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## **China's Infrastructure Projects in the Middle East: Lessons from China's Engagement Elsewhere**

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China's approach towards the Middle East has gone through significant developments in the past decade. Until 2010, China's engagement in the region was relatively limited and primarily focused on importing oil and gas to satisfy its growing economy. However, since then several factors have led to China's increased interest in the region. As one of the world's rising powers, China finds itself in dire need of energy resources and has become the world's second largest consumer of crude oil.

The Middle East plays an important role in China's calculations, as the region provides almost half of its oil and natural gas. In addition, the United States' gradual withdrawal from the region allows China to fill in the void and replace the US as an alternative loan provider and trading partner for the region. The worsening of Sino-American relationship further intensifies China's desire to increase its footprint and become a major player in the region. Lastly, Xi Jinping's commitment to the Belt and Road Initiative (BRI) which was launched in 2013, aiming to connect 65 percent of the world's population, means that China is now increasingly engaging in countries that were regarded previously as the sphere of US influence.

### **The Belt and Road Initiative**

The Belt and Road Initiative, launched in 2013 by China's President Xi Jinping, combines a land-based Silk Road Economic Belt with the 21<sup>st</sup> Century Maritime Silk Road. Though

improved connectivity and building new trade routes are often stated to be the main reasons behind the BRI, there are other benefits that China can harness. It provides, for instance, an opportunity for the development and expansion of markets for Chinese products, including China's less competitive industries, and helps Chinese companies to gain international market share. Furthermore, the initiative facilitates China's transition into a high technology economy and provides channels through which the country can exert its economic and political power. For China, the BRI also presents an opportunity to diversify energy resources and energy routes, and to achieve energy security.<sup>1</sup>

The long-term goal of the Economic Belt is to facilitate infrastructural development, improve global connectivity and closer economic cooperation between the signatories of the BRI. The Economic Belt consists of six transnational development corridors, designed to connect China to the rest of the world.<sup>2</sup> The 21st Maritime Silk Road is the coastal component of the BRI and focuses on the creation of a chain of ports. The mechanism through which this can be achieved includes the construction, expansion, and operation of ports; the development of portside industrial parks; and the development of special economic zones (SEZs).<sup>3</sup>

Upon its inception, the BRI was mainly focused on cooperation with the Association of Southeast Asian Nations (ASEAN), however, the geographical scope of the initiative was not defined yet. The first clear definition of its scope was presented in the first official BRI document released sixteen months after the launch of the initiative. What was initially an ASEAN-focused strategy, became a much broader initiative aimed at expanding into the South China Sea, the Indian Ocean Region, the South Pacific, Mediterranean Sea, and the Atlantic.<sup>4</sup> In June 2017, a new leg was added to the BRI often referred to as the 'Polar Silk Road', which is composed of Arctic shipping routes, connecting the economic centers of North America, East Asia, and Western Europe.<sup>5</sup> By 2018, 72 countries globally have signed up to participate in different aspects of the BRI. To put this into perspective, these countries together represent around one third of the world's total GDP as well as more than half of the world's population. Overall, at least 125 countries have signed BRI-related agreements.<sup>6</sup>

## **The BRI in the Middle East**

China views the Middle East and North Africa (MENA) as a key region for the BRI expansion. This is particularly due to China's demand for energy resources. In 2019, the Gulf alone supplied China with 44 percent of its total crude oil imports, with Saudi Arabia supplying 16.8

percent.<sup>7</sup> Though Saudi Arabia was until recently its leading supplier of crude oil, in May 2022 following the Russian invasion of Ukraine, China imported 8.41 million tons of crude oil from Russia and ‘only’ 7.81 million tons from Saudi Arabia. The increase represents a 55 percent jump in Russian oil exports to China in comparison to pre-war levels, while 7.81 million tons represent a mere 9 percent rise in Saudi Arabia oil exports to China.<sup>8</sup> However, when looking at the total value Russian exports still do not surpass those of Saudi Arabia, reflecting the cheap price of Russian oil, which is the result of Western sanctions and the consequent drop in demand. Russian exports to China doubled since the pre-war value and now add up to \$5.8 billion, while Saudi exports grew by 80 percent in terms of value and reached \$6.3 billion.<sup>9</sup>

If this pattern continues, China is likely to become less dependent on the MENA region for its energy supply and shift its focus towards Russia. However, while in the long-term China’s pattern of engagement in the region is likely to change due to the gradual switch towards renewable energies - in the short and medium terms, the MENA region is likely to continue to play a role as China’s major energy supplier. Nevertheless, energy resources are only a part of the greater strategic importance of MENA. Namely, the Gulf region’s geographical location could be a strategic asset to an energy-hungry China.

