



China in the Middle East: not just about oil

by Sebastian Hornschild

Confronted with growing US presence in the Pacific, China is striving to shore up its geostrategic position to its west. The Middle East is a key part of Beijing's 'One Belt One Road' (OBOR) initiative. In January, Beijing published its first 'Arab Policy Paper' which provides a detailed overview of China's plans for the region. And a few days later, President Xi Jinping made his first official visit to the Middle East.

China's formal diplomatic relations with countries in the Middle East date back to 1956, when Beijing forged ties with Cairo. Other countries in the region then followed, attracted by China's principle of non-interference. Since 2014, 'comprehensive strategic partnership' agreements have been signed with Iran, Saudi Arabia and Egypt, while five 'strategic partnership' agreements have been signed with major countries in the Middle East and a further three are in the pipeline. Although economic diplomacy remains at the centre of China's activities in the region, Beijing has also already deviated from its traditional policy based on non-interference and has become more proactive on the diplomatic and security stage.

Energy defining ties

China's actions in the Middle East are driven by the notion of 'no peace, no development; no development, no peace', with economic progress perceived to be vital in order to advance – as well as pacify – the conflict-torn region. As an indication of this, between 2000 and 2014, Sino-Middle East trade

volume increased 17-fold from \$18 billion to \$312 billion. And in 2010, China replaced the US as the region's largest trading partner.

Bilateral economic ties are still defined by China's enormous energy demands. In 2015, 51% of China's worldwide crude oil imports came from the Middle East, making the region China's principal supplier of hydrocarbons. Beijing has ensured the delivery of hydrocarbons by signing bilateral memorandums of understanding (MoUs) with all major crude oil supplying countries in the region. These MoUs are backed by numerous framework deals involving China's state-owned companies and their Middle Eastern counterparts.

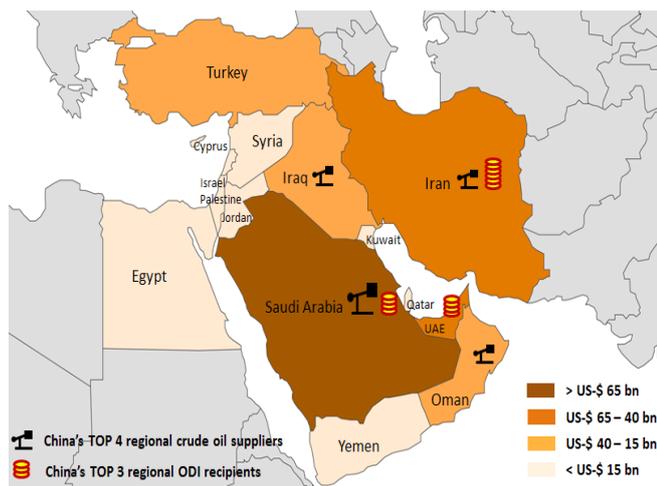
High-tech infrastructure projects

But Beijing is also seeking to go beyond this energy-based relationship and the trade in low-end goods. The recent Arab Policy Paper advocates a '1+2+3' approach, a blueprint which prioritises energy cooperation while emphasising the desire to improve trade and investment, as well as cooperation in new sectors including nuclear and renewable energy and aerospace technology.

In line with this blueprint, China is expanding its support for infrastructure projects through the promotion of indigenous high-tech goods. As China's former economic model, based on excess labour supply, is running out of steam, the only way to foster new domestic growth is through innovation. In



China's trade with the Middle East (2014)



Data sources: IMF and UNCTAD

fact, the entire OBOR initiative is driven by the need to innovate and improve domestic technological expertise and capacity. Simultaneously, Chinese-backed infrastructure projects in the Middle East (as elsewhere) provide the foundations for improved trade and prosperity – fulfilling Beijing's promises of a 'win-win approach'. Major projects linked to the OBOR initiative are centred on the construction of high-speed railway links and energy and telecommunications infrastructure. Not only do such projects improve the economic capacity of receiver states, they also have the advantage of connecting the economically underdeveloped Chinese hinterland to the greater Eurasian landmass.

Chinese corporations are, for example, building the Teheran-Mashhad high-speed railway link in Iran, while they have already completed the Ankara-Istanbul railway link. They are also in the process of negotiating on the construction of a cross-country railway in Turkey. Additionally, Chinese companies have upgraded the telecommunications network in Saudi Arabia and have been awarded the contract to overhaul Syria's network. China is also promoting its recently certified indigenous nuclear reactor design in the region. A US-Chinese consortium is set to bid for the construction of Turkey's third nuclear power plant (at an estimated cost of \$25 billion), while talks with Saudi Arabia and Iran over expanding nuclear infrastructure have intensified as well.

During his visit to the Middle East in January, Xi Jinping outlined plans to provide \$55 billion in loans and investments for infrastructure projects in the Arab world. The Asian Infrastructure Investment Bank (AIIB), backed by its \$100 billion worth of capital, is set to be a main source of funds. Qatar is establishing a \$20 billion investment fund for bilateral projects, while the United Arab Emirates is setting up a \$10 billion joint sovereign wealth fund.

Ultimately, China is aiming to forge strong partnerships which span the region. The refusal of Israeli Prime Minister Benjamin Netanyahu to allow an Israeli official to testify in the US federal court in a money laundering case against China in 2013 hints at China's growing influence over even close US partners. Yet Beijing's success in transforming financial investment into political support for its strategic goals is best demonstrated by the Arab League's statement in May supporting China's stance on the territorial disputes in the South China Sea.

From trade to security

China has vital security interests in the Middle East: a sudden disruption in crude oil supply or to trade routes in the region is, for example, considered to pose a national security risk, and Beijing was forced to repatriate thousands of citizens from conflict zones in Libya, Iraq and Yemen. Moreover, China has begun constructing its first overseas military base in Djibouti and actively contributes to UN anti-piracy missions in the Gulf of Aden.

Beijing is also concerned with matters related to terrorism. The beheading of a Chinese national by Daesh at the end of 2015 and the 100-300 Chinese nationals who are assumed to have joined the jihadists have raised the spectre of the radicalisation of China's own Muslim population and alarmed policymakers in Beijing. While improving economic prospects is seen as one part of the solution, Beijing has signed extradition treaties with 36 countries, increased the capacities of the People's Liberation Army (PLA) and People's Armed Police (PAP) and passed a far-reaching counter-terrorism law in late 2015. The Arab Policy Paper calls on the Middle East to strengthen exchanges and cooperation on counter-terrorism – primarily in the field of intelligence sharing. The Shanghai Cooperation Organisation (SCO) and the Conference on Interaction and Confidence Building Measures (CICA) are the preferred fora of choice – and may even offer frameworks which third parties can join.

Finally, the Middle East provides a theatre to test China's diplomatic skills. Its diplomats played a key role in the P5+1 talks on Iran's nuclear programme and in brokering the Joint Comprehensive Plan of Action (JCPA). China is now seeking to mediate in the Syrian and Palestinian conflicts by hosting opposing parties in Beijing and engaging in pre-summit peace talks. This new level of international engagement might open new avenues for security cooperation between Chinese and European officials – in the Middle East and beyond.

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