Sino-MENA: Solidarity amidst strain

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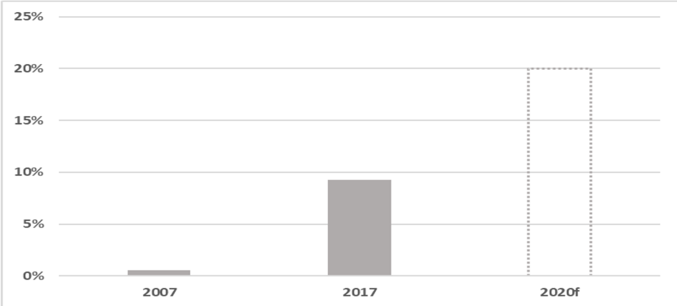
- **Sino-MENA relations have been extending beyond traditional sectors via BRI investments, since before the pandemic.**
- **Over the next couple of years, Chinese FDI in MENA is set to grow more rapidly than other regions despite political sensitives related to what could emerge as a new cold war.**
- **China is continuing its balancing act in the region, forging ever stronger relations with both Iran and rival GCC countries.**

Sino-MENA: Looking beyond the pandemic

COVID-19's ripple effect continues to be felt across MENA economies, but China-MENA trade and investment relations remain strong, with accelerated developments in areas such as healthcare under the Belt and Road Initiative (BRI).

- Demand and supply shocks, along with the decline in oil prices and lower investor confidence, will certainly lead to a significant decline in FDI across MENA.
- Our analysis of recent trends indicates that Sino-MENA investments will continue to grow more rapidly than other global partnerships and continue to diversify in the region from the traditional infrastructure and manufacturing sectors.
  - MENA is forecast to lose some 45% of its previous FDI inflows by the end of the year, adding to the 47% contraction in 2019.
  - In 2018, FDI inflows amounted to USD 60B, a 10% YoY increase from 2017, but this was still less than half the inflows recorded in the peak year of 2007. FDI is highly volatile on a year-by-year basis.
- Though the pace of BRI-related business activities may be impacted by the pandemic for the near-future, recent developments in the region, along with the expansion in technology,e-commerce and telecoms, suggest a more resilient relationship than in previous years.[1]
  - Prior to the pandemic, Chinese investments in MENA grew to USD 34.9B during 2014-2019, a 24 % increase from the low base of USD 1.4B in 2009-2013.
- Urgent demand for a COVID vaccine is accelerating Sino-GCC healthcare development, as highlighted by a new partnership for COVID-19 vaccine testing between Sinopharm, a pharmaceutical subsidiary of China National Biotec Group (CNBG), Abu Dhabi's government and Group 42 (G42), a UAE technology company.
  - The partnership is a continuation of a clinical vaccine testing trial which started earlier in April in Henan province in China.
  - Following the success of the initial two phases in China, Phase 3 will involve around 5,000 volunteers to undergo individual assessment for over 40 days. It is expected to last from three to six months.

Figure 1 - Chinese FDI to MENA as % of Total MENA FDI[2]



  - The venture is a product of growing China-UAE relations in scientific and tech exchange, boosted by the demand for a vaccine. It demonstrates the willingness and ability of both sides to forge novel partnerships. We expect to see more such collaboration in healthcare as a result, particularly in medical tourism and in the treatment of cancers and diabetes.

COVID-19 deepens diplomatic ties

Diplomatic ties have been further strengthened during the pandemic because Beijing threw a lifeline to many MENA countries battered by the virus and the oil price crash.

- At the onset of the pandemic, China helped MENA countries carve out their respective roadmaps to tackle the virus, sending medical teams to almost all MENA countries.
  - Heightened tensions between the US and China have presented some political challenges to BRI. Relations between the US and China, which increasingly resemble a new cold war, are characterised by conflict waged through economic and political means, for now.
  - Even if Democrat Joe Biden wins the presidency in November, we expect continued political and security disengagement from the MENA region, further expanding the diplomatic vacuum that has contributed to instability in the region over the past decade.
- An illustrative recent move is China's 25-year agreement with Iran. The deal, which was leaked on 12 July, has been grabbing headlines since. No further details have emerged, however, and much of the analysis has been largely speculative since the document was uncovered.
  - The plan is for a USD 400B investment in energy and infrastructure projects in Iran. In exchange, China would receive oil at a discounted price.
  - Were it to materialise, we do not expect this agreement to alienate GCC states, despite their view of Iran as an adversary. This is because China continues to strike a good balance in relationships across the board in the region; so far, China has not gotten involved in any regional disputes, acting instead in its preferred role of "neutral stakeholder" in the region.

[1] Arabia Monitor; Regional Views Issues 113 and 118, June 2020.

[2] Arabia Monitor; UNCTAD; China General Administration of Customs.

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