters | Oil Importers | All |
|------------------------|---------------|---------------|-------|
| Domestic consumption | | | Red |
| Trade balance | Red | Green | |
| Fiscal balance | Red | Green | |
| Tourism receipts | | | Red |
| International reserves | | | Red |
| FDI slowdown | | | Red |
| Job losses | | | Red |
| Poverty & inequality | | | Red |
| SWFs | Red | | |
| Foreign aid | | Red | |
| Cleaner air | | | Green |

Source: Nasser Saidi & Associates

China's economic recovery from the pandemic: prior to others

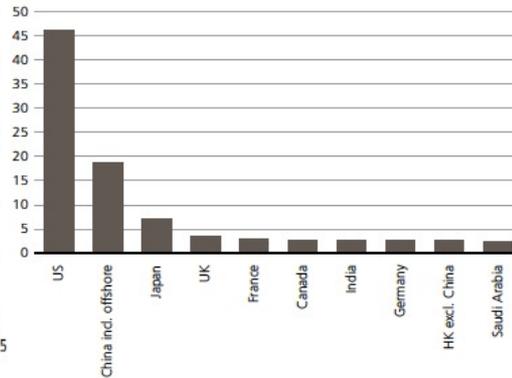
Rising economic influence

Chinese GDP as % of world total in PPP terms, with forecasts



China has the second-largest stock market in the world

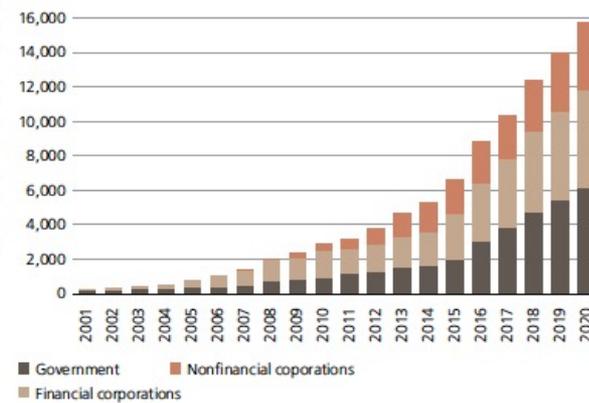
Top 10 stock markets by market cap (in USD trillions)



Source: Bloomberg, UBS, as of February 2021

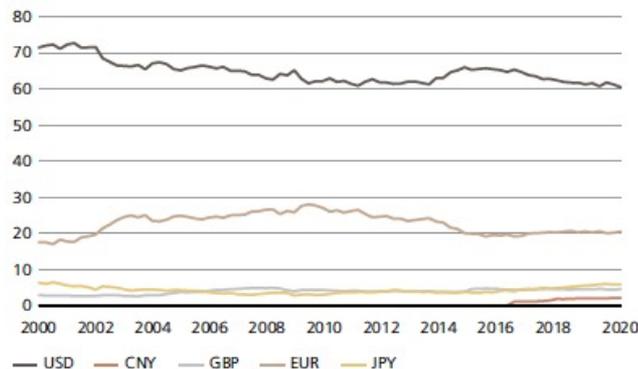
From near zero to USD 16tr, the evolution of Chinese debt markets over two decades

Total bonds outstanding, in USD billions



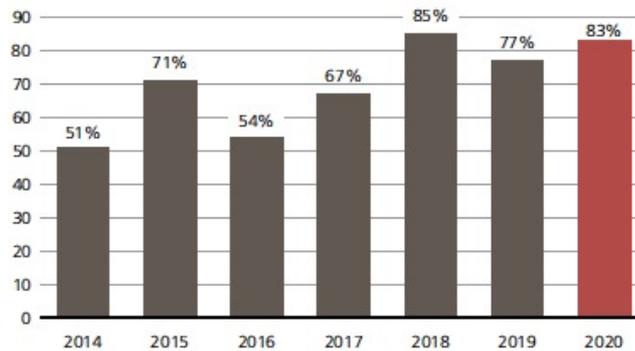
Adoption of renminbi still at early stages in global international reserve circles

