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Sino-MENA FDI: Going green together

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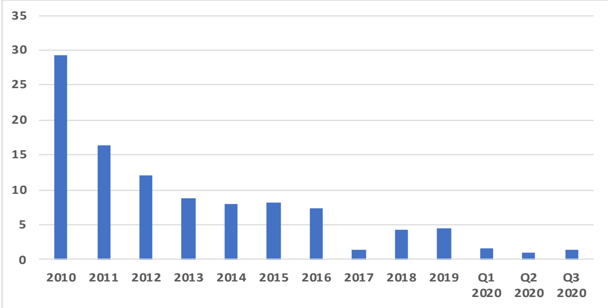
- **The pandemic has dealt a massive blow to global foreign direct investment (FDI), which were already on a steady decline over the last few years.**
- **China bucked global trends, as its investments in 2020 continued to increase, particularly through BRI[1], which makes up 16.2% of total Chinese investments.**
- **Chinese FDI is moving from manufacturing towards new areas including the transport, real estate and technology sectors, where MENA economies are also seeking diversification.**

China's FDI resilience in a challenging year

On the back of the pandemic, global FDI figures have decreased sharply in 2020 as extended lockdowns have caused economic disruptions across the world. Amidst the uncertainty, China proved its resilience as its FDI outflows remained steady and its BRI investments increased significantly

- 2021 data will certainly complete the picture, but in 2020, the estimated figure for total global FDI was USD 859B, down from USD 1.39T in 2019, while Chinese FDI outflows remained undented.
  - The global collapse was caused primarily by the pandemic, as trade flows were disrupted across the world, but follows a trend of steady decline over the past six years.
  - For instance, the global FDI figure was USD 1.41T in 2018, a 13% decrease YoY from 2017 at USD 1.43 T, which in turn was 23% lower than the year before at USD 1.75T.
- On the other hand, China's FDI outflow has been steady, posting a 3.3% increase YoY despite the pandemic in 2020, reaching USD 132.9B compared with USD 136.9B in 2019, a 4.3% increase.
  - In particular, Chinese investments in BRI countries increased in 2020, as total Chinese FDI to BRI countries reached USD 17.79B in 2020, an 18.3% YoY increase from the USD 15B invested in 2019.
  - At the onset of the Belt and Road Initiative, China's FDI was slightly higher, at USD 18.9B in 2015, but the consistency in investments over the last few years, with figures ranging between a low of USD 14.5B in 2016 and high of USD 20.1B in 2017, shows that China remains committed to investing overseas.
- The bulk of China's investments were targeted towards the transport, real estate and technology sectors in 2020.
  - Chinese firms have announced a striking USD 4.7B in new investments in the transport sector in 2020 across the world.
  - Despite the pandemic slowing down trade flows across the world, global Chinese investments were still ambitious in these sectors, reflecting the country's relatively rapid recovery in H2 of 2020, as well as its commitment to its long-term strategy of building connectivity and advancing its technological lead.
- In terms of areas to watch in 2021, private sector Chinese companies have been very active in looking at investing in e-commerce, tech and automation, especially health-tech and ed-tech, which both stood out in the pandemic.
  - China is notably a global leader in rolling out 5G, presenting partnership opportunities in technology as well as commercialisation with local providers.

Figure 1 – FDI inflows to KSA[2]



  - However, this is not without challenges, particularly given the straining of relations with the US during the Trump administration. It remains to be seen how President Biden will approach Chinese investments, particularly in telecoms.
- Significant deals were also signed in the healthcare sector, as the global focus has shifted to health investment on the back of the pandemic.
  - In total, Chinese firms announced USD 950M in health investments in 2020, in five separate deals, up from three in 2019.
  - Although the total amount of health investment was USD 950M in 2020, compared with USD 2B in 2019, healthcare investments are set to increase as projects currently in the pipeline are completed and the global economy recovers from a difficult year.
- Recent evidence of sustained FDI momentum was the USD 320M investment by Chinese Hefei Ray Capital Management in Japanese Takeda Pharmaceutical company in December 2020.

Looking forward, the MENA region is well-positioned to receive similar investments, as healthcare expenditure in the region expands and COVID-19 contributes to its growth.

- Healthcare demand has soared in the MENA region, particularly in the GCC, where the market has been growing at an annual rate of 5% and is estimated to be worth USD 70B. Looking ahead, spending is expected to expand to USD 104B by 2022.
  - The rapidly growing healthcare market, particularly in the GCC, presents opportunities for investors, prompting governments and regulators to encourage private sector participation to build hospitals and clinics, upgrade existing infrastructure and match the quality of services offered in developed countries.
  - Notably, Saudi Arabia allowed 100% foreign ownership for private healthcare institutions in 2020. This is a strategic move in line with the kingdom's Vision 2030, which aims to drive private sector investments.
    - The kingdom, a traditional capital exporter, has recently lagged behind in FDI inflow, and has made investment the centrepiece of its economic diversification plans.
- Across the MENA region, an estimated 161 healthcare projects are currently in the pipeline, worth a combined USD 68.8B, of which USD 53.2B will be spent in the GCC. This is a significant upsurge from the 37 projects in the GCC, valued at USD 28B, in 2017.
  - As the pandemic ushers in further health and medical technology investment, there is great potential for Chinese investors, notably pharmaceutical companies,

[1] The Belt and Road Initiative.

[2] Arabia Monitor; UNCTAD, Invest Saudi.

laboratories, insurers and healthcare providers to invest and contribute to the booming healthcare market, beyond the joint COVID-19 vaccine trials and production, which have leapfrogged collaboration in this sector.

Another emerging trend in Chinese investments has been the increased focus on renewable energy. In 2020, solar and hydropower made up 57% of China's investments in energy infrastructure, reaching an impressive USD 11B.

