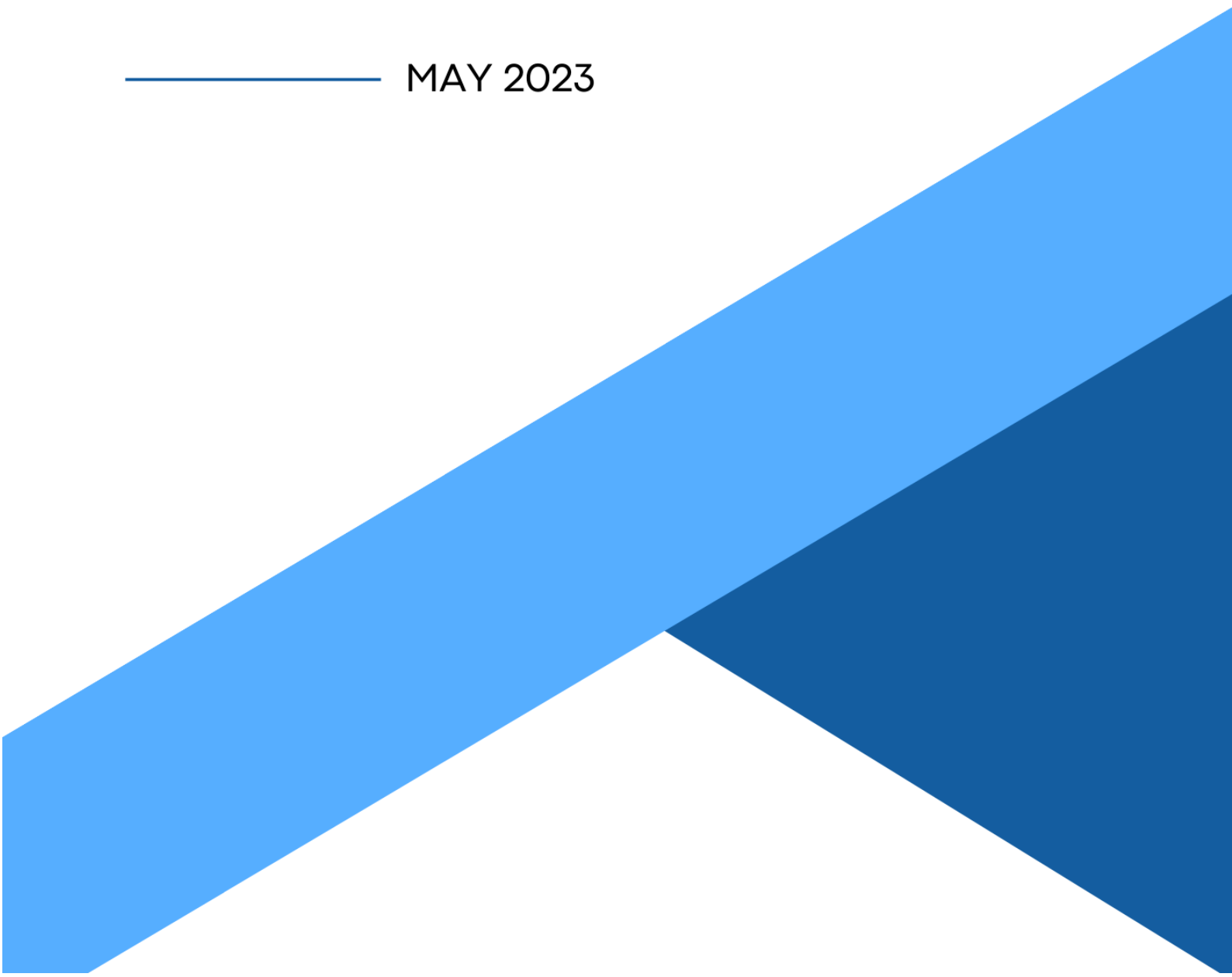


# **CHINA'S ROLE AS A LENDER AND INVESTOR IN THE ARAB REGION**

————— MAY 2023

The bottom of the page features two overlapping geometric shapes in shades of blue. A light blue triangle points upwards from the bottom left towards the center. A darker blue triangle points downwards from the top right towards the center, overlapping the light blue one.