Share of selected currencies in allocated reserves, in %



Yet interest in renminbi by international reserve managers is growing

Percent of survey respondents invested, or considering investing, in RMB



Source: UBS Annual Reserve Manager Survey, results as of September 2020

- Population **1,404 million**
- Military spending (% of GDP) **1.9%**
- R&D spending CAGR 2013–2018 **10.6%**
- Number of unicorns (startups valued >USD 1bn) **227**
- Number of industrial robots **783,000**
- Number of supercomputers **214**

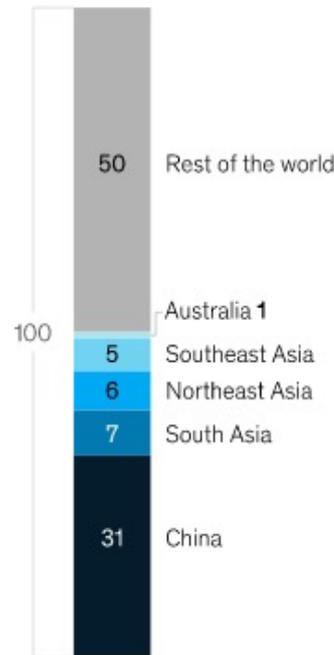
Source: Investing in China, UBS, Mar 2021

Shifting Center of Economic Geography

Asia on track to top 50% of global GDP by 2040 & drive 40% of the world's consumption, representing a real shift in the world's center of gravity



Share of urban consumption growth 2015-30 (%)