Not all countries in the region have embraced the BRI to the same extent. Conflict-torn and destabilized countries, such as, Yemen, Syria, and Libya may find it difficult to attract Chinese investment in the future. Similarly, Iran’s relationship with China raises concerns in the United States, and it is not yet clear how will the Biden administration approach this relationship. Overall, the region presents great opportunities for Chinese engagement and for the implementation of the BRI projects. According to the World Bank, the region would have to spend around 8.2 percent of its GDP to achieve its infrastructure goals by 2030.<sup>10</sup> This seems unrealistic without the involvement of external actors as the share is far greater than the 3 percent of GDP that the countries in the MENA region have spent on their infrastructure annually throughout the past decade.<sup>11</sup> Therefore, the BRI could, and in some cases already has, stepped in to close the investment gap. Since the inception of the BRI, China has invested at least \$123 billion in the Middle East.<sup>12</sup>

Between 2020 and 2021, Arab and Middle Eastern countries saw a staggering 360 percent increase in Chinese investment and a 116 percent increase in China’s construction engagement.<sup>13</sup> This was coupled with African and Middle Eastern countries receiving 38 percent of all of China’s BRI investment in 2021, in comparison to just 8 percent in 2020.<sup>14</sup>

Overall, 21 Arab countries are now part of the BRI. Iraq is the biggest benefactor, with Beijing investing \$10.5 billion in Iraq as part of its BRI investment in 2021 alone.<sup>15</sup>

Sino-Israeli ties have also expanded rapidly, with Israel playing an important role in the BRI due to its geographical location, its hi-tech and its ability to facilitate greater trade connectivity between different regions. However, for China's engagement to remain mutually sustainable and beneficial, two factors must be taken into consideration. Firstly, with several ongoing conflicts in the region and the dim chances of Iran's return to the Joint Comprehensive Plan of Action (JCPOA), China's future steps will have to be evaluated cautiously, to preserve its balanced approach in the region. Secondly, as China's influence grows and its relationship with the United States worsens, the Middle East should not ignore the lessons it can learn from China's engagement in Africa, the Indo-Pacific and elsewhere.

### **The BRI and the Great Power Rivalry**

China views its engagement in the region through three different lenses which all play a role in shaping China's foreign policy towards the Middle East. Firstly, China views the region through the lens of its own interest both in terms of energy supply and a key strategic geographical position. Secondly, the region is essential to the further expansion of the BRI and to the achievement of greater global connectivity. And last, but not least, it is perceived through the lens of the US-China rivalry and power competition.<sup>16</sup>

Even though the United States remains the major, and perhaps the most important, power in MENA, there is an ongoing debate about whether it should and could maintain its position as the most significant security provider in the region.<sup>17</sup> The US disengagement from parts of the region, most recently Afghanistan, has had two direct consequences. Firstly, regional powers have come to believe that the US is leaving the region and turned to other foreign powers for alternatives. Secondly, other major powers such as China and to some extent Russia have seized the moment to try to fill the vacuum left by the United States.<sup>18</sup>

Throughout the past decade, the tensions between the United States and China increased dramatically, and both countries perceive their relationship as a zero-sum game while the Middle East is becoming an important arena of this competition.<sup>19</sup> When the US announced its pivot to Asia strategy in 2011, China started to rethink its approach towards the region. The result is what is often called the 'Middle East balancing approach'. This approach represents China's attempts to increase its economic engagement with the region without getting

entangled in the myriad of political and military developments.<sup>20</sup> As such, China's focus is to secure energy resources and maintain its reputation as a 'responsible great power', without making geopolitical assertions.<sup>21</sup> At the core of China's approach is the principle of non-interference and peaceful coexistence, which in practice translates as its willingness and ability to engage even with countries facing severe economic crises, criticisms and sanctions from the West. Sino-Iranian or Sino-Syrian cooperation are prime examples of how China provides countries with an alternative export market for their resources as well as with access to large Chinese markets.<sup>22</sup>

