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CHINA-ARAB FINANCE AND INVESTMENT

2023 report

PREFACE I

The political mutual trust between China and the countries in the Arab region is based on a solid foundation of longstanding friendship between the two sides. Since the ancient Silk Road's beginnings more than 2,000 years ago, China-Arab dealings have been based on the principals of peaceful coexistence, openness and inclusiveness, and mutually beneficial, win-win situations. This also remains true since China's transformation into a leader on the world stage, with the two sides not only treading similar paths to national independence and rejuvenation, but also representing a model of friendship and cooperation for the rest of the world.

Economic and trade cooperation between China and the countries in the Arab region keeps getting more robust. One catalyst was when China joined the World Trade Organization in 2001. The value of trade between China and the countries in the Arab region jumped from about US$14.7 billion in 2001 to about US$330 billion in 2021, a more than 22-fold increase. With the introduction of the Belt and Road Initiative a decade ago, China-Arab relations started to become more comprehensive and multifaceted, going beyond the trade of energy and goods, to the fields of finance, investment, science and technology, and culture.

The prospects for financial investments between China and the countries in the Arab region are broad, in particular. At the China-Arab Summit last year, both sides agreed to make every effort to invest for the betterment of both Chinese and Arab communities. It is therefore clear that China-Arab relations have entered a new era of comprehensive and deepening development. The multifaced investment cooperation between China and the countries in the Arab region will be in diverse areas, such as construction, transportation, climate and renewable energy, emerging payment methods, and video games and entertainment.

Whether it is financial institutions, private capital, sovereign funds, or fintech companies, building bilateral relationships of mutual trust is an important foundation for seizing these opportunities. The culture and history of China and the countries in the Arab region, respectively, are rich and unique. Although business ties are a positive start, there is a lot more still to be done. Building and maintaining a relationship of mutual trust cannot be accomplished overnight. Besides beneficial exchanges, it requires a shared vision and unwavering commitment to a long-term relationship. At the same time, this foundation requires active understanding and cooperation in order to bridge cultural and historical differences.

Through this report, we will help readers better understand the economic and trade relations between China and the countries in the Arab region, as well as the financial and investment opportunities that lie within these relations. We look forward to the bright future that China and the countries of the Arab region can continue to share together, based on their historical friendship, deepening economic and trade cooperation, and joint commitment to greater financial investment, which in turn will further promote the prosperity and development of the global economy.

H.E. Long Yongtu
Chairman of Sino-International Entrepreneurs Federation,
Chief Representative of China’s WTO Negotiations,
Former Vice Minister of Foreign Trade and Economic Cooperation,
Former Secretary General of Boao Forum for Asia

PREFACE II

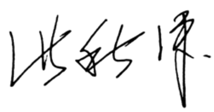
The launch of the China-Arab Financial Investment Report will be one of the most significant events for China's economy in 2023, not only providing an important impetus for the development of industry and trade in China and the countries along the Belt and Road, but also creating new opportunities for the internationalization of the RMB. The importance of the report lies both in the study itself, and in the far-reaching impact it will bring.

In October 2023, China's Financial Supervision and Administration Bureau indicated that it would guide banking and insurance institutions to continuously improve the level of financial services for the countries along the Belt and Road, and promote the Belt and Road's high-quality development. As of the end of June 2023, 13 Chinese banks had already set up 145 first-tier institutions in 50 such countries, and six Chinese insurance companies had already set up 15 overseas branches in eight such countries. Similarly, following in the footsteps of various Middle East sovereign funds, such as the Abu Dhabi Investment Authority, Kuwait Investment Authority, Qatar Investment Authority, and Saudi Public Investment Fund, the Mubadala Investment Company, which is the third-largest sovereign wealth fund in the United Arab Emirates, officially opened its Beijing office in September of this year.

In October 2023, Jeffrey Sachs, an American economist and the director of the Center for Sustainable Development at Columbia University, mentioned in an interview that the Belt and Road Initiative enables countries in Asia, Africa, Europe, and the Americas to finance and build world-class, cutting-edge green infrastructure, including high-speed railway networks, renewable energy projects, and other core sustainable infrastructure, all of which can lead to a real win-win situation for the world.

Situated at the crossroads of Asia, Africa, and Europe, the Middle East is known for its unique geographical location, abundant energy deposits, and rich culture. The enthusiasm for building in alignment with the Belt and Road Initiative continues to add a new dimension to the development of the Middle East region as a whole.

As an Arab proverb says, "Words are the leaves, actions are the fruits." At present, countries along the Belt and Road are entering a window of development in which financial services cover a wider and more comprehensive range of areas. The close cooperation between China and the countries in the Arab region will be the cornerstone for creating a new vision of the Belt and Road. Through this research report, co-authored by Oliver Wyman Consulting, the China and Foreign Entrepreneurs Association, and Forbes, we will illuminate the broad prospects and huge potential of the financial cooperation between China and the countries in the Arab region in the coming years.



Peter Hung
President, Forbes Global Holdings Group,
Board Member, Forbes China Group

PREFACE III

Dear Reader,

China and the Arab world are two of the world's great cultural and economic powers. For the past 20 years, the economic relationship between the two has flourished with trade ties growing ten times during the period. I have the pleasure of participating in this growth, including authoring a book exploring China's commercial ties to the Middle East in 2009 titled the "New Silk Road".

We have now entered a second more exciting phase as the relationship broadens beyond trade. Flows of capital, talent, and technology are more prominent than ever. Business activity has expanded beyond construction to a range of sectors, including automotive, clean technology, and artificial intelligence. The private sector is playing an ever more important role.

The financial sector is pivotal to the change. From debt capital markets, sovereign wealth funds, to fin-tech startups, financial players are paving the way for the corporate sector to build stronger ties between the two parties.

In our report on financial ties between China and the Arab countries, we start by exploring the background to today's relationship as well as the key sectors where we expect growth to be most rapid. Our work then looks more specifically at opportunities for the financial sector itself.

It is a pleasure to have spent the past 25 years working across Asia and the Middle East. We are grateful to all those experts who contributed to the report.

We hope you enjoy the research.

Ben Simpfendorfer
Partner, Oliver Wyman,
APAC Lead, Oliver Wyman Forum

EXECUTIVE SUMMARY

The growing ties between China and the Arab world over the past 20 years symbolize a major rebalancing in the global economy. For chief executive officers (CEOs) and multinational corporations (MNCs) worldwide, the two partners are both major markets and important parts of global strategy.

China's entry into the World Trade Organization (WTO) in 2001 and its Belt and Road Initiative (BRI), announced in 2013, have strengthened ties with the Arab countries. At the same time, the Arab world's energy exports and demand for construction services have brought the region closer to China.

