



بنك الإمارات دبي الوطني  
Emirates NBD

## Trade

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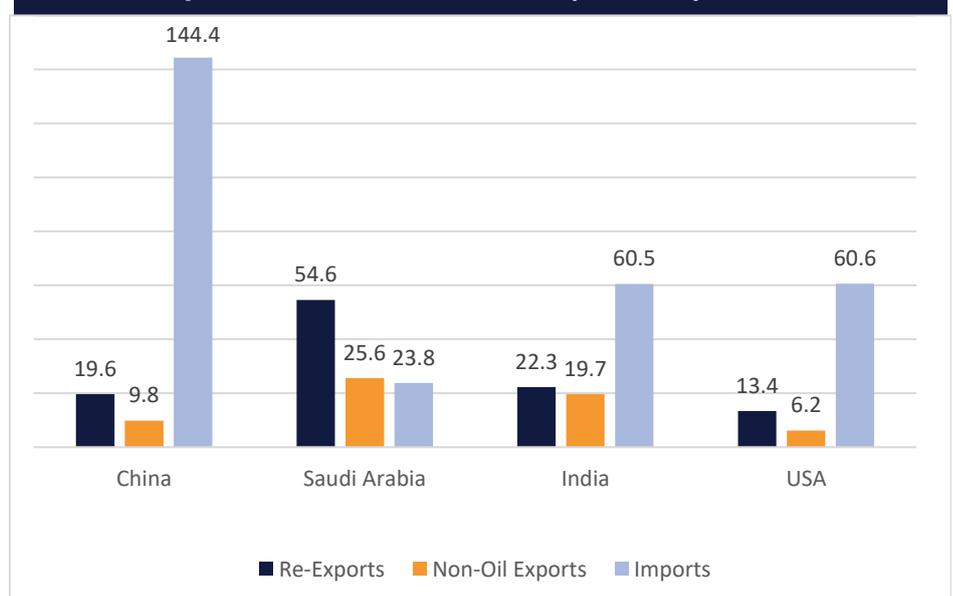
# UAE-China: A global trade axis

**The importance of the trade and economic ties between the United Arab Emirates and China cannot be underestimated** and has grown significantly since the diplomatic relationship between both countries was established in 1984. China is a key market for the UAE's hydrocarbon exports, and the UAE is one of the largest regional markets for Chinese imports and a key axis for the re-export of Chinese goods into the region and Africa. The UAE from China's perspective is a crucial axis at a geographic junction between Africa, Europe, and Asia. In fact, the UAE plays an important role in China's Belt & Road initiative, given its position as the leading regional logistics hub, through maritime, air and land logistics capabilities. The UAE's trade-ready infrastructure is crucial to enabling Chinese goods transiting through the immediate and near region and into Africa.

**The UAE's economic diversification agenda can benefit from solutions and technologies that China is able to offer.** Chinese corporates are becoming global champions in fields ranging from healthcare, artificial intelligence, communications, renewables, finance and many more. We are seeing Chinese companies becoming important partners in the UAE across many of those fields, from hydrocarbon investments, to build-up and financing of renewables projects. Policymakers in the UAE see the value of aligning with Chinese corporates across sectors, where Chinese firms can play an important value-added role in the economic diversification plans of the UAE.

**The two countries have signed a number of high-level agreements over the past few years, as the importance of the economic relationship has grown.** In this paper we look at some of those key agreements between the UAE and China, and how they will frame the long-term nature of that relationship. We also highlight some examples of where those economic interests are aligning through partnerships and deals in different sectors. In our view the long-term growth of the UAE-China partnership will complement the UAE's existing relationships with key economic partners in the west. We expect the next few years to see a continued development in an already strong relationship which bodes well for the long-term economic interests of both countries. This document will set out the broad contours of the UAE – China relationship, and we aim to follow up with further reports on specific aspects such as cross border trade and sector specific investments.