China also stands as an attractive alternative to Western-style investment and aid which often come with strings attached in the form of political and social reforms, as well as an emphasis on human rights and fighting corruption. For those leaders that are tired of demands coming from the United States and Europe, China represents a go-to provider of loans and investment. The country is also a role model to these countries as it has achieved extraordinary economic growth, without changing its political system.<sup>23</sup> And while the United States' government perceives China's engagement in the region with increased suspicion, it is unlikely that the sole goal of China is to replace the United States and become the regional hegemon, at least not yet.<sup>24</sup> In its 2016 Arab Policy Paper, Beijing outlines its strategy towards the Middle East, mostly focused on economy, trade, energy, and investment, but without a particular emphasis on security. Therefore, though the region is becoming an arena of increased economic and technological competition between the two major powers, Beijing realizes the importance of continuous engagement with the United States, especially in maintaining regional stability.<sup>25</sup>

### **A Brief History of China's Economic Relationship with the Middle East**

Under Mao Zedong and until the 1970s, increasing China's influence in the Middle East did not represent one of Mao's main interests as he considered the region to be of a relatively marginal economic value. At the same time, Mao viewed any foreign interference in the region as indirectly threatening Chinese security and hoped that no single power would gain a dominant position in the Middle East. However, his capacity to exert direct influence was limited and neither the United States nor the Soviet Union considered China a significant regional player. By the late 1960s, China's approach towards foreign presence in the region began to change, as its relationship with the Soviet Union started to deteriorate and its ties with the US began to gradually improve. Until the late 1980s and early 1990s, China and the United States had a common goal of preventing the Soviet Union from becoming the dominant power

in the region. However, with the disintegration of the Soviet Union and the Tiananmen Square Massacre of 1989, Sino-American relations started to deteriorate, and China became more conscious of the role that the Middle East plays in this power competition.<sup>26</sup>

The 21<sup>st</sup> century brought about a change in China's attitude towards the region. While (it can be said that) the Middle East and North Africa (MENA) was largely excluded from China's pivot to Asia and Africa, since 2011 China has adopted a more pro-active approach. Developments in the Middle East, especially the political and economic instability that followed the 2011 Arab Spring, also provided China with many opportunities to increase its economic and political footprint. China has expanded its diplomatic relations, even signing comprehensive strategic partnerships with Algeria, Egypt, Iran, Saudi Arabia, and the United Arab Emirates. Moreover, it has signed further strategic partnerships with eight other states in MENA.

Between 2014 and 2019, Chinese state-owned enterprises invested \$21.6 billion in the MENA region, with 58 percent being energy-related and the oil-sector receiving the largest share of 40 percent.<sup>27</sup> Moreover, agriculture was the second largest receiving sector with 14 percent of the total investment. The two largest recipients in 2018, were the United Arabs Emirates and Saudi Arabia, receiving \$8.6 billion and \$4.8 billion in Chinese investment respectively.<sup>28</sup>

## **Infrastructure Projects**

As China's investment in the MENA continues to grow, many wonder about the incentives behind China's rising interest in the region. With most of its investment being directed to energy-related activities, obtaining access to energy supplies is at the core of China's strategy. Before the launch of the BRI, China's outward foreign direct investment (FDI) to the MENA region was \$7 billion in 2012. By 2020, this had risen to \$24 billion. The Middle East is key to China's ability to extend its diplomatic and economic influence, as well as grow its activities in other parts of the world like Africa and the Indian Ocean. However, it is important to look at each country in the region separately, as China's activities tend to focus on different areas based on the local context. It should also be kept in mind that analyzing China's infrastructure projects and investment is difficult, due to the complexity of Chinese loan and investment infrastructure as well as a lack of official and reliable data. The following section shows some examples of Chinese engagement in the Middle East.<sup>29</sup>

## **Turkey**

Due to its geographical location, Turkey presents a strategic geopolitical opportunity for China. Turkey was included in the BRI in 2015 and ever since China's investment in Turkey has reached new heights. Chinese companies' investment in the past five years has reached \$5 billion. To put this into perspective, this constitutes two-thirds of all Chinese investment to Turkey in the past 20 years. The top sectors receiving the most Chinese investment are energy, transport infrastructure, banking, and telecommunication. Currently, one of the largest investments is Turkey's Kumpourt Container Terminal in Istanbul, the third largest container port in Turkey. China purchased a significant share of the port, investing approximately \$940 million. China's Shanghai Electric Power company has also become a majority stakeholder in Turkey's Hunutlu Thermal Power Plant.<sup>30</sup>

The Sino-Turkish relationship further intensified with Erdogan ramping up Turkey's reliance on China. In 2016, the two countries signed a Memorandum of Understanding (MOU) for the Trans-Caspian International Transport route. The route is supposed to be a containerized rail transport leading from China all the way to the European Union. Moreover, China helped finance the construction of the new Istanbul Airport, which opened in 2019, having invested over \$6.2 billion in its construction. As of 2021, there were approximately 1,000 Chinese companies active in Turkey.<sup>31</sup>