The relationship is now entering a second phase. The Gulf Cooperation Council (GCC) region is investing in its non-oil future, from aviation, manufacturing to financial services, and China's participation will play an important role in the region's success.

There are high-growth opportunities in construction, climate and renewables, emerging payments, mobility and transport, and e-gaming and entertainment. However, strong financial sector ties with the rest of the world, and especially China, will be needed to help these sectors develop.

We see financial sector opportunities across the following three main areas:

- Financial institutions
  - Wealth and asset management is a clear-cut opportunity. Two-way flows are already rising between Hong Kong SAR, Dubai, and Singapore.
  - Debt capital market activity has scope to grow in line with the GCC's giga-project market, and aligns with China's sector expertise and appetite.
  - Transactional banking offers a smaller opportunity, but it holds promise if the internationalization of the Chinese yuan (RMB) in the GCC accelerates.
- Private capital and sovereign wealth funds (SWFs)
  - China and the Arab world's SWFs are already among the most active globally, and they are looking hard at opportunities between the two.
  - Private capital has significant room to grow, with China offering a rich source of firms aligned with the GCC's growth priorities.
- Fintech
  - China's leading fintech players will use the GCC as a platform to build solutions for a wider region, bringing the best to and from China.

Ultimately, success will require building trusted relationships and bridging communication gaps. Regular dialog between all parts of society, including business, is an important step forward, as is developing the next generation of leaders familiar with both China and the Arab world.

INTRODUCTION

The growing economic ties between China and the Arab world over the past 20 years symbolize the dramatic changes we have seen in the global economy. These two cultural and economic powers lie at either end of the Silk Road. Together, they are also building a new Silk Road, and are critical sources of supply and demand in today's global economy. Not only are they both the world's largest suppliers of manufactured and energy goods, accounting for 29% and 31% of the global total, respectively, but they are also major buyers of various products, from construction services to luxury goods. For global chief executive officers (CEOs), China and the Arab countries are major markets and important parts of global strategy. How they continue to develop and reconnect matters for business.

China's entry into the World Trade Organization (WTO) in 2001 marks the start of this renewed relationship. The country's exports grew at an annual average of 23% over the next decade. The profile of the country's exports also changed rapidly, starting with textiles and simple manufactured goods, before evolving into smartphones and electric vehicles (EVs) today. At the same time, the Arab world's demand for Chinese products has also surged. Oil prices started rising steadily a few short years after China's entry into the WTO, reaching a record US$140 per barrel by 2008, fueling the Arab region's demand for Chinese-made goods. Trade between China and the Arab world had reached US$200 billion by 2010, a remarkable nearly 10-fold increase over 10 years.

Exhibit 1: The key milestones of China-Arab interaction

- **1990** China establishes diplomatic relations with all Arab countries
- **1993** The League of Arab States establishes its representative office in China
- **2004** First ministerial meeting of the Sino-Arab Cooperation Forum is held at the headquarters of the League of Arab States
- **2005** First Arab-China Business Conference
- **2013** The Belt and Road Initiative is launched
- **2016** Comprehensive Strategic Partnership is established between China and Saudi Arabia
- **2017** First Belt and Road Summit Forum for International Cooperation takes place with 13 Arab countries and the Secretariat of the League of Arab States
- **2018** Comprehensive Strategic Partnership is established between China and the UAE
- **2022** First China-Arab States Summit and First China-GCC Summit in Riyadh
- **2023** Sixth China-Arab States Expo

Source: Desktop research, Oliver Wyman analysis

China's Belt and Road Initiative (BRI), announced in 2013, strengthened the relationship again, as Chinese companies expanded their activities across the Arab states. Chinese multinational corporations (MNCs), from banks to oil companies, headquartered themselves in Gulf Cooperation Council (GCC) countries as they expanded their operations across the Arab world. China's outbound construction contracts to the Arab states reached a total of US$61.5 billion by 2021, the highest total outside Asia. The BRI has also continued to evolve. While construction projects are still important, digital and technological solutions and clean energy projects, among other sectors, have risen to account for a growing share of China's activity in the region.

Exhibit 2: The key milestones of China and the Arab countries

1945
Establishment of the League of Arab States

1949
Establishment of the People's Republic of China

1964
First Arab League Summit Conference

1978
China's reform and opening up to the rest of the world

1991
China joins the Asia-Pacific Economic Cooperation (APEC)

2001
China joins the World Trade Organization

2013
China launches the Belt and Road Initiative

2016
Saudi Arabia launches Vision 2030

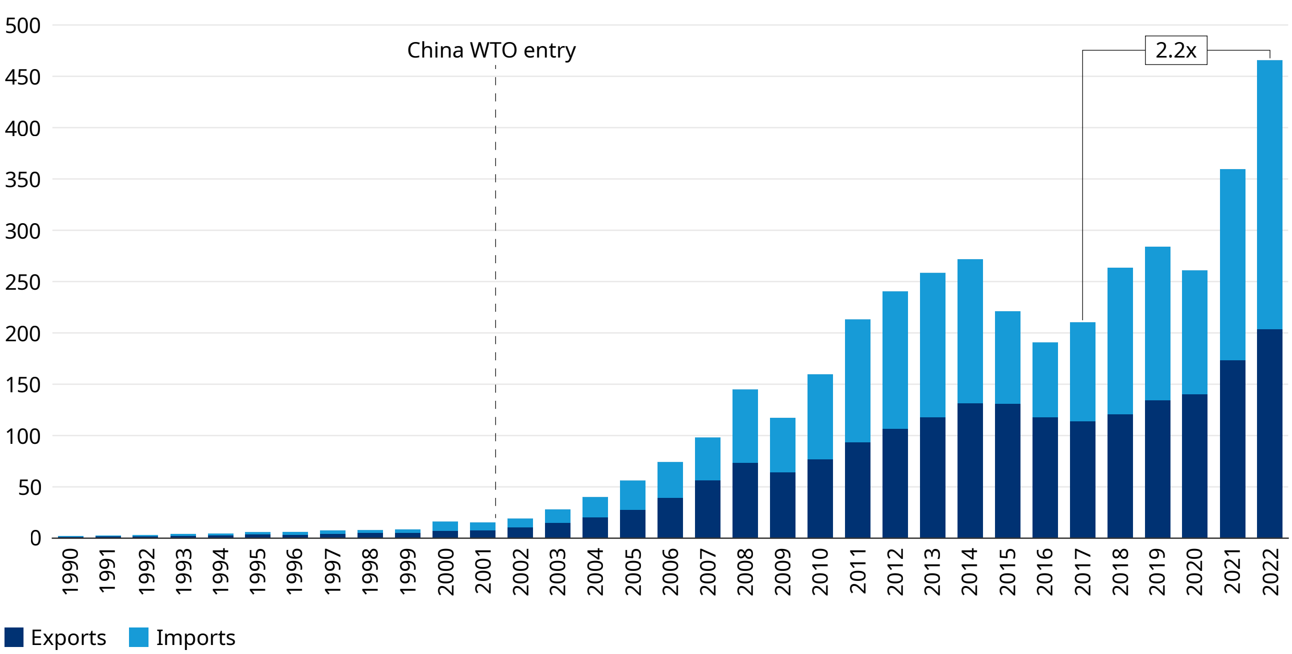
2017
Future Investment Initiative (FII) is launched in Riyadh

