

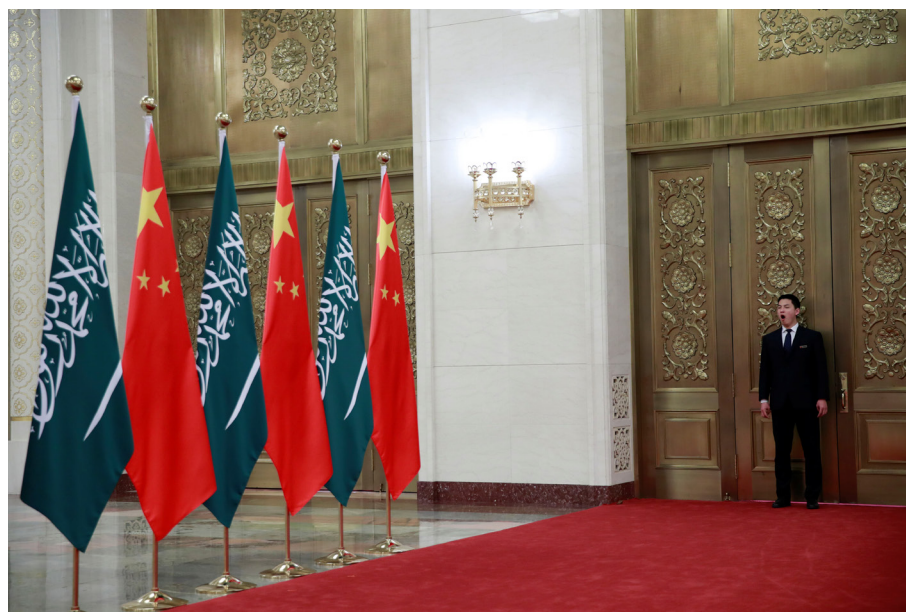
The Middle East and China's Belt and Road Initiative

China's presence in the Middle East is on the rise, particularly in the framework of its Belt and Road Initiative. As the US draws down its commitments in the region, Europe will need to consider what greater Chinese involvement in the region means for its interests.

By Lisa Watanabe

China has scaled up its engagement in the Middle East in recent years, developing relations with a myriad of countries, including those on different sides of regional divides. It has increased its trade with the region, becoming a major import-export partner for countries such as Israel, Saudi Arabia, Qatar, and Iran, as well as a growing investor. Central to China's growing presence in the region is Beijing's Belt and Road Initiative (BRI), which seeks to create greater connectivity between Asia, Africa and Europe as a means of boosting China's economic growth and, by default, the regime's domestic legitimacy. The Middle East is especially important to the maritime element of the BRI, due to China's dependency on seaborne energy imports from the region and the region's strategic location at the crossroads between Asia, Europe and Africa.

Although the BRI is touted as having potentially huge developmental implications for the region, the clearest beneficiaries so far appear to be regional countries that are important to China's energy and shipping security. Above all, these are the wealthy Gulf States and Israel. The restricted focus of the BRI notwithstanding, China's increased economic engagement with the region will inevitably lead to growing involvement in regional security affairs. As the US draws down its presence in the re-



A security officer stands guard at the meeting of Saudi Crown Prince Mohammad Bin Salman and Chinese President Xi Jinping in Beijing on 22 February 2019. *How Hwee Young / Reuters*

gion, Europeans will need to ask themselves whether and on what issues they should engage China in order to promote their interests.

BRI in the Middle East

Broadly speaking, the BRI is an umbrella term unveiled by Xi Jinping in 2013 that primarily seeks to open up new markets and secure global supply chains to help

generate sustained Chinese economic growth and, thereby, contribute to social stability at home.

The BRI has both a land-based and a maritime component. The maritime element – the Maritime Silk Road Initiative (MSRI) – connects China to Europe and Africa via the Middle East. Its land-based equivalent – Silk Road Economic Belt (SREB) –

seeks to connect China to Europe, largely via Central Asia, but also to a lesser extent via the Middle East. The MSRI is by far the most significant for the Middle East, since it affects a larger number of regional states than the SREB. It is conceived as running from the South China Sea via the Indian Ocean, through the Gulf of Aden and the Suez Canal, terminating in Port Piraeus in Greece.

There are several reasons why the Middle East forms a core part of the MSRI. To fuel its economy, China is increasingly dependent on energy imports. In 2013, China became the largest importer of crude oil globally. Almost half of China's crude oil originates from the Middle East, along with a 10-20 per cent of its natural gas imports. As such, China is heavily dependent on the Middle East for its energy needs, making energy security paramount for Beijing.