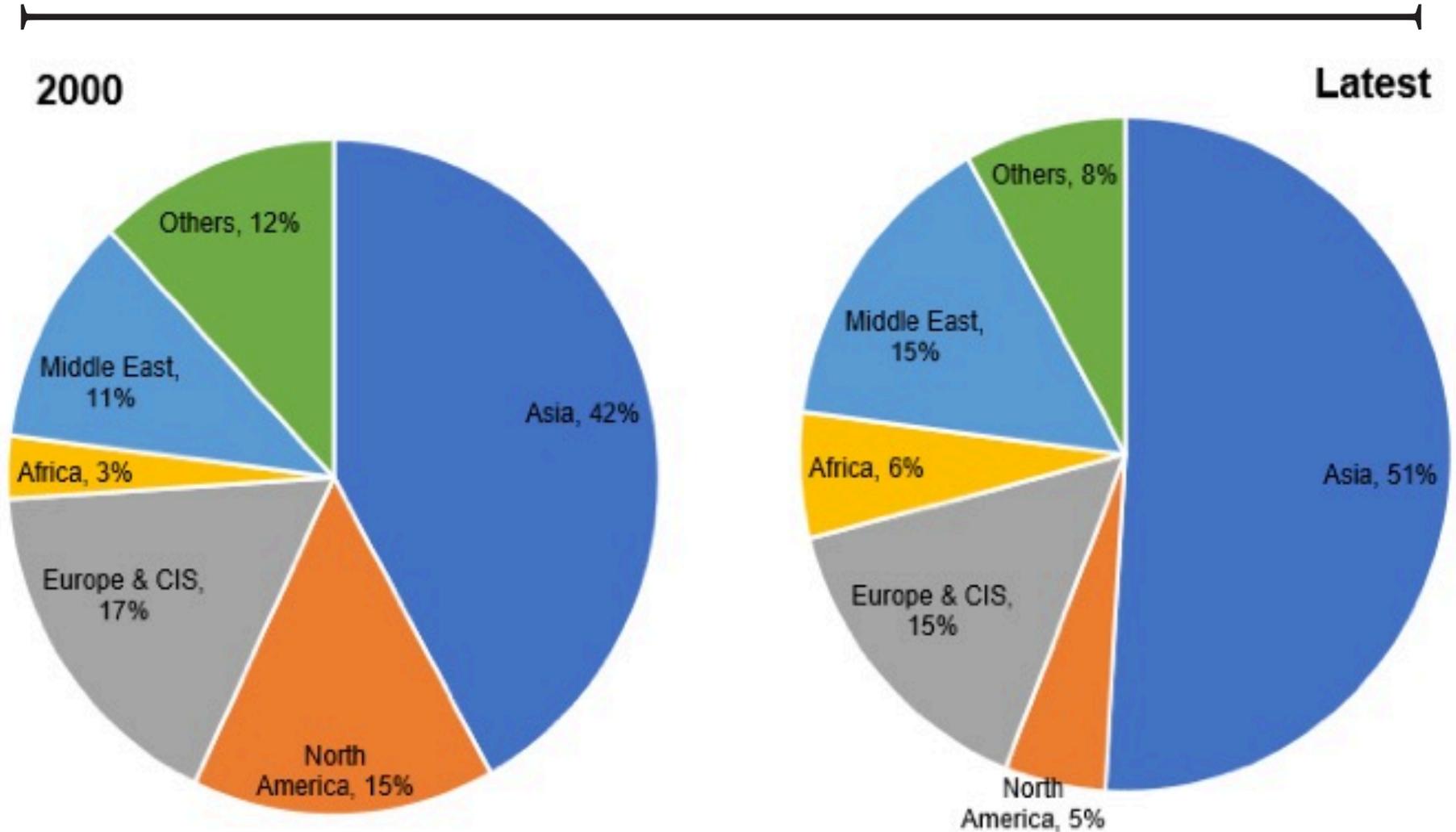
Source: McKinsey

Asian corporates are on the rise: total # of firms by region, 2015-17

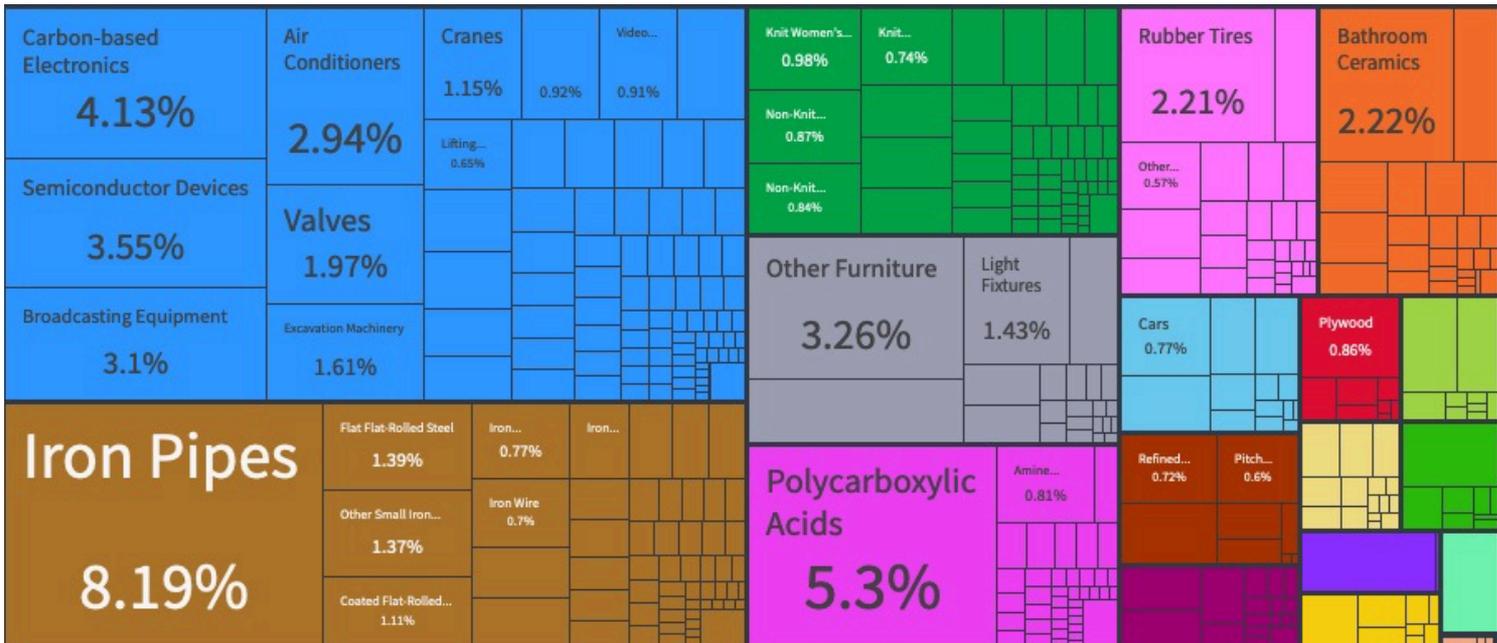
| | | |
|-----------------------|-------------------|--------------------|
| Japan 644 | | |
| Singapore 38 | Australia 102 | South Korea 156 |
| New Zealand 16 | | |
| Mainland China 738 | | |
| Hong Kong 75 | Taiwan 92 | |
| | Indonesia 36 | Malaysia 31 |
| | Philippines 15 | Thailand 29 |
| India 142 | Vietnam 15 | |
| | | |
| | Azerbaijan 1 | Bangladesh 1 |
| | Kazakhstan 4 | Pakistan 10 |

