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Impact of COVID-19 on the Belt and Road Initiative: The case of the Arab region

Summary

The present document evaluates the expedited development of the Health Silk Road as part of the Belt and Road Initiative (BRI) in the Arab region. It also assesses disruptions to traditional BRI infrastructure in an attempt to shed light on future developments of the BRI in the region. In addition, the paper takes a look at the impact of COVID-19 on maritime freight rates in the region.

The Committee on Transport and Logistics is invited to make comments on the content of the document and take note of its conclusion.

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Introduction

1. In such a globalized world, disruptions like the COVID-19 pandemic have ripple effects that trickle down to every aspect of society and the global economy. Inevitably, the pandemic and measures taken to combat it have disrupted global supply chains, financial markets and global economic productivity.
2. Chinese Belt and Road Initiative (BRI) infrastructure projects in the Arab region are heavily reliant on global supply chains for raw materials, international movement of Chinese workers and healthy financial systems rather than local materials and supplies.¹ As a result of border closures, interruptions in supply lines and increased risk of loan defaults in financial markets during the pandemic, most if not all BRI infrastructure projects in the world, including the Arab region, have been disrupted. While the main focus of China's BRI projects in the Arab region has been the construction and development of key infrastructure such as ports, power plants and roads in hopes of strengthening trade and fostering development in participant countries, an often overlooked aspect of the BRI has been a focus on improving public health systems. The so-called "Health Silk Road" (HSR) has been an integral part of the BRI since its inception in 2015, but has garnered attention under the global response aimed at reducing the impact of COVID-19.²
3. While COVID-19 has halted and temporarily disrupted large-scale infrastructure projects under the BRI, it has only accelerated the growth and development of the HSR. Under the HSR, Arab countries have received healthcare aid from the Chinese government, ranging from protective equipment to vaccines and COVID-19 testing kits. This paper evaluates the expedited development of the HSR as part of BRI projects in the Arab region while evaluating disruptions to traditional BRI projects in an attempt to shed light on the future developments of the BRI within the Arab region.

I. China-Arab relations

4. Chinese investment in numerous BRI projects in the Arab region serves as an example of the close diplomatic ties China has developed with countries in the region, continuing decades of close bilateral trade ties, investment and economic agreements. Today, the BRI has allowed China to become the leading economic partner for many Arab countries. Chinese exports of goods to Arab countries have steadily increased from \$6 billion in 2000 (2.6 per cent of all Chinese exports) to over \$120 billion in 2019 (4.8 per cent of all Chinese exports). Likewise, China's imports from the Arab region increased from \$8.8 billion to \$145 billion by 2019 (from 3.9 to 7 per cent of all Chinese imports).³ Much of this is due to the explosive economic growth of China in recent decades, which has fuelled demand for natural resources and energy from the Arab region. Crude oil, natural gas and refined oil products from the Arab region have been crucial in China's modern economic growth and continue to play vital roles in preserving China's national security interests.⁴

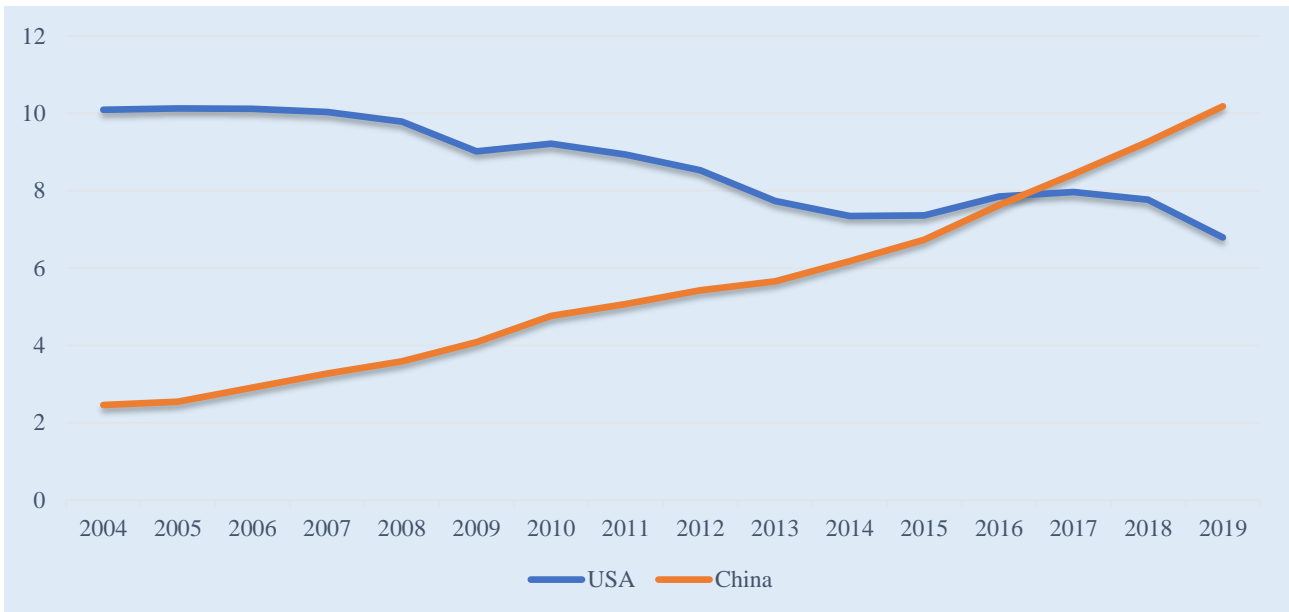
¹ https://asiasociety.org/sites/default/files/2019-06/Navigating%20the%20Belt%20and%20Road%20Initiative_0.pdf.