China has played an important role in the global economy throughout history, particularly in the industry and production of silk and tea. However, China had not open up to the global economy and adopt market-oriented economic policies until the late 1970s, when it began to emerge as a major economic power.

China is currently the world's second-biggest economy, accounting for over 18% of global GDP in 2022<sup>1</sup>; it is also the world's largest commodity exporter, accounting for around 15% of global trade in 2020<sup>2</sup>.

In the Arab world, China has worked to strengthen its relationships with the Arab countries, especially in the Gulf region, through various initiatives such as the Belt and Road Initiative and strategic partnerships.

China's increasing demand for energy has shaped its relationship with Arab countries, particularly Saudi Arabia, Algeria, and the United Arab Emirates (UAE). These partnerships are built on increasing trade, investments, and cooperation in a variety of industries such as energy, infrastructure, technology, education, and others.

The objective of this policy paper is to highlight China's considerable role in expanding in the Arab area as a major investor and lender for certain countries, as well as its impact on both the global economy and the BRICS bloc.

### **The Chinese Presence In The Middle East And North Africa (MENA) Region**

China's presence in the MENA region has gradually expanded over the past decades, considering that the MENA region is considered strategically crucial for China due to its significant oil and natural gas reserves and production, as well as its position as a crossroads of Asia, Europe, and Africa.

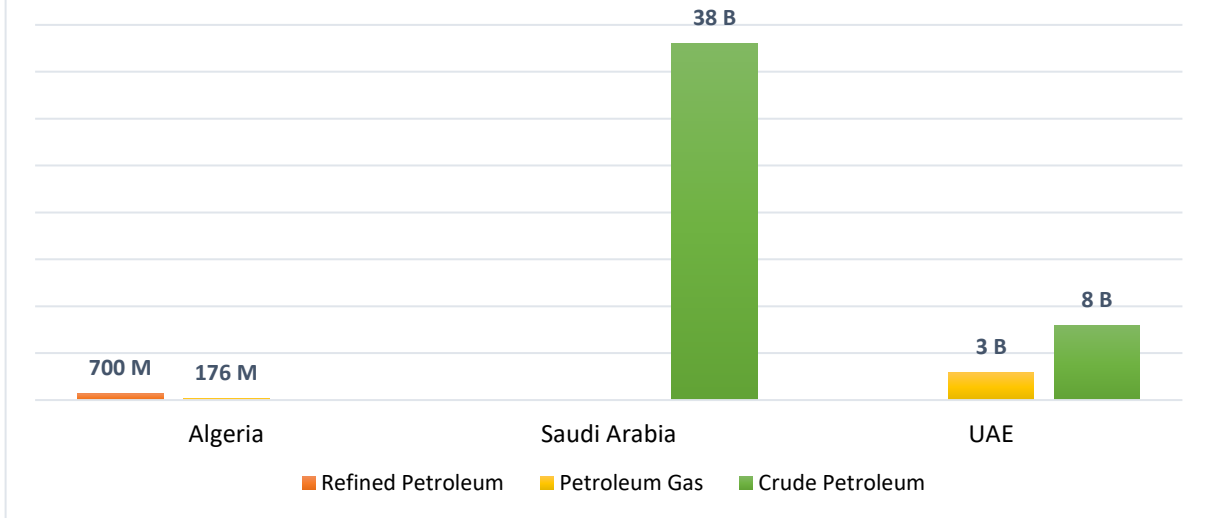
Recently, China has emerged as one of the most important trading partners for several MENA countries, particularly Saudi Arabia, Algeria, and the United Arab Emirates. As seen below, China imports a huge amount of oil and gas from these countries:

---

<sup>1</sup> Center for Strategic and International Studies (CSIS)

<sup>2</sup> United Nations Conference on Trade and Development (UNCTAD)