However, one of Erdogan's most controversial steps is his \$15 billion "Canal Istanbul" initiative which could be used as an alternative to the Bosphorus Strait. Ankara is attempting to attract Chinese investment to help with the construction, which raises skepticism among the critics of China's BRI. Though Ankara may view China as a suitable partner, critics argue that this could become a textbook example of debt-trap diplomacy.<sup>32</sup> If Turkey fails to meet China's requirements and obligations, the strategically valuable Black-Aegean Sea water way could very well fall under the control of China.<sup>33</sup>

## **United Arab Emirates**

The Gulf states possess a strategic geographical location as they find themselves at the crossroads between Asia and Europe. As such, they are expected to play a key role in China's BRI, with the United Arab Emirates already assuming a leading role. Chinese interest in the UAE started decades ago. In fact, it was already UAE's second largest trading partner before the launch of the BRI. Currently, it seems that the UAE has managed to capitalize on the

advantages stemming from the BRI's import, export and re-export opportunities.<sup>34</sup> Many of the investments were directed towards infrastructure projects, due to which the UAE now have the busiest airports, seaports, and most developed free zones in the region. As of now, there are some 6000 Chinese companies investing or taking part in business in the UAE.<sup>35</sup>

Chinese companies are also working on a wide range of infrastructure projects in the country, with Chinese investors and contractors' engagement in the UAE expected to further increase in the future. These projects include, for instance, Etihad Rail, with Chinese investment ranging across a wide spectrum of activities, all the way from track construction to the supply of rolling stock.<sup>36</sup> Chinese constructors are also involved in the Hassyan coal-fired power plant, and the construction of phases 4 and 5 of the Mohammed bin Rashid Solar Park.<sup>37</sup> Furthermore, Chinese state-owned enterprises, China National Petroleum Corporation's Subsidiary and China National Offshore Oil Company now own a four percent stake in Abu Dhabi's Lower Zakum and Umm Shaif and Nasr hydrocarbon blocs.<sup>38</sup> Lastly, China has invested over \$1.63 billion in Abu Dhabi's KIZAD port.<sup>39</sup>

Many signs suggest that the Sino-UAE cooperation is likely to continue in the future. Most recently, the China-Gulf Cooperation Council Free Trade Agreement negotiations have entered the final and critical stage.<sup>40</sup> Although the agreement offers many attractive opportunities to the Gulf countries, especially given the transformative changes taking place in the region, the increased cooperation creates concerns in Washington. The United States' absence means there is opportunity for China to set new norms for the multilateral trading system based on its own economic and strategic interests.<sup>41</sup>

## **Israel**

Since the early 2000s, the cooperation between China and Israel has expanded rapidly, following the pattern observed in other regional countries' cooperation with China. Investment in high-tech and in key infrastructure projects is at the core of the cooperation.<sup>42</sup> Research done by RAND corporation shows that there have been five construction project deals between 2007 and 2018, and 87 investments made between 2011 and 2018. In terms of the number of investments per sector, technology receives the highest number of investments from China. According to RAND, 54 out of the 87 investments were directed toward the technology sector. In terms of investment, the technology sector received \$5.7 billion, followed by the agriculture sector which received \$5.3 billion.<sup>43</sup>

Construction and operation of strategic infrastructure such as ports and rails can potentially present great cyber and espionage risks. The four major projects that are being completed by Chinese state-owned companies are all within the field of transportation infrastructure. These include the expansion of the Ashdod port carried out by China Harbor Engineering Company; the partial construction of a new terminal by the Haifa port which would give the Chinese state-owned enterprise, the Shanghai International Port Group, operational rights for 25 years; the construction and operation of the Tel Aviv light rail, which is to be built by two different Chinese companies; and a Chinese company taking part as a subcontractor in the digging of the Carmel tunnels. Altogether, the estimated cost of these projects adds up to around four billion USD. Another major project which is likely to be completed by a Chinese state-owned enterprise is the historic rail line between Eilat and the Mediterranean and would cost around two billion USD.<sup>44</sup>

These critical infrastructure projects raise concerns about the potential threats to Israel's national security. Ashdod and Haifa are two strategically important ports located on the Mediterranean Sea, with parts of the Tel Aviv light rail predicted to pass by the Kirya area, where IDF headquarters are located. The concerns are that China might be able to conduct surveillance and espionage and carry out cyber-attacks on critical infrastructure.<sup>45</sup> Indeed, even though China Railway Construction Corporation (CRCC), which is sanctioned by the United States for its alleged ties to the Chinese military, has nearly completed its work on the Red Line in Tel Aviv, no Chinese companies were given tenders in recent bidding to complete planned work on other lines designed to connect Tel Aviv to its surrounding suburbs.<sup>46</sup>