² <https://merics.org/en/short-analysis/chinas-health-silk-road-adapting-bri-pandemic-era-world>.

³ <https://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2000/TradeFlow/EXPIMP/Partner/all/Product/Total#>.

⁴ <https://www.mei.edu/publications/chinas-growing-role-middle-east>.

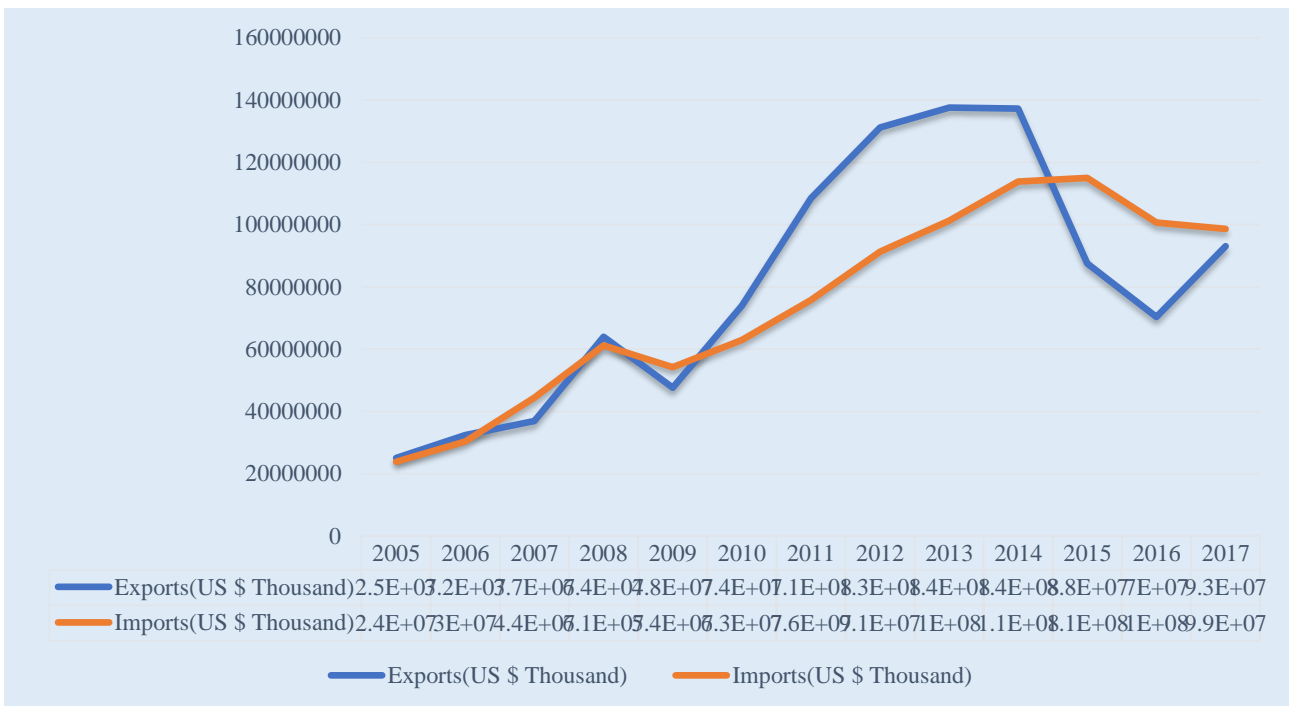
Figure 1. China and United States annual crude oil imports (2004-2019)
(Million barrels per day)



Source: from <https://www.eia.gov/todayinenergy/detail.php?id=43216>.

5. As such, China has become a major trade partner for oil exporting Arab countries such as Iraq, Oman and Saudi Arabia. Other non-oil exporting countries in the region have also grown to rely on China as a major source of imports.

