

Dr. László Gulyás, PhD

China and the Middle East

A Brief Introduction to the Belt and Road Initiative

This teaching material has been made at the University of Szeged,
and supported by the European Union. Project identity number:
EFOP-3.4.3-16-2016-00014

SZÉCHENYI 2020 



HUNGARIAN
GOVERNMENT

European Union
European Social
Fund



INVESTING IN YOUR FUTURE



Dr. László Gulyás, PhD

Estimated reading time:

20-22 minutes

Estimated learning time:

45-50 minutes

Class VIII: China and the Middle-East

Summary

In this course you will receive a detailed description on the situation regarding the Belt and Road Initiative in the Middle East. The material is focusing on Iran, Saudi Arabia and Turkey.

Topics of the class include:

- The reason China is using a different approach for the Belt and Road Initiative in the Middle Eastern Region than usual
- Why the BRI is extremely important for Turkey and Iran and why China needs to be careful regarding Saudi Arabia

General Overview

When we think about the Belt and Road Initiative and its role in the Middle East, it is safe to say that the „original” Silk Road has returned to its root. **The Silk Road has contributed to the development of many countries along its way from Europe through the Middle East to Central Asia.** But not just Chinese goods were traded via the Silk Road, but many Arabian and Persian products as well. Thus, they all played a significant role in the development of the region surrounding – and following – the Silk Road.

So, this old-new Initiative could maybe do the same for the region. But can it?

The role of the Middle East in the Belt and Road initiative is not so clear or unambiguous as other regions participating in the project. Although many of the BRI’s official objectives can be applied here such as the upgrading of the infrastructure and through it connecting it to the East and the West and to make sure a sustainable development is assured to create long time stability (and with it reduce extremism). However, here we must add that **not all Middle Eastern countries (especially those located around the Persian Gulf) are in need of direct foreign investments** (or not at the level which is quite common for countries participating in the BRI) **so Beijing needs to change its usual approach** accordingly.

This does not mean that the wealthy Gulf monarchies will reject China’s every offer, it simply means that money itself will not necessarily be enough to influence these countries to join the BRI and/or favor China over other (potential) partners. Still the United Arab Emirates is a founding member of the Asian Infrastructure Investment Bank, so it is safe to say that many countries in the region – even those who are not necessarily dependent on Chinese investments – are interested in the Belt and Road Initiative.

China wants to increase bilateral trade with the Arab states substantially from 240 billion USD in 2013 to at least 600 billion USD until the end of the decade (that was a valid prognosis which obviously could not have anticipated the economic effects of the COVID-19). Beijing also wants to accelerate negotiations for the **establishment of a free trade agreement** with the various countries of the region, especially with the Gulf Cooperation Council members.

We must not forget that it is true that the Middle East is very problematic but the BRI itself is in its early stages in many regions: in some cases there are only plans for improvement or in others the work barely started. So, **there are a lot of uncertainties surrounding the Initiative.** The chaotic nature of the Middle East definitely does not help to see more clearly. **Much of the analysis regarding the BRI is based on assessment: what are the goals, can they be achieved in a given timeframe and so on.** So far there are only a few elements of the BRI that are completed entirely. This is important to point out in this region because of one thing.

Usually the BRI aims to improve the economy of a given region and through it achieve stability, practically economic advancement serves political purposes. But in the Middle East this is not the case with China's policy: here the PRC aims to separate economic questions from the politics of the area. This attitude of China toward the Middle East is not a new one, however. Beijing always threaded lightly when it came to the political situation of the region and each Middle Eastern country's political affiliation. The reason for this is simple: China's energy sector is too dependent on the Middle East to not to be cautious.

