

### III. Economics

#### China-Arab Forum

# Will the Arab World Surpass EU in Significance for China?

by Hussein Askary

*Mr. Askary is Vice-Chairman of the Belt and Road Institute in Sweden, from whose website this report is republished in slightly edited form.*

May 30—Chinese President Xi Jinping gave the keynote address on May 30, 2024 at the 10th Ministerial Meeting of the China–Arab States Cooperation Forum (CASCF) in Beijing. While the meeting was at the level of foreign ministers, Xi was nonetheless joined by President of Egypt Abdel Fattah El-Sisi, President of the United Arab Emirates Mohammed bin Zayed Al-Nahyan, King of Bahrain Hamad bin Isa Al Khalifa, and President of Tunisia Kaïs Saïed. The CASCF was established in 2004, but its significance has increased since President Xi made a [historic speech](#) in 2016 at the headquarters of the Arab League in Cairo. Again, in December 2022, the China-Arab relations witnessed a major boost during the First China-Arab Summit in Riyadh, Saudi Arabia.

The Belt and Road Initiative (BRI) has also played an important role in consolidating China-Arab relations. All 22 members of the Arab League have joined the BRI, and the CASCF has since 2018 come under the umbrella of the BRI.

In his speech May 30, President Xi emphasized the importance of China-Arab cooperation to build a “shared future.” While he reiterated the importance

of stability in the Middle East (West Asia), ending the conflict in Palestine, supporting the creation of a Palestinian state as a full member of the UN, and convening an international peace conference, Xi focused on key aspects of the emerging high-quality cooperation between China and the Arab states. Some of the key elements of this development are part of the outcomes of the 2022 summit.

What is important in these cooperation measures



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*President Xi Jinping joined five Arab nations' presidents attending the 10th Ministerial Meeting of the China–Arab States Cooperation Forum (CASCF) on May 30.*

is the focus on high technology, innovation, and space technologies. China will build, with the Arab governments, ten joint laboratories for study of such areas as life sciences and health, artificial intelligence (AI), green and low-carbon development, modern agriculture, and space and information technology. A space observation center, a BeiDou global navigation system application development center, and enhanced cooperation in manned space mission and passenger

aircraft are among these undertakings, Xi emphasized.

### **Financing Industries and Greening Deserts**

Financial cooperation is another new element in the China-Arab relationship. An industry and investment cooperation forum will be established, and the China-Arab States interbank association expanded, including accelerating cooperation projects financed by special loans in support of industrialization in the Middle East, and by the credit line for China-Arab financial cooperation.

Xi said that China supports closer cooperation between financial institutions from the two sides, welcomes Arab states to issue “Panda Bonds” in China, and welcomes Arab banks to join the Cross-Border Interbank Payment System. China is also ready to deepen exchanges and cooperation on central bank digital currency with the Arab side. Egypt was the first Arab country to raise funds in China by issuing Panda Bonds in 2023 worth 3.5 billion yuan (\$478.7 million) in 2023. These are foreign bonds denominated in yuan and issued in Shanghai’s bond market.

The United Arab Emirates (UAE) has already established bilateral trade arrangements in local digital currencies. At the 2022 summit President Xi even suggested using Chinese yuan instead of the U.S. dollar in the trade of oil and gas between China and the Gulf states, through the Shanghai Petroleum and Natural Gas Exchange.

The Gulf countries are the largest suppliers of oil to China, with Saudi Arabia leading the pack with an average 1.7 million barrels per day and Iraq in the second place with 800,000 b/d. Therefore, energy supply security, from a region where the U.S. naval forces are engaged in frequent military operations and naval tit-for-tat attacks on Iranian oil ships, is of extreme importance for China. In his May 30 speech, President Xi pointed at the plans for “enhancing strategic cooperation with the Arab side on oil and gas and integrating supply security with market security.” China is ready to work with the Arab side on new energy technology R&D and equipment production. China is expected to play an important role in the development of chemical and petrochemical industries in the Arab countries, as will be discussed below.