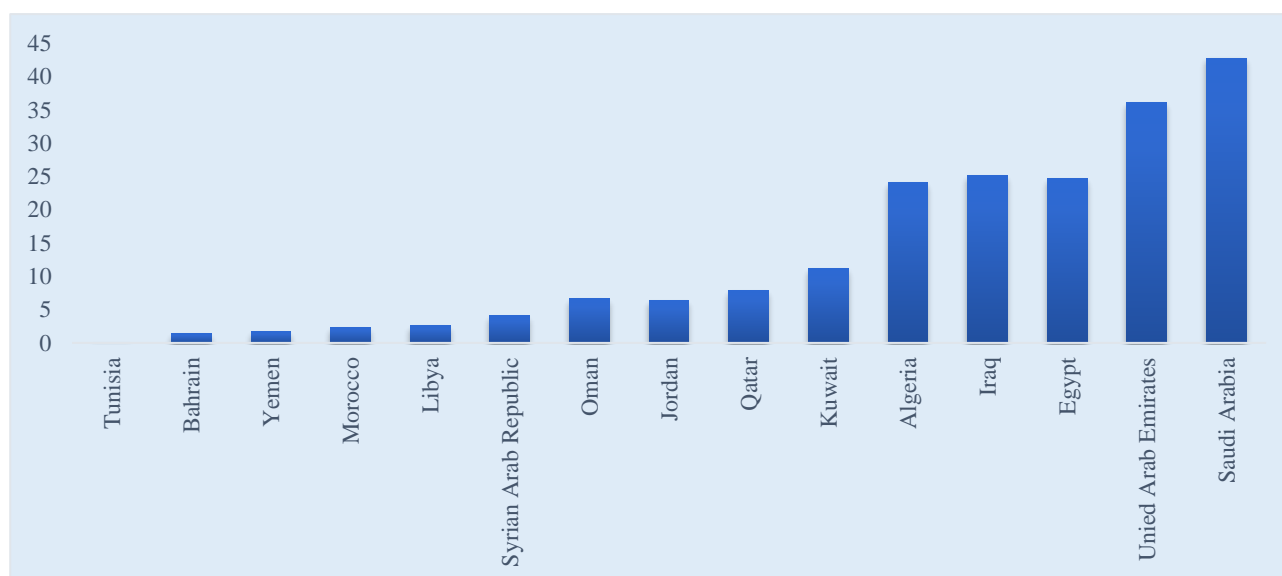
Figure 2. Trade between the Arab region and China



Source: UN Comtrade data compiled by ESCWA.

6. Since the 2008 global financial crisis, Chinese investment in the Arab region has also grown significantly. Chinese annual foreign investment and construction contracts in the Arab countries have increased from around \$2 billion in 2005 to more than \$25 billion by 2018.⁵

Figure 3. Chinese investment in the Arab region (billions of dollars)



Source: https://www.brandeis.edu/economics/RePEc/brd/doc/brandeis_wp131.pdf.

7. Most investments have targeted energy-related projects in oil rich exporting countries such as the United Arab Emirates or Saudi Arabia, while other investments are based around real estate and transportation. This strategy of slowly shifting away from an energy-based trade relationship with the Arab region is detailed in China's 2014 Policy Paper on China-Arab Relations which describes the "1+2+3 formula" for Chinese cooperation in the Arab region, which BRI initiatives fall under.⁶ According to this formula, the first priority for Chinese cooperation in the Arab region is the oil and gas sector, while trade and infrastructure come in second. The third priority is new sources of energy such as nuclear, renewable and satellite technology. This plan signals a subtle but progressive change towards the more multi-faceted relationship China now has with countries in the region.⁷

8. The expansion of China-Arab trade relations have also been followed by investment of significant political capital in attempts to further deepen diplomatic ties and relationships between the countries. By 2019, Algeria, Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the United Arab Emirates had already individually signed bilateral cooperation agreements on top of the BRI designed to facilitate economic and cultural cooperation with China.⁸ China has also signed agreements with the League of Arab States (LAS) in 2016 promising to increase Arab participation in the BRI.⁹ Even when compared to other countries and regions part of China's grand plan for the BRI, there seems to be a heavy emphasis on BRI investments and

⁵ <https://valdaiclub.com/a/highlights/the-impact-of-the-coronavirus-on-the-chinese-belt/>.

⁶ <https://www.tandfonline.com/doi/abs/10.1080/25765949.2020.1841991>.

⁷ https://www.brookings.edu/wp-content/uploads/2020/11/China-Proceedings-2_English_Web.pdf.

⁸ https://ecfr.eu/publication/china_great_game_middle_east/.