Moving East: GCC's Changing Trade Partners

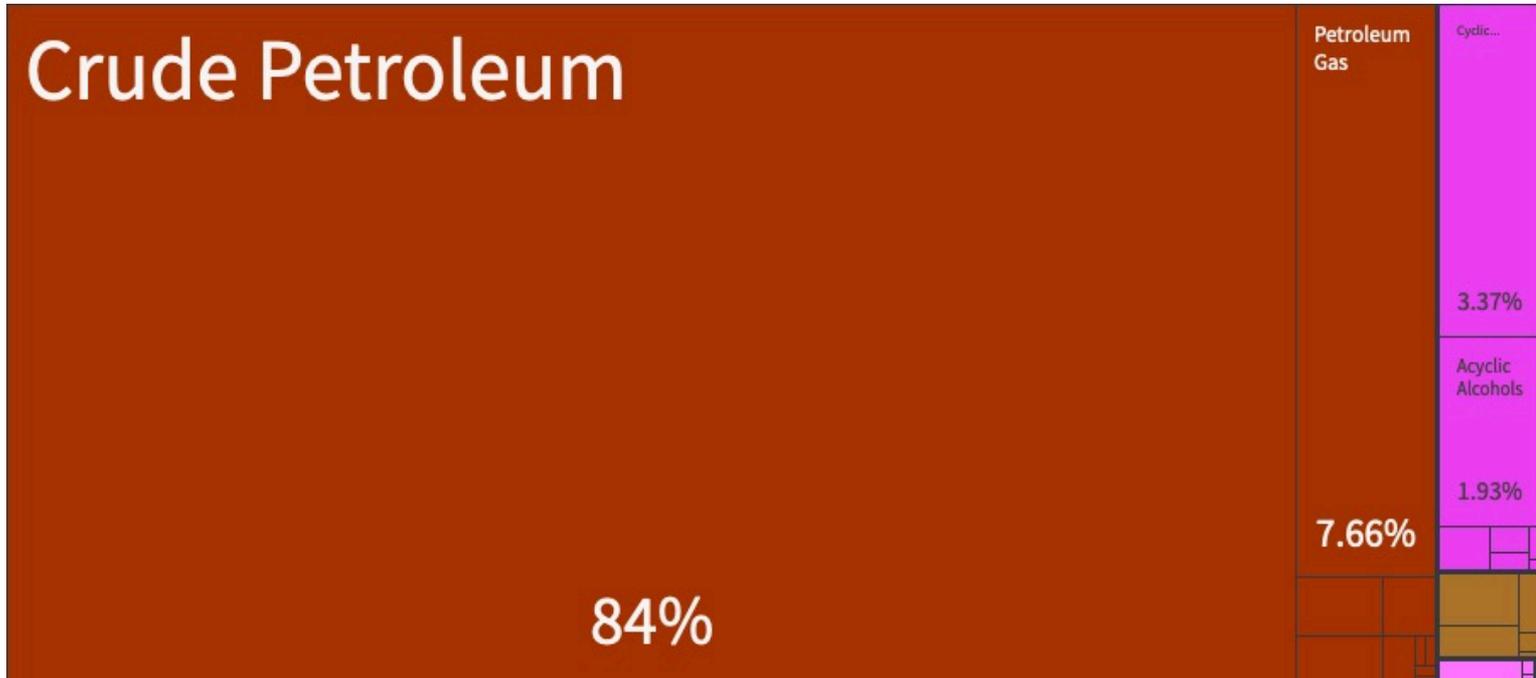
(Exports + Imports as % of total trade)



