

RECONNECT CHINA

POLICY BRIEF 8

— Jan. 2024 —

China in the Middle East: Consequences for Europe

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This policy brief attempts to describe and assess China's penetration of the Middle East, as it strives to deliver on its security requirements along its maritime routes, as well as to develop export markets and economic partnerships with the region. The paper further aims to gauge to what extent Europe has risen to the serious challenge that China has presented.

INTRODUCTION

After being disappointed in the failure of the Oslo Accords between the Palestinians and Israelis to achieve a lasting peace, and after being disappointed in the outcomes of the Arab Spring across the region, the EU turned its back on the Middle East to focus on its own challenges and those in the Eastern Neighbourhood. This was unwise: the Middle East is Europe's backyard every bit as much as its eastern flank. Beirut, the Syrian coast, and Gaza are roughly only 200 KM away from Cyprus, the EU's southeastern most border. Egypt has the largest demographic concentration in the Mediterranean basin, that of a 100 million people, barely 550 KM from Cyprus. Such a shift neglected the realities of geography, geopolitics, interdependencies, and Europe's historic interests in the Middle East and North Africa (MENA), Levant and along the Eurasian Spine. As the US started to

disengage from the Middle East under the Obama Administration to pivot toward Asia to counter China's rise, a vacuum emerged across the Middle East. When China came to the region, it was pushing on an open door.

The EU seemed unwilling or unable to manage several fronts and crises simultaneously with the same degree of intensity and attention. Russia's full-scale invasion of Ukraine is of course a geopolitical earthquake. But at the same time, it is crucial to "zoom out" in any geostrategic assessment as other medium- and longer-term geopolitical threats and developments inevitably always loom. Europe focused too narrowly and did not "zoom out" to take a helicopter view of its geostrategic challenges and opportunities along its parameters. That is when China and the Middle East found common ground. The subject of China now is a fixture in all MENA settings, whether it relates to investment, trade, diplomacy, security, development, or many other areas. This privileged position used to belong to the US and Europe.

As always, timing is key. The timing for China and MENA to find each other is near perfect: there is a strong mutual interest and belief in connectivity, and its superior future role over political strife. Essentially the concept is gaining traction among some MENA governments that security is best guaranteed through common prosperity generated by connectivity projects (power, transport, utilities etc.), rather than building security walls and defending them with arms. China's Belt and Road Initiative focuses on

connectivity, trade, and investment. As Europe and the US have not responded with agility to such a fundamental shift in the region's political thinking, China found a fertile ground to sell its connectivity agenda. The EU's Global Gateway, now less than two years old, attempts to deal with these earlier shortcomings of European engagement in the region, but it is playing catch up with China's by now well established and large foothold in MENA. China has become the default "go-to" partner.

This key development in MENA (but perhaps little noticed by the EU), epitomized by the shift of the focus of governments from political machinations to economic development has led to enticing an already interested China to anchor connectivity initiatives of some MENA governments. China hit the iron whilst hot.

CHINA'S ENGAGEMENT WITH MENA

China's official policy towards MENA is contained in two key documents: "Vision and Actions on jointly building Silk Road Economic Belt and 21st Century Maritime Silk Road (2015)"¹ and "China's Arab Policy Paper (2016)."²

The two papers focus on construction, trade, and investment in MENA, and they barely mention security cooperation. This reflects the fundamental Chinese foreign policy approach of achieving prosperity and stability through the so called "non-interference" and "developmental peace", rather than the Western notion of "democratic peace". This is an area that has caused significant friction and discomfort in the EU as the corner stone of its engagement with MENA has been values-driven.

In contrast, China focuses on value-neutral engagement with all countries, including those at odds with each other, such as the agreement between Saudi Arabia (SA) and Iran (which has been at best suspended after the Hamas attack on Israel). How sustainable this approach would prove to be in MENA is, however, open to question: If the US accelerates its disengagement from the region, this will entice China to get more involved politically to protect its interests. This may alter China's long-term engagement as it seeks to confine its engagement to trade, investment, and connectivity, but only after it has achieved significant presence and influence in the region. Europe needs to be alive to this medium-term risk to its interests. Some of these risks might be considered vital for the EU (e.g., energy security,

maritime choke points such as the Suez Canal). China's current engagement, which may not entirely stand the test of Middle Eastern conflicts, will nonetheless cast a long shadow for decades to come.

