



# China*MED* Report

## 2019



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# ChinaMed Report 2019

## China's New Role in the Wider Mediterranean Region

Edited by

**ENRICO FARDELLA** and **ANDREA GHISELLI**

With a foreword by

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FONDAZIONE TERZO PILASTRO  
INTERNAZIONALE

Fondazione Terzo Pilastro - Internazionale, chaired by Professor Emmanuele F. M. Emanuele, is the natural evolution of Fondazione Terzo Pilastro - Italia e Mediterraneo, as holder of a synthesis of the original strategic forms of assistance that are now implemented on a larger scale and with no territorial constraints: the Third Sector (non-profit organizations, or Third Pillar), and the urgent themes inspired by looking beyond the Mediterranean Region and observing current affairs in the emerging economies in the Middle and Far East, which in the future will play a leading role in our history. The Foundation operates in the fields of health, scientific research, welfare, education and art and culture and acts as a bridge between the various cultures of the East and West and the North and South of the world.



International  
Affairs

The International Affairs Program of the Compagnia di Sanpaolo, a leading banking foundation in Italy, aims to create more opportunities for local institutions in a number of relevant sectors in which they aspire to acquire international resonance, and stimulate the foundation's ability to bring some of the leading elements that distinguish European & international debates and reflections to the city of Torino.

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# The ChinaMED Project



## About Us

The **ChinaMed Project** was launched in 2011 by the Center for Mediterranean Area Studies (CMAS) of Peking University and the TOChina Hub to offer a fresh analytical response to the shifting geo-economic and security landscape in the wider Mediterranean region. Led by Prof. Enrico Fardella (Director of CMAS) and coordinated by Dr. Andrea Ghiselli (Fudan University and TOChina Hub), the **ChinaMed Project** reflects upon, and actively engages with the growing relations between China and the region through a range of academic and policy-related initiatives divided into three intertwined areas: research, education, and dialogues.

## Research

Thanks to an expanding group of researchers, the **ChinaMed Project** collects and elaborates data and monitors media and academic sources in Chinese and the main languages of the region. The primary research aim of the ChinaMed research team is to analyze the deepening interconnections between China and the countries in the wider Mediterranean, reflecting on their potential impact on regional and global dynamics. The research results are published each month and are freely available in the page of the **ChinaMed Observer** and through the ChinaMed Bulletin newsletter.

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## Education

In partnership with several institutions, the **ChinaMed Project** offers a range of educational and training programs to students and young entrepreneurs from all around the globe. The **ChinaMed Business Program** ([www.chinamedbusiness.eu](http://www.chinamedbusiness.eu)) is a six-week intensive program held in Beijing, Chongqing and Shenzhen in partnership with Peking University. It is specifically designed to train young professionals to grasp the many opportunities created within the ChinaMed framework. The **TOChina Insite** is a tailor made one-week program held in China for professionals - from the corporate and institutional world - interested in deepening and updating their knowledge on China's most recent social, economic and political evolutions. The one-week "**China and the Mid-Med**" summer program hosted by Tel Aviv University is designed for a selected group of renowned scholars and graduate students doing research on the ChinaMed agenda. Through an intensive series of interactions with experts coming from a wide range of technical fields - logistics, trade,

shipping, security, IT, technology etc. - the workshops aims to favor a cross fertilization between area experts and practitioners in order to promote a broader and more informed understanding of the Sino-Mediterranean dynamics.

## Dialogues

The **ChinaMed Project** includes a yearly **Track 1.5 Dialogue** on Mediterranean security with the Institute for the Middle East and North Africa of the China Institutes of Contemporary International Relations (CICIR), one of the most prominent think tanks in China. Over the years, this policy-oriented dialogue has welcomed participants from Italian and Chinese public and private institutions to discuss strategic issues within the ChinaMed framework. The **ChinaMed Symposium** is the latest initiative to be launched and aims to convene, on a yearly basis, experts from China and the region to discuss key trends associated with the deepening Chinese engagement with the wider Euro-Mediterranean space.

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The ChinaMed Project is promoted by:

TOCHINA HUB



The TOChina Hub is an integrated knowledge hub established to engage China not merely as a field of research, but as an indispensable partner in the education of future generations of cosmopolitan citizens and competent professionals. The University of Torino has developed the TOChina Hub in cooperation with ESCP Europe (Torino campus) and the Torino World Affairs Institute (T.wai) to promote an innovative model of academic cooperation with select Chinese partners. Joint research agendas, dynamic programs for cross-cultural training and students mobility, and fresh channels for relevant people-to-people exchanges have been established with Peking University, Beijing Foreign Studies University, Zhejiang University and Guangdong University of Foreign Studies. The TOChina Hub aims to join the celebrations for the 50th anniversary of the establishment of Italy-China diplomatic relations in 2020 through an ambitious platform that will serve to support life-long learning on China as well as on the transformative dynamics of its Belt and Road Initiative. Supported by two of Italy's largest banking foundations – Compagnia di San Paolo, through its International Affairs program, and Fondazione CRT – as well as by the Torino Chamber of Commerce, the TOChina Hub works to provide theory-informed knowledge, policy-relevant insights and practical know-how on China's morphing identities, socio-economic structures, institutions, and policies.



The Center for Mediterranean Area Studies (CMAS), directed by Prof. Enrico Fardella, was established in 2015 at Peking University. CMAS gathers multidisciplinary academic expertise on the Mediterranean region (in history, international relations, economics, foreign languages, etc.) in order to provide high-level scientific analysis on the Mediterranean dynamics and their growing interconnections with the Chinese sphere of interests. Since 2016, CMAS works as the Chinese representative of the Asian Federation of Mediterranean Institutes (AFOMEDI), established by the University of Busan, in South Korea.

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# Contents

**Executive Summary** I

**Acknowledgement** II

**Foreword by Professor Emmanuele F. M. Emanuele** IV

*President of Fondazione Terzo Pilastro - Internazionale*

**About the Authors** VIII

**Introduction** 1

**ENRICO FARDELLA - ANDREA GHISELLI**

**Towards a Unified Policy of Closer Engagement? Sino-Mediterranean Relations from a Chinese Perspective** 13

**SHE GANGZHENG**

**Connectivity, and the Cooperation Between China and Western Balkans** 19

**ARDIAN HACKAJ**

**China's Waning Clout in Greece** 24

**PLAMEN TONCHEV**

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**The Belt and Road Initiative: A View from Morocco** 29

**EL MOSTAFA REZRAZI**

**The One Belt One Road: A Framework for Egyptian-Chinese Strategic Partnership** 35

**MOHAMED FAYEZ FARAHAT**

**The Long-Standing Struggle of Janus-Faced Relations: China and Turkey in the 21st Century, Moving Forward?** 40

**TUGRUL KESKIN - MICHAEL MCCALL**

**Sino-Israeli Relations: Challenges amid Growing Ties** 45

**ORI SELA - BRANDON FRIEDMAN**

**An Overview of Sino-Gulf Relations: A 'New Era' of Growth and a Future Era of Stagnation?** 50

**MOHAMMED TURKI AL-SUDAIRI**

**Iran and China: Return to Triangular Relations** 58

**MOHSEN SHARIATINIA**

**A Glimpse View on China-Ethiopia Relations in Recent Times** 63

**MAADIN SAHLESELESSIE GESSESE**

**Suggested Readings** 69

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# Executive Summary

How does China's growing global role affect the current dynamics of the Mediterranean region? This report aims to answer this question by exploring the most recent trends in the relations between China and the countries in the greater Mediterranean region.

China's "march" towards the region began in the late 1970s and has accelerated each year, expanding its scope from an economic to a political and security horizon. As China's economy diversified, it required more resources and promising markets; the massive energy basins in the eastern and southern parts of the Mediterranean region and rich developed markets in the northern one seemed a perfect destination for Beijing's new ambitions. Today, China's powerful economic presence is a common feature in the vast majority of the Mediterranean countries.

The corollary of this phenomenon, although a most recent one, is China's growing politi-

cal influence and its security attachments. The analyses written in this report show that at least one key element can be identified in the approaches and responses of the different countries in the region to China's growing political influence: the difficulty to place the relationship with Beijing in the context of already existing diplomatic networks and alliances.

## The importance of economic and diplomatic diversification

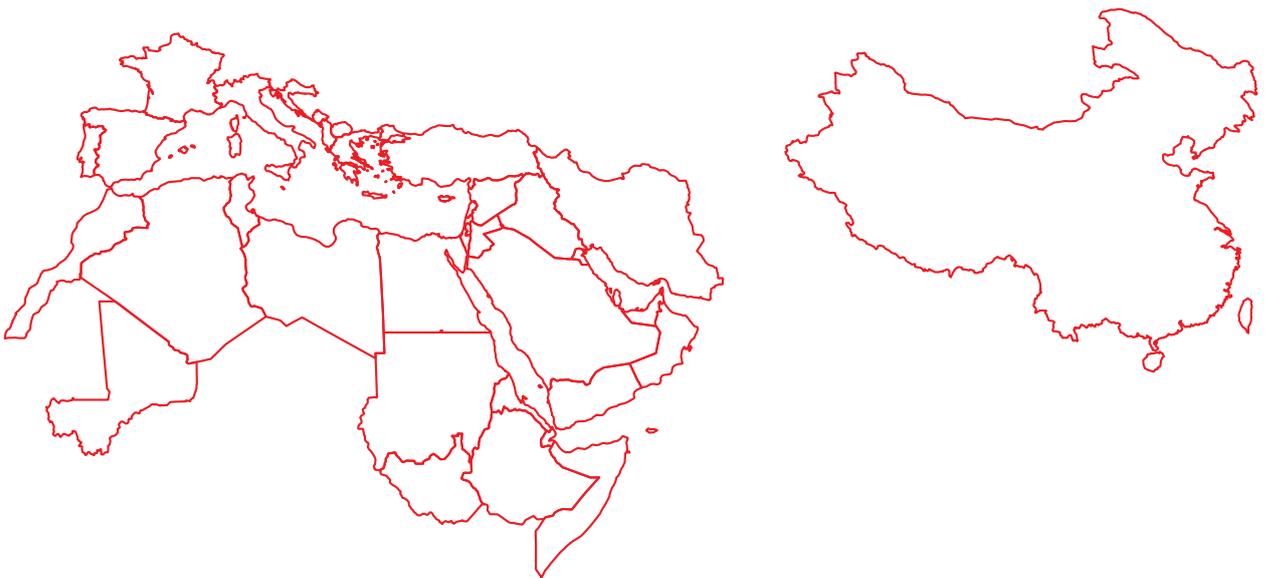
In a moment of great uncertainties, China's return to the center of the world stage is a certainty for virtually all the decisionmakers in the region. Hence, many countries look at China as an important opportunity to diversify their economy and foreign policy. Disillusionment toward Western countries and slow economic growth are, either singularly or together, the key drivers of this process. To different extents, this is particularly clear in the cases of Morocco, Egypt, Ethiopia, as well as the Western Balkan countries.

## The role of domestic factors in Mediterranean countries

Despite the desire to strengthen the cooperation with China, domestic factors and actors can create significant challenges to such development. As in the case of Turkey, public opinion's positive attitude toward the Uyghurs is a powerful and unpredictable force that government officials cannot ignore and that creates uncertainty in the relations with China. In Israel, it seems that the issue lies in the growing pressure from parts of the Israeli state – which have Washington's steady support – to establish stricter controls on Chinese investments in the name of national security. The relations between China and the Gulf Cooperation Council (GCC) countries, too, might be close to their limit. Different expectations about regional politics and shifting economic priorities in the Gulf will likely erode the extreme economic complementarity that currently underpins the Sino-GCC ties.

## The limits of China's commitment and ambitions

Notwithstanding the prevailing narrative pertaining the development and ambitious goals of Chinese foreign policy, China does not commit resources and expose itself in favor of a partner easily. Two cases taken into consideration in this report – Greece and Iran – testify to this fact. In the case of Iran, the American withdrawal from the nuclear deal brought to an end the brief honeymoon between Beijing and Tehran. Today, the Sino-Iranian relationship is mostly a function of the relations between China and the United States. Regarding Greece, Athens' growing awareness that Beijing can play an important role as an investor but not as security and stability guarantor in the light of worrying security trends in the Eastern Mediterranean is behind a general recalibration of Greece's China policy.



The countries monitored by the ChinaMED project

# Acknowledgement

First and foremost, I would like to thank the ChinaMed team – the driving force of the Project and ChinaMed Project Manager, Dr. Andrea Ghiselli, as well as Alice Vanni and Andrea Barbieri, the ChinaMed Research Associates – whose epic contribution, both professional and human, deserves the highest praise. A heartfelt note also goes to the Center for Mediterranean Area Studies and Peking University's History Department staff for their friendly help. To the TOChina team – and in particular to Kavinda Navaratne and Manuela Poggiali – whose patience and resilient support are the invisible, but nonetheless, fundamental components of the ChinaMed Project.

Our deepest gratitude is dedicated to the support of the Fondazione Terzo Pilastro – Internazionale, Raffaella Salato, and her team for their remarkably elegant assistance; and in particular to the Fondazione's enlightened President, Professor Emmanuele F.M. Emanuele: the first to believe in our vision, support it, and make it real. To his encouragement, I am personally indebted as a scholar and as a friend.

Thanks are also due to Compagnia di San Paolo for the support provided to the ChinaMed project and the association of Italian Knights of the Sovereign Military Order of Rodi and Malta for hosting the Symposium

in the magnificent beauty of their residence in Rome; the Knight Grand Cross of Honor and Devotion in Obedience Marquis Narciso Salvo Cozzo di Pietraganzili and the Knight of Grace and Deviation in Obedience noble Antonio Cosenz for their generous consideration; and to Federica Paolini for her graceful help.

The assistance of the Italian Ministry of Foreign Affairs, and in particular, the efficient cooperation provided by the First Secretary of the Italian Embassy in Beijing Pierluigi Colapinto and First Secretary of the Italian embassy in Teheran Roberto Taraddei was of vital importance for the success of the conference and the visa procedures.

Our sincerest thanks go to the participants of the Symposium and to the authors of this report who kindly accepted to share their views with us and our audience.

A special note of personal gratitude goes to Prof. Giovanni Andornino, the Director of TOChina Hub, a moral and intellectual model, a genuine fan of the ChinaMed Project, and most importantly a real friend.

Dulcis in fundo: my wife Cynthia and my daughter Sofia, whose smiles constantly inspire my passion.

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**ENRICO M. FARDELLA**

*Director, ChinaMed Project*

*Enrico M. Fardella*

# Foreword by Professor Emmanuele F. M. Emanuele



FONDAZIONE TERZO PILASTRO  
INTERNAZIONALE

I am sincerely pleased to introduce this report, which reviews both the essence and the objectives of the ambitious and extremely important ChinaMed Project. This is a program of scientific research, advanced training, and international networking promoted by the Center for Mediterranean Area Studies of Peking University, in collaboration with the Torino World Affairs Institute, part of the TOChina Hub developed by the University of Torino, and in part, thanks to a contribution from the Fondazione Terzo Pilastro - Internazionale, of which I have the honor of serving as President. This painstakingly formulated annual report illustrates the ongoing development of relations between China and the countries of the Mediterranean area by collecting and analyzing sources taken from the media and from the world of science, in

Chinese, as well as in all the languages of the region.

There can be no denying the importance of a similar project. In recent years, the economic and commercial rise of China has had an enormous influence on maritime trade between the Asian continent and European markets. This in turn transformed the Mediterranean into a crossroads of goods to the point where Chinese President Xi Jinping has selected the region for a role of primary importance within the strategic plan for European-Asian interconnection entitled the "Belt and Road Initiative" (BRI)- a proposal that, last spring, gave rise to a heated political debate in Italy, also causing a stir in terms of public opinion.

I have long foreseen the rise of China, India,

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and the Persian Gulf. While I was holding the major international conference "The Mediterranean: Gateway of the Orient" in Palermo back in 2010, under the auspices of what was the Rome - Mediterranean Foundation, I had already proposed, as Professor Enrico Fardella - the Director of the Chi-naMed Project - was so kind to point out when we recently met, "That the Mediterranean be put back in touch with China." This thought originated from my long-held conviction that this close relationship had already been a reality in centuries past, at the time of the florid trade between the Chinese Empire and the Roman Empire (which dated back to more ancient civilizations as well), subsequently known - in the late nineteenth century - as the "Silk Road;" a sign of the force of attraction that the Orient has always exercised on the West.

The reflections sparked by "The Mediterranean: Gateway of the Orient" gave rise first, to the efforts of the Fondazione Terzo Pilastro - Italia e Mediterraneo, and then to those of the current Fondazione Terzo Pilastro - Internazionale, the only organization in Italy that is taking concrete, systematic steps to build ties of partnership and true strategic collaboration with the emerging countries of today, so as to restore the Mediterranean to its central role as a solid, reliable liaison with the system under which China aims to construct a new economic-commercial architecture between the West and the Asian continent.

We began planning events at the museum in Rome's Via del Corso, founded in 1999 at my initiative, in the splendid setting of the Palazzo Cipolla, thereby leading to the organization of temporary international exhibitions, always with the idea of discovering new cultural horizons while examining side-by-side the creativity of Italy's genius with

that of the world that surrounds us. Such is the case of the momentous 2007 exhibition entitled "Masterpieces of the Forbidden City: Qianlong and his Court," during which we exhibited - for the very first time, in an event that has yet to be repeated - 120 masterpieces from the Palace Museum in Beijing. The exhibition offered a look at the life of the court in the Forbidden City at the time of the Emperor Qianlong, including splendid paintings by Giuseppe Castiglione, a Jesuit from Lombardy who lived in the Imperial Palace, where he renewed court painting by admirably melding the taste and aesthetic canons of the West, on the one hand, with oriental sensibilities, on the other. Then, followed exhibits on the Japanese master and painter of nature, Hiroshige (2009), and then "Akbar, The Great Emperor of India" (2012), all in accordance with my belief that art is the chief channel of communication and contact between different civilizations, given its ability to cross any boundary and overcome any distance.

In the field of education and training, we have promoted and supported a number of highly specialized master's programs: in collaboration with the IULM University, a level-I master's in "Oriental Languages and Cultures" designed to provide students with the tools of language and culture they will need to operate in socio-professional contexts of international breadth while interpreting, as effectively as possible, the political-cultural and economic-financial realities of the countries of the Middle East and the Far East; with the LUISS-Guido Carli University, the "Mediterranean Project," under which needy students from Mediterranean countries studied for bachelor's or master's degrees, so that, once they had completed their studies at the LUISS, they could return to their countries of origin and apply what they had learned to the eco-

conomic and social development of their home nations; with the Link Campus University, a master's in "Globalization, Governance and International Understanding," part of a project organized under an agreement reached with the State University of Moscow for the promotion of activities and initiatives of study and research involving intercultural exchanges between Italian and Russian students— the goal being to expose the students to the effects of globalization on the local development of civil societies. In another effort, undertaken in collaboration with the social enterprise and employment agency FourStars, which is active on both Italy and China, we granted full scholarships for six-month internships in Shanghai to deserving young people from central and southern Italy.

As I see it, this is only the beginning, inasmuch as, in a scenario such as the one that is currently taking shape, Italy is called upon to play a role of particular importance, encouraging and guiding the other countries of the Mediterranean region in their relations within the powerhouses of the Far East. In fact, faced with the weakness of the

European Union, it is important that we continue working in the direction that I had pointed to, that of a Federation of Mediterranean States established in the tradition with which I identify, meaning that of a private, non-profit undertaking designed to assist the less fortunate by creating – as I have done – points of reference in the countries of the Mediterranean area, and recently in the Orient as well.

If – as we all hope will be the case – China's position proves to be one of openness and pluralism, with the effective aim of involving the countries of the West and the Mediterranean on an equal footing, then the BRI will provide everyone with an opportunity for growth. In that case, initiatives such as the ChinaMed Project, and the major annual international symposium that it encompasses, will undoubtedly play an indispensable role in ensuring that the Mediterranean area, the birthplace of civilization, can once again be the driving force behind the rebirth of a world based on values of reciprocal understanding and an openness to others, all while providing the international economy with a new stimulus.

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**PROFESSOR EMMANUELE F. M. EMANUELE**

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# About the Authors

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earned his Master's degree in International Development Studies from Hankuk University of Foreign Studies in South Korea in 2015.

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# Introduction

ENRICO FARDELLA\* - ANDREA GHISELLI\*\*

In his masterpiece *The Mediterranean and the Mediterranean World in the Age of Philip II*, the French scholar Fernand Braudel describes a "global" Mediterranean that "disregards the conventional boundaries" drawn by geographers and reaches "as far as the Azores and the New World, the Red Sea and the Persian Gulf, the Baltic and the loop of the Niger."<sup>1</sup>

In 1949, when Braudel published its volume, the Mediterranean was still a 'European sea' with the British navy controlling its access points in the Suez Canal and Gibraltar to protect its traditional trading routes with the Commonwealth. The emergence of the Cold War and the bipolar confrontations between Washington and Moscow was going to turn the Mediterranean into a contested field of influence of two extra European superpowers. At that time, nobody could predict that the establishment of the

People's Republic of China in that very same year would soon become the main engine of transformation of the "global" geography of the Mediterranean.

In Mao's era, the Mediterranean region was beyond Beijing's direct outreach. In 1950s, as a result of the Sino-Soviet alliance and "division of labor," China diplomacy was mostly focused on Asia. Mao's global vision however went beyond the bipolar dichotomy of capitalism versus socialism. In 1946, at the beginning of the civil war in China between the communist party and the nationalist party, Mao stated that the main contradiction of the international system was not - as many, also within the CCP, thought - the potential emergence of a Third World War between the US and the Soviet Union but the American reactionaries attempt to gain control through deceptive

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<sup>1</sup> Fernand Braudel (translated by Siân Reynolds), *The Mediterranean and the Mediterranean World in the Age of Philip II* (Berkeley: University of California Press, 1996): 168.



anti-Communist propaganda over an area that he called the "intermediate zone" (*Zhōngjiān dìdài* 中间地带, hereafter IZT) - comprising capitalist, colonial and semi-colonial countries in Europe, Africa and Asia (including China) - in order to encircle and eventually defeat the socialist block guided by the Soviet Union.<sup>2</sup>

In Mao's design, due to China's geopolitical position, the CCP was not a passive recipient of the balance of the Sino-American competition but an active force - the most "progressive" one - in the IZT. Therefore, since the beginning of the Cold War Mao created a "third" intermediate anti-hegemonic pole where China - led by the CCP - could play a leading role. By so doing the IZT made China both the leader of the anti-hegemonic struggle against the US and the vanguard of the defense of the socialist camp and, by inference, of the struggle of independence in the whole world. As Peking University's leading scholar Professor Niu Jun recently stated, according to new evidence emerging from Chinese archives, Chinese leaders regarded the IZT as a more permanent foothold and starting point than the Sino-Soviet alliance.<sup>3</sup>

At the beginning of the 1960s, the deepening of the Sino-Soviet discord and the economic crisis that followed the Great Leap Forward deteriorated China's security environment. In 1962-63, Mao divided the front of the IZT in two intermediate zones: the "first intermediate zone" (Asia, Africa and Latin America) composed of natural allies of China and a "second intermediate zone" composed of

"indirect allies" - in Europe, North America, Australia, and New Zealand - dissatisfied with both the United States and the USSR. The "two intermediate zones theory" was raised to oppose both American and Soviet hegemonism and set the ground for cooperation with Europe (i.e. France and Italy) to reinforce the area of independence - the anti-hegemonic one - and at the same time strengthen Chinese economy after the collapse of economic cooperation with Moscow.

In Mao's anti-hegemonic geopolitical design, the Mediterranean region appeared to be as a connecting space between the first intermediate zone of Africa and the Middle East, composed of China's natural allies, and a "second intermediate zone" composed of China's "indirect allies" in Europe. As proven China's strong support of the Algerian war of independence against France (1954-1962), the support for the revolutionary struggle of movement of national independence in the first intermediate zones prevailed over the cooperation with "indirect allies" in Europe: the signing of the Evian accords in 1962 was the trigger for the successful conclusion of the negotiations for Sino-French diplomatic normalization achieved in 1964.

The outbreak of the Cultural Revolution in the second half of the 1960s had a twofold effect: on one side it erased the logic that had inspired China's alliance with Moscow by turning the Soviet Union in China's main hegemonic threat, and at the same time it favored a secularization of China's diplomacy characterized by a stronger emphasis

<sup>2</sup>"Talk with the American Journalist Anne Louise Strong," *Mao Zedong Selected Works*, Vol. 4, <https://bit.ly/2LjPzcp>

<sup>3</sup>Jun Niu, "Reconstruction of Intermediate Zone Theory - the Origin of Chinese Asian Foreign Policies (1949-1955)," *The Journal of International Studies*, no. 2 (2012): 61-80 [Chinese].

over the notion of "development," instead of "revolution," that allowed for a stronger cooperation with the developed capitalist world.

The "Three Worlds Theory" - designed by Mao but presented at the United Nations by Deng Xiaoping in 1974 - embodied this shift. It placed the hegemonic superpowers - USA and USSR - in the first world, the developed countries - such as Europe - in the second one and the developing countries in Africa, Asia and Latin America in the third. In this new configuration, China aimed at guiding the anti-hegemonic struggle of a developing Third World in a "united front" with the developed world, comprising the Second World and the United States, to contain the main threat coming from Moscow.

Mao's "opening" to the West and the emphasis over "development" expressed by China's new diplomacy favorably set the ground for Deng Xiaoping's launch of the "reform and opening" in 1979. Deng's reform and opening consolidated the strategic alignment with the West and favored the return of China in the international system under the banner of "peace and development." China and the international system started forging a symbiotic relationship whereas the Chinese development progressively became to be perceived as both the main recipient of the benefits of a peaceful and stable international environment, but also an indispensable condition for the stability and prosperity of the system itself.

Deng's "revolutionary" economic reform

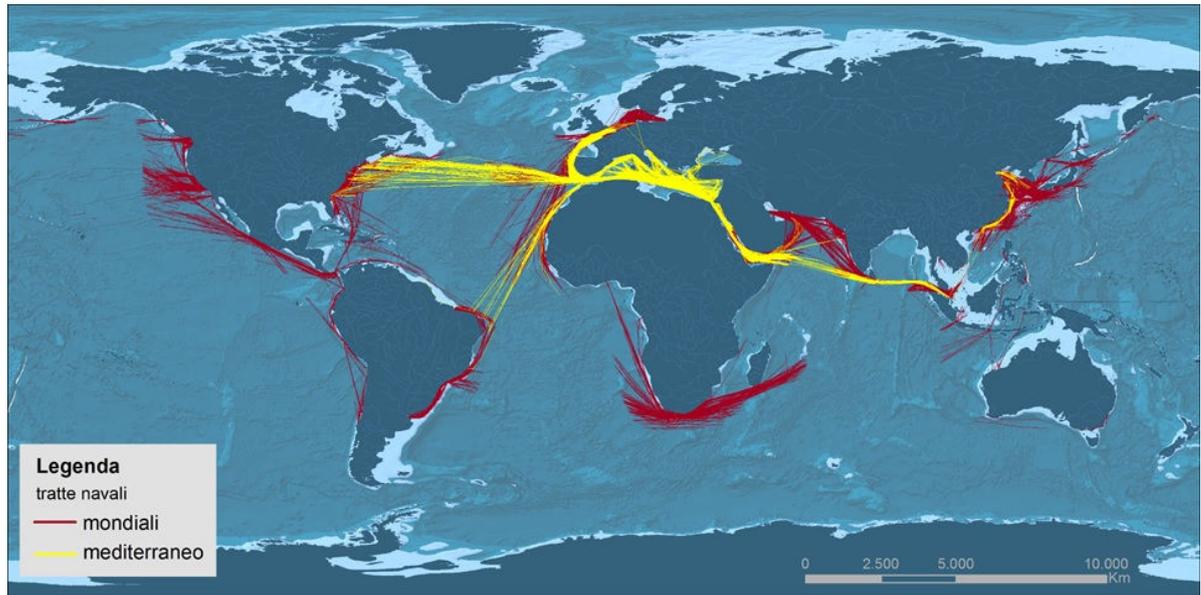
activated a substantial change in China's outlook towards the Mediterranean region: in the four decades that followed the Mediterranean region shifted from being a distant component of the intermediate zones - whose control by the hegemonic forces might endanger China's security - into the most important area, after the Asia Pacific region, for the strategic projection of Chinese interests and influence.

