China's Presence in the Middle East

The Implications of the One Belt, One Road Initiative

Edited by Anoushiravan Ehteshami
and Niv Horesh

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Chinese President Xi Jinping's "One Belt, One Road" (OBOR) vision, heralded as an attempt to revive the pre-modern Silk Route, is intended to strengthen West Asia's economic links with China through ambitious infrastructural projects. Central to this are fast-track rail links, funded by the newly established Asia Infrastructure and Investment Bank (AIIB) that has its headquarters in Beijing. This book explores the implications of OBOR and the AIIB for the Middle East/West Asia, and addresses a number of key strategic questions arising from China's new initiatives. These include: how far are the strategic imperatives underpinning China's policies connected to the political dynamics of Xinjiang and the spread of radical Islam in Central Asia? How are Middle Eastern stakeholders' views of China affected by the new initiatives? How does China's increasing involvement in the Middle East/West Asia affect other regional powers with ambitions in the region, notably Russia? The book also considers the impact of China's increasing presence on individual countries, including Saudi Arabia and Israel.

Anoushiravan Ehteshami is Professor of International Relations in the School of Government and International Affairs, Durham University, UK. He is also the Nasser al-Mohammad al-Sabah Chair in International Relations and Director of the HH Sheikh Nasser al-Mohammad al-Sabah Programme in International Relations, Regional Politics and Security.

Niv Horesh is Professorial Visiting Research Fellow in the School of Government and International Affairs, Durham University, UK.

Durham Modern Middle East and Islamic World Series

Series Editor: Anoushiravan Ehteshami

University of Durham

Series URL: www.routledge.com/Durham-Modern-Middle-East-and-Islamic-World-Series/book-series/SE0526

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Published in association with the
Sheikh Nasser al-Mohammad al Sabah Programme
at Durham University.

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2018
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data
A catalog record for this book has been requested

ISBN: 978-1-138-73667-2 (hbk)
ISBN: 978-1-315-18573-6 (ebk)

Typeset in Times New Roman
by Wearset Ltd, Boldon, Tyne and Wear

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Contributors

Niv Horesh is Professorial Visiting Research Fellow in the School of Government and International Affairs, Durham University, UK.

Andrew Scobell is a Senior Political Scientist at the RAND Corporation, USA.

Tim Summers is a Senior Consulting Fellow at the Royal Institute of International Affairs, UK.

Yitzhak Shichor is the Michael William Lipson Professor Emeritus of Chinese Studies at the Hebrew University of Jerusalem, Israel.

Sara Hsu is Assistant Professor of Economics at SUNY New Paltz, USA.

Sean Foley is Associate Professor, Department of History, Middle Tennessee State University, USA.

Philip Gater-Smith is a PhD candidate at the School of Government and International Affairs, Durham University, UK.

Yoram Evron is Assistant Professor of Asian Studies at Haifa University, Israel.

Wang Yu is Associate Professor, Department of West Asian Studies, Peking University, China.

Guy Burton is Assistant Professor at the Mohammed Bin Rashid School of Government, Dubai, United Arab Emirates.

John Calabrese is an Assistant Professor at American University and is Director of the Middle East-Asia Project (MAP) at the Middle East Institute, Washington DC, USA.

Anoushiravan Ehteshami is Professor of International Relations in the School of Government and International Affairs, Durham University, UK. He is also the Nasser al-Mohammad al-Sabah Chair in International Relations and Director of the *HH Sheikh Nasser al-Mohammad al-Sabah Programme in International Relations, Regional Politics and Security*. He is, further, Director of the Institute for Middle Eastern & Islamic Studies (IMEIS) at Durham, one of the oldest and noted centres of excellence in Middle Eastern studies in Europe.

Introduction

China's One Belt, One Road vision – implications for the Middle East

Niv Horesh

Introduction

President Xi Jinping's One Belt, One Road (OBOR) vision is, according to Chinese media communiqués, an attempt to revive the pre-modern Silk Road. But while the historical Silk Road, according to historian Valerie Hanson,[1] had primarily been a conduit of cultural and religious exchange, the modern-day iteration is meant to transform West Asia economically, and better tie it in with the Chinese manufacturing powerhouse through ambitious infrastructural projects. In fact, President Xi's vision had been preceded in 2014 by Premier Li Keqiang's statement at the Bao'ao Forums where he signalled China's intent on "collectively forging Asia's future development". Chinese policymakers have since gone to great lengths to explain that the OBOR would in no way overlap with China's contribution to the Shanghai Cooperation Organisation (SCO) or its ongoing collaboration with the Association of Southeast Asian Nations (ASEAN), but would in fact create an umbrella for multi-track business and security platforms.[2]

Funding for fast-track rail links between China, West Asia (Middle East) and onwards to Europe is to be provided by the newly established Asia Infrastructure and Investment Bank (AIIB). Headquartered in Beijing, the AIIB has been initially endowed with paid-up capital of US$10 billion, almost double the amount originally funnelled to the Asia Development Bank, which is led by Japan and the USA. In October 2014, representatives from 21 Asian countries had signed the Memorandum of Understanding on Establishing the AIIB, and by the end of March 2015, almost 50 countries from all around the world had filed applications to join as founding members. These include arch-enemies Israel and Iran, with both of which Beijing currently enjoys warm relations.

Following the British lead in March 2015 to engage with this Chinese initiative, several Western governments (and also other pro-US allies) decided to defy Washington, and join the AIIB, including Australia, France and Germany. Even Vietnam and the Philippines, which share concerns over Chinese claims to large portions of the South China Sea, have joined in. For the time being, however, the United States and Japan have chosen to keep their distance. Middle Eastern states, however, have piled in and the list that are either members or would-be partners of the AIIB now includes Kuwait, Saudi Arabia and Egypt, all of which share close security ties with Washington. China's policies are arguably having an impact on the behaviour of neighbouring and other Asian countries.[3]

So, in this context, the purpose of this volume is to explore the implications of OBOR and the AIIB for the Middle East and West Asia as a whole. The contributors, all internationally renowned experts in their field, address a number of strategic questions arising from China's policies, and ask in addition, do the strategic imperatives that underpin the OBOR and AIIB have anything to do with the political dynamics of Xinjiang or the spread of radical Islam in Central Asia? If so, how might that impact on Middle Eastern stakeholders' attitudes towards China's nascent global leadership narrative? Moreover, given that Russia sees much of Central Asia and West Asia as vital to its global interests, and has been promoting its own plans for an Eurasian Economic Union, the question should be asked, are these plans likely to clash or be subsumed by the AIIB?

The findings presented here follow an international conference held at the University of Nottingham on 5 May 2016 under the joint auspices of the al-Sabah Programme at Durham University and the local China Policy Institute (CPI). Most of the contributors for this volume had first presented their work at that conference, garnering feedback from several others participants. Subsequently, chapter drafts were revised and re-written in order to better tie in with our OBOR focus. In my capacity as CPI Director in Nottingham at the time, I wish to thank my co-editor, Professor Anosuh (Anoushiravan) Ehteshami, Director of al-Sabah programme, for gracious logistical assistance in the lead-up to the 5 May Conference and for insightful guidance and visionary leadership of the Asianization research agenda over the past decade. As such, it is only befitting that this volume concludes with an integrative chapter especially penned by Anoush ("The One Belt, One Road in China's Grand Strategy"), which draws on all the other contributors' observations in a bid to offer a road map for future research.

In addition, I acknowledge here with gratitude Dr Scott Pacey, Dr Chun-yi Lee, Professor Hongyi Lai, Professor Simon Appleton, Professor Lina Song and Professor Steve Tsang for scholarly input and assistance during the conference.

Apart from former Nottingham colleagues, I wish to thank here again the following conference participants: Professor Jiajun Tao (Beijing Foreign Studies University); Dr Mohammed Shareef (Exeter University); Mr Graham Hutchings (CPI); Mr Afzal Ashraf (RUSI); Ms Gemma O'Neill (FCO).

The volume directly builds on Ehteshani and Miyagi's *The Emerging Middle – East Asia Nexus* (Routledge, 2015) and Horesh's *Toward Well-Oiled Relations: China's Presence in the Middle East Following the Arab Spring* (Palgrave, 2016). While these earlier volumes focused on East Asia and the Middle East as a whole, and on Sino-Turkish relations in particular, analyses in the present volume are additionally fortified and enriched by bilateral case studies on a temporal scale scarcely attempted in the English-language academic literature before: much insight will particularly be offered in Part II on Sino-Palestinian ties, as well as on the rapidly expanding Sino-Israel ties and Sino-Saudi ties, bringing these stories up-to-date and charting future geopolitical scenarios.

Broadly speaking, the main findings of the volume are that no one single framework can anticipate China–Mideast relations in the future. If anything, China's engagement is *tripartite* rather than bilateral since it is strategically grounded in American-policed regional architecture. In other words, the US is de facto arbiter of Chinese parleys to, for example, major oil producer Saudi Arabia even if Chinese and the US rhetoric remains ostensibly at loggerheads over the Iranian nuclear programme.

Neither can the current People's Republic of China (PRC) leadership under Xi Jinping be portrayed at present as actively seeking to undermine American hegemony in the region. To the contrary, there is a strong Sino-American convergence of interests in the Middle East that might possibly alleviate other tensions between the US and China in the future, as China becomes more reliant on Middle Eastern oil and on the American security architecture that conditions free navigation across the Hormuz Straits.

Part I incorporates four broad-stroke studies of OBOR and AIIB in a transnational framework. It begins with a chapter by prominent RAND analyst Andrew Scobell who observes that the Middle East matters to China a lot not just as a supplier of fossil fuel with which to feed China's industrial, export-geared economy, but also in terms of geo-strategy as well as *domestic* ethno-religious tensions. In that sense, one might surmise, the Middle East definitely carries more weight in Chinese long-term planning at present than Latin America or Africa, and is only secondary in importance to East Asia, Russia and North America. Since Scobell believes the Middle East will be more important to the Chinese in the future, one might even be tempted to speculate it will eventually offset Europe in Chinese eyes.

In Chapter 2, former diplomat Tim Summers highlights the early origins of what would later become OBOR in *domestic* considerations, namely, China's wish to advance its economically laggard Western provinces by tying them with the outer Asian rim and by directing excess industrial capacity to infrastructural projects overseas. In Summers' assessment, the economic and developmental motivations in Chinese thinking surrounding OBOR far outweigh the geopolitical ones, and there is no real basis – at least for now – to cast this initiative as aiming to revise the US-led world order or displace the US from Eurasia. Instead, Summers alludes to a Chinese emulation of the US in extending aid to West Asia and poorer Middle Eastern countries in a way that is likely to entrench rather than uproot the current geopolitical institutional architecture.

Yitzhak Shichor offers a slightly different perspective in Chapter 3. He highlights the exceedingly top-down nature of the initiative, as well as its state media slipstream. Like Scobell, Shichor then argues that economics alone cannot explain why the Chinese chose to establish AIIB at present, since in his view existing national and transnational institutions with which to advance Chinese economic integration with West Asia are already aplenty. One case in point is the Asia Development Bank to which the Chinese are said to be averse on political grounds, namely its US–Japanese executive, not because of diminishing economic utility. However, unlike Scobell, Shichor is sceptical about the degree to which Chinese foreign policymakers take the Middle East seriously. OBOR and New Silk Road heady rhetoric or AIIB annunciation of showcase traffic projects might, in his assessment, simply conceal a wish to reach Europe's advanced markets in the future more readily. Shichor perceptively observes in that context that the share of the ten Middle Eastern AIIB members (11.04 per cent) is twice their share in China's current overall trade volume (5.77 per cent). This mismatch between geopolitical ambitions, economic realities and exaggerated media expectation might, in his interpretation, lead to the failure of OBOR in the long run.

In Chapter 4, expert China economist Sara Hsu offers one of the first impartial analyses of the budding AIIB. Beyond geo-politics, Hsu is of the view that there are real infrastructural needs across Asia that the AIIB can fill in partnership – rather than in completion – with the Asia Development Bank and other foreign aid agencies. Like Summers, Hsu alludes to the fact that what we know of the new AIIB governance suggests emulation of existing institutions rather than a revisionist approach. In particular, she notes that the AIIB is to have a gearing ratio (loans to capital) of 1 : 1, as the World Bank has, although this may be extended to 2.5 : 1, as the European Investment Bank has. On the basis of real need and the penchant to learn from others' experience, Hsu is of the view that AIIB can be viable in the long run.

Part II begins with Sean Foley's fresh look at the future of Sino-Saudi relations. Far from ignoring the key, much-discussed role of energy in this bilateral relationship, he argues that the two nations' ties in future years will be defined by an additional factor that has seldom been fully explored in the scholarly literature: cultural and historical ties in the framework of OBOR. Here, Foley sees a tenuous, albeit cognitively strengthening, people-to-people dimension as well as a Saudi determination to wean the country off oil through state-led economic reforms not unlike those Beijing initiated three decades ago.

To be sure, Chinese cultural imprint in Dubai is much bigger than in Riyadh. In coming years, however, Foley believes OBOR would create new choices for China, Saudi Arabia and the United States. As Saudi Arabia's financial interests in China grow, Riyadh's policies will have to more and more approximate China's position on the South China Sea and a host of other hot spots – no matter how much pressure Washington brings to bear.

Drawing on Complex Interdependence theory, Gater-Smith attempts in Chapter 6 to find out whether China's growing energy trade with Saudi Arabia will alter US security commitments in the Gulf. Is it conceivable that Chinese frigates might one day carry out what the Fifth Fleet does at present? Gater-Smith argues that China is certain to continue enhancing its engagement with Saudi Arabia politically and economically but has not real incentive (or capacity) as yet to assume an expensive military role when this is so willingly provided by the US. For this reason, Gater-Smith thinks a dominant Chinese military role in the Gulf in defiance of the US is unlikely in the future too. But he is too judicious to ignore the lesson of history, and therefore does not seem to completely rule out a more cost-conscious and isolationist US electing in the future to leave the region voluntarily as part of some grand global accommodation with China and Russia. After all, Britain's 1971 pull-out from "East of Suez" was not widely anticipated.

Chapter 7 shifts the spotlight outside the Arab world. Here, Yoram Evron explains how, following the establishment of diplomatic relations in 1992, China sedulously courted Israel for military know-how, thus arousing American wrath. The curtailment of military know-how sales plunged relations in the first decade of the twentieth century. However, since 2011 Beijing has been allowing a greater volume of bilateral civilian trade and outbound investment to build up as it searches for a greater geopolitical role on the world stage. The uptrend, according to Evron, began around 2011, well before OBOR was launched. Yet OBOR is likely to boost bilateral relations further, and one cannot rule out in that context Chinese firms eventually being allowed by the Israeli government to construct a new strategic fast rail connection between the Red Sea port of Eilat and the Mediterranean port of Ashdod.

In Chapter 8, Wang Yu further underscores how far Sino-Israeli economic relations have progressed over the last decade in the face of lingering mutual suspicion and initial setbacks. That national security warnings by former Mossad chief, Efraim Halevy, did not manage to foil the sale of Tnuva, an iconic Israeli dairy product manufacturer, to a Chinese state-owned company, in 2014 is a case in point. Also pertinent is the fact that the privately-run Chinese conglomerate Fosun seems to have bought swish Israeli cosmetics brand Ahava, which has operations in the territorially disputed West Bank, *without* seeking advice from the Chinese government. Such developments demonstrate, in Yu's narrative, Israel's determination to look East and to scale down its economic reliance on the West.

What is the Palestinian reaction to the growing ties between Israel and China? Guy Burton answers the question in detail in Chapter 9, drawing in part on first-hand interviews he held in the West Bank. Burton argues that Palestinians see OBOR essentially in economic terms. Egypt and Israel are seen as the likely beneficiaries, while the Gazan economy may be side-lined. At the grass roots, however, China still enjoys residual popularity among Palestinians hankering back to the 1960s when it was a main backer of the Palestinian cause on the world stage: over half view it positively as a counter-weight to the US. At the same time, few Palestinians aver that they deeply understand China or that China can potentially supplant the US, Europe or Russia for that matter in resolving the territorial dispute with Israel. There is therefore little appetite among Palestinians to reach out to Chinese public opinion beyond official contact, and in that sense Israeli lobbying efforts in China have gathered more momentum.

Off the record, Chinese foreign policy analysts often take pride in the fact that their country has committed zero mistakes in the Middle East over the past decades, while America has stumbled from disastrous military intervention to botched support for the Arab Spring. Furthermore, as the Chapter 10 by John Calabrese recounts, the warming of relations between China, Israel and Saudi Arabia of late has not precluded better Sino-Iranian relations.

Calabrese observes that, far from wedging China and Iran, the lifting of Western nuclear-related sanctions against Iran may have actually removed a major obstacle to the broadening and deepening of China–Iran relations while supplying fresh impetus to Beijing's aim of integrating West Asia into its ambitious One Belt and One Road initiative. Iran could potentially serve as a critical nodal point in this evolving transport network, and thereby play a key role in reshaping the geoeconomic and strategic landscape. But there is no shortage of China critics within the Rouhani reformist establishment and, in that respect at least, Calabrese cautiously concludes that the success of OBOR is neither preordained nor inevitable.

Notes

1 Hansen, Valerie (2015). *The Silk Road: A New History*. Oxford: Oxford University Press.
2 For an overview see e.g. *The Economist*, " 'One Belt, One Road': An Economic Roadmap" (2015). www.eiu.com/public/topical_report.aspx?campaignid=OBORSept2016
3 Callaghan, Mike and Hubbard, Paul (2016). "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road". *China Economic Journal* 9(2), 116–139.

Part I

1 Why the Middle East matters to China

Andrew Scobell

Introduction

The Middle East matters to China. It may seem surprising that a region in such turmoil and so far removed from the borders of the People's Republic of China (PRC) holds such importance to Chinese leaders but over the past four decades the Middle East has come to matter more and more to Beijing. During the era of reform and opening (i.e. since 1978) for the PRC, the meaning of the Middle East has evolved and considerably expanded over time. Since the 1980s the PRC has desired to be seen as a global power and this has meant being considered a major player in the Middle East. Since the 1990s the region has become important to China economically, especially as a source of energy. Since the 2000s there has been greater recognition that the Middle East has become an extension of China with key ethno-religious linkages that threaten its domestic stability. Since the 2010s there is an emerging realization in Beijing of the Middle East's considerable geostrategic importance to China and the world.

Under Xi Jinping, China has been engaged in its own "rebalance" which precedes President Barack Obama's "rebalance" to the Asia-Pacific. In contrast to the US variant, China's rebalance is more holistic in scope with both significant internal and external components as well as being more heavily skewed towards economics. The Middle East figures prominently in each rebalance and a comparative analysis highlights a common misunderstanding of each. Just as some analysts have mischaracterized the Obama rebalance to the Asia-Pacific as a shift of focus away from the Middle East, so other analysts have misinterpreted China's own rebalance as a turn away from maritime East Asia towards a primary westward continental Eurasia focus.

But there is no mistaking that by 2016, the Middle East has become of greater importance to China than ever before. Indeed, Beijing now seems to perceive the Middle East as an extension of China's periphery as well as a zone of fragility. Moreover, China has become concerned about the stability of regimes in the region after being largely agnostic for many decades.[1] The emergence of the Arab Spring in 2011 and continued turmoil in a range of Middle Eastern states have only served to underscore Beijing's stance. In addition, the rise of radical Islamic movements, such as the Islamic State of Iraq and the Levant (ISIL) out of the Iraq war, and the Civil War in Syria have forced China to pay greater attention to the region. All these dynamics not only threaten Chinese economic interests in the Middle East, including energy resources, transportation routes and PRC citizens in the region, but also are seen to pose a threat to Chinese Communist Party (CCP) rule. Beijing is worried that these popular and extremist movements may inspire ethnic Han dissidents to push for greater democracy in China and Uighur activists to press for greater autonomy or religious freedom in Xinjiang.[2]

This chapter proceeds as follows. First, the chapter outlines Beijing's worldview and how the Middle East fits therein. Second, the chapter explores the four main factors that have elevated the meaning of the Middle East for the PRC over the span of four decades. The initial impetus for ramped-up Chinese interest in the region was Beijing's desire to be seen as a great power along with diplomatic competition with Taipei. Close behind was an economic imperative as China became more dependent on imported petroleum and increasingly engaged in international trade. Beijing's interest in the Middle East has also heightened concerns over ethnic and religious links. Most recently, the accumulation of these meanings produced greater recognition of the tremendous geostrategic significance of the Middle East. Lastly, this chapter assesses the implications of these findings.

Beijing's twenty-first century worldview

When PRC leaders gaze out of their office windows in Beijing they see China as the centre of a world ringed by four concentric circles. The innermost ring contains all the territory that the PRC controls or claims (including land and maritime areas); the second ring extends just beyond the periphery of these borders to those countries and areas immediately geographically adjacent to the PRC; the third ring encompasses China's larger Asia-Pacific neighbourhood (comprising the regions of Northeast Asia, Southeast Asia, Oceania, South Asia, Central Asia); the fourth ring includes the rest of the globe (the Middle East, Europe, Africa and the Americas).[3] PRC leaders see serious national security threats in each of these rings but the gravest are those located in first ring: domestic dynamics that endanger the rule of the CCP. Next in importance are those dangers that lurk in the second ring followed by those that fester in the third ring.

But the greatest fear of Chinese leaders is that multiple threats will combine and interact across rings in ways that aggravate and exacerbate threats to national security and CCP rule. Given the high degree of insecurity of Chinese leaders, one might anticipate them to adopt an autarkic policy. Indeed the simplest way to keep out dangerous foreign influences would be to close off China from the outside world. This is essentially the policy adopted by Mao Zedong for extended portions of his rule (1949–1976). China's top priority in the reform era has been sustained economic development and Mao's policy initiative of self-sufficiency and mass mobilization has been discredited because it failed spectacularly: the Great Leap Forward (1958–1961) resulted in mass famine.[4]

Post-Mao leaders, in contrast, have adopted a sustained policy of reform and opening to the outside world – what I have dubbed "China's Great Leap Outward".[5] Unlike this first effort of the post-1949 era, the campaign launched in 1978 by Deng Xiaoping opened up China to the outside world and embraced the global economic system. The current policy, unlike the earlier one, has been successful far beyond the wildest dreams of CCP leaders.

These threat linkages across rings are especially worrisome in a twenty-first century world where the magnitude of China's vulnerability is intensified by globalization. The PRC is inextricably enmeshed and intertwined with the global economic system. Despite the deep insecurity that pervades Beijing's corridors of power, retreat or withdrawal from the world is not considered a realistic option. China is reliant on external markets and resources around the globe to keep the country prosperous and its people employed. But sustaining China's economic juggernaut is dependent not just on continued engagement with the outside world; it also requires expanding China's interactions with the second, third and fourth rings. The unofficial mantra of Xi Jinping is "thinking locally demands acting globally".[6]

The most significant twenty-first century foreign policy manifestation of this implicit mantra to date is the launching of the Silk Road initiative by PRC President and CCP General Secretary Xi Jinping. More commonly dubbed the "One Belt, One Road" project, it has become the flagship foreign policy effort of the Xi administration – a rubric that encompasses and frames virtually all of China's diplomatic and economic activities.[7] The effort involves the development of a massive network of roads, railways, pipelines, canals and sea lanes connecting China with the rest of the world. One Belt, One Road is an extremely ambitious undertaking. Other than China itself, the Middle East appears to be the key region geostrategically as well as the nexus of the maritime Silk Road and overland Silk Road belt.[8]

What the Middle East means to China

The Middle East holds four major meanings to China in the second decade of the twenty-first century. First, it is viewed as an arena of great power competition in which a rising power such as China must be seen to play. Second, the Middle East is a critical source of imported energy and an important region for Chinese trade and investment. Third, the region has become an extension of China's immediate neighbourhood because of transnational ethno-religious linkages. Fourth, the Middle East is now considered by Beijing to be a vital geostrategic global crossroads – the PRC's most important region beyond its own Asia-Pacific neighbourhood.

Meaning #1: arena of great power rivalry

The Middle East has long been an arena of great power rivalry. In the nineteenth and early twentieth centuries, a great game was contested by the British, French and Ottoman empires. During the Cold War the Middle East was a playground of superpower competition between the United States and the Soviet Union. For a country that considers itself a great power, being seen as a major player in the Middle East is important. Hence China desires to raise its profile in the region.

During the Cold War Beijing felt largely closed out of the Middle East as Washington and Moscow fought for influence and power via regional proxy forces. Moreover, until the 1980s, the PRC's Chinese rival, the Republic of China (ROC) in Taipei continued to be the "China" diplomatically recognized by many states in the region. Economically, until the 1990s, the PRC was almost a non-existent presence in the Middle East with the exception of as a supplier of bargain-priced and/or hard-to-get weaponry to states such as Iraq, Iran and Saudi Arabia.[9]

The Middle East gained sudden prominence to China in the weeks and months after the June 1989 Tiananmen Massacre as Western capitals ostracized Beijing and imposed sanctions on the PRC. China's response was to reach out to developing countries to counter the cold shoulder from developed states. Middle Eastern capitals were central targets of Beijing's counterstrategy in the early 1990s.[10] Moreover, this initiative coincided with growing demand for imported energy resources and commodities as China reinvigorated its economic reform and opening policy.

However, by the twenty-first century, all states in the Middle East had broken official ties with Taiwan and established full diplomatic relations with the PRC, which they formally recognized as the sole legitimate government of China. In the 1990s, Beijing was simply seeking to become relevant in the region. Today, China's greater interests have made fostering peace and stability in the Middle East its highest priorities.[11] The PRC is now a key economic actor in countries throughout the region with modest but significant military relationships with many Middle Eastern states. Moreover, a weakened Russia is no longer a major external actor in the Middle East – with the notable exception of Syria – and the staying power of the United States is being questioned by US allies, partners and rivals alike.[12]

Beijing has taken steps to raise its profile in the Middle East in search of greater regional influence in order to project the image of a major power. These efforts include the PRC creation of the position of special envoy to the Middle East in 2002 and releasing a conspicuous but bland formal proposal for Israeli–Palestinian peace in 2013.[13] By publicly proclaiming an interest in addressing the Israeli–Palestinian problem Beijing has made a grand albeit symbolic gesture that projects into a troubled region the image of an engaged outside power and morally upright pillar of the world community.

China wants to maintain its unique status as the one outside power to have cordial relations with every Middle Eastern state. Therefore, China tends to spout high-minded rhetoric, make very modest but high-profile diplomatic gestures, and small but well publicized tangible commitments of resources. China has engaged in highly selective great power activism. For example, on occasions, Beijing has been an energetic team player. A prime example is China's efforts to facilitate the now-completed nuclear deal between Iran and the P5+1, the five permanent members of the UN Security Council plus Germany. Indeed, according to some accounts, China's role was vital in making Iran sign on to the 2015 deal.[14]

Most recently, in 2016, China raised its profile in the Middle East with the publication of a policy paper and a visit to the region by PRC President Xi Jinping. On 13 January the Ministry of Foreign Affairs issued a "China's Arab Policy Paper". While full of platitudes, the paper did contain one specific policy position: "China supports the Middle East peace process and establishment of an independent state of Palestine with full sovereignty, based on the pre-1967 borders, with East Jerusalem as its capital".[15] Xi Jinping's first trip to the Middle East as China's head of state coincided with release of this paper. In January 2016 Xi visited Egypt, Iran and Saudi Arabia. In Cairo, Xi delivered a formal address at the headquarters of the Arab League, while in Tehran and Riyadh, Xi worked to strengthen Beijing's enduring relations with each of these Middle East powers.[16]

Meaning #2: energy source and economic nexus

Since the 1990s, the Middle East has been an essential source of imported energy for China. China is thirsty for petroleum; in 2014, China was the largest net oil importer in the world at 6.1 million barrels per day. Although China has sought to diversify its sources of petroleum, the region continues to be the most important: in 2014, for example, the Middle East supplied 52 per cent of China's gross imports, or 3.2 million barrels per day.[17] Moreover, in recent years China has invested billions in the region and more than half a million PRC citizens are reportedly living and working in the Middle East in the second decade of the twenty-first century.[18] The region is also a key part of China's One Belt, One Road initiative. Beijing is leveraging this effort to emphasize China's role as a powerful but benevolent and generous benefactor focused on common economic development on the basis of "mutual benefit and win–win".[19]

Beijing's foremost economic interest in the Middle East is stable access to the region's energy resources.[20] Because of its extended post-Mao economic growth spurt, China has acquired an ever increasing thirst for energy, particularly petroleum and natural gas. In particular, imported oil is in great demand. China became a net petroleum importer in the early 1990s, and, since 1995, China's number one source of imported petroleum has been the Middle East.[21] In 2014, a Chinese analyst wrote in a prominent PRC international affairs journal: "The Middle East will remain China's largest source of oil imports, and that is the strategic significance of the Middle East for China".[22]

But China has also broadened out from just petroleum (although oil remains the core element of its economic relations with the region). An overview of Chinese economic interactions with two Middle East powers will help illuminate the growing importance of the region to China.

Saudi Arabia

Since 2002, Saudi Arabia has been China's top source of imported crude. Beijing has reportedly received repeated assurances by Riyadh that China can count on the kingdom to provide a steady supply of crude oil.[23] According to a PRC domestic news agency commentary published in January 2006: "Saudi Arabia is a very good and reliable oil supplier. It is not like Nigeria, which is so fraught with uncertain factors that its oil supply fluctuates sharply".[24] Saudi Arabia has more "sour" crude oil than it can sell, and China is willing to construct new refineries to process it. Since the late 1990s, Beijing and Riyadh have committed to joint investment and construction of oil refineries in China. As of 2016, the two countries have completed or are in the process of building at least four refineries and a petroleum storage complex at various locations in the PRC.[25]

Petrochemicals, natural gas and nuclear

Beijing and Riyadh are also actively engaged in bilateral cooperation on petrochemical and natural gas projects. Saudi Arabia exports tens of billions of US dollars of these chemicals to China annually.[26] Six petrochemical facilities have either been built or are in the process of being built in China.[27] There is also bilateral energy cooperation in civilian nuclear power. In a deal signed by PRC Premier Wen Jiabao during a visit to Saudi Arabia in January 2012, Beijing and Riyadh agreed "to enhance cooperation between the two countries in the development and use of atomic energy for peaceful purposes". The agreement covered the maintenance and development of nuclear power plants and research reactors, as well as the provision of nuclear fuel and is similar to other agreements made with France, Argentina and South Korea.[28] The logic driving Saudi interest in nuclear power seems twofold. First, it is a matter of national pride: Saudi Arabia possessing a technology befitting a major power. Second, Riyadh must start preparing for a post-hydrocarbon future.[29]

Trade and investment

Sino-Saudi economic interactions go beyond energy cooperation and the two countries have vibrant trade and investment sectors. Since the late 1990s, Saudi Arabia and China have conducted billions of dollars of trade annually, exclusive of petroleum and other energy sectors since the late 1990s. Moreover, each country has made major economic investments in the other, also worth billions of dollars. For example, in 2006, a PRC state-owned enterprise (SOE), the Aluminum Corporation of China Limited (CHALCO), cooperating with several Saudi corporations, constructed a multi-billion-dollar aluminium plant in Saudi Arabia.[30] Other Chinese SOEs won hundreds of millions of US dollars in contracts to construct petrochemical plants in Saudi Arabia.[31] The China Railway Corporation (CRC) built a mass-transit system intended to cope with the annual influx of Muslims from around the world in Mecca for the hajj. The contract, signed in 2009, was worth $1.8 billion.[32] CRC is also constructing some 200 primary and secondary schools in the kingdom under the terms of a contract signed with the Saudi Ministry of Education under another contract worth $500 million.[33]

Iran

Iran, like Saudi Arabia, is an important source of oil for China. But China is also heavily invested in developing Iran's petroleum and gas infrastructure.[34] In 2004, the PRC state oil corporation Sinopec signed a $100 billion agreement with the National Iranian Oil Company to develop the Yadavaran oil field. Two years later, the China National Petroleum Corporation (CNPC) made a substantial investment in Iran's Azadegan oil field after a Japanese energy exploration company radically cut its share under intense US pressure. Within a few years, Chinese corporations had cut billion dollar deals to develop Iran's gasoline refinement capabilities. CNPC also signed a multi-billion dollar agreement to develop Iran's South Pars Phase 11 gas field.

Petrochemicals, trade and investment

Since the early 2010s, China significantly expanded its investment in Iran's petrochemical industry. In 2014, Iran announced that China agreed to finance the construction of seven methanol plants. Chinese companies have also reportedly agreed to invest some $3.2 billion to build petrochemical complexes in Bushehr and Lordegan.[35]

Iran is also a significant trading partner for China. Chinese businesses benefitted from trade sanctions imposed by the United States and other Western states.[36] In 2005 China over took Japan as the top source of Iran's imports, and then, two years later, China surpassed the European Union to become Iran's largest trading partner.[37] China has made sizeable investments in the country and been awarded major contracts, especially in Iranian infrastructure projects.[38] Since the mid-2000s, China has financed $1 billion in Tehran city-improvement projects and Chinese corporations are constructing dams throughout Iran. These are projects are worth billions of dollars and provide jobs for hundreds of Chinese construction workers.

Meaning #3: strategic extension of China's homeland and periphery

Although locations on China's Eastern coastal periphery such as Hong Kong and Taiwan have proved to be periodic twenty-first century challenges to Beijing, more persistent problems have emerged in China's westernmost regions and these have become especially challenging since the 2000s. Unrest and dissent among PRC ethnic minorities – the Uighurs and Tibetans in particular – has become a contentious internal security issue. Although ethnic minorities constitute less than 8 per cent of the PRC's overall population, many – including the

Uighurs and Tibetans – are concentrated in sparsely inhabited and strategically important frontier areas.[39]

While Tibet has tended to be a higher-profile and more complex problem for Beijing than Xinjiang – where most Uighurs are located – in the twenty-first century this is changing. The plight of Tibetans has long attracted considerable international attention because of the charismatic and eloquent Dalai Lama who has headed the Tibetan government-in-exile based in India since 1959. Moreover, the Tibet issue was intertwined with an unresolved territorial dispute between China and India. However, the plight of the Uighurs – a mostly Muslim Turkic ethnic group – has begun to receive far greater international attention because of high-profile episodes of violence and harsh PRC repression in recent years.[40] Moreover, Beijing is alarmed over greater manifestations of discontent by Uighurs and apparent radicalization which has prompted acts of violence across China, and cooperation and coordination between PRC Uighurs, the Uighur diaspora and Muslim groups in Central Asia, South Asia and the Middle East. Uighur radicals have reportedly been trained in Pakistan, fought with the Taliban in Afghanistan, and joined the ranks of ISIL in Syria and Iraq. As a result the PRC has become more vocal about the threat of terrorism and energized to take action.[41]

Beijing is fearful that dynamics in the Middle East, notably the persistence of Islamic extremism, chronic political instability and ethnic feuds will penetrate into China. Although the region does not geographically border the PRC, ethnic, religious and cultural linkages do extend from the Middle East through Central and South Asia to China. "As the strategic extension of China's Western border region", according to a prominent PRC Middle East analyst, "the trends governing the situation in the Middle East and the region's pan-nationalisms and extremist religious ideological trends have a direct influence on China's security and stability".[42] In Beijing's eyes these dynamics all come together in the case of the Uighurs. A formally recognized ethnic minority in the China, the Uighurs officially have home rule in the Xinjiang Uighur Autonomous Region (XUAR) in the westernmost portion of the PRC.

There are worries about Turkic nationalism, including concerns about the challenge that Turkey poses, both in terms of Ankara's possible aspirations for greater influence in Central Asia and beyond, as well as a symbol of a modern Turkic state with a vibrant Islamic community. Each of these is considered threatening by China's Communist rulers who are extremely insecure about ethnic and religious minorities inside China. Turkey's ethnic kinsmen spill eastwards across borders into Western China. According to a prominent figure in the People's Liberation Army (PLA), Turkey is China's most "fearsome and formidable rival" in Central Asia. General Liu Yazhou, the political commissar of the National Defense University, explained: "Turkey is the best example of secularization and democratization in the Islamic and Turkic worlds. Turkey claims to be the ancestral home of all ethnic Turkic peoples [including the Uighurs]".[43] The country has been a sanctuary for dissident Uighurs and Turkey's Prime Minister Recep Tayyip Erdogan was only high-level government leader from a

Middle Eastern country to criticize the PRC publicly for brutal repression in Xinjiang in 2009 – reportedly calling Beijing's actions "near genocide".[44] However, relations between China and Turkey quickly improved.[45]

Beijing worries that foreign sympathy for the Uighurs may turn into vocal and material support for the Muslim Uighurs. Beijing works hard to discourage overseas support for what the PRC officially labels "terrorism, separatism and extremism" or "East Turkestan splittists".[46] Beijing's greatest fear is that the Uighur struggle will become a global Muslim struggle similar to the 1980s war against Soviet occupation in Afghanistan. Of particular concern to China's Communist rulers is the spread of radical Sunni Jihadi ideology among PRC Uighurs. Uighurs from China were captured in Afghanistan by coalition forces in the 2000s and interned in Guantanamo Bay. Furthermore, according to author interviews and media reports, PRC Uighurs and Muslim Huis have reportedly joined ISIL forces in Syria and elsewhere.[47]

The PRC has to date been remarkably successful at "inoculating" itself against public criticism of its treatment of domestic Muslim groups by the governments of predominantly Muslim countries. The perceived plight of an oppressed ethnic minority attracts real sympathy within the Middle East.[48] Thus, Beijing does everything possible to quash expressions of public or official support from any foreign country for the PRC Uighurs. A notable exception to this remarkably successful record was the Turkish government's condemnation of the 2009 Chinese crackdown on ethnic unrest in Xinjiang mentioned above.

Moreover, the PRC promotes an image of itself as a tolerant multi-ethnic and multi-faith state. An important international and domestic symbol of Beijing's commitment to tolerance of Islam is its support for the hajj. Since the mid-1950s, the PRC has annually permitted Chinese Muslims to make pilgrimages to Mecca (albeit with a 15-year suspension between 1964 and 1979). For Beijing, this flow of believers helps legitimize the regime in the eyes of some 20 million Muslims living in the PRC. At the same time, this provides clear evidence to the Saudis and other Muslim states that China respects the beliefs and practices of its religious communities. This activity presents a kinder, gentler face to balance the brutal image of Chinese repression in Xinjiang.[49] The annual number of hajj participants travelling from China to Mecca held steady at 6,000 during the 1990s, but by the early 2000s the number reportedly rose to more than 10,000.[50] Most of these pilgrims seem to be Hui Muslims rather than Uighurs or other ethnic minorities. The Hui minority in the PRC is almost indistinguishable from ethnic Han Chinese, largely culturally assimilated, and geographically dispersed across China. In contrast, the Uighur are racially and culturally distinct from the Han and mainly concentrated in Western China's XUAR. Beijing considers the Hui more reliable than the Uighurs and far less susceptible to the three evils of "terrorism, separatism, and extremism".[51]

Meaning #4: geostrategic crossroads of the world

Since 2010s, in particular, Chinese leaders have identified the Middle East as a key geostrategic global crossroads. This realization has not been sudden; rather, it has been gradual. Since the turn of century, Beijing has emphasized greater attention to China's West – both the domestic westernmost provinces and autonomous regions within the PRC and outside China's borders in Central Asia and beyond. The official launch of the One Belt, One Road initiative by Xi Jinping in September 2013, at a speech he delivered at Nazarbayev University in Kazakhstan, signalled that the PRC was committed to a rebalance policy. In fact, China's rebalance was not a radical departure from existing policy; rather, it was a logic extension of previous domestic and foreign policy initiatives.

Back in the 1990s, Chinese leaders recognized there was a serious imbalance in the country's economic development whereby the growth and prosperity were heavily skewed towards Eastern China and the coastal areas. By contrast, Western China – the inland provinces – were poor and underdeveloped. As a result Beijing launched the "Go West" movement that allocated considerable funds to improve the infrastructure in China's interior regions.[52] Predating this domestic initiative, Beijing ramped up its engagement with its new neighbours following the disintegration of the Soviet Union. China focused on improving ties with its immediate neighbours of Kazakhstan, Kyrgyzstan and Tajikistan by resolving territorial disputes and demilitarizing its common borders. This process was remarkably successful and led to the creation in 1996 of an informal group of states known as the "Shanghai Five". In 2001, this group was formalized as the Shanghai Cooperation Organization (SCO). The SCO became a multidimensional mechanism for China to increase its role and influence in Central Asia militarily, diplomatically and economically.[53] China helped build roads, railways and pipelines throughout the region and the success of these efforts ultimately paved the way for the One Belt, One Road initiative.

As China experienced greater tensions with many of its neighbours in Northeast and Southeast Asia and with the United States, particularly since 2010, Chinese elites began to reassess their country's predominately maritime East Asian orientation of the reform era. While the Western Pacific was indisputably of great importance to China both economically and strategically, the region appeared to be increasingly contentious and dominated by the United States and its allies. By comparison, Central and South Asia seemed more welcoming to China and less controlled by the United States. Thus, Beijing's rebalance was a logical recalibration of China's foreign and domestic policies. China was in no way turning away from the Pacific Ocean but rather seeking a better equilibrium between maritime and continental outreach. This was a geostrategic rebalance that included internal and external components as well as security and economic dimensions.

In 2012, Professor Wang Jisi of the School of International Studies at Peking University wrote a widely read op-ed in a major newspaper titled "Xijin [Marching West]". A prominent and highly respected international relations expert, Wang argued that China should pay more attention to its far West. This did not mean that Beijing should ignore its Eastern seaboard and the maritime realm; rather, Wang advocated a more balanced geostrategic approach that gave consideration both to its Central Asian hinterland and to the Western Pacific.[54]

Two years earlier, PLA General Liu Yazhou wrote an article for public consumption asserting that China's far West was valuable for a number of reasons. Liu stated that value of this region for China lay in that it provided the country with strategic depth and an array of natural resources. Moreover, said Liu, the area could act as a stimulus for extended national development and the gateway to Central Asia and beyond. He wrote:

> Western China is a vast empty expanse [yi ge weida de kongjian]. Moreover, our strategic direction should be westward.… With an excellent geographic location (close to the centre of the world), the western region can provide us with the driving force to build our strength. We should regard western China as our hinterland rather than as our frontier.[55]

Professor Wang and General Liu do not necessarily represent official or even mainstream thinking in China, but they do exemplify an emerging school of thought in the country. Whatever the line of thinking, there is a clear consensus in Beijing that greater attention ought to be paid to Western China as well as Central Asia and beyond. This rebalance to the West has only served to enhance Chinese interest in and attention to the Middle East.

China and the Middle East: greater and lesser

The Middle East has become the region of greatest importance outside of China's third ring. Its special status is highlighted by the twenty-first century Silk Road initiative. Its growing importance to China (especially in geostrategic, economic and ethno-religious terms) has prompted the region to be perceived as closely intertwined with the Asia-Pacific region. In fact, the Chinese are beginning to see the Middle East as an extension of China's border areas and their country's periphery. As a result of the growing importance of the Middle East, Chinese analysts now identify an enlarged area they refer to as the Greater Middle East (*Da Zhong Dong*) which includes not just West Asia and North Africa (*Xi Ya Bei Fei*), but at least portions of Central and South Asia.[56] According to one prominent Middle East researcher, "Currently [i.e. 2012], the trend in the 'Greater Middle East' – comprising the Middle East, Central Asia and South Asia – towards geopolitical integration becomes more prominent by the day".[57] In this chapter I distinguish between the Greater Middle East and the more circumscribed geographic area most people consider to be the Middle East. To avoid confusion and clearly differentiate it from the larger conception I follow the lead of some Chinese analysts and label the latter as the Lesser Middle East (*Xiao Zhong Dong*).[58]

In the twenty-first century, China considers the Middle East much closer to home and more proximate to its Asia-Pacific neighbourhood than at any time in centuries – since the time of the Silk Road. Beijing perceives itself bound through ties of commerce and shared ethno-religious linkages. According to Li Weijian of the Shanghai Institutes of International Studies, the Middle East had become “a strategic extension of China’s periphery”.[59]

Analysts in China, such as Li, have adopted the term “Greater Middle East”, which of course originated with the second administration of US President George W. Bush. The idea appears to resonate in Beijing because it captures the ethnic, religious and economic interconnections that enmesh the countries at the core of the Middle East with those on the periphery of the wider region and thence to China.

According to Liu Zhongmin of the Shanghai International Studies University, “China should view the Middle East’s strategic importance in light of the concept of the ‘Greater Middle East’ ”.[60] As a geographic construct, the Greater Middle East better captures how Beijing has come to see the Middle East and its greater relevance to twenty-first century China. The broader conception brings the region more immediacy and proximity to China’s wider array of key security concerns.

Conclusion

The Middle East holds great significance for China. The region has four distinct meanings to Beijing – meanings that are cumulative over successive decades and serve to reinforce each other and together raised the importance of the Middle East for the PRC. First, since the 1980s, Beijing has viewed the region as key for great power competition. China’s desire to be seen as a global power pushes Beijing to adopt a higher-profile role in the Middle East. Second, since the 1990s, the region has become economically more important especially because of China’s greater demands for imported energy but also for expanding trade and investment. Third, since the 2000s, there is a growing realization in Beijing that the country is bound to the Middle East via ethnic and religious linkages with direct impact on China’s domestic stability and border security. Fourth, in the 2010s, there is an emerging appreciation in Beijing that the Middle East is the geostrategic crossroads of the world – and hence figures prominently in China’s “rebalance”.

Indeed, the Middle East is of greater importance because in Beijing’s eyes the region seems to straddle all four of China’s rings of insecurity. While the Lesser Middle East is clearly located in the fourth ring, the Greater Middle East spills across into the third (e.g. Central and South Asia) and second rings (countries immediately adjacent to China such as Afghanistan and Pakistan) and thence penetrates the first ring (inside the PRC). From this perspective the Middle East matters much more to China than a glance at petroleum flows or a glimpse of a world map would suggest.

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2 Rocking the boat?

China's "belt and road" and global order

Tim Summers

Introduction

One of the many questions raised in discussions of the Chinese government's "belt and road initiative" – most commonly known as "One Belt, One Road" – is whether its vision of land and maritime connectivity between Asia, Europe and Africa is intended to challenge an existing global order, or rather is supportive of or structured by it. Put in the terms used by International Relations (IR) scholars, is the initiative revisionist, reformist, status quo-orientated or something else?