Europe may have an opening in this regard: many Arab governments' trust in the US has been seriously undermined by various events, starting with the US' lack of support for its staunch ally Mubarak in Egypt during the Arab Spring,³ to failures to impose red lines in Syria during the Syrian civil war,⁴ and the US deaf ear syndrome that the Gulf Arab states faced when they raised the Spectre of Iranian machinations in their region). But these same Arab governments are also acutely aware of China's limitations in the security area. There is a clear opportunity for Europe to step into this gap. However, such a re-engagement should not be a stand-alone exercise, but rather part of a much broader and well-articulated strategic framework that tackles the region's myriad challenges in an integrated manner. The Global Gateway⁵ the EU's own version of the BRI⁶, would be a very effective instrument and mechanism that can provide solutions to the connectivity demands across the Middle East, and will have the added benefit of connecting the region south of the Mediterranean to Europe.

The facts as they stand today, however, indicate that China's interests and influence have become critically important for the MENA states, particularly Egypt, Iraq, Saudi Arabia (SA) and the United Arab Emirates (UAE). A critical contextual point here is that in 2015, China became the largest global importer of crude oil in the world,⁷ with 50% of its imports coming from the Middle East. In the first Quarter of 2023, SA supplied 25% of China's oil demand ranking second after Russia, whilst Iraq ranked as its third largest exporter of oil.⁸ This is a very significant development that links two key oil exporters globally, and two of the most important regional states politically and geographically, firmly to China.

The list of such significant developments is impressive and should be of interest to the EU and member states if they are serious about their relationship with the Middle East:

- China supplanted the EU as the Gulf's most important trade- and investments partner in 2020. China-Arab trade in 2021 amounted to US\$ 330 billion. SA and the UAE combined

account for US\$ 200 billion.⁹ The majority of Chinese BRI investment projects in 2021 targeted the MENA region.¹⁰

- China has become the largest non-oil trading partner globally to SA and the UAE, and the UAE is China's second largest trading partner. In 2022, MENA economies received roughly 23% of Chinese BRI investments, up from 16% in 2021.¹¹
- China is making significant investments in energy and infrastructure in Iraq. It invested US\$ 10.5 billion in 2021 in BRI-related and energy projects in Iraq.¹² Iraq, as it reemerges as a regional power, will be a key area of competition between China and the EU.
- Over the span of the past two years, strategic cooperation agreements were signed with Algeria¹³, Egypt¹⁴, Iran¹⁵, SA¹⁶, and the UAE¹⁷. Iran is the only relationship that has not delivered due to Chinese concerns regarding the impact on already strained and complicated US relations.
- 21 Arab countries have joined BRI.
- The Saudi cabinet approved applying to join the Shanghai Cooperation Organisation,¹⁸ while Iran has recently become a full member.
- BRICS has just welcomed SA, Egypt, Iran and the UAE as full members.¹⁹
- Egypt is key to China's MENA plans as the latter has invested US\$ 18 billion since 2018 in projects such as the new Cairo administrative capital, and the Economic Technological Development Area (in the geopolitically vital zone for the EU of the Suez Canal Economic Zone in Ain al Sokhna).²⁰
- In May 2023, Egypt received a US\$ 345 million Partial Credit Guarantee from the African Development Bank to improve its access to the Panda Bond market.²¹ The Panda Bond Market is made up of Yuan-denominated bonds issued by foreign borrowers. On the back of that guarantee, Egypt could raise an additional US\$ 500 million in debt financing. It is possible that the Gulf states will support Egypt through Islamic Sukuks and credit guarantees to enable

it to issue further Panda Bonds to meet its severe financial situation. Europe has an opportunity here as well: the EU, as part of the Global Gateway programme, could issue credit guarantees to enable Egypt to issue Euro-denominated bonds.²²

