



中国-阿拉伯国家博览会  
معرض الصين والدول العربية  
CHINA-ARAB STATES EXPO

China-Arab States Expo

# Progress of China-Arab Trade and Economic Relations

Annual Report 2014



黄河出版传媒集团  
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## ACRONYMS

AAOIFI	the Accounting and Auditing Organization of International Financial Institutions
ABC	Agricultural Bank of China
AREAER	Annual Report On Exchange Arrangements And Exchange Restrictions
ASEAN	Association of South East Asian Nations
AU	Australia
AVIC	Aviation Industry of china
BOC	Bank of China Limited
BSMD	the Bahrain Standards and Metrology Directorate
CCTV	China Central Television
CHEC	China Harbour Engineering Company Ltd.
CMI	the Chiang Mai Initiative
CNOOC	China National Offshore Oil Corporation
CPC	the Communist Party of China
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investment Survey
CPPCC	the Chinese People's Political Consultative Conference
CRI	China Radio International
CSCEC	China State Construction Engineering Corporation
CSMAR	the China Stock Market Accounting Research
CSPFTZ	China (Shanghai) Pilot Free Trade Zone
CWE	China International Water & Electric Corp
DE	Germany
DIFC	Dubai International Financial Center
ECAS	the Emirates Conformity Assessment Scheme
EFTA	European Free Trade Association
EFW	Economic Freedom of the World
EoDB	Ease of Doing Business
ERP	effective rate of protection
ESCWA	Economic and Social Commission For Western Asia
ETBS	the Exchange Traded Bonds and Sukuk
EU	European Union
FDI	Foreign Direct Investment
FOCAC	Forum on China—Africa Cooperation
FRA	France
FTA	Free Trade Agreement
FTZ	Free Trade Zone

GATS	the General Agreement on Trade in Services
GATT	the General Agreement on Tariffs and Trade
GBR	United Kingdom
GCC	the Gulf Cooperation Council
GCI	Global Competitiveness Index
GDP	the Gross Domestic Product
GEU	Germany
GSO	the Gulf Organization for Standardization
HK	Hong Kong, China
HKMA	Hong Kong Monetary Authority
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
ID	Indonesia
IFDI	Inward Foreign Direct Investment
IFS	International Financial Statistics
IIFM	International Islamic Financial Market
IMF	the International Monetary Fund
IPO	Initial Public Offering
IS	Islamic State
ISIL	Islamic State of Iraq and Levant
ISIS	Islamic State of Iraq and al-Shams
JIB	the Jordan Investment Board
LAS	League of Arab States
MFN	Most Favored Nation
MOCI	the Ministry of Commerce and Industry
MOFCOM	The Ministry of Commerce of the People's Republic of China
MTN	multilateral trade negotiations
MY	Malaysia
NAFTA	North American Free Trade Area
NDRC	National Development and Reform Commission
NIL	National Investment Law
NL	Netherlands
NTC	the National Transitional Council
OAPEC	Organization of the Arab Petroleum Exporting Countries
OFDI	Outward Foreign Direct Investment
OIC	the Organization of the Islamic Conference
PAIPED	the Public Authority for Investment Promotion and Export Development
PBoC	the People's Bank of China
PH	Philippines
QFII	Qualified Foreign Institutional Investors
RMB	renminbi , name for the Chinese currency
S&P	Standard & Poor
SA	Saudi Arabia
SAFE	The State Administration of Foreign Exchange
SAGIA	Saudi Arabian General Investment Authority
Shibor	the Shanghai Interbank Offered Rate
SITC	Standard International Trade Classification

SMEs	small and medium-size enterprises
TDI	Trade Dependency Index
TEDA	Tianjin Economic Development Area
TEU	twenty-foot equivalent units
TRA	telecommunications regulation authority
U.S.	United States
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USA	the United States of America
USD	United States Dollar
VIE	Variable Interest Entities
VN	Viet Nam
WTO	World Trade Organization
YOY	Year Over Year
ZTE	Zhongxing Telecommunications Equipment



# FOREWORD

China-Arab states' relations are an important part of the comprehensive diplomatic policies of China. On June 5, 2014, Chinese President Xi Jinping addressed the Sixth Ministerial Level Conference of the China-Arab States Cooperation Forum, during which he proposed that China and Arab countries should deepen all-round cooperation and develop a China-Arab strategic cooperative relationship, taking advantage of new opportunities of co-constructing the Silk Road Economic Belt and the 21st century oceanic Silk Road in the coming decade. All concerned parties would strive to build a community of common interests and a destiny based on the principles of cooperation and sharing.