In 2016 following Xi Jinping's January visit the Initiative's goals regarding the Middle East has been announced in the "Arab Policy Paper". During this trip, the Chinese General Secretary visited Egypt, Iran and Saudi Arabia. Within the framework of his visit and the subsequent issue of the Policy Paper, the new principles of collaboration have been set. This is the so-called **"1+2+3 cooperation pattern"**. By this plan, the most **important part of cooperation** between China and the Middle Eastern countries are (descending order based on relevance): **energy cooperation; infrastructure advancement and trade and investment facilitation; advancement in high-tech fields including nuclear power, satellites and new energy.** This approach by China was originally proposed in 2014 and the main goal is to improve cooperation by moving solely from the energy sector to other fields, including the **implementation of new technologies and making nuclear power available for these countries. This latter part is the most important for Oil Monarchies.** As stated before, they are not really in need of foreign money, but what they do lack are technologies – and Chinese companies are willing to share those.

Xi Jinping's visit in 2016 was a delicate matter as he both visited Saudi Arabia and Iran: the greatest rivals in the region. It is especially interesting since Xi's original trip was planned to happen in 2015, however it was postponed because of the military intervention in Yemen. The country where Saudi Arabia and Iran is fighting a war through proxies.

The question is, will China change its stance towards the Middle East and tries to implement the Belt and Road Initiative as with any other parts of the world or will it adjust the BRI to the local circumstances? As mentioned before, the lack of financing is not that big of a problem here than in other regions in the world, however, obviously this is not true for every country in the Middle East, but for example the Oil Monarchies are not dependent on foreign investments. Thus, China needs to offer something else, something more. For those countries that could definitely use Chinese investment there are numerous problems why they currently cannot receive it (with the exception of Turkey,

Iran and Egypt, but the latter are covered in the course about Africa). These problems include being either under occupation (parts of Palestinian territories) or constantly affected by military actions (parts of Lebanon, effectively all of Syria, most of Iraq) or simply lack of viable investments.

As a result of these we will be focusing on those countries that are either in real need of Chinese investments or could make the most out of it. So, we will analyze the situation in Turkey and Iran. Because of the latter we will also talk about Saudi Arabia as its “archenemy”. Iran and Saudi Arabia are the two countries in the region whom China needs to be the most careful with.

This visit was good for one thing, however, showing the parties – and for the whole world for that matter – that the BRI has no political agenda (at least not one that favors one country over the other) as it is trying to maintain its neutral stance no matter what nation it tries to involve.

Iran

Currently the one country in the Middle East (that is viable for investments, we must add) that is **the most in need of Chinese direct foreign investment** is Iran. **Although it has a huge amount of hydrocarbons and thus substantial yearly income, the continuous embargos against the country in the last decade really weakened it**, causing its GDP to be a fraction of its normal value, leading to the decrease of the standard of living.

The most important factor for these embargoes is the country’s nuclear power program: although the official stance of the Iranian leadership is that they only want to create nuclear power plants to provide enough cheap energy for the population many Westerners suspected that this notion is only part of the truth. They say the other, more important reason for this nuclear program is to build facilities that could enrich uranium to a weapons-grade level, thus allowing the Islamic Republic to create nuclear weapons of its own. Because ever since the Islamic Revolution of 1979 the West – and most especially the United States – are hostile towards Iran (and vice versa) this could be really dangerous. Not to mention that it would be a tremendous disadvantage for Saudi Arabia in its plan to be a regional power.

We also have to mention that there are **some internal problems currently going on within** Iran. The main opposition is between the government, based around a religious leadership (Ali Khamenei Ayatollah, the Supreme Leader of Iran) and the group that calls for a secular democratic government. The problem being is that China has no way of controlling the inner dimensions of the Iranian politics and because the country is not stable, the investments are made with higher risks. Not to mention, that there is a possibility that Chinese money will actually thwart the BRI plans: the opposition could look at it as a support for the ruling regime. However, it is still worth it for China. Why is that?



1. Picture: Map of Iran. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/IR-map.jpg>

Iran's location is optimal regarding the Belt and Road Initiative as it ensures connection between West Asia and Central Asia, standing in between. For this reason, it is also an ideal candidate for being a transport hub in the region – other than making it easier to export crude oil and natural gas it can also help transfer goods from Central Asian countries (and China) to the West. As the People's Republic of China recognizes the importance of Iran's geostrategic location it is no wonder that it invests heavily in the country - especially in infrastructure development projects.