## China's Total Energy Import from MENA Region in 2021

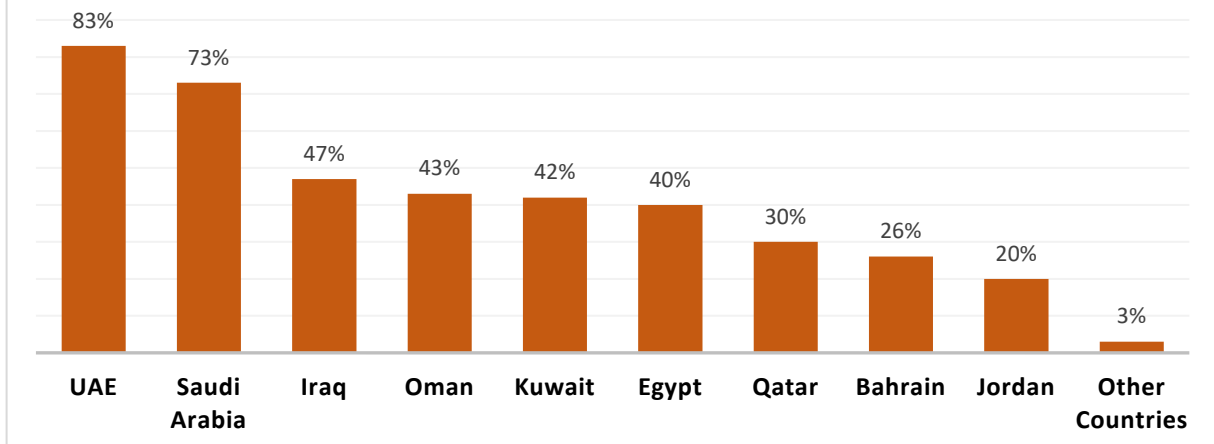


Source: The Observatory of Economic Complexity (OEC)

China is additionally making investments in oil and gas projects in Iraq and Saudi Arabia. Plus, it invests in renewable energy projects in Egypt and the UAE. These projects involve solar and wind energy projects that help decrease the region's dependence on fossil fuels.

Beyond that, China is growing its regional influence by investing in transportation infrastructure, such as ports and railways in Egypt and Oman. These investments serve to develop regional transport networks and facilitate the transportation of products between China and other nations.

## Distribution of Chinese Investors' Business Activities in The Middle East



Source: Report on Chinese Investors' Confidence in the Middle East

Regarding North African countries, China's investments in Tunisia are relatively limited compared to other countries, despite being the third-largest supplier of consumer goods to Tunisia in 2021, with annual imports reaching \$2.2 billion (approximately 6.7 billion Tunisian Dinars).

However, China is ranked 35<sup>th</sup> in the list of countries that invest in Tunisia in 2020, with Chinese companies' investments amounting to around \$34 million<sup>3</sup> (approximately 103 million Tunisian Dinars). This is a modest amount compared to France, which is the largest investor in Tunisia, with investments worth \$2.4 billion (approximately 7.3 billion Tunisian Dinars) in that year.

While in Libya, China had a good trade relation with Libya before 2011, and its investments amounted to approximately \$19 billion<sup>4</sup> (around 58 billion Tunisian Dinars), and centered around infrastructure, such as housing construction, railways, telecommunications, and hydroelectric projects.

In Morocco, Chinese investments reached approximately \$1.6 billion (about 5 billion Tunisian Dinars) between 2014 and 2019, with a focus on the transportation, energy, and real estate sectors. One of the notable recent projects undertaken by China in Morocco in 2016 was the construction of the longest bridge in Africa, spanning nearly 950 meters.

In February 2022, the Chinese China International Trust and Investment (CITIC) Group established a factory to produce spare parts, with an investment of approximately \$200 million<sup>5</sup> (about 600 million Tunisian Dinars), which is considered China's largest investment project in Morocco.

Eventually, Chinese companies became Algeria's preferred partner in civil infrastructure projects, between 2005 and 2020, the Chinese investments have reached nearly \$24 billion<sup>6</sup> (about 73 billion dinars), and these investments were concentrated in the transportation and real estate sectors.