## **Iran**

China's relationship with Iran is of key geopolitical and strategic importance as the country plays a decisive role in the region's stability. Beijing acknowledges that a potential conflict between Iran and another Middle Eastern country can jeopardize China's interests in the region and disrupt its investment flows. However, while China has no interest in Iran becoming a major power in the region or obtaining nuclear weapons, Beijing has been actively undermining the sanctions imposed by the United States and its allies. This can be viewed from China's soft balancing policy in the region, i.e., its desire to strengthen its ties with countries in the region, including Iran, without directly challenging the U.S using hard power. This, however, does not exclude China engaging with Tehran for its own benefit and at the expense of US interests.<sup>47</sup>

The flood of US sanctions against Tehran has led Iran to re-evaluate its position and start looking east to compensate for the economic losses that have been crippling its economy since 1979. In March 2021, Iran and China signed a \$400 billion deal as part of an Iranian engagement in the BRI.<sup>48</sup> Allegedly, this 25-year strategic cooperation agreement includes economic cooperation as well as cooperation in the defense sector. As such, the deal contributes to the growing tensions of the region with the West and to the tensions between the West and China.<sup>49</sup>

As part of the agreement, China is to invest \$400 billion in Iran over the next 25 years in exchange for Iranian oil. Some pundits believe that if the Sino-Iranian cooperation stretches beyond the economic sphere and into the military one, this could significantly increase China's foothold in the Middle East as well as challenge Western dominance in the region.<sup>50</sup> The agreement plans for 100 Chinese projects in Iran, mainly focused on telecommunication, healthcare, banking, ports, railways, and information technology. The deal is also said to entail military cooperation, training exercises, and intelligence sharing.<sup>51</sup>

Despite the US sanctions on the Iranian energy sector, Chinese imports of oil from Iran reached a new high in 2021, with China being the world's biggest importer of oil since 2017. China has, over the period of 14 months, imported 17.8 million tons of crude oil.<sup>52</sup> By signing the deal, China will now be able to purchase Iranian oil with a 12 percent discount.<sup>53</sup>

## **Saudi Arabia**

The importance of Saudi Arabia lies in the size of its economy, as it is one of the largest economies in the region; its abundance of oil; and its strategic location between the Red Sea and the Gulf. As such, China views Saudi Arabia as an important and integral part of the BRI. Between 2013 and 2018, Sino-Saudi cooperation within the BRI framework has seen many cooperation projects. Within that period, the two countries have signed 30 major cooperation agreements in the field of energy, finance, investment, water resources, housing, telecommunication and alike. And even though Saudi Arabia can finance most of its infrastructure projects domestically, its 2030 vision and its desire to diversify the Saudi economy will require extensive foreign investment, which China can deliver.<sup>54</sup>

As of 2019, there were more than 100 Chinese enterprises involved in various infrastructure projects and programs in Saudi Arabia, especially in the construction of railways, roads, bridges, harbors, and other strategic infrastructure. Chinese infrastructure projects help connect

poorer and less-developed parts of the Saudi economy and integrate them into the greater economic opportunities.<sup>55</sup> Some of the significant projects that saw Chinese involvement include the Mecca light railway which was constructed and is currently operated by China Railway Construction Corporation.<sup>56</sup>

China has also been very active in Saudi energy sector. Saudi is the world's largest exporter of oil within the BRI framework. For instance, China North Industries Group Corp has signed a pact with Saudi Aramco, giving the Saudi company the rights to operate a refinery and chemical complex in northeast China. Moreover, Saudi Basic Industries Corp in cooperation with Sinopec have also agreed to develop refineries and petrochemicals plants both in China and in Saudi Arabia. China has also invested heavily in Saudi entities, as in 2019 China's Silk Road Fund bought a 49 percent stake in Acwa Power, a major energy company.<sup>57</sup>

However, the future of the Sino-Saudi relations will depend on Saudi's ability to navigate through the complex dynamics between China and the United States. As the U.S.' historical ally, Saudi Arabia will need to consider its next steps carefully if it wants to maintain its economic relations with China without severely damaging its relations with the United States.

