

# The Middle East Pivot: China's BRI – Between Geostrategy and Commercial Opportunity

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## **CONCEPT NOTE**

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China's Belt and Road Initiative (BRI) is the most ambitious international development initiative to be launched since the post-WWII wave of reconstruction, decolonisation and development that shaped the world in the past 70 years. At a time when rival Russian, European and American ambitions for silk roads have stalled or faded away, China is proving itself to be the only major power with the surplus financial, material and human resources to do the heavy lifting of massive infrastructure construction abroad, across Central Asia, Africa and South-east Asia. By supplying such public goods that nations in these regions need to participate in the world market but cannot afford, China's BRI presents an attractive proposition. It allows bystanders in Central Asia and Africa to access the benefits of globalisation, South Asians to capitalise on their locational advantage, and South-east Asian participants in the supply chain to up their game. That it comes without lectures on good governance or threats of military intervention sweetens the deal.

In this ambitious vision, China seeks to deepen and diversify its supply sources and routes, invest its monetary and capacity surpluses in real assets abroad, maintain and expand demand for its exports by stimulating greater industrialisation and higher incomes along the Belt and Road - allowing it to climb up the value chain and scale the peaks of technology - and internationalise the use of its currency, gaining seigniorage privilege. This is China's "win-win" BRI shibboleth in a nutshell. It amounts to shifting the centre of gravity of the international economy towards itself, and entails geostrategic challenges, calculations and consequences.

What about the Middle East? How will China's Belt and Road Initiative engage the Middle East, as its continental belt and maritime road make their way through this middle region towards Europe and Africa?

The Middle East stands at the junction of Asia, Africa and Europe. On land, British tanks defended it against German panzers in WWII. At sea, Britain's navy ruled the waves by going around Africa to avoid it, until pulled in by the Suez Canal that boosted world trade but expanded colonisation. In the

air, Gulf airlines have been eating Lufthansa's lunch, and SIA's too, from their hub between Asia and Europe. Wars in the region spike oil price inflation and sink economies globally. Islamist militants and ideologies threaten the internal security of states far away. Among US presidents, George W. Bush launched a global war on terrorism but got bogged down in Iraq, Barack Obama happily pivoted away to Asia, and Donald Trump cannot help but be drawn back into the region. The world, it seems, has trouble living with the Middle East, and trouble living without it. Like geography, the world economy, politics and religion circle around this pivot at critical junctures. "Lose-lose" seems to characterise Middle Eastern ventures more often than "win-win" or "win-lose".

Can China's BRI get through the Middle East safely, or avoid it altogether? With endless wars in the region, where half its energy supplies come from, the answers to both questions are likely negative.

Alternatively, can China avoid the mistakes and the costs made and paid by Europeans and Americans in the region, but benefit from the opportunities presented there?

What are China's geostrategic considerations in the Middle East? And what are the commercial opportunities there that beckon? What do the same questions look like, viewed from the Middle East? And from Singapore?

These questions can be usefully thought of under the rubrics below.

## **GEOSTRATEGY**

Much of the BRI creates economic space for China away from US dominance and confrontation. The westward orientation of China's BRI avoids the Pacific, which the US commands right up to China's coastline. Its East-West corridor across territorial Asia builds on Russian retreat out of Central Asia, and reaches towards Europe via the Middle East, aka West Asia. Multiple North-South corridors further connect China to the Indian Ocean, and onwards to the Middle East, Africa, and Europe. They supply alternatives to maritime choke points dominated by the US and its allies in the Indian Ocean and the South China Sea.

In the Middle East, however, US dominance is unavoidable. There, China has been cautious and, indeed, often co-operative with the US. China's dependence on Middle Eastern oil and gas puts its interest on the side of peace in the region, and of acquiescence to US primacy there. China played an important mediating role when the US wanted to sign the JCPOA agreement with Iran, and has used the region to display its worth as a constructive force in international diplomacy, as a friendly power to the US. China shares the US interest in countering terrorism emanating from the region, which it considers as virtually an internal threat, via Xinjiang. While China has historical ties with revolutionary movements and governments in the region, such as Palestine, Iraq, Iran and South Yemen, today it prefers to shift energy purchases from the Middle East to the US, reducing its trade surplus and enhancing its higher-priority relationship with the latter.

Nevertheless, as China's investments and its expatriate population in the Middle East increase, the state will feel pressure to provide for security with its own military assets. Will the BRI create the need for a Chinese military presence or action in the Middle East? How would this affect regional rivalries and the balance of power, and its relations with the US? At the moment, China is important

and dexterous enough not to be caught between regional rivals. Would the same be true of smaller players who associate with China's BRI projects, especially if China develops a military presence in the region?

A "Northern Tier" of intermediate, territorial powers - Russia, Iran, Turkey - is beginning to shape the Middle East, starting in Syria, in contrast to a "Southern Tier" of the US and its partly maritime allies. Would such an emerging power formation affect China's choices and actions in region? And those of smaller external players in the region?

## **INFRASTRUCTURE CONSTRUCTION**

The region is in great need of basic infrastructure for negative reasons of instability, war, economic weakness. It also needs infrastructure to diversify oil-dependent economies, develop industry and capitalise on its location at the junction of Asia, Africa and Europe. Infrastructural needs include water and sewage, power generation and grid management, factories, ports, airports, road, rail, consultancies, management and maintenance systems.

