The Belt and Road and China's Long-term Visions in the Middle East

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Abstract

In recent years, China has significantly increased its political visibility in the Middle East. In 2016 alone, China undertook unprecedented diplomatic efforts in the Syrian conflict, began to construct its first military base outside China in Djibouti, and published its first Arab policy paper. Given these endeavors, the growing divergence from its constitutional foreign policy paradigm of 'Non- Interference' becomes evident. With Beijing's ambitious 'One Belt, One Road' (OBOR) Initiative, Xi Jinping's most important strategic initiative during his presidency that aims to economically connect more than 60 countries throughout the Afro-Eurasia region and revive the ancient Silk Road along with a Maritime Silk Road, the Middle East will continue to play a vital role in the implementation of 'OBOR' and the challenge of Western influence and presence in the region. Besides its economic interests, China commands a significant Muslim minority of 23 million people, particularly in its Western region of Xinjiang, making the fight against radical Islamist terrorism a major priority on China's foreign policy agenda. Politically, the Middle East offers Beijing the opportunity to reshape the international system according to its vision of a multipolar, harmonious world, but also to participate in the global arena.

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Analysis

Good morning everyone. I’d like to first thank the Konrad Adenauer Foundation and the Issam Farres Institute for inviting me. It’s really an honor to be here.

I’ve been asked to address China’s trade interests in the Mideast and the region’s significance on the One Belt, One Road or OBOR vision, so I’ll first provide a brief outline of the OBOR, its geographic reach and how it works, and then examine China’s interests in the Mideast with special regards to key countries such as Iran and Saudi Arabia. I’ll then conclude with implications of China’s increased engagement in the region and how it could enhance China’s soft power in the long run.

I. Introduction to OBOR

Now firstly, what is the OBOR? Very briefly it’s a vision launched by President Xi in 2013 that seeks to integrate China with the Eurasian landmass through a vast network of transport corridors, energy pipelines and telecom infrastructures. Its geographic scope is quite large, covering some 65 countries, 4.4 billion people or 62% of the world’s population, and 30% of global GDP. It consists of a land route called the “Silk Road Economic Belt” linking China, Central Asia, Middle East, Russia and Europe, and a sea route known as the “Maritime Silk Road” that begins from China’s eastern ports and goes on to Southeast Asia, South Asia, East Africa, and then continues on to the Middle East and the Mediterranean.

Map 1: Silk Road Economic Belt and Maritime Silk Road

Source: *Xinhua,* 2014

I also want to clarify that although it is called <u>One</u> Belt, <u>One</u> Road which have led some people to believe it is just one corridor, the two main routes actually have a series of loops, branches and various economic corridors—for example the China-Pakistan Economic Corridor (CPEC), or the China-Central Asia-West Asia

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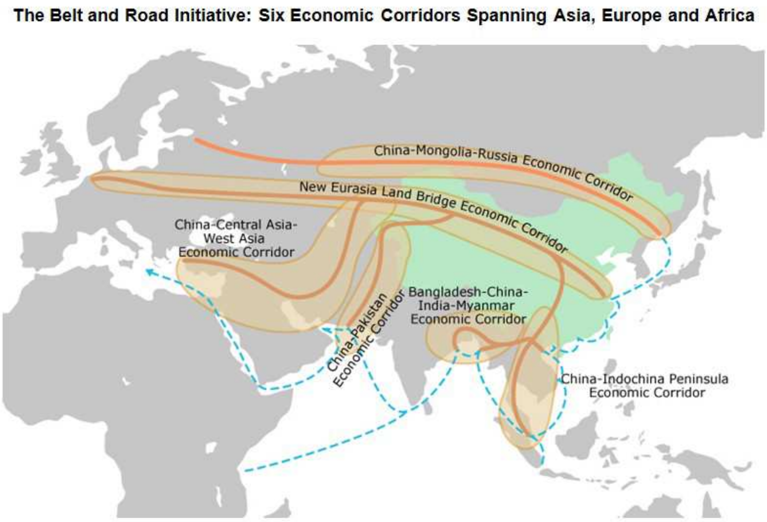
Economic Corridor (CCWAEC), so in 2015 the Chinese tried to change the name to Belt and Road Initiatives or BRI. But, OBOR seems to have stuck for now.[1]

