



# **BRI Pulse**

## **Asian Trend Intersections – Chinese Collaborations**

### **Background and Overview**

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In our March Pulse, we examine a few examples at the intersection of two recent trends; (i) the move by the UAE and Saudi Arabia to reposition their future growth interests towards Asia and (ii) how China has moved to play a much more supportive, rather than leading role in major infrastructure/BRI area projects/investments, with both of these GCC countries as well as with other Asian, EU and UK countries.

### **Selected GCC into Asia**

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#### **UAE – Indonesia**

The UAE has been diversifying its foreign policy by moving away from its traditional Western partners to increase ties with growing Asian economies. One such example is Indonesia, the world's 4th largest country (by population) and a leading Islamic country. Examples of this redirection of investment just over the past 2 years include; January 2020, UAE and Indonesia signed \$23 billion of deals during the Crown Prince's visit, led by energy but also including education, health, agriculture and counter-terrorism; in March 2021, the UAE announced it would invest \$10 billion in Indonesia's sovereign wealth fund (INA), as well as ADIA being the lead investor (\$400 million) in the \$1.3 billion pre-IPO in GoToGroup, Indonesia's largest tech company (and ASEAN unicorn); and in November 2021, the two countries signed deals worth \$32.7 billion, focussed on tech, biotech and infrastructure and/or renewables, following President Widodo's visit.

#### **UAE – China**

In July 2018, China and the UAE decided to upgrade their bilateral relations to a comprehensive strategic partnership following President Xi's state visit to the UAE, the first by a Chinese head of state in 29 years to the UAE.

In 2020, China and the UAE sought to actively explore tripartite cooperation on vaccines which would ultimately extend over a number of countries. In December 2020, the UAE became the first Arab country to approve a Chinese vaccine. In March 2021, this partnership was extended to UAE manufacturing Chinese vaccines locally and in partnership with other countries (Hungary and Serbia). Also In 2021, both countries aligned their respective future growth programmes; China's BRI and the UAE's 50-year Development Plan, and well as pledging practical cooperation in energy, finance, provide Chinese language lessons in UAE schools and to support each other's upcoming major projects; Expo 2020 Dubai and the Beijing Olympic Winter Games.

#### **Saudi Arabia-China**

In March 2017, Saudi Arabia's King Salman oversaw the signing of deals worth potentially \$65 billion during his visit to Beijing as part of his month-long Asian tour. Saudi and Chinese companies signed MoUs and 21 deals, ranging from exploring investments in oil and petrochemical plants to ecommerce and co-operating in renewable energy markets, including the sale of a stake in Saudi Aramco, the world's largest oil-exporting company.

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In February 2019, Crown Prince Mohammed bin Salman (MBS) visited China during the last stop in his three country-tour during which the Kingdom pledged \$20 billion investment in Pakistan and seek to make additional investments in India's refining industry.

During the visit, the leaders (after meeting) signed 35 economic cooperation agreements worth a total of \$28 billion. Both countries also signed a \$10 billion agreement for a China-based new refining and petrochemical project, in which Saudi Aramco and China's North Industries Group (Norinco) and Panjin Sincen Group agreed to build the 300,000 barrels per day (bpd) integrated refining and petrochemical facility in Panjin city. This project, initially discussed with King Salman, would be the largest Sino-Foreign JV when officially launched.

In March 2022, Aramco made the final investment decision (FID) to develop a refinery and petrochemical complex in northeast China. An Aramco executive said that China is key to their plans to expand in Asia. "China is a cornerstone of our downstream expansion strategy in Asia and an increasingly significant driver of global chemical demand. "The two states had agreed to build the \$10 billion facility back in 2019, but plans fell through in 2020 when oil prices plummeted. Discussions resumed this past February. Commercial operation start-up is planned for 2024.

### **Three-way deals involving China**

#### **Indonesia-UAE – China**

We briefly mentioned the UAE China vaccine manufacturing partnership based in the UAE. As shown below, this vaccine JV is being extended into other Asian markets.

#### **Indonesia Vaccine Production**

- In August 2020, the Indonesian government secured the supply of up to 340 million doses of COVID-19 vaccine from China and the UAE through year end 2021; 20-30 million doses in 2020; the remainder in 2021
- The UAE and China have had discussions with Indonesia based Bio Farma, the largest vaccine manufacturer in Southeast Asia (3.2 billion annual production capacity) to produce the Hayat-Vax vaccine, manufactured in the UAE but using the Sinopharm vaccine IP. In February 2022, Bio Farma agreed to produce mRNA vaccines as a regional production centre as per the WHO

#### **Nusantara-Indonesia's New Capital City**

- In March 2022, the UAE reaffirmed its commitment to Nusantara with its US\$10 billion pledged investment; some of this amount is to be allocated to the new capital with the rest invested in infrastructure, food security, logistics, healthcare and the digital economy
- Also in March 2022, Saudi Arabia's Crown Prince expressed his interest in investing in Nusantara, leading to a potential capital infusion by the US\$600 billion Public Investment Fund (PIF). It is leading similar domestic giga-projects, concentrated on NEOM – a US\$500 billion high-tech economic zone, central to Saudi's Vision 2030 economic diversification program and could serve as a model for Nusantara
- China has also expressed its interest to invest in Nusantara in various sectors, including infrastructure, raw materials, transportation infrastructure and green industrial initiatives.