## Iraq

As China increases its footprint in the Middle East, Iraq has become the major recipient of Chinese investment in the region. In 2021, China's investment in Iraq within the BRI amounted to \$10.5 billion. Iraq's reconstruction efforts provide China with the opportunities to engage in strategic energy and connectivity infrastructure projects within the BRI. The country has also granted Chinese companies, Power Corporation of China and Sinotech, a sub-contracting deal for the construction of 1000 schools across the country.<sup>58</sup>

In 2021, Iraq has also signed projects worth \$10.5 billion with a consortium of Chinese companies. These projects are to be carried out in the southern province of Iraq and focus on the construction of a power station, a factory for floors and porcelain, sanitary ware factory, and a factory for ceramic walls and facades.<sup>59</sup> Furthermore, China is engaged in the construction of a heavy oil power plant worth about \$5 billion in Iraq's Karbala Province.<sup>60</sup> Additionally, China's Sinopec has won a bidding round and will be the contractor for Iraq's Mansuriya gas field near the border with Iran. The 25-year contract will give Sinopec a 49 percent stake with Midland Oil Company holding a 51 percent stake.<sup>61</sup>

## **Jordan**

Like other countries in the region, Jordan's cooperation with China has also accelerated in the past decade. The most evident expansion of Sino-Jordanian ties has been observed in 2015 as various investment agreements, altogether amounting to around seven billion USD, have been signed across Jordan's transportation, energy, and trade sectors.<sup>62</sup>

Infrastructure projects are perceived as the main targets of Chinese investments in Jordan. Allegedly, Chinese-based company, Touchstone, has proposed a construction of a \$4.23 billion worth freight rail project, which would connect several of Jordan's industrial zones to Syria, Saudi Arabia, the Red Sea, and Iraq.<sup>63</sup> Furthermore, Jordan's first shale oil power plant in Karak received most of its funding from Chinese state-owned bank and was constructed by Chinese companies, Shandong Electric Power Construction Corporation and HTJ group, in cooperation with Jordan's AL Lajjun Oil Shale. The plant is allegedly the second largest of its type in the world and is to provide Jordan with around 15 percent of its current energy needs.<sup>64</sup> Some amount the total value of the project to \$2.5 billion.<sup>65</sup>

Other deals concluded in the second decade of the 21<sup>st</sup> century include for instance Xingjian Goldwind Science and Technology Company and China International Water and Electric Corporation to construct and operate a wind-power plant in Jordan.<sup>66</sup> And most recently, the two countries have signed a deal for a road rehabilitation project for Al Salt/Al Ardah Road. This project is to become a priority for Jordanian government as it is vital for connecting Amman to the Dead Sea and the Jordan Valley agricultural region.<sup>67</sup>

## **Lebanon**

The Sino-Lebanese relationship began to expand in the early 2000s, however it can still be considered as rather nascent when compared to other countries in the region. This can be attributed mainly to the complex political situation and to the instability of its neighborhood, specifically the civil war in Syria. The emergence of bilateral relations between the two countries in the early 2000s was characterized mainly by increased trade relations and cultural exchanges.<sup>68</sup> As of 2013 China became Lebanon's biggest trading partner, with imports from China accounting to 40 percent of total imports in 2020.<sup>69</sup> Hezbollah has also made claims that China is ready to back up several major BRI projects such as modernization of ports, building railways and national energy grid.<sup>70</sup> However, whether these claims will materialize is still unclear, especially due to the turbulent political situation that plagues Lebanon.

In 2017, the China Council for the Promotion of International Trade (CCPIT) signed two memoranda of understanding with the Arab Chambers of Commerce with the purpose to expand the BRI membership to Lebanon. The Beirut port could become an important regional hub for the Mediterranean Sea trade, with China offering Lebanon around two billion USD with a low interest rate to further develop the port. Furthermore, the Sino-Lebanese relationship is to be further expanded, especially in terms of Chinese investment in Lebanon's infrastructure, new energy, and other key sectors.<sup>71</sup> For instance, as of 2019 China has begun to operate railway lines between Beirut and Tripoli reaching all the way to Damascus, and as of 2020 construction began of a national higher conservatory in Dbayeh worth approximately \$62 million.<sup>72</sup>

## **Syria**

Syria is one of the newest signatories of the BRI, as it joined the initiative in January 2022. The country views BRI as a great opportunity for financing its post-war reconstruction which could also contribute to its socio-economic development. From China's perspective, Syria presents an important geostrategic opportunity as it would give Beijing access to the port of Tartu and Latakia, located in Syrian Mediterranean Sea.<sup>73</sup> Furthermore, the UN estimates that the post-war reconstruction is likely to amount up to \$250 billion, giving China significant investment opportunities in areas of infrastructure, telecommunications, and energy sector. For China, the abundance of oil presents further incentives for its engagement in Syria.<sup>74</sup>