- For the last few years, Chinese FDI was concentrated in manufacturing, with USD 37.3B invested in the sector in 2019, followed by real estate with USD 24.7B. Although renewable energy still trails behind, the recent growth trend shows that there is a shift in priorities, therefore presenting opportunities for MENA to receive investment in the sector.
- Renewable energy investment from China increased by 38% from 2019 to 2020, as the Chinese government pledged to reach net-zero carbon emissions by 2060 and a peak before 2030.
    - China's vast domestic market has seen companies rising to become global leaders in their respective industries, such as Hanergy in solar panel production, and TEBA in energy storage.
    - This has in turn created huge investment appetite from financing institutions including the Silk Road Fund, which has invested in Dubai's solar park, for example.
- Similarly, MENA countries, particularly the GCC, are looking to move beyond oil and focus on Environmental, Social and Governance (ESG) investments.
    - Globally, there is currently at least USD 31T held in sustainable or green investments, up 34% from 2016.
    - In MENA, the market is still meagre, as green financing commitments account for only 1% (around USD 2B) of the global share, but we expect this to grow as countries in the region are rapidly seeking sustainable forms of development.
    - In the GCC alone, renewable energy capacity grew by an annual rate of nearly 180% between 2018 and 2020, to 7GW. This is still small compared with the global average – less than half the UK's 14.9GW for instance – and therefore represents an untapped market that can easily create new investment opportunities.
    - GCC investments in the "green sector" are expected to grow by 18 times from current levels to reach USD 180B by 2025. We expect China to play a significant role in this transition, with its production, construction and financing capacities.
- Already, most of China's investments in the MENA region have been in the energy sector.
    - From 2017 to 2020, 70% of China's investments in the MENA region have been in the oil and gas sectors.
    - Most of these investments have been significant in scale.
        - The largest deal was USD 1.1B invested by CNPC in the UAE's oil sector in 2018, followed by another CNPC investment of USD 1B in Iraq's gas sector in 2019.
        - Similarly, State Grid acquired a 49% stake in a USD 970M investment deal in Oman Electricity Transmission, and SAFE a 49% stake in an investment of USD 960M in ACWA Power, both in 2019.
- In the past year, however, investments in hydrocarbons have been muted, as the pandemic delayed project pipelines and the general shift toward renewable energies have both led to lower investments.
    - But MENA is positioned to receive considerable Chinese investments as the green transition has been prioritised not only on the back of climate change but also as a diversification play, given the prospect of lower-for-longer oil prices becoming reality.
    - China's government has set an ambitious target of USD 20T in investments between 2020 and 2050, over 2.5% of GDP over those years, in order to become a leader in green finance.

Figure 2 – Comparing global and Chinese FDI (in USD M)[3]

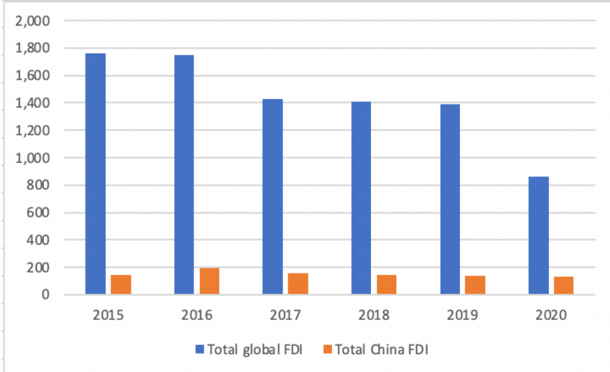
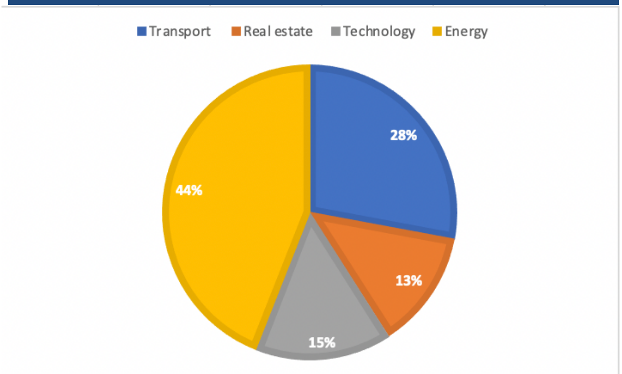


Figure 3 – Chinese FDI outflows by sector in 2020[4]



Risks around Chinese FDI to MENA in 2021

Looking forward, global FDI flows are likely to remain weak in 2021 due to uncertainty over emerging COVID-19 strains and renewed border closures. Global FDI is unlikely to pick up until H2 2021, when there is more clarity on various inoculation campaigns. The question is how Chinese FDI to MENA will behave.

- While investors outside of China are to remain cautious in committing capital to new overseas projects, China will likely profit from its relatively well-performing economy to drive up investments across the world.
- Despite strengthened trade relations and recent notable deals in new and emerging sectors with the MENA region, we foresee a number of obstacles to China's continued rise in FDI:
    - COVID-related geopolitical factors could see a number of countries hesitant to receive large-scale FDI, and the Chinese less confident in the safety of their overseas assets.
    - Capital controls continue in China, specifically from the private sector, which is expanding significantly in aforementioned areas such as transport, technology and renewable energy. We could see investors and recipients missing out on high-potential investment deals.
    - The pace of regulatory reforms may lag in MENA countries to facilitate FDI inflows, with governments needing to do more with less resources.

[3] Arabia Montior; Ministry of Commence; National Bureau of Statistics

[4] Arabia Monitor; The American Enterprise Institute, The Heritage Foundation.

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