Needless to say, in an era when Chinese intentions and actions are increasingly significant at a global level, this question has been fiercely contested. Analysis of the belt and road initiative to date has been dominated by two communities of scholars and practitioners: those in the fields of IR and international security, whether in the academy or governments, and those whose interests are driven primarily by business or investment considerations. Perhaps reflecting this, there has been something of a dichotomy in the numerous interpretations of the belt and road initiative: some see it as being driven foremost by political considerations and the desire to extend China's global influence, a "geopolitical and diplomatic offensive"[1]; while others focus on the ways that the initiative might either deal with economic challenges China faces at home, such as industrial overcapacity, or help Chinese companies in accessing new markets in the countries along the belt or road.[2]

These questions provide the point of departure for this chapter. It addresses them through discussion of the ways in which the Chinese government itself has presented the belt and road initiative, structured by analysing the "vision and actions" document published in March 2015 which set out official Chinese thinking on the belt and road. The first section suggests that the ideas behind the initiative reflect wider thinking in China about foreign policy and global issues, in which Chinese policymakers see their approach as one of constructive reformer or innovator. Second, the chapter argues that connectivity is at the heart of the initiative, and that when this is examined through a lens of global political economy the initiative appears as a reproduction of the structures of capitalist globalization, rather than alternatives to them. Third, the emphasis under the belt and road initiative on the development of China's (sub-national) regions reveals long-standing origins of the initiative in regional policy and practice within China. This suggests that the initiative is less about new policy ideas and more about their elevation to the national level; the chapter explores this with reference to Yunnan province in Southwest China. This regional emphasis also highlights the role of China's regions in implementing the initiative and the fourth section of the chapter looks at plans for its implementation. These are based on existing mechanisms, especially through multilateral institutions, though the impact of the establishment of new financing institutions, such as the Asian Infrastructure Investment Bank (AIIB), warrants further examination. The conclusion returns to the questions of the relationship between the initiative and the current global order.

Background, principles and framework: the Silk Roads idea

The origins of the belt and road initiative are usually traced to late 2013, nearly a year after the transition at the top of the Chinese Communist Party to a new leadership under Xi Jinping. On a visit to Kazakhstan in September 2013, coinciding with a summit of the Shanghai Cooperation Organisation (SCO), Xi advocated building a "Silk Road Economic Belt" connecting China westwards across the Eurasian continent. A month later, summits of Asian leaders in Southeast Asia were the platforms for both Xi and premier Li Keqiang to promote the building of a "twenty-first century maritime Silk Road".[3] In late October 2013 Xi chaired the first ever official top-level work forum on the subject of neighbourhood diplomacy (*zhoubian waijiao gongzuo zuotanhui*). This sent the message that the new leadership was even more focused on relations with China's neighbours than in previous years, though while it continued a trend from the 1990s of advocating a "good neighbour policy", it took place at a time when relations between China and some of its neighbours were deteriorating.[4] At the forum Xi said that "China should work with its neighbours to hasten connectivity and establish a Silk Road economic belt and a maritime silk road for the 21st century".[5]

These two "Silk Road" policy ideas have been combined into the concise phrase "One Belt, One Road" (*yidai yilu* – slightly confusingly in English, the "road" refers to the maritime route, while the "belt" is the "Silk Road Economic Belt"). Discussion of the initiative gathered pace through 2014, and in March 2015, the State Council authorized the publication of a document setting out details, the "Vision and actions on jointly building Silk Road economic belt and twenty-first century maritime Silk Road".[6] This "vision document" structures the following analysis of Chinese policy.

The Preface to the vision document begins with a reference to the historical Silk Roads across Eurasia as the basis for "trade and cultural exchanges that linked the major civilizations of Asia, Europe and Africa". The use of the metaphor of Silk Roads is no accident, indicating a desire to demonstrate China's openness and interest in greater global connectivity.[7] And however the history is understood by scholars,[8] the connotations of the metaphor promotes the naturalization of friendly relations across the region, and conjures up images of an important economic role for China, a combination which is particularly useful in the context of China's rise.

The first main section of the vision document then places the development of the initiative in the context of global developments and the Chinese economy. In line with standard language used in statements of Chinese foreign policy, it begins by noting that "complex and profound changes are taking place in the world". It then goes on to say that the initiative,

> embrace[s] the trend towards a multipolar world, economic globalization, cultural diversity and greater IT application, [and] is designed to uphold the global free trade regime and the open work economy in the spirit of open regional competition.

It subsequently talks about the initiative as a "positive endeavor to seek new models of international cooperation and global governance, and … inject new positive energy into world peace and development". It further comments that "China's economy is closely connected with the world economy" and states explicitly that China intends to "integrate itself deeper into the world economic system".

Section II of the vision document, headed "Principles", begins by stating that the initiative is "in line with the purposes and principles of the UN Charter" and upholds the "Five Principles of Peaceful Coexistence", before characterizing the initiative as being "open for cooperation" and "harmonious and inclusive", following "market operation" and seeking "mutual benefit". Section III turns to what it calls the framework, and echoing Section II, it calls the initiative "a way for win–win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges".

These ideas, which reflect elements that have featured in Chinese foreign policy approaches over recent years, shed light on the ways that Chinese policymakers themselves might see the initiative relating to the current international order. For example, the UN Charter has been emphasized recently to send the message that Chinese foreign policy is based on the post-World War II order, rather than seeking to overturn it, and highlights a wider turn under Xi to use the UN as a forum for a more active role in international affairs,[9] while the Five Principles connects to the non-aligned and post-colonial sentiments of the early 1950s which brought to the fore China's linkages with countries across Asia and Africa. By talking about a changing global context, but characterizing the initiative as one which works with the grain of current trends, this language suggests that there is a need for reform and innovation (or "new models"), while presenting China as a constructive player in this. Overall, the approach outlined here might be characterized as moderately reformist, with China's approach simultaneously influenced by foreign policy identities as a Great Power with global responsibilities and a rising power whose capacity is still developing.[10]

Section III also includes important paragraphs on the geography of the initiative, which aims to connect "the vibrant East Asia economic circle at one end and developed European economic circle at the other". The belt, it says, will focus on "bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea … and connecting China with Southeast Asia, South Asia and the Indian Ocean", while the maritime Silk Road is "designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other". Six Economic Corridors are identified – a new Eurasian Land Bridge, China–Mongolia–Russia, China–Central Asia–West Asia and China–Indochina Peninsula Economic Corridors, as well as the China–Pakistan Economic Corridor and the Bangladesh–China–India–Myanmar Economic Corridor.

There is no list of countries or map included in the document, and there has been some debate over which countries are envisaged as being included in the initiative – the Chinese Academy of Social Science came up with a list of 65 countries, subsequently adopted by other actors, including the Hong Kong government,[11] while the official news agency Xinhua produced an early simple map which has since been reproduced many times. But in spite of this, by stating that the initiative is open to the "active participation of all countries", the vision document implies that there should be no clear "in or out" map of the initiative.

Connectivity: the belt and road vision and global capitalism

The meat of the vision document is Section IV, which outlines five "cooperation priorities". The first is policy coordination, which refers to improving communication between governments and regional cooperation across the belt and road, and is amplified in later sections that deal with implementation. The second area, facilities connectivity, is arguably the most important, covering infrastructure and transport linkages to "remov[e] transport bottlenecks", ports, logistics, energy infrastructure and communications networks. Third is a substantial series of paragraphs on "unimpeded trade", with connectivity to be delivered through measures that include the promotion of trade and investment, customs cooperation and trade facilitation, investment facilitation and the expansion of mutual investment. Fourth, financial integration covers financing institutions, monetary flows, currency circulation (and therefore could support the internationalization of the RMB), and trade settlement, while the fifth priority – "people-to-people bond" [*sic*] – deals with issues from tourism to education cooperation and student exchanges, healthcare and science and innovation, and parliamentary and non-government exchanges.

Elsewhere, these are described as five "connectivities" (*wutong*),[12] and what this material amounts to in effect is a vision of stimulating greater flows of capital, goods, services and people across the regions covered by the belt and road initiative. This message is reinforced by much of the Chinese commentary around the belt and road initiative, for example through references to the populations of several billion across the belt, the market scale and potential, and the growth in China's trade and investment with these regions. One article in the *Global Times* said the initiative would benefit 4.4. billion people with a collective annual GDP of US$21 trillion.[13]

There has also been plenty of discussion about the initiative stimulating further "going out" (*zuochuqu*) by Chinese companies. This is usually thought of in terms of outward foreign direct investment, but also covers other economic cooperation projects led by Chinese contractors, as well as the export of Chinese labour to work for Chinese companies in these markets. There are already signs that patterns of outward investment could follow the geographical focus of the belt and road,[14] while the prospects of the initiative leading to a growth of Chinese investment in markets where Chinese companies are relatively unfamiliar has stimulated part of the response from countries such as the United Kingdom, whose government and business associations have identified new opportunities for British companies to cooperate with their Chinese counterparts in these emerging markets.[15] In turn this could help – perhaps only at the margins – in dealing with Chinese industrial overcapacity.[16]

The idea of promoting trade and investment through enhancing connectivity across and between countries is hardly a Chinese innovation. In the Asian region it has been one of the driving motivations of the work of the Asian Development Bank (ADB), for example through the Central Asia Regional Economic Cooperation (CAREC) programme since 2001 and the Greater Mekong Subregion (GMS) economic cooperation forum since 1992. More generally, given its neoliberal connotations, it has been a feature of a period of post-Cold War capitalist globalization. Though "globalization" remains contested both as discourse and phenomena, it has taken on something of a paradigmatic role in shaping our understanding of contemporary global political economy.[17] And China's largely willing incorporation into these processes of globalization has structured the country's economic and social development in the era of "reform and opening up".[18]

In this context, China's promotion of Silk Road connectivity can be seen as a further embrace of its integration into this globalization, though for reasons of historical and political legitimacy, the term "capitalist" would not be used by Chinese policymakers. Rather than a challenge to the existing order, the belt and road initiative is therefore a reproduction of the structures of global political economy, though one which would allow Chinese capital to play a more dominant role than in the past. From this perspective, the investment in infrastructure and connectivity that the initiative presages is a state-inspired intervention to allow capital flows to grow, the very essence of the "spatial fix".[19] As one Communist Party commentary put it, the "belt and road" could release "the China development dividend" to the world under the conditions of the new economic normal.[20]

Examining the spatial structures of the belt and road initiative further reinforces this interpretation. Although the idea of an "Economic Belt" might suggest a continuous surface of territory across Eurasia, the capital flows will be primarily through the nodes in a network of major urban clusters. This is reflected on the Chinese side in the lists of cities identified in Section VI of the vision document, and building such urban networks through investment in domestic infrastructure has for some time been a feature of regional policy within China.[21]

Again the structures here are not particularly Chinese (or contemporary).[22] As Manuel Castells[23] and others have set out, the dominant spatial configurations of global political economy have come to resemble networks between metropolitan regions, through which capital, information and technology flow. This is what Arif Dirlik has called a "shift in the allocation of resources from surfaces, or national spaces, to nodes in global networks".[24] The development of infrastructure connectivity between these nodes, facilitated by technological advances, is precisely the sort of spatial fix that the belt and road initiative implies is needed to speed up and reduce spatial barriers to flows of capital.

A further element of the initiative that speaks to this theme is the reference to following "market operation" in Section II of the vision document. This is explained as follows: "It [the initiative] will abide by market rules and international norms, give play to the decisive role of the market in resource allocation and the primary role of enterprises, and let the governments perform their due functions". This is a familiar statement of the reform set out in 2013 at the 18th national congress of the Chinese Communist Party's Central Committee, and the extent to which the leadership is fully committed to or able to implement a "decisive role" for market forces has been the subject of fierce analytical debate since then. But the point here is that these ideas are precisely about letting capital take the lead in the development of the belt and road, supported by the state (incidentally a decisive role for the market requires vagueness, not precision, on the geography of the initiative). This may not reflect ideals of *laissez faire* market economics, but it describes well the power relations of contemporary global capitalism.

Regional development and new Silk Roads

Section VI of the vision document, headed "China's Regions in Pursuing Opening-Up", makes clear that there is an important sub-national regional dimension to the belt and road initiative. The section begins by saying that "China will fully leverage the comparative advantage of its various regions" and seek further economic opening through this. It then demarcates four major regions of China, the Northwestern and Northeastern, Southwestern, coastal (including Hong Kong, Macao and Taiwan), and inland regions – though it is not clear whether these regions cover the whole of China's land mass or if some parts are not included. Specific, and differentiated, roles are identified for various provinces and cities in each of these major regions, from a leading role for coastal regions as China's economy moves up the value chain, to a call for the Western regions to build cross-border infrastructure and commercial linkages to neighbouring economies.

Some analyses have suggested that the belt and road is essentially an extension of the "develop the West" policy instigated in 2000,[25] and the 13th five-year programme, the government's economic and social development strategy for 2016–2020, approved in March 2016, does contains a reference to using the construction of "One Belt, One Road" to drive the development and opening up of the Western regions.[26] However, the vision and actions document's coverage of regions right across China demonstrates that the scope of the initiative goes well beyond China's West. Indeed, China's regional policy (in this section, this refers to sub-national regions within China, not external regional policy across Asia) has evolved well beyond an emphasis on Western China, and elsewhere I have discussed the belt and road initiative in more detail in the context of regional policy, including the ways that the inclusion in regional policy of urbanization and the development of urban clusters link back to the network structures discussed above.[27] The connection between the belt and road initiative and regional policy can also be read from the way that the 13th five-year programme identifies the belt and road as the first of three major initiatives for regional policy.

The key policy driver here is that China's regional policy and the belt and road initiative will contribute to the opening up of China's regions, and to better coordinated development between and across regions. Again this is not something new, and the idea that greater opening to interactions with economies outside China can support economic and social development at the regional and provincial level in China is one that has featured at local levels in many parts of China since the early part of the reform era. A good example of this can be found in Xinjiang, where references to the region becoming the "nexus of a Silk Road economy" can be found back in the 1980s[28]; this foreshadows the language of the vision document, to,

> make good use of Xinjiang's geographic advantage and its role as a window of westward opening-up to deepen communication and cooperation with Central, South and West Asian countries, make it a key transportation, trade, logistics, culture, science and education center, and a core area on the Silk Road Economic Belt.

A more recent example can be found in Chongqing, where the development of Chongqing-Europe train routes and linkages to Southeast Asia and along the Yangzi River set out in 2011 in Chongqing's 12th five-year programme preview the ideas behind the belt and road initiative.[29]

These regional origins of the belt and road initiative can be illustrated by looking in more detail at the example of Yunnan province, in Southwest China.[30] From the 1980s, policymakers in Yunnan were engaged in promoting a dynamic process designed to reposition Yunnan from a peripheral province to one which connected China to neighbouring societies and economies in Southeast and South Asia. This was driven primarily by developmental objectives, the idea that opening up across China's borders to the province's South and West could boost the economy of a relatively undeveloped province. While discussion of this process began in the 1980s, prompted by observing the experience of some coastal provinces in development under "reform and opening up", it accelerated from 1992. This was the point when national opening policies were formally extended to the Yunnan, though the province's location made it difficult to integrate into international trade and investment networks.

More importantly, 1992 was the year that the GMS economic cooperation forum was established under ADB auspices. China's participation in this was formally at the national level, but its geographical engagement was limited to Yunnan until 2005 when neighbouring Guangxi was added. The aims of GMS were to enhance connectivity, particularly physical infrastructure, across the Mekong peninsula – Southwest China plus five Southeast Asian countries, Myanmar, Laos, Cambodia, Vietnam and Thailand. Engagement with multilateral institutions was therefore a key part of Yunnan's efforts to open to the Southwest, and from 1999 provincial actors led the establishment of the Bangladesh–China–India–Myanmar (BCIM) forum. They subsequently looked to instrumentalize the China–ASEAN free trade agreement of 2001 to further Yunnan's trans-border economic and commercial ties.

Running through these processes was a priority focus on the development of transport infrastructure connecting Yunnan to Southeast Asia, from roads and railways to China's border in Southern Yunnan to dredging parts of the Mekong-Lancang river in Yunnan and developing civil aviation routes. These developments supported growth in trade volumes, and from the mid-2000s Yunnan companies began to engage in outward investment projects, primarily in minerals and infrastructure (including hydropower). Greater engagement with Southeast and South Asia were also balanced by building connectivity and trade and investment links with the rest of China, a process of "double opening" that was similar to that envisaged in Xinjiang.

The characterization of this policy vision in Yunnan changed over time. References to Yunnan's historical linkages along the "southwest silk roads"[31] featured regularly from the 1980s onwards.[32] Other metaphors which speak to the province's "locational advantage", such as "hub", "pivot" and "gateway", were used by policymakers and researchers in Yunnan, who in 2001 settled on building a "great international transit route/corridor" (*guoji da tongdao*) as the official policy goal. This process demonstrates provincial agency in global interactions, but in 2009, these policy ideas received affirmation from Hu Jintao, general secretary of the party and state president, who described Yunnan as a "bridgehead" (*qiaotoubao*) to China's West; this national attention was partly stimulated by the prospect of oil and gas flows through pipelines under construction from Yunnan through Myanmar to the Bay of Bengal. Hu's language was reflected in the 12th five-year programme, which called for Yunnan to be built into "an important bridgehead for opening up to the Southwest".[33]

It is precisely these ideas that inform the belt and road initiative. The vision document (Section VI) sums up the goals for Yunnan; it says that China should,

> make good use of the geographic advantage of Yunnan Province, advance the construction of an international transport corridor connecting China with neighbouring countries, develop a new highlight of economic cooperation in

> the Greater Mekong Sub-region, and make the region a pivot of China's opening-up to South and Southeast Asia.

The reference to BCIM in Section III – "the Bangladesh–China–India–Myanmar Economic Corridor (BCIM) [is] closely related to the Belt and Road Initiative" – also highlights the influence of Yunnan. Throughout the 2000s, Yunnan policymakers had struggled to get as much interest from India in BCIM as they desired, and the forum had remained at "track two" (non-official) level.[34] However, BCIM was endorsed in May 2013 by the Indian and Chinese premiers, and the forum was later made a Track I (official) dialogue. During Prime Minister Modi's visit to China in May 2015 the two sides agreed to pursue jointly BCIM as a regional initiative.[35]

Delivering the vision and the AIIB

The material on regional development, and subsequent actions at the sub-national level, will inform how the vision might be implemented – since the promotion of the belt and road, provincial governments have been responding with local plans. When it comes to implementation, there are two other sections of the vision document that discuss the ways in which the vision might be delivered. Section V ("Cooperation Mechanisms") focuses on bilateral cooperation as well as identifying a long list of relevant multilateral institutions, while Section VII ("China in Action") outlines actions that China will take. These range from "high-level guidance and facilitation" through bilateral engagement from China's leaders, promoting cooperation in various ways, and developing financial and trade and investment policy to support the initiative. In sum, the plans for implementation of the initiative are based on existing mechanisms, especially through multilateral institutions.

However, one area – the impact of the establishment of new financing institutions – warrants further examination. Section VII includes one of two references in the vision document to the AIIB and Silk Road Fund (the other is in the "financial integration" part of Section IV). Along with other innovative financing institutions, these have become seen as key mechanisms for the building of the belt and road, though the remit of the AIIB is actually broader.[36] Chinese promotion of the AIIB – a multilateral institution inaugurated by 57 members – has prompted similar questions to the belt and road initiative over Chinese intentions towards the international economic order. US suspicion of the institution, framed as concern over its "standards", has been driven by concern that it marks a shift in the power relations within global economic governance. This may be the case given China's voting weight within the AIIB (China has just over 26 per cent), though if other countries such as the US and Japan decide to join this share might decline.[37] But the early indications of the AIIB's *modus operandi*, in particular its eagerness to work with the ADB and World Bank,[38] reflect current practices adopted of international financial institutions, an evolution of the existing order rather than any challenge to it.

Geopolitics, global political economy and global order

Absent from the vision document are any indications that the initiative is driven by geopolitics, if this is interpreted in realist terms as a push to enhance China's global power and influence at the expense of other powers. The conclusion of the analysis in this chapter is that economic and developmental motivations far outweigh geopolitical ones – as Christopher Johnson puts it, the initiative "appears far more geared toward advancing key Chinese economic goals than Beijing's geostrategic ambitions".[39] This does not of course mean that there are no geopolitical motivations at play, and some statements from influential Chinese foreign policy scholars could be interpreted as hinting at such motivations. For example, prior to the unveiling of the idea of a Silk Road Economic Belt (the part of the initiative to which this point is more relevant), Wang Jisi had argued that "global geopolitical changes have meant that Eurasia is of increasing strategic importance for China", suggesting policy should focus more towards China's West,[40] and echoing arguments by prominent military analyst General Liu Yazhou from 2001 that China's "national destiny" lay in the West.[41] The link to Europe (Section III of the vision document) has led Wang Yiwei[42] to argue that the initiative could bring new dynamism to EU-China relations and contribute to a revival of Europe's fortunes, as well as a new Eurasian political and economic order. The initiative has also been seen as a response to strategic competition with the United States.[43] On the other hand, numerous Chinese scholars[44] have sought to rebut analysis that compares the belt and road initiative with the post-war Marshall Plan for Europe as way of cementing China's geopolitical influence.[45] Officials have claimed that the initiative shows China as a participant in and contributor to the existing order,[46] though there is actually nothing new in China's leaders wanting to guide globalization and play a more proactive role in global economic governance, something that Nick Knight traces back to the 1990s when the Party decided to engage with globalization as a trend which would broadly benefit China.[47]

This returns our discussion to the question set out at the beginning of the chapter of the relationship between the belt and road initiative and the current global order. One element in addressing this question is to review how much novelty there is in the initiative. The argument made above that there are long-standing regional origins to the ideas behind the belt and road initiative suggests that its policy content is not essentially new. Rather, as the example of Yunnan shows, the initiative represents the raising to the national level of pre-existing policy ideas and practice at the sub-national level in China, or as Gaye Christoffersen[48] puts it a comment on Northeast China (Dongbei) and the Russian Far East (RFE), the Silk Road Economic Belt "did not initiate Chinese ideas on Dongbei-RFE economic integration. Instead it took these decades-old ideas and incorporated them into a new framework". The novelty therefore lies not in the content, but in the strategic emphasis, particularly given the way that the initiative has been represented as one of a handful of signature foreign policies of President Xi Jinping.[49] One consequence of this is the ability to attract greater financial and political resources for projects which can be justified under the belt and road framework; along with the roots in provincial interests, this increases the prospects of successful implementation, but also suggests that the impact of the initiative will be much greater – more novel – than that of the sub-national policy practices which preceded it.

The global political economy analysis offered above, which describes the Silk Roads vision as a state-led infrastructure-heavy spatial fix to facilitate the development of networks of capital across the Eurasian continent, sees the initiative as the reproduction of the structures and logic of a global capitalist economy in an era of globalization.[50] If we use the language of IR (which, as noted at the start of this chapter, often frames questions of global order), this is an initiative that seeks to perpetuate the status quo rather than revise it – though the pace and extent of global change makes the premise that a meaningful "status quo" order exists increasingly problematic. Perhaps, though, it might be more accurate to describe the initiative as perpetuating the existing *structures* of global political economy, and a critic might argue that the approach adopted in this chapter, derivative as it is of world systems theory, has an inherent structural bias.[51] Where the change comes is not in the structures, but in the power relations of global political economy – to turn this back into IR language, there is a shift in authority but no radical change to the rules of the game.[52] The power relations of global political economy are anyway changing with the rise of China, but the belt and road might push these shifts (whether of a single "core" to East Asia or a multipolar globalization) further or faster in the direction of China, while incorporating more rapidly into the global economy areas which had previously been peripheral – the development of something like a "new geopolitics of global capitalism".[53] So whatever the intentions driving the Chinese vision, the belt and road initiative will have geopolitical implications as a result of China's ongoing rise and its growing economic influence across the rest of the world.

This approach to the belt and road initiative also resonates with the arguments made recently by Hameiri and Jones[54] that there is a need to integrate better the work of scholars in international political economy and global governance with those in IR, in particular when considering rising powers. The regional dimension to the belt and road initiative can be seen precisely as an example of the ways in which state decentralization and internationalization are intertwined in the case of China, and the material on China's regions in the vision document is akin to a call for what Hameiri and Jones describe as "'paradiplomacy' by sub-national agencies". In evaluating the implications of the belt and road initiative for global order, we therefore need to go beyond the standard frameworks offered by IR to integrate perspectives from both global and (sub-national) regional political economy.

Notes

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3 Vision, revision and supervision

The politics of China's OBOR and AIIB and their implications for the Middle East

Yitzhak Shichor

Introduction

In September–October 2013 Xi Jinping announced two new initiatives that have not only captivated public opinion but have generated a wave of excitement, if not hysteria, both in China and abroad. Within two years, scores of media reports, articles, commentaries and analyses have been published, leading to debates and interpretations. Also, scores of academic conferences concentrating on China's Asian Infrastructure Investment Bank (AIIB) and One Belt, One Road (OBOR) vision, also called "the New Silk Road", have been held all over the world, including this one.[1] Moreover, new research institutes specifically dedicated to these two initiatives have been established in Chinese universities, an unprecedented phenomenon in China's – not to mention in Western – academic history.[2] To me, the most significant aspect of Xi's AIIB and OBOR policies is how quickly they have reached the academic "hit parade". While the AIIB is much more structured and organized, very little is known about the OBOR initiative, not only outside China but also inside China, and it is amazing how much academic attention they have drawn. Although undoubtedly aware of the OBOR initiative deficiencies, many Chinese intellectuals whom I met eagerly and enthusiastically defend and support it and, looking offended, reject any criticism about it, especially by outsiders.

This odd phenomenon tells volumes about the Western (though less about the Chinese) academic community – rather than about Beijing's domestic politics and foreign policy. The way Western academics are dancing to the Chinese tune is amazing, whereas there is nothing extraordinary in the way Chinese academics are dancing to Xi's tune. In 2014, after the OBOR initiative had been announced, 169 works were published according to China National Knowledge Infrastructure (CNKI). In 2015, "an astonishing 2,735" entries were published (as of 13 December), reflecting a "nationwide craze over the Belt and Road". It should be underlined that OBOR is not a "strategy", "project" or a "plan" but is a *changyi* (倡议),[3] namely an "initiative" or even a "proposal", a concept that implies less commitment, a vague meaning and no more than a first and initial step. It is little more than a slogan. When this initiative was announced the *People's Daily* headline said that "Xi *Suggests* China Central Asia Build Silk Road Economic Belt"[4] (emphasis mine). Official Chinese sources are careful to use the term “initiative”, but whereas non-official sources and academics (also outside China) often use the terms “strategy” or “plan”,[5] Xi appears to have put forward no more than a “suggestion”. And while this initiative pretends to be essentially economic, it may also conceal some powerful political motivations whose significance could be far more important than just promoting economic relations – and whose implications may also affect the Middle East.

Indeed, most studies and commentaries about the AIIB and the OBOR evidently focus on their economic aspects, as far as they are known or imagined. However, it seems to me that these aspects fail to offer a credible explanation for the OBOR and AIIB creation or to its timing and I could not find such explanation anywhere. They could not reflect just economic considerations since the economic objectives of both, as will be shown below, could have been – and have been – achieved by existing mechanisms and organizations. Under these circumstances, the questions are why have the Chinese decided to launch these initiatives, what are their real, mostly invisible, targets and why at that particular time?

The AIIB offensive

As mentioned above, of the two offensives (for this is what I think they are), the AIIB is the more structured, well organized, well planned and transparent. Unlike the OBOR – which is more of a slogan and a vision than a concrete programme – the AIIB is a financial institution of international membership that is open for business as of 16 January 2016. Although its success has still to be proved over time, it is an existing and active body – the first of its kind ever initiated by China. Nevertheless, the question remains what is it that had motivated Beijing to set it up? Evidently, given its financial nature, economic reasons must have played a dominant role[6] – yet perhaps not the predominant.

Ostensibly, there is no need for the AIIB on economic ground. Founded in 1966, the Asian Development Bank (ADB) has 67 members, including 48 from the Asia-Pacific region. By 31 December 2014, a total of $145,189.14 billion was awarded in loans, grants and technical assistance to Asian countries. China itself was the leading beneficiary having received $22,819.85 billion or 15.72 per cent of the total. India came second with 12.52 per cent, Indonesia third (9.09 per cent), Pakistan fourth (8.54 per cent) and Uzbekistan fifth (7.23 per cent).[7] Even if there has been some criticism about the ADB’s economic performance,[8] academics tend to appreciate it.[9] Still, the ADB (and the World Bank) do not have enough capital to cater for Asia’s infrastructure needs – estimated at $8 trillion between 2000 and 2020. The AIIB can by no means bridge the gap, not now and perhaps not in the future.[10] Nevertheless, China may be less concerned about the ADB economic performance which, given its limitations, has been quite satisfactory. The same goes for other international economic and financial organizations such as the World Bank (WB), the International Monetary Fund (IMF) and the World Trade Organization (WTO).

China's reservations about the ADB and the WB are based less on economic arguments and more on political objections. These two institutions are highly politicized, a fact that has been extensively studied. The empirical evidence points to U.S. influence over the World Bank, influence used in direct pursuit of U.S. economic and strategic interests. One example is trade: "the greater the share of U.S. export that a country purchased, the more funds the country got from the World Bank".[11] Moreover, Washington forced China to accept preconditions to become a member of the WTO, the WB, the IMF and other international financial organizations that were much more numerous and severe than those demanded of other countries – while prolonging admission negotiations for an unnecessarily long time. Once admitted, China has been consistently discriminated against in terms of its voting power.[12] While China is the second economy in the world, the first in foreign exchange reserves[13] and may overtake the US economy soon (or has already done so), its voting power in the different WB-affiliated organizations is weaker, relative to that of the US, Japan and other members although their economies are far smaller than China's (Table 3.1).

This discrimination of China is particularly harmful in the ADB. Beijing may accept the US predominance in economic (and other) terms, but could hardly reconcile with Japan as a regional, let alone a world, leader.

> Comparing the results with research on World Bank loan allocation suggests donor interests are relatively more important in the ADB. This finding justifies the existence of the ADB on *political* grounds but calls into question its relative merits on *economic* grounds.[14] (Emphasis added)

This is precisely China's view. Its voting power share in the ADB (5.477 per cent) – founded and led by Japan since its establishment – is also far behind those of Japan (12.840 per cent) and the US (12.752 per cent).[15] To be sure, both the US and Japan had been invited to join the AIIB but, both declined (as Beijing may have anticipated anyway). Yet, even if Washington and Beijing had

Table 3.1 Voting power at the World Bank affiliates: US, Japan, China (in per cent)

Country	*IBRD**	*IFC***	*IDA****	*MIGA*****
United States	16.28	21.49	10.32	15.02
Japan	7.54	6.15	8.56	4.22
China (rank)	4.87 (3)	2.35 (10)	2.11 (10)	2.64 (6)

Source: World Bank.

Notes

* International Bank for Reconstruction and Development.

** International Financial Corporation.

*** International Development Association.

**** Multilateral Investment Guarantee Agency.

accepted Beijing's invitation to join the AIIB, their role would have been by necessity secondary to China's.

Furthermore, once the AIIB was about to be established, Washington tried to convince, pressure or even implicitly threaten, other countries not to join it. Though these efforts not only failed but were also widely criticized,[16] they underline the political origins of the AIIB. Under these circumstances, Beijing's decision to establish the AIIB, while economically oriented, had been motivated by political considerations. Unlike its position in the ADB, Beijing is not only the AIIB initiator and founder but also its largest shareholder (30.34 per cent) and holds 26.06 per cent of the votes (over twice the votes of the US and Japan in the ADB, combined). Japan and the US declined Beijing's "welcome" to join the AIIB,[17] something Beijing must have anticipated, and are not AIIB members, leaving China as number one. India is the second shareholder with 7.51 per cent of the votes and Russia is third, with 5.93 per cent of the votes, less than 23 per cent of China's votes. Unlike the situation in the Shanghai Cooperation Organization (SCO) where Russia as a co-leader is an equal partner of China, at the AIIB Russia is, at best, a junior partner.[18] Although, in a political sense, the AIIB is targeted mainly against the US and Japan, Russia is implicitly targeted as well – and much more so in the OBOR initiative. This is definitely a political agenda, which some tend to disregard. According to them "the bank's lending will not be dictated by Beijing's foreign policy priorities" because "the 57 countries that joined as founding members would constrain any attempts by Beijing to use AIIB to advance Chinese diplomatic objectives".[19] I very much doubt it. Although at the beginning the Chinese may avoid using the bank to promote their political aims, in the longer run they would not be able to overcome their "great power" ambitions, based on the precedents not just of the US and Japan (in the WB and the ADB) but of their own historical legacy.

The OBOR offensive

Unlike the AIIB, which is a well-defined and workable institution, the OBOR initiative is mainly a slogan. The Chinese love slogans. In the eighteenth century the German philosopher Johann Gottfried Herder (1744–1803) defined the *genetische kraft* (genetic essence) of various peoples, labelling the Chinese as "infantile".[20] In his view Chinese people behave like children, pay more attention to appearances, colourful decorations and the external form – and less to internalities, to the nature and quality of things and how they really are. Although he referred to pre-modern China, his attitude could be applied to modern China as well, including the People's Republic of China (PRC). One notable example is the use of slogans instead of plain words when Beijing launches its new policies, both domestic and foreign. Slogans represent attempts to simplify complicated issues in reductionist manners that remain vague and open to diverse interpretations.

All Chinese leaders, from Mao onward, have been using slogans regularly. Every Chinese president, Chinese Communist Party (CCP) chairman or general secretary feels obliged to coin a slogan that would be associated with him – occasionally more than one.[21] For example, "the Great Leap Forward" and "Never Forget Class Struggle" relate to Mao Zedong; Deng Xiaoping used "Seek Truth from Facts" and "Socialism with Chinese Characteristics"; though "The Early Stages of Socialism" was used also by Mao, it was elaborated by Hu Yaobang and Zhao Ziyang; it was Jiang Zemin who coined "The Three Represents" (*sange daibiao*) theory; and "Harmonious Society" (*hexie shehui*) and "China's Peaceful Rise" (*Zhongguo heping jueqi*) were Hu Jintao's slogans. Xi Jinping is the copywriter of "The Chinese Dream", as well as for "The One Belt One Road" and "The New Silk Road". In a retrospective view, most of these slogans proved to be either meaningless or short-lived. To be fair, other countries (notably authoritarian – both on the right and on the left) use slogans, as well as Western countries (e.g. the US recent use of "pivoting" or "rebalancing" to East Asia, or the Trans Pacific Partnership – slogans that are also doubtful), but not on the Chinese scale.

Also, over the last three decades Beijing has launched a number projects that ultimately failed, occasionally by the Chinese but also by the other side. For example, after Europe prohibited investing in Iran's oil sector in 2010, China National Petroleum Corporation (CNPC) stepped in and signed a $2.5 billion contract with Iran. In late April 2014, Tehran cancelled the contract unilaterally for reasons that are relevant to Beijing's OBOR policy, to be discussed below.[22] Other examples include Chinese "offers" of huge investments in Russian pipelines and to Pakistan. Based on an agreement signed in May 2014 and a Memorandum of Understanding signed on 4 September 2015, the Russo-Chinese gas pipeline project known as "Power of Siberia-2" and estimated at $21.3 billion, has been postponed "indefinitely" by early 2016.[23] Between 2001 and 2011, Beijing pledged $66 billion in aid and investments to Pakistan, but only 6 per cent were implemented.[24] In other projects, the money is spent but the goals are not achieved. In the Developing the West campaign (*xibu da kaifa*, 西部大开发), which had been launched in 2000, the huge investment (that indeed increased the Western provinces GDP), has failed to narrow the economic gaps between them and the Eastern provinces. In fact, the gaps deepened.[25] These examples underline that it is far too early to evaluate the OBOR achievements and, therefore, most OBOR studies and conferences are premature. Yet, some questions could and should be addressed, primarily about the reasons for launching this initiative, its meaning and timing.

On 28 March 2015, a year and a half after Xi Jinping had introduced the OBOR initiative, a document was issued by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs and the Ministry of Commerce (authorized by the State Council). Entitled "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road", this 16-page official document is the most detailed to be published on the OBOR initiative, although it is short on specifics.[26] It is a work of art in using so many words to say so little. Called "a systematic project", it is so broad and general as to include whatever ordinary international economic relations cover anyway. It says nothing about OBOR structure, except that it will use existing mechanisms such as the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), China–Arab States Cooperation Forum, China–Gulf Cooperation Council Strategic Dialogue and a few more.

This is a guaranteed recipe for anarchy, conflict of interests and problematic decision-making processes. Too many cooks spoil the soup, all the more so since "we welcome the active participation of all countries and international and regional organizations in this initiative [...] China is ready to conduct equal-footed consultation with all countries along the Belt and Road". The word "cooperation" appears 98 times in this document and there are 72 "we should". Despite the emphasis on "equality", China is undoubtedly *primus inter pares*; it "is committed to shouldering more responsibilities and obligations *within its capabilities*" (emphasis added). Incidentally, the document mentions the need for financial integration:

> We will support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit-rating to issue Renminbi bonds in China. Qualified Chinese financial institutions and companies are encouraged to issue bonds in both Renminbi and foreign currencies outside China, and use the funds thus collected in countries along the Belt and Road.

OBOR's success depends on wall-to-wall cooperation:

> As long as all countries along the Belt and Road make concerted efforts to pursue our common goal, there will be bright prospects for the Silk Road Economic belt and the 21st-Century Maritime Silk Road, and the people of countries along the Belt and Road can all benefit from this initiative.[27]

There appears to be little new in Beijing's OBOR initiative – except for its name. These ideas, to connect China with Europe through reviving the Silk Road "continental bridge" (another slogan) by building rails and roads (and sea lanes), had existed since the 1990s long before the OBOR strategy was launched. In fact, this strategy had been one of the original aims of the Shanghai Five (founded in 1996). Although initially emphasizing the military aspects of the relations among its five members, the Shanghai Five had political intentions as well to safeguard each one's national independence, sovereignty, social stability and territorial integrity, namely opposing external intervention by other powers (meaning the United States). Initially sidestepped, economic cooperation was added to the agenda after the SCO replaced the Shanghai Five in 2001, and not before 2003. By that time the SCO regular membership covered 60 per cent of the Eurasian territory and one-quarter of the world's population. Combined with new members (India and Pakistan were officially approved on June 9, 2017), observer states and dialogue partners, the SCO accounts for about half of the world's population and 20 percent of world's GDP.

Indeed, in the 20 years since the formation of the Shanghai Five, economic relations between China and Central Asia have increased dramatically. Beijing invested heavily in roads, railways, tunnels and pipelines; in oil fields and gas fields; in telecommunications, minerals and metals, and hydroelectric systems. Foreign trade increased from less than $1 billion in 1996 to over $50 billion in 2015.[28] Economic relations with countries which are not directly associated with the SCO (in South Asia and the Middle East) – have also grown exponentially. Everything Beijing wants to achieve under its OBOR initiative could have been done, and has been done, by the SCO including better economic cooperation, investing in the development of energy resources and pipelines, coordinating monetary systems, expanding transportation networks and upgrading integration with European markets. Indeed, Premier Li Keqiang recent "Report on the Work of the Government" to the National People's Congress still failed to deliver any concrete or new information on OBOR.[29] Under these circumstances, the question is what prompted Beijing to launch the OBOR initiative, which seems to duplicate the SCO in many respects, in both theory and practice?

To understand Beijing's motives for launching the OBOR initiative one has to look at the SCO's shortcomings. Beijing's first ever attempt to create a regional organization, the SCO appears as a successful enterprise not only in terms of multilateral security mechanisms but also in terms of economic benefits. However, one of the major SCO problems is the asymmetry among its members, two huge and powerful players and six small and weak partners. While upholding CBM (Confidence Building Measures) – I read this acronym as "condominium building measures".[30] However, perhaps, this is not the main problem in Beijing's perspective. There are many international treaties and agreements that reflect an asymmetry between one power and the other members (most notably NATO and the late Warsaw Pact) but none, or few, that are led by *two* powers. Given its economic rise and performance and its worldwide perception as the second superpower next to the US, Beijing may no longer be reconciled to power-sharing with Moscow.[31]

Officially and allegedly, Russia and China are not only partners but also allies. However, beneath this friendly façade there are still mutual suspicions and concerns that originate in pre-modern China and the Soviet era. These, the widening economic gap between the two and Beijing's growing arrogance, explain why Beijing no longer wants to play second fiddle to Moscow. These also explain Russia's less than enthusiastic welcome to China's OBOR initiative. In fact, compared to the scores of articles, studies and commentaries on this issue published elsewhere, relatively few have been in Russia. In fact "some Russian media also have been highlighting the dangers of the Belt and Road programme conflicting with Moscow's Eurasia initiative and helping China overtake Russia for influence among Central Asian countries".[32] Although the Central Asian republics have displayed concern about China's economic penetration in the region, they still remember the much longer and more coercive Soviet control.

Russia's aggressive policy in Georgia, the Crimea and Ukraine (which Beijing found difficult to swallow), have further alarmed Central Asia. In response, recent signs show that Central Asia is trying to get rid of the remnants of the Russian influence, including the Cyrillic script and the presence of ethnic Russians.[33]

As a matter of fact, many Kazakhs display "sinophobic sentiments" and "alarmist" views about China's economic penetration, primarily regarding labour disputes and the influx of better-paid Chinese workers. Also, some believe that the OBOR would compete with the Russian-sponsored Eurasian Economic Union (EEU, inaugurated in early 2015) – of which Kazakhstan is a member along with four other countries. Nevertheless, EEU membership and the public resentment against Beijing by no means imply that the OBOR initiative is rejected. Kazakhstan's public attitude towards the OBOR and – needless to say – Astana's policy, are basically positive. "The positive attitude is dominant in spite of the presence of sinophobic sentiments in Kazakhstan, which in turn do not have a solid ground and mostly based on myths".[34]

To some extent, both the AIIB and the OBOR initiative could be interpreted as a Chinese attempt to counteract Moscow's so-called "Asia pivot". Some assume that this Russian *drang nach osten* policy is based on its "friendship" with China,[35] but I doubt if Beijing's leaders are happy about it, since they regard Southeast and Northeast Asia as their own and exclusive sphere of influence dating back centuries. In the short run China's "denial" policy is directed primarily against the US but in the long run Russia will be targeted as well. First measures have already been taken. The idea that "Moscow's partnership with India, the potential for improved relations with Japan, and closer ties with ASEAN can all create a loose balancing coalition to offset the rise of China"[36] is ludicrous. Russia could by no means balance China's position in Southeast Asia. In fact, some believe that China and Russia are on a collision course. Since the mid-1990s China has become the leading economic power in Central Asia and the region's single largest trade partner. Both may have agreed (following "painful internal discussions") that China would be economically predominant while Russia would take care of security and military missions,[37] but power in today's world derives more from better economic capabilities rather than from better military ones, not to mention that in the long run better arms are a function of a better economy.

In sum, although the OBOR initiative may end up as a failure,[38] given China's economic and financial resources and determination to increase its international economic (while not yet its political) role, the OBOR policy may succeed and will supersede the SCO – in deeds rather than words, unofficially rather than officially – thus smoothing China's way to become (again) the regional hegemon at Russia's expense, in an attempt to restore its traditional legacy: China at the centre.

Implications for the Middle East[39]

By early 2016, ten Middle Eastern countries had become members of the AIIB (out of 57 members, or 17.54 per cent, see Table 3.2). Reflecting a capital subscription of $10,840.2 million, the combined percentage of Middle Eastern shares in the AIIB is 11.04 per cent, translated into 12.03 per cent of the votes. China leads the AIIB members with a capital subscription of $29,780.4 million, providing for 30.34 per cent of the shares and 26.06 per cent of the vote, the leading shareholder.[40]

Whereas this is by no means a criterion for the future use of the AIIB financial resources, the share of the ten Middle Eastern AIIB members (11.04 per cent) is twice their share in China's overall trade turnover (5.77 per cent) – and 35.6 per cent higher than their share in China's global investment in 2005–2015 (8.14 per cent, or $98.73 billion out of a total Chinese global investment of $1,212.92 billion in those years). China's total investment in all Middle Eastern countries (not just AIIB members) reached $153.94 billion, or 12.7 per cent of the total (Table 3.3). Compared to other regions, the Middle East has not been

Table 3.2 The Middle East representation in the AIIB

Country	*Shares**	*Per cent of shares*	*Per cent of votes*
Turkey	26,099	2.66	2.52
Saudi Arabia	25,446	2.59	2.47
Iran	15,808	1.61	1.63
United Arab Emirates	11,857	1.21	1.29
Israel	7,499	0.76	0.91
Egypt**	6,505	0.66	0.83
Qatar	6,044	0.62	0.79
Kuwait	5,360	0.55	0.73
Oman	2,592	0.26	0.49
Jordan	1,192	0.12	0.37
Total	108,402	11.04	12.03

Source: "China Infrastructure Investment Bank: Articles of Agreement", www.aiib.org/upload file/2015/0814/20150814022158430.pdf.

Notes
* The number of shares is ten times the capital subscription (in million US dollars).
** Egypt is a Non-Regional Member.