China's long march to the region began in Beijing on August 13, 1979. That day, the State Council indicated for the first time that Chinese capital could be used to set up companies abroad, although under strict state supervision. Another pivotal date was December 24, 1997, when Jiang Zemin, who had just consolidate its position during the 15<sup>th</sup> Party Congress, told to the delegates at the National Foreign Investment Affairs Meeting that China needs "to actively guide and organize strong domestic enterprises to go global by investing and building factories in foreign countries and making use of their markets and resources."<sup>4</sup> Four years later, the delegates to the 4<sup>th</sup> Session of the 9<sup>th</sup> National People's Congress approved the "10<sup>th</sup> Five Year Plan (2001-2005)" on March 5, 2001, that officially enshrined Jiang's "Go Global" strategy in an official document.

Since then, the portentous flux of value created by China's "Go Global" strategy has renewed the centrality of the Mediterranean region and reshaped the Braudelian acceptance of its "global" dimension. In the last three decades, China's portentous economic growth and its massive exports made

<sup>4</sup> CCP Central Literature Editing Committee, *Selected Works of Jiang Zemin* (Beijing: Foreign Language Press, 2011): 92.

Map 1: The Centrality of the Mediterranean Sea in Maritime Trade in 2016



Intensity of the traffic on the maritime routes passing through the Mediterranean Sea (in yellow) in comparison to the others (in red).<sup>6</sup> Source: Studi e Ricerche per il Mezzogiorno.<sup>7</sup>

the Europe-Far East route become increasingly important in the context of East-West trade (from 27% of the cargo flow in 1995 to 41% in 2018). This transition, boosted by the recent enlargement of the Suez Canal and China's strategic investments in the shipping industry, has progressively turned the Mediterranean region in China's crossroad towards European, African and Middle Eastern markets as well as a more convenient transit point to reach the East coast of the United States (see Map 1).<sup>5</sup>

It is in fact quite a "new" form of centrality for the Mediterranean region. The German philosopher Georg W.F. Hegel described the Mediterranean as the dynamic epicenter of centrifugal forces that connect Europe, Africa and Asia: "For three quarter of the

globe, the Mediterranean Sea is both the unifying element and the center of world history."<sup>8</sup> The "new" centrality of the Mediterranean both confirms and transcends this notion. If today the Mediterranean region appears to be one of the main nexuses of global dynamics, the main engine of this transformative power lays more and more in Asia—first and foremost in China.

It is a profound transition indeed, one that structurally connects for the first time in history the Mediterranean and Asian stability and development and by so doing stretches the geopolitical borders of the Mediterranean region eastward towards the Indian Ocean. If Europe, even in its "core" version of EU15, has consistently absorbed a large fraction of Chinese exports, even after

<sup>5</sup> Massimo Deandreis, "China's Growing Role in the Mediterranean," paper presented at "China and the Middle East/Mediterranean ("Mid-Med"): Contemporary Perspectives," July 7, 2019, Tel Aviv University, Tel Aviv, Israel. The event was jointly organized by the ChinaMed project, the Moshe Dayan Center for Middle Eastern and African Studies, and Department of East Asian Studies at Tel Aviv University.

<sup>6</sup> The intensity is calculated according to the number of container ships carrying more than 7,000 TEUs (20-foot equivalent units). The lines might be interrupted because of problems in sending or receiving the signal of the automatic identification system (AIS) used to monitor maritime traffic and track the ships.

<sup>7</sup> Massimo Deandreis, ed., *China, Energy Corridors, Ports and New Routes: Geomaps of a Changing Mediterranean* (Naples: Giannini Editore, 2018).

<sup>8</sup> Georg W. F. Hegel, *Philosophy of History* (New York: Cosimo Classics, 2007): 87.

the financial crisis of 2008 - as Figure 1 shows - yet, as the imports of sweet crude from its neighbors and East Africa became insufficient for its economic engine, what we can call "China's Mediterranean region" expanded southward and, especially, eastward.<sup>9</sup> Figure 2, indeed, shows how rapidly the imports of natural gas and crude oil from North Africa and, especially, the Gulf have increased and they weight in China's search for energy. While the giant Chinese energy state-owned enterprises consolidated their presence in the Middle East, Chinese engineering companies have become a common presence in North Africa as well as in the Horn of Africa.

At the turn of the first decade of the new millennium, it seemed that China's "Japanized," i.e. business only, approach was largely successful, especially in comparison with the continuing difficulties met in the battlefield by the United States as well as the financial crisis in Europe.<sup>10</sup> Yet, such illusions were shattered as China became the accidental victim of the so-called Arab Spring, especially in Libya. Beside the evacuation of some 36,000 Chinese nationals, Chinese companies also suffered the loss of USD 1.5 billion in machinery and facilities destroyed or damaged during the clashes and Western air raids on top of contracts worth USD 18.8 billion. Although some within the Chinese foreign policy machine were aware of the dangers that had been brewing for years under the apparently unshakable rule of many of the Arab, many were shocked by this event.<sup>11</sup> Indeed, as one article published in the *People's Liberation Army Daily*, the flag-

ship newspaper of the Chinese armed forces, stated, China's "interest frontiers" had never been so far from its geographical borders.<sup>12</sup>

While instability was spreading in the southern and eastern parts of the Mediterranean region, important changes were about to happen in China as Xi Jinping was being groomed to become the head of the 5<sup>th</sup> generation of Chinese leaders. In particular, the evolution of the situation in the Mediterranean region and the ideas of the new Chinese leadership met in three points: The Belt and Road Initiative (BRI) launched in late 2013, the massive reform of the Chinese People's Liberation Army (PLA) kickstarted in 2015, and the downward turn of the Sino-American relations, especially since the election of Donald Trump to the White House.

If the design of the BRI graphically describes the above-mentioned transition in the Asian-Mediterranean geopolitical physiology (Map 2), BRI's encryption in CCP's constitution at the XIX Congress in 2017 provides it with an organic function in the evolution of CCP's historical mission. If the "New Era" –inspired by "Xi Jinping's Thought on Socialism with Chinese characteristics"– is intended to transform China into a prosperous, strong and advanced country by 2049, the BRI becomes the external component of this mission and it is aimed at creating a "community of shared destiny" (*Mingyùn gòngtóngtǐ* 命运共同体) in a peaceful, international environment. According to Xi Jinping's Report at the 19<sup>th</sup> National Con-

<sup>9</sup> Inwook Kim, "Refining the Prize: Chinese Oil Refineries and Its Energy Security," *The Pacific Review* 29, no. 3 (2016): 361-386.

<sup>10</sup> Yitzhak Shichor, "Decisionmaking in Triplicate: China and the Three Iraqi Wars" in Andrew Scobell et al., eds., *Chinese National Security Decisionmaking under Stress* (Carlisle Barracks: United States Army War College Press, 2005): 191-228.

<sup>11</sup> Enrico Fardella, "China's Debate on the Middle East and North Africa: A Critical Review," *Mediterranean Quarterly* 26, no. 1 (2015): 5-25. See also: "Chinese Companies Lost Contracts Worth USD 18 Billion, It Is Difficult to Assess the Damage," *Southern News Network*, April 24, 2011, <https://bit.ly/2mDgP9k> [Chinese]

<sup>12</sup> Kunlun Huang, "Outlook on the National Interests in a Globalized Era," *PLA Daily*, March 15, 2011 [Chinese].

Figure 1: Trade between China and EU15

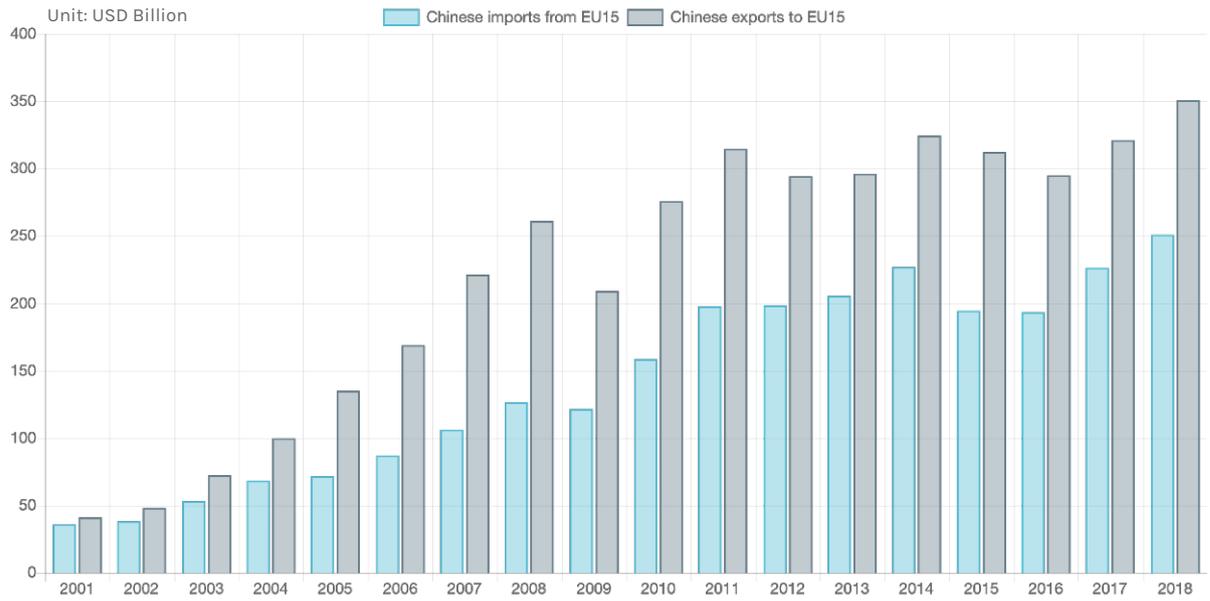
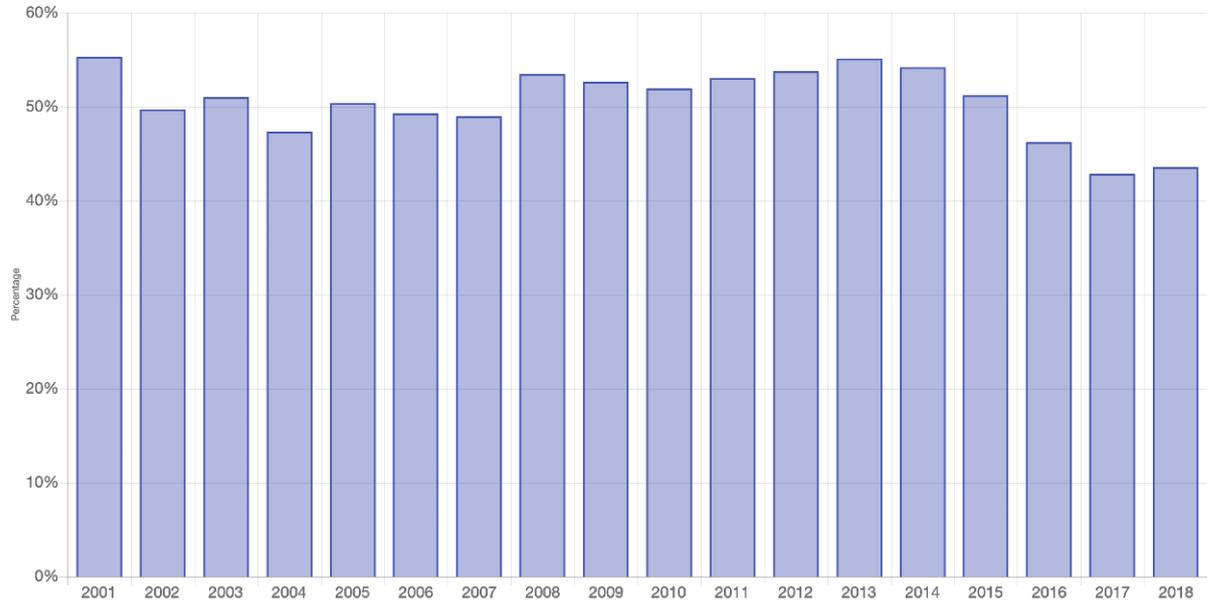
Source: UNCTAD.<sup>13</sup>

Figure 2: Percentage of Chinese Imports of Crude Oil and Natural Gas from the Middle East and North Africa

Source: UNCTAD.<sup>14</sup><sup>13</sup> The data refer to the European Union before the enlargement of 2004.<sup>14</sup> Product code HS2709 and HS2711.

gress of the CCP, the interdependence in the globalized system allows China to legitimately propose itself as an indispensable pillar of this emerging "community."<sup>15</sup> This community now formally refers to the world as a homogeneous unity that includes developed and developing countries altogether. The cooperation between developing and developed countries is now a necessity imposed by the logic of globalization—a logic that asks for a new form of global governance. Xi's "community of shared destiny" therefore aims at reforming the existing order and minimizing the monopolistic and unilateral schemes of hegemony.

The BRI is meant to be the main driver for this transformation, aimed at filling the gap between North and South - developed and

developing countries - and secure peace and stability. The "special" role that Mao preserved for China as leader of the various Intermediate Zones is, therefore, now being upgraded and expanded to a global level: China sees itself as the proponent of a post-hegemonic order based on Beijing's restored centrality. It is a centrality, however, that reflects the growing role of the developing world. The BRI core design in fact prioritizes the connectivity with the developing world and, interestingly enough, reserves to its components the prospect of becoming part of a community of shared destiny. In the case of the former developed "indirect allies" of Europe, instead, the BRI focuses more on cooperation based on "shared interests" (*Liyi gòngtóngtǐ* 利益共同体), namely a "community of shared interests."<sup>17</sup>

Map 2: The Belt and Road Initiative



Source: China Daily.<sup>16</sup>

<sup>15</sup> "Full Text of Xi Jinping's Report at 19th CPC National Congress," *Xinhua*, November 3, 2017, <https://bit.ly/2Kt01Jt>

<sup>16</sup> Cecily Liu, "Greek port success gives snapshot of BRI potential," *China Daily*, October 8, 2019, <https://bit.ly/2P1oiuP>

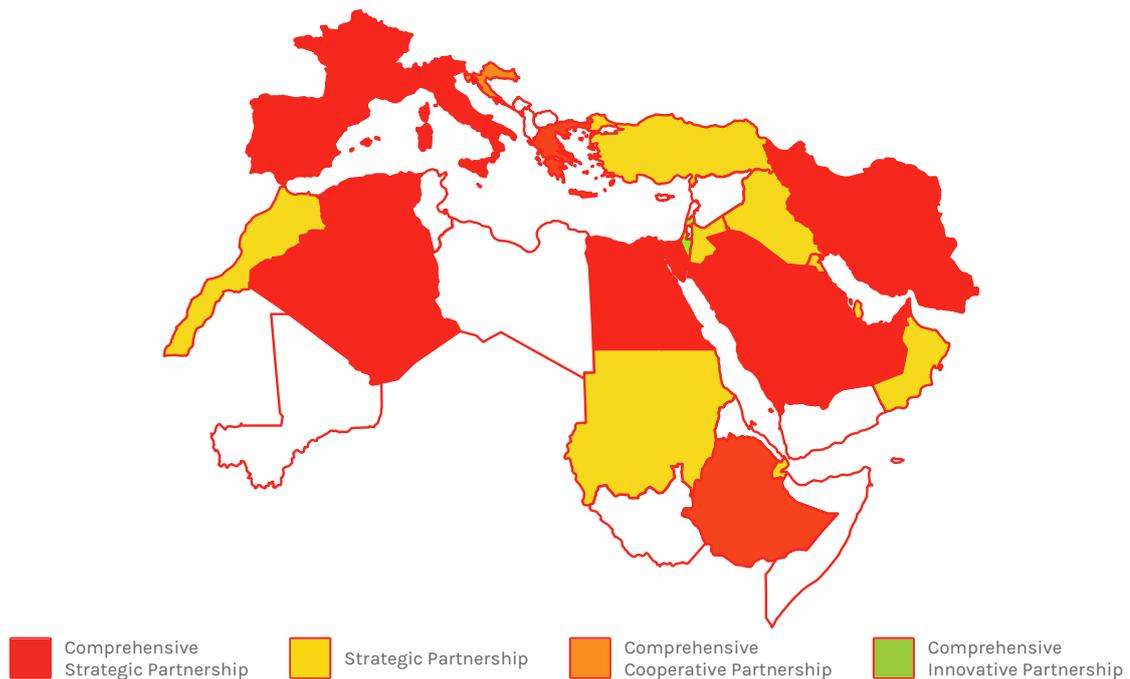
<sup>17</sup> On "shared destiny," for example, see: Desheng Cao, "Xi Calls for Advancing China-Algeria Teamwork," *China Daily*, December 21, 2018, <https://bit.ly/33KovGQ>. On "shared interests," for example, see: "Xi Jinping Meets with Prime Minister Valls," PRC MFA, <https://bit.ly/31s4KCq> [Chinese]

Under this framework, the Mediterranean region is becoming a fundamental component of China's anti-hegemonic struggle in the New Era: BRI's infrastructural investment are meant to reinforce the connectivity between the developing and developed areas of the region and consequently, expand the constituency in favor of China's vision of global governance. Since 2013, the BRI has in fact significantly contributed to shaping the economic geography of the Mediterranean region by further strengthening the port infrastructure along the shipping lane that connect China, and Asia, to Europe through the Indian Ocean, the Suez Canal, and the Mediterranean Sea.<sup>18</sup> As the BRI consolidated in policy terms over the

last few years by appearing in China's white papers regarding the Middle East and Europe, this initiative has become the main umbrella under which China continues to engage the wider Mediterranean region.<sup>19</sup> As a result, a significant number of China's "comprehensive strategic partnerships" and "strategic partnerships" in the region have been established since then (Map 3).<sup>20</sup>

At the same time, it is important to notice that the reinvigorated political support for a deeper economic engagement with the outside world, especially developing countries, has taken place along with the creation of a new consensus within the Chinese military elites about the necessity to lay the founda-

Map 3: China's Relations with the Countries in the Wider Mediterranean Region as of 2019



Source: Produced by the authors based on Chinese media.

<sup>18</sup> Enrico Fardella, "The Belt and Road Initiative and its impact on Europe," *Valdai Papers*, no. 82 (March 2018), <https://bit.ly/2FfSBGq>; Massimo Deandrei, "La geo-economia marittima, la Cina e la nuova centralità del Mediterraneo" [Maritime geo-economics, China, and the new centrality of the Mediterranean Sea], *OrizzonteCina* 7, no. 6 (2016), <https://bit.ly/2obmHqO> [Italian]

<sup>19</sup> "China's Arab Policy Paper," PRC State Council, January 13, 2016, <https://bit.ly/2p20coJ>; "China's Policy Paper on the European Union," Xinhua, December 18, 2018, <https://bit.ly/2UQCeZ7>

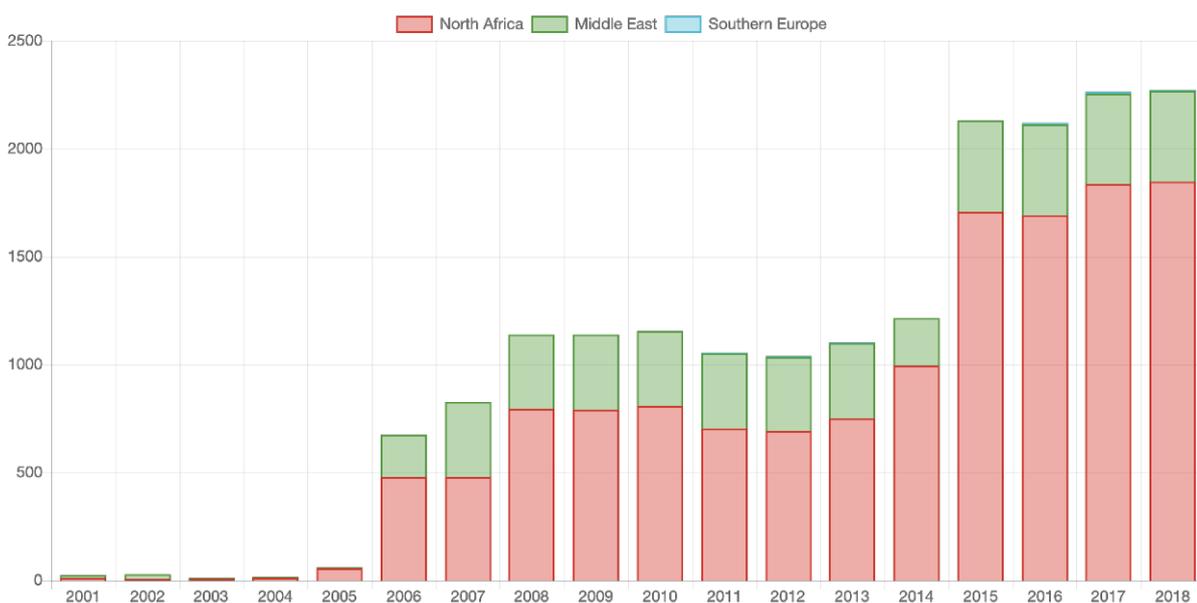
<sup>20</sup> Those two terms indicate different levels of policy coordination between China and its partners. A "comprehensive strategic partnership" entails a larger number of issues included in the dialogue between the two countries and more multi-layered approach than in the case of a "strategic partnership." See: "Quick Guide to China's Diplomatic Levels," *South China Morning Post*, January 20, 2016, <https://bit.ly/2nraL4c>

tions for a larger role of the PLA in protecting the country's interests abroad, beyond the deployment of peacekeepers in Africa and naval warships in the Gulf of Aden (Figure 3).<sup>21</sup> This will be a process that, including the issue of if and how to use private contractors, will take time to complete.<sup>22</sup> Yet, it is difficult to underestimate the implications that the emergence of a more marked security approach to the region can have for other major actors.<sup>23</sup>

Finally, if one considers that China's involvement in regional security and diplomatic affairs has always been proportional to the potential of the cooperation with the United States, the arrival of Donald Trump to the Oval Office is an issue that cannot be overlooked. Trump's decision to withdraw

from the Joint Comprehensive Plan of Action (JCPOA) over Iran's nuclear program was the final nail in the coffin of any hope for Sino-American cooperation after that NATO's intervention in Libya and the attempt to do the same in Syria shortly after had already ruined the friendly relations between Washington and Beijing that existed in the early years of George Bush's "War on Terror." At the same time, the Russian military intervention in Syria and the continuous worsening of the relations between the United States and China and Russia further pushed Chinese policymakers to position their country in direct opposition to the American superpower. Indeed, China not only casted the so-called "three vetoes, two no votes" in the United Nations Security Council between 2011 and 2012 to diplomatically shield the

Figure 3: Chinese Contribution to UN Peacekeeping Operations in the Wider Mediterranean Region



The values in the chart include troops, police officers, military observers and staff officers.

Source: [www.chinamed.it/chinamed-data/mediterranean-region](http://www.chinamed.it/chinamed-data/mediterranean-region)

<sup>21</sup> Andrea Ghiselli, "Diplomatic Opportunities and Rising Threats: The Expanding Role of Non-Traditional Security in Chinese Foreign and Security Policy," *Journal of Contemporary China* 27, no. 112 (2018): 611-625.

<sup>22</sup> Andrea Ghiselli, "Market Opportunities and Political Responsibilities: The Difficult Development of Chinese Private Security Companies Abroad," *Armed Forces & Society*, (2018), <https://doi.org/10.1177%2F0095327X18806517>

<sup>23</sup> Andrea Ghiselli, "La crisi libica del 2011 e la riforma dell'Esercito popolare di liberazione. Implicazioni per la diplomazia italiana in Nord Africa e Medio Oriente" [The Libyan crisis of 2011 and the reform of the Chinese People's Liberation Army: Implications for Italian diplomacy in North Africa and the Middle East], *OrizzonteCina* 9, no. 2 (2018), <https://bit.ly/2p1IsLk> [Italian]

Syrian government, but also deployed a special diplomatic envoy and a high-level military delegation to Syria immediately after the Russian military intervened to support a major offensive launched by the Assad military to expand the territory under the control of Damascus.<sup>24</sup> While those moves did not alter in any way the situation in the battlefield, they surely sent a strong message to the West about China's determination to block attempts of regime change, as well as the strength of the Sino-Russian partnership. Interestingly, such a message has even been further amplified and used by local actors, such as the Syrian government, to create new narratives for domestic consumption on China's role that have also found space in Western media, thereby further exaggerating the importance of Chinese engagement in the Syrian conflict.<sup>25</sup>

Reading this brief introduction to China's arrival to the Mediterranean region, the reader will have surely noticed how China's presence has developed unevenly and in different forms, depending on the opportunities and challenges that its entrepreneurs, diplomats, and, to some extent, soldiers have met on the ground. While Professor She Gangzheng's analysis in this first edition of the *ChinaMed Report* continues the explorations of China's increasingly sophisticated and diverse behavior in the region, the studies written by the other scholars offer to the reader the possibility to look at the fascinating manifestations of the Chinese phenomenon from the perspective of the regional observer. One common theme emerges clearly despite the significant dif-

ferences that exists between the different countries that compose the wider Mediterranean region: all the countries in the region see, at least to some extent, China as an alternative to the European Union (EU) and/or the United States in economic and/or military/diplomatic terms, respectively. Against this background, however, it is evident that seizing the Chinese opportunity is proving a rather difficult task, one that requires significant balancing and circumspection by regional decision makers.

As it appears from Plamen Tonchev's and Ardian Hackaj's analyses, the issue is not that China is actively trying to pulling "European" countries outside their traditional diplomatic networks.<sup>26</sup> Indeed, Hackaj's study shows clearly that pragmatic cooperation can and is being achieved in the Western Balkans thanks to both Chinese responsiveness to EU concerns, as well as the attempts of the countries there to make the most of the opportunities offered by Chinese and EU projects and proposals. Rather, exogenous issues, from the ups and downs of the relationship with the neighbors and the traditional European and American allies, seem being the main determinants of how "European" countries approach China. Tonchev shows this well in his study of the Greek case: in the aftermath of renewed tensions with Turkey and of the arrival of a new Greek government with a less radical approach to the EU than the previous one, Athens is adjusting its China policy, thereby bringing what many interpreted as a Sino-Greek honeymoon to an end.

<sup>24</sup> I-wei Jennifer Chang, "China's Evolving Stance on Syria," *Middle East Institute*, February 18, 2013, <https://bit.ly/2ohdVaY>

<sup>25</sup> Andrea Ghiselli and Mohammed Turki Al-Sudairi, "Syria's 'China Dream': Between the Narratives and Realities," *KFCRIS Commentary*, September 17, 2019, <https://bit.ly/2pp1ZEw>

<sup>26</sup> The term "EUrope" describes the geographical spaces contained by the borders of the European Union as well as the neighboring ones that are affected by the Union's regulations. See: Luiza Bialasiewicz et al., "Re-scaling 'EU'rope: EU macro-regional fantasies in the Mediterranean," *European Urban and Regional Studies* 20, no. 1 (2013): 59-76.

Thanks to the studies authored by Dr. El Mostafa Rezrazi, and Professor Turgul Keskin and Michael McCall, we can observe how other countries, Morocco and Turkey in particular, are trying to maximize the gains from cooperating with China by presenting themselves as gateways or bridges between the East and the West. Morocco, argues Dr. Rezrazi, has been very eager in recent years to strengthen economic cooperation with China. In particular, similar to Western Balkan countries, Morocco sees China as the right partner to improve its infrastructure and attract new capital to boost economic growth. Turkey's case, instead, is more similar to the Greek one as significant limits to its relations with China have already emerged clearly. Keskin and McCall identify the Uyghur issue and troubled-but-strong relations with NATO as the main factors preventing the Sino-Turkish relations from blooming. Like Greece's EU and NATO membership, those issues will not disappear despite the efforts of both the Turkish and Chinese government. Public opinion, too, will also remain a limiting factor for Turkish policymakers.