One of the biggest of these plans is the modernization (electrifying) of the Tehran-Mashhad rail line, which is more than 900 km long. Its planned cost is around 1.5 billion USD. This rail line is a continuation of the so-called "New Silk Road" which connects Urumqi of the Xinjiang Uygur Autonomous Region to Kyrgyzstan, Kazakhstan, Uzbekistan and Turkmenistan. This railway is especially important for China (and for global trade) as it shortens the transportation time considerably (reaching Iran by train can be done under 15 days now, while using sea trade route is at least double the time, if not triple). Apart from the importance in transporting goods, the **Tehran-Mashhad rail line is a vital part in passenger transport. Mashhad is an important pilgrimage site, so a substantial amount of people travel there on a yearly basis.** However, not the Tehran-Mashhad rail line is not the only one to be modernized in the long run: there are plans to

completely overhaul Iran's railroad system by 2025 (probably not going to be finished by that time though).

There is one more problem regarding Chinese investment in Iran and that is quite big. Because the Trump administration backed out of the Iranian Nuclear Deal, Iran is in more need of the Chinese money than ever before. The reason for this is **that Trump not only forbade trade deals between American companies and Iran, but also blacklisted all companies worldwide that make any deal with the Islamic Republic** (meaning that if a company is active in Iran its trade activities will be banned in the US). So most foreign companies left Iran not wanting to risk losing the American market. That obviously means that Tehran lost a lot of trading partners. Thus, it is desperately in need of someone who is willing to trade with it and invest. which is currently mostly Chinese companies – these businesses do not have to fear getting banned from the US because of the American-Chinese trade war: most firms are already ousted from the United States.

So that means that China and the Chinese companies have an easy way to enter the Middle East, right? On the one hand, it is true, but on the other hand it is exactly the opposite because of Saudi Arabia. As Saudi Arabia is the biggest energy exporter to China, and also the biggest rival of Iran **Beijing needs to tread lightly not to alienate Riyadh** because it is too friendly towards Iran. The situation regarding these two countries are delicate: closer relationship with Tehran would mean a stable foothold in the Middle East, but that could also mean that ties with Saudi Arabia are getting severed (or at least the partnership becoming much more tense).

Saudi Arabia

The economic ties between Saudi Arabia and China are growing rapidly. The Desert Kingdom is China's most important trading partner in the Middle East and China is the biggest trade partner of the kingdom – obviously most of the trade is comprised of crude oil and the petrochemical goods based on it.

In return Riyadh imports Chinese machinery and commodities. Since Saudi Arabia's yearly income is almost exclusively (around 90 percent) based on the selling of oil (and goods related to it) the increased energy consumption and need of China became very important for them – especially in light with the United States' redoubled effort to extract shale gas and thus lowering imports, resulting in a smaller income for Saudi Arabia.

As a result of the aforementioned, China's main focus is investing in petrochemical establishments and the modernization/upgrading of crude oil extracting facilities. However, this could be done by Saudi Arabia itself as they have the necessary capital for it. What they do not necessarily have though, is the required technologies and/or expert craftsmen to do the upgrades. That is also true for the infrastructural development of the

kingdom: **currently there are numerous Chinese companies working on many infrastructural projects in the Desert Kingdom**, including the building (or modernizing) of railways, roads, bridges, harbors and airports.



2. Picture. Map of Saudi Arabia. Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/SA-map.jpg>

There is one other important aspect of the cooperation between Saudi Arabia and China, although this is still part of their trade/investment regarding the energy sector as whole, China is facilitating building solar panels and wind power plants in the country and after they are completed Chinese companies – at least partially – operate them, trying to have a continuous cooperation regarding renewable energy. **A more important aspect of the Chinese-Saudi energy cooperation is the development of nuclear energy reactors**, which could and probably will increase criticism toward China and Saudi Arabia. Chinese companies are also putting capital into research in relation to the energy sector. This is optimal for Saudi Arabia as it has set a new goal with its **Vision 2030** project: to move away from the one-sided dependence on crude oil and natural gas and to modernize its energy sector. In other words, **find different sources to fuel its own increasing energy needs and rapidly decreasing fossil fuel reserves**.