Table 3.3 The Middle East share in China's investment, 2005–2015 (in billion US dollars)

Country	*Value*	*Country*	*Value*	*Country*	*Value*	*Country*	*Value*
Algeria	19.83	Israel	7.29	Oman	1.61	Syria	4.06
Cyprus	0.13	Jordan	2.77	Qatar	4.90	Tunisia	0.11
Egypt	13.19	Kuwait	3.09	Saudi Arabia	25.53	Turkey	11.29
Iran	18.16	Libya	2.60	South Sudan	2.59	UAE	10.90
Iraq	16.05	Morocco	1.04	Sudan	7.09	Yemen	1.71

Source: China Global Investment Tracker www.aei.org/china-global-investment-tracker/.

discriminated against by China's investment spree. For example, in 2005–2015 Chinese investments in East and Southeast Asia – a region far more important to China than the Middle East – reached $165.38 billion, just 7.5 per cent more than the Middle East. The suggestions that Chinese projects in the Middle East are (or will be) related to the OBOR are doubtful. Similarly, the assumption that the AIIB would pose a threat to US influence in the Middle East and undermine the operation of the financial institutions it controls is ruled out by senior IMF officials and by Beijing as well.[41]

A glance at the many OBOR maps, none of them official, shows that both Silk Roads, the continental and the maritime, actually encircle and bypass the Middle East, not unlike the two extensions of the traditional Silk Road that encircled the Taklamakan desert on their way to the West. Like in the past, the aim of the contemporary OBOR initiative, the "end user", is the West, more precisely, Western Europe. Media and scholarly attempts to cling everything Beijing does in the Middle East on the OBOR are ludicrous.[42] For the Chinese, the Middle East is primarily a bridge, a springboard, a means to reach the real goal: Europe.[43] This is also implied in the OBOR document "Vision and Action". Europe is OBOR's final destination:

> The Belt and Road run through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development.

The term "the Middle East" is not mentioned at all in the OBOR document. Instead, the official term West Asia is mentioned – no more than four times, usually in conjunction with Central Asia. This does not mean that the Chinese do not regard the Middle East as a part of their OBOR initiative. Yet it does mean that "China's leadership appears to be reluctant to venture into the Middle East when promoting its One Belt, One Road project". The reason is not just "the volatile and security situation in many Gulf states" – as well as Syria and Iraq – but also Beijing's intention to "minimize direct competition with its main strategic rival [the US]". For Beijing, the Middle East is too complicated, in terms of politics and religion, and "China is not ready to broaden its political influence among Arab States".[44] At the same time, China is using smart rhetoric to give several Middle Eastern (and other) countries the impression that each one is the "key link", "key partner" or "hub" in its OBOR initiative. This role has occasionally been assigned to Qatar, Egypt, Uzbekistan and even Georgia. OBOR appears as an attempt to please all, especially those countries that China's leaders happen to visit, undermining its credibility and increasing the confusion.

Given this orientation, the instability and disintegration of Middle Eastern countries (e.g. Iraq and Syria), it seems that only four Middle Eastern countries stand to win more than the others as a part of China's continental Silk Road (Iran and Turkey) and maritime Silk Road (Egypt and Israel). China will undoubtedly continue to expand its relations with the Persian Gulf countries and with Saudi

Arabia (that would still remain China's principal oil suppliers whether the OBOR initiative succeeds or not). But the Chinese would pay more attention, and investments, in the Middle East to the Northern continental branch of the New Silk Road that runs through Iran and Turkey, and to the Southern maritime branch that runs through Egypt and Israel. China is already building railroads in Turkey,[45] is also engaged in the Suez Canal,[46] and in Israel's railroads and ports.[47] Though now associated with the OBOR initiative, these Chinese projects reflect fundamental long-term interests that had preceded the OBOR initiative.

Put differently, it is too early to say if China's new initiatives would make a dramatic, or even significant, contribution to Sino-Middle Eastern economic relations or to a change in the Chinese political profile in the Middle East. China's deliberately low political stand in the Middle East has little to do with economic considerations. In fact, Beijing is trying hard to dissociate the two although occasionally economic relations help promote also China's diplomatic, strategic and political objectives – but not always. In fact, figures for 2014, the first year after the OBOR initiative was launched, shows that trade with some leading OBOR "partners" tended to decline, or, when increased, reflected a growth of Chinese exports and reduced Chinese imports – definitely beneficial to China's economy yet less to that of its "partners". The share of export in China's trade with Egypt in 2013 (81.9 per cent) increased to 90 per cent in 2014; with Turkey increased from 79.8 per cent to 84 per cent; and with Iran from 35.6 per cent to 46.9 per cent. In 2014 China's export to Iran increased by 73.4 per cent while import increased by 8.3 per cent; China's export to Kazakhstan increased by 1.4 per cent while import nosedived by 64.8 per cent (Table 3.4). In 2015 China's trade turnover with Russia fell by 27.8 per cent, of which export by 34.4 per cent and import by 19.1 per cent.[48] All of these countries are associated in one way or another with the OBOR initiative. Although, as mentioned above, it is too soon to judge, the beginning is not promising. It is certainly not a "win–win" situation which will "benefit all the stakeholders".[49]

Conclusion

Many regard the establishment of the AIIB and the launching of the OBOR initiative as a turning point in China's international standing and even as a Chinese attempt to create "an alternative concept of international order".[50] This notion has been reiterated by a number of scholars, non-Chinese and Chinese. Yet, as some suggest, both the AIIB and the OBOR initiatives are oriented primarily towards Asia or, more precisely, towards what the Chinese call China's "core interests". These "core interests" are located primarily in *East Asia*, so that the common assertion that China's OBOR initiative is a response and a counter action to Obama's "pivoting" or "rebalancing" to East Asia is doubtful, unless as a deception. More likely, both OBOR and the AIIB are by no means meant to substitute East Asia for Central or West Asia. Actually they are probably meant to consolidate the Chinese position in East Asia as the basis of its regional continental and naval strategies. Not less important, while all indications point to the

Table 3.4 China's trade with selected OBOR partners, 2013–2014 (in billion US dollars and per cent)

Country	*2013*			*2014*					
	Total	*Export*	*Import*	*Total*	*Change*	*Export*	*Change*	*Import*	*Change*
Kazakhstan	28.60	12.54	16.05	22.45	–27.4	12.71	1.4	9.74	–64.8
Uzbekistan	4.55	2.61	1.94	4.28	–6.3	2.68	2.7	1.60	–21.3
Egypt	10.21	8.36	1.85	11.62	13.8	10.46	25.1	1.16	–59.5
Sudan	4.50	2.40	2.10	3.45	–30.4	1.93	–24.7	1.52	–38.2
Iran	39.43	14.04	25.39	51.84	31.5	24.34	73.4	27.50	8.3
Turkey	22.23	17.75	4.49	23.01	3.5	19.31	8.8	3.71	–21.0

Source: *China Statistical Yearbook 2015*.

successful performance of the AIIB, there are grave doubts and uncertainties as far as the OBOR is concerned. However, the two initiatives are meant to work together: the AIIB would be used to provide necessary funding for investments according to OBOR policy – in conformity to Beijing's economic, political and strategic interests, very much like the US has been using the WB for its own interests, and Japan the ADB. Indeed, on 29 December 2014, Beijing established the Silk Road Fund with an initial capital allocation of $10 billion, intended to reach $40 billion in instalment.[51] However, given China's economic downturn and slowdown, the timing chosen for both launching initiatives, the AIIB and even more so the OBOR, looks unfortunate. At least in the next few years Beijing would find it more difficult to fulfil its commitments – as vague as they are.

This is a clear indication that though these initiatives had undoubtedly been motivated by *economic* considerations, the AIIB and the OBOR are ultimately aimed at upgrading China's political profile in Asia at the expense of the US in East and Southeast Asia and of Russia in Central Asia. Economics and politics are interlinked. "One can certainly have geopolitical interests without economic interests, but economic interests are necessarily geopolitical interests".[52] China's OBOR and AIIB offensives cater for these two interests. They reflect, on one hand, its economic rise based, among other things, on huge foreign exchange reserves and, on the other hand, on bitter reservations about being politically discriminated against by the existing regional and global financial institutions – the ADB run by Japan and the WB run by the US. In their short-sightedness both had practically paved the ground for China's OBOR as a vision, the AIIB as a mechanism for revision of international financial policies and organizations, and the two initiatives for facilitating China's increased economic and political supervision.

Notes

1 For example: the "One Belt, One Road" Institute of the Center for China and Globalization (CCG) held a seminar on 9 November 2015, on the relations between "One Belt, One Road" and Trans-Pacific Partnership (TPP) initiatives; The "One Belt, One Road (OBOR) and a prosperous Africa" conference, Durban University of Technology, 19–20 November 2015; "The International Conference on 'Road to New Paradigms: Impact of China's Silk Road Initiative in China, Central Asia and the EU' "; "LMS on OBOR", Department of Logistics and Maritime Studies, The Hong Kong Polytechnic University 10–11 May 2016; "Belt and Road Summit", Hong Kong Convention and Exhibition Centre, 18 May 2016; "Spotlight: EU, China Hold Roundtable Discussion on Belt & Road Initiative", *New China*, 21 May 2016; International Conference on "The Silk Road Economic Belt and the 21st Century Maritime Silk Road for Transportation and Global Supply Chain", Victoria University, Melbourne, 1–2 December 2016.

2 A few examples include The Belt and Road Research Institute, Qingdao University; Center of Silk Road Economic Belt Research; Beijing Foreign Studies University Silk Road Research Institute; Belt and Road Research Institute of Hong Kong; Singapore New Silk Road Institute; Kazakhstan New Silk Road Project; and Prague New Silk Road Institute.

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4 Viability of Asian Infrastructure Investment Bank's financials and objectives

Sara Hsu

The Asian Infrastructure Investment Bank (AIIB), China's homegrown regional financial institution, has lofty objectives, aiming to fill Asia's large infrastructure funding gap.[1] Its initial areas of investment will include energy, transportation, logistics and rural and urban development, as noted by Chen Huan, Chief Officer of the AIIB's interim secretariat at the 6th China–South Korea banking development forum. The AIIB is to issue $100 to $500 million in bonds in its first year, which is expected to begin in 2016. Griffith-Jones, Li and Spratt[2] estimate that the AIIB may hold investments in infrastructure loans, along with private investors or other development banks, amounting to up to US$240 billion, or extend loans itself under a 3.5 per cent annual rate of return, up to US$120 billion by 2025.

From a financial perspective, the infrastructure investments that will be undertaken by the AIIB will depend greatly on the specific project, as return on investment varies greatly by type of investment, location, costs and profitability. However, the experiences of the World Bank and the Asian Development Bank (ADB) have shown that lending for infrastructure investment is indeed viable. In addition, both of these institutions have increasingly utilized public–private partnerships (PPPs) to build up infrastructure in developing countries.

This chapter seeks to address to what extent the AIIB's financials and objectives are viable, and does not discuss the political economic dynamics of the creation and operation of the AIIB. Much has been discussed in this regard in the news, as summarized in Callaghan and Hubbard[3] and Etzioni.[4] These interpretations have sought to explain why many European countries jumped at the chance to join the AIIB while the US responded with reservations about the need for and potential operation of the bank. Ultimately, the nature of the AIIB will become clear as it engages in infrastructure development. How well it can operate financially, politically and technically will soon be seen.

This chapter is somewhat more technical and focuses on financial and functional aspects of the AIIB. We first address the viability of infrastructure investment, and then turn to a discussion of cooperation with other multilateral institutions and PPPs. We conclude by discussing the potential of the AIIB to efficiently invest in infrastructure through sole endeavors or through PPPs, to meet its objectives.

Viability of infrastructure investment

One of the first questions we seek to answer is to what extent is infrastructure investment financially viable? What are the aspects of infrastructure projects that need to be considered?

Infrastructure investment faces challenges in terms of appropriate functional and financial design. This is because the projects are complex and may require participation of many parties. A long time horizon for generating cash flow and high initial risks differentiate infrastructure investment from other types of investment. Therefore the AIIB does not face a simple task in embarking upon this line of involvement.

Risks vary throughout the lifetime of a project. Infrastructure projects pass through several stages, including the planning, construction and operational stages.[5] In the planning phase, contracts are written and investors or funds are identified. Proper planning is essential to ensuring the completion of a project; potential technical, financial, or political weaknesses must be identified and mitigated. Next, during the construction phase, technical expertise and monitoring are essential, as this is a high-risk period in which a project does not yet generate cash flow. Construction delays and design changes may result in substantial cost increases, which can threaten the completion and financial profitability of the project. In the operational phase, cash flows are positive but demand risks pose a challenge. If there is insufficient use of an infrastructure project, this can generate negative returns on investment.

Another consideration is how to finance these projects. Financing of infrastructure investment can be carried out by equity, bond, bank and/or development bank financing. Ehlers[6] recommends equity and loan financing for the construction phase, as equity investors and banks may bear a higher risk of failure and have a vested interest in monitoring. Bank loans, through single banks or a syndicate of banks, often supply the largest share of financing during the construction period, and their monitoring capabilities may provide a type of insurance over other parties with fewer monitoring capabilities. Development bank financing may provide an insurance against political risks. Private equity funds or insurance companies may invest in unlisted equity. The operational phase is well suited for bond financing, as stable underlying cash flows provide a fixed income to investors.

Aside from operational and financing structure, one question that has been little addressed with regard to this new institution is, how financially viable is infrastructure investment in the areas that the AIIB proposes to invest in? For this, we must consider project financial returns.

To do this, we have to differentiate between two main ways to calculate the returns on investment. Return on infrastructure investment is often calculated using the economic rate of return, or the benefits (based on an estimate) compared to capital expenditure and operating costs. The economic rate of return incorporates benefits the public, such as higher household incomes or reduced time costs. Some benefits, such as time, are difficult to quantify and rely on the creation of shadow prices. The economic rate of return can be compared to the internal rate of return, which analyses the profitability of the investment without taking into consideration benefits to the public. We can look at both types of returns to understand what the net benefits are to the public and to the investor for infrastructure projects.

Financial and economic/social returns vary, depending on the type of project and the project itself. Bitsch, Buchner and Kaserer[7] find that the median internal rate of return on infrastructure investment was 18.74 per cent for 363 infrastructure deals mainly in North America and Europe between 1971 and 2009, falling into the categories of alternative energy, transportation, natural resources and energy, and telecommunications. Blundell-Wignall and Roulet[8] find that the average return on equity for infrastructure investments, including telecommunications, cable and satellite; transport; electricity and pipelines; and oil was 10 per cent from 2002 to 2013; when cost of equity is netted out, the net return on equity is positive or slightly negative in Europe and the United States, and mainly negative in Japan and emerging countries. Nadiri and Mamuneas[9] use a flexible cost function to calculate a 7.2 per cent average annual social rate of return to US infrastructure for the period of 1955 to 1986.

Energy infrastructure may include construction of oil and gas pipelines, energy transmission and distribution systems, or management of electricity assets, and these projects dominate infrastructure construction projects in Asia. These include hydropower energy creation, natural gas pipeline establishment and other projects. Energy transmission and distribution projects are considered relatively low risk, with a 4–7 per cent average cash yield in the first five years of operation.[10] Some energy projects in Asia have produced even higher yields; for example, a hydropower plant in Lao PDR incurred a financial rate of return of 19.5 per cent.

Transportation infrastructure may include construction of roads, bridges and tunnels, airports, ports, or rail and mass-transit networks. Improvements in technology have made air transport more efficient and less costly in recent years. This is particularly important, since the median landlocked country has 55 per cent higher transport costs than the median coastal country.[11] As Lindsey[12] notes, there are three types of road infrastructure investment: construction of new roads, improving safety of existing roads and expanding existing roads. Much of what the AIIB will invest in is assumed to be the construction of new roads. Road construction in countries with acute shortages of paved roads have higher returns to infrastructure investment, particularly in middle income countries. Canning and Bennathan[13] find that economic rates of return to paved roads ranges widely from just above 0 per cent (breaking even) to over 15 per cent with an average of 1.73 per cent. The average economic rate of return for road building under World Bank projects was 29 per cent between 1983 and 1992.[14] Economic rates of return for road maintenance in very poor countries such as those in sub-Saharan Africa, can have rates of return above 100 per cent, measuring in above returns for road rehabilitation and road upgrades.[15]

Rural development encompasses rural transportation and electricity and agricultural infrastructure investment. High economic rates of return in rural development may contrast with low perceived internal rates of return on such projects. However, projects that could have a significant impact on poverty alleviation in rural areas that are less connected to high-traffic areas may have an internal rate of return under a critical level, often set at 12 per cent.[16] One study of the economic rate of return to rural road rehabilitation, irrigation rehabilitation and water supply projects in Vietnam found that the returns were 10.3 to 23 per cent.[17] The economic rate of return to infrastructure investments, including rural roads and bridges, water supply and irrigation, for 121 projects in Indonesia, was on average 51.4 per cent. Maintenance of rural roads can provide an economic rate of return of 30 to 40 per cent.[18]

Many infrastructure projects, if well planned, can have a significant impact on lowering barriers to growth and development, with strong economic rates of return. Proper financial structuring can ensure smooth functioning of the project and generate positive internal rates of return. However, emphasizing careful research on past projects' technical aspects and financial structures and analysis of potential risks is essential to ensure success for AIIB ventures.

The AIIB will in part support financing of China's One Belt One Road (OBOR) project, which is comprised of the Silk Road Economic Belt and the Maritime Silk Road. The objective of OBOR is to expand infrastructure construction and increase trade and connectivity. Projects will run through China and through Asian, European and African countries. These projects have the potential to generate large economic rates of return and enhance growth.

The AIIB has many options open for financing channels. The AIIB Articles of Agreement allow the institution to participate in a variety of financial transactions in order to ensure funding to its projects. This includes buying, selling, underwriting or guaranteeing securities, administering trust funds and fundraising. Net income is to be distributed first to reserves and retained earnings, then to members according to their shares held, while losses are to be ascribed according to the bank, then to net income, retained earnings, unimpaired paid-in capital and finally to uncalled subscribed callable capital.[19]

Cooperation with other multilateral institutions

Although some analysts feared, at its inception, that the AIIB would compete with multilateral institutions, this relationship appears to have become more of a partnership. At this time, the AIIB has agreed to partner with both the World Bank, the ADB, the European Bank for Reconstruction and Development (EBRD) and the UK Department for International Development (DFID). Cofinancing with these institutions can help to provide sufficient funds for initial construction and where private funds are scarce. Furthermore, working with other multilateral institutions can help the AIIB get started, as it continues to hire additional staff and gain experience.

Jin Liqun, President of the AIIB, signed a framework agreement with the World Bank in April 2016 to cofinance about a dozen projects that were not all announced at the time. The AIIB will also work with the EBRD in funding roads in Tajikistan under the Dushanbe-Uzbekistan Border Road Improvement Project, and will cooperate with DFID and the ADB in Pakistan to upgrade the Shorkot-Khanewal Section of National Motorway M-4. A National Slum Upgrading Project in Indonesia will be carried out in conjunction with the World Bank. These initial ventures in cooperation with other institutions will allow the AIIB to learn best practices through observation and discussion with peers. The AIIB will also extend a $165 million loan for a Power Distribution System Upgrade and Expansion Project in Bangladesh.

Cooperation with multilateral institutions is natural, since the AIIB's management has some experience working in these institutions. Jin Liqun, AIIB President, served early in his career as Alternative Executive Director for China at the World Bank and Alternative Governor for China at the ADB. Joachim von Amsberg, Vice President of Policy and Strategy, worked as Vice President of Development Finance and prior to that as Vice President for Operations Policy and Country Services at the World Bank.

Furthermore, the AIIB's leverage structure will be similar to that of other multilateral institutions. The AIIB is to have a gearing ratio (loans to capital) of 1 : 1, as the World Bank has, although this may be extended to 2.5 : 1, as the European Investment Bank has, with a Super Majority of the AIIB Board.

The International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) finance providers to the World Bank lend or provide grants to governments. The IBRD raises funds by selling bonds on the capital market, while the IDA receives grants from governments. Based on their experience, simple loans and instruments may suffice to a large extent in order to reduce risks, leverage and transactions costs associated with financial complexity. Equity, which is often riskier than debt, should be limited within a 60–40 debt–equity ratio.[20] Limited guarantees may provide initial confidence to private investors.

Public–private partnerships

The AIIB may also create its own relationships within recipient countries. It may work with public institutions, or potentially explore PPPs, which can help to supplement donor funds with private investment. PPPs dominate cross-border investment in Asia, and can be structured in different ways, with various levels of involvement of the private party financially and operationally. Carrying out these projects within such relationships requires experience and good planning. There is a large literature in this area, with much written about what does and does not work for such partnerships.

These partnerships can create higher transactions costs due to time spent in coordinating elements of the project, and higher risks due to insufficient risk sharing practices or project complexity and uncertainty. While many PPS have succeeded, others have failed due to slowdown in availability of financing (especially in the wake of the 2008–2009 global crisis), political changeover, or other unpredictable reasons. A central question that must be asked is, is a PPP a better value for the money, or does it impose undue risks and complexity? Additional questions are, is the AIIB equipped to properly select private sector partners? Is preference for a PPP stemming from need for financing and risk transfer, or is there a willingness on the part of the AIIB to assume much of the financing and risk burden itself? Are there individuals with sufficient experience in operating within a PPP framework on board?

Many scholars have proposed solutions to success barriers experienced in PPPs. Barriers to success arise due to the complexity of the relationship and to the different natures of the public and private sector. As Mukhopadhyay[21] notes, the public sector shows accountability to the public by making processes transparent, while the private sector shows accountability through market mechanisms. Both sectors must remain accountable for respective risks that may be encountered. Loosemore and Cheung[22] and others propose application of "systems thinking" to PPP projects. This thinking views organizations as interconnected subsystems of people, processes and technology that work towards a common goal. Systems dynamics applies systems thinking, dividing a process into four main stages: qualitative reflection, computer model formulation and simulation, simulation testing and evaluation, and simulation policy and interaction experiments. Interdependencies are mapped in the first stage, qualitative reflection. In the second stage of computer simulation, relationships are mapped as stocks and flows, which is revised in the third stage of simulation evaluation. In the fourth stage of simulation policy, managers analyse different strategies to meet project goals.

At the very least, responsibilities for the public and private partners must be clearly defined, and must continue to be defined as the project unfolds. Success of the project should be closely monitored over the project life cycle. The Ministry of Foreign Affairs of the Netherlands[23] lays out PPP success factors, which include standard setting and involvement of government agencies, clear input and output targets, sound regulatory framework for cost recovery and distribution of benefits, strong partner evaluation, trust and transparency negotiation. In other words, broad and narrow goals must be clearly laid out and partners must gain trust of one another, providing feedback to one another through the project lifetime.

Objective private partner selection is essential but in practice frequently does not occur. The procedure is supposed to be competitive and selective, but may result in giving the bid to a preferred party.[24] This has been the case in Bulgaria, for example, in the selection of private partners for construction of the Trakia Highway, which brought about suspicions of corruption.

Risks often arise in estimating costs; project costs are often underestimated by up to 50 per cent. Other issues include inaccurate recording or analysis of information, which can lead to an incorrect impact assessment, or poor reporting of the impact assessment to parties involved. Mukhopadhyay[25] performs qualitative primary investigation of a PPP to construct the Ramgarh Bypass in India, finding that the affected public complained of inaccurate reporting or low transparency reporting of impact assessment. Attempts by the landowners to slightly alter the location of the bypass were overridden due to a lack of timely incorporation of public views into the decision making process as a result of one-way and highly bureaucratic communication.

PPP agencies can help to overcome barriers to properly constructing a PPP. Canada's federal government and provinces have a number of special-purpose PPP agencies, setting an example for the rest of the world to follow. Canada learned from mistakes made in the 1990s and early 2000s, which encompassed limited government expertise, high private financing costs and even public opposition. Changes made after the "learning" period resulted in prioritizing PPP value for the money, narrow definition of PPPs as a procurement strategy, downplaying PPPs as a source of new infrastructure money, maintaining on balance sheet financing and limiting the transfer of demand risk.[26] Canada's focus, during the 1990s and early 2000s, had been on bringing in PPPs to pay for costly public infrastructure, and this shifted into emphasizing enhancing service delivery, innovation and cost reduction. The narrow view of PPPs as a procurement strategy has allowed the government to maintain control and oversight over infrastructure, as PPP selection has become depoliticized. PPPs have received large amounts of government funding, which is kept on the government balance sheet, not used as a way in which to sweep debt off balance sheet. Demand risk is also largely contained within the government sector, allowing the government to maintain control over setting fees.

The ADB and World Bank also engage in PPPs and have expanded the scope of PPP cooperation in recent years. The ADB set up a PPP advisory office in 2014 to expand PPP projects in Asian-region infrastructure development. The World Bank has set up a PPP in Infrastructure Resource Center. Setting up a similar centre of expertise may make sense for the AIIB as it moves forward.

Viability of AIIB's financials and objectives

The AIIB became operational in January 2016, during a time of slowing global growth, with capital of \$100 billion. The bank may help to create demand and stimulate growth by initiating high-value cross-border projects. According to the bank founders, the AIIB will operate on a more efficient structure than other development banks. The more efficient structure will supposedly translate into efficient project planning, financing and operation, given involvement of appropriate expertise and coordination.

In terms of management, the Articles of Agreement state that the AIIB will be overseen by a Board of Governors overseen by an elected Chairman, a Board of Directors limited in power, a President and Vice Presidents and other officers. Nine of the Governors are to represent regional members, while three represent non-regional members. The structure is tabulated in Table 4.1, with the Board of Governors at top, followed by the Board of Directors, then by the Director General of the Compliance, Effectiveness and Integrity (CEI) Unit which oversees management, and finally by the management of the AIIB.

Basic votes, share votes and Founding Member votes are to determine votable outcomes; China holds over a quarter of the votes. China holds 26.6 per cent of

Table 4.1 AIIB governance structure

Board of Governors, from member countries
Board of Directors, nine regional and three non-regional
Director General of CEI Unit, reporting to Directors
President
Vice-Presidents
General Counsel
Chief Financial Officer

Source: BLP Law 2016.

shares, followed by India and Russia with 7.5 per cent and 5.92 per cent respectively.[27] Some international observers have expressed concern over China's dominance of the institution and potential governance issues associated with top-down governance, lending standards and lack of transparency. This may be addressed in part by the AIIB's planned cooperation with other multilateral institutions.

The AIIB aims to improve the large infrastructure gap in Asia. The ADB estimates that there is an annual financing shortfall of $800 billion. Countries with the greatest infrastructure needs include Myanmar and Indonesia, followed by Vietnam, Philippines, Thailand and Malaysia.[28] These countries require infrastructure investment in many areas, and also need to simultaneously improve their regulatory frameworks and reduce corruption in order to reap the rewards of investment. Economic gains can also be made by connecting transportation networks in Asia, in order to improve linkages between China, South and Southeast Asia, and Central Asia.

While it is clear that most infrastructure projects generate an economic rate of return that can be realized by the public they are intended to serve, projects must be carefully planned, using technical expertise, appropriate coordination and trusted parties, in order to generate positive internal rates of return for investors. Additional layers of complexity, coupled with potentially greater benefits, are added if the AIIB chooses to engage in PPPs.

Furthermore, multilateral financial institutions generally focus on projects that exceed $30 million.[29] However, there is a need for small-scale projects, which should be seriously considered by the AIIB. Small-scale power projects, feeder roads, small crop bulking stations and similar infrastructure projects are much needed in developing countries, which may face a lack of local government revenue, banking credit constraints and insufficient access from the private sector. Use of a common development team for a number of small projects may reduce transactions costs across the planning and implementation stages, and pooling of project finance may also reduce investors' costs of monitoring and evaluation.

Some lessons can be learned from the ADB and the World Bank, which have $160 billion and $500 billion in capital respectively. The ADB finances loans from ordinary capital resources (OCR) and the Asian Development Fund (ADF). The ADF provides loans as well as grants, and attempts to lend conservatively, restricting lending, equity investments and guarantees to less than or equal to the total amount of unimpaired subscribed capital, reserves and surplus.[30]

The ADB has a separate risk management office that monitors market, credit, liquidity and operational risks. Ongoing projects are monitored for credit risk, and distressed transactions are resolved. Treasury operations are also monitored for market and credit risk. Loan loss reserves and provisions are made and capital adequacy is assessed. Liquidity risk management ensures that cash flows are sufficient to meet financial commitments. Internal controls and monitoring maintain low operational risk.

Still, problems have presented themselves. Procurement risks have posed a large problem for the ADB in terms of leakage. About 20 per cent of project financing is wasted through fraud or abuse of funds.[31] In the past, country-level procurement assessments were not conducted, and country risk assessments were not updated. Procurement assessments were later implemented in order to construct country procurement profiles and risk assessments. The Procurement Guidelines were set up to guide the process and define acceptable and unacceptable practices.[32]

What is more, according the Midterm Review Strategy 2020, an assessment of success of the ADB in meeting its core objectives, reviewers found that the ADB generally promotes satisfactory inclusive development, but can do better.[33] The review also concluded that the ADB falls short in enhancing regional integration, and in providing non-infrastructure core services such as education, finance and health. Coordination with private sector institutions was not systematic and capacity development in project countries was not well integrated into plans. Nor was the ADB entirely successful in its operational capacity. Success rates of ADB projects fell below the 80 per cent target, while project performance declined due to insufficient staffing, more rigorous monitoring and weak capacity of agencies carrying out the plan.

The World Bank has also faced declining approval ratings due to weak economic and financial design and analysis, overambitious objectives, declining quality of project supervision, poor results frameworks and unrealistic views of country capabilities.[34] Approval is especially low in Africa. These issues reflect a downward trend in approval starting from before the global crisis. Efforts to improve project selectivity have been unsuccessful, due to use of poorly articulated results chains.[35] Projects have faced high risks stemming from financial and institutional weakness. Quality at entry is a key factor determining project success.

The AIIB should take into account lessons gleaned from operation of the ADB and the World Bank. The World Bank's losses incurred in the Debt Initiative for Heavily Indebted Poor Countries (HIPC) are particularly informative. Consultation with experts, including independent institutional evaluators, can also help the AIIB to shape its project selection and management program. Entry, risk mitigation, monitoring and evaluation design and design of objectives and results frameworks are essential components of a complete program.

In order to ensure positive outcomes, proper debt monitoring tools are essential. The World Bank has established a method to assess debt in project countries via the Debt Management Performance Assessment Methodology, developed in 2007–2008. Indicators from five core areas are provided, including governance and strategy development, coordination with macroeconomic policies, borrowing and related financing activities, cash flow financing and cash balance management, and debt recording and operational risk management. This programme incorporates some elements of the Public Expenditure and Financial Accountability Assessment, and is designed to assess the strengths and weaknesses of government debt management practices.

Conclusion

The AIIB holds promise for filling the infrastructure gap in Asia. The multilateral institution plans to cooperate in part with existing entities such as the World Bank and ADB. This practice will help the AIIB to get off the ground.

Lessons learned from other development institutions can help to improve the structure of the AIIB, especially since infrastructure investment requires extensive planning, risk mitigation and ideally, experience. Once the AIIB is fully staffed, with some collective experience, PPPs may present another alternative for the bank. Along the way, financial structure will depend on the projected internal rate of returns and economic returns.

Notes

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Part II

5 OBOR and the dawn of a new era in Sino-Saudi ties

Sean Foley

On the morning of 3 March 2016, Dr Mohammed Saleh A. Almadi came to the lectern to deliver a speech on energy security to the Sixth Asian Security Conference in Goa, India. Since 2014, the seasoned Saudi business executive and diplomat has served as his country's governor to the Organization of Petroleum Exporting Countries (OPEC). Before his appointment to serve in this position, Almadi had worked for over 20 years for Aramco, Saudi Arabia's state oil company, and its subsidiaries.

From the start, Almadi asked his audience to consider the proper definition of energy security and whether it still mattered in an age when technological change had dramatically increased the quantity of oil and gas supplies available to the world. He also asked his audience to ponder what geopolitical forces shape energy security and whether the core assumptions they have about it are accurate. Is energy security, he asked, really about powerful countries competing for ever scarcer supplies of resources and an inevitable source of conflict for the world community? Furthermore, is it accurate, he asked, for oil-importing nations to view themselves as fundamentally dependent on and vulnerable to the goals of energy exporting nations? Does it make sense, he concluded, to think of energy security primarily in a framework that stresses risks and fears?[1]

According to Almadi, this traditional vision of energy security and its guiding assumption that consumers and producers of energy have diametrically opposed interests makes little sense in 2016. In reality, he argued, world energy security is a "two-way street" because global energy markets have created common interests and interdependence among both energy producers and consumers. Consumers and producers around the world, he observed, have legitimate needs that, in reality, complement one another. While energy importing nations require predicable supplies of oil and gas from multiple sources to fuel and grow their economies, energy-rich nations depend on oil and gas exports to fuel their economies and to recoup the their investments in energy infrastructure. These investments, he added, are critical, for they form the backbone of world oil markets and allow his country, Saudi Arabia, to keep a portion of its oil supplies in reserve and ready to be deployed in the case of a crisis or a serious disruption in global energy markets.[2]

Within this global framework, Almadi contended, energy consumers and producers should not think of energy security in narrow national terms or as a type of zero-sum game. Instead, he called on national leaders to see energy security as part of the fabric linking the world together and the byproduct of "the relations between nations".[3] In the long run, he favoured a "holistic" approach to energy security in which countries cooperated across international boundaries and the legitimate core interests of energy consumers and producers were protected.[4] In other words, Almadi called on countries to put aside narrow national interests and fears in favour of a system that took into account the conflicting interests of energy consumers and producers.

There is no question that Almadi's speech was an official defence of Saudi oil policies in a conference dominated by scholars who focus on the needs of India and other energy importing nations – a point the Saudi diplomat hinted at when he joked during his speech that "he had felt lonely at the conference because he was the only speaker from an oil exporter".[5] "Nonetheless, he was very happy", he continued over the laughter of the audience, "to be at the conference and to share his views among friends".[6]

Although Almadi mostly spoke in generalities, his argument echoed the cultural norms used in his country and, remarkably, used by China – a country whose history, culture, social system, and development model could not be more different than Saudi Arabia. In particular, Almadi's approach revolved around a concept, "holistic", that is a synonym for "harmony". That word is one that (a) Saudis often use to address irreconcilable disputes between groups in their society (such as the old and the young), and (b) is a pillar of traditional Chinese culture and Beijing's approach to international relations in the twenty-first century. Indeed, senior Chinese officials have used the term in major policy addresses around the world, including those discussing the "One Belt, One Road Initiative" (or OBOR) – Beijing's initiative to build land and sea routes across Eurasia and to invest in the region's economies.

Almadi of course is intimately familiar with China, for he lived in Asia from 2007 until 2014, mostly in China.[7] That experience set him apart from virtually all of his colleagues in Aramco and in Saudi society, whose education and professional experience abroad is mainly in the United States. During Almadi's time in China, the Saudi diplomat became fluent in Mandarin and earned a doctorate from The China University of Petroleum, a leading educational institution for Chinese professionals entering the energy industry.[8] Notably, Almadi's appointment to serve as Saudi Arabia's OPEC governor closely coincided with the announcement of OBOR.

This chapter explores the evolving relationship between China and Saudi Arabia in the twenty-first century and the cultural and strategic implications of Almadi's speech. For much of the past 15 years, that relationship has been understood in commercial terms, with most scholarly studies focusing on the energy trade between the two states.[9] By contrast, this chapter argues that Sino-Saudi ties now deserve an alternative approach. While it recognizes the key role of energy in the bilateral relationship, it argues that the two nations' ties in future years will be defined by three additional factors that are yet to be fully explored in the scholarly literature: cultural and historical ties between China and Saudi Arabia and the emerging framework of the OBOR.

When the late King Abdullah formally ascended to the throne of Saudi Arabia in 2005, he presided over the "Look East" foreign policy, which recognized that the Kingdom's commercial and even strategic interests were increasingly moving eastward. Throughout the first decade of the twenty-first century, Saudi exports to Asia's large economies grew, especially with China. Saudi–Chinese trade alone rose from $1.8 billion in 1999 to $70.2 billion in 2012.[10] Indeed, by the time Mohammed Saleh A. Almadi moved to Asia in 2007, Saudi Arabia had become China's largest trading partner in the Middle East.[11]

Nowhere were Saudi and Chinese strategic interests more closely aligned than in Southeast Asia. The region boasts (a) large populations of both Muslims and overseas Chinese, and (b) large and rapidly growing export markets for both Riyadh and Beijing. The region also includes the Straits of Malacca, the 805-kilometre (500 mile) waterway that is the principal link between the Indian Ocean and the Pacific Ocean. Over the last decade, the waterway has become almost as important to Saudi Arabia as the Straits of Hormuz, which links the Persian Gulf to the Indian Ocean, since there is no practical way yet to ship petroleum by pipeline from the Middle East to Asia and other sea routes are impractical. In 2014, the US Energy Information Administration estimated that 27 per cent of all global seaborne oil trade in 2013 was transported on ships using the Straits of Malacca.[12]

For China, the waterway is equally critical to its economy, for it offers the only viable way to transport its goods to its largest trading partner, the European Union,[13] and to emerging markets in Africa, the Middle East and South Asia.[14] By the middle of the 2000s, as much as 80 per cent of all Chinese oil imports crossed the Straits.[15] The linkage between energy, the Straits of Malacca, and US military power in the region troubled some Chinese over the last 15 years. In their eyes, the Straits have become "China's lifeline of economic development", and the challenge of keeping them and other waterways secure from blockade by the United States or any other foreign power is called China's "Malacca Dilemma".[16] A Chinese analyst went so far as to declare, "Whoever controls the Straits of Malacca … effectively grips China's strategic energy passage, and can threaten China's energy security at any time".[17]

That threat has in part driven a significant shift in Chinese foreign policy, especially under President Xi Jinping. He has sought to improve ties with Indian Ocean and Southeast Asian nations, build a strong Chinese navy, and, above all, to create Chinese-dominated sea and land versions of the old Silk Road.[18] The project, known as the OBOR, envisions linking China with countries in Asia and Western Europe, including Saudi Arabia, through a network of pipelines, ports, railways, and roads.[19] Plans for these networks envision utilizing existing transportation routes as well as Chinese-built ones in Central Asia and along the Indian Ocean.

In describing OBOR, President Xi has frequently invoked the exploits of Zheng He,[20] the Muslim Chinese admiral who led naval expeditions from 1405 to 1433 throughout Southeast Asia and the Indian Ocean, including to the Straits of Malacca and to Yemen and Jeddah.[21] This type of rhetoric has even shaped some Chinese advertising, such as this sign for Export–Import Bank of China, which features a romantic picture of a camel caravan traversing the Silk Road in Central Asia superimposed over the ships from the legendary admiral's fleet.

Critically, the President's rhetoric and the Export–Import Bank's ad build on the words of Deng Xiaoping, who liked to cite the admiral as an historical model for his "Three Steps of Development": (a) opening to the world, (b) developing the nation, and (c) becoming the dominant economic power in the world by 2050. Often referring to himself as the "Second Zheng He", the Chinese leader argued that his nation's decision to close its economy in the fifteenth century had been a catastrophic mistake that had led to China's decline in the modern era.[22] Indeed, the admiral was hailed during this era as a "national hero who embodied China's open spirit".[23]

Initially, Saudi Arabia played only a peripheral role in fulfilling Deng's and his successors' vision for China. There were no formal diplomatic relations between the Kingdom and China until 1990, and Chinese–Saudi ties were limited to occasional military sales.[24] But ties improved substantially after China became a large oil-importing nation in the 1990s. Saudi Arabia's King Abdullah visited China in 2006, while China's President Hu visited Saudi Arabia in 2006 and 2009. During this period, the Saudi Basic Industries Corporation and the Saudi Aramco Overseas Company made massive investments in China's petroleum and petrochemical industries, while the Saudi Arabian General Investment Authority and Saudi Arabian Airlines both established a substantial presence in China.[25] While Chinese investment in Saudi Arabia remained relatively modest overall, at approximately $400 million,[26] Chinese state-owned firms won important contracts. In 2009, for instance, China Railway Engineering, a state-owned holding company, was awarded a $1.8 billion contract to build the high-speed Mecca railway connecting Mecca and Medina.[27] From 2007 to 2015, Wengfu Enterprises, a Chinese state-owned engineering firm, signed contracts worth over $550 million in Saudi Arabia, including one for the largest mineral processing project in the world at the time.[28]

In November 2010, Chinese and Saudi businessmen unveiled a privately funded and ambitious plan to improve bilateral ties: the first of three Chinese malls in Saudi Arabia. Called China Mart, the $80 million, 100,000 square-metre (1,076,391 square feet) mall was situated in a busy intersection of a rapidly developing neighbourhood adjacent to Exit 5 of the Northern Ring Road.[29]

When the mall opened, it featured a large Chinese restaurant and 250 shops, which featured Chinese-made products from a variety of manufacturing sectors. English, Chinese, and Arabic all appeared on signage. The mall appeared to be the symbol of a new age of Western decline and Chinese ascendancy. In fact, a reader of the *Saudi Gazette*'s story about the opening of China Mart summed up the public mood in the Kingdom when he wrote online on 1 November 2010, that China "is silently conquering the world through its economic clout; goodbye to the former economic powers USA & Japan".[30]

The hopes of the developers and reader, however, were soon dashed. Despite a consumer-spending boom,[31] China Mart remained empty most days of the week after it opened, with the notable exception of the French chain Carrefour and the government benefits office. The mall's food court and its special Chinese restaurant closed in fall 2013. The rows of shops carrying Chinese-made products closed or moved soon afterwards. The enormous sign on the side of building advertising the mall and visible from a busy highway was removed in late January 2014.

By contrast, the mega-malls that carry Western-branded products remained filled. In IKEA and other home-furnishing stores in the Kingdom, most of the cityscape pictures for homes show New York City. A visitor would be hard-pressed to find a picture from a comparable Asian city. There are nowhere near the numbers of Chinese nationals in Riyadh and other Saudi cities as there are in Dubai.[32] Furthermore, one of the largest McDonald's franchise in the world is located in Saudi Arabia: the Riyadh Catering Company.[33] The success of these businesses pointed to a key reality that the planners of China Mart had not built into their business model. For Saudis, the contemporary world and advanced technology (what could be called "modernity"), at least in 2013 and 2014, was still understood through an American English-language prism, and they did not see Chinese-branded products as comparable to Western ones.[34]

While one could almost talk of a post-colonial relationship between the two nations, the reality is far more complicated, since Saudis had freely chosen for decades to continue to work with American culture, products, and technology, showing little interest in adopting competing visions of modernity. When Dr Haya Bint Abdul Aziz al-Awad, an undersecretary in the Saudi Ministry of Education, was interviewed on 5 November 2013, she made clear that (a) English is the only foreign language taught in Saudi secondary schools, (b) there are no plans to add any other languages to the curriculum, and (c) many of the Kingdom's secondary and post-secondary schools depend on lesson plans designed by American and European education companies. Indeed, an English textbook used in Saudi high schools in recent years, *Traveler 3*, features a picture on its cover of the Ka'aba, but through the passenger window of a modern commercial airliner – a clear impossibility in a city without an airport. In 2014, more than 100,000 Saudis studied English and earned undergraduate and graduate degrees in the United States – far more than study in any other country, including in China.[35]

Although one can find McDonald's and other signature American companies in societies as different as China and Russia, it is the prevalence and depth of American cultural influence in the Kingdom that truly sets the country apart. The presence of English and American culture, at least in the twenty-first century, is hardly an elite phenomenon but a *mass* one in a society that is now overwhelmingly urban and literate.[36] Youth literacy in Saudi Arabia is near 100 per cent.[37] It should come as no surprise that when Saudi comedian Hisham Fageeh and his colleagues at the Saudi media company Telfaz11 produced a video, in 2013, parodying the ban on women driving, "No Woman, No Drive", they drew on

Bob Marley's classic "No Woman, No Cry" – a song sung in English that Fageeh learned in the United States.[38] Notably, the video, in which Fageeh and his colleagues appear in Saudi male clothing and clearly address a Saudi audience, is entirely in English with Arabic subtitles.

In an unusually candid conversation in the summer of 2014, a Chinese scholar of world affairs explained to me that the failure of China Mart should not have surprised anyone, for "Saudis prefer the American lifestyle".

However, the potential dangers of (a) preferring the "American lifestyle" and (b) of lacking political and geographic links with China became clear to the Saudis during the Arab Spring, which erupted only a few weeks after China Mart opened. Of the different conflicts that started in late 2010 and spring 2011, Syria would prove to be the most important, for there are over a million Syrian citizens in Saudi Arabia and deep cultural, religious, and tribal ties between Saudis and Syrians. Many Saudis saw the conflict there through the prism of sectarianism and their regional competition with Iran. Individual Saudi citizens gave generously to the Syrian opposition and thousands of Saudis travelled to the country.[39] Saudi officials responded to this outpouring of public support for the rebels by providing assistance to Syrian citizens in the Kingdom and cooperating with Qatar and other states that sought to sway the Syrian opposition.[40]

One of those states should have been the United States, Saudi Arabia's long-time strategic partner. But the Obama administration sought to balance its alliance with Saudi Arabia and the goal of toppling Syria's government with a seemingly contradictory goal: reaching an agreement with Syria's ally, Iran, on its use of nuclear power. Shortly after entering office in 2009, the administration sought to reach an agreement with Iran in cooperation with a group of international powers, including China – over Riyadh's vocal objections.[41] In fall 2013, Washington forged an interim agreement with Tehran, news that brought a sense of resignation in Saudi Arabia. In January 2014, a Shi'a Saudi pointedly asked the author: "Why are you Americans forcing us to kiss the ass of the Iranians again like we did in the days of the Shah?"