---

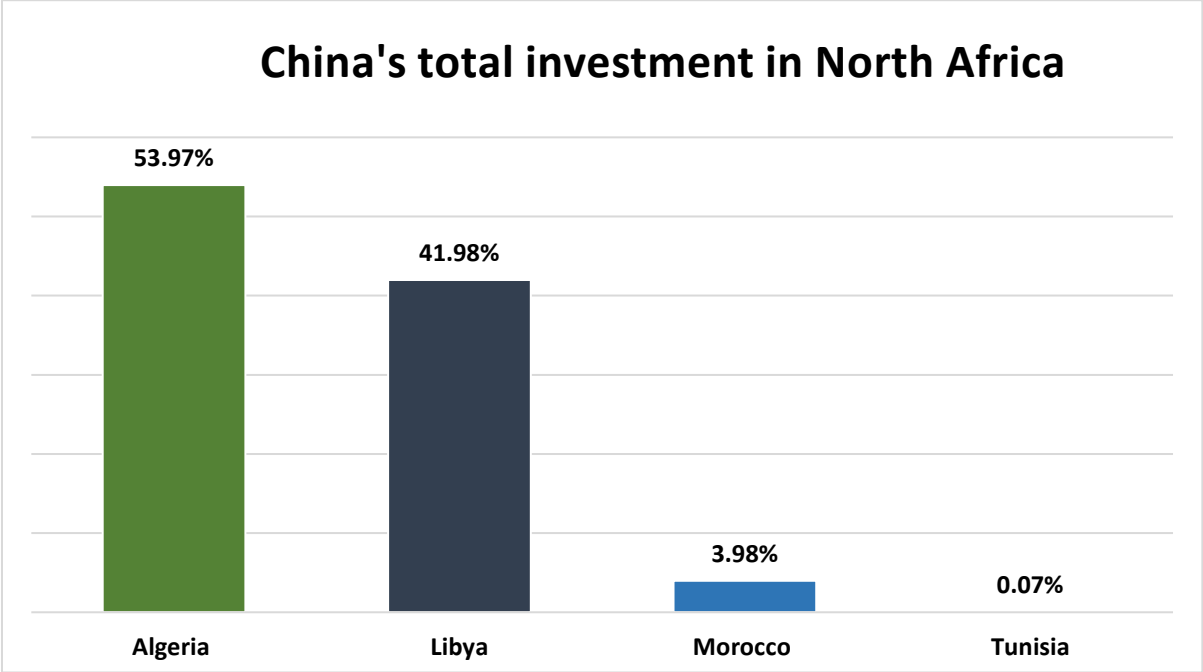
<sup>3</sup> The Washington Institute for Near East Policy

<sup>4</sup> Carnegie Endowment for International Peace

<sup>5</sup> The American Enterprise Institute: China Global Investment Tracker

<sup>6</sup> The American Enterprise Institute: China Global Investment Tracker

In May 2022, the China Petroleum and Chemical company (Sinopec) signed with the Algerian company (Sonatrach), an energy development and exploitation, with an investment of around \$430 million<sup>7</sup> (about 1.3 billion Tunisian Dinars).



Source: Author’s calculation, data taken from The American Enterprise Institute: China Global Investment Tracker

All of these Chinese projects and investments in MENA region are part of the Belt and Road Initiative, which aims to enhance connectivity between Asia, Europe, and Africa, to facilitate trade and connectivity through a network of roads, railways, and ports.

In addition, the expansion of China's presence in the MENA region has been driven by its desire to create new markets for its products, while the slowdown in the growth of the Chinese domestic economy in recent years, China has sought new markets to sell its goods and services.

**🇨🇳 Chinese Rescue Loans**

One important aspect of China's financial relationship with Arab countries lies in the role of financial institutions, where Chinese banks and financial institutions have actively involved in providing financing for numerous infrastructure projects in Arab countries.

Both the China Development Bank and the People's Bank of China have played a significant role in providing loans for major projects in Arab countries.

