Increased yuan usage will catalyse GCC-China trade

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CHINA is a leading contributor to global trade. In 2015, global trade was above $16.5 trillion, out of which China's exports were worth $2.3 trillion and imports were worth $1.68 trillion. The recent inclusion of the Chinese yuan in the International Monetary Fund's special drawing rights basket from October 1 is crucial for the currency's globalisation and promotion of global trade.

The GCC is one of China's major trading partners. GCC-China trade was worth more than $92 billion in 2010 and reached close to $158 billion in 2014. The The GCC-China free trade agreement is still under negotiation. Exports from the GCC to China have jumped from more than $56 billion in 2010 to $98.07 bllion in 2014. Imports by GCC from China have jumped from $36 billion in 2010 to close to $60 billion in 2014.

The growing synergies have contributed to a surge in GCC-China trade. Trade in our times is led by China, which will increase the use of yuan in international trade. This can also be felt in GCC-China trade relationships, particularly in the trade finance segment. UAE-China trade has surged from more than $25 billion in 2010 to more than $50 billion in 2014. Chinese companies operate specifically within the logistics, aviation and energy sectors in the UAE. China and the UAE signed a $5.5 billion currency swap deal in January 2012. In March 2013, the Agricultural Bank of China started a branch in Dubai. There are more than 300,000 Chinese nationals who work and live in the UAE, in addition to over 4,200 Chinese companies.

China's central bank is expected to pick a Chinese lender to clear yuan transactions in the UAE, which would strengthen the growing economic ties between China and the GCC. A clearing bank in the UAE could have a big impact on trade and investment in the Gulf because Dubai acts as the region's top business centre, handling flows of money and goods to other GCC countries.

Yuan for direct payments

The UAE is already the most active country in the Middle East in using yuan for direct payments to China and Hong Kong. In 2015, the currency was used for 74 per cent of payments by value from the UAE to China and Hong Kong on the Swift international transactions network. The UAE centre will provide local Chinese firms, UAE companies and those from other regions with renminbi liquidity for trade settlement and investment. Last year, China said the UAE would be included in its Renminbi Qualified Foreign Institutional Investor scheme with a 50 billion yuan quota, allowing UAE-based institutions to channel offshore yuan holdings into Chinese securities. The UAE clearing centre could make it easier for UAE investors to do this.

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Saudi Arabia-China trade was more than $43 billion in 2010 and was close to $49 billion in 2014. Chinalco, China's state-run aluminium manufacturer, is funding phosphate projects in northern Saudi Arabia. Saudi Arabia's Aramco and Sinopec Group signed a deal to develop the 400,000bpd refinery, known as Yasref, in January 2013.

Kuwait-China trade had surged from $8.5 billion in 2010 to more than $10 billion in 2014. In June 2014, Kuwait and China signed agreements to boost cooperation in the areas of economy, investment, energy, culture, education and civil aviation. In January 2013, China's foreign exchange regulator awarded the Kuwait Investment Authority (Kia) a fresh quota of $700 million for direot investment in the Chinese securities market, on top of the $300 million granted earlier. Kia has a stake in the agriculture bank of China. Kia was also granted a $1 billion licence by China's central bank in 2012 to invest in its domestic interbank bond market.

Oman-China trade has surged from more than $10 billion in 2010 to close to $24 billion in 2014. China is one of the major importers of crude oil from Oman.

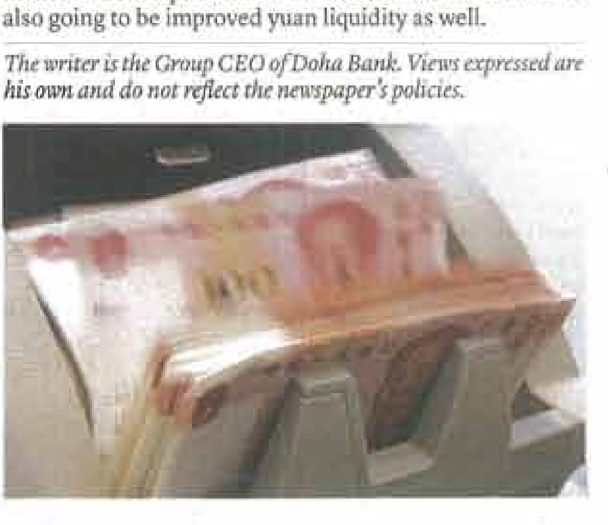
Qatar clearing centre

Bahrain-China trade has surged from more than $1 billion in 2010 to $1.4 billion in 2014.

Qatar-China trade has surged from $3.4 billion in 2010 to $10.6 billion in 2014, mainly on account of an increase in natural gas exports to China as well as imports of Chinese electronic goods and building materials to Qatar. Qatar Gas and the China National Offshore Oil Corporation have an existing sales and purchase agreement signed in 2008 for the supply of two million tonnes per annum of LNG.

In April 2015, Qatar opened the Middle East's first centre for clearing transactions in Chinese yuan, which will boost trade and investment between China and Gulf Arab economies. It will also facilitate greater cross-border yuan investment and financing business, paving the way for better financial cooperation and enhancing the pre-eminence of Qatar as a financial hub in the Mena. The development of clearing centres in the UAE and Qatar and the increased usage of the yuan are going to improve trade and investment relationships between the GCC and China. There is also going to be improved yuan liquidity as well.

The writer is the Group CEO of Doha Bank. Views expressed are his own and do not reflect the newspaper's policies.



UAE-China trade has surged from more than $25 billion in 2010 to more than $50 billion in 2014. — *Reuters*