While Riyadh and Washington eventually found common cause in opposing the Islamic State when it emerged during the summer of 2014,[42] Saudis had reason to wonder about the value of their "special relationship" with Washington. After all, President Obama had paid no political price for reneging on his "red line" to attack the Syrian government if there was evidence that it had use chemical weapons – a public commitment akin to those previously made by US officials to defend the Kingdom. Would a future American president also vacillate in a crisis involving Saudi security, passing responsibility for making a life-or-death decision to a feckless US Congress? Indeed, it had not gone unnoticed in the Kingdom that, in an August 2013 *New York Times* column on Obama's choices in Syria, the foreign affairs columnist Thomas Friedman had chosen to cite Phillip Verleger's argument that the Middle East was now "China's problem".[43]

Riyadh's security, however, looked even more perilous in the Middle East order envisioned by Verleger. Beijing already had a series of pre-existing links in the region, including with states that opposed Riyadh's interests. We can get a good idea of those priorities and why they clashed with Riyadh's by consulting the proposed maps for the OBOR. While there are no stops shown for Saudi Arabia, there are stops in two nearby states, Turkey and Iran, both of which offer China large markets and unique geostrategic assistance without being tied to the United States, as Saudi Arabia is.[44] Washington, of course, has had virtually no influence in Iran since 1979, but since the invasion of Iraq in 2003 and the failed coup in July 2016, its influence has also declined precipitously in Turkey.[45]

From Beijing's perspective, the Turks can significantly assist China's foreign and domestic policies in two ways. While China and Turkey have had opposing positions in the Syrian civil war, their trade and military ties have increased, thanks to Turkey's booming economy and Turkey's geographic position and cultural assets. The country that is famously in Asia and Europe has close political ties to (a) the peoples whose states are critical to the land route of OBOR and to (b) the Uyghur people, a Muslim people in China's Western Xinjiang region. By contrast, Saudi Arabia enjoys only limited influence in Central Asia and has only some influence among China's conservative Muslims.[46]

Iran's geographic position is as useful to Beijing as Turkey's, for Iran is the only state in the Middle East that can potentially export oil and gas to China entirely by land, without having to transit the Straits of Hormuz, the Indian Ocean, or the Straits of Malacca. This is true because both China and Iran share a common neighbour, Pakistan, which could serve as a land bridge between them. This geography erases the advantages that Saudi Arabia accrues from having far lower costs of production than Iran. Furthermore, Iran has a cultural advantage over Saudi Arabia in its dealings with China because Tehran, unlike Riyadh, has long had a wall of hostility towards the West, thanks to its many officials who want nothing to do with the American lifestyle.[47]

At the same time, China's alliance with Iran also compelled Beijing to pursue policies in the Arab world that clashed with what Riyadh has defined as its core strategic interests. After Tehran made clear that the fall of the government in Damascus was an existential threat meriting its full support, Beijing, along with Russia, repeatedly opposed United Nations resolutions authorizing the use of Western force in Syria to support the rebels akin to what had been authorized in Libya in 2011. In 2016, the Chinese military agreed to provide aid and training assistance to the Syrian government.[48] For China, the Syrian civil war is also an internal matter, and it sees foreign intervention in the country against its existing government as a direct threat to state sovereignty: a key principle of Chinese diplomacy. In addition, Beijing worried that the Civil War in Syria could radicalize its Muslim citizens – just as wars in Afghanistan, Bosnia, and Chechnya had radicalized earlier generations of Chinese Muslims.[49]

The events in Syria, however, paled in comparison to how Beijing's actions and alliances constrained Riyadh's military options in Yemen. In spring of that year, the Houthis, who were closely allied with Iran and had fought a war with the Saudis in 2009,[50] seized Yemen and forced Yemeni President Hadi into exile.

Fearful that Iran would gain a base along its Southern border with Yemen, where a quarter of the Kingdom's population now lives, Riyadh responded with overwhelming force. In cooperation with a large military coalition of Muslim and Western states, including the United States, the Saudis began "Operation Decisive Storm", bombarding Houthi targets in Yemen.[51]

One nation that did not join the Saudi coalition was China. Citing the "Kingdom's current preoccupations" in Yemen,[52] President Xi announced on 1 April 2015, that the time was not right to visit the Kingdom and said that he would postpone his visit that month to Egypt and Saudi Arabia.[53] For Beijing, postponing that trip removed any possibility that China could be seen as supporting "Operation Decisive Storm", which challenges state sovereignty, a core principle of Chinese foreign policy.

The importance of the decision to postpone President Xi's trip became apparent a week later, when Pakistan's parliament debated a draft resolution to provide aircraft, ships, and troops to aid Operation Decisive Storm, assistance for which there were several precedents. For instance, in 1991, during the First Gulf War, Pakistan had deployed two brigades to Saudi Arabia.[54] In 2015, Riyadh was anxious to deploy Pakistani ground troops in order to supplement the coalition's air operations, which had failed to stop Houthi military advances.[55] But members of the Pakistani parliament expressed discomfort with the Saudi war in Yemen, stating that the proposed Pakistani intervention would heighten sectarian tensions at home.[56] An editorial in *The Express Tribune*, a leading English-language newspaper in Pakistan, expressed a common sentiment in the country: "Pakistan is not Saudi Arabia's handmaiden, doing its bidding at the flick of a wrist".[57]

After several days of heated debate, Pakistan's parliament voted unanimously to support a resolution which stated that their country "should remain neutral in the war in Yemen", but would send assistance if the Kingdom's holy sites were threatened. Sharif, who could have ignored the resolution, accepted it, not wishing to contradict Pakistani public opinion or appear to be beholden to Saudi Arabia. With the recent shift in Pakistan's interests, the Iranian nuclear deal, and the rise of the OBOR, there was too much at stake for Islamabad to adopt a position that was at odds with Beijing and Tehran.

As damaging as Pakistan's alignment with China and Iran appeared to be for Saudi Arabia, it would have been far less significant had Egypt heeded the Kingdom's request to deploy its ground forces in Yemen. Many of the same factors that applied to Pakistan also applied to Egypt, and help to explain why Cairo refused to deploy ground troops in Yemen, although it already had air and naval forces fighting there. That response came as a surprise to the Saudis, since Egyptian President Sisi had expressed his unease in 2015 with Iran's growing influence in the Arab world. A year earlier he made clear that "Iran is well aware that the relationship with Egypt goes through the Arabian [Persian] Gulf. They are our family and we are keen on seeing them live in peace".[58] Furthermore, since the removal of President Morsi from office in 2013, Saudi Arabia had provided significant financial assistance to Cairo.[59]

However, Sisi had reason to show that, like Sharif, he was not beholden to Saudi Arabia. Of course, many Egyptians also hoped to benefit from greater commercial ties with China, and Sisi had forged especially warm ties with his Chinese counterpart in multiple meetings since taking office in 2014.[60] There were good financial reasons for these closer political ties, for Egypt and its canal are critical components to the OBOR. The Egyptians had also not forgotten their long war in the 1960s in Yemen.[61] In addition, they saw themselves as at least the equal of Pakistanis, who had demurred. Ironically, despite the massive Saudi financial aid to Egypt and the close relationship with that nation, Sisi had to act against Riyadh's wishes in Yemen.

The decisions in Islamabad and Cairo had significant consequences for Riyadh. Without Egyptian or Pakistani soldiers, Saudi Arabia lacked sufficient ground forces to defeat the Houthis in Yemen or secure its Southern border. Making matters even worse was the fact the Houthis had also adopted tactics that had worked for Hezbollah in its 2006 war against Israel, repeatedly shelling Saudi border cities to impact daily life there.[62] Those attacks killed soldiers and civilians alike. The wife of a business leader in a city on the Yemeni border wrote on Instagram, "Najran is suffering now 💣 💣 ☹.... But it will remain strong". Indeed, there was no clear end in sight for the war – thanks in large part to geography and China and its commitments to Iran, Saudi Arabia's chief rival in the Middle East.

Geography and China's ties to another Saudi rival, Russia, also hampered Riyadh's attempts to prevent other nations from eating into Saudi Arabia's market share in China, the Kingdom's largest customer for oil – just as the global oil market collapsed in 2014 and 2015. At that time, Beijing, for the first time, had permitted small private oil refiners known as "teapots" to purchase petroleum from foreign suppliers as part of a reform programme meant to make the domestic energy market and the vast state conglomerates that dominate it more efficient. While Aramco eschewed the teapots as unreliable and worked only with the state conglomerates, Russia sold its oil to the conglomerates and to the small refiners.[63] Remarkably, Russia, which had sold about half as much oil in China as Saudi Arabia did in December 2013, sold nearly as much oil as its Middle East rival did by the end of 2014.[64]

Further weakening the Saudi position vis-à-vis Russia in the Chinese energy markets was Aramco's insistence that it be paid only in US dollars for its oil after Russian oil companies agreed to accept payments for oil in Chinese Renminbi (RMB). The decision to accept RMB represented a "breakthrough in the Sino-Russian energy relationship – in Beijing's favor",[65] for Chinese buyers prefer to pay for oil in RMB, a form of payment that is far less attractive than US dollars, since it is not fully convertible.[66] The Russian decision to accept RMB as payment also reflected Moscow's desire to (a) find new markets for its oil after Western sanctions and the crisis in Ukraine closed ones in Europe; (b) deepen Russia's burgeoning strategic partnership with China; and (c) take advantage of the OBOR and the pipelines connecting Russia's Siberian oil fields to China.[67] By contrast, the only way to get oil from

Saudi Arabia to China was by ship – a trip that took upwards of three weeks or more by 2016.[68]

By that time, it was clear to the Kingdom's senior leaders that they could not meet their goals in either the Middle East or in global oil markets without a new relationship with China – even if it came at the expense of their strategic alliance with the United States. Fortunately, Saudi policy was already starting to prioritize diplomatic ties with Beijing and to find ways to link its own development goals with OBOR. While Turkish officials and Ahmed al-Tayeb, the grand imam of Al-Azhar in Egypt, expressed concerns over reports in June 2015 that Beijing was preventing Uighur Muslims from fasting during Ramadan,[69] Saudi officials made no public statement. By contrast, "when Uyghur extremists targeted an open-air market killing dozens in May 2014, the Saudi government issued a statement condemning the 'criminal attack' and framed it within its broader condemnation of all 'terrorist' attacks".[70]

As already noted, in 2014, Almadi, who speaks Mandarin fluently, was appointed a Saudi governor to OPEC, a key Saudi diplomatic post. A year later Riyadh become one of the founding member states of the Beijing-backed Asian Infrastructure Investment Bank (AIIB), an institution which is seen as crucial to the success of the OBOR's development goals.[71] For its part, Washington viewed the AIIB as a threat to US power and to the effectiveness of the World Bank and had lobbied Saudi Arabia and other long-term allies to refrain from joining.[72]

Beijing noticed these shifts, and in January 2016 announced that President Xi would take the trip to the Middle East that had been postponed in April 2015 – even though the war continued in Yemen. The trip, which was the first to the region by a Chinese president since 2009, occurred just weeks after the Saudi government had executed a prominent Saudi Shi'a cleric and a serious crisis had erupted between Riyadh and Tehran. But in a sign of how much Sino-Saudi ties had improved since March 2015, Beijing announced that the Chinese president's trip would start from Riyadh instead of Tehran "in order to balance" "the tense situation" between Saudi Arabia and Iran.[73] Beijing's message to the Middle East was crystal clear: China felt that it had to take Saudi Arabia's views into account when determining its policies in the region.

Upon his arrival in the Kingdom, President Xi published a letter in *Al-Riyadh*, a large Saudi newspaper, which further clarified how much had changed since March. He lauded Saudi Arabia as a "brotherly state"[74] of China that had provided generous assistance to the victims of the 2008 Wenchuan earthquake.[75] He detailed the long historical linkages between China and the people of Saudi Arabia, including Zheng He, who "travelled to Jeddah, Mecca and Medina" and "had described the cities as paradises where people enjoyed peace and harmony".[76] In addition, the Chinese president observed that bilateral trade had grown 230 per cent since 1990 and "one in six barrels of crude oil China imports comes from Saudi Arabia, and one out of every seven Riyal Saudi Arabia earns from its exports comes from China".[77] In addition, he signalled that Beijing believed that the country could play a pivotal role in the OBOR: "We hope and trust that Saudi Arabia, located at the West crossroads of the [‘One Belt and One Road’] initiative, will become an important participant of, contributor to and beneficiary of this initiative”.[78] Indeed, China saw Saudi Arabia as a “strategic partner” and he urged both countries to seize the opportunity to strengthen relations.[79]

During the visit, President Xi signed a number of joint agreements with Saudi Arabia’s King Salman and received the King Abdulaziz Medal, the Kingdom’s highest civilian award.[80] The two leaders also pushed a button in Riyadh to remotely start a $10 billion new oil refinery project on the Kingdom’s Red Sea coast that is jointly owned by Aramco and Sinopec, a Chinese state energy conglomerate.[81] By itself, the refinery investment will greatly increase Chinese investments in the Kingdom, which the US State Department valued at $9.035 billion in 2016.[82] Already, there are 160 Chinese private and state-owned companies operating in railways, construction, ports, power plants and telecommunications in the Kingdom.[83]

Shortly after President Xi’s meeting with King Salman, China and Saudi Arabia released a statement expressing support “for the unity, independence and sovereignty of Yemen” along with “the legitimate regime of Yemen”.[84] Remarkably, when asked if the statement signalled that China was now siding with Saudi Arabia in the dispute over Yemen, the Chinese foreign ministry spokesman, Hong Lei said “China had always acted in the interests of the Yemeni people and maintaining peace in the Middle East, and had promoted peace talks”.[85] “(We) hope clashes in Yemen can come to an end soon”, he added “and there can be reconciliation so the country can return to stability”.[86]

In the months that followed President Xi’s visit to Riyadh, the strategic relationship between Beijing and Riyadh continued to blossom, as the one between Washington and Riyadh seemingly grew worse. In spring 2016, Riyadh threatened to sell $750 billion in US treasury bonds if the US Congress declassified a secret report on the 11 September 2001 terrorist attacks.[87] Riyadh also substantially cut the number of scholarships available for its students to study in the United States, encouraging them to study at domestic universities.[88] Even in global oil markets, an arena in which there has long been close US–Saudi cooperation in the past, there was little common ground, for Saudi Arabia kept its production high to drive the US fracking industry out of business.[89] The strategy looked to be succeeding in spring 2016, dashing the hopes of US leaders that America could finally attain the elusive goal of self-sufficiency in national oil production.[90]

By contrast, Saudi Arabia adjusted its business operations to better meet the national goals of the Chinese government, both at home and abroad. In May 2016, Aramco sold oil to Chambroad Petrochemical, a Chinese teapot refiner[91] – “a move described by Citibank analysts as ‘dramatic’ ”.[92] Following the historic sale, Aramco officials said that they hoped to make more sales to teapot refineries.[93] The company also announced that it would cut Saudi oil prices to respond to Iranian, Iraqi, and Russian competition.[94] All of these actions were of course consistent with Beijing’s goals to deregulate the Chinese energy market and ultimately to dramatically reduce the cost of oil and gas in the country. Indeed, this "synthesis" of Saudi and Chinese goals is a good example of the win/win or "holistic" approach that Almadi highlighted in his speech on energy security.

Riyadh also signalled that it supported China's policies in areas that had little to do with energy or trade. Just as President Xi, in January 2016, had voiced support for Riyadh's goals in Yemen, Saudi officials gave their support to China's most important foreign policy objective – namely, winning global support to its claims in the South China Sea. As US warships challenged China's legal claims to the South China Sea and Washington pushed Southeast Asian nations to resist Beijing's actions in the region.[95] Saudi diplomats welcomed "China's adherence to peaceful means in settling disputes concerning the South China Sea".[96] In a major global dispute involving Beijing and Washington, Riyadh had signalled that it did not feel compelled to automatically back the US position.

The Saudi "tilt" towards China extends to major economic decisions as well. When Aramco, in April 2016, announced that it would soon sell 5 per cent of the company (worth as much as $2 trillion) there were reports that the initial public offering (IPO) would be held in three cities, two in the West, New York and London, along with one in China, Hong Kong.[97] The IPO generated headlines around the world and is a pillar of Vision 2030, the sweeping Saudi reform programme announced in April 2016 by Prince Muhammad bin Salman, the Deputy Crown Prince.[98] He has assumed a prominent public profile since his father became king in January 2015 and has come to overshadow Crown Prince Muhammad bin Nayef.[99]

The goal of 2030 is simple yet profound – namely, to replace Saudi Arabia's basic economic model in which oil exports define everything. The model, which has been in place since World War II, had institutionalized deep cultural and political ties with the United States and a cyclical pattern of government expenditure, in which spending increased when oil prices were high and rapidly decreased when oil prices were low. It has created an urban landscape that physically resembles post-war US cities and a society that depends on generous government subsidies. In remarks introducing Vision 2030, Prince Muhammad bin Salman addressed the cyclical nature of state spending under the current system and the danger it poses to the country: "We have developed a case of oil addiction in Saudi Arabia".[100] In the future, the Prince continued, "we will not allow our country ever to be at the mercy of commodity price volatility or external markets".[101]

To reach this goal, Vision 2030 calls for curtailing subsidies and a series of new economic reforms, many of which are consistent with the goals of Beijing and disadvantage Washington. Among the most important are transferring shares from Aramco's IPO to the Public Investment Fund (PIF), the Kingdom's sovereign wealth fund.[102] Those shares will make the PIF the largest of its kind in the world and provide it with the resources to meet two of its mandates.[103] Not only will the PIF invest in China and other high-growth foreign markets, but the

Saudi fund will also build new transportation infrastructure at home that could be easily integrated into the OBOR. In addition, the PIF will invest in new advanced manufacturing in the Kingdom, including the sophisticated military gear and fighter-jet aircraft that is overwhelmingly imported from the United States.[104] For decades, these imports have been a key component of Riyadh's strategic partnership with Washington.

Notably, Vision 2030 envisions Saudis replacing foreign workers in an expanding service industry. One of the new service industries envisioned by the plan, culture and entertainment, is another area that is likely to become a key component of an expanding relationship between China and Saudi Arabia.[105] Although public movie theatres are banned and conservative religious norms have wide support in the Kingdom, a dynamic artistic movement has emerged and become a tool to discuss controversial issues impacting Saudi society.[106]

A hallmark of this movement is pieces that use contradictory and jarring images, forcing viewers to create the deep connections at which the artist only hints. We are dealing here with collage, certainly, but it is collage that becomes a form of collision and finally an unexpected harmony. These works are in a certain sense chordal-functioning as a chord does in music. Various elements, harmonious and dissonant, are all present and in touch with one another. They exist as a fundamental, culture-defining question. What does it mean to be Saudi? What does it mean to have all these elements in simultaneous, conscious insistence?

This approach to producing art consciously rejects the Western conceptions of the artist as a God-like individual who singularly creates new culture and shares it with the world in an art show. It also rejects a central tenant of Western thought – namely, that harmony requires uniformity of meaning – and builds on the central institution of Saudi society, the *Majlis*, in which Saudis of different viewpoints gather for extended periods. Within this framework, improvements can occur, but the tensions between the many oppositional forces cannot be humanly resolved. As is stated in the Quran, "Had Allah willed, He would have made you one nation" (5:48).

This principle, ironically, lends itself well to Chinese culture, especially Confucianism. Confucius' teachings provide a clear warning against imposing a singular political and social vision across society. Instead, his lessons stress that harmony arises out of a society of many voices, an image that suggests a group of musical instruments playing together in harmony. Indeed, the Chinese philosopher observes in the Analects that "the gentleman seeks harmony, not sameness; the petty person seeks sameness not harmony" (13:23).[107]

In July 2013 Jeddah's Al-Athr gallery hosted "Strokes in Dialogue", an art show featuring the works of Wang Dongling, China's greatest living calligrapher, and Samir Sayegh, a leading Arab calligrapher.[108] The gallery's directors, who are driving forces in the Saudi artistic movement, hoped the show would allow viewers to compare and contrast the two artists' works and how the two societies, both of which have a special reverence for calligraphy, approach the ancient art form. In particular, the show's organizers wanted viewers to see how the two artists approach calligraphy as a "kind of meditative prayer, and consider it as a spiritual pursuit of the divine".[109]

On the show's opening night, a large crowd of Saudis and expatriates gathered at the gallery to see the two artists draw individual works and to do a collaborative performance. There were local print and television journalists and a representative of the US Consul General in Jeddah. The audience, which included both men and women, loved seeing Wang create a new piece on a large canvas on the floor as well as the two artists collaborate on a piece harmonizing Arabic and Chinese calligraphy. After the joint performance, there was a question and answer session, much of it in English, in which a British friend of Wang's served as the interpreter for the Chinese calligrapher.

The use of English in the question and answer session, however, pointed to the central place of Anglo-American language and culture in an evening dedicated to connecting Chinese and Arab cultures. It is worth noting that Wang's interpreter was British, and there was no translation into Mandarin provided for Sayegh's comments, many of which were in Arabic. Although there is a Chinese Consulate General in Jeddah and a growing community of Chinese citizens in the Red Sea city, there were no Chinese diplomats at the show's opening night and only one or two people of Asian ancestry. Had more Chinese shown up that night, they would have been disappointed by the show's catalog, which was written in Arabic and English. The only printed Chinese characters were on the cover of the book.

The central role of English and Anglo-American culture in the opening night of "Strokes of Dialogue" brings into stark relief the cultural limitations of the burgeoning relationship between China and Saudi Arabia. While there are over 40 Chinese universities that teach Arabic,[110] there are few opportunities to study Mandarin in Saudi universities, where many subjects are taught in English.[111] Even after the reductions in Saudi students in the United States, there are 60,000 Saudis studying in the United States in 2016.[112] By contrast, Saudi Arabia has only sent between 1,400 and 1,600 students to study in China since 2006.[113] Moreover, the growing number of Chinese in the Kingdom is outnumbered by expatriates from Asian and Western nations who speak English as their primary language. It should come as no surprise that there is no Chinese equivalent of either *The Arab News* or *The Saudi Gazette*, the mass circulation daily English-language newspapers in Saudi Arabia.

The cultural dominance of English and the US is matched by the centrality of oil in the economy and the importance of the political and military ties with Washington. While Saudi non-oil industries are increasingly profitable, oil remains the dominant force in the country's economy, and that is unlikely to change soon. Despite Vision 2030's promise to build advanced weapons in the Kingdom, Riyadh, in August 2016, purchased $1.15 billion in tanks and other armored equipment.[114] At the same time, Riyadh did not sell its US treasury bonds after the classified report on the 11 September 2001 terrorist attack was made public by Congress. Ultimately, the arms sales and the failure to sell the

US treasuries suggest that Riyadh believes that it is likely to need Washington to guarantee the Kingdom's security for the foreseeable future.

For Beijing, the continued strength of the US–Saudi strategic alliance and the old order in the Kingdom benefits Chinese interests and its own bilateral ties with Riyadh – at least in 2016.

While China depends on the free flow of oil from Middle Eastern states, including Saudi Arabia, Beijing lacks the military capability to project power on its own into the region. Nor can it today guarantee the security of a country as large and as far away from the Chinese mainland as Saudi Arabia. Moreover, because China is the largest single holder of US debt, Chinese officials would not have welcomed a sudden Saudi sale of US treasuries, an act that could threaten the value of Beijing's assets. At least for now, stable US–Saudi ties reinforce China's ties with Saudi Arabia.

In coming years, however, these dynamics and the OBOR are certain to change and create new choices for China, Saudi Arabia, and the United States. As Saudi Arabia's financial interests in China and the rest of Asia grow, Riyadh's policies will have to more and more reflect China's position in the South China Sea and in other areas of dispute – no matter how much pressure Washington brings to bear. Two Chinese academics recently pointed out the need for Beijing in the future to build naval bases in the Middle East in order to secure its interests and gave a list of possible countries that could host bases.[115] Were Beijing to build these bases, China would be able to at least challenge Washington's military power in the Middle East and offer Riyadh a realistic alternative to its strategic partnership with Washington. One could even envision Saudi Arabia buying advanced weapons from China instead of the United States. In 2014, Riyadh seriously considered buying JF-17 Thunder, a fighter-jet aircraft China jointly developed with Pakistan.[116] Had the sale been completed, it would have been a massive strategic shift for Saudi Arabia and for the Saudi Royal Air Force,[117] which is organized around its massive fleet of U.S-made F-15 Eagle fighter jets.

As Saudi Arabia and China deepen their bilateral ties in the twenty-first century, they may be able to avoid these types of strategic breaks and the damage they cause by stressing what Almadi termed a "holistic" approach to global relations. Rather than divorcing Washington, Riyadh and China could redefine their relationship with the United States, emphasizing new areas of interest. This model, which stresses the avoidance of binary or dualistic choices, builds on the principles that link the societies of China and Saudi and differentiates them from Western ones. Indeed, Saudi Arabia's foreign minister, Adel al-Jubeir, noted in 2016: "Saudi Arabia is a strategic partner of China. They share a same view over the world.… That is the similarity of Chinese civilization and Islamic civilization of the Arab [World], whose ties have existed for a long time".[118]

Again, in Western Europe and America, modernity promises that uniformity will bring social harmony, but in China and Saudi Arabia it is the other way around – namely, harmony comes from the acceptance of diversity. One can see this vision in the words of Ji Xianlin, who once observed that it is possible to transform the current structures of global power while retaining the best of today's relationships. "To 'replace', he noted 'does not mean eliminate'".[119] Here it is worth noting that China and Saudi Arabia are firmly integrated into the post-1945 international order and would have much to lose were the OBOR to undermine rather than reform the existing global system. Indeed, in a 2015 speech marking the end of World War II, President Xi called for both a "new type of international relations" and for countries to "uphold the international order and system underpinned by the UN charter".[120]

Ultimately, how well China and Saudi Arabia can harmonize their new strategic relationship, the OBOR, and President Xi's new international order with their historic ties with the United States and other great powers will play a key role in the stability of not only the Middle East but also the entire Asia-Pacific region in the twenty-first century.

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6 Complex interdependence in the China–Saudi–US triangle?

Assessing shifts in the issue area linkages between energy trade and security ties

Philip Gater-Smith

Introduction

China's rise is one of the big stories of the early twenty-first century. Every day headlines are connected to this development. Numerous academic and journalistic publications are debating it. Decades, maybe centuries, from now historians will study the early twenty-first century in search for clues of why, how, when and where half a millennium of Western global dominance ended and Asia, spearheaded by China, re-emerged on the global stage to form a culturally more varied multipolar order.

The other major geopolitical issue of the early twenty-first century is Middle Eastern instability in its various forms, sources and symptoms and their regional and global consequences. What is less debated, however, is how far these two historical developments interact and what they entail for each other: i.e. how does China's rise play out in the Middle East and how does that region with all its many conflicts but also resources impact on China? Seeking answers to these questions highlights in what ways the facile predictions mentioned above are not necessarily as black and white as they seem. China's rise offers economic opportunities for Middle Eastern countries, and Middle Eastern insecurity may cushion China's rise. In sum, a Chinese primacy in the Middle East – let alone on the world stage – is not as deterministic as it might appear at this point in time.

Why is this relevant? First, to what extent the two major geopolitical stories of the early twenty-first century correlate should be of utmost importance to the discipline of International Relations (IR). Second, the question of who holds the economic and political power in the Middle East and the wider Eurasian "rim land" has – for many geostrategic reasons – been relevant for centuries and is now in need of updating.

Recent developments such as President Xi Xinping's One Belt, One Road project and China's related founding of the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF), to literally cement Pan-Asian economic corridors can be read in this light. They are examples of the interregional context in which China–Middle East trade, investment and diplomacy are flourishing. Most Gulf States are participating AIIB founding members, committed to making the project work. This is because market forces and political will are incentivizing them to look East and especially focus on China.

A fast growing body of literature in the English-speaking world is starting to reflect these necessities.[1]

China's relations with Middle Eastern countries, first and foremost with the Persian Gulf States (counted here as Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) is essentially shaped by, though in no way confined to, one issue area – energy. The hydrocarbon-rich Gulf is quite literally fuelling China's rise. This chapter will show that more Gulf oil nowadays flows to Asia than to America and will seek to interpret this profoundly geostrategic shift.

As the various Middle Eastern peripheries of the Gulf States find themselves locked in violent local and regional struggles, as Islamist extremism and jihadism has sparked international concerns for several decades now, as the Israeli–Palestinian conflict remains unresolved and as Saudi-Iranian proxy conflicts engulf all these problems, no regional issue, political, economic, or social, can be analysed without also considering the issue area of security. Discussing the latter, automatically involves discussing US foreign policy in the region, since it is largely the US military that is still underwriting Gulf security.

Framed within this broad geopolitical development, this chapter seeks to focus on – China–Saudi Arabia energy trade and its interplay with US–Saudi Arabia security ties. Granted, US–Saudi energy ties are still significant in absolute terms. But they are in relative decline.[2] As mentioned below, China–Saudi security ties might intensify, but are, for the moment, modest at best.

Picking one Gulf country as a relatively meaningful case study is in the interest of brevity and lucidity. I have chosen Saudi Arabia for the three simple reasons that (a) it is the biggest and most influential Arab Gulf State, (b) most of China's Middle Eastern oil imports come from Saudi Arabia, and (c) the US–Saudi "special relationship" has long been and, despite increased awkwardness, remains for now the centrepiece of America's Gulf security strategy.

In merging these discussions, I am trying to answer the question of whether China's growing energy trade with Saudi Arabia will have consequences in that US-built Gulf security architecture. In other words, how far are the two issue areas linked by the three actors? The answer to this question will contribute to an assessment of how much power China is likely or unlikely to hold in the Gulf in the near future.

Before attempting an answer, I will first lay out the chosen theoretical framework for my analysis.

Theoretical framework: complex interdependence vs. Neo-Realism

I submit that the contribution of this chapter is not theoretically, but empirically driven. This hypothesis testing should assist IR scholars to categorize, critique, and discuss the topic further with their own "language" and provide insights derived from an IR-centred methodology for what is a much wider interdisciplinary topic.

I have picked the theory of "Complex Interdependence" (CIT), which can be placed within the wider notion of Neo-Liberal Institutionalism for this chapter. Since China–Gulf relations are dominated by economic matters, theories such as Realism or Constructivism or even Postmodernism should offer either fewer tools and less explanatory power or lesser relevance – even though China's entry into Gulf affairs may represent a future power rivalry with the US (interesting for Realists) or some Gulf propaganda makes use of the boost in China's new importance (vis-à-vis America) in terms of "identity" (interesting for Constructivists).

As briefly outlined above, the interregional flow of energy and other goods, of capital, and of labour between Asia and the Middle East, and especially between China and the Gulf States, has grown significantly over the last decade in particular. The respective diplomatic and institutional ties have also become closer as a result of this.[3] In the absence of any future political or economic shocks or other unexpected game-changers this is likely to not only remain the case for at least a few decades, but even intensify towards a condition of what the early twenty-first century labels globalization and what IR scholars often attribute to interdependence. Hence, a theoretical framework is required that is specialized and well equipped to analyse this state of affairs.

Coined by Robert Keohane and Joseph Nye in their influential 1977 book *Power and Interdependence*,[4] CIT falls within what was later labelled the Neo-Liberal Institutionalist tradition. It therefore embraces a Positivist epistemology and, together with Neo-Realism forms one end of a two-part intra-paradigm debate. Keohane and Nye formulate their theory directly in opposition to Realism. Before I specify the two opposing notions, I will now summarize Keohane's and Nye's defining thoughts on interdependence.

According to them, interdependence is a condition between a specific number of actors. The currently popular terms "globalism" or "globalization" describe an overarching condition of the world that interdependent states bring about.[5]

An interdependent relationship reigns when its potential breakup would have "reciprocal costly effects". This is different from a relationship where simply interconnectedness reigns, because the latter would enable a breakup without paying a noteworthy price for that. Furthermore, Keohane and Nye make clear that there are often different levels of power recourses involved in an interdependent condition. With this in mind, they differentiate between "symmetrical" and "asymmetrical interdependence" – mutual benefits and mutual costs, but to different degrees, and therefore with differing values of stakes, for both actors.[6]

Last, but not least, the level of interdependence for both actors is a crucial variable when assessing unilateral freedom of action. Keohane and Nye differentiate between "sensitivity interdependence" and "vulnerability interdependence", with the former implying a highly notable, but still bearable cost for the actors, the latter though an unbearable one.[7] Ending a vulnerably interdependent relationship therefore would cause such an amount of damage that this is at least very unlikely to occur.

So what does this condition entail for the characteristics of an interdependent relationship between two (or more) states? For Keohane and Nye, complex interdependence is an ideal type, formulated in direct opposition to another ideal type – Realism.[8] Both ideal types in their views are never quite met in the real world, but for the IR scholar, the interesting question is when and where on a scale between these two opposite poles reality can be placed.

Realism, Keohane and Nye observe, holds three core assumptions: first, it is a purely state-centred theory disinterested in placing value towards other actors and relationships. Second, in a Realist world, force or the threat of force is the most effective tool for states to wield to secure their interests. And third, there is a clear "hierarchy of issue areas" with "military security dominating" all others.[9]

The ideal type of complex interdependence, on the other hand, challenges all those three core Realist assumptions: first, "multiple channels" connect societies at various state levels and beyond. Second, no military force is exercised when complex interdependence prevails. And third, interdependence ensures an "absence of hierarchy among issue areas" where security and geopolitical power is only one of many equally serious concerns and interests of states.[10]

Consequently, comparing these two worlds when scrutinizing the characteristics of my bilateral case study will provide clearer points of orientation to explain the nature and scope and the dynamics of the China–Saudi–US triangle. For example, determining the extent of linkages between issue areas therein will help me assess which ideal type is closer to reality in this case. This will have an impact on the assessment what the short- and mid-term future might hold.

So far though, I have merely presented Keohane's and Nye's defined characteristics of complex interdependence. They also try to explain its "political process". Here, they see five different variables bringing about an interdependent structure and shaping it.

First, actors need to be observed that "translate power resources into power as control over outcomes".[11] This will be more difficult under complex interdependence conditions, because a variety of state goals makes it impossible to satisfy everyone's interests by formulating one policy.

Second, the extent of "linkage strategies" can influence policy outcomes. Usually, linkage is resisted, because domestic and transnational actors in specific issue areas have different interests than those in other issue areas. While for Realists world politics is one issue area where military and economic dominance ensures positive outcomes for great powers, in complex interdependence it is the power within each issue area that matters. Joint interests of various actors incentivize political actors to resist issue linkage.[12]

Third, a world of multiple issues of equal importance will necessitate political actors to prioritize issues. "Agenda setting" and "politicization" of issues shape part of the political process that brings about increasing interdependence.[13]

Fourth, the level of "transnational and trans-governmental relations" becomes more extensive and diverse and therefore different networks that form multiple channels connecting societies and governments have an impact on policy formulation that blurs the line between domestic and foreign policy in each country.[14]

Last but not least, the "role of international organizations" is increased in a world of interdependent states. They group issues together and advise governments that do not have to follow their guidelines, but that need to be aware of their reputation, which can be damaged by unilateral action.[15]

My outline of complex interdependence aspects has shown, that using this theoretical framework as a hypothesis almost automatically requires an attempted Realist critique, as Keohane and Nye created their theory in response to Realism. Hence, in the world of my case study, the theorized research question will be this: Do the dynamics of the China/Saudi/US triangle lean closer towards the ideal type of complex interdependence or closer to the ideal type of Realism?

In order to ensure methodological compatability and consistency, I will put the emphasis on Neo-Realism, which equals Neo-Liberal Institutionalism's structural/systemic epistemology, and not Classical Realism. Realists see the world as a zero-sum game, where relative gains matter most and where a rival's gains are considered a potential threat. They would assume China's interests in the Persian Gulf to be geostrategic rather than merely economic.[16] Therefore, Realists would highlight incentives for China to project political and military power into the Gulf to protect its interests and incentives for the US to deny China this kind of regional access. Neo-Liberal Institutionalists would define China's interests in the Persian Gulf as predominantly economic. Therefore, growing trade and investment between the two would not be considered a threat to US interests. On the contrary, in a Liberalist world where absolute gains matter, China/Gulf economic ties would be met with US government indifference, or even support.

To be more precise, CIT would predict a de-linkage of the energy and security issue areas – which would likely result in a necessarily cooperative spirit in the China–Saudi–US triangle. Realism on the other hand would predict military security – and therefore overall power structures to dominate and incentivize rivalry in the China–Saudi–US triangle.

China–Saudi energy ties

Energy interdependence?

China's oil imports from Saudi Arabia

China will not only contribute to shaping the future Middle East. It has already helped to shape the latest Gulf history. From the time when the PRC was admitted to the World Trade Organization (WTO) in 2001 and the country's oil and gas imports surged, the Gulf Cooperation Council (GCC) exporters witnessed a massive boost in revenue. It is not a coincidence that the Gulf States experienced their highest growth rates at the same moment as China's energy companies began to "go out".[17]

This economic and strategic policy shift was undertaken out of raw necessity. China had already become a net oil importer in 1993, but it was ten years later when its consumption noticeably began to out-pace domestic production.[18] The decade following China's WTO admittance saw the country's GDP increase from around $1.3 trillion in 2001 to around $9.2 trillion in 2013,[19] turning China into the world's largest energy consumer.[20] China's oil demand alone has surpassed 10 mb/d and its net imports have also surged accordingly, reaching the record high of 6.2 mb/d in 2014.[21] Around half of China's oil imports come from the Middle East, approximately a fifth from Saudi Arabia alone in the year 2013,[22] and slightly lower down to 16 per cent in 2014.[23]

Saudi Arabia has been China's most important oil trade partner for over a decade. The Kingdom is the most influential and largest petroleum exporter with a capacity of around 12 mb/d, it has been the de-facto leader of OPEC, and is a member of the G20.[24] It is hard to see how China quite literally could afford to ignore this. How far this will automatically result in a full strategic relationship on the scale Saudi Arabia enjoys with the US, remains to be seen. Yet, the energy issue area happens to be a particularly important one and it is an issue area in which the Saudis can be considered a global superpower.

Oil-import figures reflect China's awareness of the Kingdom's vital energy position.[25] This is precisely the reason why Beijing has sought to diversify its energy sources, so as not to put all its eggs in one basket. Given the fact that 2014 saw China's highest amount of total oil imports yet, the reduction of China's imports from Saudi Arabia from 19 per cent in 2013 to 16 per cent in 2014 reflects this risk management strategy. Furthermore, China wants to spread risk further by extending its control via the asset acquisition in foreign energy companies.[26] Here, it is noteworthy that the major acquisitions and investment oversees, worth $73 billion in total between 2011 and 2013, mainly by the China National Offshore Oil Corporation (CNOOC), but also Sinopec and the China National Petroleum Corporation (CNPC), have – with the exception of Iraq – largely been outside the Middle East, mainly on the American and African Atlantic rim and in natural gas, deepwater oil fields, and unconventionals.[27]

However, whether China imports 19 per cent or 16 per cent from Saudi Arabia does not change the reality that such a high ratio of imports from one country alone can already be identified at least as a moderate economic and strategic dependency in the long run. This recognition has an even greater significance when all of China's Gulf imports are taken as a whole constituting around half of total imports.[28] As Iranian oil returns to the market after the lifting of UN sanctions, the Gulf region's importance for China will grow even further. Hence, it is advisable to also regard Saudi Arabia as a regional spearhead influencing China's energy consumption. It is not an isolated bilateral relationship, de-linked from the risks and opportunities of the wider Gulf oil business.

The question Keohane and Nye would ask is whether Saudi Arabia's influential energy leverage represents such an exposure for China's dependence to be labelled *vulnerable* or only *sensitive*. In other words, does China's potential for energy source diversification reach so far that in some theoretical extreme scenario it could reduce or cut oil imports from Saudi Arabia (let alone the wider Gulf) without having to bear an economically intolerable level of *costly effects*?

For the moment, China is still mainly run on coal, which accounted for 66 per cent of the country's total energy consumption in 2012,[29] down from 69 per cent in 2011.[30] Yet, despite the continuous rise of its domestic coal production in absolute terms, it seems impossible for China to resist a greater oil dependence in the future. In 2012, China's petroleum consumption accounted for 20 per cent.[31] Calculations by the US Energy Information Administration show that China might already have overtaken the US as the world's number one net oil importer in 2013.[32] China will at some point be the largest oil consumer.[33] Although China's slightly lower GDP growth in recent years – a slowdown not unlikely to persist – and the resulting lower energy demand growth, China's oil consumption could still rise by 80 per cent until 2030 according to BP.[34]

Beijing's "active oil diplomacy of targeting large oil producers" like Saudi Arabia and Iran (number one and two in Gulf sources until sanctions), rather than smaller countries like Oman and Yemen, was launched after 1995.[35] This necessary strategic refocus on Saudi oil highlights how China's dependence on the Kingdom is moving from a *sensitive* to a more *vulnerable* level (though classifying it firmly as the latter would overstate one relatively small country's importance, especially if Iraq and Iran reach their full export potential).[36]

There are several major oil producing countries in other regions, ranging from Eurasia and Africa to Latin America, from which China purchases oil. In 2013, Angola's share in China's oil imports stood by 14 per cent, second only to Saudi Arabia's 19 per cent. Russia (9 per cent), Venezuela (6 per cent), Kazakhstan (4 per cent), Congo (2 per cent), and Brazil (2 per cent), followed Angola as the largest non-Gulf oil suppliers to China that year. This has been the trend during the last few years with Sudan being the only dramatically disrupted oil source. The other major oil trade partners so far are all located in the Gulf, with Oman accounting for 9 per cent of China's imports in 2013, Iraq and Iran both 8 per cent, the United Arab Emirates (UAE) 4 per cent, and Kuwait 3 per cent.[37] The figures have hardly changed for the year of 2014 – which sees the same overall dominance of the Gulf of providing more than half of China's oil imports: Following Saudi Arabia's 16 per cent, from the region Oman followed with 10 per cent, Iraq and Iran both respectively 9 per cent, the UAE 4 per cent and Kuwait 3 per cent.[38]

These figures demonstrate the importance of the Gulf, despite China's diversification strategy. Historical figures (and future projections) alone also do not account for political uncertainty. Compared to some of its non-Gulf oil suppliers, China greatly cherishes Saudi Arabia's historic reliability as an energy provider, its responsibility in handling oil prices, and its moderating influence over OPEC and non-OPEC producers.[39] Despite the North American shale revolution and Saudi Arabia's painstakingly slow success in harming the unconventionals' profitability,[40] for now, Saudi Arabia remains to be the world's only "swing producer".[41] It is certainly retaining at least parts of its long global domination in the energy issue area. The combination of these virtues cannot be taken for granted from other suppliers.[42]

Moreover, the Gulf, and therefore primarily Saudi Arabia, is not only the most important hydrocarbon source due to reserves which account for more than half of the world's total proven. It is also the region with the lowest production costs for oil and China can save considerable sums by prioritizing Gulf petroleum. The Chinese can contribute to this by exporting more construction and labour services especially to Saudi Arabia and attracting Gulf investment.[43] In other words, complex interdependence between China and Saudi Arabia in the energy issue area, but also in issue areas connected to this, is a financially alluring prospect. Turning its back on that would have *costly effects* for the PRC.

Interdependence though requires mutual dependence, i.e. Saudi Arabia would have to be equally – though not necessarily *symmetrically* – dependent on China. Has that been the case or is it likely in the future?

The Chinese market for Saudi oil exports

With its vast oil and also gas reserves, energy is what Saudi Arabia is built on, has depended on and will depend on largely also in the years to come. The revenue the Kingdom collects from oil enabled its functioning as a modern state. Since the first successful explorations in the early 1900s oil has therefore funded almost everything else inside the country. This is essentially destined to remain the case, unless Crown Prince Muhammad Bin Salman's recent "Vision 2030" will manage to implement its ambitious diversification plans. Paul Aarts identifies energy as the first of the Kingdom's four "pillars".[44]

While in the twentieth century most of Saudi Arabia's oil exports flowed chiefly to Western nations, both European and American – next to Japan and South Korea the world's only fully industrialized importers at the time – this has changed since the dawn of the new century. Although Europe had been and still is in greater need for Gulf oil than America, Western energy imports from the whole region have declined in relative terms.[45] Rising Asia, spearheaded by China, and still accompanied by Japan and South Korea, is now the main destination of Gulf oil.

The Saudis branded their reaction to this market shift the "Look East Policy" and is a reflection of growing interdependence with Asia. Where China requires energy security, Saudi Arabia requires "demand security".[46] This vital interest is perpetuated by several simultaneous challenges: the North American shale gas/tight oil revolution, a rise in domestic Chinese fuel consumption, as well as Iran and Iraq re-entering the market.[47] As the BP Energy Outlook 2035 confirms, Saudi Arabia's influence over OPEC will be challenged by the latter developments, and OPEC's influence itself will be in relative decline.[48] North America, including the US, is likely to sustain itself and will even be among the energy export giants rivalling the Gulf. To take a simultaneous look at market expectations, almost 90 per cent of Middle Eastern oil exports by that time will flow to Asia.[49]

In terms of oil-import markets, the West, including Europe, is being dwarfed by energy-hungry Asia, which is where Gulf oil industries therefore focus on. Asian and Chinese oil companies are increasingly elevating their reputation in the Gulf, also in terms of upstream development. In 2014, the Abu Dhabi National Oil Company awarded CNPC with its first upstream project in the UAE.[50] Saudi Arabia has so far been hesitant to open its domestic upstream market to China. Saudi Aramco also still relies mainly on American drilling technology. Yet, it has recently opened R&D centres in China.[51] Given the demand dynamics, more such institutional cooperation will ensue and increasing trust will be built, as Chinese technology and National Oil Companies (NOC) performances improve.

The fact that next to Japan's and South Korea's established energy-import-dependent economies, Asia is rising almost as a whole, this represents a significant leeway for Saudi Arabia to reduce its export dependence on China. India and the ASEAN countries are growing in China's wake. The Kingdom of Saudi Arabia (KSA) has made more than use of these trade opportunities and has – mirroring China's energy import risk management – diversified its export destinations inside Asia, and with remarkable success. Saudi Aramco alone is enjoying dominance in most Asian markets and is the number one oil provider, not only to China, but also to India, Japan, the Philippines, Singapore, South Korea and Taiwan.[52] In terms of demographics and resulting economic opportunities, only India will be able to offer Saudi Arabia a comparable market size for its oil in the long run though (and is expected to in fact overtake China as the world's largest energy market in about two decades).[53]

In the short, and mid-term, China remains Saudi Arabia's most interesting market. The Kingdom will be eager to ensure maximum access to China for both its oil exports and investment. Saudi Aramco has invested into China's energy infrastructure, such as oil storage facilities and oil refineries. These investments can be understood as quite strategic in nature, since Chinese refineries require the technological capacity to process Gulf sour crude oil (rather than African sweet crude).[54] Consequently, by seeking to shape China's energy infrastructure, Saudi Arabia is enhancing China's future dependence on Gulf oil.

These steps look especially logical as Beijing is eager to diversify its energy consumption as far as possible and reduce risks in energy security. China's own domestic shale oil and gas reserves are a force to be reckoned with, once Chinese NOCs have access to fracking technology – currently still largely monopolized by North American companies,[55] but increasingly acquirable for Chinese firms investing there.[56] In the long term, Saudi Arabia cannot be too sure about China providing it with high demand security. Given the pace of China's growth though and the time it would take for China to significantly reduce imports, this prospect still seems far away. And last but not least, just as China is significantly dependent on Gulf energy imports as a whole, as shown above, so one can note that Saudi Arabia and the entire Gulf are dependent also on the Asian market as a whole.[57]

Hence, it can be concluded that Saudi Arabia and China are likely to be significantly *interdependent* in the energy issue area for the next two decades. High interdependence is arguably far more substantial if the interregional, and not just international connectivity is taken into account. The Asia and Gulf regions provide the context for their two most significant players in the energy issue area

– China and Saudi Arabia. It would be considerably painful for both countries to break up, as that would have *reciprocal costly effects*. Consequently, Sino-Saudi energy relations can be at least classified as *sensitivity interdependence*, but are arguably moving closer to *vulnerability interdependence* in the long run, provided current estimates will be relatively accurate.