2022
The UAE launches "We the UAE 2031"

Source: Desktop research, Oliver Wyman analysis

Exhibit 3: China's trade with the Arab countries

In US$ billions

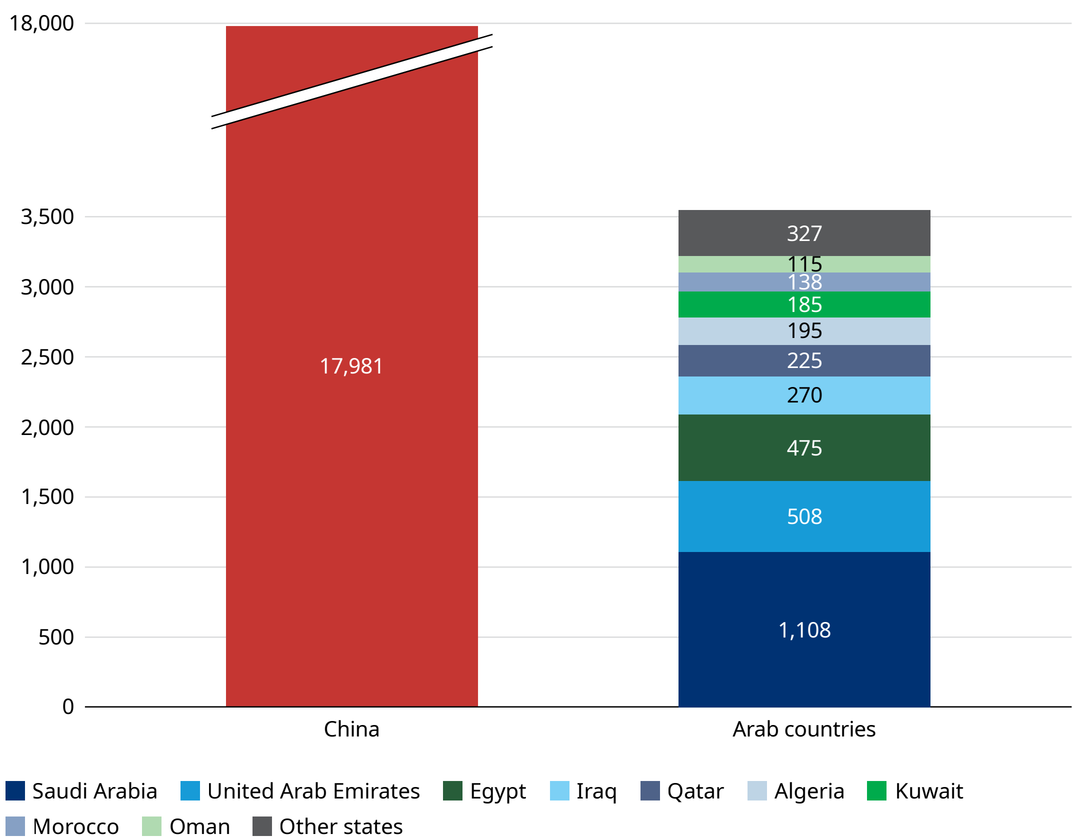


Source: International Monetary Fund

The relationship between China and the Arab world is now enjoying a second renaissance. The Gulf Cooperation Council countries, including the United Arab Emirates (UAE), Saudi Arabia, Qatar, Oman, Kuwait, and Bahrain, seek to transition their economies for a post-oil future, and Chinese investment will be critical for achieving this change. In turn, Chinese MNCs seek to become more international, and the GCC offers a natural opportunity for this objective. Trade between China and the Arab world has risen from US$300 billion in 2020 to US$500 billion in 2022, buoyed by both growing demand and rising oil prices. The 2022 China-Arab States Summit, held in December 2022, shortly after China's post-pandemic reopening, was quickly followed by a series of business conferences and summits in cities across China and the GCC.

Exhibit 4: The Gross Domestic Product (GDP) growth of China and the Arab countries in 2022

In US$ billions



Source: National Bureau of Statistics of China, International Monetary Fund, Oliver Wyman analysis

What will it take to further elevate China and the Arab world's future relationship? We see three key steps in bridging the opportunities going forward. First is to build a trusted relationship, and second is to focus on high-growth opportunities. Third, and the main focus of this report, is to amplify the role of the financial sector in bridging the opportunities between the two.

BUILDING A TRUSTED RELATIONSHIP

It is critical for both sides to build a trusted relationship to progress. Business ties are a positive start, but more is needed. The partners have rich yet distinct cultures and histories. For this reason, it will be vital to keep in mind that building and maintaining trusting relationships does not happen overnight. It requires an unwavering commitment and shared vision for a long-term relationship, rather than a transactional one. It requires recognizing and bridging the cultural and historical differences. It also requires building relationships across all parts of society, not just business, as well as developing the next generation of leaders familiar with both China and the Arab countries.

We see a number of steps to take this forward successfully. The first step is to create strong relationships between key leaders and officials. This means establishing regular communication channels that allow for open and honest dialog, as well as creating opportunities for leaders to meet in person and develop personal relationships. It also means creating opportunities for the private sector to meet, discuss opportunities, and build commercial ties, such as via the 10th Arab-China Business Conference, held in Riyadh in June 2023, or the eighth Belt and Road Summit, held in Hong Kong in September 2023. To this end, it is encouraging to see such activities accelerating after the end of the pandemic.

Finally, it is vital for both sides to pursue non-business activities from university exchanges to shared cultural events. It is easy to overlook this part of the relationship, given the imperatives of business. However, in our discussions at the World Economic Forum's Annual Meeting of the New Champions in Tianjin in 2023, senior executives from both China and the Arab countries made it clear that non-commercial bridge building is equally critical to building a strong relationship: it helps each side better understand the other, aligns social expectations, and ultimately also builds respect among the many officials, business leaders, and entrepreneurs involved.