This parallel development in addition to "The Belt and Road Initiative", the China-Arab States Expo ("the Expo" hereafter) is facing a significant strategic opportunity. The party committee and government of Ningxia Hui Autonomous Region are more aware of the strategic positioning of the Expo, which serves as a platform on which high-level dialogue, policy exchanges, trade and economic cooperation as well as humanitarian exchanges are conducted. It also serves as a pivot of the strategic Silk Road Economic Belt. From this perspective, the Expo is expected to play an even bigger role in the all-round exchanges among the countries along the belt.

Co-construction of "the Belt and Road" is consistent with the trends of the time and is in the best interests of the people of China and of the Arab states. With the free flow of economic factors, and efficient allocation of resources, as well as the deep integration of markets, the Arab states will have a bigger chance of gaining diverse, balanced, sustainable, development. China has also proposed the establishment of the Asian Infrastructure Development Bank, with an authorized stock capital of \$100 billion. In addition, China set up a Silk Road Fund using \$40 billion to fund the infrastructure development in Asia and the Belt and Road Initiative.

The Chinese government is encouraging companies and corporations to invest in Arab states' energy, petrochemical, agricultural, manufacturing and service industries to support the employment, industrialization, and economic development of all the countries concerned. In the coming decade, China-Arab region bilateral trade is expected to grow to \$600 billion and China's financial investment stock to Arab countries is likely to surpass \$60 billion. China and Arab countries are joining hands in constructing the Belt and Road Initiative, and their

strategic, cooperative, relations will constantly be elevated to higher levels.

In focusing on research of China and Arab region's trade and economic ties, this report systematically analyses the regional situation of the Middle East, dependencies on China-Arab region trade, China-Arab region trade structures, and dependencies on China-Arab region investments. It also discusses critical issues such as the bilateral trade in services, bilateral agricultural and food trade, the development of Islamic finance, and the internationalization of the RMB. It is hoped that the analyses found within this piece will serve as an important reference to our readers.

The vision of "the Belt and Road Initiative" is becoming abundantly clear. The people of China and of the Arab states are expected to gain more development opportunities thanks to the implementation of this strategy. As an important cooperative mechanism, the Expo is expected to attract more participants with insights to promote the trade and economic relations of China and Arab states as well as share the benefits of China-Arab region's cooperation. In the meantime, it is sincerely hoped that readers will have informative and productive exchanges that will allow more refinement and, as a finished product, an even better report in the future.



Wang Jing

Secretary General of the China-Arab States Expo Secretariat  
Head of Ningxia Hui Autonomous Region Exposition Bureau

August 30, 2015

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# Chapter 1

## The Situation in the Middle East Development Review

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### 1.1 Chaos of the Middle East

The year of 2014 was a year of continued turbulence for west Asia and North Africa. The Arab Spring's fallout is continuously felt in the regions to this day.

The "Jasmine Revolution" that broke out at the end of 2010 in Tunisia, induced the internal contradictions that had accumulated for years in many countries within the region. Thus, various social political forces emerged; ethnic contradictions gradually expanded; and the violent confrontations intensified greatly. The underlying goal of the "Arab Spring" morphed from appealing to livelihood improvement to a conception of "democracy", which then developed into the people's demands for state power. The "Arab Spring" also evolved from a localized disturbance into a massively chaotic social unrest, and then morphed into violent conflicts and confrontations between different ethnic groups and/or interest groups.

Original state order and organization was broken and the new order has not yet been realized. Three years of unrest has resulted in weakened state power, malfunctioned state machines, declining economic conditions and

even worsening livelihood conditions of the affected people. It also has led to growing numbers of refugees and severe humanitarian problems. In some countries and regions, even basic living conditions such as food, safe drinking water and personal safety cannot be guaranteed.

Tunisia, Egypt, Libya, Yemen and Syria, most severely affected countries from the upheaval, have different situations.

The situation in Tunisia appears to have stabilized, but the impact brought on by the "Jasmine Revolution" can still be seen from time to time. Terrorist attacks targeting foreigners have casted a big shadow on the security situation in Tunisia.

