

Sino-MENA: Maritime Silk Route deepens despite pandemic

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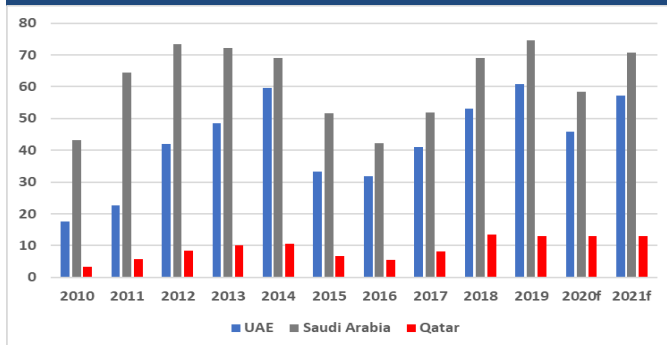
- Sino-MENA relations are extending beyond traditional sectors to step up maritime and shipping links.
- We highlight new contracts for the Chinese to build LNG carriers for Qatar, the opening up of a direct route to the Middle East from northern China, and the opening of China's largest integrated petrochemical port as a destination for Middle East imports.
- We expect growth in logistics and transport despite economic drawbacks from COVID-19.

Ships for Qatar' North Field expansion

In April, Chinese shipbuilder Hudong Zhonghua secured a contract to build 16 LNG carriers for Qatar Petroleum (QP) as part of Qatar's North Field expansion projects. The synergy is clear: China is a big financier and one of Qatar's largest LNG customers. Following this deal, we would expect to see Chinese companies pouring investments into Qatar's North Field expansion project.

- The ship order, valued at USD 3B, is China's largest shipbuilding contract from abroad to date.
- QP is to book 120 new build slots at global LNG shipyards to cater for its planned North Field Expansion, which will increase LNG production capacity from 77 million metric tonnes per year to 126 million metric tonnes in two phases through 2027. The completion of this project will make Qatar the world's leading exporter of LNG.
- Qatar has also just inked a USD 20B deal with three South Korean shipbuilders, entering into agreements with Daewoo Shipbuilding & Marine Engineering Co., Hyundai Heavy Industries Co. and Samsung Heavy Industries Co. Together all this will secure 60% of global shipbuilding capacity through 2027.
- Korea has traditionally been a major player in shipbuilding. However, China's contractors beyond the real estate and ICT sectors are starting to bring strong financing capacity, making them a highly competitive new player in shipbuilding and heavy industries.
- By 2030, China is expected to consume 80% more natural gas, a rise from about 721 billion metric tonnes in 2019 to meet its growing demand and this deal could ensure such demand is sourced from Qatar.
- Qatar is currently China's second-largest source of LNG and has become its third-largest trading partner and second-largest source of imports.
 - Total bilateral trade stood at USD 13B in 2019, having grown at an average annual rate of 25% over the last 10 years.
 - China's LNG imports from Qatar account for 24% of China's global LNG market, while LNG also accounts for half of China's imports from Qatar.

Figure 1 - China Trade with Major GCC Partners (USD, B)¹



China's largest integrated petrochemical port -- Sinopec Zhongke Refinery Port -- launched operations in May with imports from a crude oil tanker from the Middle East. The terminal will add over 10 million tonnes of refined crude oil capacity, ensuring continued demand for MENA crude.

- Situated in southern China, on the east coast of Zhanjiang, Guangdong Province, the Sinopec Zhongke Refinery Port is only a kilometre away from state-owned Sinopec's refinery plant, the Zhanjiang Integrated Refinery and Petrochemical Complex. Also known as the Sino-Kuwait Integrated Refinery and Petrochemical Complex, it is the largest joint venture refinery project being developed in the Zhanjiang region.
 - It was reported in November 2019 that the refinery would primarily use Kuwaiti oil although the first oil shipment came from Saudi Arabia.
- The project has eight terminals, including a 300,000-tonne crude oil berth, and supporting facilities. It delivers a total capacity of 34 million tonnes per year.
- The significance of this integrated facility is that it minimises time and distance between oil docking at the port and arriving at the refinery. It is a clear indicator of China's continued appetite and demand for oil.

First direct shipping route from northern China

China is developing new trade routes as part of its Belt and Road Initiative. The Alliance, a group of shipping companies, opened its first direct Middle East route from Qingdao Port in northern China in April, with ships stopping at four major ports in the Middle East. In the long run, this is expected to enhance China's international trade with countries along the route such as the UAE and Saudi Arabia.

- The Alliance includes Hapag-Lloyd, Ocean Network, YangMing Marine and Hyundai Merchant Marine. It has a 26% market share of Asia-Europe routes and a 29% market share of trans-Pacific routes.
- Along this route, the four major ports in the Middle East will be Dubai, Abu Dhabi, Dammam and Jubail.
- Launch of this route came after the Chinese container terminal operator COSCO Shipping sold its 33.3% equity in its subsidiary COSCO Shipping (Abu Dhabi) to Qingdao Port International Development (Hong Kong) for USD 59M.
- We expect increasing demand for logistics, which largely relies on maritime shipping. This is an opportunity for both MENA countries and China's port and shipping industries and a drive for these industries to improve their international competitiveness.

¹ Arabia Monitor; IMF Direction of Trade Statistics.

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