FOCUSING ON HIGH-GROWTH OPPORTUNITIES

Business ties between China and the Arab region primarily used to be trade in goods. However, the relationship has evolved rapidly over the past two years since the end of the pandemic, reflecting technological developments, climate change, and new priorities on both sides. Five areas are particularly exciting and have been the focus of conversations at recent business conferences, meetings on memorandums of understanding (MoUs), and high-level summits in China and the Arab states.

Construction: The GCC is one of the world's largest engineering, procurement, and construction (EPC) markets, with an estimated value of US$630 billion in 2022. Saudi Arabia's giga-projects, such as NEOM, The Line, and the Red Sea Resorts, already provide major infrastructure opportunities for Chinese companies, such as China Energy International Group and China Civil Engineering Construction Corporation. The UAE and Qatar also offer similar opportunities.

Climate and renewables: The GCC seeks Chinese participation across a range of renewables sectors as it transitions to a post-oil future. Hydrogen and solar energy are two prominent examples. However, it is the EV sector that is the most exciting. China's automobile exports to the Arab countries have tripled in the past two years, with EVs accounting for the largest share. China's HiPhi brand owner has inked a US$5.6 billion agreement on EV production in Saudi Arabia, even as Abu Dhabi-based funds have invested in China's NIO.

Emerging payments: China is now the largest bilateral trade partner for the Arab world, so the logic for settling transactions in RMB using new payment solutions is growing. These solutions range from the digital yuan (eCNY), to fast payment network connectivity, to more conventional technologies relying on existing payment rails, such as the Cross-Border Interbank Payment System (CIPS) or UnionPay. China's digital wallet providers, such as Alipay and WeChat Pay, are also key to this opportunity.

Mobility and transport: China is already a participant in the GCC's mobility and transport sector, from railways to EVs, and ports to air freight. However, there will be more opportunities ahead to expand collaboration, such as in drone services, self-driving technologies, including trucking, and mobility services that are interlinked with cloud-based technology solutions, some of which are supported by China's new BeiDou satellite positioning.

E-gaming and entertainment: Chinese e-gaming companies already benefit from the rapid growth of the GCC's e-gaming market. Tencent and NetEase, among other companies, are exploring various opportunities in the region. At the same time, the CEO of one of the region's largest gaming companies stated that he licenses games from Chinese gaming companies, which are then played by young Arab gamers.

FINANCE AND INVESTMENT

If China and the Arab countries are to succeed developing strong economic relations, building robust financial ties will be a critical step in the coming years. To date, financial ties have lagged goods trade. However, we see significant growth in the coming years across a range of sectors. In the following section, we detail the existing situation of financial institutions, investment companies, and fintech, and then explore the potential opportunities that should be available to them in the years ahead.

FINANCIAL INSTITUTIONS

Global banks have long handled transactional banking flows between China and the Arab states. The Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered, for example, have a large footprint across the region to support transactional banking flows. American and European investment banks have similarly captured a significant share of investment banking flows. However, there are growing opportunities for Chinese financial institutions to capture a larger share of banking activity by offering differentiated solutions that play to their strengths.

Chinese state banks already have a presence in the GCC that extends back over a decade. Bank of China, for instance, has its regional headquarters in the UAE, and branch offices in Manama, Abu Dhabi, Istanbul, and Riyadh. Industrial and Commercial Bank of China (ICBC) and the China Construction Bank Corporation (CCB), similarly, have operations in the region. However, the past 12 months have seen accelerated efforts by Chinese securities firms and alternative asset managers to establish a presence in the region. If these efforts go smoothly, financial engagement between China and the Arab states should accelerate rapidly.

Exhibit 5: The presence of Chinese banks in the Arab states

Bank	Office location
Agricultural Bank of China	Dubai, UAE
Bank of China	Manama, Bahrain Dubai, UAE Abu Dhabi, UAE Riyadh, Saudi Arabia
China Construction Bank	Dubai, UAE
Industrial and Commercial Bank of China	Dubai, UAE Doha, Qatar Safat, Kuwait

Source: Desktop research, Oliver Wyman analysis

Exhibit 6: The presence of Arab banks in China

Bank	Origin	Office location
Emirates NBD Bank	UAE	Beijing
First Abu Dhabi Bank	UAE	Hong Kong Shanghai (Representative Office) Shanghai (Branch)
Mashreq Bank	UAE	Shanghai (Representative Office)
National Bank of Kuwait	Kuwait	Shanghai
Qatar National Bank	Qatar	Shanghai Hong Kong

Source: Desktop research, Oliver Wyman analysis

In this report, we focus on three areas of opportunity for financial institutions: wealth management, capital markets, and transactional banking.

First Abu Dhabi Bank case study

First Abu Dhabi Bank (FAB), a leading UAE bank, opened its first representative office in Shanghai in 2012, which was later converted a full branch in 2022. The bank also has operations in Hong Kong.

At the core of our China strategy is to be the financial gateway to MENA for Chinese clients, as well as serving our MENA clients in their growth journey in China. Our focus is to leverage FAB's strong position as the leading MENA bank and extensive international network across 20 locations to support our client's growth in the MENA region, as well as to support our clients in MENA and internationally who are interested in doing business in Greater China.

FAB opened its representative office in Shanghai in 2012 and was converted to Shanghai Branch in March 2022. Our Shanghai Branch is equipped with leading onshore MENA currency settlement capabilities and provides all-in-one trade finance solutions for the MENA market. While the Chinese market is well served by both domestic and large global banks, the bank's specialized MENA offerings give it a strong competitive edge over our Chinese and Western peers.

As the largest bank in the UAE and one of the strongest in the MENA region, FAB has a unique position in the MENA region with its unparalleled regional network, award-winning products, and strong operational capabilities. FAB's strategic focus is to be the bank of choice for clients with strong ambitions in the MENA region, a one-stop shop to service them across the network.

FAB's strong client network in MENA ensures that we can promote strategic collaboration between them and our leading clients in China, providing unique advantages in engaging in event-driven or partnership-driven deals. We also plan to take the lead in pursuing business opportunities related to RMB internationalization and sustainable finance, which is why we established the China-UAE Carbon Finance Think Tank soon after the inception of our Shanghai branch.

The economic and strategic ties between China and the MENA countries have been growing rapidly, opening up significant business opportunities between the two regions. Similar to China, MENA countries, especially GCC countries, are focusing on economic and energy transitions. There are significant opportunities for the China-MENA collaboration, combining China's expertise in capital, technology, and manufacturing with the MENA region's appetite to invest in these capabilities, be it in their home markets or directly in China.