---

<sup>7</sup> The American Enterprise Institute: China Global Investment Tracker

In 2008, China launched rescue loans to lend countries which are facing debt distress. These loans are part of the Belt and Road Initiative. However, these loans are raising concerns about increasing debt burdens and apprehensions regarding transparency and accountability in the lending process.

The Chinese government provided 128 rescue loans to 22 countries around the world between 2008 and 2021. These loans primarily target countries with high debt to China, and the following are some of the countries:

Latin America	Africa	Middle East	Asia
Argentina	Angola	Turkey	Pakistan
Ecuador	Sudan	Oman	Sri Lanka
Venezuela	South Sudan	Egypt	Mongolia
Suriname	Tanzania		Laos
	Kenya		

World Bank Report: China as an International Lender of Last Resort

These loans are considered as an alternative to traditional sources of financing, such as the World Bank and the International Monetary Fund (IMF), and China does not impose political or economic conditions on its loans, unlike the World Bank and IMF, which often require structural reforms and policy changes as conditions for lending.

There are several types of rescue loans, including:

Type	Description	Example
1. liquidity support	These are short and medium-term loans provided by the Chinese government through the China Development Bank to developing countries that have external debts, or to increase reserves, or to finance public budget expenditures.	<ul style="list-style-type: none"> <li> Egypt in 2016</li> <li> Belarus in 2019</li> </ul>
2. Commodity prepayment facilities	Loans made by Chinese state-owned oil and gas companies in large cash payments	 Ecuador in 2009

	to commodity-exporting countries in distress.	
3. Drawings from The People's Bank of China (PBOC) swap lines	Recipient country central banks have drawn down their RMB swap lines to increase gross reserves	 Argentina 2014 - 2020  Turkey 2021
4. Central Bank deposit loans	Chinese banks and the People's Bank of China made deposits in US dollars to foreign central banks to help increase their total reserves.	 Pakistan 1997 - 2021

World Bank Report: China as an International Lender of Last Resort

Among the conditions of the Chinese lending, borrowers must prioritize the repayment of Chinese loans over other debts, with high interest rates, where the average interest rate is around 5%. This rate is considering higher than the interest rate of the International Monetary Fund (IMF) rescue loans, which has been around 2%<sup>8</sup> over the past 10 years.

It is also worth mentioning that the interest rate on IMF loans to low-income countries is close to 0%<sup>9</sup>.

In addition, rescue loans can be provided in the form of investments in distressed stocks, such as China's investment in the electricity grid in Laos in 2020, or as a purchase in foreign sovereign bonds, such as China's investment in US Treasury bonds. In 2022, China owns approximately \$970 billion in US Treasury bonds, equivalent to 12% of the US public debt, making China the second-largest holder of US Treasury bonds after Japan.

It is worth noting that Chinese loans do not conflict with other lenders. In January 2016, Egypt received a rescue loan of approximately \$2 billion from the Chinese Development Bank to the Egyptian Central Bank. This loan was part of a liquidity support agreement signed between the two countries with the aim of enhancing Egypt's foreign reserves and maintaining economic stability. While in November of the same year, Egypt also obtained a \$12 billion loan from the

<sup>8</sup> World Bank: China as an International Lender of Last Resort

<sup>9</sup> International Monetary Fund (IMF)

IMF for a duration of 3 years, with the goal of restoring economic stability, promoting growth, and creating job opportunities.

The Chinese rescue loans did not include countries such as Tunisia, but China provided Tunisia bilateral loans between 2000-2012, amounting to approximately 215 million Tunisian dinars (around 68 million dollars) and 54 million dinars<sup>10</sup> (about 17 million dollars) as aid.

In 2021, the two countries signed a grant agreement worth 40 million dinars (approximately \$13 million), designated to finance projects in Tunisia.

### **China's Role in The BRICS Bloc**

China's role in the BRICS bloc (Brazil, Russia, India, China, and South Africa) has been significant since the bloc's establishment in 2006, and as the world's second largest and fastest growing economy, China's participation has helped shaping the economic and political objectives of the bloc.