Navigation security is also a key concern for China. Most vessels transporting goods, including oil, between China and Europe must pass through several choke points in the region. Up to one third of crude oil shipped over sea has to transit through the Strait of Hormuz, off the coast of Iran and the United Arab Emirates (UAE). Seaborne goods between China and Europe must also pass through the Bab el-Mandeb Strait, off Djibouti and Yemen. This makes China's energy imports, as well as its goods, vulnerable to disruptions caused by piracy, regional tensions, and conflict. Therefore, Beijing has an interest in the security of shipping, as well as in finding alternative routes to avoid maritime chokepoints.

With these objectives in mind, China has been engaging regional countries through memoranda of understanding (MoUs) and partnerships of varying intensity. The major focus of intensified relations with countries in the region has, not surprisingly, been energy cooperation and the building of infrastructure, including the construction of seaports and transportation infrastructure deemed critical to improving navigation security, as well as creating alternative transport routes to bypass chokepoints. Beijing has also sought to deepen trade relations with the region. In addition, people-to-people exchanges form a smaller part of the BRI.

Projects supported within the MSRI framework are facilitated by a number of new financial instruments, including a USD 100 billion Silk Road Fund and the

Asian Infrastructure Investment Bank (AIIB), as well as by state-owned Chinese banks, such as the China Development Bank, the Export-Import Bank of China, and the Industrial and Commercial Bank of China. China has also carried out a number of currency swaps with regional countries to help facilitate increased trade.

Priority countries of the MSRI are Saudi Arabia, the UAE, Iran, and Egypt. Beijing has concluded comprehensive strategic partnerships with each of these countries, indicating a desire to widen the strategic partnerships by including a wider range of spheres. It is not difficult to see why these countries have taken on particular significance within the context of the MSRI.

Saudi Arabia supplies the majority of China's crude oil imports, making it a state warranting particular attention. The UAE is situated on the Strait of Hormuz, through which the majority of China's oil imports transit. It is, therefore, potentially

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important for ensuring the smooth passage of vessels transporting oil to China. Its position, as well as its modern infrastructure, also make it an interesting gateway for goods destined for Middle Eastern markets.

Iran is another country that China has sought to engage with the aim of diversifying energy suppliers and reducing energy dependence on Saudi Arabia. Stepping up cooperation with Teheran has also been viewed as important for minimizing the risk of disruptions to maritime transport through the Strait of Hormuz. Iran has on occasion, including recently, threatened to close the Strait, which would push up oil prices and disrupt energy supplies. Beijing is, therefore, eager to develop cooperative relations with Teheran. In addition, Beijing is hoping that Iranian oil could one day go over land to China, thereby reducing dependence on seaborne shipping and the risks this entails.

The importance of the Suez Canal for shipping Chinese goods to Europe makes Egypt another key state. Although Egypt's strategic location means that it is central to the MSRI, China is, nevertheless, looking

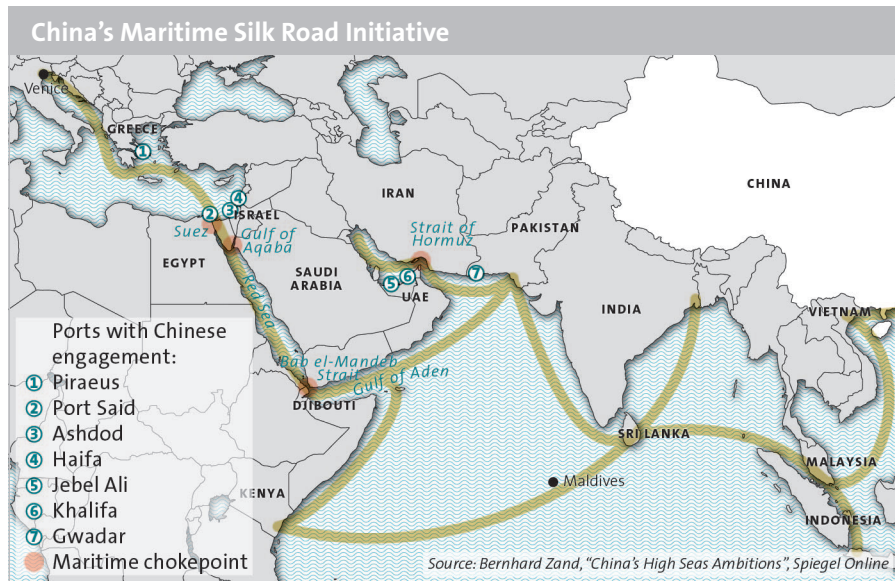
for alternative ways to access the Mediterranean, through Israel for example, making Israel a less critical but still important country for the MSRI.