Furthermore, there is a planned industrial park in Jazan Economic City which is currently under construction and is estimated to be housing around 500000 people, creating new

jobs and opportunities. Not just in heavy industry, but also in commerce and the services sector. This city will be connected to other important parts of Saudi Arabia, namely the Hijaz area on the western coast and to the eastern coast where the oil fields and oil refineries are located – Dammam and its neighborhood.

For the field of infrastructure we need to mention the usual modernization works of the country's highway system and the rail lines (a new high-speed railway that connects the Holy Cities to Jeddah was just opened to public usage in 2017). **Interestingly enough though the improvement of telecommunications was not dependent on Chinese technology:** most of Saudi Arabia's 5G network was built by Nokia and by the middle of 2020 basically the whole country was covered by the 5G network, so **telecommunication is not a field that could be improved upon by the Belt and Road Initiative.**

Moreover, as part of the aforementioned Vision 2030, **Saudi Arabia tries to improve its tourism industry:** creating places worth seeing is very important (outside of the Holy Places of Islam obviously) for this. Since there are millions of Chinese people going for vacation outside mainland China on a yearly basis, cooperation with Beijing in this field will most probably result in the increase of Chinese tourists in the Desert Kingdom.

Saudi Arabia has basically one major complaint regarding the Belt and Road Initiative and it is not among the usual ones. It is not about repaying loans or admitting Chinese workers into the country (there are many Chinese expats already) and it is not even about fearing that the People's Republic of China will gain too much influence inside Saudi Arabia. In the case of **the Kingdom its main problem with the BRI is that China is strengthening its main enemy in the region, Iran. This means that it indirectly weakens Riyadh's geopolitical power.** Saudi Arabia fears that lifting the economic sanctions because of the American Nuclear Deal and also Iran getting integrated into global economy strengthens the country in itself and with the help of China that is a huge economic and political boost which from Saudi Arabia's point of view threatens regional security. However, the Desert Kingdom could ease up a bit as the Trump administration basically terminated the Nuclear Deal and imposed additional sanctions on Iran (effectively denying Iran access not just to American companies but international companies who do business within the United States as well).

China is of course well aware of the tensions between these two countries and does not want to commit itself politically to either parties. Instead it tries to make sure that Riyadh and Tehran is not openly hostile toward each other. Whether this endeavor will be successful or not is yet to be determined.

Turkey

In recent years Turkey did a 180 degree turn with its relations toward China. After Recep Tayyip Erdoğan, Turkey's current president became the prime minister in 2003, he was very critical with the People's Republic of China's policy toward the Uygur ethnicity even calling China's treatment of the Uygur people as "a kind of genocide". However, that

magically changed by 2016, as Ankara started to crack down on Uyghur activists. The question is why?



3. Picture: Map of Turkey: Source: The World Factbook 2020. Washington, DC: Central Intelligence Agency, 2020. Available at: <https://www.cia.gov/library/publications/the-world-factbook/attachments/maps/TU-map.jpg>

The answer is very simple: **Turkey has one of the most serious economic crisis of its history and in the last fifteen years most of its previous good relationships have deteriorated substantially.** Many western partners started to withdraw from Turkey after Erdogan began to reform the political structure of the country (and buying long-range missile defense system from Russia didn't help either). **What was once the most democratic and liberal nation in the Middle East is more and more authoritarian by the day** – thanks to president Erdogan's reaction to the (some say alleged) coup that was staged against him. As a consequence, foreign investments (at least from Western countries) are very low currently and many previous trading partners are cutting ties with Ankara. So, right now Beijing's grand strategy of the Belt and Road Initiative could be (and partially is) a lifebelt for the economy of Turkey. **The Turkish nation desperately needs all the capital influx it can get, especially since the beginning of this year as the COVID19 pandemic virtually destroyed one of its most important economic sector, tourism.**