Currently, BRICS contributes with more than 31.5% of the global GDP, surpassing the contribution of The International Group of Seven (G7) countries, which has fallen to 30%, and this contribution is expected to increase to more than 50% of the global GDP by 2030<sup>11</sup>.

China also plays a crucial role in the BRICS, which is considered the largest economy among its members, with a GDP of nearly \$17 trillion in 2021, while other countries combined do not exceed \$8.

One of the key impacts of China's role in BRICS has been the increase of economic cooperation among the member states. China's position as a major economic power has enabled it to provide significant financial and technological assistance to other member countries. China has been a major investor in various infrastructure projects in countries such as Brazil and South Africa, thereby contributing to economic growth in these nations.

---

<sup>10</sup> The Diplomat

<sup>11</sup> TV BRICS

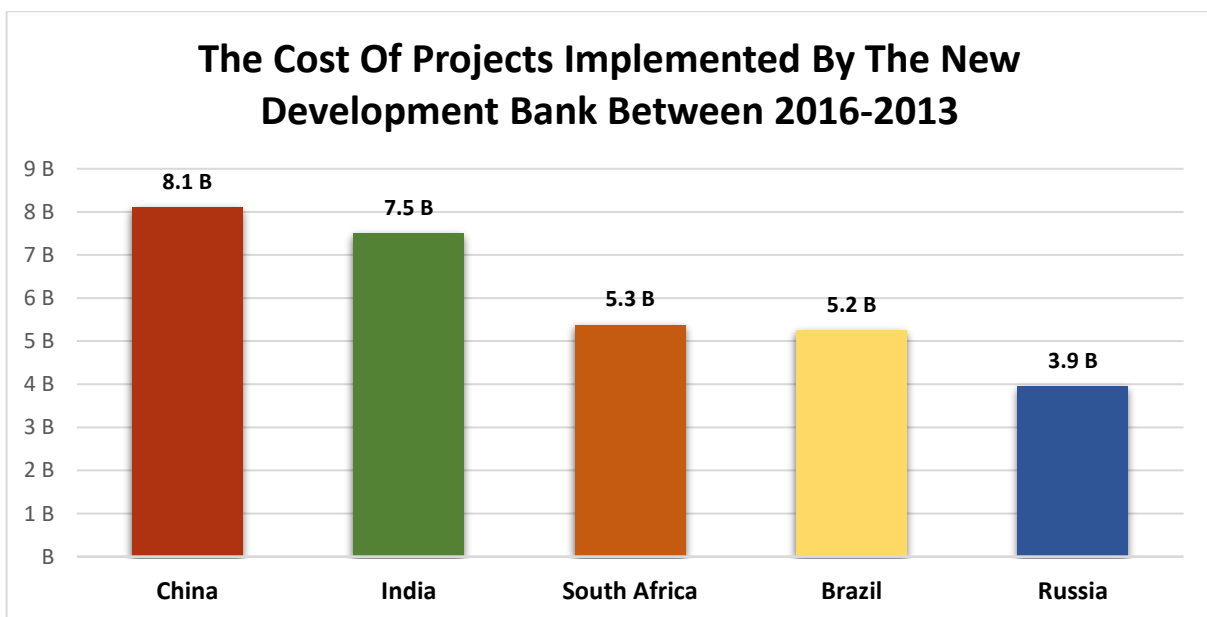


## The New Development Bank (NDB)

China has contributed to the development of the New Development Bank, which is an alternative to traditional lending institutions such as the World Bank. The NDB was founded in 2014 as a bank affiliated with the BRICS bloc, with a capital of around \$50 billion.

The bank has executed approximately 96 projects during the period from 2016 to 2023, and China has been the largest beneficiary of these projects, with over 27 projects implemented in various fields, with a total value exceeding \$8 billion.

The first project implemented in China was in 2016, with funding exceeding \$32 million in the renewable energy sector, and the bank's latest implemented project was also in China in 2023, with financing amounting to nearly \$200 million for transportation infrastructure. These projects are part of the bank's plan to develop sustainable infrastructure.



