Sino-MENA: Maritime relations set sail

Florence Eid-Oakden, Ph.D, Chief Economist
Norah Song, Analyst

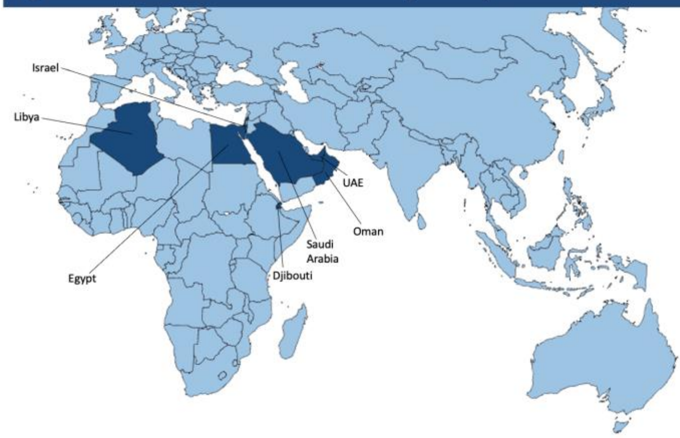
- **China is expanding its Maritime Silk Route (MSR) in the MENA region through a number of new agreements.**
- **While initially focused on North Africa, China is now courting the GCC in order to expand its maritime reach.**
- **As construction activities recommence after a pandemic-related pause, MENA countries are now looking for investors, and China is keen to respond.**

Navigating familiar waters

China's strategic maritime activities consist mainly of constructing and operating commercial ports. Doing so helps to open up new trade links between China, Europe and Africa. In addition to maritime infrastructure, China also leads MENA's commercial port capacity expansion operations.

- In order to expand today's MSR, Chinese companies have invested nearly USD 11B into overseas ports during the past decade. China has subsequently gained access to strategic maritime hubs as part of its overall Belt and Road Initiative (BRI).
- In Egypt, China plays a significant role in maritime infrastructure development.
  - Operated by the Hong Kong-based Hutchison Port Holdings in a joint venture with the Alexandria Port Authority and Saudi Arabia's Al Blagha Group, the ports of Alexandria and El Dekheila together handle almost 60% of Egypt's foreign trade. This is enabled by a combined container capacity of 1.5M twenty-foot equivalent units (TEUs).
  - In addition, Hutchison Ports signed a long-term agreement in 2019 with Egypt's navy regarding the development and operation of a new container terminal in Abu Qir. The total investment cost was estimated to reach around USD 730M.
  - China's state-owned COSCO Shipping Corporation is also growing its presence in Egypt. It has a 20% stake in the 5.4M TEU Suez Canal Container Terminal (SCCT) at East Port Said.
    - The SCCT services the entire Suez Canal Economic Zone (SCZone). China is the project's largest investor.
  - Moreover, China is assisting Egypt in increasing its total container capacity by partnering up with the Port of Piraeus in Greece.
    - COSCO has a 67% stake and operates Piraeus, linking Egypt's ports to Europe through this commercial maritime artery.
  - China has not only occupied a prominent position in Egypt's maritime transport sector; its involvement in commercial ports is also fundamental to the trans-Mediterranean's maritime map.

Figure 1 - Chinese Port Presence in MENA by Country[1]



- Algeria signed a memorandum of understanding (MoU) with the China State Construction Engineering Corporation (CSCEC) and China Harbour Engineering Company (CHECH) in 2016 to develop the Port of El Hamdania. In exchange for USD 3.3B of Chinese financing, the agreement involved handing over the port's operations to China for the first 25 years.
  - Although both the controversial Western Sahara issue and the COVID-19 pandemic have impeded its development, the construction of El Hamdania began in May this year.
  - Upon completion, the port will be Algeria's largest and first deep water port and the second deep water port in Africa. It will be equipped with 23 terminals capable handling up to 6.5M TEUs and 26M tonnes of goods annually.
- China Merchants Group (the largest Chinese port operator) signed a USD 350M investment deal with Djibouti's state-owned Great Horn Investment Holding in December 2020 to carry out a USD 3B expansion of the century-old Port of Djibouti.
  - China's engagement in Djibouti's commercial maritime infrastructure has grown tremendously in recent years; China Merchants Group already owns a 23.5% stake in the port.
  - Other Chinese projects in Djibouti include Huawei Marine's project to build an undersea fiber optic cable between Djibouti and Pakistan, as well as China Merchants Group's project to build the USD 590M Port of Doraleh to the west of Djibouti City.
- China is also active in Saudi Arabia's commercial maritime sector, with two deals signed at the beginning of this year.
  - Saudi Arabia's Red Sea Gateway Terminal (RSGT) agreed to sell 40% of its shares to the Saudi Public Investment Fund (PIF) and China's COSCO for a total of USD 280M.
    - The PIF and COSCO will each hold 20% of RSGT's shares, with the founding shareholders retaining the remaining 60%.
  - In May 2021, Hutchison Ports signed an agreement with Saudi Arabia's Royal Commission for Jubail and Yanbu (RCJY) with regard to investment in (and the operation of)

[1] Arabia Monitor.