FAB is excited to connect and help its clients tap into these opportunities. Our mission is clear — to be the top MENA regional bank operating in Mainland China.

Wealth and asset management (WAM)

The New Silk Road includes three of the world's largest low-tax wealth centers, namely, Hong Kong SAR, Singapore, and Dubai. In addition, more locations are competing to join this select group. The region is also home to a large and growing number of high-net-worth individuals (HNWIs). The Asia-Pacific region alone accounts for 30% of the world's ultra HNWIs, who cumulatively have about US$12 trillion in assets. The Arab world accounts for another 6%, or about US$2.6 trillion. The Asia-Pacific region and the Arab states will also drive global household financial wealth accumulation until 2027, according to the Oliver Wyman Morgan Stanley Global Wealth and Asset Management report.

Global asset managers already have large footprints offering a range of investment funds and public securities. Therefore, a potentially more interesting space for asset managers in China and the Arab countries is to leverage their local networks to bring private market assets to HNWIs in both markets. Chinese asset managers have greater access to the types of private equity deals that might be unavailable to global institutions but still attractive to HNWI investors from the Arab world. Chinese HNWIs are looking for similar diversification strategies in the Arab countries.

To win clients, Chinese wealth managers will need to decide how they service their clients. Choosing the optimal mix of in-person and digital coverage is a topical question. In the case of the Arab countries, in-person coverage would be better, given that the Chinese market may be unfamiliar to many Arab HNWIs who have greater experience with private market investments in Europe and the United States. Investor education is a key first step, but it also lengthens the time asset managers will need to deliver a return on their efforts.

It will be possible for some Chinese asset managers to grow organically, but many will develop partnerships with Arab world peers who are already trusted advisors to local HNWIs, and can both assist in the education process and provide in-person coverage. There will, of course, be opportunities to also service the GCC's growing Chinese HNWI population, many of whom are investing in mainland China itself and comfortable with private market opportunities. For them, direct coverage is a viable option with on-the-ground relationship managers.

Capital markets

Chinese banks have already enjoyed growing success in the GCC's debt capital markets. This is no surprise, given the strong synergies between the GCC's energy-heavy sectors, the already-significant participation in the local market by Chinese EPC firms, and the experience of Chinese financial institutions that have funded similar projects in the mainland Chinese market. Chinese banks have recently participated in syndicates that have raised funds for a range of GCC companies, including Saudi Aramco, ACWA Power, and Taqa, all blue-chip names.

However, we see opportunities for significant future growth, as the GCC seeks greater foreign financing of the region's ambitious capital projects, particularly Saudi Arabia's giga-projects, such as NEOM and Roshn. This is a break from previous years, when investments were mainly financed internally via oil revenues. Our conversations also suggest that Chinese banks have an opportunity to take on greater credit risk and offer more novel financing solutions, not only to keep up with global and regional competitors, but also to expand capital market activity more generally in the GCC markets.

Indeed, when compared with Japanese peers, Chinese financial institutions take quite a different approach to opportunities in the region. Debt capital market data shows that Chinese financial institutions are more likely to operate as part of a syndicate, rather than as the sole financier. The total deal size in the GCC region tends to be smaller for Chinese financial institutions compared with Japanese peers, but the average deal size is, largely, typically skewed to the energy sector and most likely in Saudi Arabia, indicating opportunities for them to adapt and expand their activities.

China's growing Panda-bond issuance, up from US$3 billion in 2005 to US$115 billion in 2022, meanwhile, offers opportunities for GCC corporations to issue RMB-denominated data in China itself, particularly when the project is heavily reliant on sales to China. China's recently falling interest rates relative to the rest of the world have also made financing cheaper at a time when financing costs are rising globally, and when global banks may deploy more capital in home markets. It would also help spur settlement in RMB between China and the region.

Equity markets offer a similar, exciting opportunity, particularly as China opens its financial markets to global investors and deepens financial infrastructure connectivity with the rest of the world. The Hong Kong Special Administrative Region (HKSAR) has an important role to play here as a financial gateway between mainland China and the rest of the world, such as via Stock Connect. The Hong Kong Exchange and Clearing's MoU with Saudi Arabia's stock exchange operator, Saudi Tadawul Group, to explore cross-listing opportunities may, for example, provide Saudi Arabian companies and investors with connectivity to mainland markets.

Transactional and commercial banking

As China's business activities in the Arab world grow, Chinese banks will enjoy greater opportunities to carry out banking activities for Chinese firms and entrepreneurs in the region. However, fierce competition between global banks, Chinese banks, and mainly GCC banks makes transactional and commercial banking a tougher opportunity. It takes time and capital to build out the networks that would be able to compete with the largest global banks' existing banking networks. Therefore, Chinese banks may prefer to focus on niche opportunities, such as offering RMB settlement services.

RMB internationalization may yet provide differentiated opportunities for Chinese banks in the event the currency is used in a growing share of transactions. The share of China's goods and services trade settled in RMB increased to 25% by 2022, from a low of 11% in 2013. However, further progress would require the ongoing development of offshore RMB cash management and investment solutions, and better access to onshore capital markets. This is not a short-term opportunity, but Chinese banks are better positioned than most for the long term.

Chinese banks with privileged access to China's CIPS can play a key role here. Moreover, while Hong Kong is the world's largest offshore RMB center, the GCC has an opportunity to develop as a secondary center that services the Middle Eastern and African regions, as building offshore RMB liquidity will be one of a number of necessary steps to drive greater international usage. Building ties to the HKSAR will play an important bridging role. To this end, the recent visits by officials from the Hong Kong Monetary Authority (HKMA) to the GCC should be useful to achieve further progress.

The share of China's goods and services trade settled in RMB increased to 25% by 2022.

PRIVATE AND STATE INVESTORS

Private capital is a strong feature of the China and Arab world's story, owing to the presence of a large number of well-funded sovereign wealth funds (SWFs), in addition to family offices and professionally managed alternative asset managers. So far, SWFs have been the most active investors in both regions. For example, Saudi Arabia's Public Investment Fund (PIF) invested US$260 million in Tencent in 2023, and China's Silk Road Fund acquired 49% equity of ACWA Power Renewable Energy Holding Limited in Saudi Arabia in 2019. However, private capital opportunities have also grown steadily.

Private capital

China remains Asia's largest private equity market in spite of a recent fall in deal value. The country accounts for over half of the region's total deal value, and in a typical year, its deal value is anywhere from twice to five times that of other large peers, including India and Japan. China is also home to some of the region's most exciting new economy companies, ranging from advanced materials to artificial intelligence (AI), all of which are aligned with the GCC's national development priorities.