As the gaze of the observer moves eastward, other kinds of regional dynamics intervene to determine the response of regional actors to China's presence. Among them, the changing attitude of the United States to regional affairs is the most significant one. The studies prepared by Mohammed Turki Al-Sudairi, Professor Mohsen Shariatinia, and Professor Ori Sela and Professor Brandon Friedman, indeed, describe how countries that are vastly different from each

other, but share a deep connection to the American superpower, are adapting to this new situation and how that influences their relations with China. During such process, they have been experimenting different approaches to China. Israeli policymakers are finding themselves increasingly under pressure from the United States as well as parts of the state machine under them that are uncomfortable with the growing presence of Chinese companies working in some of the most important and strategic infrastructure of the country. The victory of Shanghai International Port Group for the bid to build and operate a new terminal at the Haifa Port is a case point. Indeed, it has quickly become a very controversial issue despite, as Sela and Friedman point out, the situation on the ground is far less worrying than many think. Compared to the Israeli case, American intervention is not the only reason why China's relations with the Gulf countries and Iran seem already close their maximum possible development. It is China's unwillingness to play a role similar to that of the United States, i.e. committing its economic, diplomatic, and military resources in support of one of the many rivals and factions in the region, the other main reason why its relations with those countries appear unsustainable in the long run. While, as Professor Shariatinia points out, the honeymoon phase between Beijing and Tehran is already over, Mohammed Turki Al-Sudairi argues that the same might happen soon between the countries of the Gulf Cooperation Council and China.

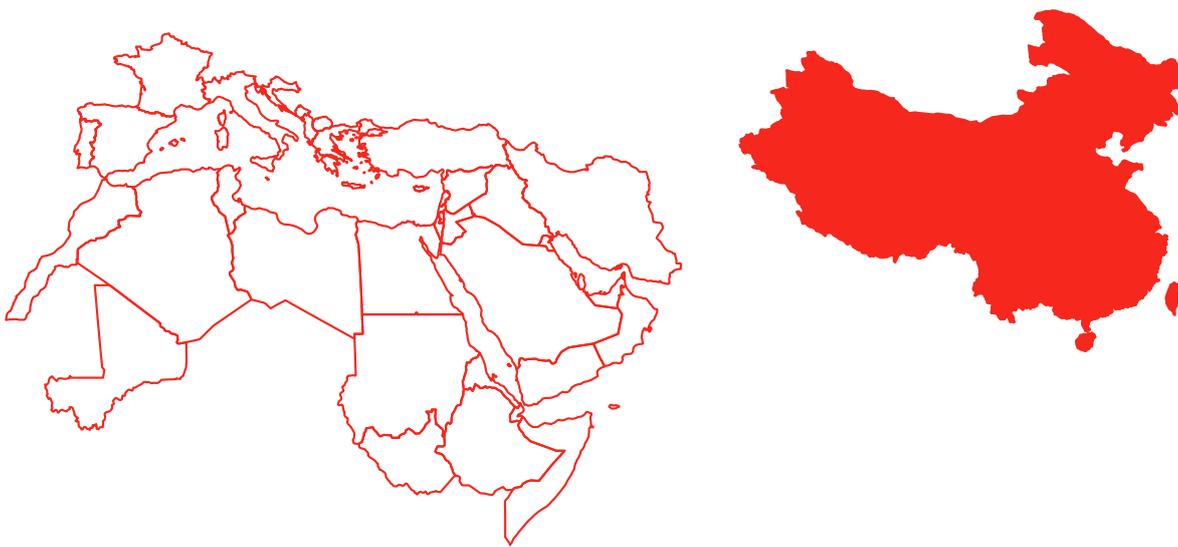
Against this background, it is not surprising

to find that Ethiopia, which is part of "China's wider Mediterranean region" and has no particularly close ties with the EU and/or the United States, is the only country among those taken into consideration in this report that has been able to forge positive relations with China without much problems. MaAdin Sahleselassie Gessese, indeed, has no hesitation to write that the prospects for Sino-Ethiopian relations seem promising. Without excessive expectations about China, Ethiopia has been rather successful in reaping the fruits of the cooperation with China. Its geographical and diplomatic position nearby the Horn of Africa and as host of the headquarters of the African Union played an important role in this.

To conclude, this report highlights the nuances and impact of China's presence in the wider Mediterranean region and, therefore, how regional actors have been responding. The authors that contributed to this study identify several opportunities and challenges, some already mature and other not, as the political and economic dynamics of the region continue to change, influenced by the relative decline of old, but still powerful actors and the expectations that new ones might emerge and take their place. While the future remains unknown, this report ambitiously tries to lay solid foundations for the debate that regional and extra-regional actors need to have to better understand China's arrival and shaping power in the Mediterranean region.

# Towards a Unified Policy of Closer Engagement? Sino-Mediterranean Relations from a Chinese Perspective

SHE GANGZHENG\*



Less than two years after President Xi Jinping unveiled the Belt and Road Initiative in March 2015, China's National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce jointly issued the document titled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." In this official blueprint, Beijing clearly states its definition of the Silk Road Economic Belt, which focuses on linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and

West Asia."<sup>1</sup>

Until now, China has become a major trading partner for all countries surrounding the Mediterranean Sea. Nevertheless, during the last several decades Beijing did not regard the Mediterranean as a unified region, and thus never formulated a holistic plan to interact with the area. In fact, since the founding of the People's Republic, China has adopted distinct policies towards Southern Europe, North Africa, and the Middle East respectively, and these sub-regions played

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<sup>1</sup> Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," National Development and Reform Commission, March 28, 2015, <https://bit.ly/1FKMp5o>

different roles in Beijing's grand strategy of international relations.

Recently, however, there has been a growing trend in China, among both policymakers and scholars, to consider the Mediterranean anew as a whole and to better prepare for China's future engagement with the region. The following will discuss both the evolution of Beijing's relations with main regional powers in the framework of the Belt and Road Initiative and the current efforts to rethink its regional policy towards the Mediterranean.

## China's Relations with Regional Powers

Traditionally speaking, the Mediterranean is not described by Beijing as a region in most of its official documents. At the institutional level, within China's Ministry of Foreign Affairs, affairs related to the countries surrounding the Mediterranean Sea are allocated to nearly half a dozen branches inside the Department of West Asian and North African Affairs and the Department of European Affairs. Depending on the political and economic relations, China exhibits different behavioral patterns in dealing with the main powers in Southern Europe, North Africa, and the Middle East. In general, China has greater commercial connections with the Europeans, but both sides have been skeptical of each other in various political issues. Beijing's interactions with the North African countries were arguably the opposite: they have relatively weaker trade connections but strong political mutual trust.

As to the Sino-Middle East relations, significant political and economic interests are deeply interconnected.

## SOUTHERN EUROPE

### France

France was the first great power in the West to establish formal diplomatic relations at the ambassadorial level with the People's Republic of China in 1964. Since then, Beijing and Paris have developed a somehow "special" connection in the relations among the world's major powers, and, as President Xi Jinping put it in 2014, "have always been at the forefront of China's interactions with the major developed countries in the West."<sup>2</sup> In 2018, the bilateral trade volume between China and France reached USD 62.9 billion, creating a 15.5% increase compared to the last year and also the highest level in history.

China considers its commercial connections with France as "balanced and complementary, while at the same time doesn't hide its concern about the possible difficulties in the bilateral relations."<sup>3</sup> From the Chinese perspective, France is now facing a series of challenges, including industrial hollowing-out, high-cost of welfare state system, tacit competition with Germany over EU leadership, etc.<sup>4</sup> Despite President Macron's call for ending "European naïveté" with regard to China, under the current circumstances in the international arena, Beijing and Paris still have great potential for cooperation, as both sides could share benefits in defending the authority of multilat-

<sup>2</sup> Sun Haichao, "The Sino-French Relations: Dare to Be the First in the World," China Today, March 22, 2019, <https://bit.ly/2nsfTol> [Chinese]

<sup>3</sup> Ni Hao, "The Sino-French Trade Volume Exceeded US\$60 Billion, Reaching a Record High," Global Times, March 21, 2019, <https://bit.ly/2mlicDS> [Chinese]

<sup>4</sup> Zhiming Liu, "Great and Special Joint Efforts," China Daily, March 27, 2019, <https://bit.ly/2mGXGDA> [Chinese]

eral international organizations and developing the francophone North Africa.

### Italy

Rome is not the first to join Beijing's Belt and Road Initiative, but enjoys a unique status as the first member of the Group of Seven (G7) to receive Chinese funds in this framework. As Prime Minister Giuseppe Conte decides to "build a better relationship with China," China and Italy recently signed a memorandum of understanding (MOU) as the foundation of billions of euros in business deals between the two countries.<sup>5</sup> Trieste, once the southern end of the "Iron Curtain" between the Western and Eastern blocs during the Cold War era, is about to receive USD 1.13 billion investment from China, which could boost the overall capacity and transportation efficiency of this important port in Northern Italy.

There is little doubt that Rome's move has deepened concerns in the United States and the European Union for technological transfer and ownership of critical infrastructure, while the Italian government justifies the MOU as a legitimate step to catch up to those neighboring countries which already have much stronger business ties with China. As far as China is concerned, the cooperation with Italy would make it easier for Chinese goods to quickly reach the heart of Western Europe and better demonstrate to the West the bright side of the Belt and Road Initiative. From a realist point of view, it would be impossible for Beijing to turn the ports in any NATO country to military

bases in foreseeable future.

## THE MIDDLE EAST AND NORTH AFRICA

### Morocco

Compared with developed European economies at the other side of Mediterranean, most countries in North Africa were not important markets for Chinese products in recent history. However, Beijing is now attempting to integrate this region into its global production chain under the framework of Belt and Road Initiative. China's contracts on investment and engineering construction are booming in the southern coast of the Mediterranean Sea, and Morocco is a most symbolic one.

Morocco was the second African country to establish diplomatic relations with the PRC. The two countries have cooperation in the fields of medical care, fishery, processing trade, engineering construction, and labor services, but the bilateral economic exchanges were lukewarm for decades before the Belt and Road Initiative. In 2016, the two countries established a strategic partnership, and in the following year, Morocco officially signed the MOU on the Belt and Road Initiative and thus became the first country in the Maghreb to sign this document. In December 2018, Morocco became a member of the Asian Infrastructure Investment Bank (AIIB).

China's motivation to work with Morocco was prompted by the latter's geostrategic position and developmental potentials, and now Rabat plays a central role in Beijing's

<sup>5</sup> Jason Horowitz, "Defying Allies, Italy Signs On to New Silk Road With China," *New York Times*, March 23, 2019, <https://nyti.ms/2o7RAfL>

development projects in the region. In fact, Morocco has free trade agreements with the European Union, the United States, Turkey and some Arab countries, and the local market has a high degree of preferential trade policies.<sup>6</sup> The interaction between China and Morocco contributes to the circulation of Chinese goods in Arab countries, Sub-Saharan Africa and Europe. At the same time, Rabat also took the opportunity to extend the visa-free program, a move aimed at both boosting its own economy and meeting the growing expectations of Chinese tourists to hunt for novelty. From 2015 to 2017, the number of Chinese tourists in Morocco skyrocketed from 10,000 to 180,000, and it is estimated that 500,000 Chinese tourists will be received by 2020.<sup>7</sup>

### **Egypt**

Since the Bandung Conference in 1955, the political connection with Cairo has always been one of the most crucial elements in Beijing's strategic thinking regarding the Middle East and North Africa. While all ambassadors of China were recalled to get "re-educated" during the early days of Cultural Revolution, the Chinese ambassador to Cairo was the only one who had the privilege to remain at his post due to the fact that Mao's China considered Egypt the hub of all Chinese activities in West Asia and the entirety of Africa. For now, the economic importance of Egypt in the Arab world has already been overshadowed by the Gulf states, but Beijing still perceives Cairo as one of the five stakeholders most welcoming of BRI projects in the region.<sup>8</sup>

For quite a while after the Arab Spring, Egypt was deemed by many in China as an investment trap similar to Libya, Yemen, or Syria. However, with the downfall of the Morsi regime, Beijing became one of the staunchest supporters of the new government led by President Sisi. As Sisi now exhibits his skills in stabilizing the political situation and recovering economy, China also has high expectations for the further synergies between the Belt and Road Initiative and Egyptian national development megaprojects, such as the Suez Canal Area Development Program and the construction of new administrative capital.<sup>9</sup>

### **Israel**

Since the establishment of diplomatic relations in 1992, China and Israel have maintained a good relationship in economic and trade relations as a whole, and the scale of cooperation has increased. Israel is not only an important economic and trade partner of China in the Middle East, but also a key partner of China's current initiative to promote the Belt and Road Initiative. China has become Israel's largest trading partner in Asia and second only to the United States on a global scale.

Despite the U.S. opposition, Israel announced its intentions to join the AIIB as a Founding Regional Member in March 2014, and now holds 0.75% Bank's equity and 0.91% voting power.<sup>10</sup> As China's economic and diplomatic activities in the Levant have expanded, Washington has become increasingly sensitive to Sino-Israeli rela-

<sup>6</sup> Office of Economic and Commercial Affairs of the Chinese embassy in the Kingdom of Morocco, "Major Foreign Trade Agreements and Related Regulations in Morocco," July 29, 2015, <https://bit.ly/2o96Bhx> [Chinese]

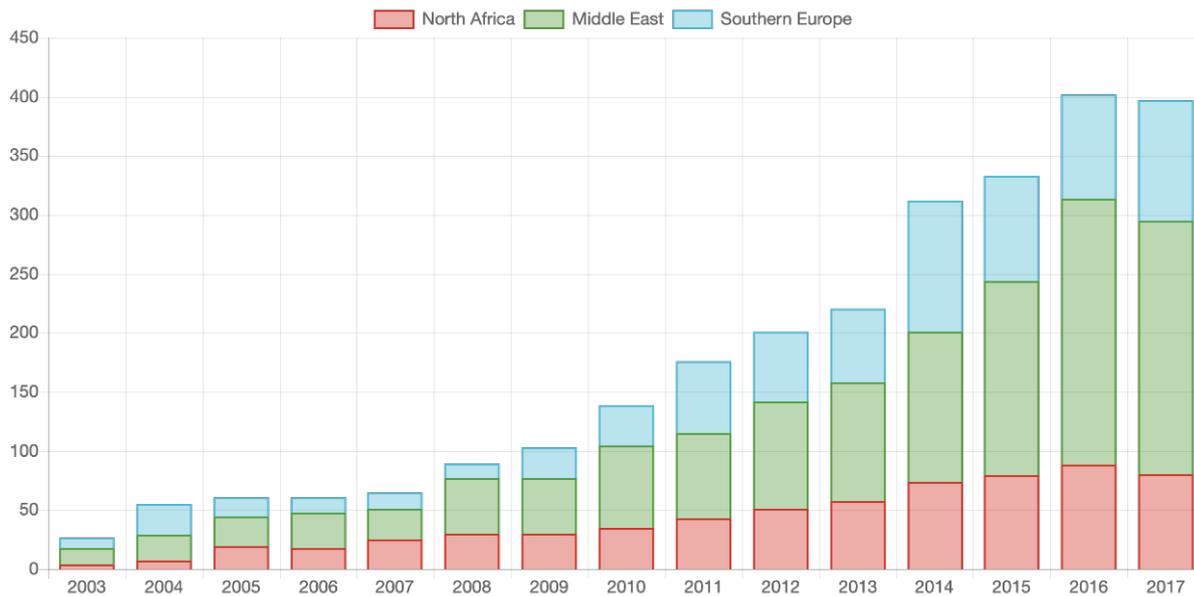
<sup>7</sup> "Tourism: Morocco targets 500,000 Chinese tourists," *Finances News*, February 9, 2018, <https://bit.ly/2mBQJ6z> [French]

<sup>8</sup> Shangtao Gao, "Arab stakeholders and the construction of China's 'Belt and Road'," *Guoji Guanxi Yanjiu* [Studies of International Relations], No. 6, 2016 [Chinese]

<sup>9</sup> Jun Zhao, "Egypt development strategy and the construction of 'Belt and Road Initiative'," *Alabo shijie yanjiu* [Studies of Arab World], 3(2016) [Chinese]

<sup>10</sup> Ministry of Finance (Israel), "Israel and the AIIB," <https://bit.ly/2nwFUmT>

ChinaMed Index: Chinese Interests in the wider Mediterranean region



The ChinaMed INDEX quantifies China's interest in economic, military, and diplomatic cooperation with a given country. Source: [www.chinamed.it/chinamed-data/mediterranean-region](http://www.chinamed.it/chinamed-data/mediterranean-region)

tions. Besides, the differences between China and Israel in terms of industry safety and market culture are still significant, and the possibility of negative impacts caused by the geopolitical issues in the Middle East remains high. All of these have left hidden dangers for the future development of Sino-Israeli economic and trade exchanges.

## Conclusion: Policy Options and Notable Trends

Although China has many partners in the Mediterranean, its political and economic relations with the regional countries are very complicated due to local rivalry in geopolitics, doubts of a "debt trap," as well

as the growing tensions between Beijing and Washington. As a response to these challenges, it would be reasonable for Beijing to consider the following policy options: 1) further promotion of independent exchanges between provinces and cities on the basis of central governmental coordination; 2) strengthen the guidance to enterprises and effectively alleviate the problem of large fluctuations in investment flows; 3) deepen cooperation and actively expand cultural exchanges between the young people, laying a deeper foundation for future economic and trade connections; 4) strengthen the transparency of economic and trade cooperation and reduce unnecessary suspicions in the local countries, the

West, or any other country around the world.

Undoubtedly, with the help of the Belt and Road Initiative, China's exchanges with the Mediterranean region will continue to grow. At the same time, there is a growing trend inside China to consider the Mediterranean anew as a whole, which could lay the foundation of a more unified policy to the region. The Chinese leaders have exhibited much greater interests in the Mediterranean civilization recently. A number of leading scholars have been summoned to hold high-level seminars, give lectures, and publish a special volume on this topic in *Chinese Social Sciences Weekly*.<sup>11</sup> On the political level, after the state visit to Rome in March 2019, President Xi Jinping made a private visit to Sicily

and met in Palermo with President of Sicily Region of Nello Musumeci, who stressed that Sicily, "as a key island in the Mediterranean Sea," possesses a unique development advantage.<sup>12</sup> And during the 2019 World Peace Forum in Beijing, Vice President Wang Qishan also actively mentioned the Mediterranean Civilization as the first round of globalization in human history.<sup>13</sup> Considering that China's Ambassador to the United Nations Liu Jieyi has been active recently in making statements about the illegal immigration across the Mediterranean, we might expect a more proactive attitude of China when dealing with the regional issues, though Beijing knows well that it should be very cautious not to get involved too deeply in an undesirable mess.

<sup>11</sup> "Mediterranean civilization and Chinese civilization," *Zhongguo shehui kexue bao* [Chinese Social Sciences Weekly], July 12, 2019, <https://bit.ly/2p01Siv>

<sup>12</sup> Ministry of Foreign Affairs (PRC), "Xi Jinping Meets with President of the Italian Region of Sicily, Nello Musumeci," March 24, 2019, <https://bit.ly/2mETKmP> [Chinese]

<sup>13</sup> Wang Qishan, "Speech by Wang Qishan at the Opening Ceremony of the Eighth World Peace Forum," *Xinhua News Agency*, July 8, 2019, <https://bit.ly/2oiq4L> [Chinese]

# Connectivity, and the Cooperation Between China and Western Balkans

ARDIAN HACKAJ\*



## Introduction

Technically, there are two connectivity initiatives geographically overlapping in the Western Balkans (WB): the EU Connectivity Agenda (EUCA) and the 17+1 Cooperation Initiative (17+1CI). Both initiatives are quite recent. While the beginning of 17+1CI can be traced back to the 2012 Warsaw Summit, EUCA in the Western Balkans took shape in 2015 at the Vienna Western Balkans Summit, as a component of the Berlin Process.<sup>1</sup>

Both initiatives started by supporting cooperation with WB countries in transport (and energy). While EUCA aims to extend Trans-European Networks in the WB to improve market access and to support growth, China prefers to combine its engagement in infrastructure with investment in productive activities and in supply chains alongside transport networks.

Regarding the cooperation features, EUCA is driven by WB-based regional institutions such as the Energy Community or the Trans-

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<sup>1</sup> Albania, Bosnia & Herzegovina, Montenegro, North Macedonia and Serbia. China has not officially recognized Kosovo.

port Permanent Secretariat. Whereas, China has preferred to negotiate concrete projects bilaterally with WB countries. The 17+1CI annual meetings have provided the general guidelines and register ex-post the developments on the ground.

The following analysis focuses on the regional dimension of China - WB cooperation, and is complemented with an update of Chinese endeavors in infrastructure projects and investment supply / value chains.

### **China – CEEC Cooperation in the Area of Connectivity: The Emergence of a Regional Component**

Neither WB region, nor "connectivity" appeared in the 2012 Warsaw Declaration.<sup>2</sup> But the 17 participants stated their intention to "establish an expert advisory committee on the construction of transportation networks between China and CEEC." The Declaration generally underlined the business rationale underpinning the cooperation between Central and Eastern Europe Countries (CEEC) and China.

"Connectivity" as a specific term appeared for the first time at the 2013 Bucharest Summit, and is based on two pillars: i) the strategic ideology based on railway networks complemented with distribution centers along the rail lines; and ii) the project-based thought implemented through participation of Chinese companies in transport infrastructure works throughout CEEC.<sup>3</sup> The busi-

ness rationale of connectivity remains the unifying factor of both pillars.

In the 2014 Belgrade Guidelines, the 16+1CI participants "...take note of the EU context," and continue to see the rail connectivity as a useful means for market access (completed this time with customs, logistic, and other soft measures arrangements), and as a focus of involvements of Chinese companies especially for infrastructure works.<sup>4</sup> The 16+1 Guidelines become more specific by providing details of closer sector cooperation in science, technology, finance, etc., between CEEC and China.

In the 2015 Summit Guidelines in Suzhou, the first connectivity project appears: the Belgrade - Budapest link.<sup>5</sup> The fact that term "Western Balkans" was still missing from the Guidelines makes us think that from China the CEEC region continue to be perceived as one business destination and/or one market.

At the Riga Summit in 2016, the "synergy between China's BRI and Trans-European Transport Network (TEN-T)" is finally mentioned and reference is made to "international supply chains". Under the logic of sector cooperation in industry, energy, technology and science, the 17 participants endeavor "...to support the port area cooperation in Baltic, Adriatic and Black Sea."<sup>6</sup> The Bar-Boljare infrastructure project (linking the Montenegrin port of Bar with Belgrade, Serbia) also appears. Now, it is possible to place in the map the concrete infrastructure projects developed in the framework of 16+1CI.

<sup>2</sup> "China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries," stored at: <https://bit.ly/2nvwg3l>

<sup>3</sup> "The Bucharest Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2mErG2X>

<sup>4</sup> "The Belgrade Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2oe55dl>

<sup>5</sup> "The Suzhou Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2oURQz2>

<sup>6</sup> "The Riga Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2mGpliw>

Finally, the region of Western Balkans becomes officially recognized in the Budapest Summit Guidelines in 2017, even if only "...for (the purpose) of the extension of TEN-T."<sup>7</sup> This time synergies between TEN-T and BRI are actively pursued, and the issue of procurement is mentioned subsequently. Project-wise the Three Seas Initiative - the eastbound Mediterranean Railway Corridor, and the westbound connection between Belgrade-Budapest axis with the Adriatic Sea through rail links to ports of Durres and Bar - figure amongst the flagship initiatives. The participants also agreed to "...explore the possibility of cooperation between CEEC - China financial instruments with the Western Balkans Investment Framework."<sup>8</sup>

With regard to connectivity, the 2018 Sofia Summit doubled down on the importance of procurement during public works, thus, acknowledging the main EU concern at that time. Strategically for the Western Balkans, the Sofia Guidelines seems to promote concomitantly two competing connectivity networks: i) a maritime West-bound link connecting the region to Adriatic Sea; with, ii) a railway-based East-bound network focused around Belgrade - Budapest line and the Corridor X. It must be mentioned that Corridor VIII connecting port of Bari in Italy, through the port of Durres in Albania and Bar Port in Montenegro, with the Black Sea port of Varna is not visible yet.

In the Dubrovnik Guidelines in May 2019, we notice the use of EU jargon in the final declaration of 17+1CI in terms such as "...smart, sustainable, safe and secure mobility."<sup>10</sup> Fur-

thermore, it is very interesting to underline the appearance in the 17+1 Guidelines of "...cooperation in planning, and other non-construction phase processes in the project cycle management of CA infrastructure."<sup>11</sup>

## Infrastructure Projects and Investment in Value Chains: The Bilateral Component

Both infrastructure projects and Chinese investment in industrial / service activities have followed a bilateral cooperation logic. The decision to enter a selected WB country has been conditioned to a very large extent by the political backing and by the national welcoming climate. Almost all of them have been preceded by negotiations at WB country state level resulting in Memoranda of Understanding between WB authorities and the Chinese investors. That being said, in the case of foreign direct investments and/or Mergers & Acquisitions (M&A), the target market for such investments has always been the larger WB region, or the EU.

On infrastructure works, Chinese companies in the in WB countries have initially been focused on projects previously refused to be financed by the EU or international finance institutions (IFI).<sup>12</sup> Now, after ten years since the initial foray with the construction of the Mihajlo Pupin Bridge in Belgrade, Chinese infrastructure companies are active in four WB countries: Serbia, Bosnia & Hercegovina, Montenegro, and North Macedonia. They have perfected their tender acquisition skills as shown in the case of the Peljesac bridge in EU Member

<sup>7</sup> "The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2play8n>

<sup>8</sup> Ibid, Art. 6.7, "Financial Cooperation."

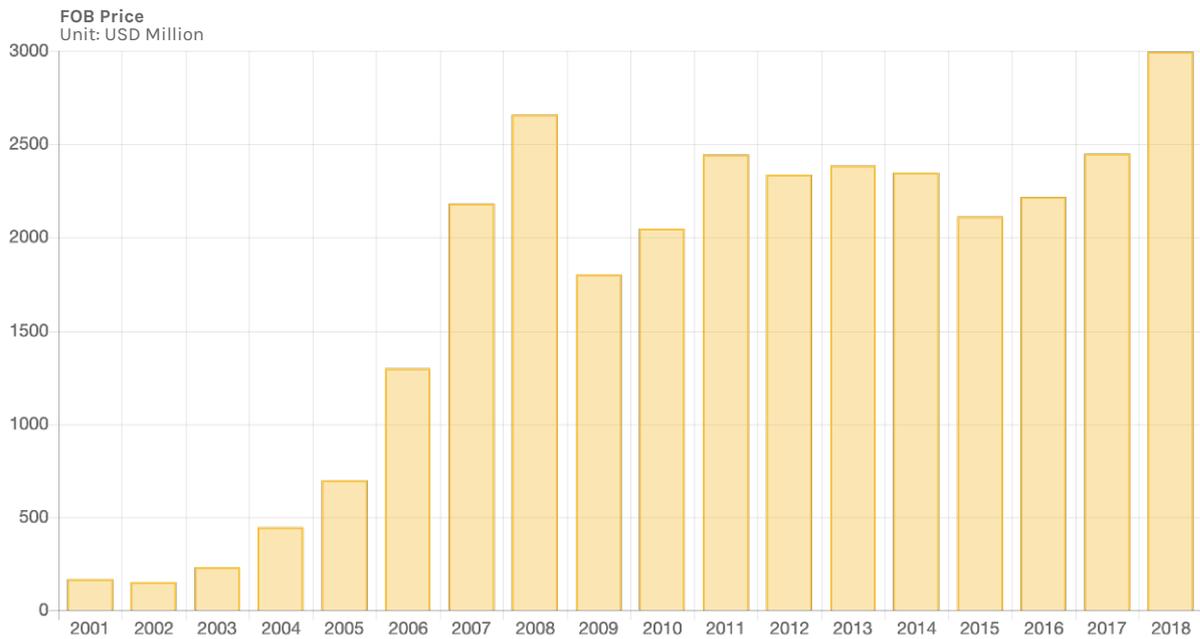
<sup>9</sup> "Full Text: The Sofia Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2oc38P4>

<sup>10</sup> "The Dubrovnik Guidelines for Cooperation between China and Central and Eastern European Countries," stored at: <https://bit.ly/2oZqFDm>

<sup>11</sup> "CA" stands for Connectivity Agenda.