- In 2004 China initiated negotiations to create a free trade zone with GCC countries²³ and establish a Chinese Arab cooperation forum. The Zone has not materialised yet as there is no GCC common currency or a single market. The Forum seems to be a success.
- On 9 March 2023, Arab League Foreign Ministers in Cairo praised China's efforts aimed at peacefully resolving conflicts and expressed their collective wish to strengthen their countries' cooperation with China. Effectively, the declaration gives a blanket blessing for individual Arab states to deepen their cooperation with China.
- Both SA and the UAE are developing their port facilities by upgrading the port of Dammam in the East and Jeddah in the West to connect the Gulf with the Red Sea and so to become a super centre for container shipping. China aims to increase its capacity to accommodate container ships, and plans thus to build a huge industrial park and a free trade zone where Chinese goods can be manufactured and sold or stored awaiting shipping to western markets.
- It is worth mentioning that China won the tender for the construction of the Mecca metro system and the first segment leading to pilgrim sites in 2010.²⁴
- China harnesses Arab votes in the UN: The UN Human Rights Council published a report critical of China's conduct in Xinjiang (including possible crimes against humanity in so far as the Xinjiang Uighurs and other Muslims are concerned). China, however, secured Arab support to prevent the report being considered when the UAE, Qatar and Sudan sided with China.²⁵

For the Gulf States, their feeling of vulnerability in defending their countries has contributed to utilising their relationship with China as a hedge against US disengagement. It remains to be seen, however, whether

China is a successful hedge given its emphasis on trade, investment and BRI, and aversion to becoming embroiled in regional conflicts beyond what is necessary to secure its maritime routes and energy supplies. SA is most unlikely to abandon its strong US relations any time soon. China, in this context, provides a leverage in its relationship with the US, adding a strategic option for the Arab states. As such, SA, Iraq, Egypt, and the UAE do not see a zero-sum geopolitical outcome. This is a key strategic starting point for how the EU can start to think about its own engagement with MENA, away from zero-sum outcomes in relations with the region. In this context, the Arab Middle East sees this geopolitical situation as a new opportunity not enjoyed since the Cold War to play off suitors against each other.

As mentioned above, a regional MENA dynamic exists that is supporting the principle of what China is deploying in BRI projects, i.e., connectivity replacing political polarity. This is epitomized for example by the electricity-for-water Jordanian-Israeli agreement, the GCC-Iraq electricity grid, and the Iraq-Egypt-Jordan energy agreement. These projects are unlikely to be directly and materially affected by the recent Hamas-Israeli war in Gaza, unless of course escalation would lead to a regional war, in which case the continuity of all such connectivity projects will be severely tested. China is unlikely to be drawn into such conflicts and may reduce its engagements and investments to the bare essentials, such as the ports and energy projects.

Among the Arab states themselves, the attitude towards security seems to be shifting from walls and soldiers to cooperation to reduce the possibility of security threats. If it withstands the test of events, this is a fundamental paradigm shift in intra-Arab relations. Examples include the UAE and Saudi-Turkey rapprochement, Syria's return to the Arab fold, and the Abraham Accords (in which the UAE, Bahrain, Sudan, and Morocco signed peace agreements with Israel) which bridged the Gulf states geopolitically into the Mediterranean security architecture. For Europe this new *modus operandi* could become crucially important for its current concerns with terrorism, organised crime, and migration, because interstate cooperation, by its very nature, reduces dependency on non-state actors.

There are areas in which China's engagement in MENA has also a global dimension such as climate, food, water and health security, and supply chain sustainability. A good example is Iraq which was designated by the UN as

the fifth most vulnerable country to climate crisis. First, there is the problem of water shortages in the South of the country, mainly due to the need to pump water to drill for oil. Second, gas flaring within a 70 KM radius of Basra exceeded the total flaring volume of SA, China, Canada, and India combined. After the Ukraine war, Iraq's oil exports by European and Chinese companies, increased by 40%, having already doubled between 2010-2019. There is a cooperation opportunity here with China to stabilise the climatic conditions that will produce adverse, serious, and dangerous geopolitical consequences in southern Iraq that will further destabilise the region and cause migratory pressure and other security threats over time. For the EU this is a case of having to act to arrest the loss of influence in MENA that could culminate in having another belt that is not merely indifferent to its interests, but hostile to it.