For these reasons, we have observed a growing number of Chinese alternative asset managers seeking to raise funds in the GCC and the wider Middle East. GCC capital provides an additional source of patient capital, particularly with fundraising in the Asia-Pacific region falling sharply in the past two years, partly due to political tensions. From a slow start, allocation to China is expected to grow, as GCC investors seek to tap China's exciting opportunities.

Opportunities for GCC investors to co-invest in China are also growing. Bahrain-based InvestCorp, for example, recently formed a US$500 million fund with Fung Capital, the private equity arm of the Fung family office, to invest in mid-cap companies across the Greater Bay Area in Southern China. The latter region is a rich source of startups and more mature companies across a range of advanced industries, and the new fund is likely to be only the first of a number of similar ventures to be set up in the coming years.

There are also a growing number of Chinese private firms seeking to internationalize their portfolio companies by expanding their business into the Arab world. The UAE and Saudi Arabia are natural entry points to the large GCC markets, but also provide platforms for expansion across the Middle East and North Africa, as well as into Sub-Saharan Africa. Finding the right local partners, often a family office, will accelerate the expansion of Chinese private firms, and also help build the types of trusted relationships that will lead to more co-investments in private markets in future.

Exhibit 7: The presence of Chinese investment companies in the Arab world

Investment company	Office location	Company description
State-owned enterprise		
China International Capital Corporation	N/A	Investment banking firm that provides services to the telecommunications, financial services, energy, transportation, and manufacturing sectors
China Investment Corporation	N/A	The world's largest sovereign wealth fund, with more than US$1.3 trillion in assets under management and major investments worldwide
China Jianyin Investment Limited	N/A	Financial services group, covering investment and asset management in financial services, industrial manufacturing, culture, consumption, and information technologies, all of which are among the sectors it attaches great importance
Hong Kong Economic and Trade Office in Dubai	Dubai, UAE	Official representative of the Hong Kong SAR government's trade and economic interests in the GCC, with the aim to maintain close liaisons with local governments, and business and trade organizations
Private		
MSA Capital	Abu Dhabi, UAE	Independent private equity investment management firm engaged in control investments in privately owned businesses with significant growth potential in China and beyond
Jade Invest	Abu Dhabi, UAE	Global investment firm that focuses on private venture and growth assets. The firm manages over US$2 billion and invests in highly innovative and disruptive companies in the biotechnology, enterprise-facing core technology, and consumer sectors

Source: Desktop research, Oliver Wyman analysis

Exhibit 8: The presence of Arab world investment companies in China

Company	Origin	Office location	Company description
Abu Dhabi Investment Authority	UAE	Hong Kong	Sovereign wealth fund (SWF) of Abu Dhabi, ranked as the world's third-largest SWF in the world in 2022, with over US$708 billion in assets
Asiya Investments	Kuwait	Hong Kong	Private investment firm with investment management and advisory services in energy, infrastructure, real estate, financial services, and healthcare
Centaur Asset Management	UAE	Hong Kong	Private asset manager that provides investment structuring and management solutions for individuals, advisors, fund sub-advisory clients, and institutions

Company	Origin	Office location	Company description
FasterCapital	UAE	Shenzhen	Private incubator/accelerator that operates on a global level to help startups that are looking to raise money by connecting them with angel investors and venture capital firms
Investcorp	Bahrain	Beijing	Private alternative investments manager that focuses on private equity, real estate, absolute return investments, infrastructure, credit management, and strategic capital
Kuwait Investment Authority	Kuwait	Hong Kong	SWF of Kuwait, which was established to invest in private and public equity, real estate, fixed income, and alternative investment markets
Mubadala Investment Company	UAE	Hong Kong	Jointly funded by the UAE and Chinese governments to look at a range of alternative investment strategies, asset classes, and special opportunities
Public Investment Fund	Saudia Arabia	Hong Kong	SWF of Saudi Arabia, which has a pivotal role in realizing Vision 2030 by both propelling the national economy, and having Saudi Arabia's impact felt well beyond its borders

Source: Desktop research, Oliver Wyman analysis

Sovereign wealth funds

SWFs have a dual role in the region's financial landscape. SWFs are still looking to maximize returns, much like any conventional private capital investor would aim to do, as they make allocations across both public and private markets. However, they also have a greater appetite to invest for the long term, so long as there are significant benefits to the state. To this end, they often make large foreign investments that are aligned with national priorities, such as clean energy, industrial development, technological innovation, and food resiliency.

Current estimates suggest that the region's SWFs are cumulatively worth about US$3.7 trillion. The largest are the Abu Dhabi Investment Authority, Kuwait Investment Authority, Saudi Public Investment Fund, Qatar Investment Authority, and Investment Corporation of Dubai. Some of their landmark deals from 2020 to 2023 include the following: the UAE-owned Mubadala's US$1 billion investment in China's NIO, and a separate US$100 million investment in Xpeng Motors; and the Saudi Arabia-owned PIF's investment of US$265 million in China's VSPO, and a separate US$260 million investment in Tencent.

Exhibit 9: Arab investment into China

Target company	Co-investor	Year	Stage	Deal size[1] (in US$ millions)
Shein, an online fast fashion retailer founded in Nanjing, China	Mubadala Investment Company	2023	Series G	2,000
Giant Biogene, a China-based investment holding company, principally engaged in the research, development, manufacture, and sale of bioactive material-based beauty and health products	Mubadala Investment Company	2022	Pre-IPO	1,149
Lufax, a leading financial service-empowering institution for small and micro businesses in China, and an associate of Ping An Group	Qatar Investment Authority	2018	Series C	1,330
Didi Chuxing, a Chinese vehicle-for-hire company headquartered in Beijing, with over 550 million users and tens of millions of drivers	Mubadala Investment Company	2017	Series C	4,000
Meituan, a Chinese shopping platform for locally found consumer products and retail services, including entertainment, dining, delivery, travel, and other services	Mubadala Investment Company	2017	Add-on	4,000

1. Total investment value may be sourced from multiple parties, including indicated investor.

Source: Preqin, desktop research, Oliver Wyman analysis

We see the region's SWF landscape evolving over the next decade and behaving more like Singapore's Temasek, focusing on a combination of both maximizing returns and building on behalf of the state. They will therefore remain an important feature of the financial relationship between China and the Arab region, and an important source of capital flow. For banks seeking to provide banking services to SWFs, providing integrated views that identify opportunities aligned to both markets will be key.