For now, as well as the short-term future, the classification of vulnerability interdependence is more precise for the interregional level – Asia-Gulf energy relations. Reflecting a *political process* of wielding power where it holds it – as under complex interdependence it is the *distribution of power within each issue area* that counts – Saudi Arabia's *power resources* in the energy issue area have largely been translated into *outcomes* it aims for. The Kingdom is luring China into an increasingly strategic energy partnership. It is reflected in the increasing number of deals in the energy industry and an increasing level of oil exports to China, documented above. Beijing on the other hand, has enticed Saudi Arabia to invest into its own energy industry and represents too huge a market for Saudi Arabia to ignore. This has happened despite China's reluctance to become more politically involved in the Middle East. For instance, the PRC has never felt compelled to take a tough stance on Iran, Saudi Arabia's regional nemesis. Thus, China's economic *power resources* have been translated into the current *outcomes* it wants – Saudi oil and no obligation to help provide Gulf security. This aspect I will turn to below, after concluding that Keohane's and Nye's definition of interdependence roughly reflects Sino-Saudi energy ties. The latter are likely to be largely *symmetrical* for the near and mid-term futures.

The characteristics and political process of China–Saudi energy interdependence

China's and Saudi Arabia's first official contact in modernity dates back to the year of 1946 when the Treaty of Amity was signed.[58] However, also due to historical developments in China shortly thereafter, no formal diplomatic relations were established between the countries before 1990.[59] However, formal diplomatic ties to the GCC were launched from the latter's founding onwards, ten years earlier. Trade also, including the Kingdom's purchase of Chinese CSS-2 Interregional Ballistic Missiles, dates back to the 1980s.[60]

With regards to energy trade in the last two decades, the main Saudi and Chinese companies, such as Saudi Aramco, SABIC, CNPC, Sinopec and CNOOC are among the major actors in transnational relations forming *multiple channels* that are connecting the governments and societies of China and Saudi Arabia. They have been growing extensively over the decades as the relations between the two countries intensified in several issue areas. At least to a certain extent, these and globalization have been imposing the kind of structural changes on Sino-Saudi exchanges and transactions Keohane and Nye associate with globally networked and interdependent countries. Yet, it needs to be highlighted that the major Saudi and Chinese energy companies are state-owned and they can therefore be perceived as the government's long arm orchestrating an "oil diplomacy".[61] Neo-Realists will see this as particularly powerful evidence for their claim that states are the predominant players and act as coherent units.

They are largely right in this case. It seems unlikely Chinese or Saudi NOCs would rigorously pursue their own interests regardless of potentially harmful consequences for their home nations. Even if deeply entrenched networks and channels connecting them to their international counterparts were to lobby for policies that would benefit their industry at the expense of their home nation's greater wellbeing, their authoritarian governments would likely resist those pressures.

There are two facts to consider in that regard though. First, scenarios where an energy-import-dependent China or an export-dependent Saudi Arabia would be harmed by their respective NOC's "doing their job properly" is difficult to imagine (with the exception of environmental issues). Both countries rely on a functioning energy policy. Successful business outcomes for these companies should largely have the intended positive macroeconomic effects. The second fact that seems capable to hold the NOC's complete adherence to wider national interest in check, partly contradicts the first: before 2005, when China's net oil imports were still lower than at the time of writing, Chinese NOCs were not simply securing the oil they produced for domestic consumption and energy security. In fact, they were selling the crude to the global market.[62] Thus, they were obviously left free to pursue pure business interests. This has changed now though as China's energy consumption has grown further and as Beijing has realized the importance of energy security, after the spread of terrorism, resulting US military interventions, and instability in the Middle East.[63] Hence, it seems all that was holding back Beijing from regulating and guiding China's NOCs more closely before 2005, was a lack of initiative in leadership, not a greater influence wielded by the oil industry's business-focused networks.

Neo-Realism has a case here. Al-Tamimi offers a useful summary of why government planning and the relations between China and Saudi Arabia can be interpreted as partly "strategic":

> From a political standpoint, both countries leaders have the same paramount objective: regime survival. In China's case, this means the continued rule of the CCP; while for Saudi Arabia, it refers to the power of the "Royal Family" […]. For both, regime survival depends on economic prosperity, which depends largely on energy.[64]

Neither regime will easily cede control of vital economic development to free and autonomous businesses, especially in an issue area as strategic as energy. Admittedly though, this does not stand in the way of multiple channels of contact blossoming across the industry and beyond. On the contrary, deeper institutional and societal bonds are officially encouraged. Former President Hu Jintao's second visit to Riyadh within three years resulted in a Chinese six-point proposal for Sino-Saudi strategic and friendly ties, which encouraged initiative at all levels, as Al-Tamimi lists:

> ([A]) maintain high-level visits and establish a high-level consultation mechanism; (b) take advantage of their resources and markets, promote an all-round energy partnership and expand two-way investment; (c) expand the scale of economic and trade cooperation and raise the level of cooperation. The Chinese government encourages more competent businesses of the country to participate in Saudi Arabia's infrastructure construction and enhance cooperation on project contract and labour; (d) advance exchanges in the fields of education, sports and tourism and expand personal contacts; (e) strengthen communication and coordination in major international and regional issues and safeguard regional peace and stability; (f) enhance cooperation between China and the GCC.[65]

Al-Tamimi's "Summary of the main developments in Saudi-Chinese energy relations" (see above) offers a useful guide from which it is evident how far the energy companies, their numerous joint ventures, but also their newly founded affiliates are deepening transnational relations. This is what the *political process* model under conditions of complex interdependence would predict. Whether these broader and deeper connections between the two countries will one day result in a significantly reduced role for the state, autonomizing the relationships, is questionable. Hence, Keohane's and Nye's theory seems stronger than Neo-Realism in describing some symptoms and characteristics of interdependence here, rather than a political process evolving into an entirely different system.

Yet, the multiple channels that are being set up create a transnational network strengthening cooperation – and the maintenance of joint projects that would otherwise not be there. "Mechanisms such as the Entrepreneurs' Conference and Investment Seminar and the conference on Energy Cooperation have provided the two sides with new platforms for practical cooperation".[66] In 2012, Saudi Aramco opened Aramco Asia in Beijing.[67]

It needs to be stressed that the China–Saudi bilateral relationship is primarily driven by energy business. Even though the PRC's (informal) relations with the Kingdom were launched via Chinese exports of cheaply manufactured goods and then arms sales,[68] these "first contacts" can be understood as relatively marginal and the missile sales a relatively random incident with insignificant strategic consequences (see below). Whatever Sino-Saudi ties develop into in the future – and this primarily depends on Saudi success in economic diversification and maybe also on China's greater will for political engagement – energy will have constituted the real genesis of the relationship and as demonstrated above it seems destined to remain the key element.

Hence, I can already state, there is a clear *hierarchy* in importance *among issue areas* relevant to Sino-Saudi relations. Since the ideal type of complex interdependence marginalizes such a status quo, this leads us to recognize that Sino-Saudi relations are still relatively far away from the extent of overall interdependence Keohane and Nye have in mind. These relations have become increasingly closer over the last two decades and increasingly interdependent in a relative way. The relations have become *interconnected* in several issue areas, but only the energy issue area can be understood as inheriting the kind of *costly reciprocal effects* necessary to be classified as complex interdependence.

Keohane's and Nye's framework though represents an ideal type where either the majority of all issue areas have reached that interdependent state of affairs, or it is merely one issue area where interdependence is so high that it prevents any kind of policy linkage to less relevant issue areas. These two scenarios are precisely what would result in the absence of a hierarchy among issue areas. Neither of the two is real for now.

However, despite these reservations, it needs to be recognized the Sino-Saudi bilateral relationship currently is even less represented by dynamics typical for the Neo-Realist ideal type. At worst, this would predict *military force*, the *threat of force* or at least China's *overall structural power* advantage to be the defining characteristic of the relationship. At best, it would predict a Sino-Saudi alliance formed in opposition to a third party. Either way, Neo-Realism would predict China to dominate the relationship with its size and overall power constantly compelling Saudi Arabia to yield to China's will in any issue.

However, these predictions are not the case, as indeed CIT would predict. Neither can we observe Chinese coersive measures and dominance. And we have seen above that the interdependence between the two is largely *symmetrical* for the moment, despite the overall asymmetry in bilateral power distribution.

Although Keohane and Nye get it wrong when predicting no issue area to dominate, because energy clearly dominates, they correctly assume security, and thus, military matters, not to dominate when interdependence prevails.

Their framework predicts industrialized countries (for which China and Saudi Arabia by now increasingly qualify) to avoid force, which would constitute a linkage of issue areas, as its costly effects would vastly outweigh the benefits. Despite the Middle East's insecurity and despite the world's eroding unipolarity, neither has a Sino-Saudi alliance been necessary, which equally would have implied an underlying issue linkage.

Nevertheless, it can be concluded that the characteristics of China–Saudi Arabia relations are still relatively far away from being represented by the complex interdependence ideal type, as not only is there a visible and acknowledged *hierarchy of issue areas*, additionally, most other issue areas (which this chapter does not focus on) are defined by mere *interconnectedness* at best. This results in a *political process* that also forces less of a choice in *agenda setting* for policymakers in Riyadh and Beijing than complex interdependence would predict. The hierarchy among issues areas gives them few reasons to shift the focus and *politicize* other issues.

However, despite these reservations, the nature of Sino-Saudi ties has at least tilted closer to Keohane's and Nye's theory for now than to the Neo-Realist ideal type and this seems unlikely to change for the time being.

US–Saudi security ties

There have been numerous studies on the US–Saudi Arabia security relationship.[69] Hence, I will merely summarize the absolute basics here, while observing recent and possible future developments through the CIT vs. Neo-Realist framework. This chapter merely serves as a bridgehead to merge the topic of Gulf/ Saudi security with China's energy footprint in the country and region in the third and final section.

Assessing the scope of US–Saudi security interdependence

Are the United States and Saudi Arabia interdependent? More specifically, is their bilateral relationship in the security issue area closer to Keohane's and Nye's ideal type or closer to a Neo-Realist condition? How costly would the effects be for either of the two countries were they to end or greatly reduce their security cooperation?

Saudi Arabia has enjoyed a US security umbrella ever since the 1945 meeting of President Franklin D. Roosevelt and King Abdul Aziz Ibn Saud on board the USS *Quincy* in the Red Sea. Even though formal diplomatic relations and the California Arabian Standard Oil Company's explorations (the later Aramco) date back to the 1930s, the meeting proved crucial. It served as a symbolic starting point of what has been called the "oil-for-security" deal or the special relationship.[70] The strong ties have lasted until this day, even if there have been several bumps in the road, such as Nasserism, the 1973–1974 oil embargo and energy crisis, 9/11, the post-"Arab Spring" turmoil, and controversial US-led nuclear deal with Iran.[71]

Even in the strategically different times of the Cold War, the Middle East ranked high in the US foreign policy focus, just below that of the European theatre. Yet, the Iranian Revolution in 1979 initiated a gradual shift. Next to bolstering Israel's covert regional role, the US followed incentives to become an active player itself. The fall of the Shah ended the more disengaged American "offshore balancing" in the Gulf. That "twin pillar" policy which had relied on Iran and Saudi Arabia for regional stability was to be replaced by the Carter Doctrine. This intended greater US military role in the Gulf was implemented by Ronald Reagan and then cemented by George W. H. Bush simultaneous to the end of the Cold War. With Operation Desert Storm – the ousting of Saddam Hussein's invading forces from Kuwait in the 1990/1991 Gulf War – resulting in US military presence in all Arab Gulf States including Saudi Arabia, America was now essentially in charge of Gulf security. This trend reached its peak especially with the post-9/11 invasion of Iraq when American grand strategy completed the shift to prioritize the Middle East.[72]

The greatest threat to US national security was now perceived to originate in that region. Saudi Arabia, the biggest, richest, and most influential GCC member, therefore not only seemed to be the most important regional ally in a war on terrorists, but also the latters' home. Fifteen of Osama Bin Laden's 19 suicide bombers on 9/11 were Saudis, considerable portions of the KSA's population anti-Western, some wealthy individuals of those portions direct and indirect financiers of several Islamist militant groups, and one of their recipients al-Qaeda on the Arabian Peninsula – the Kingdom's very own domestic terrorist problem in the earlier 2000s.[73]

The second grave US and Saudi security concern in the Gulf since that time has been the Iranian nuclear programme, which was, like 9/11, ironically sparked by the very regional presence of the US military itself. Next to Israel, the principal actor feeling endangered by Iran's uranium enrichment though has been Saudi Arabia. On several occasions Riyadh has threatened to join the nuclear arms race were its regional nemesis in Tehran to achieve a breakthrough. As a result, the US – more than reluctant to forcefully intervene against Iran – has significantly upgraded its conventional arms exports to Saudi Arabia, in order to tilt the regional military balance decisively against Iran.[74]

Iran's nuclear programme, as well as terrorism and Islamist violence, to which we can now, post-2014, also add the rise of the so-called Islamic State, represented potentially grave security threats in their own right to both the US as well as its Saudi ally, and partly even to China. The situation's volatility was and is still enhanced further though, due to the Gulf's geoeconomic importance in the energy issue area. Middle Eastern terrorism and regional rivalry between Saudi Arabia and Iran present the entire world economy with potentially grave challenges. A disruption of energy flows out of the Persian Gulf through a security breakdown or even an international market perception alone could cause oil prices to skyrocket, as they have partly done during historic regional crises.[75] The dynamics of supply and demand dictate that this is ultimately bad for everyone – consumers and producers. To reflect on America's position, even if it does achieve so-called energy independence in the near future, it will still be dependent on stable oil prices. These are and will be highly dependent on relative Gulf stability.

Up to now, this has been largely maintained via the US military presence in the Gulf, both on land and especially at sea. It is impossible to know what current security escalations in Syria, Iraq and Yemen, or even the Saudi-Iranian enmity would entail for the small Gulf oil monarchies in the absence of American troops and "gunboats". A spill over of these regional conflicts, first into the GCC states, and then into oil price dynamics does not seem completely fanciful. Explaining the low oil price prevalent at the time of writing needs to include such a counterfactual scenario: no matter the post-2014 global oil glut – would prices really have had a chance to be as low in an absence of American troops and of the US Navy's Fifth Fleet in the Persian Gulf?

The American–Saudi "special relationship" has long been a core ingredient of this security system. If Washington or Riyadh were to break up their "arranged marriage"[76] without Saudi Arabia having a new robust regional system in place, it is hardly likely Gulf security would improve, especially in the long run. History has shown that great power retreat from the region can create a security vacuum that is relatively quickly filled by intra-regional rivalries. After Britain's exodus from "east of Suez" in 1971, these unleashed rivalries escalated with the Iranian Revolution and resulted in Iraq and Iran to launch the biggest and longest Middle Eastern war of the twentieth century's second half.[77]

History never repeats itself, but the structures and imbalances of power are still fairly similar in West Asia if the lid is taken off. The prospect of non-state actor violence and the extent of globalization though have dramatically intensified. Hence, ending the "special relationship" without any functioning alternative in place could be synonymous with allowing insecurity to spread in the Gulf and beyond. This could have dramatic *costly effects* for Saudi Arabia as well as for the United States and its interests. *Reciprocal costly effects* could be felt in terms of terrorist violence and its impact on humans as well as infrastructure, but also in terms of regional conflict and its impact on energy trade, global financial markets and entire economies – impacting large numbers of individuals negatively yet again from another angle.

This is why one can note the US–Saudi relationship is highly *interdependent* in the security issue area and beyond. The more interesting question might be whether it is also *symmetrically interdependent*.

In the security issue area, the alliance is one of *mutual benefits and mutual costs*. Both indeed face a popular domestic backlash against the close relationship. American suspicions and antipathy run deep about a religiously ultra-conservative Wahhabi Saudi society, the regime's harsh Sharia law enforcement and human rights abuses. As mentioned above, a considerable number of Saudis are equally resentful towards the West and view the special relationship as nothing but colonialism. The extreme elements of these voices indeed joined Osama Bin Laden's al-Qaeda in the 1990s in order to end this undesired status quo.[78] Hence, both governments face negative consequences in popular perceptions due to the interdependence.

Both, however, at least for the moment, have maintained their alliance and continue to cooperate closely in intelligence sharing and counter-terrorism. Both have an entrenched military-to-military dialogue, US arms sales to Saudi Arabia recently represent the largest military technology transfer the US has ever conducted,[79] and US military advisors play a vital role in the Kingdom's national security structures. These measures, characteristic for an interdependent network of *trans-governmental channels*, have further improved the high level of interoperability of both militaries.

In terms of infrastructure, as well as national elites, a cooperative Saudi Arabia provides the US with a higher degree of access to the region than Washington would otherwise enjoy. Both those assets were recognized early on and aspired towards by the architects of the Carter Doctrine, who emphasized the need for an infrastructure and a cooperative trans-governmental network, essential for any future US rapid reaction force.[80] Yet, it needs to be noted that relying entirely on the smaller Gulf monarchies and even merely West Asia's periphery hosting US military bases would hypothetically still enable the US to secure the Strait of Hormuz. This indeed seems to have been noticed by then national security advisor Zbigniew Brzezinski, one of the principal strategists in charge of planning the Carter Doctrine, when he first proposed Somalia, Oman and Kenya as candidates for essential strategic bases on the shores of the Arabian Sea.[81] Furthermore, ever since the US military's large-scale exodus from Saudi Arabia in 2003, the bulk of American forces in West Asia are stationed in some of the smaller Gulf monarchies like Bahrain, Kuwait and Qatar.[82] Thus, Saudi Arabia's undeniable importance to America's regional security interests might be overstated. In this case, speaking of complete US *vulnerability* to an imaginary end of the special relationship might indeed take the interdependence argument too far.

Barack Obama's statements in an interview with Jeffrey Goldberg, published by *The Atlantic* magazine, revealed the President's long-held opinions towards the KSA – a country he labelled America's "so-called ally" – add fire to this argument.[83] Admittedly, the US would be highly *sensitive* to the possible political consequences and conceivable security breakdowns a bilateral breakup could spark. A Saudi Arabia left to its own devices could result in unwelcome Saudi policies or Saudi inaction on sensitive matters. Some even would predict the collapse of the Saudi regime at least in the long run when combined with the threats posed by sustained low oil prices and lack of diversification of the Saudi economy. Such a scenario could diminish greater American regional influence and threaten the entire Arabian Peninsula.

From the Saudi perspective, a breakup could have two effects. On the one hand, Islamists sympathetic to or even actively supportive of jihadism against the West may become further marginalized in wider popular Saudi opinion. The "Great Satan's" withdrawal from the land of the two sanctuaries would certainly deny radicals the necessary oxygen for their argument's legitimacy. Ironically, this could have a positive effect on Saudi national security from domestic threats. Nevertheless, on the other hand, regarding actual and perceived outside threats, the Kingdom would feel considerably exposed to potential foreign aggression, be it from state or non-state actors in the region. The KSA's relatively small population vis-à-vis rivals like Iran would leave Saudi Arabia's defences at a numerous disadvantage. Furthermore, the Kingdom's most sophisticated US weapons technology that currently still places Riyadh in a stronger position than Tehran would be left to its own devices in the long run, as arms transfers require more than merely a one-time delivery. Constant technological upgrades, replacement equipment, and expert training personnel are part of the transfer and entail the arms importer's significant *dependence* on the exporter.[84] A *trans-governmental network* operating on a day-to-day basis is created.

Therefore, despite all kinds of ideological and political challenges to the US–Saudi security relationship, the Saudis, despite their growing friendliness to China, Russia, Turkey and Israel, are likely to remain favourable to American protection, because of "TINA" – "there is no alternative".[85] None of these countries have the capabilities to take over the US role, alone or in an unlikely full-blown alliance. Neither is a fully integrated GCC security structure, let alone cooperation with Iran in sight.

Consequently, Keohane's and Nye's theory would identify US–Saudi security interdependence as *asymmetrical*: although the US would be *sensitive* to a breakup, Saudi Arabia, at least for the time being, would be highly *vulnerable* to such a scenario.

The idea of energy security and its theoretical consequences

This recognition seems even more legitimate if one incorporates the changing energy relationship between the two states into the discussion. Not only does the potential prospect of US energy self-sustainability force Saudi Arabia to become more dependent on other customers, primarily located in Asia. The likelihood of the US turning into an outright Saudi rival in the energy issue area would additionally end Saudi Arabia's dominating power position in the latter. Keohane and Nye argue it is the *distribution of power among issue areas* that is more relevant under complex interdependence conditions. Thus, not only does the US enjoy dominance in the security partnership, but will possibly also further diminish Saudi power in the energy issue area. What does this entail?

This chapter is about the question of *linkages* in Gulf energy and security affairs. Testing CIT via this case study is particularly interesting, because both issue areas seem so naturally linked, that one would question parts of Keohane's and Nye's concept right from the start. Indeed, the very term "energy security" already represents a linkage. It could be argued it forms a combined issue area in its own right. Such a "creation" of a new issue area would have no significant consequences to the theory, were it not for the fact that the "security" sphere plays a part in it. This is because under the theoretical conditions of complex interdependence, *force* plays a minor role and *multiple channels* connecting societies form *transnational* bonds and business ties stronger than the governments' urge to subordinate those ties to the security realm.

However, US–Saudi security relations – though plenty of the issues they have to tackle are "bad enough" without considering the safety of energy flows – seem to point towards a Realist world in which a *hierarchy of issues* reigns and military security dominates. Ever since its advanced influence in the Gulf, the US has often used its military power to advance its interests. Saudi Arabia's perceived and actual security dilemmas in the region incentivize it to pass the buck to a powerful US ally which, despite reluctance, sees itself forced to engage in these regional rivalries as a stabilizer. Such dynamics are very much caused by interdependence, but they do not match Keohane's and Nye's more pacific ideal type. This regional situation, despite the spread of global and bilateral interdependencies, still seems to epitomize fairly Realist characteristics and it is hard for the outside power, momentarily the US, to remain detached from them. The question is, can China?

Issue (de-)linkage in the China–Saudi–US triangle

The two previous chapters have demonstrated the extent of Saudi Arabia's interdependence with China in energy trade, and with the United States in security cooperation – an alliance to ensure Gulf stability. Conversely, the current trajectory of interdependence is either in decline or has not even come about: America's share of Saudi oil exports is decreasing relative to China's[86] and China's role in Saudi and Gulf security non-existent beyond a few strategically insignificant arms sales.[87] However, will this Chinese detachment remain the case if we consider that the US's original and remaining chief incentive for underwriting Saudi and Gulf stability was and is energy security? In other words, will China one day see itself incentivized towards a comparable "oil-for-security" deal?

For the last two decades in which China's Gulf energy ties have increased in importance, China has technically upheld a *de-linkage of issue areas*. As T. Boone Pickens of BP Capital Management, a hedge fund, stated: "It's insane that we have the Fifth Fleet of the US Navy tied up there [in the Persian Gulf] to protect oil that ends up in China […]".[88] As Pickens himself will know, it is not quite that simple when one also considers the connection of Gulf security to global energy prices, on which the US remains to be as dependent as China does. Yet, Pickens' remark underlines the nature of China's key ability to remain militarily disengaged from the Gulf: the US security umbrella. China has been free-riding on it for two decades now while the US spends billions on the Fifth Fleet and Gulf military bases.[89] Hence, China is able to actively de-link the issue areas of energy and security for itself, because the US is *linking the issue areas* "for China".

Such a statement is admittedly oversimplified, as there are several different reasons for the status quo. These reasons now need to be addressed via scenarios in order to judge how far CIT can help illuminate the possible futures of the China–Saudi–US triangle and the extent of China's power in the Persian Gulf.

Theoretical futures for the China–Saudi–US triangle

Access denial

Scenario one would resemble the classic dynamism of great power rivalry and potential conflict. This is a scenario in which the US, as the dominant military superpower with significant control over access to the Persian Gulf, would deny China that kind of access. Such a course tilts closely towards the Realist ideal type of IR. Why would the US feel compelled towards such a strategy, how far could it realize it, and how would China, not to mention Saudi Arabia, and the other Gulf States react to it?

This Realist route would originate largely from, not so much Gulf politics, but an escalated Sino-American rivalry. Neo-Realists tend to focus on states' capabilities, not on intentions that they say are opaque. Hence, due to China's growing economic power resulting in more resources and incentives for China to turn that economic power further into political and ultimately military power, this would automatically present the US with a serious challenge to its strategic hegemony. China's rise would imply a threat to American global dominance. The East Asian theatre as China's backyard is the most likely source of such tensions and dynamics. However, the geoeconomic centrality of the Persian Gulf would incentivize China to establish an influential position there, and this would prompt the US to defend its interests and to deny China a regional military role. Any growing Chinese power projection capability, such as the full establishment of a "blue water navy", would be viewed through that lens.

This already includes the economic underpinning for power projection though, such as China's new energy interdependence with Saudi Arabia and other Gulf States. Washington would interpret Beijing's Gulf oil ties as a power resource for China, as well as a portal for greater Chinese regional access and control. This zero-sum game perception would view China's "string-of-pearls" strategy – the establishment of Chinese controlled proxy ports along the Indian Ocean littoral, including Gwadar, Pakistan,[90] and most recently Djibouti[91] – as a growing threat. It would be seen as a harmless but telling beginning to a future Chinese quasi-imperial undertaking that would ultimately seek to control vital sea lanes, and especially the Persian Gulf via bilateral alliances.

On land, similar examples can be found. Xi Xinping's One-Belt-One-Road project and the founding of the AIIB would be increasingly regarded as a Chinese challenge to Western-built institutions like the World Bank or the Japanese-led Asian Development Bank.[92] It would also be feared to turn into a Chinese "Marshall Plan" going beyond the construction of new Eurasian Silk Roads. Drawing in the West's GCC partners into this ambitious project, tagging informal political conditionality to future investments and building one fait accompli after another would be seen as provocations and threats to the US's access to and ultimately power in the wider Eurasian rim land. If successful, the China–Pakistan Economic Corridor, which seeks to connect China's land-and-sea strategies via Kashgar and the mentioned Gwadar Port would be a prime example of what American Realists fear.[93]

There are strategists in both the US and China who believe such a scenario of geostrategic competition and rivalry – a new Great Game – will intensify. If China perceives America's primary objective to mean global dominance at all costs, it would presume a strong China-containment strategy by the US. In any escalation of that looming great power conflict, China's biggest fear would be a US naval blockade, cutting it off from that vital energy supply. Additionally, possible sanctions on China through American dominance of global finance and insurance (also in the shipping industry), on which Chinese imports often rely, could have highly damaging effects.[94] Such potential American measures would likely have dangerous consequences for China's economic growth and thus for domestic political stability. This potential vulnerability is not in China's national interest, as the US could utilize its sea-power in West Asia (and everywhere else) as a bargaining chip in East Asian affairs, i.e. in China's own backyard.[95] Therefore, China is likely to develop its own sea lanes protection capabilities and possibly expand its "string-of-pearls" strategy in the long run.[96] In a Neo-Realist scenario though, the US and its allies will not allow this to be taken too far.

In Keohane's and Nye's words, China would respond to the containment by creating *linkages among issue areas.* Beijing would push for rapid military modernization and build alliances with regimes hostile to the West, especially in the Middle East. Finally, this would see Chinese military bases – i.e. real "boots on the ground" – in the region. If perceptions went in these general directions, such regional balance-of-power dynamics could cause a chain reaction into other theatres and issues having profound consequences for world peace and the global economy.

Even if no Third World War or major cyber-conflict breaks out, ending what the historian Niall Ferguson has dubbed "Chimerica".[97] – meaning the high financial interdependence between the US and China – alone could shake the globalized world economy to unprecedented extents. China holds more than $3 trillion US Treasury securities (and around two-thirds of these are in foreign currency reserves, i.e. US dollars).[98] China would have the capability to cripple the US economy and end the reign of the dollar by selling its foreign currency reserves, thereby flooding the international market, greatly devaluing the dollar simultaneously. However, such a move would also threaten US imports of cheap Chinese goods on which China's economy still largely depends. Furthermore, by de-valuing the dollar the collapsed value of Chinese holdings would ruin China's own finances.

On the other hand, once even a non-violent geopolitical conflict between the US and China breaks out, the decision-makers' rationale will switch from focusing on national economic gains to national defence. A financial war could be the result after all. In the words of portfolio manager and United States Department of Defense (DoD) advisor, James Rickards, the "purpose of financial war is to degrade an enemy's capabilities". Profit making "has nothing to do with financial attack". The "economic cost of confronting the United States in financial warfare may not be higher than confronting it at sea and in the air".[99] He states that "China could protect its reserves against asset freezes or devaluation in the event of a financial war by converting its paper wealth to gold".[100]

In other words, China might have more options up its sleeve than the Federal Reserve admits. For now, the dollar's reign is likely to endure, but it is not safe from severe threats in a geopolitical crisis. Interestingly enough, the Gulf States – themselves major holders of dollar reserves – are warming to the idea of a more multipolar monetary order. In times of a potentially emerging "Petroyuan" – Gulf oil trade conducted in Chinese Renminbi[101] – or a conceivable future GCC currency pricing the oil exports,[102] the international monetary regime could erode faster than currently assumed.

Obviously, none of our three actors has an interest in such sudden shocks and their vast destruction of wealth. Hence, they are doing their best so far to avoid such a doomsday scenario. Ironically, for the time being, China is almost forced to continue its steady purchase of US government bonds in order to assure international markets and sustain the reign of the dollar and a stable Renminbi. I can therefore conclude, that the Neo-Realist great power scenario momentarily seems highly unlikely to live up to its name. The *reciprocal costly effects* would be indeed too large for the US and China to accept. Thus, although the dangers of future US–China rivalry in the Persian Gulf with all its global ramifications are real, the conditions of high (or complex?) interdependence between the great powers themselves would only allow the situation to escalate. No side seems eager to take those risks. So do Keohane and Nye indeed have the stronger case?

International cooperation

Scenario two would tilt closely towards the ideal type of complex interdependence. The extreme scenario of a US–Gulf oil embargo against China can be described as relatively unrealistic, for the moment. Not only would it be very difficult for the US to actually enforce it technically,[103] it would also meet strong opposition from the oil exporting Gulf States. As we have seen above, those US allies have just as much to lose as China, were their current and future largest market to be closed to them. In other words, the high and *symmetrical interdependence* between China and Saudi Arabia and other Gulf States in the energy issue area represents a huge obstacle for the US to enforce an anti-Chinese oil embargo, i.e. complex interdependence makes it hard to create linkages among issue areas. The conditions of Keohane's and Nye's ideal type will be met even closer when other issue areas, such a non-energy trade and investment, will become more important in case of the potentially imminent China–GCC free trade pact.[104]

So far, there has been not a single sign or incident hinting at a diplomatic rift between the US and China in the Gulf. It has almost entirely been a story of cooperation. Since China began to import oil from the Gulf there has been only one American interception of a Chinese ship. The 1993 *Yinhe* incident, when the US Navy suspected a shipment of Chinese chemicals to Iran, proved to be an isolated case.[105]

Even though Beijing's stance on Tehran's nuclear programme and on sanctions has been softer than Washington's, it is unlikely China would ally with Iran against the US. Stable relations with the US remains China's key strategic objective for the time being. China has no interest in a nuclear-armed Iran that could damage its relations with the Arab Gulf States and certainly no interest in a possibly resulting nuclear proliferation cascade in the Middle East. Such a scenario would dramatically increase regional security risks that would be potentially very harmful for Chinese energy security and business interests.[106] Hence, in an extreme scenario China has noteworthy incentives to cooperate with the US against hawkish Iranian behaviour.

This is why China has so far avoided labelling its relationship to Iran "strategic" – a word it interestingly does use describing its relations with Saudi Arabia.[107] Therefore, one could interpret China's new proximity to Saudi Arabia the opposite way Neo-Realists would. Are the closer Sino-Saudi relations maybe a reflection of China's cooperative intentions with regards to the US? By calling its relationship with Saudi Arabia "strategic", is China merely attempting to join the US–Saudi alliance in the Middle East, rather than balancing against American regional influence by whetting Saudi appetite for a strategic alternative? CIT would argue the benefits of cooperation are to bring like-minded countries interested in *absolute gains* together and potentially isolating "rogue states" tempted to overthrow the order. This seems closer to the truth than Neo-Realist fears of Chinese influence threatening the US regional role. A hint towards such a tranquil economic and political scenario in the Gulf theatre might be the current behaviour of the AIIB in the wider Eurasian theatre. Economic and institutional, and thus political, cooperation has so far ensued between this new institution and the established World Bank and Asian Development Bank. Absolute gains incentives seem to be accompanying these new institutional changes.[108]

Such institutional, economic and political cooperation need not be replicated in Gulf affairs and in the China–Saudi–US triangle, but they might help build confidence. Yet, in the future it could turn out both ways, regardless of current Chinese and US intentions and actions.

However, if the status quo of US–China relations in the Middle East were to be upheld and merely adjusted to global developments it would be the more stable scenario. The US military presence in the Persian Gulf would be largely maintained. China would first continue its free-riding and – if at all – only gradually take on a more direct, but cooperative role in Gulf security. A simultaneous gradual power transition from Washington to Beijing would develop peacefully and, as its reliance on Gulf energy declines further relative to China's reliance, the US would allow and even encourage China to take over more responsibility in contributing towards regional and global energy security. Both militaries could start working together to ensure this due to the incentives for cooperation under the conditions of the globalized world's high interdependence. Admittedly, such a clean and stable scenario has non-Middle Eastern obstacles. US–China relations would not merely be required to remain what they are today. South and East China Sea disputes between China, ASEAN and Japan, as well as related maritime tensions between the US Navy and the Chinese People's Liberation Army Navy (PLAN) would need to be settled first.

However, should this not take place at some point in the next few years it will be harder to avoid dynamics similar to scenario one. Furthermore, the Middle Eastern status quo and its stable development cannot be taken for granted either. History hardly ever operates in a linear, let alone "sensible" fashion, and the question of Gulf security is no exception. What could upset it?

Regional anarchy

Scenario three would ultimately see no outside power significantly involved in Gulf security. A US withdrawal might come about due to various imaginable reasons: financial priorities shifting the Pentagon's lion's share of the budget to other theatres considered more vital for national security and economic stability;

a US default on its debts for example due to another financial crisis and great depression in concert with a further widening fiscal deficit and the end of the US Dollar as global reserve currency; a spill over of violence and instability into the Gulf's rich petro-states creating a situation the US cannot efficiently handle without dramatically breaching its core values; a greatly reduced US appetite for political and military involvement in a conflict-ridden Middle East seemingly guaranteeing nothing but US blunders and anti-Americanism; an outright failure of *Pax Americana* due to reduced capabilities; a dramatic decline of US foreign policy's legitimacy in the eyes of not only Gulf populations and their governments, but also Americans themselves; also less dramatic developments that do not seem fanciful, such as either a US energy self-sustainability empowering neo-isolationists in Washington or indeed a global transformation in energy technology and consumption significantly reducing global oil demand.

Such developments are purely hypothetical and should be treated with caution. Yet, that does not mean they can be discarded. Historically, there is nothing unusual about eroding hegemony or sudden imperial retreat. After all, the British withdrawal from the Gulf in 1971 had been announced only three years beforehand and it occurred under comparable circumstances – the UK's decline in overseas power and illegitimacy of empire, growing insecurity in the Middle East, political pressure due to the Labour Party's ideological motives, as well as economic troubles and financial priorities shifting inwardly.[109]

Were the US to go down a similar route (a) without another regional security system in place first, or (b) without any other outside power capable and willing to take over the stabilizing role, Gulf security would likely come under serious threat at some stage. Although regional actors, especially Iran, would wish nothing more than taking care of Gulf security themselves,[110] and although analysts like Ian Bremmer point towards the rewards of such an order,[111] it seems highly unlikely for this to happen any time soon. Even the GCC members alone seem unable to disregard their suspicions of each other and form a trusting and meaningful regional security system.[112] They are merely cooperating under American leadership and often trust their outside protector more than their direct neighbour. Even if the recent nuclear deal with Iran one day finds full backing by the GCC, regional rivalry has been simmering under the surface for decades.

The last time it was allowed to erupt was when Saddam Hussein invaded Kuwait after he had already attempted to invade Iran. This was before the US filled the power vacuum the UK had left behind. Now, in the post-Arab Spring world with violence, radicalism and instability – anarchy – spreading out all over states on the Gulf periphery, in Iraq, Syria, Yemen, Somalia and North Africa, in a fashion comparable to Europe's Thirty Years War,[113] it seems farfetched the GCC members and Iran could uphold their relative stability alone. Indeed, their very own sectarian-legitimized rivalry is a major driving force behind the recent escalations. These proxy wars could very easily turn into a more direct interstate conflict without any international actor creating the kind of buffer zone that is still in place.

China on the other hand is still far from being capable of replacing the US. And as we have seen above, neither is it willing to do so for the time being. Even a US withdrawal "tomorrow" would not result in China's leaders changing their minds very quickly. It has been more than reluctant even to participate in the war against IS although a high number of Chinese workers and firms in Iraq are at potential risk and Chinese IS members returning home to Xinxiang are perceived as a direct political threat.[114] Observing history, as we have seen, it took America 20 years to fully replace Britain as the Gulf hegemon.

With the exception of a combined and greatly upgraded European and possibly Indian participation in Gulf security, there are simply no great powers, including Russia, currently capable of ensuring Gulf security militarily. For the moment, it is either the US alone or with allies (as now) or no one to ensure this. The latter would likely escalate into regional anarchy.

This oversimplified and again highly "Realist" scenario would entail something like the exact opposite of scenario two. Whereas international cooperation in Gulf security would largely be good for everyone except regional rogue states and terrorists, regional anarchy on the other hand would be largely bad for everyone except regional rogue states and terrorists.

Conclusion

Is there a complex interdependence between China and Saudi Arabia? Or rather, does the Sino-Saudi relationship tilt closer to Keohane's and Nye's ideal type or closer to Neo-Realism? A key towards answering this research question was to assess the extent of linkages between not only two vital issue areas in Gulf affairs – energy and security – but also two issue areas that seem so "naturally" linked that the assessment should be a particularly sound tool to put the theory to the test. This analysis was driven by the underlying questions on what China's rise entails for the Gulf and what the Gulf's issues entail for China's interests in the region. Ultimately, they contributed to an assessment of how much power China will have and exercise in the Gulf region in the foreseeable future.

China–Saudi energy trade, this chapter has demonstrated, constitutes a significantly interdependent relationship. It is not only largely *symmetrical* in that issue area's power distribution, but has also reached a significant level. Both countries are not only *sensitive* towards a hypothetical breakup of the relationship, but will be increasingly *vulnerable* towards it. However, despite *multiple channels* connecting both societies, it needs to be indicated there is a clear *hierarchy among issue areas*, something Keohane and Nye would predict as unlikely under complex interdependence conditions. However, it is not the security issue area, but the energy issue area that is dominating the bilateral ties. Therefore, the Neo-Realist ideal type can be considered further away from current reality. China and Saudi Arabia have so far managed to *de-link* security from energy in their own relations, for mainly two reasons.

First, China does not yet have the military capabilities necessary to inheriting the mantle of Saudi Arabian and wider Gulf security provision. The second reason, and this constitutes my main point, is the United States and its continued "special relationship" with Saudi Arabia in the security issue area. It enables China to free-ride on US expenditures and efforts to keep the trade routes open and safe. In other words, China has no real incentive to link the energy and security issue areas as long as its relations with America remain intact.

Hence, CIT, while correct in describing some characteristics as well as the *costly effects* of breaking relations, proves a certain distance from reality when it comes to an assumed complete *absence of linkage strategies*. Energy is too important an issue area and the Middle East too unstable a region for a separation of both to be credible any time soon. The security cooperation between the US and Saudi Arabia is highly interdependent, though it can be specified as *asymmetrically interdependent*. Although Saudi Arabia is the centrepiece of America's Gulf security strategy, the Kingdom is not entirely irreplaceable. Without any credible alternative, Saudi Arabia is more *vulnerably dependent* on US protection, whereas the US is probably merely *sensitive* to losing Saudi Arabia as a regional ally. With (a) the recent Iranian nuclear agreement and (b) and a reduced importance of Saudi oil for the US, this asymmetry in interdependence is likely to increase even further.

Since the opposite is true for China, Beijing might indeed intensify its political engagement in the region, even though it is neither willing nor yet capable to replace the US as the Gulf hegemon. The latter scenario is only imaginable if Washington either adopts a containment strategy towards China that would actively seek to reduce Beijing's influence in and control of the Gulf and to potentially deny it access. This could create a self-fulfilling prophecy which would resemble Neo-Realism at its finest. The same could be said about its failure, should the US manage to deny China full access to the Gulf.

So would the other extreme scenario in which the US for several imaginable reasons sees itself forced to withdraw from the Gulf leaving behind a power vacuum that would be filled by regional rivalry and aggression. As happened with the US after 1979, this could ultimately lure even a reluctant China into the stabilizing role, should its capabilities by that time suffice. This is not very likely though, as Gulf security remains to be a critical US interest in its own right, and oil will always be a global commodity, making the US vulnerable towards oil prices even if the country achieves energy self-sustainability. In short, there is no energy independence, only energy interdependence.

This does not automatically entail a pre-destined future of cooperation though. I can conclude that two of my scenarios, "access denial" and "regional anarchy", would see *linkage strategies and security dynamics dominate*. They are much closer to the Neo-Realist ideal type. However, both scenarios would have such *costly effects* across the board, that there are numerous big incentives for the scenario of "international cooperation" – closely resembling (though not completely matching) conditions of the *complex interdependence ideal type* – to be the stronger one for now and the foreseeable future. In this way, even if not regionally formalized, China, Saudi Arabia and the US represent an interdependent triangle – or rather triangles, plural. It is a *more nuanced distribution of* *power among several issue areas* that describes these international Gulf affairs more accurately as time goes by. Ironically, much to Saudi Arabia's and the wider Arab Gulf potential advantage, China and the United States would therefore share different types of power in the region, leaving neither of the two outside actors ultimately capable to unilaterally dominate it.

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7 OBOR's impact on Sino-Israeli relations

Yoram Evron

Introduction

Until the turn of the twenty-first century, Israel had enjoyed years of close military-technological collaboration with China. But then Israel was forced under uncompromising American pressure to abort this relationship. The first decade of the twenty-first century witnessed a series of vacillations in Israel–China relations, and their drastic decline. However, in 2011 Beijing, already becoming recognized as a rising world power, changed its approach to Israel and left its grievances behind. Israel, facing growing political-economic pressure by European countries related to the Israeli–Palestinian conflict, and increasing tension with the US administration, sought a more independent path to China.[1] Concurrently, as US–China tension remained high, and Israel's dependence on the US had not become lighter, both Jerusalem and Beijing realized that the only way for them to strengthen their relations was to shift their focus to economic-technological areas. Besides substantiating Israel's intention to forge stronger relations with the rising world power, such a shift also served both states' economic interests. Israeli companies searched for a bigger share of the Chinese market while China saw Israel as source of innovative technologies and a market for its construction companies.[2] Indeed, since the first decade of the twenty-first century Chinese construction companies have been increasingly involved in Israel's transportation and other infrastructure projects.[3]

China's announcement in September 2013 on the One Belt, One Road (OBOR) initiative well suited this development. OBOR, and other measures associated with this plan China undertook (e.g. establishment of the of Asian Infrastructure Investment Bank – AIIB), seemed complementary to the new direction of Sino-Israeli relations, especially in view of Israel's geopolitical location between Asia, Africa and Europe, and between the Red Sea (and by extension the Indian Ocean) and the Mediterranean. Accordingly, on various occasions the two states intimated – Israel enthusiastically, China more implicitly – the incorporation of Israel into the megaproject.[4]

While fitting well into recent trends, OBOR has not necessarily set a new course for Sino-Israeli relations or changed their determinants. OBOR's official documents and declarations mention Israel only partially and its planned routes do not cross it. Still, OBOR is often mentioned in China–Israel contacts and in Israel's internal discourse on relations with China. In general, expanding political and economic circles in Israel expect Israel to become involved in this initiative; some even foresee a growing role for Israel in China's Middle East involvement.[5] Such expectations are not necessarily shared by China, whose objectives concerning Israel might be narrower, as detailed below.

The possible gap between Israel's and China's expectations concerning Israel's involvement in OBOR, as well as the project's implications for China's involvement in the Middle East, raise questions about OBOR's implications for the two states' relations: how will it impact their economic as well as their political relations? Will China's interests in Israel change? Will China have greater influence on Israel's foreign and national security decisions? And most fundamentally, will OBOR change the basic determinants underlying China–Israel relations? Such questions are related to the basic features of Sino-Israeli bilateral relations, but also to exogenous factors such as China–US and Israel–US relations, and China's evolving approach to the Middle East.

Attempting to address these questions, in this chapter I first explain how over the years economic collaboration has become a dominant factor in the two states' relations, and the limitations of this development. Then I examine the various forms of Israel's possible involvement in OBOR, their implications and prospects as seen by either state. The chapter concludes by analysing OBOR's implications for China–Israel relations. I find that the OBOR plan per se is not intended to change the course and determinants of these relations, but activities associated with it may expand interaction between the two states, thus allowing more opportunities, as well as friction, between them.