⁹ <http://www.chinaarabcf.org/chn/lthyjwx/bzjhywj/dbjbzjhy/P020180726404036530409.pdf>.

projects in the Arab countries. For example, Saudi Arabia and Egypt are the second and third biggest recipient of BRI projects with a total of 101 and 99 projects underway respectively.¹⁰

9. Arab cooperation with China remained particularly strong as China struggled domestically to contain the COVID-19 virus in early 2020. In the early days of the outbreak, it was China that was a recipient of support, and it was Gulf countries such as Saudi Arabia that provided financial assistance and medical equipment to China in efforts to combat the early COVID-19 virus.¹¹ However as soon as China was able to contain the virus several months later, China became a supplier and donor of medical equipment and supplies to the rest of the world and Arab countries.¹² China has put much effort into incorporating the export and donation of medical supplies to other countries and Arab countries as part of its BRI. Since early 2015, Chinese health authorities proposed to construct a Health Silk Road with BRI participating countries to enhance international health cooperation under the “people to people exchanges” component of the BRI.¹³ Largely overlooked and marginalized compared to other ambitious infrastructure projects in the BRI, the HSR has received global attention as Beijing’s anti-virus efforts shifted from containing domestic outbreaks to providing global medical assistance.

II. Health Silk Road

10. The concept of a health silk road was first mentioned by president Xi in 2015 as part of a Chinese government BRI action plan. According to the 2015 plan, the HSR aimed to: “strengthen cooperation... on epidemic information sharing, the exchange of prevention and treatment technologies and the training of medical professionals, and improve... capability to jointly address public health emergencies... [China] will provide medical assistance and emergency medical aid to relevant countries, and carry out practical cooperation in maternal and child health, disability rehabilitation, and major infectious diseases including AIDS, tuberculosis and malaria... [China] will also expand cooperation on traditional medicine.”¹⁴

11. This concept was later put into action as a multilateral initiative in 2017 following a high profile health conference in China that hosted senior health officials from more than 30 countries and representatives from international organizations such as the World Health Organization (WHO), UNAIDS, the Global Alliance for Vaccines and Immunization (GAVI) and the Global Fund to Fight AIDS, Tuberculosis and Malaria. According to the initiative, the HSR aims to foster health cooperation under the BRI by:¹⁵

- (a) Establishing a health policy research network and a sustainable development alliance in the health industry;
- (b) Improving coordination on monitoring, prevention and control, and response to major infectious diseases;
- (c) Enhancing training and capacity-building for health professionals;
- (d) Strengthening cooperation in medical research and development and the use of traditional medicines;

¹⁰ <https://www.refinitiv.com/en/belt-road-initiative-data-insight#>.

¹¹ <https://www.arabnews.com/node/1627261/saudi-arabia>.

¹² <https://www.wilsoncenter.org/event/ground-truth-briefing-chinas-covid-19-diplomacy-middle-east>.

¹³ <https://www.worldscientific.com/doi/pdf/10.1142/S2377740020500013>.

¹⁴ https://reconasia-production.s3.amazonaws.com/media/filer_public/e0/22/e0228017-7463-46fc-9094-0465a6f1ca23/vision_and_actions_on_jointly_building_silk_road_economic_belt_and_21st-century_maritime_silk_road.pdf.

¹⁵ <https://www.worldscientific.com/doi/pdf/10.1142/S2377740020500013>.

(e) Increasing medical assistance and health aid in BRI countries;

(f) Supporting the WHO in playing an important role in global health governance and its reform process.¹⁶

12. Since then, Beijing has continued to promote the HSR by organizing and sponsoring health-themed regional forums, including the China-Arab States Health Forums.¹⁷ What started as a medical initiative aimed at establishing China as a player in global healthcare urgently turned into a much needed vehicle for BRI partner countries to promote health cooperation and deal with COVID-19 as it spread around the world. Following a high-level video conference involving senior officials from BRI participating countries, a joint statement by BRI countries put the HSR on top of traditional BRI priorities such as infrastructure.¹⁸

13. Given that most global mask factories are located in China, Beijing was in a near monopolistic position to provide global countries with masks and medical equipment after it regained control of its domestic COVID-19 situation. Early aid from China mostly came in the form of medical supplies, financial resources and donations.¹⁹ While China slowly regained control over the virus and restarted its economy, it continued to send expert medical teams and Chinese virologists to countries heavily afflicted by the pandemic. In recent months, the focus has shifted towards providing countries with Chinese-produced vaccines. The Arab region in particular has embraced Chinese aid as a part of the BRI and HSR, and China too has made a major commitment to health cooperation in the Arab region. Through these initiatives, China has been able to promote the importance of the HSR and attempt to paint itself as a global healthcare leader.²⁰