Fintechs

The Arab world includes many high and low-income countries. Over half of the region has a per-capita GDP of less than US$10,000. Most of the countries that fall within this bracket are underserved by financial players. Fintech providers will help narrow the gap, and many of the most exciting startups and mature firms focusing on this issue are found in the region. China is in a prime position to support the sector's development, with many of the country's leading fintech players already established abroad or looking to expand their international business.

There are already signs of stronger connectivity, particularly between China and the GCC. In the UAE, the Dubai International Financial Centre (DIFC) recently signed an MoU with Chengdu-based Jiaozi Fintech Dreamworks, one of China's first fintech innovation and entrepreneurship platforms. China-owned Future FinTech Group (FTFT) has, meanwhile, announced the launch of a new subsidiary in Dubai that will specifically operate in cryptocurrency trading and asset management.

Saudi Arabia is another opportunity. Saudi Arabia's Central Bank (SAMA) recently signed an MoU with the HKMA to share knowledge and expertise in the financial industry, including financial technology and innovation. Saudi Arabia has ambitious fintech plans, as laid out in the country's FinTech Strategy Implementation Plan within its Saudi Vision 2030 program, and Chinese fintech players are already showing early interest in the market. In this regard, we see the following three specific opportunities: banking-as-a-service, microcredit providers, and cross-border payments.

Many of China's leading fintech players are already established abroad or looking to expand their international business.

Exhibit 10: Top Chinese and Arabian fintech companies

Company	Valuation (in US$ millions)	Company introduction
Top 5 Chinese fintech companies		
Ant Group	28,500	Operator of Alipay, the world's biggest digital payment platform, and also deals with insurance products, loans, microfinance services, wealth management, and more
Ten Pay	about 10,000	Operator of WeChat Pay as a third-party payment provider, and also deals with insurance products, loans, microfinance services, wealth management, and more
JD.com	5,034	Digital technology provider that connects financial and physical industries via financial solutions, including financing loans, asset management, payment solutions, and crowdfunding
Du Xiaoman Financial	4,802	Baidu's fintech arm conducts third-party payments, loans, microfinance services, and fund sales
Lufax	3,015	Digital technology provider in financial asset transaction-related services and investment services for institutions and investors
Top 5 Arabian fintech companies		
Fawry	740	Provides buy-now-pay-later solutions to four million active shoppers across Saudi Arabia, the UAE, Kuwait, and Bahrain
Tabby	470	Digital bank that offers microfinance lending and payments solutions, including digital payment options such as mobile wallets and cards
Optasia	122	Digital payment network that offers a convenient and reliable way to pay bills and other services via multiple channels (such as online, ATMs, mobile wallets, and retail stores)
MNT-Halan	0.31	Provides financial services such as airtime credit services, micro-lending, and data monetization services with a focus on emerging markets
MadfooatCom	N/A	ePayments company in Jordan that will build and operate an electronic wallet to help unbanked people with managing their financials online

Source: Crunchbase, desktop research, Oliver Wyman analysis

Banking-as-a-service

China's digital banks and fintech providers have world-class technologies and in-depth experience servicing both high-income customers, such as those in Shanghai, and middle and low-income customers from third and fourth-tier cities to rural areas. Local GCC financial institutions and investors are in a leading positioning when seeking regularly approvals to establish new digital banks or similar operations. Therefore, most Chinese digital banks and fintech providers may see greater opportunities if they decide to license their technologies to help build competitive banking propositions.

Microcredit providers

There is potential for Chinese microcredit providers to expand their business to South Asia and the low-income countries in the Arab world. China's bigtech firms have developed sophisticated internal credit scoring models to enable fast loan approvals, relying on data often generated by their own ecommerce platforms. Tie-ups with established ecommerce or "buy now, pay later" (BNPL) firms in the Arab states might offer similar opportunities to build microcredit offerings.

If such endeavors are indeed fruitful, Chinese fintechs will also need to develop relationships with local banks and regulators to ensure a sufficient provision of capital, and to build trust with regulators on the opportunities for expanding the microcredit business. To this end, they must ensure that they adapt rather than simply replicate microcredit business models, so that these are suitable for the local ecosystem in each market. Nevertheless, similarities across the markets in the Arab world will make scaling platforms easier, as the fintechs grow their opportunities regionally.

There are precedents for such expansion. OPay is a one-stop, mobile-based platform backed by China's Kunlun for payments, transfers, loans (OKash), savings, and other essential services for every individual. Currently, OPay boasts over 35 million registered application users and 500,000 agents in Nigeria. Another example is FinVolution. This is a leading fintech platform that connects younger borrowers with financial institutions. It has over 169.3 million registered users in total across China, Indonesia, and the Philippines.

Cross-border payments

The Arab world covers over 20 countries, all with different currencies and payment systems. The region is also home to a large number of migrant workers from the Arab countries itself, as well as countries such as India, Pakistan, and the Philippines. Small-value, cross-border payments are a significant opportunity that still needs better solutions. Chinese digital wallets and cross-border payment providers will eventually find the right answers to solve these challenges.

The growth in tourism and trade flows between China and the region will spur interest in capturing cross-border payment flows. China's bigtech companies are already present in the region, with Alipay and WeChat Pay already available in countries across the Arab world so far, namely, Qatar and the UAE. Other Chinese-owned peers, such as AirWallex, demonstrate the role Chinese entrepreneurs can play even when developing technologies in other countries and bringing the best of China to the region.

Shenzhen University case study

Shenzhen University is one of China's Top 30 universities. Its connectivity to Shenzhen's financial and technology ecosystem and ambitions in the Arab world are illustrative of growing institutional ties between China and the region.

Shenzhen University embodies growing institutional relationships between China and the Arab world. Located in China's tech hub and home to leading financial and technology players, such as PingAn and Tencent, the university has been a leading education innovator in recent years, offering future-oriented programs, such as FinTech Practitioner Training and international exchanges, including overseas campuses in Tokyo and Hong Kong. Choosing the United Arab Emirates (UAE) as Shenzhen University's next step in its international expansion was a response to the country's rapid growth, especially as a regional financial hub, as well as its geographical location for servicing the wider MENA region. The local demand for training financial services and technology talents is strong, both for government and private sector professionals in the emirate.

With the invitation from Abu Dhabi Global Markets, Shenzhen University will establish its UAE campus in a three-phased approach. Phase I begins with FinTech certification programs, starting December 2023. Phase II envisages full graduate and undergraduate degree programs and exchange options, allowing students studying at the UAE campus to spend time at the university's Shenzhen Campus and experience the city's financial and technology sectors. Phase III would see Shenzhen University establish a full-scale campus in the UAE, encompassing multiple institutes, over a five to 10-year period. A UAE campus would importantly serve not just local Emirati students but also students from across the wider Middle East, North Africa, and South Asia, enabling a larger body of regional students to study for graduate and undergraduate degrees as well as participate in the university's exchange programs.

