

# Strategic Analysis Paper

9 October 2018

## China in the Middle East: The Emirati Factor

**Lindsay Hughes**

*Research Analyst*

*Indian Ocean Research Programme*

### Key Points

- As it has with Saudi Arabia, China has developed its relationship with the United Arab Emirates.
- The UAE needs the relationship to retain a major energy market and to continue to act as a trans-shipment hub for China's manufactured products to the Middle East, Europe and Africa.
- China also seeks to draw the UAE into its Belt and Road Initiative (BRI).
- The BRI is coming under increasing suspicion, however, which could have an adverse effect on the China-UAE relationship.

### Summary

In keeping with its overall "[Arab Policy](#)", and as it has done with Saudi Arabia, China has nurtured and expanded its ties with the United Arab Emirates. Just as it seeks to accomplish its strategic objectives in the Middle East by developing its ties with Saudi Arabia, arguably the premier Middle Eastern power, Beijing appears to wish to leave nothing to chance, developing its bilateral relationship with the UAE so as to further diversify its energy sources, increase its influence in the region and further ensure its export markets and the security of its export routes, including the Belt and Road Initiative. As it is doing with Saudi Arabia, and in keeping with President Xi Jinping's political dictum of demonstrating to the world that China's great rejuvenation has begun and that it is prepared to take its rightful place at or

near the very top of the international order, China is moving beyond a mere transactional relationship with the UAE and seeks a more strategic one.

### Analysis

China and the UAE established diplomatic relations in 1984. That relationship has grown rapidly since then, to the extent that China became the UAE's largest trading partner in 2011 and of Dubai in 2014. Bilateral trade between the two countries reached US\$45 billion (approx. \$63.4 billion in 2018 exchange rates) last year. The number of Chinese tourists travelling to the UAE has risen. In 2015, Dubai welcomed 450,000 Chinese tourists, an increase of 29 per cent over the previous year, and 600,000 in 2016. 'We have more tourists today in Abu Dhabi than [in the past],' said Mohammed Khalifa Al Mubarak, chairman of the Abu Dhabi Tourism and Culture Authority. Thirteen Chinese cities, including Beijing, Guangzhou, Hong Kong, Shanghai and Shenzhen are connected to Dubai by more than one hundred weekly flights. The Chinese retail presence in Dubai, however, extends past its tourists. Chinese retailers conduct their businesses from around 1,700 stores of the five thousand in Dubai's Dragon Mart Mall, the world's largest Chinese trading hub outside China.

Dubai is, from the Chinese perspective, ideally located at a junction between Africa, Europe and the Far East. For China, the world's largest trading country, Dubai offers much economic and strategic potential, thus making it a strong focal point in its overall Arab Policy. Much like China, Dubai's private sector is built on foreign trade, notably in tourism, finance and real estate. Given the interest of China in acquiring real estate and its focus on foreign property, Dubai is an appealing destination. It is its growing reputation as a global financial hub, however, that draws Beijing's attention. China, which seeks to become the pre-eminent world power, recognises that if it is to achieve that goal, it needs to have a major influence on the world's financial sector, if not control it, at least to an extent. While its own financial centre, Shanghai, offers some opportunity to achieve that end, being able to influence world financial markets from an offshore vantage point can only offer even greater opportunity. A strong influence exerted from Shanghai and Dubai could help to balance the influence of the West that is exerted from other financial centres such as London and New York. From this perspective, then, the UAE's energy exports to China, like tourism, is almost of secondary importance.

Anticipating its Saudi neighbour, Dubai has sought to diversify its economy for several decades now. Between 1975 and 1990, Dubai's non-energy GDP averaged an annual growth rate of around eight per cent. Between 2000 and 2008, i.e. the period immediately before the global financial crisis, that rate rose to around 11 per cent annually. Dubai leads the other emirates in the export of non-energy products, accounting for around 70 per cent of the UAE's total between 1980 and 2010.

During the global financial crisis, Chinese firms sought to distance themselves from their Emirati counterparts such as Dubai World, the Emirates' flagship global investment company, no matter that it was later shown that China Construction Bank Corporation,

China's second-largest bank, had [loaned](#) Dubai World US\$1 billion. That proved to be a temporary setback, however. By March 2013, there were over 2,400 Chinese organisations registered with Dubai's Chamber of Commerce. Major Chinese banks, including the Industrial and Commercial Bank of China, the Bank of China, the Agricultural Bank of China and the China Development Bank, had opened branches in Dubai. Other large China-based organisations such as PetroChina International opened branches in Dubai's International Financial Centre. Between 2011 and 2013, Chinese companies won more than US\$4.8 billion in construction contracts in the UAE, according to the Chinese Ministry of Commerce. Around 200,000 Chinese expatriates lived and worked in Dubai at the time. In an effort to further the relationship, China and the UAE signed a currency exchange agreement worth 35 billion yuan (\$7.1 billion, 2018 exchange rates) in 2012 to ease trade between China and the UAE and assist China to globalise its currency.

Beyond the financial sector, Chinese organisations perceive other opportunities in the UAE. The UAE's state-of-the-art port, free zone facility and logistics park have made it a central hub from which to conduct business throughout the greater Middle East. These organisations use the Dubai International Financial Centre as a bridge to access wider markets in the region.