The Arab countries are located on some of the most dangerous choke points in global trade and supply chain routes such as the Hormuz Strait, Bab El-

Mandab Strait and the Suez Canal. Unfortunately, this has been exploited with devastating consequences for decades. Strategies have been promoted to use this factor as a blackmail tool against China.

China is also a model for agricultural development in arid areas and in the field of desert control. The Arab world suffers from a chronic lack of food security and from environmental degradation caused by desertification, drought and lack of efficient water management infrastructure and technology. China is a global leader in this field now, and has made significant achievements inside China, as we explained in a [recent special report](#) on the Xinjiang Uyghur Autonomous Region.

### **The Significance of the Arab World**

Our [Belt and Road Institute in Sweden—ed.] estimates are, that unless a devastating regional or global war breaks out, that the Arab world could become a larger trade and economic partner of China than the European Union (EU) within the next ten years.

The parameters are many which indicate this potential. Despite being an area of geopolitically fomented conflicts, the Arab world is continuing to grow economically, and most importantly, the vision of the economic future is shifting. First of all, demographically the EU is declining in birth numbers and median age compared to the Arab world. The EU population stood at 448 million with a median age of 44.5 years in 2023, while the population of the Arab world was 470 million with median age of 27. What is important is not where the numbers are now, but the future trajectory, as the Arab population is expected to almost double by 2050. This is a huge and growing market both in quantity and quality. Economic growth is declining in the EU and a process of de-industrialization is accelerating. Extreme environmentalism is also preventing many infrastructure and industrial development projects. Shortage of affordable energy is killing the energy-intensive industries in the EU. The Arab countries, on the other side, are accelerating their industrialization process, mostly with the help of China, and are planning to become a key part of the global supply chains of many products.

Chemical and petrochemical industries, that have been a key element of the industrial growth in Germany but are fleeing the EU now, are growing in the Gulf region, especially Saudi Arabia. China is actively

increasing its investments and joint ventures with Arab countries, such as in the massive Jazan Port Industrial Zone in the West of Saudi Arabia, and in Egypt's Ain Al-Sokhna Industrial Park, which is part of the Suez Canal Economic Zone. China is also becoming Iraq's largest partner in developing the oil industry; last week an agreement was signed to build a \$7 billion petrochemical plant in southern Iraq with a daily capacity of 300,000 b/d. Kuwait



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*The new, Chinese-built Al Zour oil refinery in Kuwait, now fully operational, boasts a capacity of 615,000 barrels per day. It can process various types of Kuwaiti crude.*

just inaugurated a Chinese-built, gigantic \$19 billion refinery with a capacity of refining 600,000 b/d. Chinese-Arab industrial zones are being built in Oman, Kuwait, the UAE, Morocco, and soon Algeria.

Trade between the EU and China is worth about €700 billion annually but is declining due to political tension. Trade between China and the Arab world was about \$460 billion in 2022. But here again, the trajectory is most interesting. Between 2002 and 2012, trade between China and the Arab countries increased tenfold. Between 2012 and 2022 it doubled again.

With the rapid economic expansion and industrialization in the Arab countries, trade with China will increase not only quantitatively, but qualitatively too. Rather than the relatively primitive trade in oil and gas in one direction and consumer goods in the other, new products will be traded that are part of the high-quality development of both sides: machinery, AI, 5G telecommunication, and clean energy equipment, industrial components of chemical and petrochemical industries, power plants, whole factories for production of textiles and electronics, and plants for building cars, buses, and trains. The list can be expanded endlessly. China differs from the EU and the U.S. in its willingness to share technology and the added value chain with its clients, and therefore it has and will continue

to emerge as the main trade and economic partner of the Arab countries.

### **Arab World and China Look to Global South**

As this author and Professor Li Xing from Aalborg University in Denmark argued in a [recent article](#), China is diversifying its relations globally, with a special focus, in the coming years, on the Global South. Therefore, the Arab world should be considered within that frame and not as an isolated entity.