<sup>12</sup> Where the best illustration is Bar-Boljare motorway in Montenegro, and the Belgrade - Budapest railway.

### Chinese Exports to the Western Balkan Countries



Source: ITC Trade Map

State Croatia. They have diversified their funding sources, away from the Chinese banks, and towards finance acquisition from IFI such as EBRD, or the EU budget.

While initially Chinese companies have been active during the phase of construction (as vs. project planning and/or operations phases), this seems to change. China now is cooperating with WB partner countries also in the phase of project planning: Powerchina will commence joint work on project documentation, spatial plans, and the model of financing for the Belgrade Metro.<sup>13</sup>

The 2019 Dubrovnik Summit also notched up a new level of China-WB countries bilateral cooperation regarding the national

policy-making cycle impacting connectivity infrastructure. The Chinese PM Li Keqiang was quoted saying that "We are ready to increase the synchronization of the One Belt, One Road initiative with (the) Croatian development strategies."<sup>14</sup>

The next component of bilateral cooperation between China and WB countries has been translated into significant Chinese investments in the region's supply chains and value chains.<sup>15</sup> Chinese companies are entering WB countries through large greenfield investments, such as Shandong Linlong Tire Co., and/or M&A such as Zijin Mining in Bor; developing along the value chain, such as Meita Group;<sup>16</sup> or, increasing their production capacity: such as HBIS smelter in Smederevo. These significant

<sup>13</sup> "Powerchina Pledges to build Belgrade Metro in 5 Years – Official," SeeNews, June 11, 2019, <https://bit.ly/2oYBQy>

<sup>14</sup> "China Opens a 'Diamond Period' in the Balkans," EURACTIV, April 11, 2019, <https://bit.ly/2mEuPjh>

<sup>15</sup> Ardian Hackaj, "The Pragmatic engagement of China in the Western Balkans," *SÜDOSTEUROPA Mitteilungen*, (January 2019): 66-77, <https://bit.ly/2niJdhy>

<sup>16</sup> Tsvetan Ivanov, "Southeast Europe: The New Hot Destination of the Global Automotive Industry," SeeNews, (2017), <https://bit.ly/2obS9W1>, "Construction of second Meita plant starts in Obrenovac – Investment worth Eur 90 million, jobs for 1,100 people," eKapija, April 3, 2018, <https://bit.ly/2of5sVK>

investments also serve as catalysts and economic poles for upcoming clusters of smaller companies.

Another feature of Chinese investment consists in the establishment of large industrial zones, developed and promoted by Chinese companies such as in Borca (where CRBC targets a total investment at EUR 2 billion), or in Cuprija.<sup>17</sup>

Serbia has been by far the largest destination of Chinese capital for greenfield investments, followed by Albania where Chinese capital has entered exclusively through M&A.<sup>18</sup>

## Conclusion

In conclusion, the cooperation in connectivity amongst China and WB countries has developed in multiple levels. First, the annual 17+1CI summits and the different Sectors Secretariats activities, have provided a regional institutional cooperation platform. This high-level institutional cooperation has resulted in connectivity being the unifying thread of the regional cooperation feature amongst China and WB countries.

But China concrete engagements in infrastructure as well as its business investments in the region have been decided and implemented at the bilateral level. In their foray in WB infrastructure or new produc-

tion facilities, Chinese companies have adapted to the national political, institutional and legal context.

Notwithstanding the current strains felt in the globalization movement, the cooperation between China and WB countries is bound to develop further in the future. In infrastructure, Chinese companies have moved out of the construction project phase and are currently also engaged in the project planning stage. This shift entails a higher Chinese input in either project identification, conceptual planning, or developing the project commercial framework.

At the policy-making level, it has become clear since the 2019 Dubrovnik Summit that China would like to synchronize its efforts in the region with the national development strategies of partner countries.

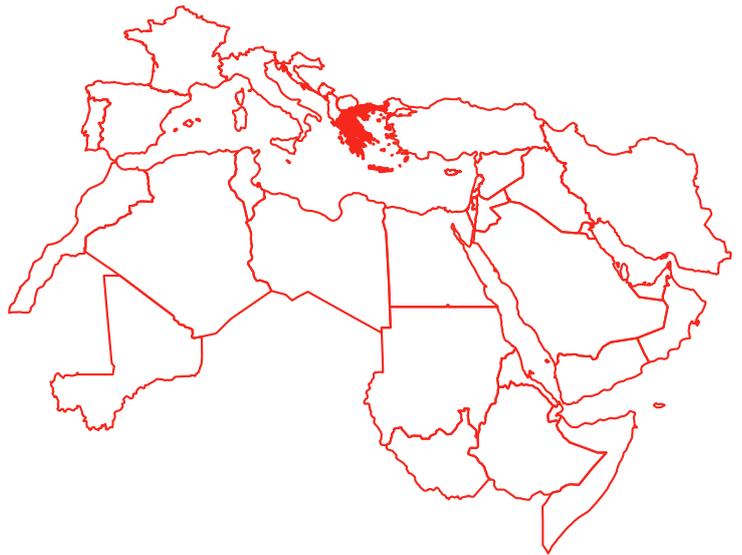
The evolution of China-WB regional and bilateral cooperation trends in connectivity, and their interaction with EU Connectivity Agenda in Western Balkans will be very interesting to watch. The interaction with the newly established WB regional cooperation structures in transport and energy, as well as the cooperation with the Regional Cooperation Council which has certain powers and competencies in regional coordination, will be pivotal in that respect.

<sup>17</sup> Radimir Ralev, "CRBC to start construction of industrial park in Serbia by end-2019," SeeNews, April 25, 2019, <https://bit.ly/2nwgBRV>; "Two Chinese and one Turkish company to open factories in Cuprija," eKapija, January 3, 2019, <https://bit.ly/2oc7C8m>

<sup>18</sup> Ardian Hackaj, "China in Western Balkans," CDI Policy Brief, March 2018, <https://bit.ly/2o7GuaB>

# China's Waning Clout in Greece

PLAMEN TONCHEV\*



## Introduction

While Greece and China have had diplomatic relations since 1972, it was only in the mid-2000s that their ties started growing. The first influx of Chinese foreign direct investment (FDI) was recorded by the Bank of Greece in 2003. Yet, what could be viewed as the starting point of Chinese presence through foreign investment is the year 2008 - this is when the corporate giant, China COSCO Shipping, signed a concession agreement with the government for a big

part of the Piraeus sea port.<sup>1</sup> COSCO's presence in Greece was further consolidated in 2016, when the company purchased a majority stake in the Piraeus Port Authority (PPA).

Does that reflect on Greece's economy and international standing? At present, a key determinant of Athens' foreign policy derives from the unpredictable behavior of Turkey, an increasingly hostile neighbor and actor in the Eastern Mediterranean region. At the same time, Greece is slowly crawling

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<sup>1</sup> COSCO Pacific Ltd at the time. China COSCO Shipping was formally established in February 2016 through the merger of China Ocean Shipping (Group) and China Shipping (Group).

out of a protracted economic slump and is desperately in need of investment capital that could trigger a speedy recovery. Yet another development to be considered is the change of guard in Athens in July 2019, with the center-right New Democracy party, led by Kyriakos Mitsotakis, replacing the radical left government of Alexis Tsipras. These three factors largely shape the current state of play between Athens and Beijing.

## Overview of Sino-Greek Relations

### *Economic cooperation*

The main thrust of Chinese economic presence in Greece relates to COSCO's investment in Piraeus, which is very visible and much talked-about. Since 2008, Greece's biggest sea port has been growing fast and is turning into a strategically important gate to Europe. The second largest investment project in Greece, a 24% stock purchase by China's State Grid in the Independent Power Transmission Operator (IPTO/ADMIE), has not led to any spin-off activities yet. In addition, Athens is eager to see Chinese FDI in the country's industry and agriculture, which has not yet been the case. Overall, the expectations for a wave of Chinese investment schemes in Greece have not been met, even though China was the honored country at the annual Thessaloniki International Fair in 2017.

Furthermore, COSCO's master plan for expansion in the area of Piraeus has caused some consternation among local stakehold-

ers and its implementation has been delayed. However, an amended version of the proposal is expected to be accepted by the end of 2019, as COSCO's presence enjoys the support of the business-minded Mitsotakis government.

Notably, some Chinese investment plans have not materialized. For instance, in 2016 COSCO was expected to bid for the acquisition of TRAINOSE, the operator of the Greek railway network.<sup>2</sup> However, in the end COSCO decided to stay out of the privatization of TRAINOSE. In addition, the China Machinery Engineering Corporation (CMEC) and China Energy, in a consortium with a Greek company, were interested in the construction of a coal-fired power plant in Northwestern Greece. Once again, the Chinese companies stayed away from the two public tenders held in 2018 and 2019.

### *Political cooperation*

On several issues, the Tsipras government made high-profile goodwill gestures to Beijing, even if on questionable grounds.<sup>3</sup> Thus, in July 2016 Greece backed Beijing over the South China Sea dispute in the wake of a ruling by the Permanent Court of Arbitration in The Hague. In May 2017, Alexis Tsipras was one of the few EU leaders to attend the Belt and Road Forum, an event actively promoted by China's leader Xi Jinping. A month later, Greece blocked the annual EU statement on human rights in China, causing fury in many western capitals.

<sup>2</sup> During his visit to Greece in June 2014, Chinese premier, Li Keqiang, himself expressed Beijing's interest in investing in Greece's railway network in order to accelerate the transport of goods to Europe. "Chinese Premier Vows to Invest in Greek Railways to Improve Transport Link to Europe," *Ekathimerini*, June 20, 2014, <https://bit.ly/2mBt6eo>

<sup>3</sup> Plamen Tonchev, "Sino-Greek Relations: Marked by Values or Opportunism?" in *Political values in Europe-China relations*, *European Think-tank Network on China (ETNC)*, December 2018, pp. 43-45.

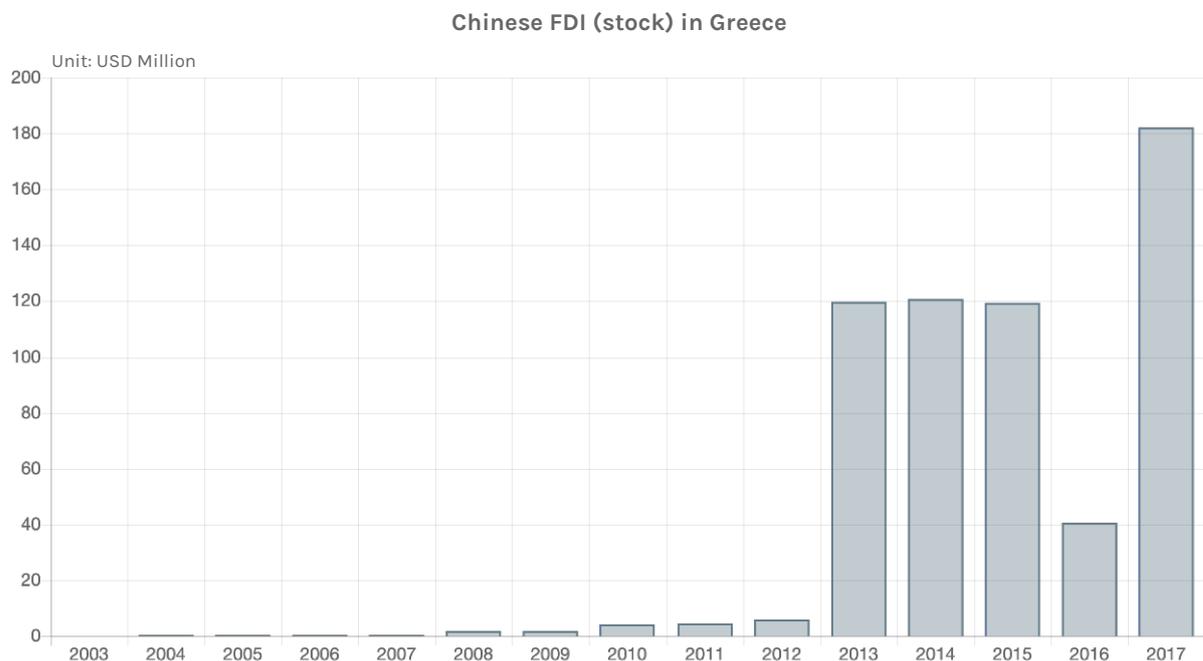
In August 2018, the foreign ministers of Greece and China signed a memorandum of understanding on the Belt and Road Initiative - inexplicably, the document has not been published to date. In April 2019, Greece joined the 16+1 format for cooperation between China and countries in Central and Eastern Europe, despite the obvious displeasure in EU quarters. Later that month, Alexis Tsipras attended the second Belt and Road Forum in Beijing. Last but not least, Greece insisted on a larger degree of flexibility to foreign (cf. Chinese) investment during the deliberations on the adoption of an EU-wide screening mechanism.

### Broader cooperation

Both countries have invested in their cultural cooperation; anchored by history and

civilization. A high-profile initiative promoted by Beijing is the so-called Ancient Civilizations Forum. In April 2017, Athens hosted the first Ministerial Conference of this grouping, more widely known as GC10.<sup>4</sup> The second edition of this annual forum took place in Bolivia in July 2018, but it remains to be seen whether the initiative in question will be embraced by the new Greek government.<sup>5</sup> At present, there is only one Confucius Institute in Greece, hosted by the Economic University of Athens. Reportedly, a second Confucius Institute is to be set up at the Aristotle University in Thessaloniki.

In terms of regional cooperation, Greece positively regards the connectivity prospects between Europe and Asia, through both the EU Strategy on Connecting Europe and Asia<sup>6</sup> and China's BRI. The



Source: [www.chinamed.it/chinamed-data/south-europe/greece](http://www.chinamed.it/chinamed-data/south-europe/greece)

<sup>4</sup> Apart from Greece and China, the other countries represented at the conference were Bolivia, Egypt, India, Iraq, Iran, Italy, Mexico, and Peru.

<sup>5</sup> "Kotzias in Bolivia for Ancient Civilizations Forum," *Kathimerini*, July 15, 2018, <https://bit.ly/2njc19G>

<sup>6</sup> "Connecting Europe and Asia - Building Blocks for an EU Strategy," European Union External Action, September 19, 2019, <https://bit.ly/2o80CcF>

Piraeus port is seen as the starting point of a transport corridor to Central Europe, in which China is keenly interested. A significant development in the region was the 2018 Prespa agreement between Athens and Skopje over the name of North Macedonia. While the settlement of this protracted stand-off was clearly favored by the EU, the US and NATO, the end of the dispute suited China as well, with a view to the construction of the transport corridor from Greece to Hungary. Yet, Beijing confined itself to quiet diplomacy, without officially taking sides.

### **Rapprochement with the West**

At the same time, while Greece joined the 16+1 (now 17+1), 2019 may well be perceived as a turning point in Sino-Greek relations. First, it was marked by disagreement over COSCO's expansion plan. Secondly, the growing geopolitical and security challenges in Greece's vicinity have considerably increased the significance of the US and other western partners, at the expense of China. In fact, the *rapprochement* between Athens and Washington started under the Tsipras government, with the first annual Greek-US Strategic Dialogue, held in Washington in December 2018. Thirdly, the new center-right government of the country will not demonstrate the same degree of positive attitude towards Beijing on foreign policy issues.

China has no part to play in Greece's defense, though Chinese vessels from the People's Liberation Army Navy (PLAN) have occasionally arrived at the Piraeus port on

friendly terms. Normally, these are ships involved in anti-piracy patrols off the coast of Somalia and Yemen. On one occasion, however, three PLAN vessels, promoting the Chinese initiative 21st Century Maritime Silk Road, held a joint training with a Greek frigate in the Saronic Gulf next to Athens.<sup>7</sup> It is noted that China was particularly worried in 2011, when it needed to evacuate 36,000 Chinese workers from war-torn Libya and requested the help of Greek merchant ships for the first few rescue missions. According to media reports, unidentified Chinese officials admit that "if that was to happen again, we would be much better prepared. We could use the Chinese navy and take the evacuees to our own port at Piraeus."<sup>8</sup> While this appears to be an overstatement, it has been pointed out that a much-needed discourse on a potential dual use of the Piraeus port has yet to commence in Greece.<sup>9</sup>

The sheer magnitude of the security challenges that Greece is facing, particularly in the Eastern Mediterranean, highlights the West's indisputable edge, as compared to Beijing's. For instance, in case of an armed stand-off between Athens and Ankara, China is likely to stay away from the conflict and will most probably opt for a non-engagement policy. On the contrary, the US will be called upon to undertake a mediation role, as it has done in the past, e.g. in 1996, when Greece and Turkey found themselves on the brink of war over islets in the Aegean Sea. Similarly, if there is a new migrant crisis, arguably used by Turkey to blackmail the EU, Greece cannot rely on Bei-

<sup>7</sup> "Three Chinese Warships Dock at Piraeus for Courtesy Call," *The Greek Observer*, October 24, 2017, <https://bit.ly/2oVmKr2>

<sup>8</sup> James Kyngé et al., "How China Rules the Waves," *Financial Times*, January 12, 2017, <https://bit.ly/2jbfPJ>

<sup>9</sup> Plamen Tonchev and Polyxeni Davarinou, "Chinese Investment in Greece and the Big Picture of Sino-Greek Relations," *Institute of International Economic Relations (IIER)*, December 2017, <https://bit.ly/2ArwLjD>

jing to exert pressure on Ankara. Once again, it would be Western partners, both the US and the EU, that Athens can count on. Notably, data recorded in 2019 suggest that the migrant flows have been surging again.<sup>10</sup>

In addition, there is a change of course on at least one international issue that relates to China - Greece's policy on Venezuela. Before the 7 July 2019 general elections, Greece openly supported the Maduro government in Venezuela, in the same manner as China and Russia.<sup>11</sup> However, only three days after the Mitsotakis cabinet was sworn in, Athens recognized Juan Guaidó as the legitimate interim president of the country.

## Conclusion

Based on the analysis presented above, the following three trends in Sino-Greek relations can be foreseen in a short and mid-term perspective. First, the emerging geopolitical set-up in the Eastern Mediterranean and the Western Balkans has clearly favored a more prominent role of the West, while China has little to offer in this respect. There seems to be a growing degree of clarity as to what exactly Beijing can do - and cannot do - for Athens, i.e. a realization that China is essentially an economic actor and a potential investor, but not a security and stability

guarantor. Long gone are the illusions of the Tsipras government that Beijing could serve as a counterweight to western allies in the fiscal crisis that nearly led to Grexit in 2015, let alone in a stand-off with Turkey. Faced with grave geopolitical challenges, Athens is revisiting some of the assumptions of the Syriza government, which attached unwarranted significance to Beijing. Second, Greece hopes to capitalize on the country's strategically important position in the Eastern Mediterranean and Southeast Europe. Athens views COSCO's investment in Piraeus as a positive development, as it was a New Democracy government that signed the initial 2008 concession agreement with the Chinese conglomerate, in the presence of the then president Hu Jintao. Chinese FDI will still be sought after in Greece, but this will take place in conjunction - and competition - with other sources of investment capital. Finally, while Athens and Beijing will retain close and friendly relations, the Mitsotakis government will also pursue to deepen defense cooperation with the US and to mend fences with the EU. In other words, after a tumultuous decade, Greece is on track to reaffirming its allegiance to the West.

<sup>10</sup> Tom Ellis, "Worrying Increase of Migrant Flows in the Aegean," *Ekathimerini*, August 11, 2019, <https://bit.ly/2ZOK5nz>

<sup>11</sup> Rocio Cara Labrador, "Maduro's Allies: Who Backs the Venezuelan Regime?" *Council on Foreign Relations*, February 5, 2019, <https://on.cfr.org/2E3gaEf>

# The Belt and Road Initiative: A View from Morocco

EL MOSTAFA REZRAZI\*



## Introduction

Morocco today is one of the most promising countries in the southern shore of the Mediterranean to play an active and dynamic role in China's Belt and Road Initiative (BRI). However, it should be noted that Morocco, like other African or Mediterranean countries, has taken time to find answers to several questions concerning the viability, as well as the efficiency of the initiative, and consider its potential to contribute an added value to this partnership.

North Africa was initially not considered a central hub of China's Belt and Road Initiative (BRI), despite of the Strait of Gibraltar; a major civilizational and trade link between Europe, Africa, and Asia. Against this background, however, Moroccan authorities have gradually manifested growing interest in this new chapter of Chinese foreign policy.

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## The Journey of Morocco's Engagement in the BRI

Morocco is not much different from other countries in terms of both enthusiasm and caution in dealing with the tempting offers that came with the launch of the BRI. The desire to make full use of the port of Tangiers in the context of economic cooperation with China, plus a rising narrative, promoted by both the Moroccan and Chinese sides, of the great potential of their bilateral relationship, have been fueling Rabat's interest in deepening its relationship with Beijing. At the same time, Moroccan preoccupations are twofold. The first concern was shaped under the influence of the Western media's frequent campaigns against China's growing presence in Africa, in particular, targeting African public opinion and business circles. However, the situation partially changed as China quickly responded by building its own "media arsenal" and thus, presenting its point of view over current affairs in different languages and in different parts of the world. The second concern was stoked by the fear shared by many African countries that their engagement in the Chinese initiative could affect their geostrategic balance and consequently their traditional relations with other world powers.

Against this background, the BRI fits perfectly with the new Moroccan foreign policy, based on the multiplicity and diversification of partnerships, and the opening up to new partners, without losing sight of the longstanding relations of the Kingdom with

its traditional partners. Morocco clearly signaled its interests toward China for the first time through the speech delivered by King Mohammed VI during the Second Forum on China-Africa Cooperation in 2015:

*"I would like, in this respect, to commend President Xi Jinping on the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives he has launched. This historic initiative reflects a truly strategic vision in the area of bilateral and multilateral relations. It seeks to establish closer connections between Asian, European and African countries... Given its geographical location, the Kingdom of Morocco could play a constructive role in extending the Maritime Silk Road, not only to 'Atlantic Europe', but also and especially to West Africa nations, with whom my country has multi-dimensional ties."*<sup>1</sup>

Morocco has clearly articulated its master-plan and expressed its willingness to integrate it effectively with the BRI initiative, based on its identity as an African, Mediterranean and Arab country. The North African country has positioned itself to play the role of an active regional player within the dynamic context of South-South relations. Since 2015, Morocco and China have committed to adopting an inclusive path to achieve a global connectivity in the main vital sectors of the initiative, mainly in policy connectivity, infrastructure connectivity, trade connectivity, financial connectivity, and people-to-people connectivity. A closer examination of the main projects launched by China and Morocco under the BRI framework shows this very well.

<sup>1</sup> "King Mohammed VI's Speech in the Second Forum on China-Africa Cooperation," *The Moroccan Times*, December 8, 2015, <https://bit.ly/2mGLbb8>

<b>Policy Connectivity</b>	<ul style="list-style-type: none"> <li>• King Mohammed VI expressed his support for the Belt and Road Initiative during the Forum for China Africa Cooperation;</li> <li>• King Mohammed VI met the Chinese President Xi Jinping in Beijing in 2016;</li> <li>• China and Morocco signed the Memorandum of Understanding for cooperation over the Belt and Road Initiative in 2019.</li> </ul>
<b>Trade Connectivity</b>	<ul style="list-style-type: none"> <li>• Increasing number of agreements signed between the two countries in the financial, economic, judicial, cultural and scientific sectors.</li> <li>• Increasing number of Chinese companies have opened their representations in Morocco.</li> </ul>
<b>Infrastructure Connectivity</b>	<ul style="list-style-type: none"> <li>• Engagement of several Chinese companies such as: Huawei, Zhongxing Telecommunications Equipment, China Overseas Engineering Corporation, Major Bridge, Engineering Company, China International Water, and Electric Corporation</li> </ul>
<b>Financial Connectivity</b>	<ul style="list-style-type: none"> <li>• BMCE Bank of Africa opened a branch in Shanghai;</li> <li>• China Railway Construction Corporation's deal with BMCE Bank of Africa and Travaux Generaux de Construction de Casablanca to build the tallest skyscraper in Africa in Rabat;</li> <li>• Attijariwafa Bank and Bank of China signed Memorandum of Understanding to strengthen their cooperation to assisting Chinese and African operators participating in projects under framework of the Belt and Road Initiative, and use the Renminbi for commercial transactions;</li> <li>• Casablanca Finance City's agreement with the Xicheng Financial District Development Promotion Center;</li> <li>• Currency swap agreement between the central banks of the two countries;</li> <li>• Exim Bank of China opened its first office in Morocco to provide financial services to Chinese companies in Morocco and other North African countries.</li> </ul>
<b>People to People Connectivity</b>	<ul style="list-style-type: none"> <li>• Increasing number of exchanges between officials, think-tanks, and entrepreneurs;</li> <li>• Exemption of visa for Chinese nationals to enter Morocco, thereby leading to an increase of Chinese tourists from 42,000 in 2016 to 120,000 in 2017, and reaching 100,000 in the first five months of 2018;</li> <li>• Increase of the number of Moroccan people Chinese, especially after the establishment of the first Confucius Institute at University Mohammed V-Agdal in 2009, followed by the opening of other centers in Casablanca, Tangier, Tetouan and Agadir, and, in the near future, Marrakech, Fes, and Ifrane;</li> <li>• Increase in the number of Chinese students that were granted scholarships to continue their higher studies in China.</li> </ul>

Source: Chinese and Moroccan media, compiled by the author.

At the same time and due to the good performance of its economy in recent years,<sup>2</sup> Morocco has expanded its partnerships with China, and has become the center of attention of many Chinese companies that intend to open branches in the coming years. Indeed, several Chinese companies have already decided to expand their activities in the Kingdom. This is the case of Huawei, which transferred its regional headquarters to Morocco, or China Railway Engineering Corporation, which built the Mohammed VI bridge, the first cable-suspended bridge in Africa, and some sections of the high-speed train.

Structural, domestic consumption-focused changes that are currently taking place in China have led to a steady rise in wages since 2010, thereby pushing Chinese companies to explore the possibility to move their production to other countries, including Morocco. Against this background, in the area of automotive industry, Chinese companies, such as BAW, Sinotruck, Zhong Tong Bus, ZNA Group, have approached Moroccan partners like Riad Holding Motors and Auto Hall to launch production, assembly, and distribution projects. Those products will be shipped to other countries in North Africa, as well as other regions.