Bilateral China-Oman trade links



*Exports from China to Oman
Total: \$3.02bn*

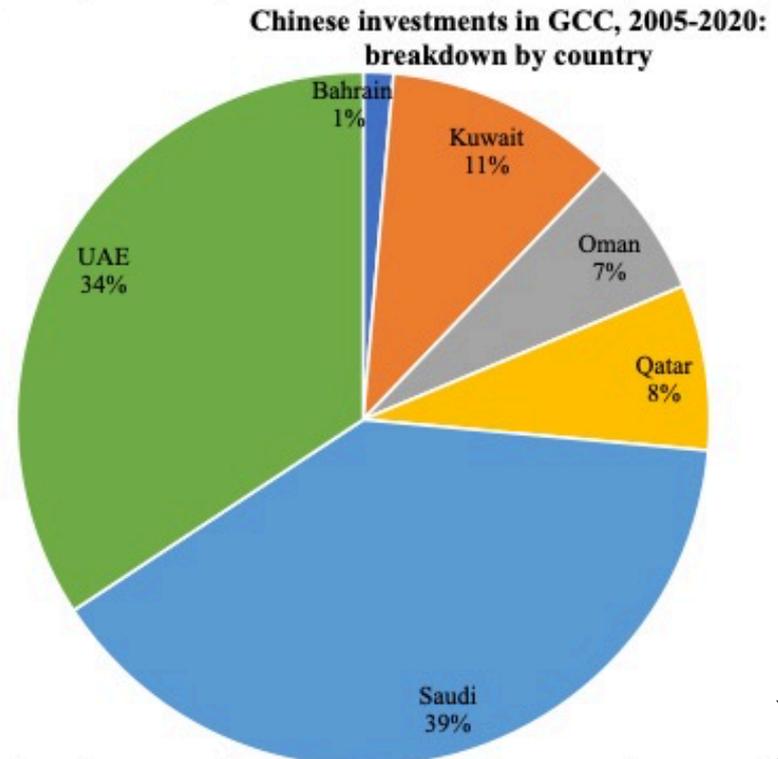
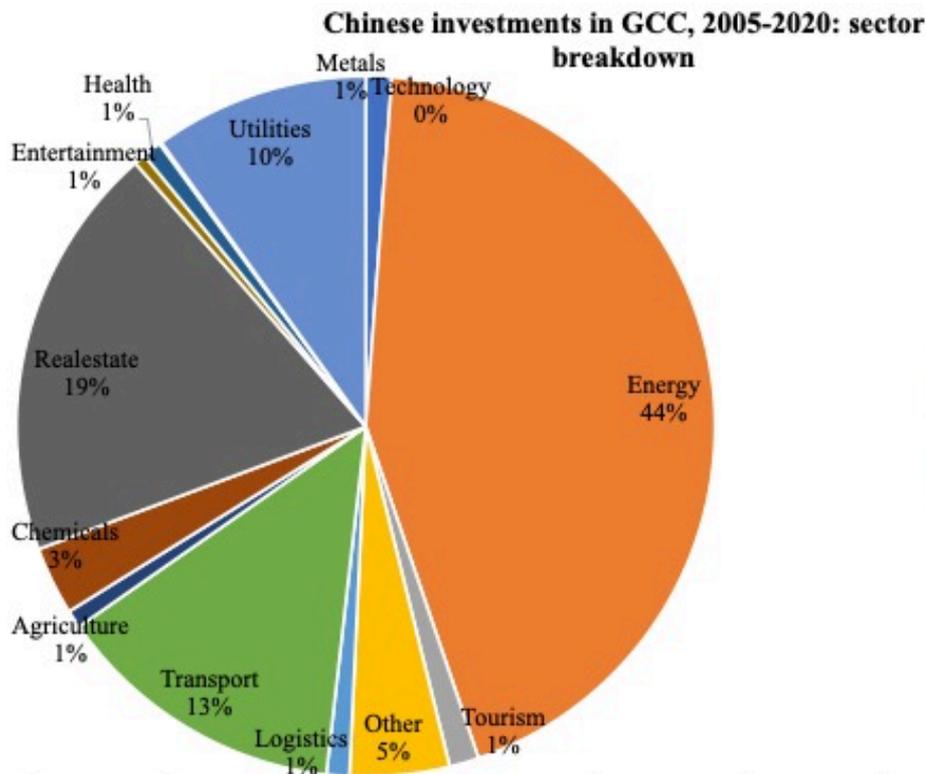