Map 2: Six Economic Corridors



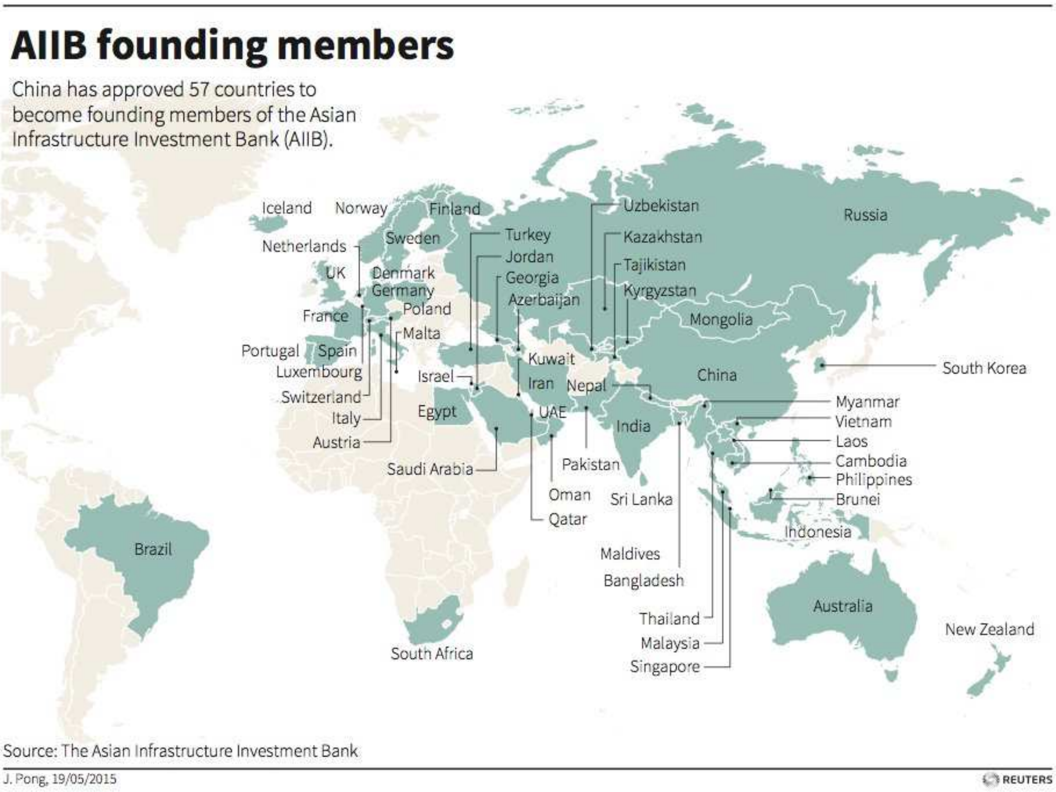
Source: HKTDC Research, "The Belt and Road Initiative", 13 September 2017[2]

How does it work? Well, because OBOR is more of a concept and a vision, rather than a practical implementation plan with a central clearing house, it's akin to an "umbrella type" initiative covering a potentially huge collective of current, planned and future infrastructure projects, accompanied by a host of bilateral and regional trade agreements. The initiative is vague and fluid (which makes it easier to bundle in selective projects under the OBOR moniker), and the Chinese to date have not yet published a comprehensive list of all OBOR-related deals.

In 2015 China issued a paper that laid out the vision in three main parts: (1) first is the conceptual framework connecting Afro-Eurasian landmass through various transport corridors; (2) second is five main areas of cooperation such as coordinating OBOR projects with each country's national development plan[3], removing trade barriers and financial integration; (3) and third it identified a network of cooperation mechanisms for OBOR projects, such as the Asian Infrastructure Investment Bank (AIIB), Silk Road Fund, and leveraging other existing bilateral and multilateral cooperation mechanisms—e.g., the World Bank, Asian Development Bank, European Bank for Reconstruction and Development, Shanghai Cooperation Organization (SCO), The Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CACF) and so on. So, it is a very broad, flexible, and inclusive framework for economic cooperation.

[1] In September 2015, China's National Development and Reform Commission (NDRC), Foreign Ministry and Ministry of Commerce (MOFCOM) announced that the scheme's official English name is "The Belt and Road", or "B&R". "China's new silk route: The long and winding road", PricewaterhouseCoopers (PwC), February 2016, p.2, https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf
[2] Hong Kong Trade Development Council Research, "The Belt and Road Initiative", 13 September 2017, http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm
[3] (1) intergovernmental policy coordination; (2) facilities connectivity—e.g., infrastructure/ports/roads/pipelines/railway/telecom; (3) removing trade and investment barriers; (4) financial integration; (5) people-to people exchange

Map 3: AIIB 57 Founding Members



Source: *Business Insider*, May 2015[4]

OBOR is also China's long-term development strategy. In the short term, it is a way to offset higher domestic production cost and excess capacity, reduce transport cost, create new markets for Chinese goods and services, and internationalize the Chinese currency RMB. In the long term, China needs to ensure it has timely, efficient, and secure access to markets and resources given it is now the worlds' largest trading nation, which brings us to the Mideast as the most important segment linking the three continents of Asia, Africa and Europe.