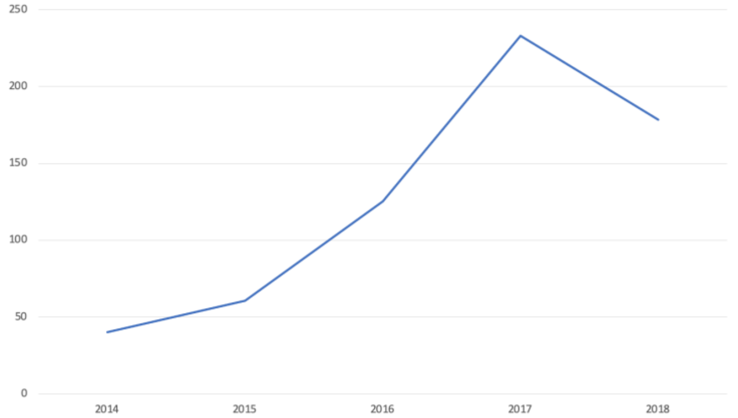
the Jazan City Primary and Downstream Industries (JCPDI) port.
    - The port consists of multipurpose terminals within the JCPDI. Phase One of the container terminal is expected to start commercial operations in early 2022.
    - The JCPDI port is strategically located along China's BRI, and therefore facilitates the easy transport of goods between Saudi Arabia and its biggest trading partner.
    - It is expected to support economic growth in the region and to serve eastern and southern Africa.
- This month, Israel opened a new private shipping port in Haifa Bay in order to enhance regional trade. The port will be managed and operated by the Shanghai International Port Group (SIPG).
  - The port will enable larger classes of cargo ships carrying in excess of 18K containers to dock in Israel.
  - Previously, China's Pan-Mediterranean Engineering, a subsidiary of CHECH, began building a USD 950M port in southern Ashdod. The company also won a tender to upgrade Ashdod's main dock for just under USD 320M.
- China's increased presence in the MENA commercial maritime sector underscores the importance of the region to the 21st century MSR. The development of this sector will not only enhance and expand trade links between China, Europe and Africa, but will also support the region's domestic growth and sustain economies therein.

Plain sailing ahead

While China is already engaged in several MENA countries' commercial port operations and infrastructure building, additional investment opportunities are emerging in relation to other regional countries' commercial maritime sectors.

- Lebanon is negotiating with several countries, including China, with regard to the Port of Beirut's reconstruction. The port was devastated by a massive explosion in August 2020.
  - Although French shipping giant CMA CGM made a USD 400-600M proposal in September 2020 for reconstructing the damaged port within a three-year timeframe, no deal has yet been made.
  - While the Lebanese government is urgently trying to return the port to full capacity, its reconstruction provides an investment opportunity for China. Indeed, China could then further expand its influence vis-a-vis trans-Mediterranean maritime routes, while also consolidating its MSR foothold in the Levant.
- In June, Egypt implemented a comprehensive plan to upgrade its Red Sea and Mediterranean ports with the goal of becoming a logistical hub in the MENA region.
  - The new plan, expected to be completed in 2024, covers 58 projects that involve upgrading the country's ports. Costs are estimated to amount to around USD 4B.

Figure 1 - China's FDI Stock in Djibouti (M, USD)[2]



    - When we consider that China is already present in several Egyptian ports, and that both countries now enjoy flourishing bilateral relations, more Chinese companies may follow suit. This is clearly yet another exciting opportunity for Chinese companies to get involved in Egypt's commercial maritime sector.
- In the GCC, both the UAE and Oman present China with plenty of opportunities to expand its 21st century MSR.
  - Abu Dhabi Ports has been considering ways to upgrade its port infrastructure in order to deliver the goals of the UAE's Abu Dhabi Economic Vision 2030.
  - In Oman, the Port of Duqm Company (PODC) launched an international tender in July 2021 to find a terminal operator to take on a 30-year license for the development and operation of its new container terminal. This presents yet another project opportunity in which Chinese companies may become involved.
- Moreover, Israel is planning to sell its state-owned ports and establish new private docks in an effort to bring down costs and cut above-average wait times for vessels to unload.
  - Israel's Government Companies Authority (GCA) is proceeding with the first stage of the privatisation and sale of 100% of the Haifa Port Company's (HPC) shares. The HPC is responsible for the handling of most of the cargo moving through Haifa.
  - With the recent opening of its Chinese-operated port in Haifa Bay, Israel may turn to China for similar projects in order to maintain economic growth.
- As MENA countries' diversification and revenue-driving efforts grow, they are increasingly courting China for investments. Chinese companies may well take advantage of any such opportunity. This comes on the back of their previous experience in financing, building and managing maritime links, as well as incorporating technology such as automation, artificial intelligence and green energy into MENA countries' commercial maritime sectors.
- Looking forward, China is poised to play a major role in the commercial maritime sector in order to consolidate its regional clout.

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Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com