## **INFRASTRUCTURE FINANCING**

The BRI requires financing beyond China's own capacity. The Gulf Cooperation Council and Singapore possess public and private financial surpluses and expertise that can be mobilised, in the Middle East and other regions. Participation by regional investors gives locals skin in the game and stakes in the success of BRI ventures. Beyond financing by Chinese policy and commercial banks, other modalities are possible and expanding, including multilateral (e.g. AIIB), sovereign, private, retail, and Islamic financing. As the circle of financing widens, business plans and revenue stream calculations will need to become more rigorous. The recent spate of debt repayment problems represents a cautionary tale in this regard.

## **LEGAL INFRASTRUCTURE**

Major investments require protection. While western firms operating in the region have developed suitable legal arrangements, such as through local national codes inspired by European models (commonly emanating out of Egypt), English common law, New York commercial code, Model Law arbitration and enforcement, Chinese companies have up till recently depended more on state-to-state arrangements. As the range, scope and scale of Chinese companies in the Middle East and their range of partners and counterparties expand, there will be need for developing or modifying legal infrastructure to prevent and manage disputes suitable for Chinese and their dealings with counterparts under the BRI. Some of the factors to be considered include: Treaties, both bilateral and multilateral, arbitration, alternative dispute resolution mechanisms, conflict of laws, enforcement, multiple languages, neutral seat.

Do arbitral institutions such as the Dubai International Financial Centre, Abu Dhabi Global Markets, Qatar International Financial Centre Courts, and their counterparts such as in Kuala Lumpur, Singapore, Beijing, Shenzhen etc have the potential among them to provide a sufficient legal infrastructure or to develop one? Will resorting only to the Chinese ones be sufficient or acceptable? Or will the most difficult and high value cases default to London and Paris?

## **RECONSTRUCTION AFTER WAR**

The Middle East repeatedly erupts into war, and generates needs for reconstruction when they end. Which countries in the region are stabilising after wars and will need reconstruction in the near future? Which countries still at war present opportunities for long-term gain without fatal risk? Chinese oil companies have a high tolerance for working under difficult conditions, and have walked out of war situations like Angola and Iraq securing major supply sources. What roles can Chinese firms play in reconstruction in the region going forward, and where?

## **COUNTRIES AND INDUSTRIES**

China and other Asian countries are already major players in Middle Eastern economies. Oil and gas exports to Asia are of great and increasing importance to Gulf countries. The whole gamut of manufacturers from Asia supplies Middle Eastern consumers, industries and governments. Chinese companies and individuals have set up shop across the region, selling directly wholesale and retail. At the same time, Asia is an important aspect of diversification for Middle Eastern economies, especially energy producers. Saudi Arabia's SABIC, suitably armed with a raft of IP patents, has been successful expanding its downstream products into Asian supply chains. Qatar's portfolio of non-energy investments has been expanding in the region, including high-profile acquisitions such as Asia Square and Raffles Hotel in Singapore. Iran under embargo has been able to sell energy to and source both agricultural and manufactured products from India and China. What are the mutual comparative advantages of Middle Eastern countries vis-à-vis Asia, and China in particular?

## **LOGISTICS AND MARKETS**

In a world where production is distributed across geography, logistics becomes the currency of national strategy and international rivalry. The gravity-defying rise of port-polities which understand this, like Dubai and Singapore, are case studies for others along the BRI corridors. A port like Gwadar, on Pakistan's Baluchi coast, gives China an additional entry and exit point to the Indian Ocean when connected to Kashgar by a corridor through Pakistan. It can leak traffic away from Dubai, and supply both the Persian Gulf and East Africa. Hambantota port, a vanity project of the former president of Sri Lanka and a white elephant to the country, gains new potential when placed within related BRI networks. Ditto for the new port of Duqm on Oman's Indian Ocean coast, and for Astana, Baku and others between East and West Asia. And of course, for Egypt's pioneering Suez Canal. What are the new geographical axes of markets and logistics whose potential the BRI can activate? And the old ones that it can revitalise?

## **RELIGION**

When the West went east towards China, it crossed Muslim lands and islands in between. This is also known as the history of colonialism. Today, as China moves west in reverse, towards Europe and Africa, it moves through the same middle region of the world, including the Middle East. What kinds of relations will China have with this region as the BRI extends through it?

Relations with Muslim countries have been an important part of Chinese diplomacy. After the communist states extended diplomatic recognition to the People's Republic of China in 1949,

Muslim ones such as Indonesia, Pakistan, Egypt, Syria, Iraq, Morocco, Yemen, Algeria and Sudan were among the earliest in the non-communist world to follow suit, in the 1950s. The Bandung conference of 1955 in Indonesia provided China with an international stage at a time when it was locked out of the UN. A common anti-colonial position, strengthened by long term development assistance from China through hospitals and road construction, has undergirded good relations between China and Muslim-majority states for over half a century.

Nonetheless, across the Muslim world, transnational religious networks are a social force in their own right. In the aftermath of 9/11, their significance has literally exploded. They may intertwine with kinship, trade, sectarian, political and, indeed, diplomatic networks as well. And they stretch from the Middle East through Central and South-east Asia, into China itself. How will these networks modulate the progress of the BRI?