Since 2016, the relationship between Turkey and China has deepened considerably as they have signed 10 bilateral agreements on different fields, including a deal on the usage of nuclear energy. Furthermore, China helped Erdogan's regime more than once, especially after 2016: China has already invested a large sum of money (around 3 billion USD) in Turkey since then and very much intends to continue doing so. This money has become critical for Erdogan, essentially keeping him in power, strengthening him when it is needed the most.

That means that **Erdogan is much more in need of China than the other way around**. Although it is true that Turkey's geopolitical position is very desirable for China in relation to the BRI as the easiest way to the Mediterranean from Central Asia is through Turkey, but the BRI could go in a different (although longer) route. Turkey on the other hand, definitely needs China and the money affiliated with the BRI as lately it has been losing its traditional trading partners – and not just the United States, but Germany as well.

As part of infrastructure-development, Turkey completed a railroad from Kars in eastern Turkey to Tbilisi, capital of Georgia and from there to Baku, capital of Azerbaijan. From there a railway, on the Caspian Sea, from where it links to transportation networks of Central Asia which in turn connects to the western parts of China. In 2015, a Chinese consortium invested heavily in Turkey's third-largest container terminal of Kumport (Istanbul) further increasing container capacity of the port and also retaining major influence on the transportation of the containers. It is also a Chinese company that helps building the "Yavuz Sultan Selim" bridge which is planned to connect Europe and Asia across the Bosphorus after cost overrun made the previous overseers quit the project. For these projects roughly 5 billion USD was given by Chinese companies.

The energy sector of Turkey attracts even more investments under the BRI: Beijing is providing 1.7 billion USD to build a new coal-fueled power plant, which currently is estimated to provide around 3 percent of the country's electricity requirement when finished. Furthermore – and we can say this is more important – China's state-owned State Nuclear Power Technology Corporation Limited is rumored to sign (or have already signed) a deal for building the third nuclear power plant of Turkey in the coming years.

As for the field of telecommunication, Turkey is again relying heavily on Chinese companies. **Huawei's market share has grown considerably in the last few years (from roughly 3 percent in 2016 to around 30 percent by the end of 2019) in the country**. It is rumored that Huawei is helping the Turkish government to build a nationwide surveillance system to monitor its citizens. Furthermore, another Chinese company, ZTE, bought almost half of Turkey's main telecommunication company and equipment manufacturer, Netas, which is responsible for airport communications in numerous Turkish airports. Critics warn that China will have too much (in)direct influence over this Turkey.

Besides infrastructural development, we must mention military and security cooperation between the two countries. Examples for these are the sharing of intelligence, and the common fight against cyber- and "traditional" terrorism. Furthermore, Chinese weapon manufacturers have provided plans and designs for the Turkish military on certain weapon systems (including short-range ballistic missiles based on the Chinese B-611).

Strengthening ties between China and Turkey currently benefit both parties. Beijing wanted and found a strategic position in the Mediterranean in Turkey — a country needing development and investment which is also a NATO member. This can help other NATO members to ease up a bit on China and its policy (at least on principle as currently many NATO members are angry at Ankara). As mentioned, Turkey needs the investment that right now only China is able (or willing) to provide. This is important because it helps Erdogan not just to remain in power, but also allows him to avoid institutions that would require reforms or change in his policy in exchange for loans (best example for this is the International Monetary Fund).

It is expected that in the coming years the cooperation between Turkey and China will remain firm.

Questions for Self-checking:

Why is Saudi Arabia the most important partner for China in the Middle East?

Why is Iran – even though a big oil producer – very dependent on Chinese investments?

Why Turkey's stance towards China has changed in the last few years?