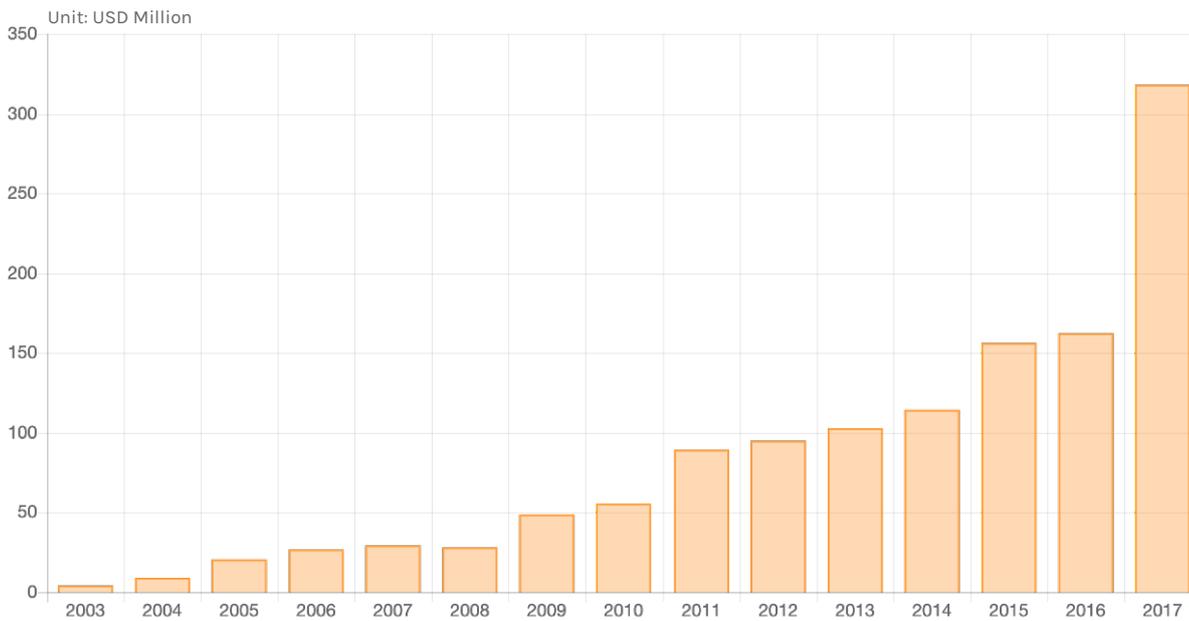
The Mohammed VI Tangier Tech City is another ambitious project that illustrates the will of the two countries to raise their relations to a strategic level. The Mohammed VI Tangier Tech City will be a so-called smart city, and will be built on more than 2,000 hectares, housing industries,

multinationals, residential areas, etc. Its construction was not abandoned despite the withdrawal of the Chinese group Haite, which was originally trusted with carrying out the project. Indeed, a protocol agreement for the development of this industrial city was signed on April 26, 2019 in Beijing during the Second Belt and Road Forum for International Cooperation. It was signed by Tangier Tech Development Corporation, China Communications Construction Company International and China Road and Bridge Corporation. According to that agreement, 200 Chinese companies active in the automotive, aerospace and textile sectors are expected to invest in the city. Over 10 years, the total investment of Chinese companies involved in the project is expected to reach USD 10 billion and create more than 100,000 new jobs for the local population.

The initial step for the implementation of each of these agreements followed the crucial visit of King Mohammed VI to China in May 2016, which culminated with a joint statement and the establishment of a strategic partnership between China and Morocco. During this visit, a dozen of agreements and memoranda were signed, covering economic and industrial partnership aimed to strengthening cooperation between the two countries in sectors with high potential for added value and job creation, including automotive, textile/clothing, household appliances, aeronautics and logistics. Other areas that were covered by those agreements are the establishment of an economic and industrial cooperation zone, railway cooperation between the Chi-

<sup>2</sup> According to the 2019 edition of the South African Rand Merchant Bank (RMB) report titled "Where to invest in Africa," Egypt comes first, followed by South Africa, and then Morocco, which ranks third of top destinations, followed by Ethiopia and Kenya. The report based its analysis and benchmarking criteria on three main indicators: Structural reforms, greater private sector participation, security, and stability environment. Morocco maintains its number three for a fourth consecutive year (2016-2019), buoyed by solid economic growth, favorable geographic positioning, sturdy infrastructure, strong regulatory policies and a stable political setting. The report is available behind paywall at: <https://bit.ly/2CPZRbN>

Chinese FDI (stock) in Morocco



Source: [www.chinamed.it/chinamed-data/north-africa/morocco](http://www.chinamed.it/chinamed-data/north-africa/morocco)

nese National Railway Company and the National Railways Office of Morocco, thereby also strengthening cooperation over infrastructure construction. The 2016-2020 cooperation program also includes geological cooperation in the and mining sector, currency swap, tourism cooperation, energy cooperation and to produce hydrocarbons, cooperation in the food safety, scientific and technological cooperation, defense cooperation, and mutual legal assistance in criminal matters and extradition.

Building upon this basis, the Sino-Moroccan partnership was further cemented in 2019, when the two countries signed a Memorandum of Understanding (MOU) on cooperation in the context of the BRI. The MOU contains three major elements:<sup>3</sup>

- Mutual support over issues of sovereignty and territorial integrity.
- Bilateral and multilateral cooperation over trade, investment, education, tourism, logistic infrastructure, security and defense, and regional economic integration.
- High-level cooperation to safeguard the common interests of developing countries.

### Conclusion

In recent years, Morocco has developed its communication infrastructure with emphasis on the development of the digital sector. In a world that is in constant reconstruction, China and Morocco are redefining their role and the terms of their cooperation to keep

<sup>3</sup> "China and Morocco Sign MOU on Belt and Road," *Xinhua*, November 17, 2017, <https://bit.ly/2EGLyO>

abreast of the transformations of the international system. Since Morocco is a key player in Africa and the Arab world, its involvement in South-South cooperation is a crucial factor in the empowerment dynamics of southern economies.

The troubles that many Arab and African states are enduring today are proof that security cannot be achieved without development and that the reduction of poverty is a prerequisite for political stability. This is one of the key principles of the BRI, which is in line with the vision that has always been advocated by the Kingdom of Morocco through its slogan "Sustainable Security Versus Sustainable Development."<sup>4</sup> The several above-mentioned cooperation projects show, indeed, that the Chinese and Moroccan approaches to security through devel-

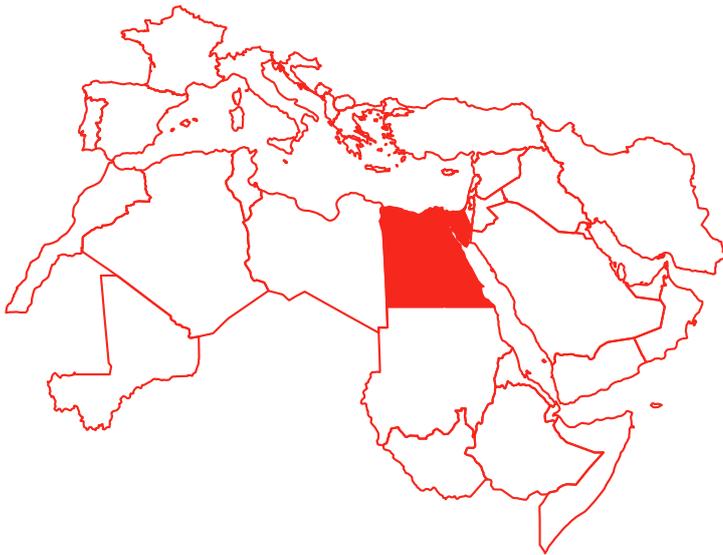
opment match each other.

In terms of trajectory, and considering China's focus on labor intensive export industries, Morocco, as an emerging market and destination for investments, provides an economic opportunity to Chinese companies. The Kingdom, which has begun a real industrial transformation and has carried out a strategy of diversification in its diplomatic and economic strategy, can thus position itself as in a strategic geographical position with privileged relations with Europe and the United States. It also serves as a logistic hub with advanced infrastructure. In addition, Morocco benefits from a favorable business climate due to an investor-friendly legal framework and a particularly attractive tax system meant to attract investors.

<sup>4</sup> "Stratégie nationale de développement durable (SNDD) 2030," Kingdom of Morocco, October 2017, <https://bit.ly/2oadkYw> [French]

# The One Belt One Road: A Framework for Egyptian-Chinese Strategic Partnership

MOHAMED FAYEZ FARAHAT\*



## Introduction

The launch of China's Belt and Road Initiative (BRI) coincided with significant internal changes in Egypt, followed by important changes in the North African country's foreign policy. The BRI was launched a few months after the June 2013 revolution, which led to the establishment of a new regime in Egypt, which came with clear developmental priorities. At the same time, like other countries in the region, Egypt is willing to pursue vigorously a "Look East" policy. The development experi-

ences of some South-East Asian countries were grounded in a similar "Look East" policy, which at that time meant the opening to the Japanese market and technologies and the emulation of the Japanese model of development. Many other Asian countries, such as India, have also developed this approach in their attempt to accelerate economic growth and development. This policy has gained a global dimension as the United States itself has shifted its focus over the last years on the Asia-Pacific region.

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The "Look East" policy depends not only on the growing economic weight of Asian powers, especially China, within the global economy, but also on a series of important changes in world politics as well as in Egypt. The adoption and strong pursuit of the "Look East" policy in Egypt after June 2013—when the Egyptian army chief, General Abdel Fattah el-Sisi, led a coalition to remove President Mohamed Morsi—was no longer a luxury, but a necessity based on a careful reading of the nature of the shifts in the structure of world order and the new global balance of power. Egypt has many tools that can be used to implement a successful "Look East" policy, such as the historical relations between Egypt and Asian powers and its strategic geographical position. Yet, the BRI provides an important additional framework to deepen this policy, especially through a direct link with one of the most prominent Asian powers: China.

### **China's Belt and Road Initiative for the Developing World**

Egypt has responded rapidly and in a positive manner to the BRI for several reasons. Among them, there is the BRI's unprecedentedly strong focus on economic development matched by a loose political and diplomatic framework. Indeed, the BRI goes beyond the narrow, traditional concept of regional cooperation, for it is not bounded by a strict definition of the countries and regions involved. On the contrary, the BRI allows for the inclusion of as many countries and regions in the world, despite their being politically, economically, and culturally different from each other. Hence, as many developing countries as possible can

contemporaneously benefit from China's initiative. Moreover, many allies of the United States, too, have responded positively to the BRI.<sup>1</sup>

Infrastructure development is at the center of the BRI, which is an extremely important element for many developing countries after their negative experience with past international initiatives launched by Western institutions. During the second half of the twentieth century, there were many attempts to boost regional integration and trade liberalization among developing countries in different regions of the world, especially the Middle East, Africa, and South Asia. Yet, they could not achieve any of their stated objectives because those projects were not connected to other regional policies and strategies to boost economic development. Essentially, economic integration and economic development were not pursued at the same time, but rather one after the other. Hence, the importance of the BRI is that it is not just an initiative that seeks to facilitate and expand trade among regions and countries by removing the physical barriers to trade and reducing its costs, but it also has a developmental dimension exemplified by projects to develop infrastructure and the provision of the necessary financial resources.

The BRI, therefore, offers great opportunities to developing countries, including Egypt, as it integrates development alongside with trade. This initiative is

<sup>1</sup> Not only many members of the European Union are founding members of the Asian Infrastructure Investment Bank, but some have also Memorandum of Understandings with China to boot cooperation under the framework of the Belt and Road Initiative.

important in this regard, given the important link between infrastructure development, on the one hand, and accelerating growth and development, on the other. Many studies concluded that increasing investment in infrastructure facilitate increase in economic growth, through encouraging the move to large-scale production, and lowering the cost of investment for the private sector – especially capital-intensive investment.

Despite the importance of the Chinese development model, the BRI clearly emphasizes – as stated in many Chinese documents – the respect of the decisions made by each country to find and pursue the development path that best fits with its own situation and conditions.

The BRI is attractive because it was launched by a large country, with a strong economy, that continues to present itself as a developing one. Such a narrative is useful in reducing the concerns of developing countries that the BRI will become similar to the past Western-led plans that ultimately sought to consolidate Western hegemony on the developing world by making Western companies dominate the markets of developing countries and ensure their dependence on large capitalist economies. Those Western initiatives did not bring any real gain to the developing countries. The vastly positive response from dozens of developing countries indeed reflects this point.

It is also important to highlight the fact that the BRI comes with a strong financial arm: the Silk Road Fund (SRF), established in December 2014, with a capital of USD 40 billion,<sup>2</sup> and the Asian Infrastructure Investment Bank, with a

capital of USD 100 billion, whose agreement entered into force on December 25, 2015. The AIIB has already started providing loans for the implementation of several infrastructure projects in the countries involved in the BRI. Meanwhile, China's major state-owned banks are expected to play an important role in financing the initiative's projects. These banks, too, have already started providing credit.

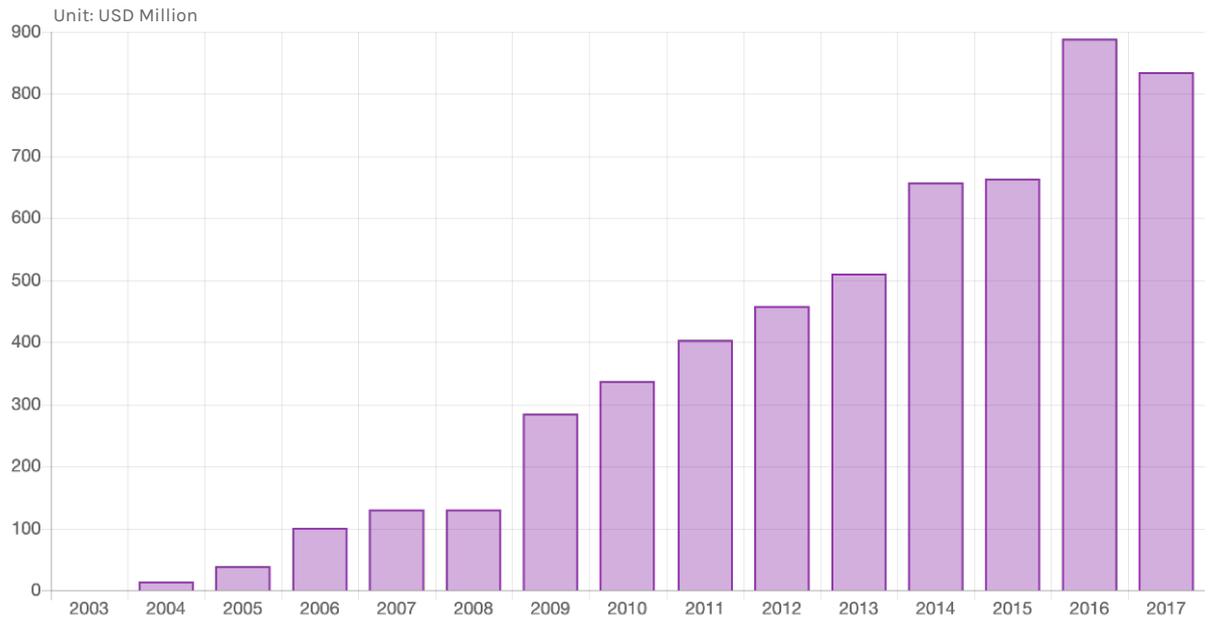
In addition to these important financial institutions, China has contributed to the establishment of others in the context of BRICS countries that will play a major role under the initiative, most notably the New Development Bank, with a capital of USD 50 billion. The establishment of the BRICS Contingent Reserve Arrangement, with a capital of USD 100 billion, cannot be overlooked as well. China has also proposed the establishment of the Shanghai Cooperation Development Bank. These institutions are not directly linked to the BRI but will contribute significantly to it.

Besides the SRF and the AIIB, the BRI has not included the creation of new regional, inter-regional or supra-national institutions. Instead, as reiterated by President Xi Jinping at the Boao Forum for Asia on March 29, 2015, China remains committed to supporting the already-existing multilateral trade system, as well as economic globalization and regional integration in general.<sup>3</sup> This approach allows the BRI to be free from bureaucratic constraints and remain flexible. Moreover,

<sup>2</sup> Jeremy Page, "China to Contribute \$40 Billion to Silk Road Fund," The Wall Street Journal, November 8, 2014, <https://on.wsj.com/2IsCsAM>

<sup>3</sup> "Full text of Chinese President's speech at Boao Forum for Asia," PRC MFA, March 28, 2015, <https://bit.ly/31VaHsr>

### Chinese FDI (stock) in Egypt



Source: [www.chinamed.it/chinamed-data/middle-east/egypt](http://www.chinamed.it/chinamed-data/middle-east/egypt)

the absence of a new of a new supra-national, bureaucratically powerful entity helps to eliminate the concerns that the BRI aims at creating an area of Chinese influence and dominance.

Egypt applied to join the AIIB in 2015, the same year the Egyptian and Chinese leaders agreed to elevate the relations between their countries to the level of a "comprehensive strategic partnership," and became a member in 2016.<sup>4</sup> Cairo has already started to take advantage of the financing opportunities available via the AIIB. The bank has already granted two loans to Egypt, the first of which is to finance the second phase of the solar energy program in Aswan Governorate that aims to increase the volume of clean energy production in Egypt by building eleven solar plants.

The AIIB provided USD 210 million, which is pooled with loans from other institutions, such as the International Finance Corporation.<sup>5</sup> The loan is earmarked for the financing of the Sustainable Rural Sanitation Services Program.<sup>6</sup> The Program includes the provision of sanitation services to 175,000 families in 133 villages in five governorates by upgrading a range of existing sewage treatment plants, and establishing new ones.<sup>7</sup> The AIIB will provide USD 300 million for the project with a sum cost of USD 694 million.<sup>8</sup>

### Conclusion

China's BRI provided developing countries with new opportunities thanks to its flexible framework and emphasis on

<sup>4</sup> "China Welcomes Egypt's Application to AIIB," China Daily, March 31, 2015, <https://bit.ly/30QFFR9>; "China, Egypt Elevate Bilateral Ties to Comprehensive Strategic Partnership," PRC Embassy in Egypt, December 29, 2014, <https://bit.ly/2MqcEqu>

<sup>5</sup> "AIIB, IFC Participates in \$210M Loan to Egypt's Renewables," Egypt Today, September 5, 2017, <https://bit.ly/2Vjfr8R>

<sup>6</sup> "AIIB Helps Bring Improved Sanitation Services to Rural Egypt," AIIB, September 28, 2018, <https://bit.ly/2AMWotV>

<sup>7</sup> "Project Summary Information (PSI)," AIIB, <https://bit.ly/2TGXmTR>

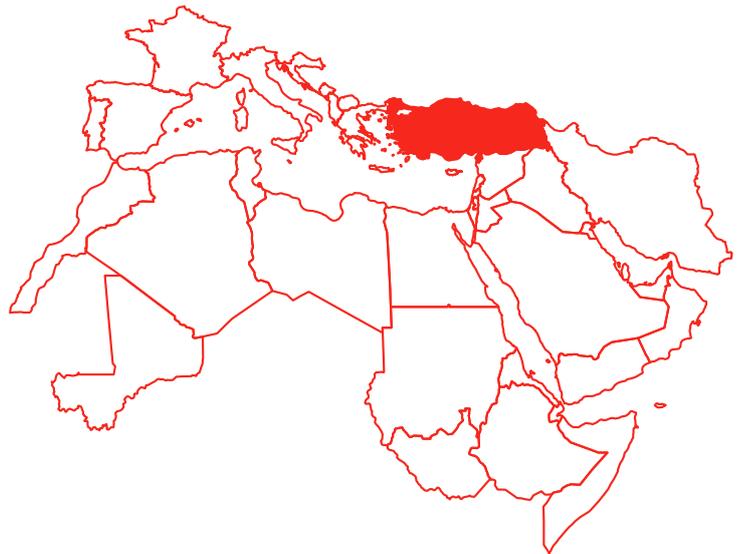
<sup>8</sup> "AIIB Seeks to Establish more Investment Projects in Egypt," Egypt Today, July 26, 2019, <https://bit.ly/2KKL24K>

regional integration together with economic development. The Egyptian leadership that came to power in June 2013 has seized such opportunities in order to provide a boost to the economy as well as to better reposition Egypt in the changing landscape of international politics and trade. The upgrade of the relationship with China and the membership of the AIIB are two important symbols of this.

Thus far, Egypt has benefitted from this move, especially due to the recent upgrade of the Suez Canal that further helps Egypt to remain an attractive partner for a country, like China, that has significant interests in maritime trade and engaging with Africa and the Middle East. The Egyptian government will continue to promote the relations with China and the deepening of the economic cooperation with it as it strives to stabilize the Egyptian economy.

# The Long-Standing Struggle of Janus-Faced Relations: China and Turkey in the 21st Century, Moving Forward?

TUGRUL KESKIN\* - MICHAEL MCCALL\*\*



## Introduction

Sino-Turkish relations occupy a critical juncture in China's push into the Middle East and in Turkey's evolving foreign policy, despite the geographical and cultural distance between them. Turkey's geostrategic placement, regional influence, and regionally strong economy are attractive to China. From the Turkish perspective, a closer relationship with China represents a path to diversification away from reliance upon Western countries, particularly considering

its own strained relations with the European Union (EU) and NATO. This is a multifaceted and complicated relationship. Since October 2010, the two partners have defined their bilateral ties as a "strategic cooperative relationship." Although cooperation between the two does exist, it is questionable as to whether it rises to the "strategic" level; problems persist where national interests on both sides collide.

During his tenure as Foreign Minister, Davutoğlu aspired to "develop a democracy with

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European Union standards, and a production style with Chinese standards."<sup>1</sup> Within the vein of the "China Model" or "Beijing Consensus," Turkey views China as both a partner and an example of development to be emulated. Particularly after the Eurozone crisis, the European model has become less attractive than that of China, to say nothing of the traumatic experience of Turkey's own bid to join the EU.

On the popular level, however, Turks hold negative perceptions of China. In a 2017 Pew poll, 54 percent of Turks expressed an unfavorable view of China, a measure of disapproval that has not descended below 50 percent since 2006.<sup>2</sup> What fosters this distaste when Turkish elites appear so keen to improve relations?

## The Uyghur Issue

Public attitudes in Turkey hinge about the Uyghurs due to the close ethnic and linguistic ties between Turks and Uyghurs. This emerged as a contentious issue for Sino-Turkish relations since radical Islamic groups emerged in Central Asia after the collapse of the Soviet Union; the increasing radicalization and "salafization" among Chinese Muslim communities has generated communal unrest within China. On the other hand, since the Justice and Development Party (AKP) came to power in the early 2000s, Turkey has played an active role in championing Muslim "rights" internationally. This approach, given its anti-sovereignty discourse, engenders Chinese suspicion.

Turkey unofficially supported Uyghur separatist movements until Bülent Ecevit's government prohibited their operation in 1998 to improve Sino-Turkish relations.<sup>3</sup> Yet, when unrest in Ürümqi, the capital of Xinjiang, emerged in 2009, Prime Minister Erdogan termed the incident as "almost genocide." The Turkish government, however, took no steps to demote relations. Rhetoric with no action has become paradigmatic as to how the Turkish government handles the Uyghur issue *vis-a-vis* China. The Chinese government, in turn, did not react to the rhetoric from Ankara. The Turkish government had to react to domestic sentiments, but neither side sought a break in relations over this issue.

While Beijing's concerns regarding Turkey's position on Chinese territorial integrity have been alleviated, the problem of Uyghur emigrants to Turkey remains contentious: China has actively sought the return of many of them. As a primary destination and with massive Turkish public support for their asylum, Turkey and China will not find common ground. In 2015, Beijing alleged Turkey having an active role in assisting the illegal emigration of Uyghurs from China. The Chinese government originally kept communications with Turkey over this issue private in an attempt to avoid damaging relations,<sup>4</sup> a sign of how important the bilateral relationship has become.

Though sympathy for Uyghurs permeates the Turkish political landscape, different political parties prioritize the issue differently. With its pan-Turkic sentiments, the

<sup>1</sup> Gökhan Bacık, "Envisioning the Asia-Pacific Century: Turkey between the United States and China," *Today's Zaman*, December 9, 2011, <https://bit.ly/2VdDbuW>

<sup>2</sup> "Turkey: Opinion of China (Unfavorable)," Pew Research Center's Global Attitudes Project, <https://pewrsr.ch/2Vjc4Pk>

<sup>3</sup> Fatih Furtun, "Turkish-Chinese Relations in the Shadow of the Uyghur Problem," *Today's Zaman*, 29 March 2010, <https://bit.ly/2MiOU7x>

<sup>4</sup> Michael Clarke, "The Impact of Ethnic Minorities on China's Foreign Policy: The Case of Xinjiang and the Uyghur," *China Report* 53, no. 1 (2017): 1-25.

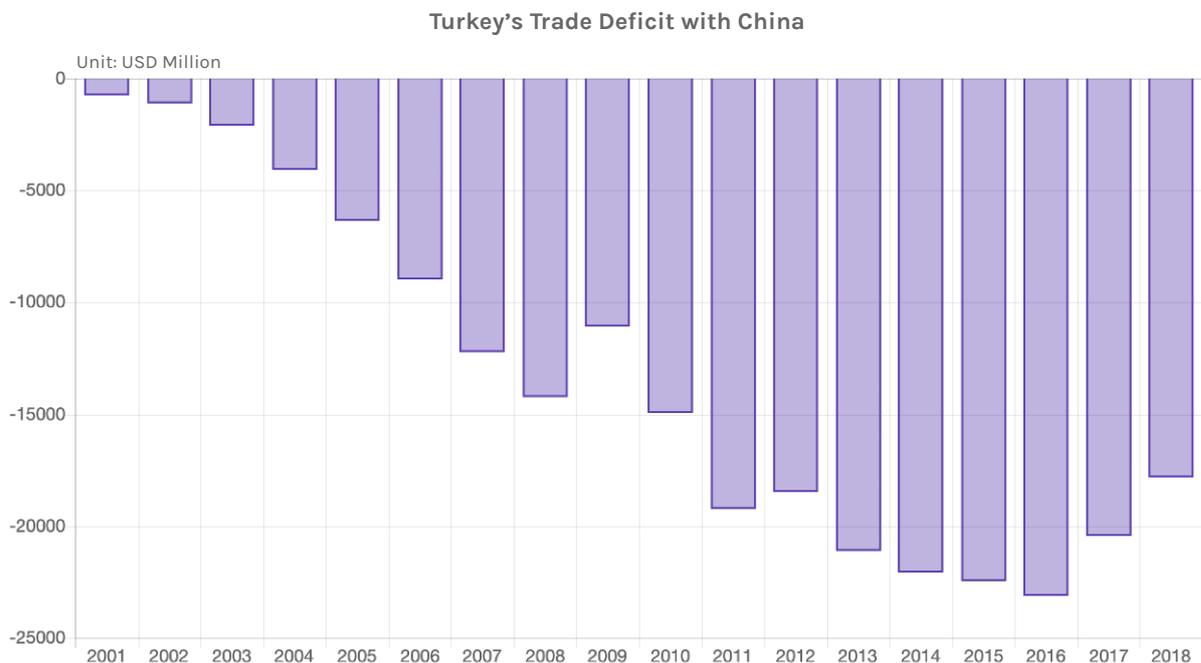
Nationalist Movement Party (MHP) holds Sinophobic views; after negative media reports about the Uyghurs in China in 2015, MHP members attacked Chinese properties and tourists in Turkey. With the AKP's need to maintain good relations with China and the MHP's critical attitude being part of the same government after the 2018 elections, the resulting foreign policy is an amalgamation that pleases no one. This became apparent in February 2019, when the Turkish Ministry of Foreign Affairs in February denounced the "policy of systematic assimilation" of Uyghurs after contradictory reports of the death of a famous Uyghur singer/poet.<sup>5</sup> Taking place very close to March's local elections, this statement catered to domestic audiences but sparked a fierce response from Beijing, although

there was no concrete follow up.

Over the last few years, the Turkish approach to the Uyghur issue has been restrained; they refrain from supporting separatist ideologies, but do advocate for Uyghur rights within the framework of the People's Republic of China. This stance can be characterized as quasi-critical engagement, permitting Turkish politicians to cater to both their domestic constituencies as well as maintaining positive relations with China.

## Diplomatic and Military Relations

Given Turkey's NATO membership, developing extensive military ties to China presents substantial risks for Turkey's tra-



Source: ITC Trade Map

<sup>5</sup> "QA-6, 9 February 2019, Statement of the Spokesperson of the Ministry of Foreign Affairs, Mr. Hami Aksoy, in response to a question regarding serious human rights violations perpetrated against Uighur Turks and the passing away of folk poet Abdurehim Heyit, "Republic of Turkey Ministry of Foreign Affairs, February 9, 2019, <https://bit.ly/2N2TA1q>

ditional defense relationships. Fraying ties, especially with the United States, have prodded Turkey to turn elsewhere for military supplies to demonstrate its independence.

Joint military operations, though uncommon, have taken place. In 2010, China joined the "Anatolian Eagle" exercises, a NATO operation alongside Israeli forces. The inclusion of China symbolized a substantial upgrade in military ties, as well as a willingness to buck Western demands in the military arena, especially after Turkey prohibited Israeli participation the year prior. Chinese participation, therefore, signaled that Turkey maintains options beyond NATO.