While Syria has been receiving the bulk of its assistance from Iran and Russia, Chinese companies have significant competitive advantages in the fields of electricity-generating plants, construction of infrastructure projects, food processing plants, machinery and alike, all of which will be significant as Syria embarks on its post-war reconstruction.<sup>75</sup> In 2019, Bashar al-Assad stated that the government of Syria already proposed several reconstruction projects to China, however, apart from relatively minor aid, China has yet to commit to any major BRI projects.<sup>76</sup>

## **Yemen**

The war-torn Yemen possesses an important geostrategic position as it is located at the crossroad of the BRI and the 21<sup>st</sup> Century Maritime Silk Road Initiative. The Strait of Bab al-Mandab located between Yemen, Djibouti, and Eritrea plays a significant role in the world trade as it is a strategic link between the Red Sea and the Indian Ocean. The strait is also a real

maritime chokepoint as without it sailing from Asia to Europe and vice versa would become extremely time consuming and complicated. For China, majority of its international flow (between 60 and 90 percent) flows through the strait. With such geostrategic position, Yemen could become an important connecting point between Asia and Africa, making it an essential part of China's BRI.<sup>77</sup>

Major focus of the Sino-Yemenis cooperation within the framework of the BRI will be the facilitation of connectivity and increased cooperation in energy sector. Due to the damage and destructions caused by the lengthy war, Yemen will need to significantly improve and rebuild its critical infrastructures. Chinese investment within the BRI presents a lucrative opportunity which could lead to a successful post-war reconstruction of Yemen. In terms of the energy supply, securing access to the Bab al-Mandab Strait constitutes the core of China's interest in Yemen. Through this strait most of its oil and gas supply from North Africa and the west of Saudi Arabia is transported. Though Chinese investment in Yemen's own oil, gas and energy sector decreased significantly due to the instability caused by the conflict, during a 2019 meeting with Chinese ambassador to Yemen, Kang Yong, Yemeni president mentioned the possibility of renewed Chinese engagement and investment in Yemen's energy sector in the future.<sup>78</sup>

### **Lessons from Elsewhere: Debt-trap Diplomacy**

Since the launch of the BRI in 2013 the world has seen a great deal of criticism directed at Chinese infrastructure projects around the world. Chinese investment and the provision of loans present an alternative to the Western model of economic development and engagement abroad. As such, it is important to analyze each of the criticisms through the context of the Middle East.

Perhaps the most well-known case of what the critics label as Chinese "debt-trap diplomacy" is Sri Lanka's Hambantota Port agreement. In Sri Lanka's 2017 agreement with China, a 70 percent stake of the port has been leased to China Merchants Port for 99 years. At that time Sri Lanka was facing extensive issues in its balance of payment due to its debt-servicing costs and due to the inability of the Sri Lankan government to repay its debts. The port was leased out for \$1.12 billion, which was later used to stabilize Sri Lanka's foreign reserves and repay short-term foreign debts.<sup>79</sup>

However, China's critics have argued that this represents the so called "debt trap diplomacy."<sup>80</sup> According to this argument, Sri Lankan government defaulted and granted

ownership of the port to China in exchange for debt cancellation. In line with this argument, China was to deliberately provide Sri Lanka with unsustainable loans, knowing that once the government defaulted China will be granted access to one of the most strategic ports in the region.

The reality of the agreement, however, is more complex. The Hambantota project was not initiated by China but supported and pushed for by the Sri Lankan government itself, which has proven to have been previously engaged in the construction of white-elephant, unprofitable projects. Moreover, the remaining 30 percent of the stake is owned by Sri Lanka Ports Authority, and all the commercial operations are handled jointly by the two parties. The port as such is still owned by the government of Sri Lanka and at the time of signing of the agreement, Sri Lanka's debt to China's Export Import Bank (Exim Bank) amounted to only about five percent of its overall foreign debt. The Hambantota Port agreement, although often cited as the prime example of debt-trap diplomacy, was part of the malaise affecting economic policy making in Sri Lanka.<sup>81</sup>