14. Aside from the emphasis on healthcare infrastructure, the COVID-19 pandemic has allowed China to shift its focus towards the promotion of digital information and telecommunication technologies as a part of the BRI in the Arab region. These initiatives, dubbed the Digital Silk Road (DSR), aim to revamp and develop a digital economy in the Arab region.²¹ DSR projects require smaller capital investments than traditional infrastructure projects and have allowed for China's domestic digital sector to expand abroad. The development of the digital economy in the United Arab Emirates for example is spearheaded by Chinese technology firms such as Huawei, Alibaba and Tencent. The China Development Bank has also partnered with the United Arab Emirates investment fund Mubadala to establish a \$10 billion fund to support digital growth and technology firms in the region.²²

15. The growing commitment to using resources provided through the BRI and the accompanying spirit of cooperation have allowed China, the BRI and the HSR to take on major importance in the region. As COVID-19 has fuelled further developments in healthcare infrastructure and digital economy under the umbrella of the BRI, it has signalled a progressive shift away from traditional energy trade relationships China has had with Arab countries in past decades and towards more multifaceted relations.

III. BRI infrastructure projects

16. While on the one hand COVID-19 has served to drive greater engagement with the HSR in the Arab region, traditional BRI infrastructure projects have been severely hampered. Just like the rest of the world, the

¹⁶ <https://www.worldscientific.com/doi/pdf/10.1142/S2377740020500013>.

¹⁷ <https://news.cgtn.com/news/2019-08-16/-Silk-Road-of-Health-2nd-China-Arab-States-Health-Forum--JcLQqhMcy4/index.html>.

¹⁸ <https://www.worldscientific.com/doi/pdf/10.1142/S2377740020500013>.

¹⁹ <https://thediplomat.com/2020/03/chinas-mask-diplomacy/>.

²⁰ <https://www.swp-berlin.org/10.18449/2021C09/>.

²¹ <https://www.csis.org/analysis/chinas-digital-silk-road-after-coronavirus>.

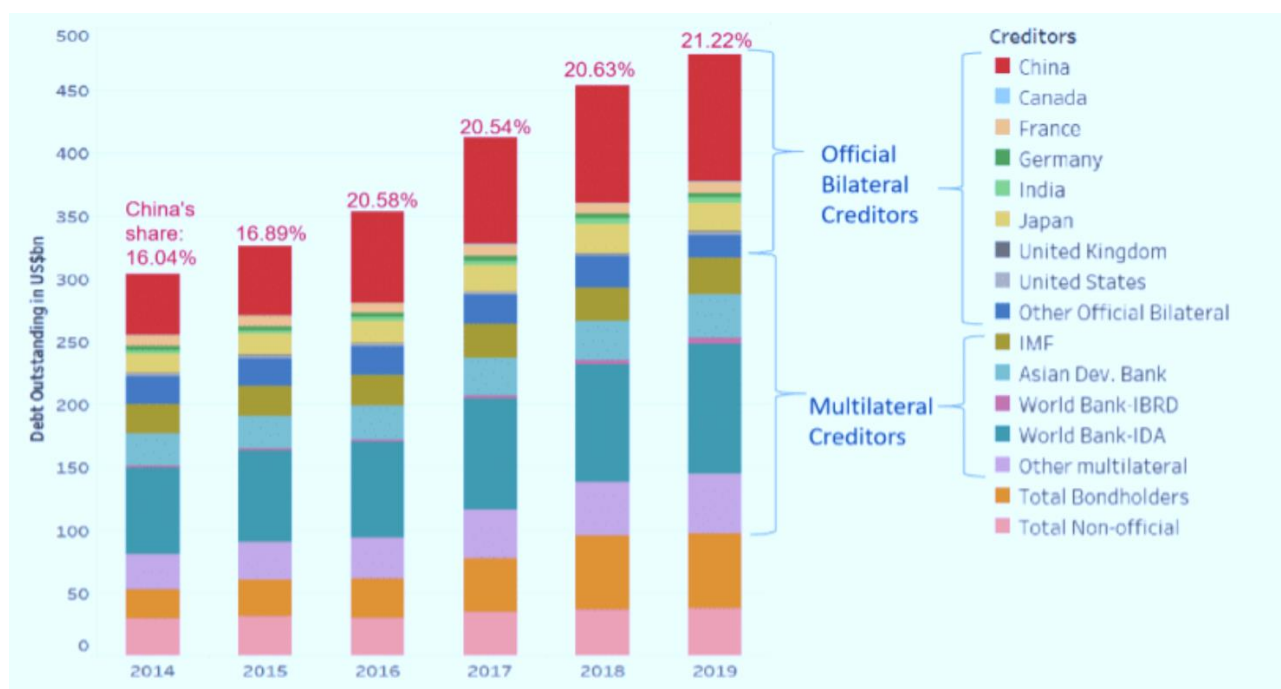
²² https://www.brandeis.edu/economics/RePEc/brd/doc/brandeis_wp131.pdf.