*Exports from Oman to China
Total: \$17.3bn*

Source: Observatory of Economic Complexity
<https://oec.world/en/profile/country/omn>

Surge in China-GCC investment links

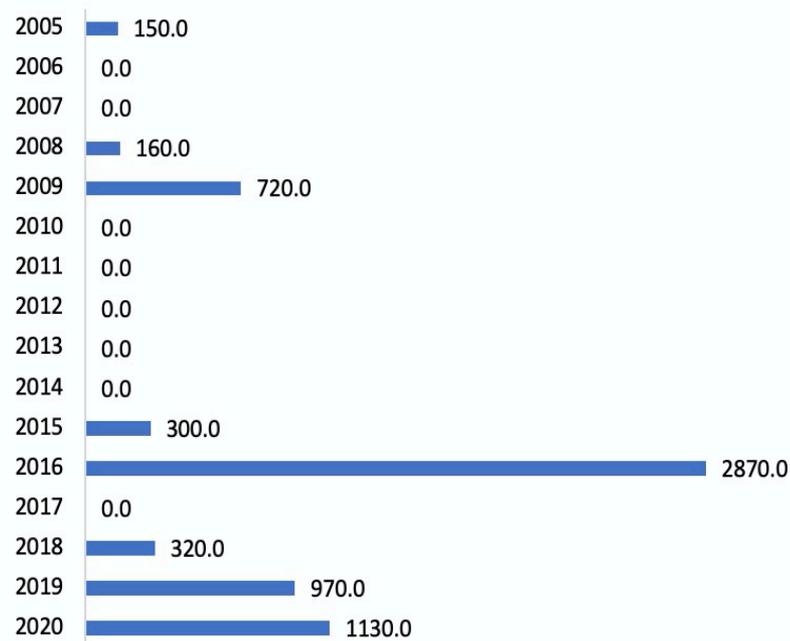
- According to AEI's China Global Investment Tracker, the value of Chinese investments in the GCC peaked in 2018 (\$15.34bn) and **totaled \$101bn over the period 2005-2020**
- Sector-wise, investments were concentrated in energy (44%) during 2005-2020, followed by real estate (19%); technology is a recent investment in UAE (likely to grow stronger, given recent cooperation in using AI in Covid19 times)