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### **Other Chinese Tripartite Construction**

In addition to these 3-way cooperations with the UAE and Saudi, China has also been participating in with other countries where China operates as the junior partner. We set out some examples below:

#### **Pakistan-Germany – China**

In March 2022, The Bin Qasim Power Station 3 (BQPS-III) 900MW project unit-1 first fire was successfully carried out. Unit 1 is based on regasified liquid natural gas (RLNG), is capable of providing power to 150,000 homes around Karachi, Pakistan's business hub. The project includes two SGT5-4000F (Siemens) gas turbines, which are renowned for high performance and low-cost power generation, installed in two 450MW combined-cycle power generation units. The 2019 contract for construction of BQPS-III was won by Siemens (Germany) and Chinese contractor Harbin Electric.

K-Electric, Pakistan's largest power utility, has invested \$650 million, making it one of the largest private sector investments in Pakistan's electric power infrastructure; thus KE's BQPS-III power plant is its flagship project. Since the beginning of work in early 2020, KE and its engineering partners have invested over 9 million man-hours to commission the project on a fast-track basis. The project is utilizing the latest in generation technology enabling it to be among the top-five most efficient power plants in Pakistan upon completion.

The CEO of K-Electric stated at the launch milestone "It gives me great pleasure to share that we have successfully achieved the first fire on our BQPS-III plant. We started this project amid difficult circumstances mainly owing to a global pandemic, but our collective efforts have enabled us to achieve our dream of securing (Karachi's) energy future. The next phase will entail connecting the plant to the grid after which we will be able to channel additional supply of reliable electricity towards Karachi."

#### **Germany-UK – China**

In February 2022, Ceres Power (UK), a developer of fuel cell technologies, announced the signing of a non-binding heads of terms for a three-way collaboration with Weichai Power (China) and Robert Bosch (Germany), to access opportunities for fuel cell technologies in China. Ceres said that the addition of Bosch to the existing partnership between Weichai and Ceres, and an increase in scope to include stationary power applications, would "significantly strengthen" the planned joint venture.

It is now intended that two separate Chinese JVs would be formed involving these 3 parties:

- The first JV would be a three-way venture for the development and manufacture of solid oxide fuel cell (SOFC) systems. Bosch and Ceres would licence their respective SOFC intellectual properties to the JV for mobile and stationary applications in China, and would share royalties from the sale of products. Weichai would be the majority shareholder, and Ceres would hold a maximum 10% share with board representation. Ceres said its investment over time was likely to be around £20 million

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- The second JV would be focussed on stack manufacturing, to supply fuel cell stacks to the system JV, and potentially other third parties. Ceres would not be a shareholder in the venture, but would provide the SOFC technology through an extension of Bosch's existing manufacturing licence to supply the Chinese market and would receive royalties from the JV on the sale of stacks. Licence fees of £30m from both the system and stack JVs to Ceres were expected over the next three years in line with those agreed in the original Weichai-Ceres agreement in 2018.

Ceres Power's shares price surged 27% after it revealed Bosch is joining its partnership with Weichai Power to target China's fuel cells market. Engine specialist Weichai, which has a 300bn renminbi (£36bn) turnover and 100,000 employees, and Ceres are already collaborating on a fuel cell for commercial vehicles, but Germany's Bosch's addition broadens the scope to include stationary power applications. Bosch and Weichai are Ceres' two largest shareholders with stakes of 17.8% and 19.9% respectively.

### ***EU led – China follows***

#### ***France – China***

In February 2022, following a recent virtual meeting between French President Macron and President Xi during which the two countries signed the Fourth Round China-France Third-Party Market Cooperation Pilot Project, France and China agreed to jointly construct seven infrastructure projects in Africa, South East Asia and Eastern Europe.

The list includes seven projects in areas such as infrastructure, environmental protection and new energy, with a total value of over \$1.7 billion. The third-party markets, which also include Central and Eastern Europe, are set to play an active role in social and economic developments of the 3<sup>rd</sup> party countries. The cooperation will include joint financing and joint investment, projects in which China would be awarded the EPC contract while France leads on the financing.

France is the first country to establish the third-party market intergovernmental cooperation mechanism with China, the NDRC said. "French enterprises have a unique advantage in advanced manufacturing, environmental protection and engineering construction, while Chinese firms have accumulated rich experience in basic infrastructure construction, energy, equipment building and the internet. Enterprises from both countries are complementary, and have a huge potential for third-party market cooperation," the NDRC said.

In 2021, the United States announced plans to invest in five to 10 large infrastructure projects around the world as part of a broader G-7 initiative to counter China's BRI.

In our opinion, investors can continue to expect both trends to continue as we do not anticipate a rapid turnaround of western attitudes to China, which needs all the large projects it can secure to drive GDP growth.

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