Additionally, Turkey has sought an air-defense missile system during the past decade. As a NATO member, the American Patriot missile system would have been the obvious choice over Russian, Chinese and European competition. Yet, the Turks initially offered a USD 3 billion contract to a Chinese company for the HQ-9 defense system.<sup>6</sup> This deal aroused fierce resistance from the United States, both on technical grounds (whether or not it could be integrated with NATO systems), and on political grounds, as the Chinese producer was under American sanctions for dealing with Iran. Though the deal was scrapped in 2015, it still damaged relations with NATO.

Finally, Turkey has been a dialogue partner in the Shanghai Cooperation Organization (SCO) since 2012. Although it has sought a

higher level of membership, the failed missile system contract of 2015 remains a potent negative memory and lesson for the Chinese regarding the eventual difficulties to integrate Turkey. Thus, even if the Turks seek to overcome dependence on NATO through improving military ties with China, the Chinese consider Turkey's NATO ties as a factor that prevents actual military cooperation.

## Economic ties

President Erdogan's 2015 visit to China cemented that trade is the centerpiece of the relationship, as contentious issues were sidelined in favor of development discussions.<sup>7</sup> Bilateral trade in 2000 only totaled USD 1 billion and has expanded significantly since. Nonetheless, a plateau was reached during the past decade. Turkish exports to China hovers around USD 2.5 billion and China represents Turkey's single largest source of imports. Bilateral trade peaked in 2013 at 28.29 billion. It has decreased since, but without any sustained drops. Optimistic goals about reaching USD 100 billion by 2020 remain out of reach.

The only source of economic friction remains the gaping trade deficit, peaking at USD 23 billion in 2016. The two economies are structured differently and imagining a Turkish export portfolio that would alleviate this deficit is not simple. Turkey exports little of interest to Chinese consumers. Investment flows, particularly under the Belt and Road Initiative, and increasing levels of tourism could reinstate the deficit capital

<sup>6</sup> "US-sanctioned Chinese Firm Wins Turkey Missile Defense System Tender," *Hürriyet Daily News*, September 26, 2013, <https://bit.ly/2lqUGmt>

<sup>7</sup> Tavsan Sinan, "China Trip: Xi and Erdogan Focus on Economic Ties, Shelve Uighur Row," *Nikkei Asian Review*, August 3, 2015, <https://bit.ly/2MeE2HB>

into the Turkish economy. China has sought to drive more tourists to Turkey: 2018 was declared as the "Turkey Tourism Year" and the number of Chinese tourists increased from less than 100,000 in 2011 to 400,000 tourists that year. Being the Turkish economy heavily reliant on tourism, this marks an important step in the improvement of economic ties; also, it demonstrates how damaging incidents like MHP attacks on Chinese tourists could be.

Turkey has also been the recipient of Chinese capital directly. For example, China invested USD 750 million into the Istanbul-Ankara high-speed railway project,<sup>8</sup> which included the transfer of relevant technology to Turkey. Turkey has partnered actively with the Asian Infrastructure Investment Bank, obtaining USD 1.4 billion in investment over the course of 2018.<sup>9</sup> Furthermore, China has directly transferred funds to Turkey under a currency swap agreement. With one taking place around politically sensitive local elections,<sup>10</sup> these transfers could be interpreted as both a political and economic gesture.

## Conclusion

Despite the desire and efforts to improve relations, structural factors undermine the ability for China and Turkey. Thus, current relations appear to have hit a plateau of

sorts.

The Turkish public remains distinctly sympathetic to Uyghur separatist causes, given their extensive linguistic and ethnic ties. The Chinese, conversely, consider criticism of what they perceive as domestic policies as unacceptable. At the same time, military ties have been established but only in a general sense and Turkey remains a dialogue partner in the SCO. The economic front appears to be the most promising realm for continued progress. Yet, levels of bilateral trade have not grown substantially in years despite ambitious goals. The trade relationship is also very unbalanced. Steps to remedy this have been taken, though there is a lot of ground to make up.

What of the future? Despite the difficulties in making predictions, the political incentives that cause Turkey to tread a very fine line on the Uyghur issue will not go away, it will take a long time for China to reconsider military ties with a long-term NATO member, and the Turkish economy is itself stagnating. Signs do not appear to point toward a change in the status quo in the foreseeable future, at least without a major exogenous change that drives the two together out of necessity.

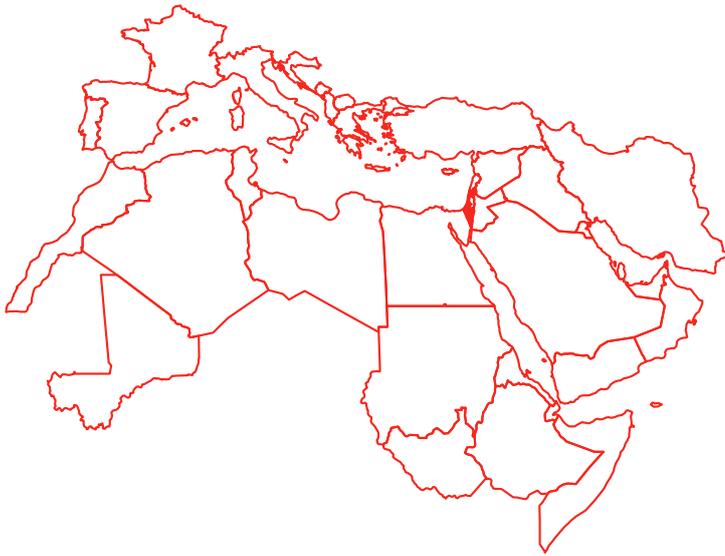
<sup>8</sup> "Ankara-Istanbul High Speed Railway Construction," *Reconnecting Asia*, <https://bit.ly/2htDZsr>

<sup>9</sup> Alice Lo, "AIIB Approves First Loan in Turkey; USD600M Investment to Improve Gas Supply," *Asian Infrastructure Investment Bank*, June 27, 2018, <https://bit.ly/358Vg1S>; "Asian Infrastructure Investment Bank Invested \$1.4b in Turkey-Related Projects in 2018," *Daily Sabah*, January 29, 2019, <https://bit.ly/2Bozjif>

<sup>10</sup> Asli Kandemir and Kerim Karakaya, "Turkey Got a \$1 Billion Foreign Cash Boost from China in June," *Bloomberg*, August 9, 2019, <https://bloom.bg/2Alvm77>

# Sino-Israeli Relations: Challenges amid Growing Ties

ORI SELA\* - BRANDON FRIEDMAN\*\*



## Introduction

Sino-Israeli relations rest on three pillars: trade and economy, technology (high tech in particular), and, to some degree, culture, education, and tourism. In terms of geostrategic collaboration, China has continued to support Israel's opponents in the Middle East and beyond, while Israel has accepted, de-facto, this reality at the diplomatic level. In the past decade or so, particularly from the global financial crisis (2008-2012) and Benjamin Netanyahu's term in

office (since 2009), economic ties have increased, with new modes of collaboration emerging, including significant Chinese investments in Israeli companies and infrastructure. With the China-US trade war as the larger context in recent years, this change in the nature of Sino-Israeli economic ties has also meant a growing tension between Israel and the US, as the latter attempts to limit the terms of Sino-Israeli (and not just Sino-Israeli) engagement. The Chinese investments in the new Haifa Port have thus become a showcase for both Sino-

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Israeli collaboration and US discomfort with that collaboration, signifying a need on the Israeli side to reconsider how it works with China, regardless of the merits of some of the assumptions, arguments, or accusations concerning the Haifa Port made by various US and Israeli observers.

## Growing Sino-Israeli Ties

China and Israel established formal diplomatic relations in 1992, after years of informal ties related mainly to the arms industry and some agricultural and academic interaction. Shortly thereafter the insignificant economic relations prior to 1992 (about USD 22 million in Israeli exports to China and less than USD 1 million Chinese exports to Israel) grew stronger, with Chinese exports surpassing Israeli exports, a trend that continues to this day. The controversy created by the Phalcon and Harpy deals in 2000 and 2005,<sup>1</sup> respectively, which led to U.S. objections that ultimately prompted Israel to cancel the agreements, slowed the development of Sino-Israeli relations and even created some setbacks. Nevertheless, economic ties continued to grow consistently, in particular since 2010. In 2018 China was Israel's second largest trading partner (the US was the largest), with total trade of USD 15.7 billion, of which about USD 11 billion were imports and USD 4.7 billion were exports, a 30% increase compared to 2017. The main category of Israeli exports to China has been electronic components (just over 50% of Israeli exports), with other leading categories including technological equipment, chemicals, minerals, and machinery. Israeli

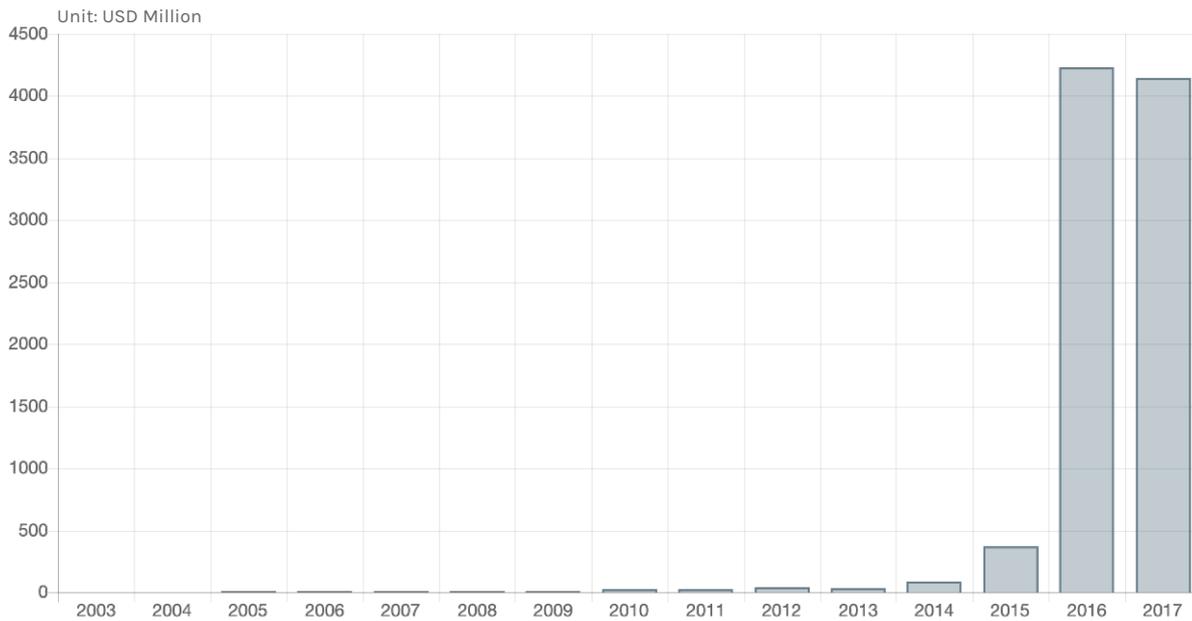
imports from China consist of machinery and electrical equipment (22%), mechanical and computer equipment (16%), along with various clothing, metal and steel, and other categories.

Prime Minister, Benjamin Netanyahu, made two state visits to China, in 2013 and 2017, marking the growing Israeli interest in China. The visits produced several economic agreements between the two countries; and China reciprocated, sending senior leaders to Israel. Vice President Wang Qishan's 2018 visit showed the importance with which China views its ties to Israel. The Israeli government, following PM Netanyahu's meeting with Chinese PM Li Keqiang, issued a government decision in 2014 that emphasizes the need to strengthen its economic cooperation with China and regards this enhanced cooperation as an important engine of economic growth for Israel.<sup>2</sup> China signaled its main interest in its relations with Israel during PM Netanyahu's second visit (2017) when the relations between the two countries were defined as an "Innovative Comprehensive Partnership." At this stage, various joint mechanisms for cooperation began to appear (such as conferences, joint committees, fairs, etc.) in support of this somewhat amorphous designation. The launch of the BRI, in which Israel is involved, and Israel's membership in the Asian Infrastructure Investment Bank (AIIB) since its inauguration (2015), also showcase Sino-Israeli relations and their prospects.

<sup>1</sup> P.R. Kumaraswamy, "Israel-China Relations and the Phalcon Controversy," *Middle East Policy* 12, no. 2 (Summer 2005): 93-103; Haotan Wu & Dalei Jie, "Trade versus Security: Sino-Israeli Security Relations in a Game of Three Players," *Asian Journal of Middle Eastern and Islamic Studies* 12, no. 2 (2018): 193-206.

<sup>2</sup> A breakdown of Government Resolution No. 1687 at the Israel Government Services and Information website, <https://bit.ly/2mBBTwt> [Hebrew]

## Chinese FDI (stock) in Israel



Source: [www.chinamed.it/chinamed-data/middle-east/israel](http://www.chinamed.it/chinamed-data/middle-east/israel)

However, against the backdrop of these growing ties in recent years has been the escalation of US-China economic tensions into the so-called "trade war," and the US general designation of China as its "strategic competitor." In the first half of the 2010s, Israel experienced the competitive side of economic ties with China when Chinese companies began to make aggressive moves into the Israeli economy through acquisitions, such as the 2014 purchase of a majority stake in the leading Israeli dairy company, Tnuva,<sup>3</sup> or attempted acquisitions, such as the attempted purchase of one of Israel's leading insurance companies, Phoenix.<sup>4</sup> Therefore, when the U.S.-China trade war began to impact Israel, it

echoed earlier warnings and concerns about Israel's engagement with China that were raised in the Israeli media.<sup>5</sup> During 2018 and 2019, the main concerns about Sino-Israeli relations were related to Haifa Port.<sup>6</sup> Shaul Chorev, a retired Brigadier General, and former head of the Israel Atomic Energy Commission, has been outspoken in pointing out the potential national security risks connected to China's investment in the Haifa port.<sup>7</sup> On the other hand, Eran Lerman, a former government official, views China's role in Israel through the lens of Israel's broader regional interests. He argues that China's engagement in the region can have a stabilizing effect, and that this potential benefit should trump the

<sup>3</sup> Michael Rochvargar and Yoram Gabison, "Controlling Share of Tnuva Sold to Chinese Company," *Haaretz*, May 22, 2014, <https://bit.ly/2occvOK>

<sup>4</sup> Ron Stein, "New Chinese Suitor for Israeli insurer Phoenix," *Globes*, June 30, 2016, <https://bit.ly/2ns6u0p>

<sup>5</sup> For example: Yaakov Eilon, "Tnuva to China: The beginning of a wonderful friendship?," *Mako*, May 22, 2014, <https://bit.ly/2ns6yxb> [Hebrew]; Nehemia Strasler, "That's It, The Country is Done," *Haaretz*, May 27, 2014, <https://bit.ly/2mC6dHL> [Hebrew]; Sarah Liebovich-Dar, "Not Just Tnuva," *Maariv* [Hebrew], April 26, 2016; "A Senior Treasury Official: We Oppose the Selling of an Insurance Company into Chinese Hands," *The Marker*, January 4, 2017, <https://bit.ly/2nvJ6yW> [Hebrew]; Yossi Melman, "Despite Warnings from Experts: No One is Checking on the Chinese Involvement in Various Fields in the Country," *Maariv*, March 10, 2018, <https://bit.ly/2nuAdpl> [Hebrew]

<sup>6</sup> Amiram Barkat and Shlomit Len, "We Can't Give China a Port, They Are Always on the Side Opposing Israel': Shaul Chorev in a Worrying Interview," *Globes*, November 17, 2018, <https://bit.ly/2oSmucj> [Hebrew]; Golan Hazani, "There Needs to Be an Open and Serious Discussion about the Establishment of an Israeli Port by the Chinese before It Happens: Efraim Halevy," *Calcalist*, March 3, 2015, <https://bit.ly/2mC8C5f> [Hebrew]

<sup>7</sup> Alex Fishman, "The Chinese Risk," *Yediot Ahronoth*, February 14, 2019, <https://bit.ly/2oajEze> [Hebrew]

narrower domestic security risks, which can be managed with vigilance.<sup>8</sup> More generally, American experts and some Israelis (especially from the security field) believe Israel should establish a mechanism similar to the Committee for Foreign Investments in the United States (CFIUS), to regulate foreign investments in Israel, especially in light of the rapidly growing investments from China.<sup>9</sup> While there were other issues that have raised concerns in Israel, these two seem to have taken center-stage, and are representative of how Sino-Israeli relations are being discussed in Israel today.

As far the Haifa Port is concerned, in 2015, Shanghai International Port Group (SIPG) won the tender to build and operate a new terminal at the Haifa Port (a lease for 25 years, with approximate investment of over USD 1 billion). While it was in its initial stages, only a handful of objections were raised about this investment; however, since 2018, both Israeli and American media have highlighted what has been perceived as the dangers of having the Haifa Port in Chinese hands. A great deal of the current media furor fails to note that SIPG (and the Israeli companies involved) will operate only one terminal in the Haifa Port (New Bay Terminal), not the entire port, and that many of the concerns that have been raised have little to do with the reality on the ground.<sup>10</sup> Nonetheless, the US government was quick to use the Haifa Port issue as an opportunity to pressure Israel into rethink-

ing its overall relationship with China and to coax Israel into limiting the scope of its ties to China.<sup>11</sup>

In a similar and related manner, pressure has been growing on Israel (but also within Israel) to pay closer attention to the types of Chinese investments flowing into Israel. Chinese companies have made several acquisitions of Israeli companies and startups, in the high-tech industry in particular. In recent years, the argument has been made that Israel has to regulate these investments, be it due to US competition/rivalry/trade war with China—thus assisting the US—or due to Israel's own national security agenda, with China being an important supporter of Israel's opponents in the Middle East (with Iran specified as a main reason).<sup>12</sup> That is, there are concerns related to the possibility that Israeli technology could find its way into the hands of Israel's adversaries, or, that Chinese growing involvement in Israel's economy might make it possible for China to influence Israeli decision making, even when it comes to matters of national security. Thus, in the past year or so, various discussions were held in the Israeli government and related agencies in order to bring such a CFIUS-like mechanism into being. Nevertheless, despite the media attention, nothing significant has happened in practice. The SIPG continues to work full steam ahead on the Haifa port (expected to become operational in 2021), and no CFIUS-like mechanism has gotten off the ground. This may, in part, be due to

<sup>8</sup> Eran Lerman, "Israel's Strategy toward China Doesn't Conflict with American Interests - It Serves and Reinforces Them," *Mosaic Magazine*, November 19, 2018, <https://bit.ly/2nsQyem>

<sup>9</sup> Omri Milman, "Israel's National Security Council Pushing for Local Committee on Foreign Investments," *Calcalist*, March 3, 2019, <https://bit.ly/2p1nHOL>; "Chinese Investments in Israel Could Pose Security Threat, Shin Bet Chief Warns," *Haaretz*, January 9, 2019, <https://bit.ly/2pttROZ>

<sup>10</sup> Assaf Orion and Galia Lavi, eds., "Israel-China Relations: Opportunities and Challenges," Memorandum No. 194, INSS, August 2019, <https://bit.ly/2niUSwQ>

<sup>11</sup> "Pompeo Warns Us Could Curb Security Ties with Israel over China Relations," *Times of Israel*, March 21, 2019, <https://bit.ly/2nuFLAb>; "Trump Warned Netanyahu That Israel-China Ties Could Hurt Security Cooperation with Us: Report," *i24 News*, April 15, 2019, <https://bit.ly/2oalWQQ>

<sup>12</sup> For example, see: "China Offers Proposals to Address Growing Tensions in the Middle East, Gulf Region," *Xinhua*, September 28, 2019, <https://bit.ly/2mGFZUE>

Israel's political gridlock during the past nine months. There have been two national elections, the first in April 2019 and the most recent in mid-September, which means Israel has had a caretaker government for much of the year, limiting the scope of governance.

## Conclusion

China, of course, is well aware of this course of events, but, as the Israeli government under Netanyahu appears determined to enhance Sino-Israeli cooperation, both rhetorically and in practice, China, too, continues to stay the course as outlined above. It remains to be seen how the new government in Israel (still an unknown) will approach Sino-Israel relations, and also how the US priorities evolve in the run-up to the 2020 election cycle. Thus, for example, the way in

which a CFIUS-like mechanism in Israel could happen (if it does) requires the US to decide whether or not it is sufficient in US eyes (and here there is always a question of who/what examines this mechanism), as well as the Chinese response to such a mechanism. Likewise, the continuation of the US-Chinese trade war and its larger implications and indirect effects on Israel might create further friction in the Sino-Israeli relationship and the prospect of expanding it. On a different note, geostrategic developments within the Middle East might also take their toll on Sino-Israeli relations, or, if China changes its diplomatic attitude in the Middle East, may create more room for positive developments in Middle Eastern relations, even though the latter option seems less realistic at the moment.

# An Overview of Sino-Gulf Relations: A 'New Era' of Growth and a Future Era of Stagnation?

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## Introduction

The article offers a general overview of the state of Sino-Gulf relations in the era of Xi Jinping and explores their various political, economic, and ideational dimensions. Following that, the article considers the future trajectory of these relations and whether they are reaching the outer limits of their positive development. The article makes the argument that while the Gulf Cooperation

Council (GCC) member states have all succeeded in cultivating close political and economic ties to the People's Republic of China (PRC), none of these relationships appear to have the capability of transcending their transactional character and transforming into substantive strategic or security provision-based arrangements. This is due to two factors. First, there are irreconcilable differences in the political objectives and bottom-lines held by GCC and Chinese elites.

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These differences, expressed in terms of their antagonistic preferences for political outcomes in the Middle East region, but also with respect to Beijing's unwillingness (and inability) to underpin GCC regime security, pre-empt the ability of the two sides to cultivate sufficiently deep political trust. Second, the economic complementarity that undergirds Sino-GCC relations is not sustainable and will ultimately change as the political-economies of these two regions undergo significant transformation in the future. In all, these two factors place limits on the potential for further substantive growth in Sino-GCC relations and suggest that it is bound for reversal and a diminishment of their strategic value over the long-run.

## The Political Dimension of Sino-GCC Relations

By all accounts, Sino-Gulf relations have experienced major growth and consolidation over the past decade. In the official lexicon of the Chinese Ministry of Foreign Affairs (MFA), bilateral ties with many GCC member states have been largely elevated to that of strategic or comprehensive strategic partnerships (*quanmian zhanlve huoban* 全面战略伙伴).<sup>1</sup> Likewise, GCC member states have all pursued various forms of an "easternization" (*tashreeq*) foreign policy that pri-

oritizes the cultivation and maintenance of close political ties with China.<sup>2</sup>

The growing importance accorded to Sino-Gulf political ties over the past decade is noticeable along two-levels where a new process of institutionalization has come into play: the state-to-state level and regional level. In terms of the first level, there has been a palpable expansion in the number of China-specific organs created by GCC member states.<sup>4</sup> In the Sino-Saudi context for example, a "high-level Sino-Saudi cooperative committee," with six specialized subcommittees, was formed in August 2016 to rationalize and enhance bilateral cooperation in multiple areas.<sup>5</sup> More intriguingly, the United Arab Emirates (UAE) appointed a "special presidential envoy" to China in 2018 as a more direct leadership-level channel of communication.<sup>6</sup> With respect to the second level, and as noted by the January 2016 *Arab Policy Paper*, Sino-Gulf relations are managed through a strategic dialogue mechanism that was set up in 2010.<sup>7</sup> This institutional development probably sought to give new wind to stalled China-GCC free trade agreement negotiations: it is unclear however to what extent this has remained an effective multilateral channel given the intra-Gulf schism since 2017.<sup>8</sup>

<sup>1</sup> "A Quick Guide to China's Diplomatic Levels," *The South China Morning Post*, January 20, 2016, <https://bit.ly/2nraL4c>

<sup>2</sup> An expression of this is the similar symbolic position adopted by the GCC with respect to China's policies in Xinjiang. All of its member states added their signatures to a counter-letter supporting China at the United Nations against international criticism in July 2019. Although the Saudis subsequently sought to downplay the letter's significance, and the Qataris withdrew their signature later on, the initial position adopted by the GCC – as a disunited bloc – is suggestive of how important relations with China have become.

<sup>3</sup> Sub-state level points of interaction carried out by Chinese provincial governments, state-owned enterprises or major corporations with close links to the Chinese party-state, are also important actors, bringing Gulf elites in frequent contact with various political and economic networks and constituencies within China.

<sup>4</sup> For a different perspective on the institutionalization process, please look at: Muhammad Zulfikar Rakhmat, "Institutionalizing China's Relations with the Gulf," *International Policy Digest*, April 15, 2019, <https://bit.ly/2oboOGa>

<sup>5</sup> "In One of Its First Meetings...a Saudi-Sino High-Level Committee Signs 17 Agreements," *Al-Sharq al-Awsat*, August 31, 2016, <https://bit.ly/2nqxM7e> [Arabic]; "4 Responsibilities for the Joint Committee Strengthen the Saudi-Sino Development Strategy," *Al-Watan*, February 22, 2019, <https://bit.ly/2nvrCMX> [Arabic]

<sup>6</sup> "The President of the State Issues a Proclamation Appointing a Special Envoy for China and a General Director for Ittihadiyya for Transportation," *Alittihad*, October 18, 2018, <https://bit.ly/2mG1g0K> [Arabic]

<sup>7</sup> "China's Policy Document Towards Arab Countries," *Xinhua*, January 13, 2016, <https://bit.ly/2nrdR8k>

<sup>8</sup> The GCC member states also engage with China through other multilateral institutional vehicles including the China Arab States Cooperation Forum and the Arab-China Political Strategic Dialogue. Financial institutions such as the Asian Infrastructure Investment Bank and Silk Road Fund also play a role.

## The Economic Dimension of Sino-GCC Relations

The strength of Sino-GCC political ties has been underpinned by a structural economic complementarity defined by energy and supplemented by the dynamics of their regional political-economies. The centrality of this economic dimension can be discerned from how, at least for the past few years, Sino-GCC relations have been mediated largely through economic institutions such as the National Development and Reform Commission (*guojia fazhan yu gaige weiyuanhui* 国家发展与改革委员会) or oil companies such as Aramco (in the case of Saudi Arabia).<sup>9</sup> According to the 1+2+3 formula presented by the *Arab Policy Paper*, energy constitutes the "core" (*hexin* 核心) of Sino-GCC economic relations.<sup>10</sup> This is evidenced by how, drawing upon ChinaMed compiled data, energy comprises a major part of Sino-GCC trade volume which has expanded from USD 9.7 billion in 2000 to nearly USD 163 billion in 2018.<sup>11</sup>

For major energy-producers in the GCC such as Saudi Arabia, the UAE (Abu Dhabi), Oman, Kuwait and Qatar, the energy-hungry Chinese market has been, and will continue to be for at least a decade to come, a critical

source of revenue. GCC energy producers, who supply nearly 27.6% of China's energy imports, have sought to maintain their shares in the Chinese market over the past decade through sustained investments into developing China-based downstream refinery infrastructure and terminus processing facilities for their energy exports.<sup>12</sup>

Beyond energy, Sino-GCC economic relations are also informed by the dynamics of their regional political-economies. For China, the GCC is a major consumer market that can help propel the country's continued economic growth at a time of slowing global economic demand. In addition to low-grade goods,<sup>13</sup> more technologically-advanced products (in electronic gaming, social media platforms, e-commerce, "smart city management," surveillance, among others),<sup>14</sup> offered by companies such as Net Dragon, Tencent and Huawei, have found favorable reception across the region.<sup>15</sup> Chinese military armaments and weaponized technologies, most notably unmanned aerial vehicles, have also been well-received,<sup>16</sup> with Saudi Arabia hosting China's first overseas joint-venture drone factory in al-Kharj with an eye towards cornering the region's drone market.<sup>17</sup>

<sup>9</sup> Two things should be noted. First, Aramco's role as a primary political channel for Sino-Saudi relations is receding in favor of new actors (political and economic) such as the Strategic Cooperation Office and the Public Investment Fund [Data collected by the author during a visit to the Aramco Office (Beijing, June 2019)]. Second, Khalid Al-Falih, nicknamed "Mr. China," has lost both his position as head of Aramco and as Minister of Energy in September 2019. Yassir al-Rumayyan, who is the Governor of the Public Investment Fund, has replaced Al-Falih as Chairman of the Board of Directors in Aramco. This may suggest that Al-Rumayyan will become a figure of greater importance in the context of Sino-Saudi relations given his dual responsibilities and China's potential purchase of a 5% stake in the Aramco IPO.