With regards to the Middle East and other regions where China is involved in large infrastructure projects, debt-trap diplomacy is one of the prime concerns discussed. It should, however, be noted that whether a government is likely to default depends on the context of each country. Signing deals which would be collateralized against infrastructure projects puts economically distressed countries in the risk of infrastructure appropriation by China. However, while falling into the debt-trap is a serious concern in war-torn and economically weak states, such as Yemen, Lebanon, or Syria, other countries like Israel are unlikely to experience debt servicing problems. As such, before drawing any conclusions and blaming China for debt-trap diplomacy, individual countries' context should be considered. Especially when it comes to the percentage of countries' total foreign debt to China, it is easy to forget that these countries often have other sources of investment and funding, which in many cases constitute most of their total foreign debt.<sup>82</sup> Furthermore, one must not think of the recipient countries as mere innocent victims and ignore their agency. In fact, the leaders of these countries have their own agenda and for the most part are aware of what the potential consequences of their actions are.<sup>83</sup>

## **China's Quest for Natural Resources & the Angola Model**

Chinese engagement in resource-rich economies has been given the name “Angola model”. According to this model, China provides investment and loans as well as builds essential infrastructure in resource-rich economies in exchange for their natural resources. Many of these economies have fallen victim to the so called “resource curse” whereby due to the abundance of a natural resource, the government fails to respond to the welfare needs and fully benefit from the resources the country possesses. This lesson is particularly relevant to those Middle Eastern countries that have failed to diversify their economy as the energy sector constitutes a large part of China’s engagement in the region.

Research analyzing Chinese involvement in resource-rich economies through the production-linkages theory - in other words how Chinese companies create linkages with local economies by encouraging local participation and/or utilizing local products - shows that the biggest potential gain stemming from Chinese engagement in these countries lies in the ability to increase local employment. However, as Chinese infrastructure projects are for the most part linked to the use of Chinese companies and Chinese workers, China’s sourcing strategies have so far failed to generate significant increases in local employment in recipient countries and achieve inclusive development. This is problematic as the recipient countries miss out on a great economic opportunity while China effectively channels its funding to Chinese enterprises abroad (and back to China through salaries and remittances). Furthermore, though the recipient countries (in turn) receive revenues from oil exports, China often strikes favorable deals allowing it to import more oil cheaply (for less money), thus reducing (lowering the overall) revenues.<sup>84</sup>

Moreover, China intensifies some of the internal aspects of the resource curse. Resource-rich economies are often faced with high levels of corruption. China, due to its policy of non-interference, is willing to cooperate with any type of government, making corruption even easier in countries that are already struggling to fight it. China’s constantly rising demand for natural resources also provides no incentives for institutional development. As such, China’s engagement in resource-rich economies that are politically fragile can hamper these countries’ socio-economic development and lead to further internal struggles and corruption.<sup>85</sup>

## **Quantity over Quality**

With the launch of the BRI the number of infrastructure projects constructed by Chinese companies has risen dramatically. However, Chinese projects have often been criticized for prioritizing quantity over quality, often funding white elephant, low profit projects as well as often overrunning the construction time and the allocated budget. Further criticism includes lack of attention to maintenance as well as challenges during the initial implementation stages of Chinese built projects. All these significantly lower the ability to reap benefits from these expensive infrastructure projects and to ameliorate the socio-economic development of the recipient country.<sup>86</sup>

Moreover, many, especially in the West, are concerned about the environmental costs stemming from China's BRI projects.<sup>87</sup> Although the BRI promises sustainable projects to every signatory, these projects have often been criticized for causing irreversible habitat damage or loss, overexploitation of already scarce resources as well as the degradation of landscape surrounding the infrastructure projects.<sup>88</sup> Moreover, between 2014 and 2020 around 160 billion USD was allocated to Chinese-backed coal-fired power plants constructed outside of China. China is also considered to be the largest financier of overseas coal projects for the past few years, with Chinese investments currently estimated to be financing about 53.1 gigawatts of coal-fired power. However, it should be noted a number of Chinese companies have shelved or cancelled their projects as part of China's efforts to phase out coal investments, with majority of Chinese investment in 2020 being channeled into renewable energies.<sup>89</sup>

## **Concluding Remarks**

Chinese engagement in the Middle East has increased dramatically during the past two decades. With more and more countries joining the BRI and the US gradually withdrawing from the Middle East, China is gaining a strong foothold in the region. Cooperation with China can reap many benefits, but it also presents challenges that the countries should be aware of to behave sustainably, both from the economic and climate point of view.

It is also important to remember that portraying China as the ultimate predator and the recipient countries as the ultimate victims does not fully reflect the reality. As any other country would, China approaches the region with its own geostrategic goals, but it should be remembered that the recipient countries, for the most part, have the willingness and ability to take ownership of their own actions and decisions.

**The opinions expressed in MDC publications are the authors' alone**

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