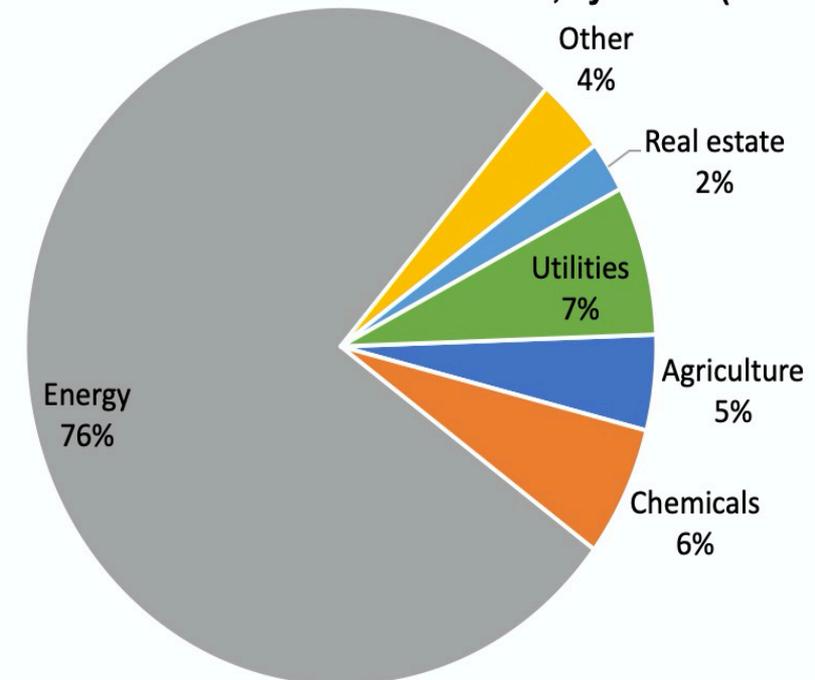
China-Oman Investment links have been growing but highly concentrated in energy

- According to AEI's China Global Investment Tracker, the value of Chinese investments touched a high of USD 2.87bn in 2016 (total of \$6.620 bn over 2005-2020)
- Sector-wise, investments were concentrated in energy (both oil and gas as well as renewables) - accounting for $\frac{3}{4}$ -th of total investments during 2005-2020

Chinese investments in Oman (USD mn)



Total Chinese investments in Oman, by sector (2005-2020)



Oman's Growing Links with China

- **Trade:** China consumes the vast majority of exported Omani crude oil. Between 2000 & 2017, **China's share of Oman's crude oil exports grew from 35.2% to 82.5%**. Oman is the fourth largest trade partner of China in the Arab world.
- **Investments:** 11-hectare "Chinese-Omani Park" in Duqm is one of the vital projects in the country under the 'Belt and Road' initiative; but progress is slow
- China has made some **advances within Oman's non-oil industries and state-led initiatives:**
 - Oman's government raised \$1 billion by selling a 49% stake in the **Oman Electricity Transmission Company** to State Grid Corporation of China
 - The **Asian Infrastructure Investment Bank agreed to become a lender for the 500-megawatt Ibri II solar power project** in Oman (Mar 2020). The \$60mn investment is the Chinese bank's **first renewable energy project** financing in the Gulf Arab region
 - Chinese firms are involved in **developing Oman's digital infrastructure** and providing technology-related training
 - Huawei has now become a major equipment supplier in Oman's telecommunications industry

China-US trade & tech wars => China's focus on domestic devt + links with Asia & Europe

Given the backdrop of trade & tech wars with the US, China appears to be pursuing a three-pronged medium-term strategy:

- **Maintain a non-hostile external environment to focus on domestic priorities;**
- **Reduce dependence on the US** while increasing rest of the world's dependence on China (mainly technology: domestic semiconductor development, next-generation technology infrastructure, robotics, artificial intelligence, biotechnology, aerospace, renewable energy...)
- **Expanding the reach of Chinese influence overseas** presenting itself as a contributor of global public goods (e.g. Covid19 vaccine, climate change), an opponent of geopolitical bullying & an upholder of regional and global stability

China-GCC relations are still evolving – beyond oil supplies to BRI, military ties, cultural ties (Chinese language schools).