### UAE's Top Trade Partners in 2020 (AED bn)



Source: UAE Ministry of Economy, Emirates NBD Research

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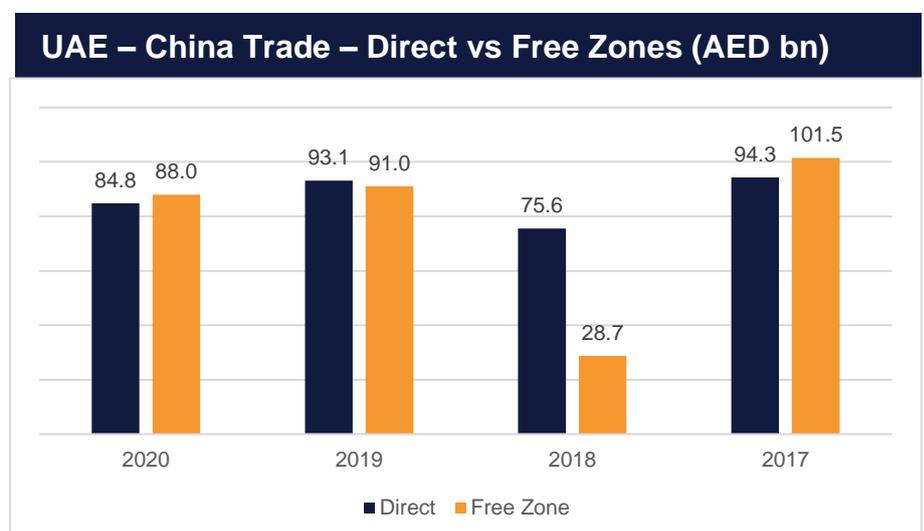
## Why is the UAE so important to China?

**The geographic axis of the UAE in addition to its prowess as regional trade and logistics hub,** have made it among the most strategic economic partners for China in the Middle East and North Africa region. It has the largest concentration of international companies based in the region with almost 3,200 foreign companies based in the UAE, in addition to 44 economic free zones that have more than 60,000 companies registered. Its seaports are the most developed in the region with Dubai's Jebel Ali port the 11th busiest in the world, and the UAE seaports handle almost 61% of the cargo that is destined for the Gulf Cooperation Council. Overall, the UAE has 12 commercial trading ports other than oil ports, with 310 berths and a cargo capacity of 80 mn tonnes.

**The UAE's investment in trade-enabling infrastructure like its seaports and airports,** allows it to be a crucial East-West transshipment point, very much like other trade-enabled economies like Singapore and Hong Kong in their respective regions. Furthermore, the UAE's diversified portfolio of free trade zones covers a wide range of sectors from light and heavy industries, to avionics, technology, and financial services. This ensured the build-up of a critical mass of businesses across a wide range of sectors, and this in turn drives the attractiveness of the UAE as a regional business hub for many multinationals, and has been a key reason why many Chinese firms see the UAE as a natural base for operations into the immediate region and into Africa (through strong maritime and air links).

**The UAE leads in the MENA region in non-oil foreign trade.** In 2020 the UAE non-oil foreign trade was AED 1.403tn (down from 1.603tn in 2019 prior to the pandemic). Non-oil exports however grew by 101% y/y to AED 254.6bn. China was the UAE's leading trading partner with bilateral trade value at AED 174bn, followed by Saudi Arabia, India and the US. This strong and growing trade relationship is enhanced by the infrastructural readiness of the UAE to enable and support the flow of Chinese goods across both the immediate and wider region and other geographic footprint markets like Africa.

**It is estimated that 4,000 Chinese companies are registered in Dubai alone,** and almost 200,000 Chinese residents reside in the UAE, the largest Chinese diaspora in the Middle East. Dubai's Dragon Mart is the largest Chinese wholesale market outside of China and attracts traders and businesses seeking Chinese goods both from the Middle East, Africa and South East Asia. Chinese tourists have been the fastest growing tourists' populations in the UAE, and Chinese nationals are among the top four nationalities investing in Dubai real estate.