China–Israel pre-OBOR relations

The early stage: military relations in command

Israel's interest in China – and its intention to establish relations with it – can be traced back to the earliest days of Communist China. Israel was the first Middle Eastern country, and one of the first non-Communist states, to recognize the People's Republic of China (PRC), and although diplomatic relations were formed only in 1992 Israel supported Beijing's One China principle from the start. However, Israel's China policy has traditionally been highly sensitive to American inputs. In the early 1950s, before Beijing adopted a pro-Arab stand, Israel decided to delay diplomatic relations with China in order not to impair its relations with the US. This, together with China's rapprochement with the Arab world then and its general radicalization from the second half of the 1950s, ruled out the possibility of relations until the late 1970s.[6]

Relations began to heal in 1979, due to China's interest in Israeli military technologies. Assuming that the United States would not object categorically, Jerusalem acquiesced and the two states thereafter collaborated in defence technology for two decades, in the course of which time diplomatic relations were established. But in 2000, just before Israel was to supply China with the Phalcon airborne early warning and command system (AWACS), it again succumbed to American pressure and cancelled the deal unilaterally. Five years later Israel irritated Washington once more, and was obliged to renege on its commitment to maintain (or upgrade) the Harpy assault Unmanned Aerial Vehicles (UAVs) it had supplied China in the 1990s. In both episodes the immediate target of American pressure was Israel's Ministry of Defense (MOD), which the US blamed for approving and implementing the arms deals with China. In 2000 the US threatened to reduce its military aid to, and technological collaboration with, Israel's defence establishment, and in 2005 it demanded that high-level MOD officials who had approved the UAVs maintenance/upgrading be dismissed. The US and Israel also reached certain understandings that all sensitive technology transfers from Israel to China be subject to US approval.[7] That put an end to China–Israel defence technology relations.

Despite the important role of the defence ties in the formation of China–Israel relations, their rupture made only a limited impact on their other dimensions. First, defence relations were largely isolated from other fields, including civilian economic and technological connections. China had become acquainted with Israel's technological capabilities by way of the defence relations, but economic, scientific and civilian technological activities between the states starting in the 1980s proceeded independently of them. By the time defence relations were severed, connections in these fields had been established and formalized. Moreover, defence relations were overseen by the MOD,[8] which left the foreign ministry relatively unscathed and saved it from charges arising from the Phalcon and Harpy fiascos. Nevertheless, the break in defence ties did influence political relations as a whole. The solid relationship between the defence leaderships of the two states collapsed, and high-level mutual visits were drastically reduced. In addition, Israel's MOD – which hitherto had been at the forefront of the relationship and was regarded as responsible for the debacle – went into reverse. Aware more than any other organization of the implications of Israel's strategic dependence on the United States, and facing the risk that the Chinese defence connection would jeopardize all this, the MOD kowtowed to Washington's directives. It imposed strict constraints on defence relations with China in general and on sensitive technology transfers in particular. In the broader sense, burned by its close relations with Beijing, Jerusalem decided to cut off almost entirely its defence connections with China in order not to spark Washington's suspicions again. This was the situation through 2011, when Beijing decided for its own reasons to start a rapprochement with Israel again.

2011 onward: economy in command

Israel's recognition of China's growing global importance was gradual. From the early 2000s China rose rapidly to major-power status, but until 2010 Jerusalem still laboured under the traumatic impact of the Phalcon and Harpy affairs. Due to concern about Washington's response and Beijing's cold shoulder, it made only minor diplomatic and political efforts to restore relations. Apparently, Israel's sole interest in China as a world power was in respect of the Iranian nuclear project; in 2010 it started to act more vigorously to convince China to strengthen international sanctions against Iran in order to halt this project, including the dispatch of high officials and ministers for discussions in Beijing.

Concomitantly, China's attitude to Israel changed, probably because of its decision to play a larger part in international politics and its growing activity in the Middle East, as well as the eruption of the Arab Spring. Perceiving Israel as a key regional player as well as a source for advanced technology,[9] Beijing began paying it much greater attention than before – and in all aspects. In 2011, high-level military visits between the two states resumed. Then, in May 2013 an Israeli Prime Minister visited China for the first time in six years, and in December that year and May the next, respectively, China's Foreign Minister and Vice-Premier visited Israel. Concurrently, relations shifted gear in their practical aspects. Learning past lessons and mutually aware of the potential benefits these relations held out for them, the two states shifted the relations' centre of gravity from military to economic. Thus, military collaboration was reduced and limited to non-sensitive areas, such as counter-terrorism.[10] Economic collaboration, on the other hand, which thus far had focused mostly on foreign trade, expanded considerably in three other fields: Chinese foreign direct investments (FDI) in Israel, research and development (R&D) collaboration between Chinese and Israeli companies and universities, and – most relevant to this study – growing participation of Chinese companies in national infrastructure and construction projects in Israel.[11]

Starting in the late 2000s, the involvement of Chinese construction companies in infrastructure projects in Israel gathered momentum. They won bids to conduct national-scale projects in the construction of transportation tunnels, railroads, seaports and the like. Offering cheap tenders and meeting short schedules, those companies were also willing to partly finance the projects.[12] As it became clear that China would play a significant role in the construction, and partly operation, of Israel's infrastructures in the coming years, in July 2012 Israel's Transport Minister Yisrael Katz visited China and discussed several infrastructure projects. Among which was the construction of the Red-Med railway, namely a railroad between Eilat – a port city located on the Red Sea – and Ashdod – a port city on Israel's Mediterranean seaboard.[13]

On Israel's part, acceleration of economic ties with China is the result of a deliberate effort starting not later than early 2012, for both economic and political considerations. Well aware of China's astonishing economic burgeoning and the shift of the global economy's centre of gravity eastward, Israel regards economic connections between them as a significant growth engine. As Israel sees it, the basis for enhanced cooperation between the two states is China's interest in Israel's advanced technology. And indeed, Chinese experts show interest in implementing Israel's experience in various fields, such as agriculture, R&D investment policy, education and the defence industry.[14] Chinese officials and businessmen express interest in Israeli technology as well: when defence and diplomatic relations between the two states were in decline China still looked for technological collaboration opportunities with Israel.[15] China also seems to share Israel's view that its advanced R&D and China's production capability complement each other, their huge size difference notwithstanding.[16]

And indeed, in 2013 the chief economic advisor at Israel's Prime Minister's office stated that relations with China were of strategic importance for Israel.[17] Prime Minister Benjamin Netanyahu reasoned that together with the internet, the rise of Asia was the most important development in the global economy, "particularly the rise of China".[18] Similarly, the Minister of Economy said,

> We are in the middle of a historic move that can be called "going East". The Israeli government has made a strategic decision to promote developing markets, e.g. China, India …, to diversify our export destinations, so we will not be over-dependent on one market or another.[19]

These claims were supported by the Bank of Israel's report. By 2035, the report indicated, the share of Israel's exports to China might be double the present level (5 per cent of total export), while export to the United States and EU countries – Israel's biggest export markets then – was expected to decline.[20]

Coupled with China's huge size and rapid growth, Israel assigns importance to economic relations with China also because of Beijing's pragmatic approach and its unwillingness to meddle in Israel's political situation. Apparently, China clearly distinguishes economic from political affairs: a good example is the unimpeded continuation of economic relations after the collapse of the Sino-Israel defence relations and their detachment from historic Middle Eastern conflicts. In particular, Jerusalem assumes that Beijing will not exploit their economic relations to manipulate Israel's conduct on issues such as the Israeli–Palestinian conflict. Israel's Minister of Economy was blunt about this. Visiting China in December 2013, he conveyed to Israeli businessmen that China was primarily focused on Israel's innovative technologies, not the conflict with the Palestinians.[21]

And indeed, Israel finds political significance in the economic relations with China, perceiving them as a countermeasure to Western (mostly European) attempts to pressure it. In May 2014 Prime Minister Netanyahu said that recent agreements concluded with developing economies, including China, were "our answer to those who seek to isolate us".[22] Several months earlier he analysed Israel's challenges amid global developments, noting several times that the global situation was conducive to Israel's forming new alliances: "Any country needs alliances, definitely a state like Israel, to magnify its strength, including our relations with the newly rising powers". He added: "Israel should build a set of interests with everyone. For example, China is greatly interested in Israeli technology.… Israel should form a set of interests and partnerships with all world powers".[23] Arguably, that statement was aimed mainly at the US. With increasing friction with the Obama administration, Netanyahu apparently presumes that Israel's heavy dependence on the US limits its room for maneuver.

To show how serious it was, Israel took measures to demonstrate its commitment to the restored relations with China. Just before the due date of Netanyahu's planned state visit to China in 2013, a US court ordered Israel to send an official to testify in a lawsuit against the Bank of China in a terrorism financing case. Reportedly, China conveyed a message that if the official testified, Netanyahu's visit would be cancelled. Although the victim of the particular terror attack was an American Jew and Israel had been involved in initiating the lawsuit, and despite the pressure applied by pro-Israeli Republican Congressmen in Washington, Netanyahu decided to prevent the official from testifying and to proceed with the visit.[24] This was the first time that Israel proved ready to withstand American pressure regarding its relations with China. Explaining Israel's behaviour in this issue, Israel's ambassador to the US said: "The strategic relationship between Israel and China is in a different place".[25]

There are also concerns in Israel's government, academic and industrial sectors about the negative economic implications of cooperation with China. First is the matter of intellectual property rights (IPR) violations. Numerous Israeli companies, mostly startup and other advanced technology companies, refrain from entering this market for fear of losing their most valuable asset: their innovative technologies.[26] Second, leaders in industry and academia warn that the transfer of R&D centres from Israel to China will cause the closure of local R&D activity, and eventually Israeli companies will face powerful competitors.[27] Responding to the acquisition of the agrochemical manufacturer Makhteshim Agan by China's National Chemical Corporation (ChemChina), the former president of the Technion stated: "The sale of Makhteshim Agan is a sad day for industry. A factory with a massive amount of knowledge is being sold to the Chinese. Decades of research were for nothing...."[28] Also, Israeli hi-tech companies, many of them with their main centre in the United States, are afraid of being blacklisted in the American market. According to Israeli executives in these companies, they often fear that taking Chinese partners will block the US market to them, so they opt to avoid the Chinese market altogether.[29]

In another dimension, warnings have been voiced in Israel against the close affiliation of many Chinese corporations to the Chinese regime. Such companies, opponents claim, should be regarded as an extension of their regime, and by acquiring local companies they further Chinese government control of important Israeli connections and access to information, technological resources, and other essential assets. As for the intended purchase of Tnuva, Israel's largest food company, by China's Bright Food, leaders in Israel's food sector warned that if the Israeli government tried to reorganize this sector, any attempt to deal with Tnuva might have Israel confront not the purchasing company but the Chinese government.[30]

There have also been warnings in Israel against the political-strategic ramifications of the tightening collaboration with China. Such concerns focus mainly on China's political and strategic positions, efforts and objectives in the Middle East. This interest stems largely from China's energy dependence and its desire to reduce American diplomatic predominance in the region, which necessitates good relations with Iran, Syria and other Muslim states. China even assisted Iran with its nuclear project in its early stages and was later accused of weakening the international sanctions imposed on it.[31] Also, attempting to play a leading role in the non-aligned movement, China long ago adopted a pro-Arab stand on various aspects of the Israeli–Arab and Israeli–Palestinian conflicts. For these reasons, there have been warnings in Israel that China is becoming a stakeholder in the Middle East whose interests may contradict Israel's. Efraim Halevy, former head of the Mossad, Israel's intelligence organization, stated bluntly: "China gives substantial support, at times massive, to the extremists among our enemies".[32] In addition, warnings have been sounded that allowing China to strengthen its presence in the Middle East may harm Israel's strategic understandings with the United States.

Calculating the pros and cons of economic cooperation with China, Israel's business sector, academic institutions and relevant government bodies have ultimately come to share the view that it should be enhanced, albeit cautiously. Concerned about declining investments and diminishing demand from Western countries, Israeli companies and investors expect China to fill the vacuum. Likewise universities, whose traditional donor sources have declined since the 2008 global financial crisis.[33] Sharing a similar view, the government took two important decisions to promote Chinese investments in Israel. The Ministry of Finance rejected claims that Chinese companies investing in Israel were motivated by external considerations, instead seeing them simply as business operatives;[34] and the government rejected a bill to form a foreign investments inspection committee, which was largely a response to the aforementioned initiative of a Chinese corporation to purchase Israel's largest food company, Tnuva.[35]

To conclude, the two states managed to overcome the 2000 and 2005 crises by developing mutual interests, but the fundamental factors underlying the relations – China–US relations and China's pro-Arab policy – remain static. In particular, Israel's failure to renegotiate with the US their 2005 understandings on Israel's technology transfers to China continues to subject China–Israel relations to US interests. Reportedly, the existing situation impels certain Chinese officials to regard Israel as an "American puppet".[36] Also, while China's active support of the Palestinians has decreased dramatically, its pro-Palestinian position remains unchanged.[37] These factors continue impacting Israel–China relations, though more obscurely than before. Among other things they limit the potential of technological collaborations between the two states, and may prevent China from integrating Israel in certain regional initiatives.

Israel and the OBOR vision

China's announcement of its OBOR initiative in 2013 seemed to accord well with contemporary developments in China–Israel relations. As described in the preceding chapters, OBOR was initiated more as an obscure vision than a detailed plan. It did not include a detailed explanation about the program's costs and benefits, how the benefits would be distributed among the involved parties or who actually constituted those parties. Yet it was clear that basic components of OBOR were large-scale investments in infrastructure projects – mostly transportation – between China and Europe through central and Western Asia, and expansion of trade between China and these regions. Through OBOR, China clarified that construction of infrastructure projects, investments and trade would be its main fields of interest and activity.

Certainly, the intensifying economic focus in China–Israel relations, with particular emphasis on infrastructure and investments, as well as Israel's location between Asia and Africa, and between the Red Sea and the Mediterranean, has generated much Israeli interest in becoming part of this initiative. However, OBOR's obscurity and its potential implications for China's position in the Middle East, coupled with the delicate nature of China–Israel relations, may also intensify the built-in impediments present in these relations. To illustrate this, we analyse two possible dimensions of Israel's involvement in OBOR: China's involvement in Israel's seaports and railway infrastructure, and Israel's inclusion in OBOR-related economic-financial frameworks.

Israel and OBOR's transportation network

As OBOR's clearest feature and goal is connecting China with other parts of Asia and Europe through a web of land and sea routes, Israel's possible involvement in the enterprise lies in the construction and partial operation of its seaports and railroads by Chinese companies. The Red-Med railway, which will form a ground bridge between the Red Sea and the Mediterranean, and according to Israel plans may also join up with the Jordanian railway system at Aqaba,[38] is its most outstanding project. But as mentioned above, the Israeli government announced and approved the idea of a high-speed railway between Eilat and the Mediterranean as early as 2012, namely one and a half years before OBOR was announced. Moreover, neither this railroad, nor any other transportation pathway that traverses Israel, is marked on official OBOR maps or documents.

This does not prevent Israeli official and non-official sources maintaining that the Red-Med project is part of OBOR. Actually, when the decision to build the Red-Med railway was made Prime Minister Netanyahu already regarded the project as a part of his government's strategic decision to enhance economic ties between Israel and China. Chinese firms were intended to play a major role in the construction works, and the entire project was aimed at developing a Chinese economic interest in Israel.[39] The Israeli government also expected Chinese companies to fund the project.[40] Later on, after China announced the OBOR plan, Netanyahu repeated this argument. Presenting a plan for the Eilat–Ashdod railroad in December 2013, he mentioned that such a transportation line "will be important for global trade and Chinese trade".[41] A few weeks later he reiterated this idea:

> China has to ship many of its goods to major Western markets, including Europe. A significant portion of its products get to Europe through the Suez Canal. The Eilat–Ashdod train is first of all an economic connection from China to Europe.[42]

And indeed, right from the beginning the Israeli Transport Ministry started searching for a Chinese company to lay the railway.[43]

By providing a land alternative to the Suez Canal, such a railroad may well blend with OBOR's logic. First, the capacity of the 350-km (220-mile) high-speed railway is greatly constricted in comparison with the Suez Canal, but it still provides some alternative. As one of China's common strategies to minimize dependency is to generate alternatives, the existence of such a railroad may serve its cause. Second, if OBOR is largely about providing investment and work opportunities for Chinese companies, the construction of this $6–13 billion project may meet these goals as well.

Also, Chinese companies seem interested in having a foothold in Israeli seaports. In 2014 the China Harbor Engineering Company won the tenders to build new ports in Haifa and Ashdod, and in 2015 China's Shanghai International Port Group (SIPG) won a tender to operate the new port in Haifa for 25 years.[44] While Ashdod seaport may be the terminal of the Red-Med railway, Haifa seaport could be a major hub on another sea-land pathway on the OBOR. In November 2016 Israel completed the construction of a 60-km railway from Haifa (including Haifa port) to Bet Shean, a city on Israel's Eastern border. The long-term plan, as already discussed between the Israeli and Jordanian authorities, is to connect the railway to the Jordanian railway system through Sheikh Hussein Bridge, the international border crossing between Irbid in Jordan and Beit She'an, and perhaps even from Jordan to other Mideast states.[45] Such a route, if it materializes, can connect the Mediterranean with the Persian Gulf, and may provide Chinese companies various opportunities to construct and operate its diverse components. It may also serve as another alternative to the Suez Canal, thus complementing the Red-Med railway.

However, while the possibility of becoming part of OBOR's physical infrastructure is highly welcomed by Israeli government and business circles, it involves substantial impediments as well. As mentioned, the railway's capacity is greatly limited – with less than 5 per cent of the Suez Canal volume, and under any circumstances cannot provide a substantial alternative.[46] Moreover, the project's profitability is questionable. According to certain analyses, the railway is expected to increase shipment costs (from East Asia to Europe) by up to 100 per cent and to extend the supply period by up to 60 per cent, as compared with the Suez Canal when it operates smoothly. When the oil price is low, sailing to West Africa via South Africa may still be a cheaper and shorter alternative to the Suez Canal than using the Red-Med railway.[47] Thus, the Red-Med railway may prove nothing but an expensive small-scale backup.

Furthermore, the construction and operation of the Red-Med railway may irritate Egypt, whose economy depends heavily on the Suez Canal. This circumstance may thwart Israel, which ascribes great strategic importance to its relations with Cairo, and probably also Beijing. The bulk of China's exports to Europe, its greatest export market, is shipped through the Suez Canal. To secure and improve this pathway China has invested hundreds of millions dollars in Port Said and in constructions works along the canal.[48]

Finally, Beijing's traditional pro-Arab policy, its close relations with Iran and its growing confrontation with the United States have raised concerns in Israel about allowing China long-term access to its seaports and other strategic transportation infrastructures by constructing and partially operating them. Efraim Halevy expressed it most clearly: "China is promoting major projects in our area intended to establish points of influence, via the sea and via the ports, which could assist the enemies of Israel, among other things, to greatly increase their capabilities against Israel".[49] As for implications for Israel–US relations, Halevy warned rhetorically:

> Does the [Israeli] Prime Minister intend to add the [Eilat port] pearl to China's treasure in its struggle against the US?[50]

This and similar critiques were met with counterarguments, claiming that control of seaports and railway infrastructures remains in Israeli hands, and that China's involvement in their construction and operation is a purely economic matter. Israel's Transport Minister even declared that the Red-Med line would only be constructed, not operated, by a Chinese company.[51] Currently, such a line of arguments seems to reflect Israel's formal position, since it is determined to get involved in OBOR.[52]

Israel and OBOR's economic-financial framework

Another possible expression of Israel's involvement in OBOR is its participation in financial and economic initiatives associated with it. As OBOR's specific contents are not accurately defined, the range of its associated activities is quite broad. In Israel's case, they include joining the AIIB and to a certain degree also concluding a free trade agreement (FTA) with China. Israel's decision to join AIIB as a founder-member was quite surprising both because the bank's objectives and nature were not yet clear when Israel's decision was made and because at first the US tried to keep its allies out of AIIB. However, after important US allies joined the bank, and Jerusalem was convinced that Washington would not object to its doing so, on the last day of the time limit Israel submitted a request to join it as a founder-member.[53]

That atypical move was motivated by various considerations. According to Israel's foreign ministry, Israel joined the AIIB to give Israeli companies the chance to be integrated into various infrastructure projects financed by the bank, and because it provided Israel a rare opportunity to join "major Asian organizations".[54] Whereas the AIIB's actual economic potential has never been clear, the diplomatic benefits were obvious. Israel had been excluded from regional Asian frameworks from the 1950s under the pressure of Arab countries, and membership of AIIB provided it an important opportunity to turn the tide. In addition, Israel regarded this move as an important measure in tightening its relations with China. Israel's formal announcement of its participation included the following: "the establishment of the bank is a Chinese diplomatic achievement.… The establishment of AIIB is one of the most important initiatives in terms of Chinese foreign policy and in particular for President Xi Jinping.…"[55] The price Israel was required to pay was not too high: a capital subscription of $749.9 million in five annual installments in return for 7,499 shares (about 0.75 per cent of AIIB capital).[56]

Unlike China's engagement in the construction and operation of Israeli seaports and railroads, or Israel's membership of AIIB, the formation of an FTA with China is not a clear-cut indication of Israel's participation in OBOR. In fact, China is negotiating FTA with countries that are not part of the OBOR geographic area such as Chile, Peru and Switzerland. Nevertheless, the formation of network of free trade zones across OBOR's geographical spectrum is a clear goal of China, which officially declared that it "will actively promote FTA negotiations with countries and regions along the routes of the Silk Road Economic Belt and the 21st Century Maritime Silk Road".[57] The formation of FTA with Israel should be regarded as a part of this strategy. When announcing that the two states were about to launch FTA discussions, the spokesman of China's Ministry of Commerce said: "Israel is China's major economic and trade partner in the Middle East and along the route of China-proposed 'belt and road' initiative".[58]

These statements notwithstanding, just like the Red-Med railway, the FTA possibility was discussed between Israel and China before OBOR was initiated; already in May 2013 – when Netanyahu visited China – the two countries decided to conduct a joint feasibility study which would constitute the basis for a decision on proceeding with FTA negotiations. Such a study was completed in November 2014. It found that FTA was expected to benefit both countries' trade and investments, as well as to (marginally) increase their GDP.[59] Accordingly, discussions officially opened in March 2016. But coupled with their rosy expectations they also sparked criticism in Israel concerning the FTA's potential to increase the trade deficit with China. Moreover, just like other aspects of OBOR, the FTA has not changed the basic features of China–Israel relations. It is expected neither to lift the restrictions on transfers of sensitive Israeli technology to China nor to modify Beijing's basic approach to Israel. China's official list of states with which it is negotiating or even considering FTA does not name Israel.[60]

OBOR's implications for China–Israel relations

Since their early days, China–Israel relations have been circumscribed by a set of constraints: China's approach to the Middle East (including its level of involvement there and its position on regional conflicts), the China–US confrontation, and Israel–US relations. Bilateral interests and objectives that developed between China and Israel over the years were assigned a role in the relations as long and insofar as these external factors allowed it. In recent years this basic condition has been reflected in the intensification of economic connections between China and Israel – a development that serves both states' interests, while China consistently downplays their diplomatic relations.

The OBOR initiative has not changed this pattern or the course of the relationship, nor has it injected new interests there. Officially Israel is only partly included in this initiative. It is occasionally excluded from OBOR's official documents, and even excluded from China's announced "FTA network", which is closely associated with OBOR. This points to a gap between the actual and the declarative sides of China's relations with Israel, which might be explained by the conflicts between China's economic interests regarding Israel and its general Middle East policy. To a large degree, Israel has been excluded from OBOR's connectivity plans as well, as all infrastructure projects between China and Israel started before the OBOR plan was announced. This is also the case with the FTA discussions. The only exception might be Israel's joining AIIB in 2015, but this does not necessarily indicate the inclusion of Israel in OBOR. AIIB membership is open to countries from all over the world.

Such facts may point at a gap between Israel's and China's perspective on Israel's participation in OBOR. Seeing itself as a potential bridge between Asia, Africa and Europe, as well as between the Mediterranean, the Red Sea and the Persian Gulf, Israel seems eager to become a part of this megaproject. In view of China's elevated economic activity in Israel since the early 2010s, some dominant elements of the political and economic sectors in Israel seem convinced that this is actually happening, or are attempting to promote such a development. China, on the other hand, is less enthusiastic. Referring to the Red-Med railway, the most prominent expression of Israel's possible participation in OBOR, China's ambassador to Israel said in March 2016: "So far, I haven't heard of any agreement signed with regard to that project. I read some articles in foreign magazines".[61] Concurrently, utilizing OBOR to promote Chinese companies' participation in the construction of the Red-Med railway, the ambassador implied that Israel might be included in that initiative:

> It is Israel's interest to promote that [Red-Med] project. One Belt, One Road is a vision. All of the projects are for the benefit of both sides, and I think it would be for the benefit of Israel and the benefit of China.[62]

But even if the project materializes, it does not mean that Israel will be included in China's programs (inasmuch as they exist) to promote regional economic integration. As far as Israel–China economic collaboration is concerned, OBOR seems at most a nebulous vision serving to promote activities within the existing framework rather than shaping a new reality.

This does not mean that OBOR's impact on Sino-Israeli relations is marginal. It is argued to influence them in several respects. Bilaterally, OBOR has injected high expectations into business and political circles in Israel, which seem more optimistic than ever about future economic, and even political, relations between the states. Such expectations are partly based on actual developments between them since the early 2010s, and as of the middle of that decade they apparently sound a positive note in Israel's domestic discourse concerning China. During the time of writing of this chapter, China–Israel relations seem at their highest point ever. While OBOR is not responsible for this, it strongly nurtures this trend.

OBOR may also impact regional aspects related to China–Israel relations. The actual content of the OBOR vision regardless, it undoubtedly reflects and advances China's growing physical and political presence in the Middle East. China's future economic development, hence its political stability, increasingly depends on this region, and it has a growing interest to shape its development and exploit its economic potential. OBOR, one way or another, is part of this effort. The network of agreements, investments, projects and regional frameworks associated with it grant China a stronger foothold than ever in the region, as well as strengthening its interests there. Under such conditions, Israel's regional behaviour might become increasingly important for China, which will have good reason to try shaping it. Indeed, if China–Israel relations prosper, Beijing's leverage on Israel will grow ever greater.

Concurrently, OBOR and other Chinese activities associated with it may impact local and external regional players in a way that puts pressure on Israel. American concern over China's growing dominance in regional seaports is one example, and its initial attempt to prevent its allies from joining AIIB is another.[63] If tension between the US and China increases, Israel might become subject to American pressure to cool down its China zeal. Since relations between China and Israel are ultimately governed by exogenous factors – China's global and regional positions and US–China relations – such a development may in the end result in a conflict of interests between them. Scenarios that can lead to such an outcome are countless, including escalating contention between China and the US, in the region and beyond, and eruptions of conflicts in the Middle East in which Israel is involved. It is pointless to try to predict how these scenarios will unfold, and what means China will apply to shape Israel's behaviour. The only question that matters at this point is whether OBOR changes the basic conditions that govern China–Israel relations, and by extension the possible conflict of interest between them that such developments may create. The answer is that OBOR – as both a symbol and a reality – may provide the two states with certain economic and political benefits, but it may also increase friction in Sino-Israeli relations. In any case, as OBOR does not reflect changes in China's basic position on Israel it does not seem to change the basic determinants of the relations either.

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8 Economic and cultural interactions between Israel and China

Opportunities and challenges[1]

Wang Yu

Introduction: Israel's place in China's OBOR and AIIB initiatives

The One Belt One Road (OBOR) initiative was announced in 2013 during China's President Xi Jinping's visit to Kazakhstan. The origins of the idea can be traced to the plan submitted to the Ministry of Commerce by the former deputy director of China's State Administration of Taxation Xu Shanda in 2009. Xu suggested some kind of "roundabout subsidy" to deal with overcapacity in some of China's industries. The idea is that China will utilize its vast foreign reserves to offer loans to developing countries which would then contract Chinese enterprises for major projects of infrastructure and construction, keeping Chinese industry and production robust, employment in place, and GDP growth high.[2] Xu's proposal was modified under Xi Jinping's administration, which turned it into a major foreign policy initiative.

Since its official announcement in 2013, China's OBOR initiative became a singularly important catchword in Chinese diplomacy and an important aspect of Chinese economic policy. One of the major manifestations of this policy was the launching of a new Asian Infrastructure Investment Bank (AIIB) in 2015, in addition to the new Silk Road Fund (NSRF) launched in late 2014. Many related initiatives were put forward either through multilateral frameworks, such as the Shanghai Cooperation Organization (SCO), or through bilateral agreements, of which the development of a planned China–Pakistan Economic Corridor appears singularly important.[3] These investments, loans, and grants will create a network of infrastructure projects, such as roads, rail lines, energy pipelines, power stations, and coastal ports. The new infrastructure in turn will facilitate Chinese trade with the countries involved in OBOR.

Anybody who has travelled in China during the last decade will not fail to understand the economic rationale behind the OBOR initiative. A series of huge infrastructure projects and the construction boom in general had in a few years changed the face of China almost beyond recognition. Yet as the boom is approaching its natural end (there are simply fewer and fewer profitable investment projects), it is mandatory for the state economic planners to find appropriate ways to utilize its construction capacities, expertise, and equipment elsewhere. Coupled with the country's sizeable financial resources, an initiative aimed at improving regional infrastructure development and boosting trade and relations with Asian and European countries seems to be a reasonable choice. Using the common Chinese parlance, it could create a "win–win" situation for both China and the countries involved in OBOR.

However, economy aside, the OBOR and related initiatives also have a political goal: improving China's image and its relations with foreign countries. The project ideally suits the strategy of promoting to China's neighbours the idea of a "peaceful rise of China". The importance of improving the country's image is clear to its leaders. China's economic might was not accompanied by the parallel growth in its "soft power". To the contrary, intensification of China's maritime territorial disputes with neighbouring East and Southeast Asian countries contributed to a marked decline in its image abroad. Recently Francis Cheung and Alexious Lee of Hong Kong's equity brokers and investment group (CLSA) ranked the relationship of more than 65 OBOR countries with China, placing Israel among those countries which have the most positive relationships with China, similar to Iran, Pakistan, and the SCO member states.[4] This can serve as a good starting point for my discussion of many facets of China's ties with Israel under the OBOR policy and beyond. My point is that Israel is China's important economic partner and that cultural and academic contacts between two countries also thrive.

One of the recent manifestations of good ties between the two countries was Israeli application to join the AIIB, perhaps the singularly most significant Chinese foreign economic initiative. The application was submitted just before the deadline of 31 March 2015 set by the Chinese government. Israel became one of the 57 founding members of AIIB. The spokesperson of the Israeli Ministry of Foreign Affairs explained Israel's application: "Israel's membership in this Bank will open opportunities for integration of Israeli companies in various infrastructure projects, which will be financed by the bank".[5] Israel's joining may have surprised some observers in light of the explicit opposition of the US to the AIIB. As a reminder, the US tried to dissuade its allies from joining the AIIB, seeing it as a challenge to the World Bank and Asian Development Bank over which the US exerts considerable influence.[6]

Yet when we judge Israeli joining to AIIB not from the point of view of US–Israeli relations but from the angle of Israel's strategy of "going eastward",[7] this makes a perfect sense. Israeli involvement with Asian economies – especially China and India – is increasing rapidly. China is not in a position to replace the US as Israel's ally, nor could its economic impact on Israel be compared with that of the US. But there is no doubt that it matters to Israel more than before, and that Israel also matters to China. Some aspects of these countries' mutual involvement will be discussed in what follows.

Chinese investment in Israel

In 2014, the outbound investment from China exceeded $100 billion for the first time, nearly matching (by some accounts even exceeding) foreign direct investment into China, and the trend of China's accelerating capital export continues.[8] In the World Bank's "Doing Business 2016 World Report", Israel's business environment ranked 53, far above most of the countries in the Middle East (except the United Arab Emirates, ranked 31 and comparable to Turkey ranked 55).[9] The World Economic Forum "2014–2015 Global Competitiveness Report" ranks Israel as the 27th of the world's most competitive economies.[10] In comparison with many OBOR countries, Israel enjoys a stable political and economic environment which is crucial for investment. It also has excellent global commercial and financial networks, good infrastructure in terms of communications, and convenient transport links with the world. Most importantly, having successfully branded itself as "innovation nation", Israel made its market the most attractive to investors.

In recent years China has become one of the most active investors in Israel. Chinese investment started from purchasing Israeli technology and patents, then moved to investment in Israel high-tech companies focusing on R&D, and then to overall acquisition of major Israel companies, most notably Tnuva (which hold 70 per cent of Israeli dairy product market). For Chinese investors, it is a very opportune time to purchase Israeli companies. In 2013, the Knesset (Israeli Parliament) passed legislation requiring large financial-industrial complexes to sell off assets in order to encourage competition. Large banks, holding companies, and investment firms that have majority or large interests in mobile phone service providers, gas stations, supermarket chains, food production companies, and other "real economy" businesses (as the law terms them) will have to sell off some of their assets – and if they don't, they are likely to be targeted by authorities and fined, with their executives personally liable for violating the law.[11] It seems that Chinese investors walked in just in time.

Chinese companies and the Israeli high-tech

Let us start with the high-tech. From 2012 to early 2016 some 30 Chinese investors have entered the Israeli high-tech scene and put money into over 80 startups, says IVC Research Center, which tracks Israeli venture capital and high-tech. In 2014 alone, 22 investors from China and Hong Kong participated in 30 financing rounds by Israeli startups totalling some $300 million. In recent years the number of Chinese investors who put their money directly into Israeli startups has been growing by 50 per cent annually. In 2015 they invested about $500 million in Israeli companies.[12]

Israel is known as one of the world's most prolific producers of cutting-edge technology, which explains why Chinese investment in high-tech has soared. As reported in the *Wall Street Journal*, Israel's National Economic Council says that high-tech deals between Chinese and Israeli companies amounted to $300 million in 2014, up from \$50 million in 2013.[13] For Chinese investors, another reason for choosing the Israeli companies is that the latter are usually valued lower than their Silicon Valley counterparts. "In China and Silicon Valley, there is too much capital chasing a limited number of startups, but Israel has comparatively more startups with insufficient capital investment", said Edwards You Lyu (Lü), co-founder and CEO of the Israel-based, China-owned company VADI.[14]

Chinese network companies, like Alibaba, Tencent, Baidu, and Qihoo, all invested in Israel. Baidu invested \$3 million in Pixellot which provides a unique high-quality and affordable alternative to traditional video capture and production processes, opening the way to a new era in sports and music video production (October 2014).[15] In May 2015, Baidu invested several million US dollars on Taboola which serves up the links in "Around the Web" and "Recommended for You" sections that you see at the bottom of articles on sites such as *The Atlantic*, *Business Insider*, and *Mail Online*.[16] In January 2015, Alibaba invested in Israeli startup Visualead which markets QR code technology.[17] In 2014 and 2015, Qihoo and Alibaba invested in JVP (Jerusalem Venture Partners). JVP Managing Partner Kobi Rozengarten summarizes his view of the "win–win" cooperation between Chinese and Israeli companies:

> China is becoming a major market for many of our companies. For Chinese leading enterprises, the best place for them to look for technology is Israel. Being a small company in Israel, you do not control the end customer in China, so there is no competition. We help with tech, design, and product, and they help with the market.[18]

Another aspect of China's partnership with Israel is establishing Chinese R&D centres in Israel, to utilize the Israeli technologies and high-tech human resources. But unlike the big R&D centres, branded with the American (or European) company's logo on a giant office building, the Chinese investors prefer to buy smaller startups and refrain from merging their operations into the company.[19] The Chinese prefer to keep the acquired company's brand, acting more like a private equity investor than a corporate one. Thus Huawei operates its Israel R&D centre as Toga Networks.

The Tnuva and other acquisitions and Israeli public opposition

Having established themselves as an important investor in Israeli high-tech companies, the Chinese buyers moved into additional directions. On 31 March 2015, the largest acquisition in the history of Israel's food industry was completed as Chinese company Bright Food acquired Tnuva shares from Apax Partners and Mivtach Shamir Holdings Ltd for a total holding of 77.7 per cent, putting Tnuva's market value at NIS 8.6b. This purchase brought Chinese investment to the limelight of Israeli media and broad public. Tnuva is not just the largest food producer in Israel, but for many it is a national icon. Since its establishment in

1926, Tnuva grew and developed together with the Jewish Yishuv in Palestine; after the establishment of the State of Israel, it played an important role in the growth of Israel's economy.[20] It is Tnuva's prestige that might have attracted Chinese investors, who increasingly focus on prestigious foreign brands, especially in sectors like food, retail, and recreation. The Tnuva deal aroused protest from part of the Israeli public and also worried not a few Israeli politicians. From the slogans used by the protestors,[21] we can notice that the protest is two-folded. One argument is emotional. Phrases like "this is not our home anymore!" clearly mourn the "Israeli" character of Tnuva as a national icon. The second is more substantial: "Should our children's food be the responsibility of Chinese government?" This hints at concerns about the insufficient food quality standards in China being imposed on Israeli customers.[22]

Actually both concerns seem to be rootless. As *Haaretz* report pointed out, Tnuva is not the first "national icon" being sold to foreign companies: the peanut-flavoured snack Bamba's maker, Osem, has been controlled by Switzerland's Nestle since the year 2000; Telma Corn Flakes and Blue-Band margarine are produced by the Anglo-Dutch firm Unilever since the same year (2000).[23] Even Tnuva itself has been not so Israeli, as in 2007 it was sold to private (foreign) investors, and its share was distributed among Apax Private Equity Foundation (based in the UK, 56 per cent), Mivtach Shamir (a company listed on the TASE – 20.7 per cent), and the Kibbutzim Holdings Entity (23.3 per cent). As for the worries about the Chinese good quality, it is meaningless in the context of Tnuva, the products of which will continue to be checked by Israeli health authorities and accord to Israeli, not Chinese criteria. Yet protests again the Tnuva sale – even if clandestinely fuelled by Bright Food rivals who lost their bid – do testify to uneasiness of parts of the Israeli public with regard to intimate economic ties with China.

From the Chinese point of view, the Tnuva deal is an example of combining Israeli innovation with Chinese industrial needs. What Bright Food wants from this deal is not to capture the Israeli food market, which is no bigger than that of a single medium-sized Chinese city, but to get access to Israeli dairy technology. The Chinese media always highlights Israeli achievements in dairy industry (the Israeli "super cows" rank first globally in milk production, three to four times more than their peers in China) and the high-safety food industry standards. After the 2008 tragedy which rocked the dairy industry in China – six babies died and 50,000 were hospitalized after drinking formula tainted with the chemical melamine – the country became aware of the dangers of the dairy processors' buying milk from small, independent dairy farmers.[24]

It is interesting to notice that among Israeli objectors to the Tnuva deal, some raised national security concerns. The former head of Mossad, Efraim Halevy, warned that the purchase of Israel's largest food company by a Chinese firm would be a threat to national security.

> Food production is today one of the sectors included in the frame of national security. There is a concept called "food security". This is an important

> subject for every country in the world, and there are countries that go as far as to purchase or long-term lease agricultural land in other nations for future food production.

Halevy emphasized that local control of food production should be a priority.[25] Some Israeli politicians even tried to cancel the deal.[26] Yet again, such complaints are not made when American and European companies buy Israeli companies. It seems that suspicions increased because a Chinese state-owned company bought Tnuva. But does the identity of an owner (a state or private-owned company) increase security risks? The answer is not self-evident.

It is not only food that is linked to national security when the acquisition involves a Chinese company, but also communication networks and products. When the Chinese telecom firm Huawei started to sell its mobile phone products in Israel, communication security considerations drew the attention of many Israelis, and even the Shin Bet (Israeli Security Agency) was reported to be involved in an investigation of the Huawei telecom products purchased by Israeli companies.[27] This joins the widespread mistrust of Huawei in the US and among its allies.[28] Notably, however, Israeli security checks did not discontinue the country's engagement with Huawei, which seems to be actually increasing.

Security concerns were raised again in June 2015, when the Chinese company Fosun International announced its intention to buy a controlling stake (52.31 per cent) in Phoenix Holdings. Phoenix is an insurance and financial group, from Israel's Delek Group, and the purchase of its package for 1.8 billion shekels ($462 million) became one of the largest cross-border investment transactions in the insurance industry in Israel. Fosun, one of China's most acquisitive private companies, was thrust into the international spotlight through its ownership of Club Med, the French holiday group, and a stake in Cirque du Soleil. The Phoenix Holdings purchase was not the first purchase made by Fosun in Israel. Fosun had completed several transactions in Israel, among them the transactions of Israel Health medical laser technology company Alma (Alma Lasers) in 2013 and the 2014 acquisition of Check-Cap pharmaceutical company. After the news of the transaction involving Phoenix was released, Phoenix workers called for a strike, declaring that they would "embitter the lives of the new owners [Fosun]". The workers' union officials claimed that Phoenix refused to discuss distributing a per centage of the money the company stands to earn to the workers, even though their contracts call for this.[29] Moreover, the Fosun acquisition aroused "security concerns" since Phoenix Holding Ltd consists of two principal branches, Phoenix Insurance (which is the fourth largest insurance company in Israel)[30] and Phoenix Investments and Finance Ltd (which holds joint control over Excellence Nessuah Investments House). Some analysts claimed that it is too risky to let a Chinese company control an Israeli company with such a large portion of market share in the insurance and finance system. As in the cases of Bright Food and Huawei, it seems that "national security concerns" would be reduced should the buyer be a European or American company.

Eventually Fosun abandoned the purchase in February 2016,[31] possibly because its Chairman Guo Guangchang became involved in a Chinese governmental investigation of an allegedly corrupt official (Ai Baojun, the former deputy mayor of Shanghai). On the Israeli side, a person close to the company said the deal had not yet received regulatory approval. Both sides agreed to call off the deal without any termination fees.[32]

From the above examples, it is clear that both government and privately-owned Chinese firms arouse opposition when they try to become a significant player in the Israeli domestic market. Surely, some of the opposition against Chinese acquisitions and Chinese products might be generated by sinister moves of the opponents of a certain deal, who lost their gamble or feel threatened. But overall, one cannot ignore a significant strand in Israeli public opinion that appears to be singularly negative of China and its economic role. This shows that economic ties cannot be entirely disentangled from matters of cultural image, cultural perceptions, and mutual understanding. For example, one will not understand the clear difference between the invest strategy of the two types of Chinese companies – state-owned companies and the private companies – if there is no basic knowledge about China's politics and society.

Chinese capital in Israel: private and state-owned companies compared

The Israeli public rarely, if at all, distinguishes between state and private-owned companies in China. Yet the differences are considerable, especially when we explore politically sensitive issues involved in Chinese investment in Israel. To explore this issue I shall focus on Fosun's latest major acquisition: that of the biggest Israeli Dead Sea cosmetic company, AHAVA. In April 2016, Fosun purchased a 100 per cent share of AHAVA at NIS 290 million ($77 million). This acquisition targets the Chinese domestic market as possible purchasers of AHAVA products. Although in the past AHAVA failed to make inroads into the burgeoning Chinese cosmetic products market, its potential was well known; AHAVA products are among the most popoular souvenirs purchased in Israel by Chinese tourists. Fosun's CEO Liang Xinjun said "we will endeavor to extend the success of this brand (AHAVA) to China and other countries".[33] Even Guo Guangchang himself praised the quality of AHAVA to the Chinese media after this acquisition: "Recently we invested in Israel's 'National Treasure' – AHAVA cosmetic products, combining Israeli high-tech and the Dead Sea mud. Really amazing! After I use it, I have become more good-looking recently than Jack Ma (of Alibaba)".[34]

The AHAVA deal "generated a sigh of relief in the Israeli business community after the call off of Fosun's purchase of Phoenix Insurance Company".[35] Internationally, however, it aroused concerns regarding China's attitude towards the occupied territories. The BDS (Boycott, Divestment and Sanctions) Movement put AHAVA under huge pressure especially since its main products' raw material – the mineral-rich Dead Sea mud – comes from the occupied section of the Dead Sea coast. Pressure from the BDS caused AHAVA to move many of its facilities to new locations away from the occupied territories, but, nonetheless, its international sales were affected. In 2015, AHAVA had 25 per cent fewer employees than it had in 2013.[36]

So does Fosun's willingness to acquire AHAVA mark China's toleration of Israeli occupation of the Palestinian territories? Not necessarily. The Chinese government remains highly sensitive towards any types of involvement with the occupied territories; hence China consistently avoids any involvement in Israeli settlements, and these sensitivities might have caused China's withdrawal from the Israeli "Med-Red" rail project (see the next section). The Chinese government insists that any economic cooperation with Israel, e.g. in the fields of construction and labour import, will ensure that no Chinese workers are employed in the Israeli settlements in the West Bank. As of 2015, this insistence prevented the signing of the labour import agreement between Israel and China.[37] So why did Fosun ignore these sensitivities? My inquiries among members of the Chinese business community in Israel produced a surprising answer: Fosun decided to purchase AHAVA without any consultation with the Chinese authorities, who learned of the deal from media reports. Only in the aftermath of the deal did the authorities notify Fosun of its potential risk.

Compare this to the conduct of a state-owned company in Israel. Let us took the example of Huawei. This company's actions in Israel display utmost caution. Huawei had maintained a very low profile in Israel until its mobile phone products entered Israel in 2013 through its designated local distributor Alpha Telecoms. In the meantime, Huawei established a reportedly "secret" R&D centre under the name of Toga Networks, which had no sign denoting the company name at the entrance. Notably, Huawei employees who attended the high-tech industry fair in Israel in June 2011 avoided wearing name tags which might expose their identity.[38] Even after Huawei's mobile phone products entered Israel, the company tried to avoid "being seen or noticed" publicly.[39] Huawei acts in such a "politically sensitive" way in Israel specific in order not to annoy its Arab customers.[40]

We can summarize the above points. First, Chinese companies appear highly interested in Israeli technology and the guaranteed high quality of its products. This interest matches the Israeli companies' need for Chinese investment and their interest in the Chinese market. This makes the Sino-Israeli combination promising. Second, despite the overall positive atmosphere towards Chinese investment, there is considerable resentment against it among segments of the Israeli public and among the mass media. And third, in analysing Chinese capital actions abroad, including in Israel, we should distinguish between private and state-owned companies. The latter are supposed to follow the political demands of the government, while the former may act in ways that differ – at times considerably – from the officially promulgated policy.

China and infrastructure construction in Israel

China's OBOR vision may lead to the most ambitious investment in infrastructure in human history. If China's plans are realized, the result will be a new belt of railroads, highways, pipelines, and ports that will dramatically bolster economic integration of China in Eurasia and beyond. Israel is one of the targets of the Chinese infrastructure drive.