After two regime changes, it seems the revolution in Egypt has gone back to the starting point. The Muslim Brotherhood, represented by President Mursi, was overthrown after being in office for one year. That one year showed the Mursi administrations inability to make progress in key areas such as social reconciliation or economic development. This, at least, shows that the "diplomacy" of the west cannot be rooted in an Arab nation dominated by Islamic culture. In

terms of social stability and stable political regimes, social reconciliation is the foundation and economic development is the “top priority”. Two key problems facing Egypt, that has experienced such tumultuous transformation, is to achieve social reconciliation and economic development.

Libya’s circumstance is also different with some answers lying with its many tribes. As a country with a population of less than 7 million, it has nearly 200 different tribes. It almost fell in a state of “anarchy” after the former regime collapsed. Its security situation is very grim. The future of this country, which is rich in oil, will largely depend upon two factors: tribal reconciliation and territorial security.

Yemen is also a country that is particularly affected by ethnic factors. The conflicts of its tribes and sects have affected the country for many years. Caught in both civil wars and foreign wars, Yemen has a future that depends not only on domestic sects, tribal and regional factors, but more on the regional powers’ wills and the glaring need to develop constructive geopolitics.

Syria is undoubtedly a country that has been most severely affected by the turmoil in terms of intensity, duration and the international attention it has received. However, it is also the only country, having experienced the Arab Spring, which has not gone through regime change. The Assad regime fortuitously made it through twice. The first time, the situation was relieved through “Chemical Weapons for Peace”. The second and most recent time, “Islamic State” appeared and expanded, thus the pressure from the international community was reduced. However, because of its geographic importance, it inevitably will become a focus of the geopolitics

and the arena, where regional and world powers will compete with each other for more influence within the Middle East region. The Syrian issue has not been resolved and fundamental changes have not yet taken place. It will take significantly more time for this country to become socially, politically and economically stable.

West Asian and North African regions are “favored” by world powers because of their significant, strategic, positions as being Africa and Asia’s intersection with Europe. These regions have also suffered from an Ordeal by Innocence because they’re both rich in oil and natural gas. After World War II, more than half of large-scale wars have happened in West Asia and North Africa, a region often referred to as the “Middle East”. This region also faces problems because they include many countries, ethnic groups, religions, sects, and indigenous tribes. Peace is especially needed for the chaotic Middle East, if there is to be any chance of achieving economic development and social reconciliation.

## 1.2 From ISIL to the Caliphate

Since the “Arab Spring” broke out in West Asia and North Africa, the new geo-political structures have toppled the traditional power centers. With major political figures falling from power, for a brief time Iraq had taken a back seat to the chaotic circumstances of the Middle East.

While the attention was diverted away from Iraq, an extremist armed force called, “Islamic State of Iraq and the Levant”, had grown and achieved a number of successes in its attacks within Iraq. It has conquered large cities, provinces and has made it to close proximity of Baghdad. What this boils down to is that without proper containment,

the Islamic State threat would grow far beyond just that region.

When the “Islamic State” proclaimed it would attack Mecca and overthrow the Saudi regime, attack the United States, and has threatened the core interests and dominance of the US in the Middle East, it became a threat to many countries in the region and around the world. ISIL was recognized as a significant threat to the United States some time before the public threats. Still, as a result of the ISIL threat, Iraq has become the focus of the world again. In fact, during Maliki’s administration, dominated by Shia Muslims, large scale civil war emerged once the US withdrew its major combatant forces from Iraq in 2011. The current political turmoil is the result of a series of catastrophic decisions made by all parties inside and outside Iraq.

### 1.2.1 The history of ISIL

In the West, ISIL is translated as “Islamic State of Iraq and the Levant”. However, according to Arab scholars and media, the name should be “Islamic State of Iraq and al-Sham” (ISIS). Levant is a geographical term, similar to “al-Sham” in Arabic, which refers to Syria, Lebanon, Israel, Jordan, and Palestine in the east Mediterranean and southern Turkey. The Arab name of the organization is “Islamic State of Iraq and al-Sham” or “Islamic State of Iraq and Syria”, or “Da’ish” for short (as written in Arabic publications, “داعش”). It should be translated as “Islamic State of Iraq and al-Sham” but has typically been mis-translated to be “Islamic State of Iraq and the Levant”. The latter is apparently translated from English, with Levant being directly translated according to how it sounds.