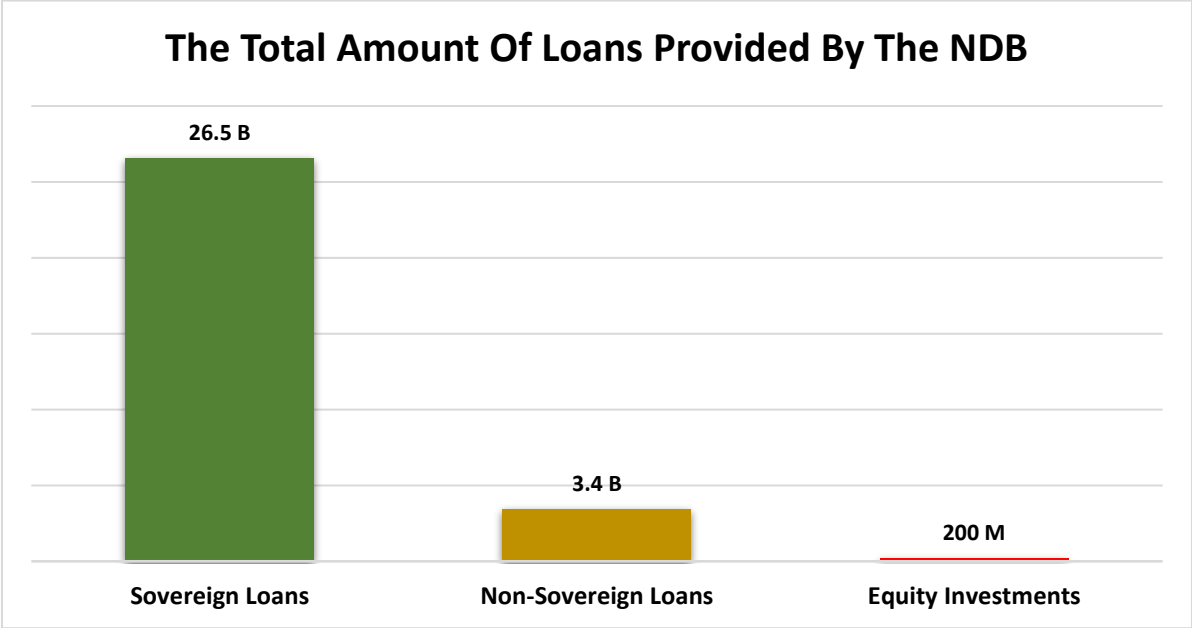
Source: The New Development Bank

In addition, the NDB has provided loans to support public and private projects in the member countries of the BRICS bloc. These loans come in three types: sovereign loans, non-sovereign loans, and equity investments, where the bank has an emergency reserve of \$100 billion<sup>12</sup> to help member countries in case they face budgetary or liquidity challenges.

---

<sup>12</sup> National Treasury of the Republic of South Africa and Reuters

For example, the NDB provided two emergency loans to South Africa, the first being \$1 billion in June 2020, and the second also \$1 billion in April 2021<sup>13</sup>.



Source: The New Development Bank

The NDP is open to the membership of interested countries, but after obtaining approval from all member states. The United Arab Emirates and Bangladesh joined in 2021, and Egypt in 2021, while Uruguay is a prospective member to join in the future, according to the bank's data.

It is worth noting that joining the bank does not imply membership in BRICS. Joining the bank provides access to development project financing and the opportunity to work with domestic and international financial institutions to enhance growth and development.

To summarize the Chinese role in the Arab region, the following map shows Chinese investments and rescue loans in MENA region, as well as the Arab countries which have joined the New Development Bank, and those that have applied to join the BRICS bloc.

<sup>13</sup> Bloomberg and The Government of South Africa



Source: Author's calculation, data taken from all of the above sources

Consequently, China has become a major investor and lender for certain countries in the Arab world. It is also a key player in the BRICS bloc and The New Development Bank, with the goal of expanding its economic power and achieving long-term strategic gains.

Despite Western challenges, many economists predict China to continue consolidating its position and succeeding in the global economy, thus enhancing its place as a major actor in the global perspective.