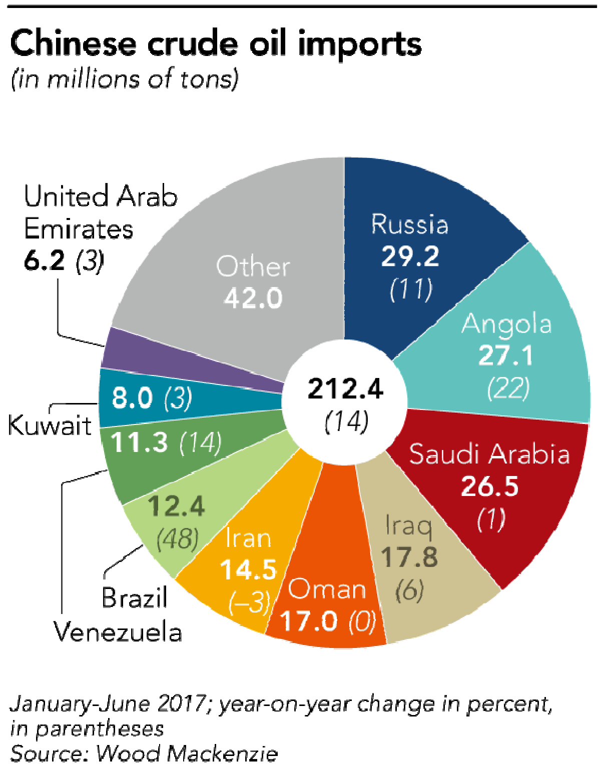
II. The Middle East Segment of the Belt and Road

So, what are China's interests in the Mideast? Well it is firstly a source of energy, providing more than half of China's crude oil imports. It is also a hub for market access in Europe and Africa, where the EU is China's largest export market, and the region is a forward front for counter-terrorism, especially for China and other Asian states that continue to depend on the Mideast for energy imports. Basically, they need regional stability and security of supply lines.

[4] Leika Kihara and Linda Sieg, "Japan just took a $110 billion shot at China's new infrastructure bank", *Reuters*, May 21, 2015, http://www.businessinsider.com/r-japan-unveils-110-billion-plan-to-fund-asia-infrastructure-eye-on-aiib-2015-5

Energy-wise, China is now the world's top crude oil importer,[5] with GCC, Iran and Iraq accounting for 60% of China's imported oil, and trade-wise, China's top three trading partners in the Gulf region are Saudi Arabia, the UAE and Iran.[6] Bilateral trade in 2016 with Saudi Arabia was more than $70 billion,[7] with UAE at $46.3 billion,[8] and Iran at $31.6 billion.[9] China-GCC trade amounted to $114 billion in 2016.

Chart 1: China's top crude oil suppliers Jan-June 20217



However, the current **Saudi-Iran rivalry** is a challenge for China, given they are both top oil suppliers and strategically flanking the Persian or Arabian Gulf and the Strait of Hormuz, so instability in the energy-rich Gulf region would throw a monkey wrench into China's OBOR through the Middle East, and Chinese officials are

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[5] It is estimated China's oil and gas dependency will reach 67% in 2020. In 2015, China imported 1/3 of its oil and liquid gas from the Gulf. Wang Jian, One Belt One Road: A Vision for the Future of China-Middle East Relations", Al Jazeera Centre for Studies Report, 9 May 2017, http://studies.aljazeera.net/en/reports/2017/05/belt-road-vision-future-china-middle-east-relations-170509102227548.html.