Shenzhen University views its growing connectivity with the Arab world as central to its history, having been the first university established in the Shenzhen Special Economic Zone in 1983 and central to the country's spirit of 'reform and opening up'.

LOOKING AHEAD

What does the future hold for Chinese financial institutions, PSPs, fintech providers, and other entities in the Arab world? The future is bright, given the strong economic and financial ties. The synergies between China and the region's mixture of low and high-income markets also put Chinese firms at a competitive advantage. However, it is necessary for Chinese financial institutions to challenge incumbents, particularly from the United States and Europe, when looking for new opportunities. In these endeavors, progress may not always be fast, and it could require differentiated solutions.

We propose the following potential opportunities to help achieve success:

CROSS-REGIONAL FINANCING PLATFORMS

The Silk Road region will continue to be a major investor in infrastructure and various capital-intensive goods, from railways to aircraft. Financing such big-ticket investments will grow more complex as interest rates normalize globally. New cross-regional funds or platforms would bring together a mix of investors, including commercial banks, asset managers, and SWFs across different geographies, such as China and the UAE, or Japan and Saudi Arabia.

We see a range of cross-regional opportunities, such as a joint-infrastructure platform with Chinese and GCC investors funding projects in Sub-Saharan Africa; an aviation leasing platform, given the region's rapidly expanding aviation business; and an SWF-led fund for investments in renewables, particularly hydrogen, given the already-strong energy ties between Asia and the Arab countries, and the shared national interests in building and expanding renewables infrastructure.

THE RISE OF INSTITUTIONAL INVESTMENT

China and the Arab world are already major pools of wealth for asset managers, owing to the two sides' rising affluence and ageing demographics. Mutual funds, pension funds, and insurers, among other institutional investors, have seen assets under management (AUM) grow to $10.8 trillion in China and $1.3 trillion in the Arab region as of 2022, and AUM will continue to rise. Chinese and Arab region asset managers are already exploring mutual opportunities, and there is significant room for growth.

China and the Arab world are also a source of investment opportunity for global and domestic institutional investors. Cross-regional investments are already rising and will rise further. However, the region's debt and equity markets are still undersized relative to bank financing, and there are opportunities to further develop capital markets. As the development happens, Chinese and Arab world investors will find even greater opportunities to invest in each other's markets.

RMB INTERNATIONALIZATION AND OFFSHORE HUBS

The USD remains the Arab region's primary settlement currency, and many countries still peg their national currency to the USD. Chinese capital controls are also a challenge for Arab world's companies seeking to invest RMB proceeds in China. However, China is the region's largest trade partner, and usage of the RMB for trade settlement will grow. Moreover, China's low interest rates may yet spur RMB-denominated debt capital financing, particularly for projects linked to Chinese demand.

Hong Kong remains the primary offshore RMB hub. However, London and Singapore have found niche opportunities, whether related to foreign exchange trading, or options. Regulators and financial institutions in the GCC and China could more actively develop RMB settlement solutions and the supporting financial infrastructure to establish the GCC as a secondary offshore RMB hub for the wider region, and maybe even extending into Sub-Saharan Africa as well.

FINTECH HUBS AND CROSS-FERTILIZATION

Chinese fintech providers are among the world's most innovative. However, they are mainly designed to suit the Chinese ecosystem. The GCC offers a unique platform for Chinese fintechs to adapt their product to suit a range of markets, from those in the GCC itself to the more low-income emerging markets found from Egypt to Kenya. Hiring user experience and interface designers or business development teams who are from those markets would be far easier than doing so in Shenzhen or Beijing. Dubai is just one example of a city where global talent is readily available.

Chinese fintechs are already establishing themselves in cities such as Dubai. However, greater collaborative efforts would support their endeavors, such as agreements between institutions to encourage the flow of ideas and talent, joint-venture capital funds with investors representing the best in class from both China and the Arab states, or investment and arbitration agreements that provide greater business certainty. The business opportunities are clear-cut, but such activities would also play a role in promoting financial inclusion in parts of the world that are often overlooked.

CONCLUSION

We see opportunities between China and the Arab countries as significant and growing. The financial sector will play a critical role in the growth of ties between the two partners, as they move beyond simple trade to a far deeper relationship that includes flows of capital, talent, and technology. Progress will take time, and infrastructure will need to be built. Most importantly, the two partners will need to develop trusted relationships that can turbocharge the opportunities. Nevertheless, we are already seeing change happening at an accelerated pace.

To position themselves for optimal success, Chinese financial institutions need to see themselves as the Arab world's partners, understand the region's aspirations, and work together to achieve a common goal. In addition to evolving geopolitics, the changes are a reflection of the return of these two cultural and historical giants, and the rebuilding of a new Silk Road. To this end, greater collaboration and trust between the two is a valuable addition to the global economy, particularly one that is dealing with uncertain times.

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The Sino-International Entrepreneurs Federation (SIEF) is a global non-profit, non-partisan organisation. It is incorporated in Zürich and headquartered in Beijing at the Prince Shuncheng Palace. Functioning as a trusted and neutral facilitator, SIEF connects business leaders — across industries, continents and cultures. To achieve this, SIEF continually creates meaningful engagements, such as the Sino-European Entrepreneurs Summit, the Sino-Australasian Entrepreneurs Summit, the China-Africa Investment Forum, the Sino-International Entrepreneurs Summit, as well as a broad range of ongoing programmes around the world. SIEF was established in 2008 by Mr Long Yongtu, Former Vice-Minister of the Ministry of Foreign Economic Cooperation and Trade, the People's Republic of China.

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For more information, please contact the marketing department by phone at one of the following locations:

Americas
+1 212 541 8100

Europe
+44 20 7333 8333

Asia Pacific
+65 6510 9700

India, Middle East & Africa
+971 (0) 4 425 7000

AUTHORS

Ben Simpfendorfer

Partner, Oliver Wyman,
APAC Lead, Oliver Wyman Forum

William Wang

Chief of Staff & Commercial Director
of Oliver Wyman Greater China

Dr. Tony Dong

Chief Representative of Sino-International
Entrepreneurs Federation

CONTRIBUTORS

Peter Hung

President, Forbes Global Holdings Group

Dr. Junfa Mao

President of Shenzhen University

Dr. Arthur Zou

CEO of First Abu Dhabi Bank China

Amber Sun

Knowledge Analyst, Oliver Wyman

Shuixian Han

Director of Shenzhen University
International Office