China has participated in various Israeli infrastructure construction projects. In June 2014, China Harbour Engineering Co., Ltd won the bid for the Ashdod Port construction project; in March 2015, the Shanghai International Port Group won the Haifa New Port Project and obtained 25 years of franchise from 2021 onwards. When the project is completed, Haifa New Port will become the largest seaport in Israel with an annual handling capacity of 1.86 million standard containers.

In April 2014 the tunnels on the Akko (Acre)-Karmiel railway were joined as the teams from each direction met underground, finishing the 4.6-kilometre tunnel at a cost of NIS 700 million. The tunnels were dug by a joint venture of the Israeli Danya Cebus Ltd (TASE:DNYA) and the China Civil Engineering Construction Corporation (CCECC).

The single most important planned infrastructure project in Israel, which seems to match the OBOR initiative and may be of the highest strategic value, not just for China, is the ambitious "Red-Med" rail project, linking Ashkelon on the Mediterranean coast with Eilat on the Red Sea. Israel's location makes it possible to "play the role of bridgehead for 'One Belt and One Road' with the completion of the 'Red-Med' rail project", said Dr Liu Zongyi at a seminar (November 2014) at Renmin University.[41] The Red-Med project, constructing a 300 km-long rail line, is estimated to cost over $2 billion. This project is presented as a way of absorbing excess traffic from the Suez Canal, or an alternative route in the event of political disruption. Involvement in this project is considered by many analysts as "sign" of China's intention to "seek strategic foothold in Israel" and in the Middle East, another area China has shown interest in.[42]

In May 2012, Netanyahu's cabinet unanimously approved the project. In July 2012, Israel's Minister of Transportation Yisrael Katz signed a memorandum of understanding with his Chinese counterpart announcing China's involvement in the rail line's construction.[43]

Many players wanted to be involved in the "Red-Med" project, but China's rich experience and know-how in the field of infrastructure construction, as well as the backing of the AIIB, made China the strongest competitor. However China seems to have slowed down or halted the project. From a few oral inquiries I discovered the following considerations behind this change of attitude. First, Egypt protested, claiming that the project may harm the Egyptian economy. Since China wanted to participate in the New Suez Canal Project in Egypt it could not antagonize the Egyptian side with the Red-Med plans. Second, financially speaking, the Israeli proposal does not benefit China economically.

China was offered the projects' profits for 30 years, but this may not be enough to justify the Chinese investment. The third concern might be related to the Eilat Port capacity, and the doubts about the much higher costs and inefficiency of land transportation.[44]

From the Egyptian point of view, in the meantime, China had failed in the bid for the new Suez Canal project (two Dutch companies, Boskalis and Van Oord, won this $1.5 billion contract in October 2014),[45] however it may be compensated by participating in other projects. For instance, the Egyptian government plans a new canal zone, the "Suez Canal corridor", making this 190-km-long strip into a global economic area. Investment from China is an important resource for the realization of this plan. When Egyptian President al-Sisi visited China in December 2014, Egypt and China signed the "Joint Declaration on the establishment of a comprehensive strategic partnership". During Xi Jingping's visit to Egypt in January 2016, China Construction Company Ltd won the $2.7 billion contract for the development of Egypt's new administrative capital. Several days later, China Railway Group Ltd (CREC) signed a memorandum of understanding with Egypt to implement two projects (six governmental buildings and the Olympic park) in the new capital. The more China invests in Egyptian projects, the less chance there is for China to commit itself fully to the "Med-Red" project of Israel.

Israeli investment in China

Unlike many OBOR countries, in which the investment comes from one direction, namely from China, Israeli–Chinese investment flows in both directions. The Chinese media calls it a "counter-attack" of an OBOR country.[46]

In 2010, an Israeli company, Strauss, signed an agreement with China Haier Group, and set up Haier Strauss Water Equipment Co., Ltd in Qingdao. In early 2015, Strauss Group and Haier Group signed a non-binding memorandum that Strauss will pay $7.69 million to Haier Group to buy a 34 per cent stake in the joint venture, and also provide the license of Maze Purifier. The Maze Purifier was developed by Strauss Water in Israel; it can remove all harmful contaminants from the water while retaining healthy elements such as calcium and magnesium. China's largest telecommunications company, China Telecom, selected Haier-Strauss Water to supply the company with WaterBars for its hundreds of service centres throughout the country.[47]

In December 2014, Israel Chemicals Ltd announced it was going to invest $452 million for a 50 per cent ownership of a joint venture with China Yunnan Yuntianhua (one of Asia's leading producers of phosphate rock, which is traded on the Shanghai stock exchange with a market cap of $1.8 billion), and would also take a 15 per cent strategic holding in Yuntianhua.[48]

In 2014, the largest pesticide manufacturer in the world, ADAMA Agricultural Solutions Ltd, acquired four businesses (whose annual sales in 2013 reached $850 million) from ChemChina for $323m cash and assumed a net debt of approximately $300 million.[49]

During the visit of Vice Premier of China, Mme Liu Yandong, to Israel in March 2016, Prime Minister Benjamin Netanyahu and Liu Yandong declared the opening of talks on a bilateral free trade agreement. “China is Israel’s third-biggest trading partner and I believe there is great potential”, said Prime Minister Benjamin Netanyahu.[50] It is widely believed that once the free trade agreement takes effect, it could double the bilateral trade (currently around $8 billion), and increase investments and GDP in both countries.

Cultural and educational cooperation between China and Israel

Economic relations aside, recent years have witnessed a significant upsurge in cultural, educational, and most notably academic exchanges between China and Israel. Strategically speaking, these exchanges may determine the future of Sino-Israeli relations much more than pure issues of mutual investments. As things look now, we may speak of the “golden age” of cultural and educational interaction between the two countries.

Israeli cultural and educational export to China

Promotion of Israeli agriculture and agritech in China

For over 20 years, MASHAV (Israel’s Agency for International Development Cooperation) has cooperated with Chinese institutions to establish centres for sharing knowledge and technology transfer, mainly in the field of agriculture. MASHAV established the Sino-Israeli Demonstration Farm in Beijing in 1996–2003, the Demonstration Dairy Farm (from 2001), and the Sino-Israeli Demonstration and Training Center for Agriculture in the Arid Zone in Xinjiang (2002–2008).

Chinese–Israeli International Centre for Training in Agriculture (CIICTA) was inaugurated in October 1993, focusing on training high-level professional personnel in agriculture, on introduction and assimilation of new agricultural technology, and in R&D. More than ten workshops were organized at CIICTA, with participation of about 400 experts from Israel, UK, Germany, and the US. CIICTA also sent more than 80 Chinese experts and 100 participants to Israel for an academic visit.[51]

The positive outcome of these efforts is quite clear: Israeli agriculture and agricultural technologies became brand names in China. This intensive educational cum training investment created a favourable atmosphere of productive cooperation, which yielded many business projects and may yield more significant academic cooperation projects in the future (some are currently negotiated, but details cannot be discussed at this stage).

Promotion of Jewish and Israeli studies in China

Jewish and Israeli studies began quite late in China. In the 1980s there were some signs that the relations between China and Israel were warming up, but no academic programme was launched. In 1991, as China and Israel were preparing for the establishment of diplomatic relations, the Israeli Ministry of Foreign Affairs asked the Chinese side to suggest a university to train Hebrew speakers. Peking University, which had an experimental Hebrew class in 1985, was selected. The Israeli side then recruited a language teacher from Israel and paid his/her salary with funding from an American Jewish organization.

Since the 1990s, more universities began Israeli/Judaic studies, e.g. Shandong University, Nanjing University, Yunnan University, and the Northwestern University. Moreover, Chinese scholars from various fields such as Middle East studies, Religious studies, Philosophy, and English Literature have turned to Israeli/Judaic studies. Other programs opened in universities and research institutes such as Henan University, the Heilongjiang Social Science Academy, and the Shanghai Social Science Academy as a result of the local connection with Jewish history (e.g. the ancient Jewish community in Kaifeng, the Harbin Russian Jewish community, and the Shanghai Jewish community, especially during the Second World War). Further Hebrew programs were opened in Beijing University of Communications, Beijing Foreign Studies University, Shanghai Foreign Studies University, and Luoyang Foreign Studies University. Due to the inadequate number of professional teachers, most of these programs were stopped after one trial enrolment, the only exception being the Shanghai Foreign Studies University, which successfully implemented both BA and MA programs.

Until the 2000s, Jewish and Israeli studies in China were initiated by individual Chinese scholars or by university authorities quite spontaneously and without adequate planning. Since the first decade of the twenty-first century, Jewish organizations and individuals have started more active attempts to disseminate Israeli or Judaic studies as part of projecting Israel's "soft power". In 2009, the US-based Schusterman Foundation supported two summer workshops that focused on Israeli cultural issues in Peking and Shandong University. In 2010 they subsidized a four-day workshop in Shanghai Jiaotong University that introduced Israeli history, culture, and politics to a group of Chinese academics, officials, and journalists.

These investments are aimed at creating a pro-Israeli trend in Chinese academia. As Mohammad Turki Al-Sudairi said, "a network of loosely affiliated pro-Israeli organizations … have successfully established a foothold in Chinese academia".[52]

The Sino-Israel Global Network and Academic Leadership (SIGNAL) is the most active organization in Chinese academia. With funding from Jewish foundations, SIGNAL operates in China with relative success. It cooperates with the existing research institutes on Jewish and Middle East studies, sending lecturers and supporting seminars, workshops, and conferences. In addition, they have set up new Israeli Studies Programs (ISPs) in a dozen Chinese universities. SIGNAL especially targets provincial-level universities (not the top academic institutions), which have no foundation in Jewish or Israeli studies and which long for cooperation with foreign funds and for outside exposure in general. In just one year, 2011/2012, SIGNAL opened four ISPs in cooperation with Sichuan International Studies University (SISU), Shihezi University in Xinjiang, Henan University, and Shanghai International Studies University (SHISU).[53] In 2013, another two ISPs were added.

SIGNAL invited Chinese scholars who were interested in promoting Israeli studies to Israel for short or long-term visits and to undertake short training programs there, e.g. at Bar Ilan University and at Yad Vashem. For Chinese scholars, this provided a good opportunity to enter a new research field with some outside guiding and financial support. SIGNAL also sponsored Israel Studies research paper competitions (among the students) exposing an ever-growing number of students to Israel and its related issues. For a full semester, under faculty supervision, the students study a range of topics such as Israel's history, society, culture, and politics.

These promotion activities were successful within a relative short period and at relatively low cost (an ISP could be established without any funds or with a very modest fund of several thousand US dollar because the Chinese universities setting up the programs wanted it to be known as "international"). As such, Israeli studies became much better known to more scholars and students in China.

Christian-orientated promotion of Israel

Jewish religious activists generally shun China (except for a few rabbis who recently became involved with the so-called "Jewish descendents" in Kaifeng).[54] Christian activists in particular are very active in promoting Israel. Evangelical Christianity, supported by foreign funds, is spreading exponentially in China. Different churches embrace a distinctively pro-Israeli view, regarding Israel the "elder brother" of Christians. Many activists are eager to study the Hebrew Bible or at least to become able to read the Bible in Hebrew. Among my own MA graduates, many are Chinese Christians who come to Peking University from other universities and are enrolled in the Israeli studies department as part of their religious agenda.

In many provinces like Jiangsu, Zhejiang, and Yunnan, there are organizations that help Chinese Christians to study Hebrew, or organize visits to the Holy Land. The Chinese Christians unequivocally adopt a pro-Israeli view in any issue related to the Israeli–Palestinian conflict. David Aikman, a former *Time* magazine Beijing bureau chief, first reported this phenomenon in his 2003 book *Jesus in Beijing*.[55] There are many Christians in China (the official figure is 16 million but Christians themselves boast of much higher figures such as 100 million or even 130 million), and as the current trend continues some scholars – e.g. Professor Fenggang Yang from Purdue University – claim that their number will rise to *c.*247 million by 2030, making this the largest Christian community worldwide.[56] Since some of the Christians are Communist Party members, successful businessmen, influential celebrities, or public figures, Aikman noted the "future strategic significance of an important component of China's population being pro-Israeli is well worth considering".[57]

Attracting Chinese students to Israel

To Chinese students, Israel is not an ideal destination to study aboard. The English-speaking developed countries, which offer the prospect of immigration and a future career, such as the US, the UK, Canada, and Australia, are much more attractive than Israel, which is commonly associated with wars, terrorist attacks, and perpetual conflict. In addition, Israel's strict prevention of non-Jewish immigration further distracts the Chinese students. To this one should add a language barrier: insofar as undergraduate studies in Israel are overwhelmingly undertaken in Hebrew, this fact alone prevents a mass enrolment of Chinese students. Yet as the number of Chinese students overseas is growing, Israel is keen to expand its share in the vast Chinese education market. This brought about unprecedented expansion in Israeli activities aimed at enrolling Chinese students, especially in the graduate program.

In 2012, the Council for Higher Education of Israel (CHE), in cooperation with the Ministry of Finance of Israel, began implementing a comprehensive plan aimed at developing academic ties with China and India. The programme includes four main channels of cooperation:

1. *Joint research grants* – between the Israel Science Foundation (ISF) and its Chinese equivalent, the National Natural Science Foundation of China (NSFC). The goal is to cultivate research collaboration between Israeli and Chinese scientists.
2. *Fellowship programme for outstanding post-doctoral researchers from China in Israeli universities* – up to 100 fellowships (of up to three years' duration) are offered yearly to outstanding post-doctoral researchers from China in all academic fields.
3. *Programme to recruit outstanding Chinese students for Bachelor's and Master's degree studies* – up to 40 Bachelor's degree scholarships and up to 60 Master's degree scholarships are offered to Chinese students every year on the basis of academic excellence in the following fields: Desert Studies, Chemistry, Civil Engineering and Electrical Engineering, Archaeology, Islam and Middle East Studies, and business management.
4. *Programme to recruit outstanding Chinese students for summer courses in Israel* – up to 250 scholarships for Chinese students are provided yearly for participation in short-term summer course in a variety of different fields.[58]

After the visit of Mme. Liu Yandong, China's Vice-Premier in charge of education, in May 2014, Israel and China expanded their cooperation on higher education and scholarship programs. Liu became personally involved in the establishment of the China–Israel Joint Committee on Innovation Cooperation, and this committee is due to inject new vigour into bilateral relations by pushing forward cooperation in science, technology, education, culture, health, and local affairs. In January 2015, during the first meeting of this committee, Liu Yandong and the Israeli Foreign Minister Avigdor Lieberman signed a three-year action plan on innovation cooperation.[59]

Of particular significance was the CHE agreement with the China Scholarship Council (CSC) on cooperation in providing funding for additional Chinese students to study in Israel. CSC provides supplementary funding for Chinese students who are selected to receive a CHE scholarship for MA studies and for short-term summer courses in Israel.[60] In 2013–2016, hundreds of Chinese students studied in Israeli universities. CHE pays for the tuition and dormitory, and CSC pays for the airfare and provides some living subsidy.

At the same meeting, CHE and the Chinese Ministry of Education signed a declaration regarding the establishment of the Israel–China 7+7 Research University Alliance. The 7+7 alliance will work on promoting research and academic cooperation between research universities in the two countries. The Chinese side is represented by the Tsinghua University, Peking University, Nanjing University, Renmin University, Shandong University, China Agricultural University, and Northwest A&F University; Israel is represented by all seven of its universities. From the above prestigious list we can see the high importance attached in China to this cooperation between cooperation.[61]

In March 2016, Vice Premier Liu Yandong visited Israel again for the second meeting of the China–Israel Joint Committee on Innovation Cooperation. This meeting was led and coordinated by the Israeli Foreign Ministry and the Chinese Science and Technology Ministry.[62] Chinese and Israeli governments agreed to broaden subsidized educational exchange. Israel's Council for Higher Education hopes to raise the number of Chinese students studying in Israel from the current figure of around 800 to 3,000 in five years.[63]

On 29 March 2016, Liu Yandong and Israeli Minister of Education, Naftali Bennett attended the "Inaugural Forum of Presidents of Israel–China Higher Education Institutions" held in Jerusalem. This forum was initiated by the 7+7 alliance, but the Chinese delegation involved other Chinese universities that established cooperation agreements with Israeli counterparts. The Israeli side also used this opportunity to promote additional academic institutions apart from the widely recognized seven universities. It is possible (as was hinted in the speech by the Chair of the Planning and Budgeting Committee of CHE, Prof. Zilbershats) that Israel would like to expand the agreement further, possibly to include the currently boycotted "Ariel University" located in the West Bank settlement, but the issue was not raised openly. However, the presence of a few colleges at the ceremony attended by Liu Yandong indicates Israeli hopes to extend cooperation to non-research institutions as well.

I have attended the "Inaugural Forum" meeting, which showed both the strengths and weaknesses of the current Sino-Israeli academic cooperation. On the one hand, the very fact that so many heads of prestigious (and not so prestigious) academic institutions from both sides were present and that several bilateral agreements were signed at the ceremony indicates the high potential of the cooperation. On the other side, it was clear that the event was choreographed by both governments, with little involvement from university heads. At the end of the first part of the ceremony, in which Vice Premier Liu and Minister Bennett delivered their speeches, the promised "forum" quickly deteriorated into a series of promotion statements by second-tier Chinese and Israeli academic institutions, without any discussion, any exchange of opinions, or any practical steps to ensure mutual understanding. In light of the very clear fatigue that I observed among the university leaders on both sides, I doubt whether similar "forums" will take place in the foreseeable future.

Chinese cultural and academic export to Israel

Establishment of Confucius Institutes in Israel

Confucius Institutes (CI) were launched in 2004 as part of China's "charm offensive" abroad. Modelled after similar cultural institutions in Europe and Asia, the coordinating authority of CI (Hanban) established about 500 institutes worldwide. In Israel, the first CI was established in Tel-Aviv University (TAU, 2007), and another one in the Hebrew University (HUJI, 2014). In distinction from most other CI worldwide, the two Israeli CI do not focus on teaching Chinese language, but more on supporting China-related research, such as conferences, cultural activities, and recently translation projects, e.g. the forthcoming translation of the *Dream in Red Chambers* into Hebrew. In addition, CI initiate various cultural activities, such as performances, Chinese festivals, celebration of Chinese holidays, language competitions and the like.

Attracting Israeli students to China

Chinese studies have thrived in Israel ever since the establishment of the diplomatic ties between the two countries. Over 200 students are enrolled annually into Chinese studies programs in three research universities (Hebrew University, Tel-Aviv University, and Haifa University) and Tel-Hai College. Dozens of graduates study annually to Chinese universities via the scholarships provided by Hanban, the Chinese Embassy, the Israeli Ministry of Foreign Affairs, and various and rapidly expanding bilateral exchange programs between Chinese and Israeli universities. Most scholarships include tuition, dormitories, a small living subsidy, but not a flight ticket. There is little if any matching funding from the Israeli side.

Every year, each CI in Israel is authorized to send a group of about 20 students to China for a short educational cum tourism visit of two weeks. There are more summer courses in Chinese offered bilaterally and also through Hanban. Hanban also supports an annual PhD scholarship in the Hebrew University, and invites Israeli (and other) students to compete for a variety of lucrative competitive scholarships for advanced studies in China.

A marked difference between Chinese and Israeli promotion of studies of their respective countries is that in China's case all the promotion comes from above. The Chinese private sector, including big companies involved in Israel, such as Huawei and a few construction companies, show little interest in promoting educational or cultural activities. Nor do they initiate any cultural events or any sort of cultural interaction between their workers and their Israeli peers. The Chinese community in Israel is too small to become culturally meaningful, so the Chinese efforts to promote Chinese culture are all directed from above and frequently appear propaganda-like.

Afterword: China's problem in communicating with the outside world: good at numbers but bad at mentality understanding

An Israeli–American scholar, Oded Shenkar, observed during his lecture in the Hebrew University (9 March 2016) that Chinese owners of foreign companies are good at numbers but are bad at understanding different mentalities. Due to lack of understanding of local sensitivities, Chinese investors and government officials often fail to create the expected good will, but, rather, generate resentment. Gradually, more and more Chinese overseas investors came to notice that many supposedly "win–win" projects could eventually fail. These failures are not economic but are of cultural nature.

When I was appointed to be the co-director of CI in the Hebrew University, one of my US colleagues (a leading Sinologist) told me that he does not want a CI in his university despite its economic attractiveness. First he does not want outside involvement in the extant Chinese studies programme in his university, and second, and more importantly for him, he is not ready to carry out the bureaucratic burden related to CI, including the need to host delegations of Chinese officials who frequent CIs during their visits to prestigious universities abroad.

The Chinese norm of pleasing the leader as the imperative of behaviour of officials and quasi-officials may create awkward situations, as many people involved in Chinese studies know quite well. Even if not overtly ridiculous, such a behaviour often alienates foreign collaborators. Officials who take care of the leaders' visits may easily forget that the foreigners are not used to sacrificing their leisure time, their established vacations, or just their self-respect, in order to allow a positive report about a leader's visit to appear in Chinese media. The results are often public relations disasters. A supposedly nice visit and photo-ops of a few leaders and their entourage generate resentment, or even overall enmity and refusal to cooperate among foreign partners, even when this means giving up an otherwise attractive agreement.

I believe that to improve its image abroad in general, and in Israel in particular, Chinese officials, businessmen, and diplomats should learn more about the countries with which they cooperate, about local cultural and political sensitivities, and about ancient Chinese wisdom that only "understanding oneself and understanding the other" 知己知彼 should result in a victory. Otherwise even the ostensible "win–win" situation will bring about much bitterness.

Notes

1 This chapter was supported by China's National Social Science Fund (Project no. 14BZJ031). In working on this chapter I benefitted a lot from advice of Professors Niv Horesh, Yitzhak Shichor, and Yuri Pines. Naturally, all inaccuracies are my sole responsibility.

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9 How do Palestinians perceive China's rise?

Guy Burton

Over the past two decades China has grown as an economic power with commercial and diplomatic interests and security concerns worldwide. This period has coincided with China taking a greater interest in the Middle East. Much of this development is due to its status as an energy consumer, having previously been an energy producer before the 1990s.[1] In late 2013 Beijing formalized that process within its wider "One Belt One Road" (OBOR) initiative, which seeks to expand Chinese engagement from East Asia to Europe and Africa. The initiative has been portrayed in different ways, as a way for Chinese firms to increase foreign investment and trade to a modern-day "Marshall Plan" that will finance development and infrastructure projects in the countries that it crosses.

Beijing's relationship with the Middle East and through initiatives like the OBOR and the institutions which will support it (i.e. the Asian Infrastructure Investment Bank and the Brazil, Russia, India, China (BRICS)-inspired New Development Bank) is intrinsically interesting since it challenges much of the US-based scholarship which sees a zero-sum game between a supposedly declining US and "rising" China.[2] Such an assumption is based on the idea that Beijing both challenges and seeks to transform the US-dominated liberal international order.

One of the objectives of the OBOR plan is to develop the infrastructure of the land and maritime trade routes in Central Asia and between Southeast and South Asia and towards East Africa and on into Europe.[3] This re-imaging of the old "Silk Route" will bring Chinese attention to many countries in the Middle East. However, even if China expands its influence in the Middle East, OBOR's implementation will have to be effectively managed; a "delicate" balance needs to be struck. On the one hand Beijing wants to limit US regional hegemony.[4] On the other hand it does not want to see it disappear.[5] The tension is due to the common interests both have. The example of Iraq is relevant here. Growing Chinese business interests and investments have led to deals with Baghdad and its oil fields as well as securing reliable energy sources from other producers. While such deals with Iraq created tensions with the US prior to 2003, since then the two share an interest in ensuring stability in the region. But whereas the US has provided a security umbrella in the form of guarantees and military assistance to its allies, China has so far avoided doing the same. Its military presence, in Libya in 2011 and Yemen in 2015, was largely concerned with removing its citizens (and other foreigners) out of conflict.

But what of the Arab–Israeli conflict? Where does it fit into China's strategic vision and the OBOR? Viewed from the outside, the prospects for at least one of the conflict parties, the Palestinians, do not appear good. Although Beijing reiterates the importance of resolving the conflict, it is largely lip service. For the Palestinians the conflict is primarily political, whereas the OBOR plan is economically orientated. The OBOR plan will most likely sideline the Palestinians while benefiting their neighbours, including Egypt and Israel. The former is expected to benefit from Chinese intention to build it into a "hub" for trade while the latter already attracts growing Chinese business and hi-tech investment.[6]

That the Palestinians are largely overlooked by Beijing is not a recent phenomenon. It has been an ongoing process for more than two decades. Indeed, one long-term China watcher, Yitzhak Shichor[7] has claimed that since 1990 Beijing has revised its calculations of the primary political conflict facing the region. Rather than the Arab–Israeli conflict being central, the main regional conflict shifted eastward, towards the Gulf. And today it would also include the Syrian civil war, which has overrun its borders through the departure of refugees and the spread of the militant Islamic State group into Iraq; and which has also sucked in regional rivals like the Saudis and Iranians propping up their proxies.

Moreover, Beijing's reticence and unwillingness to throw itself directly into the Arab–Israeli conflict may be explained in several ways. Kazemi and Chen Xiangming[8] argue that China has adopted a pragmatic and non-interventionist approach, supporting both Israel and the Palestinians in their search for a resolution of the conflict. Chen Yiyi[9] sees such pragmatism being due to both foreign and domestic considerations. China wants to "balance" US influence in the region and as the chief mediating power. At the same time, China's options are complicated by the changes that have occurred between and within the Israeli and Palestinian sides in the two decades since the establishment of the Oslo process in 1993. This has included the failure to implement trust-building measures during the 1990s, more settlement building and eventually the breakdown of the process in the second intifada (2000–2005) and its aftermath. In addition, China has extensive commercial interests in the Israeli economy while also wanting to use its support for the Palestinian cause as a way of deflecting Muslim frustration with the Beijing leadership and its policies in far Western provinces like Xinjiang.

With so much uncertainty concerning Beijing's intentions in relation to the conflict, what are we to make of Palestinian views of China? How do Palestinians at the elite and mass level view China? What impact, if any, do Palestinians see Beijing having in relation to the resolution of the conflict? To answer these questions, this chapter draws on the growing literature of Chinese policy in the region and the conflict in particular. Added to this are the public statements and declarations made by Beijing, including most notably and recently in the wake of President Xi Jinping's visit to the region in January 2016. The Palestinian perspective is also complemented by interviews with several representatives, scholars, activists and analysts in Ramallah, Gaza and Geneva, who have either observed China, or had contact with its officials.[10]

The general impression in all cases was a broadly positive view of Beijing as a potential challenger to the international system and a fresh face. But this optimism was also tempered, since it was based more on hope than empirical evidence.

The chapter is structured in the following way. The first examines the nature of previous Sino-Palestinian relations and the historic closeness that emerged between Beijing and the Palestinian Liberation Organization (PLO) in the 1960s and 1970s. The second section addresses the present state of relations between China and the Palestinians. It includes Palestinian public opinion towards China following the Pew Research Center's 2015 global survey of attitudes towards China and accounts for the mixed sentiments by suggesting the reasons for the relative cooling in relations between the two. The third section looks at the two approaches being taken by the Palestinian leadership to break the deadlock of the present (and, for many Palestinians, failed) Oslo process and the way that China might play a role. The fourth section considers the Palestinian civil society option: the Boycott, Divestment and Sanctions (BDS) movement, and how China is perceived within it. The paper throughout echoes the views of the interviewees, who while positive towards China and the role it might play, acknowledge that this is not happening in practice.

Past Sino-Palestinian relations

It is important to set Palestinian attitudes towards China and current Chinese policy towards the Palestinians in context. Viewed from an historical perspective, it has become evident that Chinese interests have shifted since the 1970s, from the ideological and political to the economic. The implications of this have meant that its concern and political support for the Palestinians have declined, as the relative economic importance of Israel (and its greater value-added sectors compared to the Palestinian economy) and the wider Middle East have become more central in Chinese thinking. In making this observation, it is worth noting two further points. One is that the general trend has not been positive for the Palestinians; historic supporters of its cause like India and the other Arab states have become more lukewarm in their sentiments. Therefore the shift in Chinese thinking is not unique. The other is that previous Sino-Palestinian relations were based on ideological grounds, echoing the commitment of both sides to national liberation movements against external colonial powers: for China against the Japanese during the Second World War and, during the civil war, the Nationalists who were clients of the West; for the Palestinians their struggle against Zionist colonialism and occupation. More recently the fire of national liberation has been quenched and replaced by the drive for economic development in China and the pursuit of a truncated state accepted by the international community on the West Bank and Gaza in the case of the Palestinians – albeit it mainly within the PLO leadership.

China was the first non-Arab state to recognize the PLO diplomatically in 1965.[11] This began a relatively close relationship between the Chinese government under Mao Zedong and the Palestinians. Not only did Beijing adopt a pro-Palestinian stance in its struggle with Israel, but it also provided it with tangible military assistance.

China's support occurred during the Cold War when China sought to distinguish itself from "imperial" powers including the US and Soviet Union (the latter with which it had a rivalry for influence in the socialist bloc). The period also coincided with a highly polarized and ideological contestation within China, during the Cultural Revolution. At the same time, Beijing's search for partners was limited by potential allies' preference for Soviet support (which included the PLO[12]) and its status as an "outsider" in the international system, including its non-membership of the UN.

Following the end of the Cultural Revolution, Mao's death and US détente with Beijing (as a way of splitting the socialist camp), Beijing joined the international system. It acquired permanent and veto status on the UN Security Council (UNSC). It became less committed to national liberation struggles globally. Meanwhile, during the 1970s the PLO adopted a more militant approach including plane hijackings and terrorism, while also reaching out to the Soviet Union as a stronger potential partner than Beijing. In the 1980s the PLO switched course, moving away from armed struggle and towards diplomacy and negotiations.

Several factors accounted for the change. One was that by the 1980s the PLO had realized the need for greater public and diplomatic recognition. Another was necessity: by the late 1970s Arab states showed less inclination to confront Israel directly. Egypt had signed the Camp David agreement in 1979 while in 1982 Israel's invasion of Lebanon had forced the PLO out of its Beirut headquarters and to Tunis. By the time of the 1988 PLO conference in Algiers the shift was completed and the diplomatic course announced – a policy that was supported by Beijing.

But it was only after the Cold War that space opened for Israel and the PLO to negotiate. Following the collapse of the Madrid and Washington talks in 1991–1992, secret talks between the two sides led to the Oslo accords in September 1993. The aim of Oslo was for bilateral negotiations that would lead to Israeli withdrawal from the occupied territories and the establishment of a Palestinian state in its place, in exchange for peace and security. The process was expected to last five years, with incremental trust-building arrangements throughout. However, the process collapsed owing to a number of factors, including pressure from veto players on both sides that undermined trust and continued Israeli settlement building in the occupied territories. This contributed to the breakdown of the Oslo process in 2000 and the second intifada (2000–2005). Since its end Israel has implemented a "matrix of control" over the latter through control of land, air and sea, via checkpoints, bypass roads, restrictions on Palestinian movement and building (especially outside of limited areas).[13]

Meanwhile, the Palestinian polity has fragmented. After 2005 the PLO leadership has focused on achieving diplomatic support and acceptance for a state (through its "internationalization" strategy, on which more below) and through neoliberal economic reform.[14] As part of this process, Palestinian leaders reduced the role for social actors in the struggle for national liberation (with one result being the emergence of an increasingly autonomous civil society, including the BDS movement). The political elite also fractured as the two main rival factions, the nationalist Fatah party which dominates the PLO and the Islamist Hamas party (which sits outside the PLO), fought each other, resulting in a political split between the Fatah's control of the West Bank and Hamas's control of Gaza after 2007. Despite occasional attempts at national unity, rivalry between the two has proved too great to achieve a lasting reconciliation, much to the disgust of many Palestinians who have turned towards civil society action as an alternative.

Sino-Palestinian relations since the second intifada

China's historic support had been welcomed by the Palestinians. But current public opinion within the occupied territories has become more mixed. Following the end of the second intifada and between 2007 and 2015 the Pew Research Center surveyed Palestinian residents in the occupied territories over whether they have a favourable opinion of China. While a solid two-fifths see China positively, the views of the majority have fluctuated. The number holding a favourable opinion of China ranged between 43 per cent (2009) and 62 per cent (2011). In the same period between 29 per cent (2014) and 50 per cent (2009) expressed an unfavourable opinion. The most recent figures from 2015 suggest that 54 per cent of Palestinians in the occupied territories hold a favourable opinion of China while 37 per cent who do not.[15]

How to account for Palestinians' mixed and fluctuating opinion towards China? There are several reasons that may explain this. First, China's rise has coincided with its growing economic significance relative to the US. Between 2008 and 2013 publics around the word saw the US as in relative decline to China, the latter seen increasingly as the world's main economic power. Palestinian opinion was no different: between 2009 and 2013 the number who thought China would or had already replaced the US as the largest economy rose from 50 per cent to 56 per cent. Perhaps as influential as its economy was also its soft power, especially in the areas of scientific and technological advances: global publics rated these as highly positive with respect to China's rise – especially when compared to its ideas, customs, media and entertainment.[16]

Second, China's attitude towards the conflict has changed in the past three decades – and to the detriment of the Palestinians. Since the mid-1970s Chinese objectives, including foreign policy, moved away from seeking like-minded ideological allies and towards economic development. To realize this goal Chinese officials (and later state firms) began to look outward, to acquire both resources and advanced technology. The China–Israel relationship owed much to this shift. In the late 1970s China sought to rebuild and develop its military capability. Israel had expanded weapons production and was seeking new market; the two found an enthusiastic partner in each other.

From the arms trade of the 1980s, Chinese–Israeli trade and economic relations advanced into other sectors non-military products and services during the 1990s and 2000s. In 1990 Israeli exports to China were worth $7.8 million while Chinese exports to Israel amounted to $200,000. By 2000 Israeli exports to China were worth $602.3 million with Chinese exports going the other way worth $261.6 million; in 2011 the sums were $2.7 billion and $5.45 billion. While China constitutes Israel's second-largest import market, Israel's relative importance to China in dollar terms is less significant, overall trade with China being comparable to Egypt.[17] However, against this must be considered the value-added nature of Israeli goods and services: Chinese interest in Israeli technology and agricultural services has been motivated by how it may contribute to its economic development; for example in desert locations like China's "far west"[18]) and Chinese investment in construction, universities and transport infrastructure in Israel.

The impact of this growing relationship may point towards growing dependence for both conflict parties: Israel becomes more reliant on Chinese imports; but at the same time, it has arguably dampened Chinese enthusiasm for the Palestinian cause and deviation from the present state of affairs. The Palestinians cannot offer the same degree of economic opportunities or investment as Israel; Palestinian imports and exports are significantly less. Palestinian exports to Asia as a whole (i.e. China and the rest) amounted to $370 million in 2000, $645 million in 2011 and $769 million in 2014, while imports from all of Asia were $1.96 billion, $3.3 billion and $4.7 billion in 2000, 2011 and 2014 respectively.[19]

Certainly Palestinians welcome the Chinese presence in their economy. For example, Gazans would welcome Chinese reconstruction of its port, but this is not on the table at present and is insufficiently important to Beijing.[20] Yet within Gaza around half of all imported products are estimated to come from China. They are prized both for their quality and price. This last point is especially relevant given that Gazan importers have to pay at least two taxes following the arrival of Chinese goods into Israeli ports and their transfer through the Kerem Shalom crossing between Israel and Gaza: one tax to the Palestinian Authority and another to the Hamas government in Gaza.[21]

Third, China does not figure highly in the minds of the Palestinian elite or masses. At the mass level there is limited knowledge of China. But generally the more favourable view of China is present among younger Palestinians – a trend in line with other countries in the region. Indeed, it is worth setting Palestinian public opinion towards China in relation to other societies in the region, especially Egypt, Lebanon and Israel – but not like Turkey and Jordan, two countries where attitudes favourable attitudes towards China have declined in recent years. The positive view of China is also reflected in Palestinian and Lebanese majorities who believe that China respects the personal freedoms of its people; by contrast majorities in Israel and Turkey think otherwise.[22]

While Pew asks questions about Chinese respect for human rights, they have not asked about the attractiveness or otherwise of the Chinese economic model. Yet even if it did, it is unclear whether there is much appeal for it among

Palestinians. Since 2009 the Palestinian Authority has pursued a programme of structural adjustment and austerity measures, resulting in a more market-orientated economic model and which was dependent on the continued use of foreign aid.[23] Such a model has little in common with the Chinese example. For many Palestinians, economic choice is a secondary concern, the primary one being an end to occupation and political independence first.

Fourth, perhaps the most important question for Palestinians is whether or not China is an important actor in resolving the conflict with Israel. Polling suggests not. This is echoed in public doubt concerning Chinese engagement. In 2009 39 per cent of Palestinians in the occupied territories saw China as a "partner", 8 per cent as an "enemy" with 47 per cent as neither. By 2013 the number seeing China as a partner had fallen to 26 per cent, as an enemy 12 per cent and 51 per cent as neither.[24] In short, there is little Palestinian expectation that China will challenge or transform the process by becoming directly involved, whether as a mediator in talks between Israel and the Palestinians or as an active participant in an expanded multilateral effort to resolve the conflict. Yet regardless of Palestinians' views of China and if it can make a difference, the "peace process" is structured in such a way that precludes external participation or intervention. Although half of Palestinians believe that China has overtaken the US as the global superpower (50 per cent to 39 per cent) – a finding that is broadly in line with other Middle East publics[25] – this does not mean that China offers both a challenge and an alternative to the current US-dominated international system.

What determines the shape and character of negotiations is the Oslo process. As noted above, they are designed to be bilateral, with Israel and the PLO talking directly to each other and with the US as a third party mediator. Israel's preference is for this bilateral rather than multilateral negotiations: its policymakers are suspicious of wider international involvement in talks, suspecting parties to be anti-Israel and therefore unfair.[26] To Israeli eyes, the presence of the US is perceived as more even handed. In contrast, while the Palestinian leadership prefers the principle of a more multilateral approach to conflict resolution, it has gone along with the bilateral character of the Oslo process, even as it has failed to yield any significant benefits. Why has it done this? The main reason is because the American third party is perceived as having more direct leverage over Israel than any another country would have.[27] This may have discouraged it from pressuring other states and governments to adopt a more proactive role in relation to the conflict.[28] Included in this calculation is the sizeable financial and military assistance that the US provides Israel annually and the close political, economic and social ties between the Jewish-American community and the policy establishments in Washington and Israel. Arguably there has been relatively little evidence to support this assumption; so far Washington has not pressed Israel into making unwanted concessions.

What of the U.S? Even if the Palestinians were to abandon bilaterialism with Israel, it is unlikely that a multilateral process would immediately replace it. Instead, the US might be expected to defend its "privileged" position as the mediator between the two parties. Furthermore, given its dominant regional and global status, while other countries like China might criticize Washington's actions (or inaction) on the sideline, the cost of doing so is relatively cheap. By contrast, directly challenging Washington's sole status as mediator may be perceived as not only more costly in terms of damaging relations with the US (and Israel), but may deliver few substantial results in terms of a different outcome.

Indeed, it is not clear what China might offer as an alternative to the current process. China has consistently stated its support for an international conference to resolve the conflict at various intervals during the post-Mao era. The earliest was in 1984 when it did not yet have diplomatic relations with Israel – a fact that was rectified in 1992 so that it could participate at the Washington conference.[29] Since 1993 it has repeated its commitment to the Oslo process of negotiations between the two sides. In 2009 it proposed "Five Points for an Immediate Ceasefire" to halt the Gaza War and backing the Hamas authorities which controlled the territory (Beijing had previously hosted the Hamas foreign minister in Beijing following the party's election in 2006, which contrasted with the stance taken by the US and Europeans, who labelled it a terrorist organization). But at the same time it was prepared to overlook that support when necessary: at the US-initiated 2007 Annapolis conference Hamas was excluded. Beijing was present, but only pledging $11 million out of a total donor commitment of $7.4 billion.[30]

In 2013 it proposed a four-point plan with "land for peace" based on direct talks. Furthermore, nothing was done to advance the measure; a few months later the Chinese initiative was overshadowed by US Secretary of State John Kerry's year-long (and ultimately unsuccessful) shuttle diplomacy as a way of breathing new life into the Oslo process. Most recently, during Xi Jinpeng's visit to the Middle East in January 2016, the Chinese government published a policy document that effectively repeated previous statements. On the Arab–Israeli conflict it stated its commitment to "the Middle East peace process and the establishment of an independent state of Palestine with full sovereignty, based on the pre-1967 borders, with East Jerusalem as its capital".[31]

As Tiezzi[32] has argued, the approach set out in China's Arab policy document does not represent a break with the past. The bulk of the paper emphasizes economic relations and development with the Arab world, with stability and anti-terrorism as key watchwords. Consequently, there is little that is different between China and the US in terms of their supposed global rivalry when it comes to the Middle East. Both share a wider concern with the region than the Arab–Israeli conflict, whose centrality has diminished. That the conflict no longer shapes the politics of the region might therefore provide space for variation in terms of policy. At one level it does so, by questioning the failure to realize a resolution to date. However, at another level, it provides little detail on how its alternative vision of an international conference to resolve the conflict is to undertaken and achieved.

Fourth, the absence of any way of driving forward the peace process has meant that Chinese engagement with the Palestinians is largely piecemeal.

China's Middle East envoy, Gong Xiaosheng, met with the Palestinian leadership in Ramallah at the end of January 2016. Beyond expressing support for an international conference, the only tangible output from the meeting was a Chinese commitment to provide $7.5 million for economic development (including the establishment of a solar power station project) and humanitarian relief.[33] This sum comes out of China's supposed $55 billion pledge to fund loans, aid, investment and projects as part of its OBOR initiative.[34]

The sum, while small, is still comparable to that made by other BRICS countries, most notably Brazil which has increased its contribution to the Palestinians in recent years, including its allocation of $6.5 million to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).[35] Yet such figures are dwarfed by the amount that the established donors make: in 2014 UNRWA's top two donors, the US and EU, respectively pledged $409 million and $139 million towards its work with the Palestinians; in the same year China's contribution to UNRWA was $200,000.[36]

Notwithstanding this, the Palestinian leadership offered up positive spin to China's Arab policy agenda and Gong's visit. But this must be set into context: within the population of the occupied territories there has been growing disquiet, including rejection of the Oslo process. Consequently, there is a need for the leadership to find something that might improve their fortunes, given the failure of bilateral negotiations to date; perhaps the internationalization of the "peace process" might work?

The Palestinian leadership's options: Oslo and/or the "internationalization" approaches

In recent years the Palestinian leadership has been trying to ride two horses at the same time. On one side it has continued to present itself as a party to bilateral negotiations in the Oslo process. On the other side it has tried to move away from the Oslo process and "open" up the conflict to the wider international community. Since 2011 the Palestinian leadership has been pressing ahead with this alternative policy to acquire full state membership at the UN through its application to and membership of international governmental organizations. This included joining the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2011 and an application to join the International Criminal Court (ICC) in 2015. To date membership of both has not led to any substantial change in Palestinian fortunes.

Despite this two-pronged approach, why is there so little to show for the Palestinians' efforts so far? One reason may be that the international community, including China, continue to subscribe to the Oslo process that is weighted against the Palestinians. And because the international community supports this path, the Palestinian leadership feels obliged to do the same, if only to appear as a "responsible" actor.

In terms of the "internationalization" path, the Palestinian leadership would welcome Chinese support in its policy of acquiring membership in international organizations. For the Palestinians the policy is motivated by a desire to get other states to move away from making statements that condemn Israel's occupation and violation of human rights and instead get them to act. From this perspective, diplomatic recognition of Palestine as a state (which is acquired de facto) incurs legal responsibilities on those who extend it, obliging them to act.[37]

Yet it is not certain that it will lead to a tangible outcome. Despite the Palestinian drive to realize statehood at the UN, the Chinese advised against them doing so. Self-interest was at stake here: Beijing was concerned that such a move might encourage others, like the Uighars in the West, or Taiwan, to do the same.[38] Additionally, Beijing was inclined to prioritize Israeli concerns at the expense of the Palestinians. When both Israeli Prime Minister Benyamin Netanyahu and Palestinian Authority and PLO President Mahmood Abbas overlapped in their visits to China in May 2013 the reception for each was contrastingly stark: Abbas was limited to an interview with China Radio International while Netanyahu got more "face time", including a live online chat on Xinhua's website and a speech at the Communist Party's Central Party School, where it trains its future leaders.[39]

Chinese reservation for the Palestinian internationalization strategy may be seen in its support of the French-led proposal during 2015–16 to organize an international conference to achieve a final agreement between Israel and the Palestinians. Underpinning the French proposal was an implicit threat that if it failed, Paris would extend full diplomatic recognition to the Palestinians. Yet such an offer may well be toothless. Already more than 70 per cent of states have full diplomatic relations with the Palestinians, including rising powers like Russia, Brazil, India and China. Moreover, despite the Palestinians having gained such widespread recognition, it has not challenged these countries' interactions with Israel.

In June 2016 the French hosted a ministerial meeting to prepare the way for its peace initiative and which was attended by the international community, including China (but neither Israel nor the Palestinians). The Chinese Foreign Minister, Wang Xi, proposed "Three Stops" as the goal: stop the violence between the two sides, stop settlement expansion and stop the blockade of Gaza. In its place he offered another slogan, the "Three Explorations": to encourage peace-making as widely as possible by including other organizations like the Arab League and the Organization of Islamic Countries; to involve the international community in providing support, guidance, supervision and evaluation of the process; and for the international community to offer incentives to help build peace.[40]

No mention was made of the Palestinians' internationalization strategy and the pursuit of statehood via recognition of international bodies like the UN in the Chinese statement. Indeed the Chinese statement maintained the fiction of two equally matched sides by asking that both stop the violence and meet each other halfway. And it only suggested a halt to Israeli settlement building rather than their removal, while also repeating the international dimension of negotiations – which has been a feature of both the Madrid and subsequent Oslo processes.

Wang's statement therefore offered little to the Palestinians' internationalization strategy at the UN in two other ways. One is the absence of Chinese willingness to use its UNSC veto to uphold Palestinian rights at the expense of Israel. The other is that the Palestinian pursuit of ICC membership – while important to elite and civil society alike – is of little interest to Beijing, which remains a non-signatory.