Regional Impact

Although China has clear interests of its own for enhancing cooperation with states in the region, Beijing has framed the BRI (and, thus, the MSRI) as a "win-win" initiative that not only serves China, but also benefits China's regional partners. Many countries in the region are interested in the BRI, because of their need for high-quality infrastructure and, in some cases, reconstruction, not to mention the necessary financing for related projects. With burgeoning youth populations, Chinese investments and the possibility of boosting trade with China are also viewed as a source of much-needed job creation.

The MSRI is, however, not only of interest to the less wealthy countries of the region, but also to the resource-rich ones that hope that increased cooperation with China will boost their oil exports, particularly following the reduction in US demand. Chinese investment is also seen as a way, over the longer term, of diversifying their economies and dovetails with the development plans of many of the Gulf States that include a reduction of the dependency on oil.

Despite hopes across the region, the economic gains from the MSRI are likely to be unevenly distributed. The major beneficiaries so far are the wealthy Gulf States, particularly Saudi Arabia and the UAE. Saudi Arabia is today China's most important trading partner in the Middle East and China is the kingdom's biggest trade partner, with the export of Saudi oil and petrochemicals and imports of Chinese machinery and consumer goods forming the bulk of this trade. The kingdom is also the favoured regional destination for Chinese investment, which to-date remains largely focused on the energy sector. Chinese companies are generally investing in petrochemical facilities, as well as constructing and maintaining nuclear power plants and research reactors, which serves Saudi Arabia's drive to find alternative sources of power in light of growing domestic energy consumption and declining hydrocarbon reserves. The hope is that additional investments, like the joint venture to create an industrial park in Jazan Economic City, will contribute to the diversification of the Saudi economy, along with infrastructure



to improve the environment for business and tourism.

After Saudi Arabia, the UAE has become China's second largest trading partner, trade being comprised mostly of Emirati oil and natural gas exports and imports of Chinese textiles, light industrial products, and machinery. It is China's second preferred investment location. The UAE's strategic location and high-end infrastructure make it appealing as a hub for Chinese exports. Emiratis have successfully capitalised on this in a way that suits their own developmental goals. Earlier this year, the UAE and China signed agreements to the value of some USD 3.4 billion to boost Dubai's role as a regional logistics hub for Chinese goods, which will include the development of Port Jebel Ali. Abu Dhabi's Port Khalifa is also set to benefit from expansion under the MSRI.

As anticipated, Egypt has also witnessed increased Chinese investment. China is playing a key role in facilitating some of Egypt's flagship projects launched under President Abdel Fattah El-Sisi. The construction of a new administrative capital is partly financed through a USD 3 billion loan by the Industrial and Commercial Bank of China, for instance. In addition, China is investing in the redevelopment of the Suez Canal and Port Said, as well as industrial zones in the country. Whether all of these projects will actually serve Egypt's development goals has yet to be seen, since some are clearly prestige projects that have doubtful potential for job

creation. Moreover, some of these projects may be ill conceived, since public debt in the country already amounts to some 80 per cent of GDP.

In addition to investing in Egypt, Beijing has stepped up the development of transport infrastructure in Israel in an attempt to create a route from the Red Sea to the Mediterranean that avoids the Suez Canal. China is, therefore, building a high-speed railway from Eilat on the Gulf of Aqaba to Ashdod Port on the Mediterranean, as well as investing in the expansion of the port. Construction of a new Haifa Port north of Tel Aviv is also planned. The hope is that goods could be shipped from these ports to the Port Piraeus in Greece that is operated by the China Ocean Shipping Company. Although these projects are a gain for Israel, they could eventually have a negative impact on Egypt should they lead to less transit through the Suez.

One country that has not reaped the expected gains from the MSRI is Iran. While China had hoped to significantly increase trade with Iran, particularly through oil imports, the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and its re-imposition of sanctions and secondary sanctions has hindered this plan. Given that the US is by far a more important trading partner for China than Iran, China has so far sought to comply with US sanctions, leading it to decrease oil imports from Iran. Chinese companies have also

suspended many of their business activities in the country. Because of these developments, Saudi Arabia's importance for China's energy needs continues unabated.