Arab region has suffered from a large economic decline due to the pandemic. Oil-exporting Arab countries experienced a significant loss of revenue over the course of 2020, and non-oil exporting Arab countries have also suffered large losses due to a slowdown of tourism and sharp decline of remittances. As a result, major construction and infrastructure projects in the region have been scaled back or delayed as Governments redirect resources towards healthcare sectors and stimulus packages for domestic economies.

17. The same goes for China, which over the course of 2020 has had to redirect its financial resources towards its domestic affairs, temporarily slowing down and halting some commitments abroad. Despite being one of the few countries to report economic growth over 2020 as a whole, Chinese GDP shrank by 6.8 per cent in the first three months of 2020, the first time Chinese GDP has contracted since 1992.²³ Besides being hampered by the global economic slowdown, BRI infrastructure projects in the Arab region mainly rely on supplies, materials and labour from China rather than domestic sources.²⁴ The shutdown of many Chinese factories and quarantines in China, combined with international travel bans on Chinese citizens, therefore greatly slowed the progress of Arab BRI infrastructure projects.²⁵ At the beginning of 2020, there were reportedly 2951 BRI-linked projects valued at \$3.9 trillion planned or underway across the world. However, by June, the Chinese Ministry of Foreign Affairs announced that 30-40 per cent of BRI projects had been affected by the virus, while another additional 20 per cent had been seriously hampered.²⁶

18. Even before the COVID-19 pandemic, the BRI has already faced criticism about its financing and handling of debt. BRI initiatives are primarily financed by China through cheap loans from Chinese banks. Based on these loans, China was the world's largest bilateral creditor by 2019, lending almost as much money as the entire World Bank.

Figure 4. Official External Debt Outstanding in 52 Selected BRI Countries by Creditors, 2014-2019



Source: Accessed from <https://green-bri.org/public-debt-in-the-belt-and-road-initiative-bri-covid-19/>.

²³ https://www.wsj.com/articles/china-set-to-report-plunge-in-first-quarter-gdp-11587086697?mod=article_inline.

²⁴ <https://www.mei.edu/publications/impact-coronavirus-pandemic-chinas-belt-and-road-initiative-middle-east>.

²⁵ <https://doi.org/10.11610/Connections.19.2.09>.

²⁶ <https://oxfordbusinessgroup.com/news/has-covid-19-prompted-belt-and-road-initiative-go-green>.

19. Chinese investment in BRI projects was reduced to \$47 billion in 2020, almost 54 per cent lower than the \$104 billion invested in 2019.²⁷ Loans for BRI projects have also fallen over the years, from \$75 billion in 2016 to only \$3 billion in 2020.²⁸ While in part due to China tightening its economic policies in order to address its own shrinking economy and growing domestic unemployment, the smaller volume of loans is also attributed to the diminished ability of many smaller BRI countries to take on further loans. Many smaller BRI countries in the Arab region have more concentrated economies and rely on tourism or remittances, which have been heavily affected by COVID-19.²⁹ This drop in the level of financing can signal a slowdown in the pace of BRI projects in the region.

20. As such, BRI participating countries around the world have asked for some form of COVID-19 related debt relief from China. Debt forgiveness from China however is unlikely, given that between 2000-2018 there have only been 96 instances of debt cancellations, amounting to less than 2 per cent of total Chinese loans.³⁰ China has however made several bilateral concessions with certain countries regarding BRI debts, and has also officially signed the World Bank's COVID-19 G20 Debt Service Suspension Initiative. Under this initiative, China will temporarily suspend debt for at risk countries suffering from COVID-19 until June 2021. Arab countries that qualify for this initiative include Mauritania, Somalia, the Sudan and Yemen.

21. As of early 2021, no Arab State has defaulted or is especially at risk of defaulting on Chinese BRI loans. However, there are indications that Oman and Egypt may be at risk in the future.³¹ China finances several large infrastructure projects in Oman, and continued low oil prices may put the country at risk in the future.

22. Despite financial and logistic issues resulting from the pandemic, China has officially stated that it has no intention of abandoning any BRI infrastructure projects in the Arab region and continues to pledge its support for key BRI infrastructure in the region.³²

23. The China Development Bank has issued official statements saying it will continue to issue more low cost loans to BRI countries affected by COVID-19 in an effort to continue the construction of BRI infrastructure projects, and China's CCTV news network also published in early 2021 the continued progress and success of several BRI infrastructure projects in the Arab region.³³ According to the reports, Chinese companies continued the construction of the BRI-backed Attarat oil shale power plant in Jordan throughout 2020. The first unit in the power plant is ready for use and is expected to be fully completed by late 2021. The Egyptian capital's new central business district currently under construction by a Chinese enterprise achieved an important milestone in early November 2020. In Dubai, the BRI-funded Hassyan Clean Coal Power Plant officially entered commercial operation in early December.³⁴

²⁷ <https://green-bri.org/china-belt-and-road-initiative-bri-investment-report-2020/>.