[6] Jonathan Fulton, "China is trying to pull Middle East countries into its version of NATO", *The Washington Post,* June 21, 2017, https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/21/how-china-is-shifting-toward-the-middle-east/?utm_term=.a36b7d633aa7; In 2015 China's top 10 oil suppliers include six countries in the Gulf region: Saudi Arabia, Iran, Iraq, Kuwait, UAE and Oman. Sumedh Anil Lokhande, "China's One Belt One Road Initiative and the Gulf Pearl chain", *China Daily*, June 5, 2017, http://www.chinadaily.com.cn/opinion/2017beltandroad/2017-06/05/content_29618549.htm

[7] Abdul Hannan Tago, "Saudi-China trade stands at $70 billion", *Arab News,* December 5, 2015, http://www.arabnews.com/economy/news/845596; Zhuang Pinghui, "Key facts behind China's warming ties with Saudi Arabia, Iran and Egypt as Xi Jinping signs mega oil deals during his Middle East tour", *South China Morning Post,* 20 January 2016, http://www.scmp.com/news/china/diplomacy-defence/article/1903393/key-facts-behind-chinas-warming-ties-saudi-arabia-iran

[8] "China to strengthen UAE, Saudi Arabia ties for Belt and Road Initiative", *The National*, September 10, 2017, https://www.thenational.ae/business/economy/china-to-strengthen-uae-saudi-arabia-ties-for-belt-and-road-initiative-1.627145

[9] "China provides $10 billion credit line to Iran", NDTV, September 16, 2017, http://www.ndtv.com/world-news/china-provides-10-billion-credit-line-to-iran-1751108

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also concerned that energy supply disruptions would dampen its economic development and undermine the Chinese Communist Party's (CCP) legitimacy. Since reliable oil supplies are key for China, it would try to build a firewall between Iran and Saudi Arabia, and the fact that China is a steady demand market for their long-term supply contracts means Beijing has some influence to help reduce tensions.

Map 4: Strait of Hormuz

As such we witnessed China step up its regional profile early last year when President Xi visited Saudi Arabia, Egypt, and Iran,[10] and released its first Arab Policy Paper to signal its intention of increased engagement in the Mideast.[11] The paper outlined the "1+2+3" cooperation framework with energy forming the core ("1"), infrastructure construction and trade/finance as its two wings ("2"), and further cooperation in the three ("3") high-tech fields of nuclear energy, space satellite, and renewable energy. It's also trying to balance ties with both Riyadh and Tehran—in March Beijing signed $65 billion worth of deals with Riyadh & intends to coordinate OBOR projects with Saudi Vision 2030, while in June China backed Iran's admission to the China-led Shanghai Cooperation Organization (SCO) and recently extended a $10 billion credit line for infrastructure projects. Iran is an important node of the OBOR by virtue of its geography linking Central Asia with South and West Asia, while Saudi Arabia is a leader of the GCC and also a key oil supplier.

Pakistan is another country closely linked to the Gulf region and site of the OBOR flagship project, the China-Pakistan Economic Corridor (CPEC), launched in 2015 and now with an estimated value of $62 billion. The project consists of extensive investment in Pakistan's transport, telecom and energy infrastructure, and will extend 2,500 km (1,553 miles) to link the southwestern port of Gwadar by the Strait of Hormuz—to Kashgar in China's northwestern Xinjiang province. Currently Gulf oil has to travel almost 15,000 km in to reach Xinjiang—10,000 km through sea and then 4,500 km across almost the entire Chinese landmass. So CPEC would shorten this distance by some 12,000 km.

[10] "China president back home after visits to Saudi Arabia, Egypt and Iran", *Xinhua*, January 24, 2016, http://en.people.cn/n3/2016/0124/c90883-9008539.html
[11] Gal Luft, "China's new Grand Strategy for the Middle East", *Foreign Policy*, January 26, 2016, http://foreignpolicy.com/2016/01/26/chinas-new-middle-east-grand-strategy-iran-saudi-arabia-oil-xi-jinping/; "Full text of China's Arab Policy Paper", *Xinhua*, January 14, 2016, http://www.china.org.cn/world/2016-01/14/content_37573547.htm