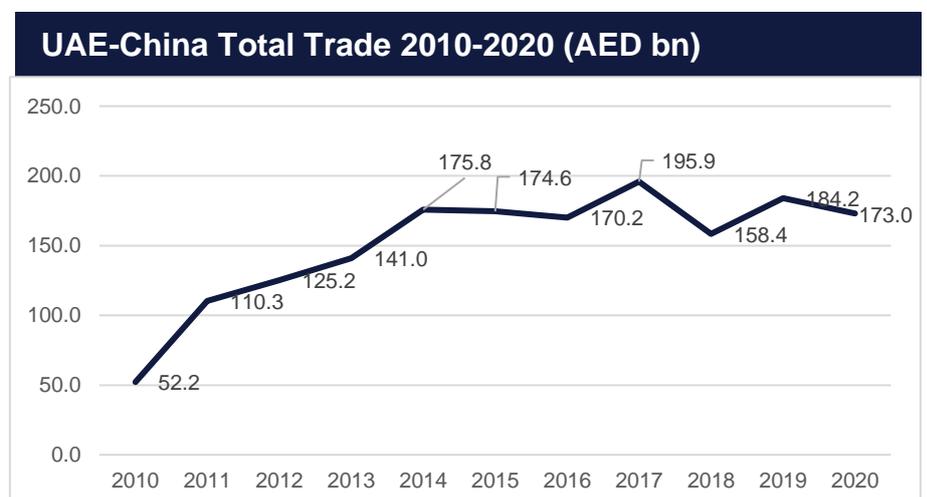
Source: UAE Ministry of Economy, Emirates NBD Research

## Strategic agreements map the path ahead

**The UAE and China have signed a number of important strategic agreements over the past few years.** The most significant agreements came on the back of China's President Xi Jinping's visit to the UAE in 2018 and HH Sheikh Mohammed bin Zayed Al Nahyan's visit to China in 2019. In 2018 Beijing signed a Comprehensive Strategic Partnership with the UAE, this is the highest-level bilateral agreements that Beijing undertakes. And during the 2019 visit of HH Sheikh Mohammed to China, 16 Strategic agreements were signed in the fields of economy, environment, and oil. Those agreements will come to define the nature of how this important economic relationship will evolve in the future and signify the importance both countries place on the political and economic dimension of this relationship.

**The Comprehensive Strategic Partnership** signed between the UAE and China on president Xi Jinping's visit to the UAE on the 20th of July 2018, marks one of the most important strategic agreements between the two countries since the formation of diplomatic relations in 1984, and the signing of an earlier strategic agreement in 2012. The agreement covers a wide range of fields including, politics, economics and finance, technology and data transfer, education and science, renewables, oil and gas, security, and cultural. This partnership is the highest among the three groupings that China has with countries in respect their relative importance to China's strategic interests, including alignment with the Belt and Road Initiative. Those are comprehensive strategic and regular partnerships. The UAE is among the five states in the Middle East, that include Saudi Arabia, Egypt, Algeria, and Iran that have those strategic partnerships, given their important bilateral role to China.

**In 2019, further agreements were signed on a visit to China by HH Sheikh Mohammed bin Zayed Al Nahyan.** This covered a wide range of sectors including defence, trade and investment, environment and sustainability, education, ports and customs, and energy. Those agreements sought to cement and better define the nature of the relationship between both countries after the strategic partnership that was signed a year earlier. It covered specifics such as MoU to encourage UAE and Chinese enterprises to engage in trade and economic cooperation endeavours with the African continent, introduction of Chinese language in educational curriculum, the Abu Dhabi National Oil Company (ADNOC) signing a Strategic Framework Agreement with China National Offshore Oil Corporation, CNOOC, to other agreements ranging from customs arrangements to financial markets. The sponsorship of those agreements at the highest levels of leadership of both countries is reflective of the strategic importance both countries place on the economic, political, and cultural dimensions of their relationship.