<sup>10</sup> "China's Policy Document Towards Arab Countries."

<sup>11</sup> "ChinaMed Data Middle East," ChinaMed, undated. Retrieved from <https://bit.ly/2oeoNGg>

<sup>12</sup> "ChinaMed Data Middle East;" Public lecture by Makio Yamada, "The Political Economy of East Asia-Saudi Arabia Relations," University of Hong Kong, March 13, 2017.

<sup>13</sup> In the early 2000s, a portion of this trade was mediated through the Arab diasporic communities that settled in Guangzhou (Guangdong) and Yiwu (Zhejiang).

<sup>14</sup> Data collected by the author during a visit to the Huawei exhibition center (Beijing, June 2019); "Huawei Helps the Ministry of Interior of the Kingdom of Saudi Arabia Police the Hajj," Huawei, undated, <https://bit.ly/2UfkAF>

<sup>15</sup> John Calabrese, "The Huawei Wars and the 5G Revolution in the Gulf," *Middle East Institute*, July 30, 2019, <https://bit.ly/2p0AVeD>

<sup>16</sup> The Abu Dhabi International Defence Exhibition and Conference has become a major site for "public" instances of Chinese arms sales.

<sup>17</sup> "China Saudi Two High-Tech Corporations Cooperate to Occupy the Middle East's Drone Market," *Huanqiu Ribao*, May 18, 2017, <https://bit.ly/2nrwusL> [Chinese]

The influx of tens of thousands of Chinese laborers<sup>18</sup> into the GCC and the growth of a sizable Chinese diaspora in the UAE (around Dubai and Sharjah) of nearly 250-300,000 strong, also dovetail with long-standing Chinese party-state efforts aimed at alleviating unemployment pressures within China through encouraging a segment of the population (as well as companies) to "go out" (*zouchuqu* 走出去) abroad.<sup>19</sup> Following in the footsteps of Dubai, Chinatowns have emerged elsewhere in the GCC, mostly as "satellite" settlements established by Fujianese and Zhejiangese businessmen and small-time traders who have left the overly saturated UAE market in search of greener pastures.

For GCC member states looking towards a post-rentier future (and even more so for those who are relatively energy-poor at present), China is viewed as a significant actor in realizing their economic modernization goals, particularly at a time of declining oil revenues post-2014.<sup>20</sup> China is identified as a major long-term market for the export of petrochemicals and other value-added industrial products.<sup>21</sup> With respect to GCC sovereign wealth funds such as Saudi Arabia's Public Investment Fund (PIF), China constitutes a potential frontier

for investment that will probably gain added importance in the coming years.<sup>22</sup> GCC member states have also competed with one another to divert and capture Chinese trade and investment flows into the region.<sup>23</sup>

While the UAE has been at the forefront of this since 2004 with the opening of DragonMart,<sup>24</sup> a succession of GCC member states have followed suit by explicitly linking their national development plans with China's burgeoning Belt and Road Initiative (BRI), consecrating areas such as Jazan (Saudi Arabia), Duqm (Oman), and Silk City (Kuwait) as central nodes for the operation of Chinese companies and, in equal measure, for filtering Chinese trade and investment across much of the Middle East and East Africa.<sup>25</sup> As a means towards enhancing their attractiveness to Chinese investment, Doha and Dubai have both established Yuan-clearing hubs.<sup>26</sup> Chinese tourism, again largely centered around the UAE, has also emerged as a sector of increased significance for GCC member states seeking new sources of income.<sup>27</sup>

## The Ideational Dimension

The structural logic of economic comple-

<sup>18</sup> The initial Chinese labor influxes, which started in the mid-2000s, were often associated with major infrastructural projects that were given political significance by political elites from both sides. A notable example is the Mecca-based pilgrimage high-speed railway. For total number of workers in the GCC, refer to: "ChinaMed Data Middle East."

<sup>19</sup> Emily Yeh and Elizabeth Wharton, "Going West and Going Out: Discourses, Migrants, and Models in Chinese Development," *Eurasian Geography and Economics* 57, no. 3 (2016): 286-315.

<sup>20</sup> Karen Young, "The Gulf's Eastward Turn: The Logic of Gulf-China Economic Ties," AEI, February 14, 2019, <https://bit.ly/2mAZXzZ>

<sup>21</sup> Makio Yamada, "Gulf-Asia Relations as 'Post-Rentier' Diversification? the Case of the Petrochemical Industry in Saudi Arabia," *Journal of Arabian Studies* 1, no. 1(2011): 99-116.

<sup>22</sup> "PIF Explores Asian Expansion," *Al-Sharq al-Awssat*, May 2, 2019 [Arabic]

<sup>23</sup> Karen Young, "The Gulf's Eastward Turn: The Logic of Gulf-China Economic Ties."

<sup>24</sup> Jackie Armijo, "DragonMart, the Mega-Souk of Today's Silk Road," *Middle East Report* 270, Spring 2014.

<sup>25</sup> "Economic Watch: China-Arab Industrial Cooperation Gathers Steam," *Xinhua*, September 8, 2017, <https://bit.ly/2oUsph2>; Jonathan Fulton, "China's Gulf Investments Reveal Regional Strategy", AGSIW, July 29, 2019, <https://bit.ly/2LNEcYR>

<sup>26</sup> Amena Bakr, "Qatar Launches First Chinese Yuan Clearing Hub in Middle East," *Reuters*, April 14, 2015, <https://reut.rs/2ntXwj5> [Arabic]; Muhammad Zulfikar Rakhmat, "Belt and Road Brings Chinese Finance to the Gulf," *The Diplomat*, May 17, 2019, <https://bit.ly/2X4CIVA>

<sup>27</sup> "Over 1m Chinese tourists to visit UAE this year," *Gulf News*, September 18, 2018, <https://bit.ly/2obsDjH>; Saudi Arabia is attempting to attract foreign (including Chinese) tourism over the coming years. The government is expected to start offering tourist visas through a simplified process for the citizens of 51 countries from September 2019.

mentarity underpinning the political strengthening in Sino-GCC relations has been reinforced by an ideational shift within GCC member states, namely, their transformation into "echo chambers" (*yiyantang* 一言堂) for Chinese party-state official discourse. This can be observed in terms of how GCC officials are now eager to reproduce the key "watchwords" (*tifa* 提法),<sup>28</sup> "slogans" (*kouhao* 口号) and "vocabularies" (*cihui* 词汇) of the Chinese party-state in relation to a whole range of issues and topics as exemplified by the Emirati reception of Xi Jinping's state visit in 2018 (and the praise consequently given to "Xi Jinping thought") or, alternatively, current GCC (official) media coverage of developments in Xinjiang.<sup>29</sup> Officials, public intellectuals and journalists have come to uncritically advocate in favor of adopting a "China model" (*al-namuthaj al-sini*) of state-led developmentalism and technologically-savvy authoritarianism in their own countries.<sup>30</sup>

Mirroring this is the discussion in social media that has become awash with increasingly positive and romanticized depictions of China which emphasize its technological prowess and military power.<sup>31</sup> Interestingly, such public discussions, at least in the case of Saudi Arabia, have been guided by a

maturing generation of China-educated returnees who, in some cases, appear to operate more as a "50 cent army that brought its own provisions" (*zidai ganliang de wumao* 自带干粮的五毛) than anything else.<sup>32</sup> These discursive changes - suggestive of an ongoing "China fever" (*zhongguo're* 中国热) in the Gulf - have been coupled with intensifying cultural and educational cooperation, most notably, successive moves by the Emirati and Saudi governments in 2018 and 2019 to introduce Chinese language instruction into their school and university curricula.<sup>33</sup>

This ideational shift is made all the more remarkable when taking into consideration not only the traumatic cultural re-engineering campaigns being undertaken in Xinjiang against Muslim minorities,<sup>34</sup> but also the existence of ongoing (since 2016) national-level policies of "anti-Arabization" (*fan ahua* 反阿化) and "anti-Saudization" (*fan shahua* 反沙化) in the religious sphere.<sup>35</sup> This puzzle can be understood as a by-product of four interacting factors. First, like other regions around the world, the Gulf has been a target of globalized Chinese party-state outreach efforts aimed at reshaping local "discourse" (*huayu* 话语) surrounding China, its ruling party and the BRI. Under Xi Jinping,

<sup>28</sup> Gang Qian, "Watchwords: The Life of the Party," *China Media Project*, September 10, 2012, <https://bit.ly/2o9LdIY>

<sup>29</sup> "Noura Al-Ka'Bi: The Partnership Between the Emirates and China Is Strategic and Reinforced by Culture," *Albayan*, July 16, 2018, <https://bit.ly/2ntqqjB> [Arabic]; Al-Salih, Khalid. "7 Centers for Rehabilitating Uyghurs Influenced by Extremist Thought," *Al-Watan*, July 25, 2019, <https://bit.ly/2oYxBRc> [Arabic]

<sup>30</sup> Interviews in Riyadh (April 2019); A description of what this model entails is presented here: Jon Alterman, "China's Middle East Model," *Center for Strategic and International Studies*, May 23, 2019, <https://bit.ly/2ni3V13>

<sup>31</sup> The case of Kuwait is particularly illustrative and wherein, coinciding with the Kuwaiti Emir's visit to China in mid-2018, rumors were spread of a possible military arrangement with Beijing that would see Kuwait placed under Chinese protection. Mohammed Al-Sudairi, "The Curious Case of China's 'Kuwaiti Concession,'" *AGSIW*, October 10, 2018, <https://bit.ly/2CBporO>; Kyle Haddad-Fonda, "What Knowledge Is Sought in China? Arab Visitors and Chinese Propaganda," *Dirasat* 48 (KFCRIS), August 2019.

<sup>32</sup> Examples of such accounts: <https://twitter.com/ChineseAffairs>, <https://twitter.com/Aalshaabani>; For the meaning of the term used: "自带干粮的五毛," *Baidu*, <https://bit.ly/2nVb5ie>

<sup>33</sup> Sean Foley, "When Oil is Not Enough: Sino-Saudi Relations and Vision 2030," *Asian Journal of Middle Eastern and Islamic Studies* 11(1), 2017: 107-120; "Chinese to Be Taught in Emirate Schools This Coming September," *Albayan*, July 23, 2019, <https://bit.ly/2oRJ2Ke> [Arabic]; "Saudi Plan to Include Teaching of Chinese in School and University Curricula," *Al-Sharq al-Awsat*, February 23, 2019, <https://bit.ly/2nshV8m> [Arabic].

<sup>34</sup> Darren Byler, "Imagining Re-engineered Muslims in Northwest China," *The Art of Life in Chinese Central Asia*, April 26, 2017, <https://bit.ly/2ohCTXp>

<sup>35</sup> "Outline of the Five-Year Work Plan for Maintaining the Sinification Orientation for Islam in China (2018-2022)," *China Law Translate*, May 31, 2019, <https://bit.ly/2niTiLo>

the empowerment of the MFA and the expanded use of the United Front Work Department (*tongyi zhanxian gongzuo bu* 统一战线工作部) starting from 2014-2015 has led to more aggressive outreach by Chinese embassies (as well as mainland institutions) purposed towards engaging and reshaping discussions about China among foreign governments and societies.<sup>36</sup> GCC research centers, think tanks and media outlets are major targets of this new outreach. State-sponsored visitations, official-level training, jointly held workshops, hand in hand with active outreach by new state-backed institutions such as the MFA-backed China-Arab Research Center on Reform and Development (*zhong'a gaige fazhan yanjiu zhongxin* 中阿改革发展研究中心), have lured a new segment of GCC elites into China's discursive orbit.<sup>37</sup>

Second, the GCC member states suffer – like the rest of the Arab world – from a distinct lack of indigenous knowledge production regarding China. This has made the region all the more susceptible to being "captured" by foreign discourses and less attentive to the internal dynamics and developments taking place within China. Third, this ideational shift has coincided with a tense "geopolitical moment" for the GCC member

states.<sup>38</sup> For Saudi Arabia, despite extensive public relations efforts since 2015, its ties with traditional Western allies have been considerably strained, in part due to the country's perceived authoritarian-turn, human rights abuses and hyper-nationalist foreign policy under Crown Prince Mohammed bin Salman. As a result of this, there has been renewed emphasis on China since late 2018 as a credible partner that can support the Kingdom's national modernization process while not voicing critiques of its domestic policies.<sup>39</sup> Fourth, in both Saudi Arabia and the UAE, there has been a pronounced shift away from the instrumentalization of Islam in domestic and international contexts.<sup>40</sup> This de-emphasis on Islam has led to a new phase in Sino-GCC relations wherein religion and its utilization as a tool for emotional and cultural engagement, as we the case in the 1980s and 1990s, has lost its significance.

## An Unsustainable Trajectory?

At the political, economic and ideational levels then, Sino-GCC relations appear to be, as Gulf and Chinese diplomats in the past two years are often eager to remind their audiences, "at their best."<sup>41</sup> Despite these advances, Sino-GCC relations are, I argue,

<sup>36</sup> Gerry Groot, "The Expansion of the United Front under Xi Jinping" in Gloria Davies et al., eds., *China Story Yearbook: Pollution* (Canberra: Australian National University, 2016); Charles Clover and Sherry Ju Fei, "China's Diplomacy Budget Doubles under Xi Jinping," *The Financial Times*, March 6, 2018, <https://on.ft.com/2EiTTDB>; For an example of GCC-based United Front activity, please look at: Mohammed Al-Sudairi, "The Communist Party of China's United Front Work in the Gulf: The 'Ethnic Minority Overseas Chinese' of Saudi Arabia as a Case Study," *Dirasat* 34 (KFCRIS), March 2018.

<sup>37</sup> The Center's website is accessible here: <http://carc.shisu.edu.cn>

<sup>38</sup> Turkey and Iran, among other Middle Eastern actors, find themselves in similar circumstances, facing a geopolitical situation wherein their ties with the West are fraying and their economies are experiencing increased difficulties. This makes the China "alternative" all the more attractive.

<sup>39</sup> The expression of support extended by Xi Jinping to Mohammed bin Salman during the G-20 summit following the scandal surrounding the murder of journalist Jamal Khashoggi at the Saudi consulate in Istanbul, was widely appreciated by a beleaguered Saudi leadership. Teddy Ng, "Chinese President Xi Jinping Offers Support to Saudi Crown Prince Mohammed Bin Salman despite Outcry over Khashoggi Killing," *The South China Morning Post*, December 1, 2018, <https://bit.ly/2U4h5Kw>

<sup>40</sup> Stephane Lacroix, "Saudi Arabia and the Limits of Religious Reform," *The Review of Faith & International Affairs* 17, no. 2(2019): 97-101.

<sup>41</sup> "China-UAE Relationship at Its Best in History: Chinese Envoy," *Gulf Times*, July 19, 2019, <https://bit.ly/2nieQrz>; Ali Ubayd al-Dhahiri, "Emirati-Sino Relations and New Horizons," *Albayan*, July 22, 2019, <https://bit.ly/2Golxh0> [Arabic]

reaching the feasible structural "outer-limits" of their development due to two limiting dynamics. It should be noted that these dynamics are conjectural and based on a reading of current trends: there is always the risk of "black swans" (*hei tian'e* 黑天鹅) altering and re-shaping Sino-GCC relations in unanticipated ways.<sup>42</sup> There are also critical variables that are unknowable at the current juncture and which might play a decisive role in determining the future of Sino-GCC relations: how will Sino-American relations continue to evolve? What will be the extent of their economic and technological de-coupling? Will the United States (post-Trump) be willing and capable of articulating a China-strategy? And what will be the GCC's place in this overall strategy?<sup>43</sup>

The first dynamic is that China and GCC member states possess irreconcilable political and strategic "bottom-lines." As a matter of national security and principle, China pursues a foreign policy defined by engagement with all actors and non-involvement in regional conflicts and disputes.<sup>44</sup> This minimalism, despite China's expanding military footprint along the region's periphery, pre-empts the emergence of "deeper" political trust between the two sides as GCC elites cannot vouchsafe their regime and national security to China.<sup>45</sup> These disjunctions will keep Sino-GCC relations locked in an

economistic orbit, despite the efforts undertaken by some actors in the region, such as the UAE, to cultivate a more substantive arrangement with China.<sup>46</sup>

The second dynamic is economic in character, and strikes at the core of Sino-GCC relations. The attempted changes being enacted by the domestic leaderships of China and the GCC on their political-economies might erode the structural logic of economic complementarity that currently exists. In both regions, elites are grappling with the problems posed by the exhaustion of conventional growth models, de-globalization, climate change, and a re-emergence of populist mercantilism across the globe.<sup>47</sup> In China, the Xi administration has sought to produce a "new normal" (*xin changtai* 新常态) for the economy. Enacted reforms are aimed at promoting a more service-oriented, egalitarian, and technologically-developed economy encapsulated by the slogan of building a "moderately prosperous society" (*xiaokang shehui* 小康社会).<sup>48</sup> Obtaining such an outcome would entail better efficiency in the usage of energy and a decline in overall energy demand: national security considerations of obtaining some degree of "self-sufficiency" (*zili gengsheng* 自力更生) through the development of a diversified energy infrastructure, the electrification of the transportation system, and the continued

<sup>42</sup> "Studying With Xi Jinping: What Are 'Black Swans' and 'Grey Rhinos'?", *Zhongguo ribao*, January 23, 2019, <https://bit.ly/2oZbFW4> [Chinese]

<sup>43</sup> That is to say, will the United States impose costs on GCC member states for their economic engagement with China, particularly in areas of sensitive strategic import (technology, weapons...etc.)? Some of these issues are emerging in the context of American-GCC relations, but the lack of a sustained American strategy vis-à-vis China, involving also the provision of alternatives, is circumscribing the effectiveness of these pressures. Alexander Cornwell, "U.S. Flags Huawei 5g Network Security Concerns to Gulf Allies," *Reuters*, 12 September 2019, <https://reut.rs/2kHvqj6>

<sup>44</sup> Consider China's role in relation to the intra-Gulf dispute: Mohammed Al-Sudairi, "Why Beijing is Lying Low in the GCC Crisis?," *MEI Perspectives Series 11* (National University of Singapore), November 27, 2018, <https://nus.edu/2oXoDn7>

<sup>45</sup> Degang Sun, "China's Soft Military Presence in the Middle East," *Dirasat* 31 (KFCRIS), March 2018.

<sup>46</sup> The UAE has invested considerably in recent years in strengthening Sino-Emirati elite-level ties through such platforms as the Abu Dhabi Strategic Debate Forum and in actively enhancing the Chinese proficiency of potential future Emirati policymakers and bureaucrats.

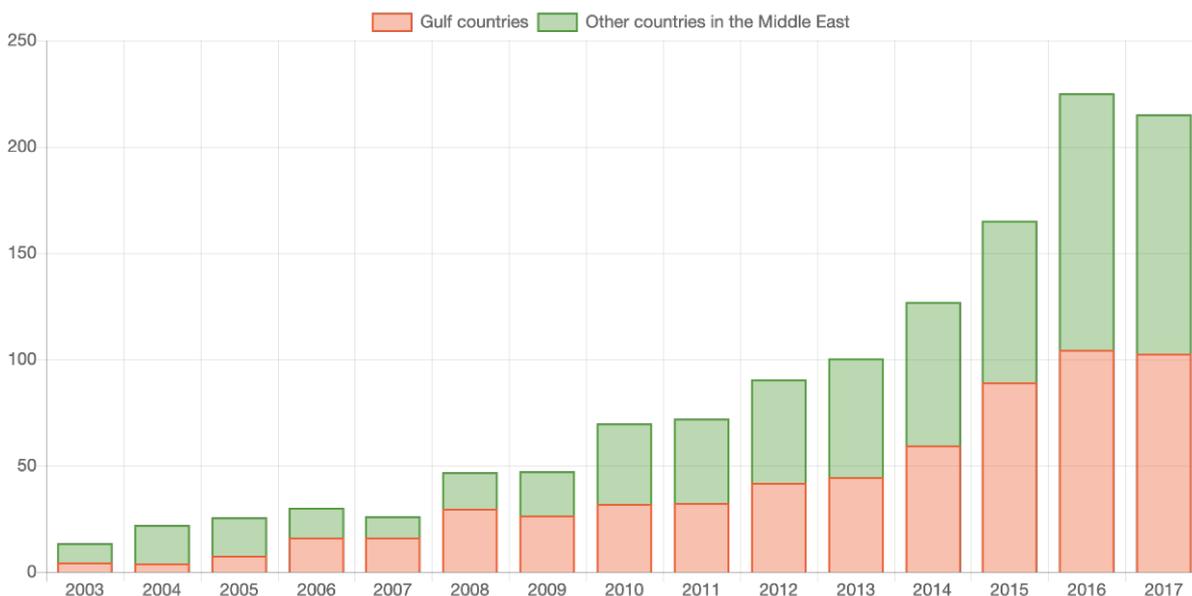
<sup>47</sup> An interesting argument about de-globalization is presented by Hammes, who sees technology (the fourth industrial revolution) as well as clean energy as ending value-chain industrial models and bringing about the rise of new segmentalized industrial hubs that operate in isolation from one another. This has, as he rightly argues, serious implications for the national security of many states. T.X. Hammes, "The End of Globalization? The International Security Implications," *War on the Rocks*, August 2, 2016, <https://bit.ly/2obEhuV>

pursuit of energy alternatives will gradually diminish the importance of energy in the context of Sino-GCC relations.<sup>49</sup>

The GCC states, by contrast, are seeking to alter their political-economies and move towards a post-oil future. Irrespective of how successful they are in meeting key indicators outlined by their national visions, their economic reforms will bring about reductions in living standards and potential contractions to the overall size of their economies: their attractiveness therefore as consumer markets for Chinese companies might consequently be reduced (especially

if the GCC member states turn towards more protectionist policies down the line). Moreover, China's desired role as a provider of capital investment is not certain in light of its own anti-corruption campaign, capital-controls, and the challenges posed by its own decelerating growth. In all, the political-economic changes that China and GCC will experience have the potential to reverse the current levels of economic engagement between them.

ChinaMed Index: Chinese Interests in the Gulf



The ChinaMed INDEX quantifies China's interest in economic, military, and diplomatic cooperation with a given country. Source: [www.chinamed.it/chinamed-data/middle-east](http://www.chinamed.it/chinamed-data/middle-east)

<sup>48</sup> Jost Wübbecke et al., "Made in China 2025: The Making of a High-tech Superpower and Consequences for Industrial Countries," *MERICs Papers on China*, December 8, 2016, <https://bit.ly/2Kzddz2>

<sup>49</sup> Thomas Neil, "Mao Redux: The Enduring Relevance of Self-Reliance in China," *MacroPolo*, April 25, 2019, <https://bit.ly/2oRUB46>

# Iran and China: Return to Triangular Relations

MOHSEN SHARIATINIA\*



## Introduction

This article examines the trend of developments in Iran-China relations after the United States withdrew from the Joint Comprehensive Plan of Action (JCPOA). With the withdrawal of the U.S. from the JCPOA, Iran-China relations entered a new era. The United States restarted its restrictive role in Iran-China relations and simultaneously increased pressure on China in the form of a trade war. Consequently, the China-Iran-US strategic triangle, which in recent decades

has been one of the key factors shaping the course of developments in Iran-China relations, was revived in a new format. This triangle, as the most significant factor, has had a dual impact on Iran-China ties. It has brought Iran and China closer together in the political domain, on the one hand, and severely restricted the economic relations between them, on the other. In the mid-term future, only successful negotiations between Iran and the United States, or an end to the China-US trade war, can change the structure of Iran-China relations.

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## The Short Honeymoon

The JCPOA has been one of the key factors that continues to shape Iran-China relations in recent years. Prior to its implementation, multilateral sanctions had severely restricted the two countries relations. Iran's oil exports to China were restricted, banking transactions were difficult and limited, and most Chinese companies were reluctant to trade or invest in Iran.

Paradoxically, the multilateral sanctions consolidated China's position as Iran's first trading partner by cutting off European, Japanese, and Korean companies' access to Iran's market. China was the only major economic power who opposed US and European sanctions against Iran. For this reason, there were grounds for continued economic exchanges between the two countries. The implementation of the nuclear deal eliminated the major obstacle to the expansion of Iran-China relations. Chinese President, Xi Jinping, was the first foreign leader to visit Iran after the deal was implemented.

Xi's visit to Iran in January 2016 was the turning point in the countries' relations in the last decade. Taking place just after the implementation of JCPOA began, this visit generated a great optimism for the development of relations between Iran and China. The two countries agreed on drawing up a document for developing their relations in the next 25 years.<sup>1</sup> They selected the Belt and Road Initiative as the new axis for expanding their relations and felt optimistic about the expansion of their economic and

trade relations. Following this visit, China's CNPC Corporation acquired a 30% stake in the South Pars Phase 11 gas/condensate development project.<sup>2</sup> The CITIC Group signed an agreement with Iranian parties to provide a credit line of USD 10 billion, and a USD 1.5 billion agreement was signed between Iranian and Chinese companies to develop Iranian railways.<sup>3</sup> In addition, small and medium-sized Chinese companies exhibited great eagerness for expanding trade with Iran and making investments in the nation. The United States, as one of the parties of the JCPOA, did not hinder the development of relations between Iran and China, and everything went well.

## The American Withdrawal from the JCPOA and the Reconstitution to the Strategic Triangle

However, with the withdrawal of the Trump Administration from the JCPOA, the United States reverted to its traditional role as a limiting factor in Iran-China relations, and the China-Iran-US strategic triangle was revived in a new format. This created a new triangle as the Trump Administration simultaneously increased pressure on Iran and China and subsequently began a trade war with China.<sup>4</sup> In the past, only Iran was under pressure from the U.S. and the other two parties in the triangle cooperated with each other. Therefore, the strategic triangle acquired a new identity.

In the political scene, with the withdrawal of the U.S. from the JCPOA and the escalation of the trade war between the two great powers,

<sup>1</sup> "New Chapter of the Tehran-Beijing Relationship Has Begun," *Official website of the President of the Islamic Republic of Iran*, January 23, 2016, <https://bit.ly/2ocxOjc>

<sup>2</sup> "CNPC, Total Ink Iran Joint Venture," *China Daily*, November 10, 2016, <https://bit.ly/2njTb2a>

<sup>3</sup> "China Pumping Billions into Iranian Economy," *South China Morning Post*, July 20, 2018, <https://bit.ly/2mC0r91>; "Iran, China Ink Contract to Electrify Tehran-Mashhad Railway," *Mehr News Agency*, September 4, 2017, <https://bit.ly/2N2IbwO>

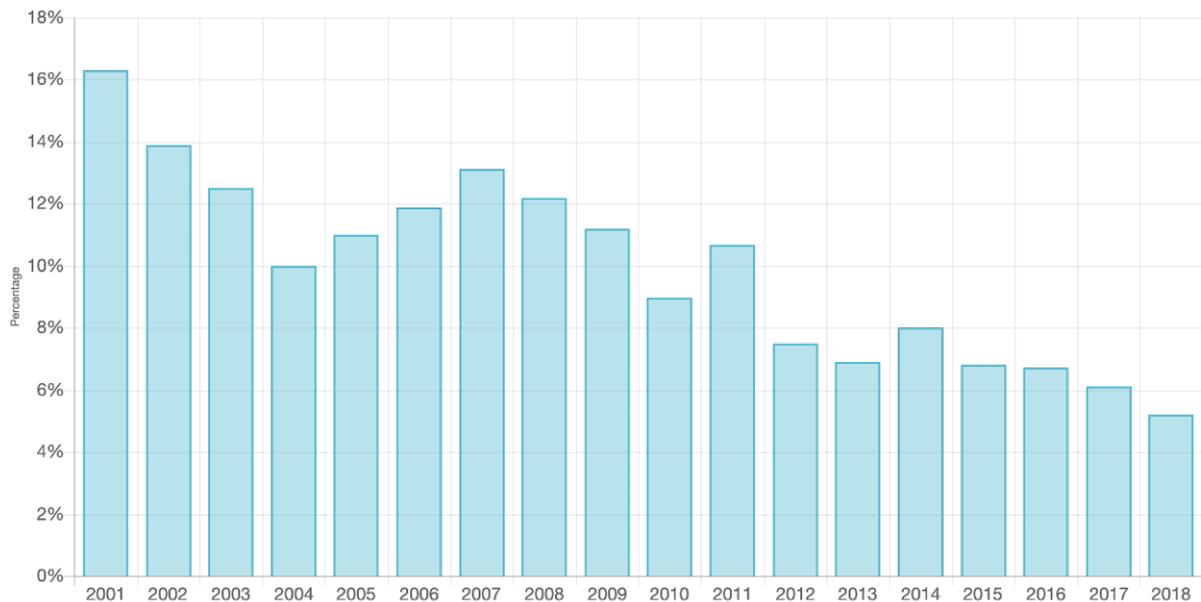
<sup>4</sup> "A Timeline of the U.S.-China Trade War," *Bloomberg*, July 19, 2019, <https://bloom.bg/2HueZy9>

Iran alongside North Korea turned into a bargaining card in China's haggling with the United States, on the one hand, and China became the most important window of opportunity for Iran to counter US sanctions, on the other. The simultaneous pressure put by the U.S. on the two countries led them to closer political cooperation.<sup>5</sup> Iran prioritized the Look East Policy and new attempts led by Ali Larijani, the Chairman of the Islamic Consultative Assembly, were made to get closer to China.<sup>6</sup> Iran explicitly supported China's position on the Taiwan and the South China Sea issues and remained silent on the Xinjiang issue. Moreover, China explicitly backed Iran against the United States. The Chinese President stressed that strategic cooperation between the two countries would expand regardless of international developments.<sup>7</sup>

Politically, the pressure applied by the Trump Administration has brought Iran and China closer than before.