Energy products remain a major element of the bilateral relationship. China imports around 15 per cent of the Emirates' petroleum output. In keeping with its goal of moving past a transactional relationship, however, in 2015, China Petroleum Engineering and Construction Co-operation (CPEEC) signed a US\$330 million agreement with Abu Dhabi Company for Onshore Oil Operations (now renamed the Abu Dhabi National Oil Company or ADNOC), for a development project at the UAE's southern Mender oilfield. Under the terms of the contract, the CPEEC would build pipelines, oil gathering stations, sewage systems and power transmission lines. The CPEEC has been involved in other projects in the UAE since 2015, including the development of the country's crude pipeline and Asab oilfield.

The relationship has progressed even further since then. In July 2018, the two countries announced the signing of thirteen agreements and memoranda of understanding, including approval for the first Chinese state-owned financial services firm to set up in Abu Dhabi Global Market, a financial centre, while the Abu Dhabi National Oil Company and the China National Petroleum Corporation agreed to explore joint business opportunities, during President Xi's visit to the Emirates. As Sheikh Mohammed bin Rashid Al Maktoum [stated](#), 'We have many areas of political and economic agreement and a solid base of projects in the energy, technology and infrastructure sectors. More importantly, [we have] a strong political will to start a greater phase of co-operation and integration.'

China is the UAE's second-largest trading partner and biggest source of imports today. The UAE is the gateway for about 60 per cent of China's exports to the Middle East and accounts for around one-quarter of total Arab trade with China on its own. The UAE Minister for the Economy, Sultan bin Saeed al-Mansouri, said that total bilateral trade between his country and China is expected to reach US\$58 billion in 2018, up from \$53.5 billion in 2017.

The economic and financial aspects of the relationship aside, China views the UAE, and especially its world-class ports, as a major link in the Belt and Road Initiative. The UAE's

state-owned Dubai Ports (DP) World also announced an agreement between the two countries to build a new trade zone in Dubai. That deal between DP World and the Zhejiang China Commodities City Group will see a “traders’ market” built at Dubai’s Jebel Ali free zone. The project is part of the larger BRI, China’s, ambitious plan to revive the ancient Silk Road trading routes with a global network of ports, roads and railways. The new facility will cover three square kilometres at the Jebel Ali site, which is the Middle East’s largest trade zone, DP World said in a statement.

While much of the BRI discussions focus on infrastructure, some analysts note that its potential benefits extend across a wide variety of sectors. One of those analysts [notes](#) that, ‘The BRI is a very ambitious plan that covers a huge part of the world, and the UAE’s position as a hub for the Middle East, with its financing capabilities and professional services, along with multi-national and local companies that are capable of running large infrastructure projects, makes this a huge opportunity for businesses in the region.’ He adds, ‘The UAE is a gateway to Africa, the Middle East and Europe. If you are a Chinese company, I don’t think you can think of a better place to set up an office to explore these new markets.’

There are many concerns regarding the BRI, however. According to one [report](#) that was published in April this year, twenty-seven of the twenty-eight national EU ambassadors to Beijing compiled a report that sharply criticised the project, denouncing it as designed to hamper free trade and put Chinese companies at an advantage. They claimed that the initiative ‘runs counter to the EU agenda for liberalising trade and pushes the balance of power in favour of subsidised Chinese companies’ and called for greater transparency from China.

There is some validity to those perceptions. Beijing’s “Made in China 2025” plan, the objective of which is to enhance China’s manufacturing capacity by subsidising many of its factories, including loss-making state-owned enterprises to an even larger extent than it currently does, could see manufacturing in other countries reduced or fail. Germany has since refused Chinese bids to acquire German businesses that manufacture dual-use products that could be used for civilian and military purposes. Berlin also took steps last year to also make it easier for its officials to block bids from non-EU countries. At least eighty deals have been examined since, with more than one-third of those involving Chinese investors.

Other European countries display equal concern when dealing with China. The Netherlands remains more interested in Chinese investment but has become cautious about the openness and transparency of the new Silk Road, Dutch Prime Minister Mark Rutte has [said](#).

If the European Union is a major destination of Chinese manufactured exports and infrastructure deals, and if those exports and deals are now at risk due to Beijing’s [predatory](#) trade practices, it is likely that its exports and infrastructure deals would be curtailed in the EU’s markets. If that were to happen, the UAE could see its value to China as a trans-shipment point to Europe diminished. It is possible that if Chinese export products are no longer required in such large quantities, the need for energy to manufacture those products would also be curtailed, leaving China’s energy suppliers in the Middle East, including Saudi Arabia and the UAE, with reduced energy exports to China.

The situation is compounded by the copious amounts of energy products that are being produced in the United States. The hydraulic fracturing process has enabled the US to tap reserves that previously were economically unviable, thus giving it a larger reserve. It is, consequently, not as reliant on the Middle East for its energy as it once was, necessitating its traditional suppliers such as Saudi Arabia and the UAE to become more dependent on other large importers of energy products such as China and India. At this point, it appears that the Trump Administration will continue with its apparent strategy of blocking China so as to retard its economic growth and to put it under ever-increasing pressure, in addition to placing tariffs on goods that are sourced in China. While the UAE is not a transit point for Chinese goods destined for the US, if Mr Trump's policies lead to a reduction of Chinese exports to his country, that could, as with the European Union, have a flow-on effect on the China-UAE relationship.

The China-UAE relationship is, in and of itself, a strong one. Whether it can withstand the vagaries of other global events, however, remains to be seen.

\*\*\*\*\*

*Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.*