ISIL evolved out of the Iraqi branch of al-Qaeda, which was composed of Sunni

Muslims, including some remaining followers of Saddam Hussein, and a young mercenary army recruited from various places around the world. In 2005, the US army in Iraq launched an “awakening council” to fight against extremists by collaborating with local Sunni tribes. Under joint operations of the US Army, the Iraq army and the local tribal assets, Iraq’s “al-Qaeda” could no longer sustain itself. After a large scale civil war in Syria in 2011, the Syrian army lost control over much of its borders. The opposing powers rose and Iraq’s branch of “al-Qaeda” took the opportunity to collaborate with Jabhat Al-Nusra, a major opposition armed force in Syria.

Before 2013, the organization was named “Islamic State of Iraq”. On April 9, 2013, when it announced its cooperation with Jabhat Al-Nusra, the name changed to Islamic State of Iraq and Levant (ISIL) or (Islamic State of Iraq and al-Shams (ISIS) to reflect the more regional interests that the combined group represented. Baghdadi, its head, announced, “We are announcing that Jabhat Al-Nusra is an extension and part of the ISIS”. ISIL explored new battle fields in the civil war in Syria and became a major force against Bashar al-Assad’s government.

Most of ISIL’s chiefs and directors come from Saudi Arabia and most of the participants in the battles are from Libya and Iraq. The ultimate goal is to establish an “Islamic State”. It is more powerful than al-Qaeda and is has a more efficient organization. Despite that it has taken a different political route from al-Qaeda, it has the same aim, which is to overturn the current regimes in Iraq and Syria and control the whole Arab world. Its vision is to establish a unified Islamic Emirate that starts from Syria and cov-



ers the current Iraq, equivalent to the Caliphate in the 7th and 8th centuries. What worries the west most is that ISIS has about 30,000 armed personnel, 3000 with foreign nationality, including more than 1000 from Chechnya and 500 from the United States and Europe.

### 1.2.2 The external and internal environment of the “Islamic State”

First, The turmoil of “the Arab Spring” offered an opportunity for al-Qaeda to make a comeback. It eventually became a period of geo-political restructuring by the use of violence. The dictators that were losing their grip on positions of authority brought about a violent wave which, in turn, created strong aftershocks. The West’s interference caused Islamic radicalism in the region. The dispute between Sunni and Shiah sects that has existed for the better part of 1400 years has been constantly activated and rejuvenated. Eleven years have passed since the outbreak of the war in Iraq. The political powers in Iraq have been divided into three major parties: Shiah, Sunni and Kurds. All these parties lack tolerance and the willingness to compromise. Their contradictions and conflicts made it possible for al-Qaeda to break the fragile social and political balance and enabled them to take advantage of the sectarian division.

Second, The US left a security vacuum when the majority of combat forces withdrew from Iraq in 2011, which, in turn, meant the Iraqi Security Authority had to carry out the anti-terrorism task all by itself. Iraqi security troops led by Maliki’s administration failed to fill the vacuum, which broke the balance of power, thus offering opportunities for the reincarnation of Al-Qaeda and other terrorist elements.

Third, After regime change, Iraq’s gov-

ernment failed to launch new policies to address problems including poverty, economic inequality and unemployment. Reconstruction efforts were also unsatisfying. Conflicts among the three parties seriously affected governing and economic development. Even though oil revenue flowed into Iraq, reconstruction remained slow and basic public services were severely hampered. Iraq’s governing body proved inefficient and ineffective as many important regulations were not passed and corruption was common. Regulations that are critical to the national economy, such as the resource management rules and regulations, the budget for 2014, had not been approved by parliament by the time Maliki stepped down.

Forth, The spill-over effect of the Syrian crisis, as well as interference from neighboring countries, has worsened the sectarian conflicts in Iraq. Al-Qaeda recruited armed personnel under the name of ISIL. It didn’t control foreign armed forces coming in, but offered resources and training for them. Much of these resources were diverted back to Iraq in 2013. Foreign extremists fighting in Syria constantly penetrate into Iraq. A steady flow of foreign forces facilitated the expansion of the extremists in Iraq and has resulted in the merging of conflicts in Syria and Iraq.

Fifth, The Kurdish people in the north have been taking advantage of the unstable security situation and carrying out activities independent from the Baghdad central government. Barzani, chairman of the Kurdish region, even considered “reconsidering” its relations with the Baghdad central government. Under siege of the Sunni extremists, Baghdad lost its control over northern Iraq. Kurdish people took the opportunity to occupy Kirkuk – which is regarded as the