EUROPEAN ENGAGEMENT AND CHINA

China's growing economic presence in MENA is very likely to lead to a wider engagement with the region in ways that will inevitably impact European interests. Europe has a vested enlightened self-interest in monitoring and balancing China's growing influence on regional stability and political dynamics. This is particularly critical to European interests in relation to sensitive issues such as surveillance technology and the use of Artificial Intelligence, governance, and arms sales. These matters impacted the way the EU has so far interacted with MENA based on values. China's exports of advanced surveillance technology will also enhance authoritarian regimes. There are direct security consequences to Europe as MENA countries acquire Chinese oppression technologies (e.g. how AI algorithms are designed). The EU-US Trade & Technology Council, that empathises values-based use of technologies, such as AI, and values-based Algorithms, can potentially play a key role in building a cooperative network in the region of, for example, Associate Members. Europe and the US can cooperate in following this challenge very closely, offering such alternative arrangements to MENA states in return for access to technology. The technology-geopolitical-trade race is on. It is simultaneously both values and interests based and will require, thus, a totally new and multi-pronged approach in order to achieve security and prosperity in MENA.

It is undoubtedly true that China presents MENA governments and societies with an alternative political model that claims to be able to simultaneously achieve economic growth coupled with authoritarianism. This is a real challenge to Europe's strategy to date in its southern neighbourhood that emphasised values through reforms in return for support and engagement. Such a yawning gap between two totally different approaches, with the Chinese model being perceived as successful by MENA, is pulling MENA further away from the EU. It is also creating not simply an indifferent southern belt, but a hostile one as well. The EU, faced with such a prospect, should explore whether engagement with China in MENA, aiming to help refocus China's economic role on constructive initiatives more aligned with the EU's values, may be a viable alternative to either benign neglect or confrontation. This approach may potentially enable Europe to enter an interests-based collaborative effort with China to support a stable multilateral framework that protects European interests in MENA.

Where Europe can also be impacted is that China believes that economic development and the provision of public goods are important to peace and stability, but that democratic reforms are not. In this approach, development projects that focus on resource extraction and infrastructure risk reinforcing authoritarian regimes, informal networks and social inequality. Such a development brings with it long-term consequences for the political and economic stability around Europe, generating multiple and complex security threats.

JOINT DEVELOPMENT COOPERATION

Both China and the EU share the aim of achieving a stable regional order. This can become an excellent starting point for the EU-Chinese cooperation on MENA. China's loathing to be involved in the details of regional conflicts is an opportunity for Europe to use its strengths in the region in coordination with China's economic strength. The aim would be to tie China into a cooperative multilateral structure in the MENA, rather than to leave it to act alone in a purely mercantile fashion, leaving Europe to reap the negative consequences of such an engagement.

European development agencies are already experimenting with cooperating with China in Africa. The extension of these partnerships to the MENA may be a useful start. The aim from a European enlightened self-interest perspective should be to get China to support European stability initiatives in the region should the two sides develop a multilateral constructive cooperation. Each cooperation should also provide an opportunity to shape China's political engagement with the region. It should not be a zero-sum game because Europe will lose in conflict-ridden MENA. Its states urgently need money to rebuild infrastructure, economy, and societies and deal with climate-induced problems. Chinese money is generally more quickly available than European money. Therefore, adopting a zero-sum approach to the region will likely lead to more Chinese successes in the region.

This is particularly true as China discovers its own not insignificant limitations in the region. Europe should recognise that there is a window of opportunity as China's real influence in MENA remains nascent. Many of the BRI projects have apparently been abandoned or delayed (Malik et al, 2021),²⁶ MENA countries realise that China cannot provide credible alternatives to western arms yet, and the regional states use bragging rights to exaggerate the importance of their links with China. China still falls well below MENA expectations and that gives Europe an excellent chance to act. Such engagement must be quick, targeted, and flexible (i.e. not rigid) and focused on advancing the EU's positions and interests. It is crucial to be alive to how MENA partners will use China as a bargaining chip.

The recent flare up of armed hostilities in Gaza, and the prospect of escalation, may be a rude wake-up call for China in its engagement in MENA. It may be an ancient power, but it is a novice in the quick sands and muddy waters of the myriad MENA conflicts. Its mercantile-driven approach may have served it well until now, but the flare up of armed violence, and wars, will put its investments and strategy in jeopardy. It will then face the choice of whether to get involved in a geopolitical and security sense, or reduce its engagement to the essentials, such as investing in energy and ports, and the sale of security and other related

technologies. With its other pre-occupations in the South China Sea and the Pacific, it is most unlikely that it will want to divert its resources in any significant manner elsewhere, including MENA, beyond what is necessary to secure its narrow interests in maritime security, trade, and energy supplies.

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ENDNOTES

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