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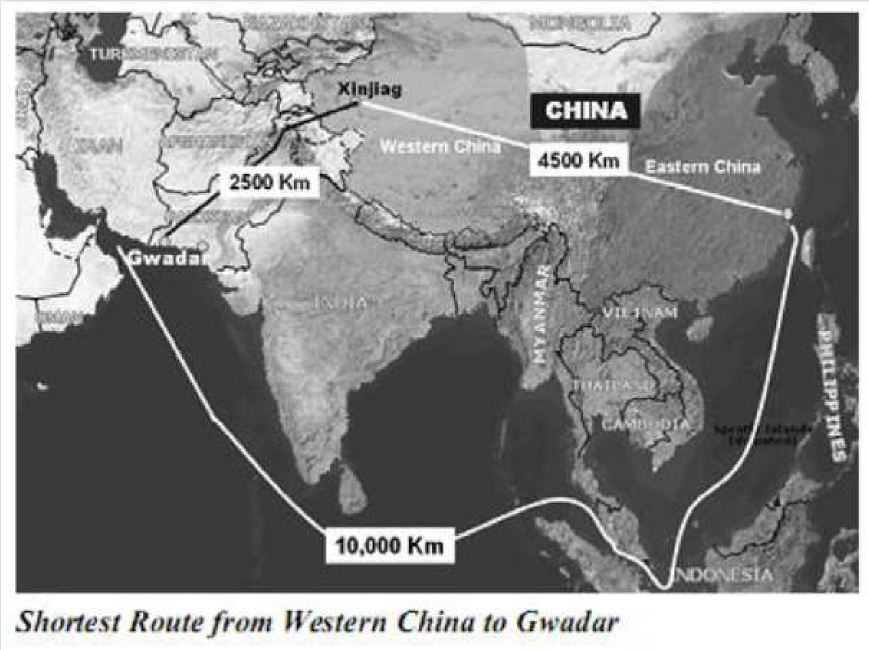
Map 5: China-Pakistan Economic Corridor



Source: ICSANA[12]

With 40-year operational control of the port, once completed China will have direct access to the Indian Ocean and Gulf energy supplies that bypasses the Malacca Straits where currently 80% of China's oil imports passes through. Known as the Malacca Dilemma whereby the US navy can cut off China's oil supply through the straits in a potential Sino-US confrontation, the China-Pakistan Economic Corridor is one way to hedge against this dilemma.[13]

III. Implications of China's rise and soft power in the Middle East

Will China be able to secure resources? Yes, this corridor would enhance the security of energy supply lines to China, but of course there are no guarantees. China would still need to step up its security footprint—whether establishing new naval bases by maritime choke points (e.g., Djibouti, Gwadar), expanding its UN peacekeeping presence to protect infrastructure workers and investments (e.g., South Sudan), step up security cooperation with countries or resorting to private security firms to protect supply lines.[14]

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[12] http://www.icsana.com/index.php?option=com_content&view=article&id=433:gwadar-port-implications-for-gcc-and-china-continued&catid=9&Itemid=561&lang=en

[13] Other alternatives are the Bangladesh-China-India Myanmar Economic Corridor, and railways, pipelines from Iran through Central Asia to China. CPEC faces challenges from India that opposes the corridor passing through disputed territory in the Kashmir, as well as security threats in Balochistan and chronic problems with militancy, separatism, political volatility and official corruption. Notwithstanding the challenges, if the project is successful, it would be a game changer for regional politics more closely linking China with resource-rich Middle East via the Arabian Sea, and strengthen inter-regional ties especially between Iran and Pakistan. To this aim, Islamabad has extended an invitation for Tehran to join the CPEC initiative, which would significantly increase the likelihood of the proposed Iran-Pakistan gas pipeline.

[14] Pakistan has already deployed 15,000 troops to protect Chinese workers along CPEC, and China is also utilizing private security firms to protect these supply lines, including the Hong-Kong based logistics firm Frontier Service Group that is co-

What do countries get in return? In return for cooperating in OBOR projects and increased Chinese investments, countries receive preferential financing in terms of grants, interest-free and concessional loans, other forms of government funding. They also receive a full development package to stimulate their economy.

Take UAE for example, China's second largest trading partner in the region that handles 60% of China's re-exports to Europe and Africa with an estimated value of $70 billion each year.[15] In July China signed a $300 million deal to develop a manufacturing operation in the free trade zone of Khalifa Port, on the heels of China's COSCO shipping winning rights ($738 million) to develop and operate a new container terminal there for 35 years. While most shipping companies own/operate terminals and ports on foreign terrain as shipping-centric operations,[16] China differs in that they open new ports and invest in adjoining free trade/special economic zone and other development initiatives as well so that host countries get the entire development package.

Moreover, even if Abu Dhabi doesn't directly economically benefit from these projects beyond the initial investment capital, they can serve as catalysts for other projects to grow up around them (for example, factories need local suppliers, workers, etc.). The idea behind these places is for them to become international hubs of transport, production, and commerce and bring in investments from various countries around the world.