China's Official Arab Policy

- Establishing a **"1+2+3" cooperation pattern**
 - ✓ 1: Energy cooperation as the core;
 - ✓ 2: Infrastructure construction, trade & investment facilitation
 - ✓ 3. High and new tech fields of nuclear energy, space satellite and new energy
- **Joint pursuit of the Silk Road Economic Belt & the 21st Century Maritime Silk Road initiative** => coordinate development strategies with the Arab nations
- **Strengthen China-Arab Cooperation in an All-around Manner**
 - **Political cooperation**
 - **Investment & trade cooperation** (BRI, production capacity, investment, trade, energy, infrastructure, financial, space & civilian nuclear cooperation)
 - **Social development** (healthcare, education, cooperation in Science & Technology, agricultural cooperation, climate change)
 - **Culture & People-to-people exchange** (NGOs, Youth, Women, Broadcasting, Film, TV, Think Tanks)
 - **Cooperation in the Field of Peace and Security** (Military, anti-terrorism, immigration, judicial, police cooperation)

Building Blocks of a Strategic China-GCC Alliance

**Belt & Road Initiative/
Infrastructure**

**AIB,
BRICS
Bank**

Tourism

**Banking,
Investment &
Payments**

**Technology
Institutes**

**Digital Silk
Road/Tech
Silk Road**

**Free Trade &
Investment
Agreement**

**Clean
Energy &
Technology**

Cultural

China: Renewable Energy & Clean Tech

- **China is the largest investor in renewable energy** (2020: \$135bn)
- **In 2020, it added 71.67 GW of wind power capacity** - the most ever + nearly triple 2019 levels & ahead of new wind capacity added globally in 2019
- **China produced more renewable energy than all European countries combined** (in 2018)
- **China has more solar energy capacity than any other country**
- **Dominates solar panel market:** >60% of production
- **Dominates Electric Vehicle market**
- **Dominates global lithium battery market:** in 2019, Chinese chemical companies accounted for 80% of the world's total output of raw materials for advanced batteries

Bottom line: focus on China as a strategic partner in Renewable Energy & Clean Technology investment, production and trade

What should be a GCC-China Strategy?

- **Develop mechanism for China's Arab Policy**
- **Develop a GCC-China Policy**
- **Create a China-GCC Trade & Investment Framework Agreement ahead of an FTA**
 - ✓ **Greater integration of infrastructure/ logistics/ privatisation**
 - ✓ **Targeted tourism policy**
 - ✓ **Renewable Energy & Clean Technology**
- **Banking & financial links:** CN banks, RMB hub; PetroYuan
- **Offer support for China's BRI:** win-win strategy
- **Strengthen cultural links:** Confucius Institute? Teaching Mandarin/ Cantonese in schools
- **Institutional links:** Cooperation between SWFs; host the AIIB
- **Establish a Technology Institute**

Oman-China Partnerships, Investments, JVs: Covering Old & New Horizons

- **Tourism:** Travel corridors + China's list of "approved destinations" + Partnerships with Chinese co's + Build tourism infrastructure to cater for Chinese tourists + Targeted marketing campaigns
- **Infrastructure:** Construction via BRI + 21st century Maritime Silk Road
- **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
 - ✓ 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
- **Establish a Technology Institute**
- **Clean Energy & Clean Tech:** esp. solar in which China is a global leader. This could become a major export industry and technology.

A China-GCC Strategy to Support the Next Growth Phase

Thank you

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