Source: UAE Ministry of Economy, Emirates NBD Research

## Key deals define evolution of economic relationship

**China is steadily developing strategic stakes in the UAE's oil and gas sectors, transforming the relationship from a purely commercial one.** China National Petroleum Company (CNPC) has led investments in the UAE's upstream sector. In 2017, CNPC won a bid granting them 8% of Abu Dhabi Company for Onshore Petroleum Operations for USD1.77bn. The concession—including Bab, Bu Hasa, Shah, and Asab fields—has total resources of 20-30 bn barrels of oil equivalent (boe) over the term of the concession, which is 40 years. That was followed by two more concession wins, worth nearly USD1.2bn for two 10% stakes in two offshore concessions in Abu Dhabi in 2018. In that same year, a subsidiary of CNPC won a USD 1.7bn seismic survey contract for ADNOC. And in July 2020, ADNOC announced, China National Offshore Oil Company (CNOOC), bought a 4% stake of both of CNPC's shares, splitting the Chinese share in the offshore concessions between two of the key Chinese energy players.

**Renewables is another important area where Chinese investments are rapidly building up.** The Mohammed bin Rashid Al Maktoum Solar Park is the largest single-site solar park in the world based on the Independent Power Producer (IPP) model. It has a planned production capacity of 5,000 MW by 2030, with investments totalling AED 50 bn. When completed, it will save over 6.5 mn tons of carbon emissions annually. China is heavily invested in the project both directly and indirectly. ACWA Power, which is a consortium 49% owned by Chinese state-owned Silk Road Fund is building the 4th phase of the solar park. Five Chinese banks - Agricultural Bank of China, Bank of China, China Everbright Bank, China Minsheng Bank, Industrial and Commercial Bank of China, Bank of China - were part of the local and international consortium of banks funding the project. The approach to the solar park is reflective of the strategic positioning Chinese enterprises adopt in key projects in the UAE, by committing both direct resources and long-term funding.

**Telecommunication is another area where Chinese companies are building a very prominent role as a provider of choice particularly in the 5G space.** Both the UAE's Etisalat and Du have partnered with China's Huawei (along with both Nokia and Ericsson) in building their 5g networks. This comes despite increasing tensions between the US and China on advanced Chinese telecommunication ebbing into the global geopolitical space. Chinese telecommunications groups like Huawei have been operating in the region for close to 20 years and have built strong reputability on the telecommunication solutions across much of the GCC. Huawei is also working with the UAE on other digitization initiatives within the ICT space, including sponsoring and supporting programs at higher educational institutions in the country.

**In the medical sciences space, China is becoming an increasingly important partner to the UAE.** During the pandemic, the relationship intensified, with Abu Dhabi based group G42 partnering Chinese genomics company, BGI, to open a Covid-19 testing facility in Abu Dhabi, which was set-up and became fully operational in 14 days. The partnership played a key role in setting the foundation for the UAE to roll out Covid-19 testing facilities across the UAE. G42 also partnered with China's Sinopharm to develop a vaccine for Covid-19, that was available for frontline workers in the UAE as early as September 2020 after successful phase 3 trials. In March this year the company announced a joint venture with Sinopharm to open a new vaccine plant in KIZAD that will become operational this year and over its phased development will have a production capacity of 200mn doses per annum across three filling lines and five automated packaging lines. The joint venture also includes a purpose-built research and development hub for life sciences, biotechnology and vaccine production in KIZAD.

## Summary

China's Belt and Road Initiative is indicative of the wider aspirations of an economy that is seeking to build integrated partnerships across its key historic trade routes. The UAE offers China the kind of strategic partner it seeks to engage with, through its geographic axis, trade enabled infrastructure, energy resources, and diversified economy. The UAE's own economic diversification agenda will benefit from solutions and technologies that Chinese companies are able to offer. We expect to see the strategic integration between the two economies grow further in the years ahead, as both countries see value in growing their cross-border trade and investments, which in turn will serve their respective long-term economic growth agendas.

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