²⁸ <https://www.livemint.com/news/world/xi-jinping-s-dream-project-belt-road-initiative-in-trouble-amid-china-s-shrinking-economy-11615712156492.html>.

²⁹ <https://www.cnbc.com/2020/11/24/covid-halts-investments-in-chinas-belt-and-road-initiative-moodys.html>.

³⁰ <https://green-bri.org/public-debt-in-the-belt-and-road-initiative-bri-covid-19/>.

³¹ https://www.brandeis.edu/economics/RePEc/brd/doc/brandeis_wp131.pdf.

³² https://baijiahao.baidu.com/s?id=1671976451203775398&wfr=spider&for=pc&searchword=%E6%96%B0%E5%86%A0%E7%97%85%E6%AF%92%E5%9C%A8%E4%B8%AD%E4%B8%9C%E4%B8%80%E5%B8%A6%E4%B8%80%E8%B7%AF&fbclid=IwAR0TH77o_rHjZGso9B0Z3VznzhCg9VZdX_gH1LiNFfM9Jz7dAnJZ44zemlc.

³³ <https://www.reuters.com/article/health-coronavirus-china-belt-and-road/china-development-bank-to-support-belt-and-road-companies-hit-by-coronavirus-xinhua-idUSB9N2AM006>.

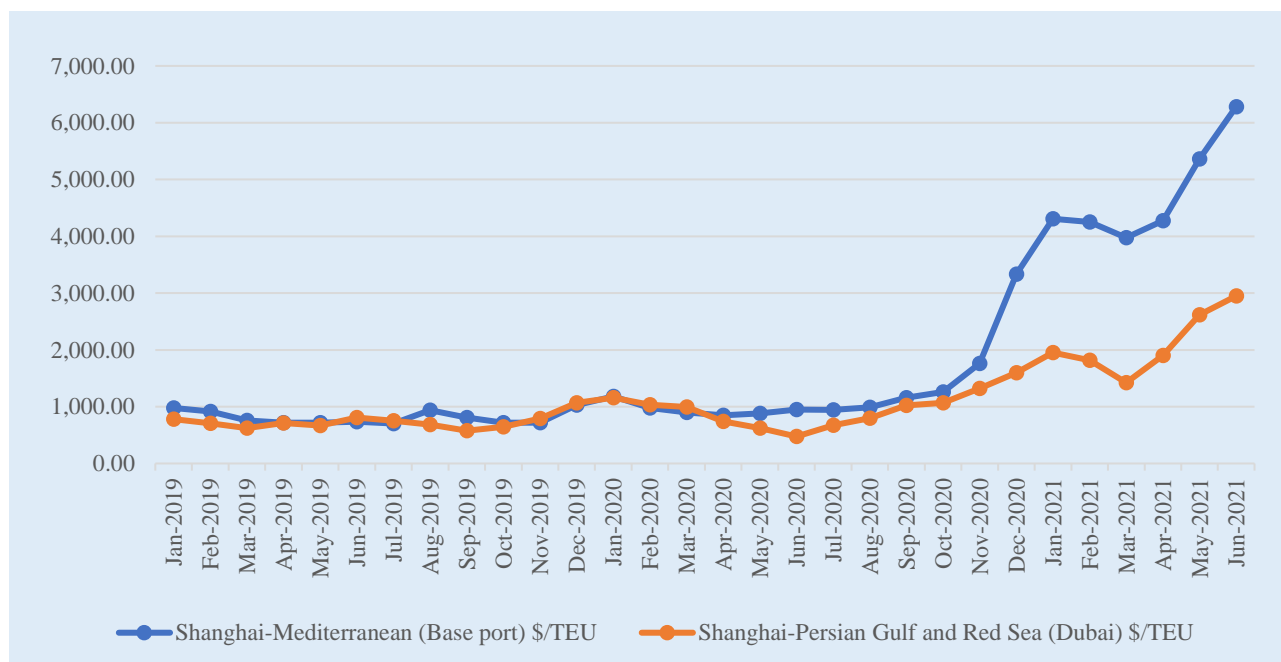
³⁴ <https://xw.qq.com/amhtml/20201222A02VKR00?fbclid=IwAR2xi4GVISvqaWreXlycEfXddLGCrQGso2fDwvf6SopTeKyZEJHHDw0yLDI>.

IV. COVID-19 and its effects on maritime freight rates in the Arab region

24. COVID-19 has led countries to take a variety of mitigation measures, like confinements, social distancing and lockdowns, with deep and varied effects on the mobility of people and goods and consumption and production patterns. In particular, there were unprecedented effects on maritime freight rates.