In the economic scene, with the withdrawal of the U.S. from the JCPOA, Chinese companies gradually ceased cooperation with Iran despite the fact that the Chinese Ministries of Foreign Affairs and Commerce explicitly criticized the sanctions imposed on Iran and emphasized the continuation of normal trade relations with this country.<sup>8</sup> Although CNPC's stake in the South Pars Phase 11 gas/condensate development project increased from 30% to 80% after Total withdrew from the project, the company stopped working on it in fear of U.S. sanctions.<sup>9</sup> The US government increased pressure on the company and forced it to suspend any investment in the project.<sup>10</sup>

Chinese Dependence on Energy Imports from Iran



Source: [www.chinamed.it/chinamed-data/middle-east/iran](http://www.chinamed.it/chinamed-data/middle-east/iran)

<sup>5</sup> Vali Nasr, "Trump's Iran Strategy Is Helping China," *The Atlantic*, July 12, 2019, <https://bit.ly/2njrZk7>

<sup>6</sup> "Chinese President Meets Iran's Parliament Speaker," *Xinhua*, February 12, 2019, <https://bit.ly/2nj9bS5>

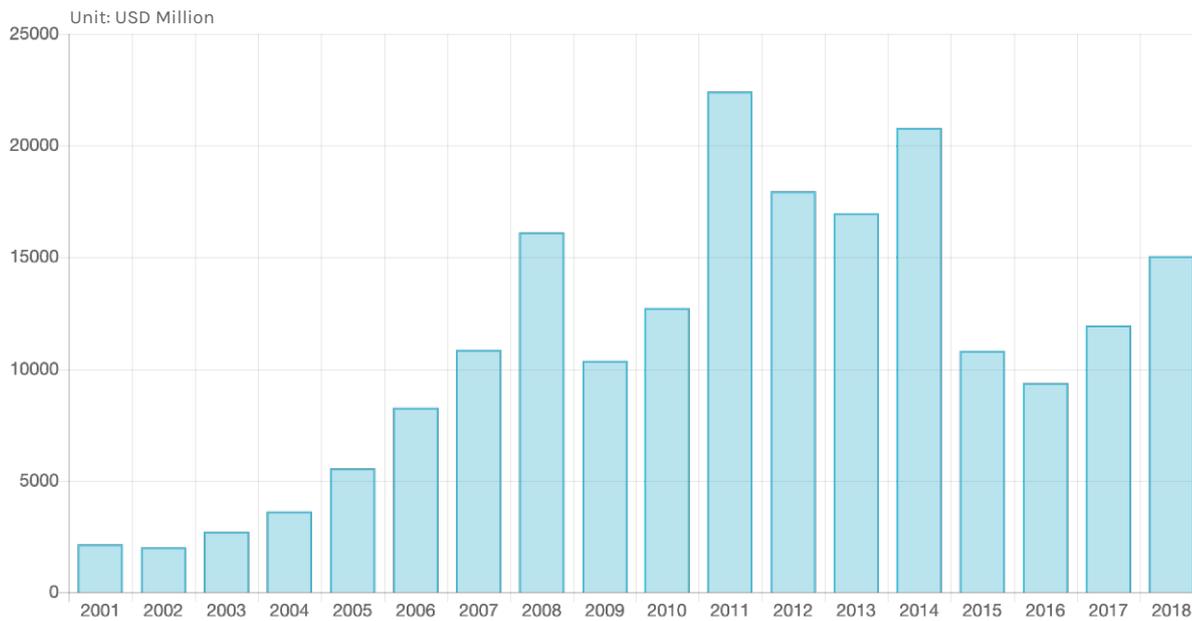
<sup>7</sup> Lachin Rezaian, "China's Resolve to Develop Strategic Partnership with Iran to Remain Unchanged," *Mehr News Agency*, February 21, 2019, <https://bit.ly/2pOLOrX>

<sup>8</sup> "Regular Press Conference of the Ministry of Commerce," May 2019, <https://bit.ly/2nw8Uei>

<sup>9</sup> "Iran Says China's CNPC Replacing France's Total in Gas Project," *Reuters*, November 25, 2018, <https://reut.rs/2nv1lob>

<sup>10</sup> Aizhu Chen, "CNPC Suspends Investment in Iran's South Pars after U.S. Pressure," *Reuters*, December 12, 2018, <https://reut.rs/2oaLDyE>

Value of Chinese Energy Imports from Iran



Source: [www.chinamed.it/chinamed-data/middle-east/iran](http://www.chinamed.it/chinamed-data/middle-east/iran)

The CITIC Group halted the implementation of the USD 10 billion financing agreement, and the Chinese companies also stopped developing Iranian railways. Therefore, the trend of investment by Chinese companies in Iran, which had accelerated after the JCPOA was signed, came to an almost complete halt after U.S. withdrew from the JCPOA.

The Trump administration severely punished the two Chinese tech giants ZTE and Huawei for violating sanctions imposed on Iran and North Korea.<sup>11</sup> The punishment of Huawei turned into a major controversy in China-U.S. relations. The punishment of these two companies increased the risks for Chinese companies in Iran and created new difficulties in Iran-China economic interactions.

In petroleum trading, Chinese companies cut their oil imports from Iran because China was one of the countries that won exemptions from the sanctions placed on the imports of Iranian oil for a definite period. Some estimates suggest a decrease of about 50% in China's oil imports from Iran during this period. At the end of the exemption period in April 2019, major Chinese oil companies stopped importing oil from Iran.

In addition, non-oil trade between the two countries also faced increasing problems with the withdrawal of the United States from the JCPOA. Large Chinese banks and companies stopped cooperating with Iran in fear of US sanctions.<sup>12</sup> Talks between Iran and China for setting up a new financial channel continued for a long time and,

<sup>11</sup> Raymond Zhong et al., "Huawei and ZTE Hit Hard as U.S. Moves against Chinese Tech Firms," *The New York Times*, April 18, 2018, <https://nyti.ms/2nrW9S0>

<sup>12</sup> "New Dynamics in China-Iran Trade under Sanctions," *Bourse & Bazaar*, January, 25 2019, <https://bit.ly/2nuSWkF>

eventually, the Bank of Kunlun, which carried out financial transactions between Iran and China during the sanctions imposed by the Obama administration, was allowed to carry out limited financial interactions between Iran and China.<sup>13</sup>

Therefore, the logic of the actions of Chinese companies in stopping cooperation with Iran was profoundly different from the logic behind the actions taken by the Chinese government. The Chinese government continued to support Iran and the JCPOA and, influenced by the trade war with the U.S., expanded its political relations with this country. However, the Chinese companies stopped cooperating with Iran and left the country.

At the regional level, cooperation between Iran and China in the Belt and Road Initiative stopped with the re-imposition of US sanctions, and China tried to focus on cooperating with countries such as Kazakhstan, Pakistan and the United Arab Emirates to advance this megaproject. In other words, the China-Central Asia-West Asia-Mediterranean corridor, which passes through Iran, was sidelined and its developments were stopped in favor of other corridors, especially the China-Pakistan economic corridor.

In the geopolitical scene of the Middle East, despite the continued Chinese support to the Syrian regime of Bashar al-Assad, which provided new ground for the common interests of Iran and China, Beijing tried to maintain balanced relations with the four key

Middle Eastern countries; namely, Iran, Saudi Arabia, Egypt and Israel, and continued its low-profile diplomacy in the Middle East. Therefore, Iran-China interactions in the geopolitics of the Middle East have remained considerably unchanged in recent years.

## Conclusion

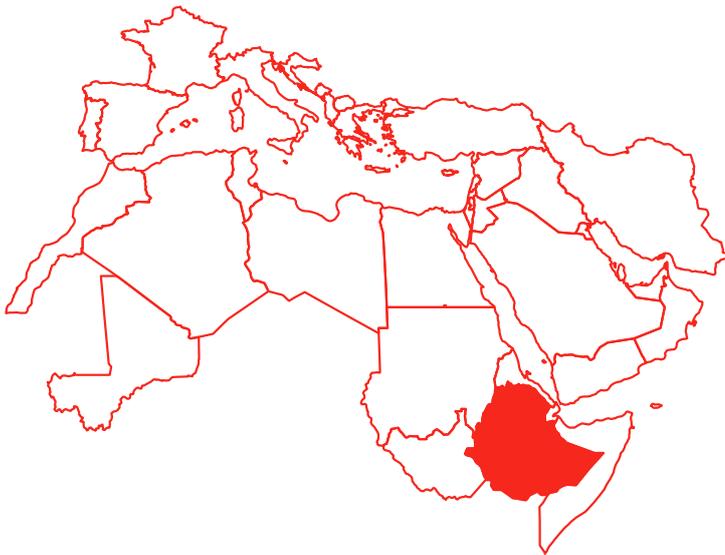
The short honeymoon in Iran-China relations that began with Xi Jinping's visit to Iran in 2016 ended with the American withdrawal from the JCPOA. The strategic triangle of China-Iran-the U.S. took on a new shape and turned into the most significant influencer of Iran-China relations. The simultaneous pressure put on the Iranian and Chinese governments by the Trump administration has driven them closer together politically. Moreover, the unilateral US sanctions have pushed the growing economic cooperation between Iran and China to an impasse, have forced Chinese companies to leave Iran and have made it impossible for the two countries to cooperate in the Belt and Road Initiative.

If the policy of the U.S. in applying maximum pressure on Iran continues, the strategic China-Iran-U.S. triangle will continue to serve as a determinant factor in shaping Iran-China relations. In the mid-term future, only successful negotiations between Iran and the United States, or an end to the China-US trade war, can change the structure of Iran-China relations.

<sup>13</sup> "China's Bank of Kunlun Starts Operation in Iran," *Tehran Times*, June 7, 2019, <https://bit.ly/2mF5Hcb>

# A Glimpse View on China-Ethiopia Relations in Recent Times

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## Introduction

The China-Ethiopia diplomatic relations celebrate their golden jubilee in 2020. However, the bond of cooperation has mostly strengthened and widened only after 1991, when Ethiopia's ruling party, the Ethiopian People's Revolutionary Democratic Front, took power. In May 2017 the two countries upgraded their diplomatic relations into a Comprehensive Strategic Cooperative Partnership.<sup>1</sup>

During the last two decades, China has been very much present in all levels of Ethiopian political and economic life. The establishment of a strong Sino-Ethiopian relationship is deemed to be motivated by a variety of diplomatic, strategic and economic considerations. From the Ethiopian side, the core strength of China-Ethiopia cooperation is believed to be related to Ethiopia's unprecedented demand for development and its aspiration to become a middle-income country by 2025. Thus, Ethiopia has geared towards China's support in speeding

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<sup>1</sup> Ethiopian Embassy in China, Beijing, "Survey on Current Status of China-Ethiopia Relations", May 2019 [Amharic]

up industrialization, agricultural modernization, and infrastructure development through capacity building and financing. Secondly, a significantly supplementary factor is that the relation between the two countries is not based solely on government-to-government ties but also party-to-party, institution-to-institution, business-to-business and people-to-people as well, consequently, leading to a political and ideological affinity.<sup>2</sup>

From the Chinese side the drivers are several and include both economic and political considerations. Firstly, Ethiopia is the second most populous country in Africa (after Nigeria) with a population close to 190 million people, making it a leading investment destination for Chinese products and companies. Secondly, the China-Ethiopia partnership is enhanced by Ethiopia's diplomatic usefulness. The Ethiopian capital, Addis Ababa, is the seat of the African Union Headquarters as well as the host of the headquarters of the United Nations Economic Commission for Africa, together with other international organizations. Finally, Ethiopia is strategically located in the Horn of Africa, where it plays a stabilizing and bridge role in reaching other countries in the continent.

## The Economic Cooperation between China and Ethiopia

The economic partnership between China and Ethiopia has grown over time and it is of a multifaceted nature: investment, trade, financial cooperation and so on.

### Investment

China is the number one foreign investor in Ethiopia. According to the last Ethiopian Investment Commission (EIC) Annual Report, there are currently 1,238 registered Chinese companies, out of which 90% are privately owned.<sup>3</sup> The total capital of these companies makes up more than ETB 62 billion (equivalent to USD 2.214 billion). With manufacturing being the top sector, Chinese companies are involved in industries including: pharmaceuticals, textiles, factory construction, ground water construction, metallurgy, minerals and quarries, cement, real state, etc.

A quick assessment on the progress shows that out of the 1,238 registered companies:

- 299 are on pre-implementation stage;
- 179 are under implementation stage;
- 760 are in operation.

The 760 companies in operation have assets worth ETB 32,6 billion (about USD 1,1 billion). So far, they have created 147,375 permanent jobs for local employees and 72,642 temporary jobs.<sup>4</sup>

### Trade

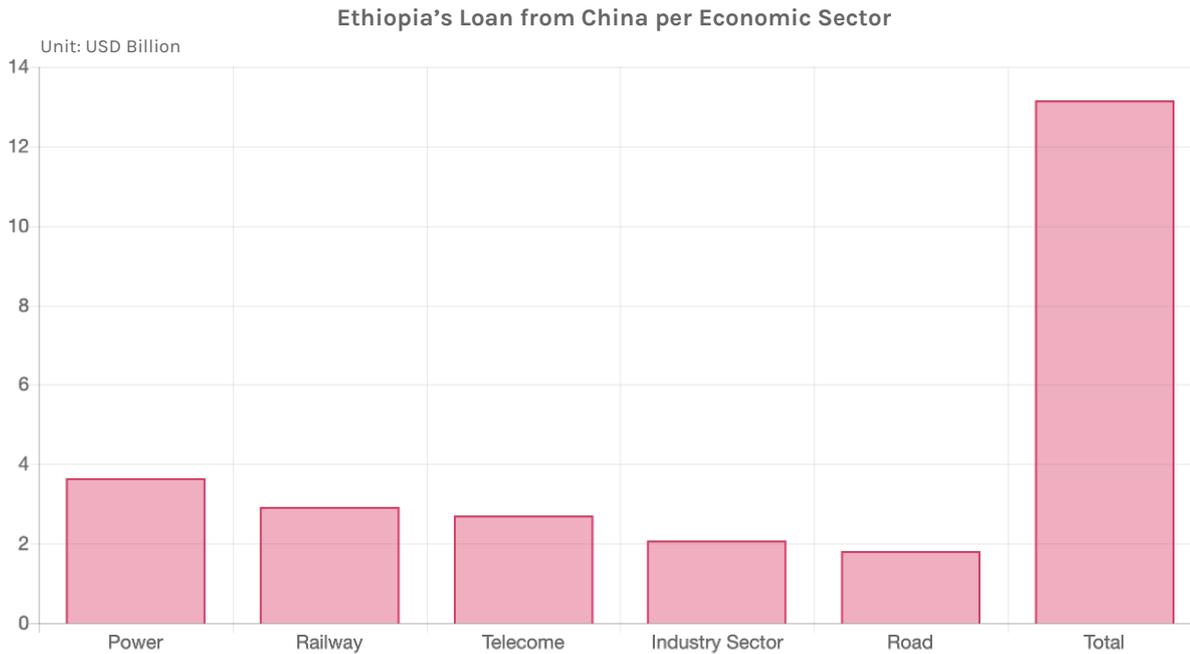
In 2017, the bilateral trade volume of the two countries stood at USD 4.5 billion – showing a threefold increment from USD 1,6 billion in 2009.<sup>5</sup> This makes China Ethiopia's largest trading partner, covering 13% of Ethiopia's total trade exchange. The trade balance is strongly slanted toward China; between

<sup>2</sup> Ibid.

<sup>3</sup> Ethiopian Investment Commission Annual Report, 2018, <http://www.investethiopia.gov.et>

<sup>4</sup> According to EIC 2018, report Currently there are 250,000 Chinese employees in Ethiopia.

<sup>5</sup> Ethiopian Ministry of Trade Annual Report, 2017, <http://www.mot.gov.et/home>



Source: Ethiopian Ministry of Finance Annual Report 2018/2019, [www.mofed.gov.et](http://www.mofed.gov.et)

2006 and 2016, Ethiopia's trade deficit with China went from USD 420 million to USD 6.01 billion. Reports show that export levels are affected not only by the limited supply of Ethiopian goods to the Chinese market but also by their limited value. In fact, Ethiopian exports mostly consist of unprocessed leather, natural gum and oil products.

However, in response to the imbalance, during the last Forum on China-Africa Cooperation (FOCAC), China has committed to expand the zero-tariff treatment to 442 Ethiopian commodities. Following the 2018 FOCAC, such bilateral trade agreements are expected to bring about significant changes and promote more balanced trade relations between the two countries.

### **Financial & Technical Cooperation**

Financial and technical cooperation is one of the main areas of cooperation between the two countries. China has been offering tremendous amount of financial and technical support for a range of sectors, particularly power, railway, telecom, road, and agriculture. While financing takes the form of grants, interest free loans, concessional loans and commercial loans; the technical cooperation includes advisory services provide by experts, provision of equipment and materials. Depicted below is an estimated figure of Chinese loans divided by sector.

As of 2019, the total amount of Ethiopia's loans has reached USD 50 billion: out of which 24 billion is from domestic creditors and 26 billion from foreign creditors.<sup>6</sup> The

<sup>6</sup> National Bank of Ethiopia, Panel Discussion on "Debt Accumulation, Its Sustainability and Impact on Ethiopia's Economy," at Ethiopian Economics Association, Nov 17, 2018, <https://www.eeacon.org/node/8544>

latter portion equates to 30% of the GDP.<sup>7</sup> Among the foreign creditors, World Bank is ranked first, having lent USD 8 billion. The African Development Bank and China rank second and third, respectively, having both lent a little less than USD 8 billion.<sup>8</sup>

Chinese loans are offered in different forms. Significant amount of funding has been directed to infrastructure, in particular: power, telecom, railway, road and expressways. These mega public investment projects have played a facilitating role in awakening the Ethiopia's economy and making its economic boom possible, resulting in Ethiopia being one of the world's fastest growing nations with a double-digit rate for more than a decade (2003 - 2015). Crucially, the period during which Ethiopia experienced remarkable growth is the same period characterized by an advancement of China and Ethiopia cooperation.

Another component of the financial and technical cooperation worth mentioning here is loan cancelations. Historic data shows that China has cancelled Ethiopia's debt for the third time now.

- In 2001, China canceled USD 81.24 million interest-free loan granted to Ethiopia in 1971.<sup>10</sup> In the same year, China canceled another USD 160.86 million loans granted in 1988 and 1990.
- In 2007, following the pledge made during the FOCAC that China would cancel loans for African less developed countries, Ethiopia got a debt relief of USD 21 million.

- In 2018, during the 2018 forum on the Belt and Road Initiative, the two countries held a bilateral discussion on which China pledged to make some debt-stress relieving acts for Ethiopia. Accordingly, a package of debt-relief measures is underway is being implemented.

The selected projects addressed by the debt-stress relieving mechanism are:

- Addis Ababa-Djibouti railway line (Financed by EXIM bank of China);
- Gibe III Hydropower project (Financed by Industrial and Commercial Bank of China);
- Omo Kuraz 2 Sugar factory (Financed by China Development Bank);
- Omo Kuraz 3 Sugar factory (Financed by China Development Bank);
- Power Transmission line for the Grand Renaissance Dam (financed by China Electric Power Equipment and Technology Company).

The crucial point of the renegotiation is the repayment period extension through a mechanism of reduction by 50% of the principal payment and its interest that was due in December 2018 for the next five years. As a result, the debt optimization enables deferment of significant payment amount every year for the specified five years.

## Regional-level Cooperation and Potential Development of the Relationship

<sup>7</sup> Paul Dorosh (Macro economy advisor to the government of Ethiopia from 1999 - current) Macro-economic Imbalances and the Case for Reform in Ethiopia, July 18/2019, Ethiopian Economics Association 17<sup>th</sup> International Annual Conference, <https://www.eeacon.org>

<sup>8</sup> Ethiopian Broadcasting Corporation News aired on Jan 30, 2019 on 1pm news streaming: <https://bit.ly/2mBLL9Y> (at 12:3)

<sup>9</sup> 200 million RMB which totals equivalent to USD 81.24 million at exchange rate of 2.4618 in 1971 (annual average).

<sup>10</sup> China's Bilateral Relations with Africa at a diplomatic level called Comprehensive Strategic Cooperative Partnership includes: The Republic of Congo, Ethiopia and African Union.

The FOCAC, the Belt and Road Initiative (BRI) and the support of China for the Intergovernmental Authority on Development of East Africa (IGAD) can be regarded as the key regional-cooperation arenas of China-Ethiopia relations. Through its role as the founding member and co-chair to the first FOCAC, Ethiopia has been showing its commitment to the cooperation. Moreover, as the diplomatic capital of Africa, Ethiopia is playing a "bridge role" in reaching out to other African countries, playing into the very notion of BRI and Africa's development.

On the other hand, through its financial support, China is an impactful influencer in the region and a development partner for IGAD. For example, projects such as the Ethiopia-Djibouti railway line and oil pipeline are all supported by China. Likewise, several of the Ethiopian hydropower projects financed through Chinese loans are now exporting electricity to neighboring countries: Djibouti, Sudan, and Kenya.

In May 2017, China and Ethiopia have advanced their diplomatic relations through the new Comprehensive Strategic Cooperative Partnership. This all-encompassing partnership includes politics, diplomacy, and economy. China has similarly strong diplomatic relations in Africa only with very few other countries and the African Union.<sup>11</sup>

As they are at the start of a new period of their diplomatic relations, Chinese and Ethiopian efforts are expected to focus on reaffirming their respective national inter-

ests. Thus, from China's perspective, Ethiopia's role should be to promote and support the development of the BRI, and continue to play its role as a diplomatic bridge in reaching neighboring countries.

From the Ethiopian perspective, the driving forces of the relationship with China are numerous. Considering its national development strategy of agricultural development-led industrialization (ADLI), Ethiopia will keep focusing on economic cooperation and supporting and modernizing the agricultural sector. This has been achieved by dispatching technical aides, offering short- and long-term trainings for local experts; attracting Chinese foreign investment in the manufacturing industry: ranging from direct investors to management contract partners. Similarly, Chinese companies are welcome partners in Ethiopia's infrastructural development by forming public-private partnerships.

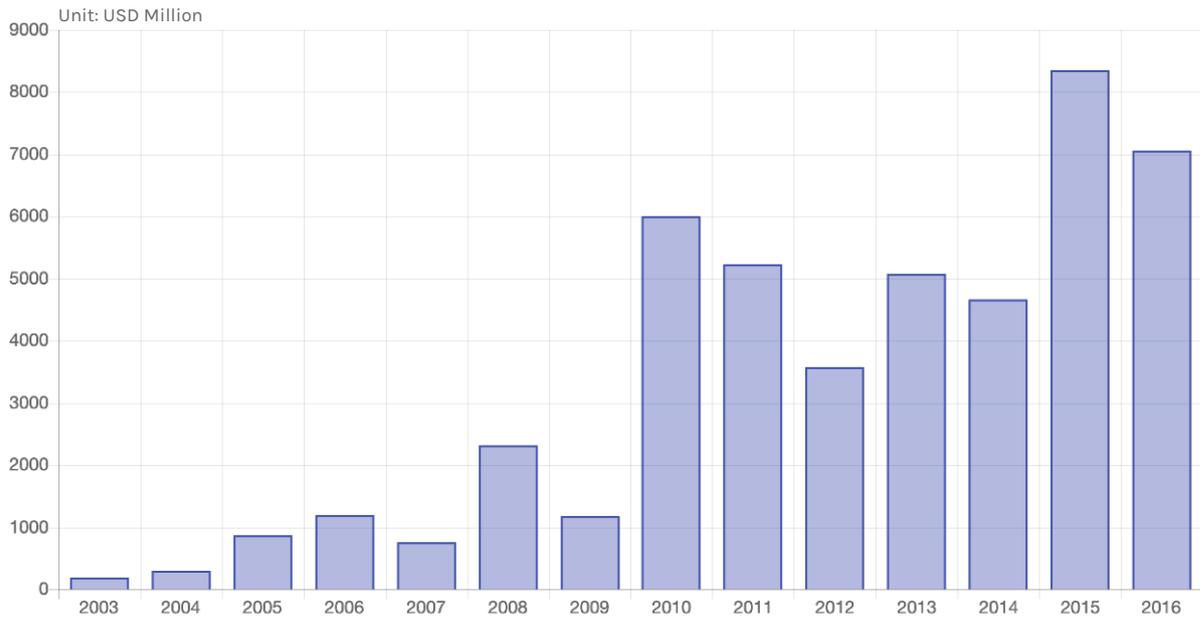
On the contrary, project delays, the growing debt, and the negative trade balance could negatively impact the bilateral relations if not taken seriously into consideration by the policymakers. It is not uncommon that several projects are not completed on time or do not operate at full potential. Unless these issues are addressed with mutually beneficial approaches, they may be the causes for political tensions.

## Conclusion

Currently, the relations between Ethiopia and China are defined as a comprehensive

<sup>11</sup> ADLI is a development strategy of Ethiopia adopted in 1995 and has been being practiced since. ADLI is cascaded into five years of plan called GTP (Growth and Transformation Plan) in which the second (GTP II) is now on implementation. For more visit: <http://www.npc.gov.et/web/guest/national-plans>

Value of the Contracts Awarded to Chinese Companies in Ethiopia



Source: [www.chinamed.it/chinamed-data/north-africa/ethiopia](http://www.chinamed.it/chinamed-data/north-africa/ethiopia)

strategic cooperative partnership. Their ties have deepened greatly, especially during the last two decades. Since 2000, the bilateral cooperation between them has yielded fruitful results - the various infrastructural developments that are seen throughout the country are tangible manifestations of this.

The future of the diplomatic relations seems promising. China's support to Ethiopia through debt relief and new grants, at the time when Ethiopia needs foreign currency and is undergoing important political reforms, is not only a sparkling portrait of

their strategic partnership, but also an indicator that the future of the Sino-Ethiopian relationship is bright and unshakeable. However, there are challenges that require attention from the Ethiopian side. In order to gain more from the cooperation with China, Ethiopia must keep demonstrate leadership both at political level and continue improving its project management skills.

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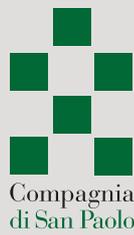
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