Non-Arab countries in West Asia and Africa are increasingly being integrated into the economic life of the Arab world. For example, if we draw a circle that encompasses Iran, Arab Gulf states, Yemen, Ethiopia, Sudan, Egypt, Syria, Türkiye and Iraq, what you get is one of the most interesting regions in the world in terms of economic potential. However, this region has been a geopolitical playground of global politics, with the Arab-Israeli conflict at its core. While the war in Gaza has brought the whole region to the brink of a regional war, it is still unable to diminish this region's importance for the global economy.

This area is home to about two-thirds of the world's known reserves of oil and gas. It has a unique geographical location between world continents and seas. It has a very large, very young, and relatively

well-educated population. Add to all this the fact that the sovereign wealth funds of the region contain more than \$4 trillion generated largely by export of oil and gas.

This wealth was previously invested mostly in Western financial and economic institutions and assets, in addition to real-estate projects. Currently, a certain portion of this money is repatriated to be invested in infrastructure and industrial projects at home and in productive economic investments in Asia and even Africa. Many Arab countries are also diverting some of their wealth to investments in the Chinese market. Both Kuwait and Saudi Arabia are investing billions of dollars in refineries and petrochemical plants in China itself.

The Asian Infrastructure Development Bank and the BRICS New Development Bank are in dire need for such fresh inputs. The severe oil shocks of 2014-2016 and 2020-2021, when the oil price dipped to below \$30/barrel and caused deep economic and financial crises for the oil exporting countries, represented very harsh lessons. Diversifying economic activity and sources of income have become the battle cry of the governments of the region, with Saudi Arabia's Vision 2030 as a good example of the shift taking place.

### **What Do U.S. and EU Policies Lack?**

One question that comes up in the minds of many today, is how the Arab countries will balance their relationships with East and West. It is becoming obvious that these countries, while not interested in disengaging from their strategic relationship with the United States, are nonetheless looking for more independent positions in world politics. One irony indicating this, was that when U.S. President Joe Biden visited Saudi Arabia in July 2022, he made it clear:

The bottom line is: This trip is about once again positioning America in this region for the future. We are not going to leave a vacuum in the Middle East for Russia or China to fill. And we're getting results.

The complete opposite seemed to happen a few months later. Not only was China filling a vacuum left

by U.S. lack of interest in building stronger economic partnerships, but the Gulf countries and OPEC continued coordinating their oil export policies with Russia, within the framework of OPEC Plus.

The vacuum seems to come not from actions of Russia or China, but instead from the fact that America is solely focused on security and military matters in the region, with no interest in trade and economic cooperation with the nations there. The EU is also increasingly focusing on security, immigration, and human rights issues in addressing these nations, rather than finding the root causes of these challenges and solving them with economic means. In addition, the American and partial European support of Israel's brutal actions against the Palestinian people, which have been described as genocide, have greatly discredited the NATO countries in the eyes of the Arab people.

While the U.S. and the EU are busy creating exclusive clubs and alliances and counter-alliances, such as an "Arab NATO" to confront Iran, or pushing the India-Middle East (i.e., Israel)-EU Corridor as a counter to the BRI in the region, China is actively pursuing an inclusive structure for all nations, and a harmony of interests through diplomacy.

In February 2023, Iran (a non-Arab country) finalized a 25-year comprehensive strategic cooperation agreement with China, during the state visit by the late President Ibrahim Raisi to Beijing. Surprisingly, a month later, China brokered the Iran-Saudi Arabia restoration of diplomatic relations. The two countries have been involved in dangerous proxy conflicts in the region for several years. By the end of the year 2023, Iran, the United Arab Emirates, Egypt, and Ethiopia were all admitted into the BRICS (Brazil, India, Russia, China, and South Africa) creating the BRICS-Plus.

These nations are also either full members or observers in the Shanghai Cooperation Organization (SCO) which is increasingly moving from being a mere security cooperation organization into an economic cooperation mechanism. It is for these reasons that China has won the hearts and minds of the Arab people and their neighbors, as many [independent surveys indicate](#).

America and Europe have a clear choice to make to restore their positions in the world as respected and loved powers: Follow China's example.