Therefore, potentially "win-win" outcomes would seem to apply only to the already wealthy countries of the region, particularly Saudi Arabia, the UAE, and Israel. Countries that are in a more precarious economic situation, such as Egypt, may not reap the expected benefits, and poorer countries that are less critical for energy and navigation security will likely see even fewer benefits. Although China's interest in contributing to stability within the region, if only to protect its interests, should translate into expanding the benefits of the MSRI beyond the wealthy few and contribute to regional development and stability, unstable investment climates, especially in post-conflict environments (e.g. Syria and Libya at a future point) could limit the extent to which China will be eager to get to involved. The big gains of the MSRI may, therefore, be reserved for only a select few.

China and Regional Security

The MSRI not only has implications for the region, but also for other external actors

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with interests in the Middle East, including Europe. So far, China has concentrated on geo-economics, preferring to leave security matters primarily to the US. However, increased economic and energy interests in the region, as well as growing numbers of Chinese nationals living and working there, could inevitably draw China more deeply into regional security affairs. This, as well as the expected drawdown of US commitments in regional security, is already leading to a realization in Beijing that it may need to engage in more security-related activities in the Middle East, however reluctant it may be to do so.

In fact, this would build upon China's already growing security footprint in the region. China has been doing more in the area of peace promotion and mediation over recent years. As part of its efforts to step up peacekeeping commitments, China has been contributing to a UN peacekeeping mission in Lebanon since 2006. Beijing has also been involved in mediating some of the region's most high-profile conflicts,

Further Reading

Maha S. Kamel, "China's Belt and Road Initiative: Implications for the Middle East," *Cambridge Review of International Affairs* 31:1 (2018)

Julia Gurol, "Rivals or partners? Interdependencies between the EU and China in the Middle East," *CARPO Study*, October 2018

Camille Lons, Jonathan Fulton, Degang Sun, Naser Al-Tamimi, "China's Great Game in the Middle East," *ECFR Policy Brief*, October 2019

including the Syrian and the Israeli-Palestinian conflicts.

In addition, Beijing has established its first military base outside Chinese territory in Djibouti on Bab el-Mandeb Strait in return for assistance in the development of Djibouti's military capabilities. The base is intended as a replenishment center for the Chinese People's Liberation Army Navy, which maintains a continual naval presence in the Gulf of Aden to carry out anti-piracy and emergency operations in the Middle East and Africa that have already included the evacuation of Chinese nationals from Libya in 2011 and Yemen in 2015.

China is also increasing military cooperation with Iran as a means ensuring navigation security in the Strait of Hormuz. The past few years have seen China conduct joint military exercises with Iran, during which Chinese warships entered the Persian Gulf. Beijing is also believed to be considering using the port of Gwadar in Pakistan, which is it helping to develop, in order to enable a military presence near the Strait.

Implications for Europe

As China's engagement in the region increases, Europeans will have to consider what this means for their own interests in the Middle East, particularly as US commitments further dwindle and the regional environment becomes more characterized by the presence of multiple external actors.

On some issues, China and Europe will have their differences. Although both have an interest in regional stability, their approaches to fostering stability differ. China emphasizes the importance of state power and non-interference, and sees development as the principle basis for stability. Europe, by contrast sees not just development, but also human rights and the rule of law as essential ingredients for long-term stability. As a result, as China's presence in the region increases, Europe could find it harder to promote a norms-based agenda.

However, China's involvement in the region remains fairly focused on just a few states. Although China is becoming an important partner for these countries, regional governments are likely to recognize that China does not constitute a clear alternative to other external actors in the region. Trade with Europe, European investments and development assistance are still highly valued by governments in the region. Nevertheless, Europe needs to better understand the nature of China's regional economic engagement, whether and what kind of influence it translates into, and how it can promote its own interests in an increasingly multipolar regional environment.

Moreover, China is only reluctantly getting

involved in regional security affairs and still appears happy to let other external actors take the lead on regional security. Consequently, there may be room for cooperation with Beijing on security matters. China has shown a willingness to work within multi-lateral formats linked to the Syrian conflict, the Iranian nuclear programme and navigation security in the Strait of Hormuz, which is promising. Given that Europe has more experience in the region, it could capitalize on this by engaging China on issues of mutual concern and, where possible, to find multilateral solutions.

Europe and China are, thus, likely to differ on some issues, but may be able to cooper-

Beijing may need to engage in more security-related activities in the Middle East, however reluctant it may be to do so.

ate on others on a case-by-case basis. A less prominent or reliable US commitment to regional security will make it all the more imperative for Europe to find ways to engage China in a way that promote its own interests in the Middle East. Therefore, greater attention needs to be given to the challenges and opportunities presented by China's growing involvement in the region.

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