25. The Arab region was not immune to these effects on freight rates. Indeed, the Shanghai Container Freight Index (SCFI) from Shanghai to Dubai witnessed an increase of 176 per cent and 400 per cent from Shanghai to the Mediterranean ports between October 2020 and June 2021.

Figure 5. SCFI spot rates from Shanghai to Arab ports



Source: UNCTAD/ESCWA calculations based on data from Clarksons Research.

26. A combination of factors has been advanced to explain this fluctuation in freight rates, including the lessening of lockdown measures and varying speeds of recovery worldwide, the shortage of empty containers and container ships and delays due to congestion in key ports and shipping nodes resulting from closures and lockdowns.

27. The effects of this surge in freight rates are expected to be amplified in most low- and middle-income countries of the Arab region, especially those suffering from conflicts or economic and financial crises. Nevertheless, some countries have adopted special measures that have helped alleviate these effects on final consumer prices. Customs authorities in Lebanon are still using the official exchange rate, which is far below the black-market exchange rate, to calculate the value of customs fees on imported goods. In Jordan, customs authorities have put a ceiling on freight rates to calculate customs fees on imported goods. Both measures slightly alleviate the impact of the increase on consumer prices. Still, it would be interesting to monitor how long these particular subsidy measures could be maintained by these countries in light of the economic and financial evidence compared to other more conventional trade facilitation procedures.

28. Regional initiatives to address the impact of COVID-19 on the transport and trade logistics sector in the Arab region 2020-2021 include the following:

(a) The impact of COVID-19 on transport in the Arab region was addressed in a joint ESCWA/United Nations Conference on Trade and Development (UNCTAD) working paper “COVID-19: Impact on Transport

in the Arab Region”, which was summarized in a policy brief. Also, a parliamentary paper on the “Impact of the COVID-19 pandemic on transport in the Arab region” serviced the discussions of a dedicated round table within the activities of the 21st session of the ESCWA Committee on Transport and Logistics, held remotely on 24 November and 8 December 2020.

(b) In addition, ESCWA implemented several activities within the United Nations Development Account project on transport and trade connectivity in the age of pandemics, in partnership with UNCTAD and other United Nations regional commissions. Under the umbrella of this global project, ESCWA produced an information material on “Coronavirus Disease (COVID-19): Trade and Trade Facilitation Responses in the Arab Region” as well as a report on the Collective Application of e-TIR Across a Land Transport Corridor Connecting East Mediterranean to GCC countries (Lebanon-United Arab Emirates). It also developed three questionnaires targeting banks, firms and policy makers aimed at gauging the conditions for trade financing in the region particularly during the COVID-19 pandemic. ESCWA also organized a capacity-building workshop on “Implementation of the eTIR International System in the ESCWA region” online, on 16-17 December 2020, in cooperation with the United Nations Economic Commission for Europe (UNECE), the International Road Transport Union and the EuroMed Transport Support Project. It also supported the national customs system of Tunisia (SINDA) to connect with the eTIR international system in cooperation with UNECE.

(c) Finally, ESCWA provided substantive support and input to the initiative led by the Department of Transport and Tourism of the League of Arab States to develop a package of recommendations to address the impact of COVID-19 on Arab transport. The recommendations were categorized as short term (containment), medium term (recovery) and long term (resilience to face similar crises in the future). These recommendations were adopted by the 33rd session of the Council of the Arab Ministers of Transport, held in Alexandria, Egypt, on 21-22 October 2020.

V. Conclusion

29. As the BRI is the core theme of Chinese foreign policy, it seems likely that China will continue to make BRI investments in the Arab region a priority.³⁵ However the full impacts of COVID-19 on China’s domestic economy as well as the economies of the Arab region are yet to be fully seen. The scope and rate of the development of BRI projects in the Arab region have been hindered by COVID-19, and only time will tell how fast China and Arab States fully recover and expend resources on BRI projects. As a majority of global financial and political resources are currently dedicated to fighting the pandemic and securing vaccines, it is likely that BRI infrastructure projects will continue to take a back seat as critical health-related infrastructure is being developed through the Health Silk Road.

30. Moreover, while the changes may seem temporary, longer term changes to global supply chains toward more diversification and simplification is inevitable and may cause less reliance on China as a source of global supply of many goods, which may reduce Chinese inclination to invest in infrastructure in the medium term. Arab countries engaged in the BRI project are thus encouraged to prepare for a possible delay or even cancellation of some projects. Countries are also encouraged to prepare for changes in global value chains to benefit from opportunities that may result from the recalibration of chains to lower dependence on China.

³⁵ <https://www.forbes.com/sites/wadeshepard/2017/10/25/why-china-just-added-the-belt-and-road-initiative-to-its-constitution/?sh=7fed69f642ab>.