As such this could also work in Lebanon with an eye towards **Syrian reconstruction.** Currently the Chinese are eying Tripoli port that could be a main transshipment hub for the Eastern Mediterranean, since before the war Lebanon's ports were used to transship good to Syria and even Iraq, and bypass the longer sea route through the Suez Canal and around the Arabian Peninsula. There has also been talk of rehabilitating the Tripoli-Homs railway network with Chinese investors.[17]

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founded by Blackwater's Erik Prince, with eyes on opening new offices in the southwestern province of Yunnan that adjoins Southeast Asia, and another base in Xinjiang, the starting point for the CPEC.

[15] Wade Shepard, "Next Up on China's Maritime Silk Road: Abu Dhabi", *Forbes*, August 2, 2017, https://www.forbes.com/sites/wadeshepard/2017/08/02/next-up-abu-dhabi-chinas-maritime-silk-road-breaks-into-the-middle-east/; Lee Hong Liang, "Abu Dhabi ports inks $300m investment cooperation with China", *Seatrade Maritime News*, July 21, 2017,http://www.seatrade-maritime.com/news/middle-east-africa/abu-dhabi-ports-inks-300m-investment-cooperation-with-china.html According to UAE's Ministry of Economic statistics, China is its top trade partner, followed by India, USA, Saudi Arabia and Germany. "UAE-China trade exchange surges to AED520.6 billion in 3 years", *Emirates Business,* August 9, 2017, http://emirates-business.ae/uae-china-trade-exchange-hits-aed520-6bn-in-3-years/ Again, Saudi/UAE spat with Qatar within GCC is problematic for China's OBOR, so Beijing, as an increasing investor and stakeholder, will increase its diplomatic and economic profile to help maintain regional stability. Growing trade relations with Arab states is also a top priority and China's goal is to double its trade with the region to $600 billion by 2020—it is now the region's largest trading partner. Deborah Lehr, "The Middle East is the Hub for China's Modern Silk Road", Middle East Institute, August 15, 2017, https://www.mei.edu/content/map/middle-east-hub-china-s-modern-silk-road; Wang Jian, "One Belt One Road: A Vision for the Future of China-Middle East Relations", Al Jazeera Centre for Studies Report, 9 May 2017, http://studies.aljazeera.net/en/reports/2017/05/belt-road-vision-future-china-middle-east-relations-170509102227548.html.

[16] Denmark's Maersk operates in 36 countries, Switzerland's Mediterranean Shipping Company operates in 22 countries, Dubai Port World operates in 40 countries.

[17] Philip Issa, "Lebanon prepares for Syria's post-war construction windfall", *Associated Press* August 17, 2017, http://www.apnewsarchive.com/2017/Lebanon-seeks-jump-aboard-wagon-of-Syria-s-reconstruction-boom-once-peace-arrives/id-b3491b276c8446e3acf8e445890d3bac

Map 6: Tripoli-Homs Railway (built in 1911)

With a planned Tripoli Special Economic Zone adjacent to the port, Tripoli could be a useful hub for Syria and enable China via the OBOR to play a constructive role in post-conflict reconstruction and stabilization efforts.[18]

Finally, given ongoing regional security problems with terrorism, economic woes, and a need for immediate infrastructure, investment and trade, China's OBOR offers quick economic relief. And over time, as China becomes a more significant geopolitical actor in the Middle East, regional countries will become more dependent on Beijing for their trade and investment relations. China's **increasing economic soft power** will in turn reduce their dependency on the West and broaden their foreign policy options that may not always align with US and EU interests.

While this will somewhat reduce Western leverage over the region, it increases regional countries' freedom of action to diversify and engage with more economic partners, which is not necessarily a bad thing. Non-Western countries' projects do not necessarily mean they are anti-Western, but merely that they are non-Western led. Given the 2016 EU Strategy on China called for Brussels and Beijing to work together in the EU's Eastern and Southern neighborhoods to encourage rule-based governance, sustainable development and regional

[18] Port manager Ahmad Tamer estimates Syrian reconstruction (World Bank estimates cost of $200 billion) would create a demand for 30 million tons of cargo capacity annually. Tartous and Latakia have a combined capacity of 10-15 million tons, and Tripoli port can step in with an additional 5-7 million tons.

security,[19] it would be greatly beneficial if great powers such as the U.S., EU, China, India, Russia and others also try to cooperate to jointly promote Middle East stability, security and prosperity.

Thank you.

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[19] European Commission, *Foreign Affairs Council 18/07/2016,* http://data.consilium.europa.eu/doc/document/ST-11252-2016-INIT/en/pdf; Frans-Paul van der Putten *et al* eds., *The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey",* Clingendael Report, December 2016, p. 27.

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