The Palestinian civil society option: the BDS

The bulk of Sino-Palestinian engagement is at the official level. Although Palestinian civil society activists find doors open and officials willing to listen, the degree of engagement is uncertain. Although China offers an "open door" in that they listen to the concerns of Palestinian activists, Beijing is considered to be "far from [human rights] issues".[41] Arguably for civil society actors, human rights is seen as more important in their struggle to end Israeli occupation and discrimination; far more so than the economic development model pursued by China since the 1970s.

In terms of organized activity, perhaps the most significant social movement to emerge from Palestinian civil society in the period since the end of the second intifada has been the BDS movement. Formed in July 2005 the movement brought together over 170 social movements and organizations across Palestinian civil society, inside and outside the occupied territories. Ranging from trade unions to professional associations, education institutions and refugee groups, the BDS movement campaigns for an end to Israel occupation and human rights violations. It targets foreign companies that are complicit in this process and campaigns with civil society organizations in other countries to pursue its objectives.

The BDS is aware that it needs to extend its activities to China but also notes the growing relationship that Israel has with it. This presents obstacles and challenges.[42] The BDS has to find local partners that it can work with in China in order to further its aims. However, Palestinian analysts and activists perceive civil society in China as relatively weak.[43] Additionally, BDS activity has tended to be directed towards those societies which have greater degrees of contact with Israel and where its organization and activities have the strongest presence, namely in North America and Europe. And in terms of the aims they pursue, these are common across all civil societies, regardless of country: a military embargo on Israel, an end to free trade agreements with Israel (or in the case of China, negotiations), and a ban on all Israeli and international companies that are "complicit" in Israel's occupation and violation of human rights.[44]

During 2015, one incident was seized upon by activists as an apparent indication of Chinese concern with the BDS campaign. Beijing issued a statement that Chinese migrant workers should not be employed in settlements. Beijing's official line was that it was worried about its citizens being injured while working in them. BDS supporters seized on this as an implicit suggestion that perhaps China was becoming aware of the potential damage to its international reputation in the Arab world if it did not address the matter.[45]

Building on this supposed victory, BDS activists see other factors that might potentially help its campaign efforts in China. Outside the West, relations with Israel are based on national interests of economic development rather than on ideology (such as sympathy for Zionism) and the historical legacy of the Holocaust. This arguably makes the Chinese public space more open to challenge and contestation of its government's policies in relation to Israel.[46]

This optimistic view may potentially be backed up by public opinion. In 2013 the Pew Research Center surveyed across several countries in the region and the Western countries as well as China. Proportionally more Chinese sympathized with the Palestinian position than with Israel (17 per cent to 9 per cent, with 29 per cent saying both and 21 per cent saying neither). In addition, a majority of Chinese held an unfavourable view of Israel (66 per cent), in line with other countries like Russia, France, Germany and Britain. But whereas there were significant minorities in these countries that held a favourable view of Israel (between 27 per cent and 46 per cent), only 14 per cent of the Chinese surveyed held similar views.[47]

Conclusion/future directions

In January 2016 President Xi visited the Middle East. It was considered a significant moment, constituting the first major Arab policy review since the Arab Uprising five years earlier. Despite these expectations, there was as much continuity as change presented within the new vision. Both were evident in the case of the Arab–Israeli conflict, with Beijing supporting the long running Oslo process while also implying an alternative stance to the dominant power involved in it, the US.

China's restatement of support for direct negotiations between Israel and the Palestinians echoes previous statements that it has made with other emerging powers like the BRICS at their annual summits and declarations in recent years: they have backed the use of past international resolutions and measures, including by the UN, the Madrid principles and the Arab peace proposal in 2002. This position has been similarly supported by other emerging powers such as the BRICS in the annual summit declarations.

Despite Chinese commitment to the Oslo process, this goes against growing Palestinian public opinion against the Oslo process and a two-state solution. Polling from the Palestinian Center for Policy and Survey Research in December 2015 showed a growing majority rejects the two-state solution and PA involvement in it. Alongside, there is growing support for an armed intifada, especially among the so-called "Oslo generation" (i.e. those aged between 18 and 22). There is increasing opposition to the current leadership, with two-thirds wanting president Abbas to resign and voting intentions split between the two main political factions, Fatah and Hamas, with a third for each.[48]

For many Palestinians, the failure of Oslo undermines any notion that another state (like China) might offer an alternative mediator to the US in terms of transforming the "peace process". The failure of Oslo has prompted two different directions to emerge in the Palestinians' search for a resolution to the conflict. One is to "internationalize" the conflict by encouraging diplomacy to introduce moral obligations on states to follow the letter of the law in relation to Israel's occupation. Another is the rise of the BDS movement in Palestinian civil society, which builds campaigns with supporters in other countries to pressure their governments to hold Israel accountable.

China figures as one state actor among the many that can contribute to the success of both approaches. While Chinese involvement would be welcomed in either direction, Beijing has not been especially active in supporting either option, or following through on Palestinian objectives. Therefore, perhaps unsurprisingly, China has not been central to the strategic planning of Palestinians at either the official or civil society levels to date.

The Palestinian reality contrasts starkly with that of much of the rest of the region. For nearly 70 years Palestinian political life has been dominated by the Israeli occupation of its territory and its marginalization and discrimination of its people, including the forceful exile of its diaspora as refugees. This is in marked contrast to China's new economic direction in the region, which focuses on investment, infrastructure and trade. The drivers of this – the OBOR and the Asian Infrastructure Investment Bank (AIIB) – do not directly relate to the challenge faced by Palestinians other than the lip service paid by policymakers that the conflict needs to be resolved.

The peripheral nature of the Palestinians is reflected in the greater priority that China gives to economic considerations and those countries with which it wants to develop and deepen ties; among those is Israel, with which it has not only increased trade but also invested in its economy. It is also notable in the very low sums being made available for investment and development of the Palestinian economy, along with the absence of the Palestinians from the membership of the AIIB at the time of writing (June 2016).

In conclusion then, the prospects for Palestinians transforming their present situation looks bleak. It is not helped by the apparent unwillingness of the wider international community, including China, to step in and redress the imbalance that exists between the two conflict parties. Furthermore, it does not look likely that Beijing will reorient its approach. The result therefore will continue to be what it has been until now: sympathetic support in principle for the Palestinian cause, but with no substance behind it. And with that in mind, Palestinian views and hopes concerning Beijing will be open, but tempered by reality.

Notes

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10 China's "One Belt, One Road" (OBOR) initiative

Envisioning Iran's role

John Calabrese

China's "One Belt, One Road" (OBOR) initiative is rapidly taking shape. Years of massive investment in domestic and trans-border railway development have already shown results, with freight services currently operating between several Chinese manufacturing hubs and European cities as far West as Madrid. Paralleling these efforts has been Beijing's push to strengthen maritime connectivity from major ports on China's Southern coast passing through the South China Sea and extending across the Indian Ocean to East Africa and northward through the recently expanded Suez Canal to Europe. And lately, both the overland and maritime arteries of this elaborate transport network have reached Iran.

Last year, the China Development Bank (CDB) announced that it would invest a mammoth $890 billion in 900 OBOR-related projects in over 60 countries[1] – including a high-speed railway from Xinjiang Province in Northwestern China to Tehran. While the latter project is still on the drawing board, on 26 January 2016 the Iranian container vessel *Perarin* arrived in Qinzhou Port, inaugurating a new shipping route connecting Iran and the Middle East to China's Guangxi Autonomous Region.[2] The next month, the first freight train linking China to Iran completed its maiden journey of over 10,000 km, reaching Tehran 14 days after setting out from Yiwu in the Eastern province of Zhejiang.[3]

Beijing's efforts to incorporate Iran in OBOR mark the beginning of a new chapter in what has been for China a mutually advantageous, multifaceted though limited partnership with the Islamic Republic of Iran.[4] Although this partnership had been many years in the making, it acquired greater salience and complexity following the removal of Saddam Hussein from power in 2003, the consequent reconfiguration of the power dynamics in the Gulf, and the wrangling over the Iranian nuclear program. During this period, Iran – though under growing pressure from sanctions – emerged as an increasingly assertive, influential and (from the perspective of its Gulf Arab neighbours and the United States) profoundly problematic actor in regional affairs. Thus, as the scope and potential of China's ties with Iran have grown, they have also become more complicated and difficult to manage.

The lifting of nuclear-related sanctions against Iran has removed a major obstacle to the broadening and deepening of China–Iran relations while supplying fresh impetus to Beijing's aim of integrating the Middle East (West Asia) into its ambitious OBOR initiative. Iran could serve as a critical nodal point in this evolving transport network, and thereby play a key role in reshaping the geoeconomic and strategic landscape.

In order to fully understand the character and potential of China's OBOR initiative with respect to Iran, it is worth taking a broader look at the basis of, and recent developments in Sino-Iranian relations. In describing the basis of their bilateral relationship, Chinese and Iranian officials alike have embraced historical narratives that emphasize pride in their ancient heritage and decry Western injustice and domination.[5] However, China's relations with Iran are driven primarily by economic and strategic considerations. The cornerstone of the economic partnership between China and Iran is energy trade. In recent years Iran, which possesses the fourth largest oil and the second-largest gas reserves in the world, has been among China's top three sources of oil imports, while China has been the leading destination for Iranian oil exports (see Figures 10.1, 10.2 and 10.3).

The scope of Sino-Iranian energy cooperation widened when in 2000 China National Petroleum Corp (CNPC) and China Petroleum and Chemical Corp (Sinopec) first became involved in oil exploration and development in Iran. Within a few years, Beijing's "Going Out Policy" of encouraging Chinese enterprises to invest overseas coupled with US pressure on Western and Asian companies to abandon their energy investments resulted in China's emergence as the leading foreign player in Iran's upstream oil sector. The two biggest, headline-grabbing deals took place in 2007 when Sinopec was awarded the contract to

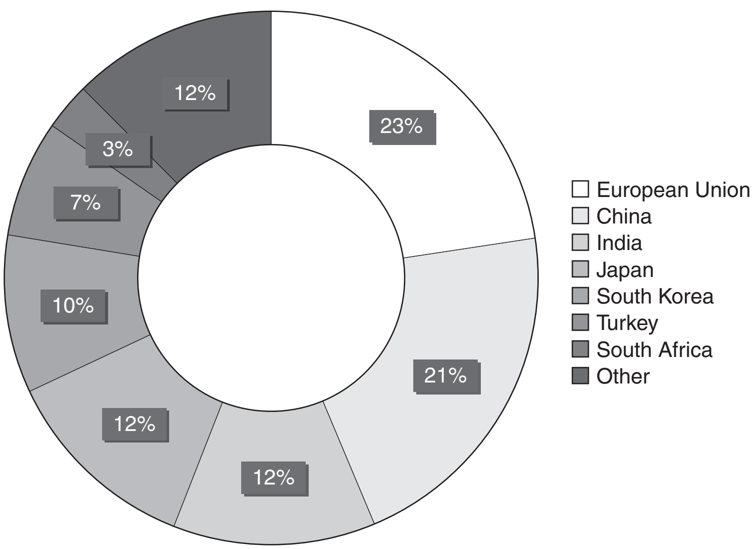

Figure 10.1 Iran's oil exports by destination 2011 before sanctions imposed.

Source: U.S. Energy Information Agency; Reuters; country data.

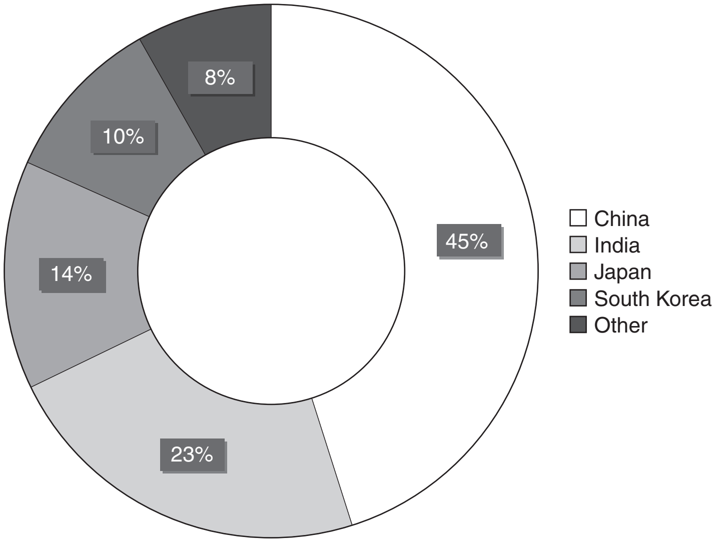

Figure 10.2 Iran's oil exports by destination 2014 after sanctions imposed.

Source: U.S. Energy Information Agency; Reuters; country data.

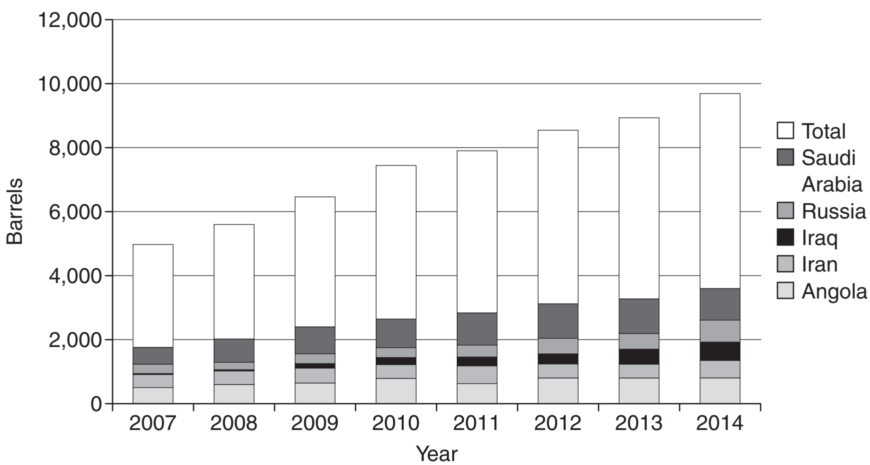

Figure 10.3 China's top sources of crude oil in thousands b/d.

Source: China Customs Statistics.

develop the Yadavaran oilfield and CNPC signed contracts for the North and South Azadegan oil fields.[6]

In the early 2000s, Chinese state enterprises became active in Iran's gas industry as well. In 2004, Sinopec reached agreement with Iran on a $100 billion, 25-year contract for the production and export of liquified natural gas

(LNG) from the South Pars gas field. In December 2006, China's biggest offshore oil producer, China National Offshore Oil Corporation (CNOOC) signed a $16-billion natural gas deal to develop the North Pars gas field and construct LNG facilities for exporting gas to China.[7] Three years later, CNPC followed suit, signing a $4.7 billion to develop Phase 11 of the 28-phase offshore South Pars gas field project, replacing the French company, Total SA and its Malaysian counterpart Petronas.[8]

In addition, Chinese state-owned companies became involved in Iran's downstream development. That is not surprising. Even before the tightening of sanctions in 2012, the Iranian downstream sector had been ailing, with the Shazand, Badan and Bandar Abbas refineries all badly in need of repair.[9] In July 2009, the National Iranian Oil Company (NIOC) invited China's three oil majors – Sinopec, CNPC and CNOOC – to participate in a $42.8 billion project to build seven additional refineries and a 1,600 km trans-Iran pipeline.[10] The next month, a consortium of Chinese companies reached agreement with the National Iranian Oil Products Distribution Company (NIOPDC) on a $2–3 billion contract to expand the capacity of the Abadan and Persian Gulf Star refineries.

Non-energy trade and investment have been important components of bilateral economic ties for quite some time as well. Over the past two decades, Chinese engineers have built bridges, dams, railroads, and tunnels throughout Iran.[11] CITIC Group Corporation, China North Industries Corporation (NORINCO), and Changchun Railway Vehicles Corporation (CRV) have all played major roles in the construction and expansion of the Tehran rapid underground subway system.

China's two largest shipbuilding conglomerates – the China Shipbuilding Industry Corporation (CSIC) and China State Shipbuilding Corporation (CSSC) – have contributed to the expansion of Iran's maritime shipping capacity. In 1999, Dalian New Shipbuilding Heavy Industry Co Ltd (DNS) won a $370 million contract with the then state-owned National Iranian Tanker Company (NITC) to build five 300,000 DWT (deadweight tons) crude oil carriers.[12] Since 2012, NITC has bought 20 crude oil super tankers (VLCCs) from Waigaoqiao Shipbuilding Co. Ltd and Dalian Shipbuilding Industry Co. Ltd (units of CSSC and CSIC, respectively).[13] China's Export and Import Bank has played a key role in financing these shipbuilding projects as well as projects in the railways and the power sectors.[14]

Thus, on the eve of the broadening of EU and US sanctions against Iran in 2012, two decades of contact and cooperation between China and the Islamic Republic of Iran had yielded significant benefits for China. Chinese national oil companies (NOCs) had positioned themselves to fill the void left by Western and Asian firms. Trade had begun to gravitate towards China and away from Germany, Iran's traditional partner, as well as from other big petroleum customers, namely South Korea and Japan. CITIC's involvement in the Tehran Metro project – the first overseas general contract undertaken by a Chinese company – helped it establish a foothold in the Iranian and regional transportation infrastructure market. The Dalian-NITC contract was a major breakthrough for China's shipbuilding industry – an initial step towards challenging Japanese and Korean dominance.

Progress in China–Iran relations did not come easily. Throughout the sanctions period, China struggled to preserve and even enhance its partnership with Iran without severely damaging relations either with the United States or with Gulf Arab commercial partners. In practice this meant working to prevent an escalation of the crisis over the Iranian nuclear program, while capitalizing on the opportunities that Western tensions with Iran presented to Chinese political and economic interests.[15]

American officials characterized China's actions as being both helpful and harmful to their efforts.[16] Testifying before the US Senate Banking Committee in October 2011, Undersecretary of State for Political Affairs Wendy Sherman stated that China "has exercised restraint" in Iran's energy sector development.[17] A US Congressional Research Service (CRS) report issued in January 2016 described China as having been "pivotal to U.S. efforts to reduce Iran's revenue from oil sales".[18] According to Paul Haenle, former China Director on the National Security Council staffs of the Bush and Obama administrations, "China repeatedly called on Iran to take advantage of the opportunity to lift the economic burden caused by international concerns about its nuclear programme and reap subsequent economic benefits, including Chinese investment and joint infrastructure development".[19] Chinese diplomats reportedly bridged differences between the US and Iran within the UN Security Council and played a constructive role in helping to break the impasse over the Arak reactor by proposing a redesign plan.[20] Meanwhile, Chinese firms chose either not to implement their agreements with Iran or slowed work on them.[21]

Other accounts, however, depicted China in a much less favourable light, claiming that Beijing dragged its feet in deliberations over sanctioning Iran[22] and agreed to support UN sanctions resolutions only "after watering them down".[23] Chinese state-owned entities did what they could to exploit sanctions and mitigate their impact. For example, when, after US and European sanctions caused a 75 per cent drop in total sales of refined gasoline to Iran in 2010, Chinese companies moved in to sell, reportedly at a 25 per cent premium above the market rate.[24] They also took advantage of the EU embargo to obtain significant discounts on Iranian oil.[25] In addition, China and Iran devised alternative payment systems to offset the impact of sanctions; barter trade and the settlement of some purchases in Renminbi (RMB) played an increasingly important role in Sino-Iranian transactions.[26]

It should be mentioned that Chinese companies were able to continue conducting business with Iran partly because the sanctions themselves were somewhat permissive.[27] UN Resolution 1929, for example, obliged states merely to exercise "vigilance" in their business dealings with the Islamic Revolutionary Guard Corps (IRGC) – arguably the most powerful state institution, deeply involved in the economy and directly invested in the oil and gas industry.[28] China consistently obtained US State Department exemptions[29] under Section

1245 of the US National Defense Authorization Act (NDAA)[30] while capitalizing on gaps and loopholes in sanctions to ramp up purchases of fuel oil[31] and to buy increasing amounts of ultralight crude oil (i.e. condensates). Thus, oil imports, which were supposed to decrease under waivers, actually grew.[32]

As John Garver has shown, though many Chinese firms were subject to sanctions under US law or Executive Orders between 2002 and 2009, "Beijing apparently succeeded in deterring US sanctions against its oil firms".[33] In January 2012, the US did levy sanctions on state trader Zhuhai Zhenrong – which acts as an import agent for Sinopec – under the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) for selling refined petroleum products to Iran.[34] However, because Zhuhai Zhenrong does little business in the US, it can be assumed that the sanctions had little, if any effect.

During the sanctions period, China was Tehran's critical lifeline. Indeed, Iran came to depend on China not just as the leading destination for its oil exports, but increasingly for critical diplomatic, economic, and technological support. Many of Iran's most ambitious projects in recent decades were carried out under the period of heaviest sanctions – with Chinese partners.[35] After the implementation of each round of UN sanctions, China reportedly made some form of economic gesture towards Tehran.[36]

Nevertheless, the sanctions period was anything but smooth sailing for China–Iran relations. Although Chinese officials declared their opposition to unilateral US sanctions and to linking the oil trade with the nuclear issue,[37] in practice Chinese NOCs appear to have limited their investments, delayed the start and/or slowed their work in Iran's energy development.[38] Iran's temporary suspension in 2011 of CNOOC's contract to develop of the North Pars natural gas field marked the point at which the Chinese footprint in Iran's upstream sector began to shrink. The following year, CNPC withdrew from developing Phase 11 of South Pars. Work on the Yadavaran oil field fell far behind schedule.[39] Eventually, Iran terminated its contract with CNPC to develop the South Azadegan oil field, citing repeated delays.[40] Meanwhile, sanctions trapped much of Iran's oil revenues in Chinese bank accounts.[41] This enabled China to leverage its oil purchases, since the only way the Iranian government could receive its money was to accept barter products in exchange.

Thus, the tightening of sanctions progressively constrained the development of China–Iran energy cooperation. In fact, China proved to be decidedly more cautious in supporting Tehran on the diplomatic front and Chinese companies more circumspect in their dealing with Iran than is commonly understood. Similarly, their counterparts were likely more frustrated with and ambivalent about Chinese economic activities in Iran than they expressed publicly.[42] In fact, a number of contentious issues bubbled to the surface during the sanctions period, including the flood of subsidized, sub-standard Chinese goods crowding out locally-made products, price gouging, and delayed implementation of projects.[43]

Immediately following the signing of the Joint Plan of Action (or Geneva interim agreement) on 24 November 2013, there was a flurry of political and military interactions between China and Iran.[44] Chinese imports of Iranian crude oil surged in the first half of 2014.[45] In anticipation of the cementing of a final agreement and the lifting of sanctions, Sinopec and Chinese state trader Zhuhai Zhenrong[46] sprang into action, seeking to renew their contracts in Iran. And China doubled its investment quota for Iranian infrastructure projects.[47] This burst of activity, triggered by the brightening prospect for a negotiated resolution of the Iranian nuclear dispute, dovetailed with President Xi Jinping's official unveiling of the OBOR initiative and its subsequent elaboration.

Authority over the broad direction of Chinese foreign policy and key foreign policy decisions appears to reside in the hands of President Xi Jinping, whom *The Economist* wryly referred to as "Chairman of Everything".[48] Some argue that under Xi's leadership China's foreign policy has shifted from *taoguang yanghui* (maintaining a low profile) to *fenfa youwei* (striving for achievement).[49] Others contend that Xi has "extended and deepened" the "peaceful development" foreign policy strategy embraced by his predecessors.[50] Yet, regardless of which of these competing views they hold, scholars seem generally in agreement that Xi's signature foreign policy initiative is OBOR, launched in 2013 with the stated aim to connect major Eurasian economies through infrastructure, trade, and investment.

The OBOR initiative, as later elaborated, refers to the Silk Road Economic Belt – a land-based corridor originating from Western China that passes through Central Asia to the Middle East – and the twenty-first century Maritime Silk Road – a sea route that runs from Quanzhou in China's Fujian province, through the Strait of Malacca and on to Nairobi (Kenya), before merging with the land-based route in Venice, Italy. In its largest form, OBOR would include 65 countries with a combined population of over 4.4 billion people and roughly 40 per cent of global GDP.

The OBOR initiative is described in an important vision document issued by the National Development and Reform Commission (NDRC) in March 2015 as:

> a way for win–win cooperation that promotes common development and prosperity and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges. The Chinese government advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit. It promotes practical cooperation in all fields, and works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.[51]

While Beijing has thus couched OBOR in altruistic terms, a closer look reveals that this ambitious project is intended to help achieve a number of economic and strategic objectives for China itself. In economic terms, OBOR would (1) serve as a new growth driver aimed at achieving more "balanced economic development" through opening up trade for the country's poorer Western and Southern provinces, (2) stimulate external demand and thereby help redress substantial industrial overcapacity, (3) facilitate more Chinese enterprises "going global", and (4) deepen the internationalization of the RMB. In strategic terms, OBOR, by establishing concrete ties with neighbouring states and regions, would potentially (1) boost China's soft power (i.e. serve as a basis for participating countries to be more responsive to Chinese interests and priorities), and thereby (2) advance the goal of "rejuvenating the Chinese people".[52]

In its essence, OBOR aims to promote connectivity primarily through the development of transportation infrastructure that supports the increased exchange of goods across the Eurasian landmass and Indo-Pacific maritime domain. The Middle East is situated at the Western intersection of the OBOR. This pivotal location, combined with the vital importance of Middle Eastern energy resources for China's continued growth and for the stability of the world economy endows the region with its significance within the overarching OBOR framework. It is therefore not surprising that China's special envoy for the Middle East, Gong Xiaosheng, stated that the Middle East is "going to be an important region to implement OBOR".[53]

Yet, the Middle East has been in a state of turmoil since 2011. Conflicts and civil wars plague Iraq, Syria, Libya, and Yemen while the heightened tension between Iran and Saudi Arabia – China's leading economic partners in the Middle East – has fuelled sectarianism and regional instability. This turmoil, coupled with the rise of the Islamic State (ISIS), has placed Chinese interests in the Middle East at risk. Paradoxically, these circumstances have supplied the impetus for deeper Chinese engagement in the region and thus provided additional justification for pursuing the OBOR initiative, while at the same time threatening its success – leaving Beijing somewhat in a quandary. This could explain why most of the early action and investment related to OBOR has been focused on Pakistan and Central Asia – areas outside the traditional definition of the Middle East.

What, then, of Iran's role in the OBOR initiative? Iran occupies a geostrategic role as the most convenient non-Russian access route to open waters, and the only East–West and North–South intersection for Central Asian trade. Given its unique geography, therefore, Iran is a potentially critical nodal point in OBOR. Furthermore, from an energy security perspective, Iran has an important role to play in China's future, as a major long-term source of supply. In addition, strong ties with Iran are a potential geopolitical asset for Beijing, not necessarily in challenging American hegemony in the Middle East but also in preventing Washington from using the region's hydrocarbons as leverage against it. This is precisely the impression that Iranian leaders have sought to convey to their Chinese counterparts, as when, on the occasion of President Xi's January 2016 visit to Tehran, Supreme Leader Ali Khamenei remarked, "Iran is the most reliable country in the region for energy since its energy policies will never be affected by foreigners".[54]

On 18 October 2015, just three months prior to Xi's state visit to Iran, the Joint Comprehensive Plan of Action (JCPOA) came into effect. The fortuitous timing of the JCPOA's adoption paved the way for the visit, as well as for the fanfare with which it was portrayed in the Chinese and Iranian press. The first day of the visit also marked the convening in Tehran of the inaugural meeting of the China–Iran Think Tank Dialogue on OBOR, with participants representing the Ministry of Foreign Affairs of China, NDRC of China, Renmin University of China and the Iranian Foreign Affairs Ministry.[55]

President Xi devoted more than half of an open letter to the Iranian people released at the time of his visit to a discussion of areas of potential China–Iran cooperation under the OBOR framework.[56] During the visit, the two presidents oversaw the signing of 17 agreements, pledged to increase bilateral trade more than tenfold to $600 billion over the coming decade, and issued a joint statement outlining a long-term "comprehensive strategic partnership".[57]

Xi was accompanied to Tehran by a large Chinese business delegation. The visit coincided with new Chinese–Iranian commercial deals. Since then, this positive momentum has been sustained by efforts aimed at expanding Chinese involvement in railways and shipbuilding, boosting investment in the energy sector, and signing more long-term energy supply contracts.[58] China National Transportation Equipment & Engineering Co Ltd (CTC) is close to finalizing an agreement on the $3 billion rail project to connect Tehran with Mashhad.[59] Dalian Shipbuilding Industry Co, has likewise been in discussions on building container ships and oil tankers for Iran.[60] Meanwhile, China National Technical Import and Export Corporation (CNTIC) has agreed to construct the first petrochemical plant in Mehr.[61]

It is true that the OBOR initiative is a multi-national enterprise. It is also true that China is its architect, financier, and builder. Therein lies the paradoxical situation in which China finds itself: chiefly responsible for OBOR's conceptual and concrete development while at the same time only partially capable of ensuring its success. In a recent online posting, Xu Shanda, a retired Chinese deputy director of the State Administration of Taxation, acknowledged the risk of substantial financial losses that such an ambitious enterprise entails yet the necessity of nonetheless forging ahead with it:

> In previous years, China made large investments in the energy sector. Looking at it now, these investments were useful in ensuring energy supplies, though financial losses were large. If we do not go this route, external demand will shrink, which will put tremendous pressure on domestic production and exacerbate the overcapacity problem. So, despite the difficulties, we need to stick to this overseas economic strategy.[62]

OBOR's success is neither preordained nor inevitable. Indeed, concerns over the commercial viability and feasibility of various projects persist. A slower growing Chinese economy and falling foreign exchange reserves could make it difficult for Beijing to fulfil all of the commitments it has made, leading to project delays or cancellations. Whether China can continue to avoid becoming entangled in local or regional disputes is an open question. So, too, is whether China can achieve the trust of wary neighbours. Furthermore, OBOR might not have the benign developmental effects that the Chinese assume or have advertised to their counterparts. Insofar as Iran's prospective role in OBOR is concerned, it is important to bear these uncertainties in mind. It is also to consider those factors that might constrain the further development of China–Iran relations and possibly that of OBOR itself.

Rebalancing the China–Iran relationship

With the lifting of sanctions, China is no longer the only game in town – and it is clear that Iranian officials see it that way. From wrangling over the mechanism to settle overdue debts from past sales of oil[63] to discussions about investment terms, Iran is clearly determined to rebalance its relationship with China. Iran's official news agency IRNA quoted the managing director of Iran's National Petrochemical Company (NPC) Abbas Sheri Moqaddam as saying, "Iran's conditions have changed after the removal of the sanctions against the country and that China cannot dictate its own plans on Iran".[64] Similarly, Majid Reza Hariri, Vice Chair of the Iran-China Chamber of Commerce, noted that Iran is no longer confined to "fate and chance", no longer a supine actor. Commenting on prospects for Iran-China relations, he went on to say:

> Before any other step, we must give assurance to the Chinese that if relations with the West are normalized, we are not going to eliminate them from the basket of our trade partners or decrease economic relations with that country. Moreover, the Chinese must also understand that Iran's conditions have changed, and that our hands and feet are no longer tied, as in the past few years … Hence, the Chinese must show their advantages in economic trade with Iran and be able to compete with other countries. They have realized that the game table has now changed, and other rivals are sitting around the table, as well. Moreover, we must also consider gaining new concessions from this interaction and forget about the path that we have been following thus far in trade and economic relations with China, and we must pursue a policy that is other than merely buying goods and selling oil and petrochemicals.[65]

China is hoping to cash in on Iran's lingering mistrust of the West – and well might. However, a certain undercurrent of mistrust also exists in Sino-Iran relations, particularly on the Iranian side. There are multiple sources of this mistrust, some dating from the Iran–Iraq war (1980–1988) when China sold Baghdad more weapons than it did Tehran, to Beijing's decision to halt nuclear assistance to Iran in 1997 and cancel arms deals in order to reduce tensions with the United States;[66] and others (mentioned earlier) having surfaced more recently, i.e. during the sanctions period.

For these reasons, it seems improbable that Iran would willingly become China's formal ally or junior partner, or be maneuvered into a dependent or starkly inequitable economic relationship. It also seems unlikely that Chinese companies will continue to enjoy the privileged access they had during the sanctions period. And it seems at least conceivable that the orientation of Iran's foreign and economic policy might evolve from that of "looking East" to "looking both East and West" – an outcome that makes OBOR tantalizingly appealing and that OBOR could help bring to fruition.

The scramble for business

Within just a few days of the adoption of the JCPOA, Iranian President Hassan Rouhani embarked on visits to Rome and Paris in an effort to rebuild business relations with Europe[67] – once Iran's biggest trading partner and second-largest oil customer. Although European governments are deeply troubled by Iran's human rights record and regional policies (e.g. regarding Syria) and differ over how quickly to move forward in reviving trade and investment ties, they are nonetheless keen to regain some of the business they ceded to China in recent years.[68]

Iran's traditional Asian economic partners, Japan and South Korea, are also in the mix. Japanese companies can be expected to compete for contracts in the civilian nuclear energy sphere, as well as in high-speed rail construction and automobile production.[69] In fact, immediately upon the lifting of sanctions, Tokyo and Tehran signed an investment treaty and a $10 billion debt guarantee framework that could pave the way for the participation of Japanese companies in downstream energy projects.[70] And the Japanese parliament has action to provide full insurance cover for shipping Iranian oil.[71] Meanwhile, South Korean President Park Geun-hye's visit to Tehran in May 2016 produced an agreement to reestablish and expand investment and trade relations, pursue joint projects in energy, railroads, and other infrastructure.[72]

In the short term, Chinese companies could succeed in maintaining their advantage over international competitors, especially as, for example, European banks remain skittish about doing business in Iran due to the continuation of sanctions relating to facilitating terrorism and other issues.[73] But in the longer term, the lifting of sanctions will require Chinese enterprises to adjust from filling the vacuum to competing with Western and Asian rivals.

Geopolitical risks and roadblocks

Whether Iran can be transformed into a strategic node along OBOR will largely depend on local political and broader geopolitical dynamics over which China has little control in spite of the enormous financial power it wields. Efforts to achieve this objective are susceptible to prevailing zero-sum mindsets, rivalries and conflicts – and might even accentuate them.

Translating OBOR from a vision to a reality will require at least some level of cooperation from Russia. In the document signed by Presidents Xi and Putin in Moscow in May 2015, the two leaders pledged to create a "joint economic space" in Eurasia.[74] Yet, it remains unclear whether Moscow views the Eurasian Union (EEU), a new economic zone that it controls, as compatible with OBOR, which is a trade and economic corridor spearheaded by Beijing. Beyond the practical questions surrounding the feasibility of linking the two projects is the issue of the latent tensions in China–Russia relations, not to mention the growing power disparities between them.

The prospects for OBOR's success also depend on cooperation from India. However, Sino-Indian relations remain strained on border and other security issues, in spite of progress on the economic front. Beijing and Delhi are particularly mistrustful of each other's maritime aspirations. Thus, it is difficult to gauge when, or if India's perception of itself as a leading maritime power in the Indian Ocean can be harmonized with OBOR.[75] Beijing has reportedly sought to allay Indian concerns by suggesting ways to link OBOR with projects such as Act East, the Project Masaum and Spice Route, and Make in India.[76] Yet, there is no credible evidence that such reassurances have produced the desired outcome.

The competitive dimension of Sino-Indian relations regarding OBOR, specifically as it relates to Iran, centres on the Chabahar port redevelopment project.[77] The push by Indian Prime Minister Narendra Modi to open a $300 million credit line for Chabahar took place just a few weeks after President Hassan Rouhani invited China to invest in the project and the larger Chabahar economic zone and received a business delegation from Beijing.[78] This sequence of events, together with unconfirmed reports of Japan's interest in partnering with India in the project[79] suggests the possible opening of a new front in the broader effort to counter China's expanding strategic footprint.

Indeed, whether, and by whom the Chabahar project is implemented has potentially far-reaching geopolitical implications that could reverberate throughout South-Central Asia and the Gulf. Not least, were India to develop the project – with or without Japanese participation – it would gain direct access to Iranian and Central Asian resources, thereby negating the risk associated with having a pipeline pass through Pakistan while countering the latter's influence in Afghanistan.

With the collapse of the regional order in the Middle East, the Saudi-Iranian rivalry has grown fierce. China, which has sought to maintain an "equidistant" posture, has nonetheless found itself at the centre of the clash between Saudi Arabia and Iran, as they wage an increasingly bitter battle for oil market share. Beijing has counselled restraint but to no avail. Similarly, Beijing's promoting OBOR as a "win–win" partnership and thus as an incentive to de-escalate tension – at a time marked by deep uncertainty and a zero-sum contest for regional supremacy – has not resonated with either party. A surge of Chinese investment into Iran, were it to occur, would surely not ameliorate Saudi–Iranian tension, and could even aggravate it. Furthermore, whereas China has benefitted up til now from the Saudi–Iran oil price war, the continuation or possible intensification of the Saudi–Iran feud is incompatible with the aims and objectives of the OBOR initiative and inconducive to its full implementation.

Iran's estrangement from the West provided trade and investment opportunities that Chinese companies deftly capitalized on, thanks to the financial support and diplomatic cover they received from Beijing. Nuclear-related sanctions progressively constrained China's involvement in energy development in Iran and caused some friction in China–Iran relations. Nevertheless, China managed to retain a privileged economic relationship with Iran while avoiding a blow up with Washington by complying with sanctions as well as by exploiting their deficiencies and loopholes.

Since the adoption of the JCPOA, China has moved quickly to fortify its position in Iran and to elevate the bilateral relationship to a "comprehensive strategic partnership". Beijing views Iran as an important hub – a key part of the overall effort to export its industrial overcapacity and bolster its energy security over the long term. Accordingly, Beijing has sought to weave together the separate strands of the bilateral relationship and subsume them under the OBOR framework. Implicit in this approach is Beijing's support for a stable and powerful Iran.

The recent arrival to Iran of the first cargo train from China and commencement of a new Iran–China shipping route just a few days later are significant achievements and may prove to have been historic markers in the development of China–Iran relations and of the OBOR initiative. Yet, as China continues its ascent and Iran rejoins global markets, there are lingering questions as to whether this positive momentum can be sustained – and if so, what its full implications are. And in the broader sense, while it is clear that all belts and roads lead to and from the Middle Kingdom, what they can or will deliver remains uncertain.

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11 The One Belt, One Road in China's grand strategy

Anoushiravan Ehteshami

Introduction

China has taken great strides towards the development of its economy and since the end of the Cold War has registered historically unprecedented growth rate figures for its climb up the global capitalist ladder. We can see today the extraordinary successes it has achieved in terms of improvements in the country's infrastructure, the broadening of the country's industrial base, rural development and the general sophistication of its productive capacity. It is advancing on all fronts and has arguably built up sufficient momentum to propel itself in the years to come to the most dominant position in an increasingly multipolar international system. This is likely to be so because in adopting the mantle of the "workshop of the world", China has made fundamental changes to its posture towards the capitalist world order. It has shifted its body language and cognitive outlook from one of rejection of and opposition to US-led capitalism to that of complete engagement – an embrace of capitalist globalization.[1] In doing so it has had to make significant adjustments to its political, legal and commercial system and put in place an institutional process capable of successfully capitalizing on the industrial, intellectual and financial waves of globalization which other (North and South) East Asian countries such as Republic of Korea, Singapore, Taiwan and Indonesia had already done. Undeniably China still has a long way to go and certainly what it has done so far cannot be said to have been flawless.[2] But China's success – so far – in maintaining the stability of its political system while changing practically everything else cannot be underestimated. The ability to be non-ideological about its economic development marks China out as one of the few examples of successful adaptation of a Communist state to the capitalist system. Indeed, it is in the success of its "entrepreneurial state" that other developing countries look for the virtues of the "Chinese model". Where the neoliberal model led the developing countries to asset stripping and the rise of crony capitalists China's entrepreneurial state model arguably offers the hope that "the state can adapt and even contribute to the process of marketization by facilitating state restructuring".[3]

The notion of "one country two systems" captures, in my view, the very essence of China's pragmatism in strategic decision making. But a pragmatic economic strategy has not eclipsed the role of ideology in the state's role conception or conduct of its international relations.[4] Different interpretations of China's interests are discernible, most telling between those who see in Beijing's apparent assertiveness a return to hostile (anti-Western) Communist ideology, and ruthless pursuit of a national interest founded on the domination of its Asian sea and land hinterland, and those who believe that China is so fully integrated into the prevailing order that in pursuit of its national interest it cannot divert from its strategy of "peaceful rise".

The "One Belt, One Road" (OBOR), from here also referred to as the Belt and Road Initiative (BRI),[5] should be viewed in this wider context of China's broadening global strategy; as part of its concerted push into Eurasia. Whether for supremacy in Asia, or an attempt to craft for China a unique (but greater) voice in international forums, are related issues. In this scenario, China's growing economic and military presence in the South China Sea, its struggle to articulate an alternative international cooperation framework to that of the US-led Trans-Pacific Partnership (TPP), its desire to reconstitute the Shanghai Cooperation Organization (SCO) as a major regional security organization, and its building of relations with Indian Ocean riparian countries all point in the direction of a more assertive China intent on building for itself robust spheres of influence based on the close but dual focused economic and military relationships. The BRI in this sense encapsulates China's "look west" policy, the only Asian country to have developed a strategy for the neighbouring Asian regions. The BRI is the essence of China's "greater neighbourhood" perspective. Lighting up the "road" is China's new Asian Infrastructure Investment Bank (AIIB) in which several neighbouring countries are already invested, thus locking into China's greater neighbourhood strategy an incentive mechanism for regional support of its strategy of westward expansion. The AIIB is to be supported in this mission by a new Silk Road Fund and the considerable resources of an interagency body, which has to bring together a range of relevant governmental and party organs together.

This chapter makes the assumption that China today has a discernible "grand strategy" on which it is basing its critical foreign policy decisions. This concept is defined here "as an integrated and coherent set of ideas about a state's ultimate objectives in the international system, and how it should go about achieving them".[6] In general terms, grand strategy articulates the national interest from a long-term perspective, sets priorities accordingly, and thus allocates resources to meeting the objectives set out in the said strategy. China already has in fact identified what Beijing has referred to as its "core interests" as the basis of its policies. These have been presented in terms of defending the country's sovereignty, protecting its security, and (through modernization) achieving peaceful social and economic development.[7]

In China's case a set piece grand strategy in a distilled document does not readily present itself, and there does not exist a doctrine (or set of doctrines) beyond the principled positions of non-interference, sanctity of sovereignty, and cooperation for economic betterment. But, as Forsby notes, based on the Chinese

Communist Party's (CCP) discussions, and also statements and speeches made by China's leaders one can derive strategy in China's policies and even dare speak in terms of a grand strategy.[8] I make the further assumption that, on balance of evidence, China's grand strategy is not revisionist, in the sense that it does not want to undo the international system – the governing institutions of global governance and the legal regime underpinning it. China, arguably, has too much invested in the Western-created, if not dominated, international order (the inter-state relationships derived from access to and control of global institutions) to undermine it.[9] China's core calculations, therefore, are not based on the destruction of the prevailing international system, but rather to change it sufficiently to create for itself a much greater role, and one which will lead to its domination of the Asia-Pacific economic powerhouse. The aim seems to be one of managing the transition to the anticipated Sino-centric international order. China, for all intents and purposes, remains integrationalist. But assuming that its policies since the 2010s are based on a grand strategy then it is safe to conclude that its grand strategy is about making China great again.[10] This desire is manifesting itself in assertiveness, a sense of reawakening, building up of its military strength, exploration of outer space, extension of its considerable financial power into other parts of the world, all in the aid of realizing the touted "China dream".

In a direct sense, one can argue, the OBOR also serves China's domestic interests. Indeed, in agreement with such noted analysts as Zhang Yunling from the Chinese Academy of Social Sciences, one can say that "China sees OBOR as a grand strategy", designed to shift the country's economic balance westwards.[11] This aspiration is consistent with the country's declared "top priority" of "rejuvenating the country".[12] The state's rudder, in the last analysis, is orientated towards just one over-riding priority: development. Akin to President Roosevelt's strategy of developing America's interior through massive investments in public works in the 1930s, the rebranded OBOR intends to do just the same for China. China's "western development strategy", thus, promises to increase investments in infrastructure and energy sectors of 12 landlocked provinces and urban centres. But, to be sure this is not a recent development and much of the transformational changes gripping China today have their roots in the implementation of the "four modernizations" since 1979. However a firmer ideological and policy footing for the OBOR can be found in more recent times, notably in the ways in which President Jiang Zemin viewed the world as of the early 2000s – that is to say before the Iraq war of 2003 and its geopolitical consequences in Asia. At the XVI Party Congress in November 2002, in particular, he boldly stated that the new century provided a golden opportunity for China's development, marked as it was by the good prospects of no world war for the foreseeable future. In the first two decades of the new century, he declared, China should capitalize on the long period of global peace for its own sake as this would create the most favourable climate around China for what he referred to as the third step (phase) of China's development.[13] To succeed economically and to become truly prosperous China would have to open more widely to the outside world, he insisted – in effect, to indulge in, and help share the fruits of, globalization.

At face value, the articulation of OBOR and the construction of it represented a concerted effort to build what the English School of international relations might see as the building of what could be termed an "international Asian society" based on shared norms and rules. What Bull might point to as illustration of "conscious of certain common interests and common values".[14] Indeed, the Chinese leadership's statements regarding this initiative have come very close to invoking values long cherished by the liberal bend of international relations community: Elements of cosmopolitanism are discernible for example – in the ways through which the tendency of peoples in different countries embracing each other as fellow Asian citizens is being promoted,[15] and also the unserved promotion of the market. So, in March 2015 President Xi strongly promoted the OBOR initiative at the Boao Forum for Asia and articulated a vision of harmony, mutual respect and cooperation consistent with what he said would be a new "common community" in Asia emerging in the wake of this initiative.[16] A community of partners along the OBOR will emerge thanks to the network of relationships that the initiative would give birth to. For the Chinese leadership, this will come to represent a "chorus of countries" working together along the route (in Bull's terms, "share in the working of common institutions").[17] This will not be, President Xi emphasized, a "solo of a single country". Common community and common destiny will go hand-in-hand. The OBOR has envisaged the building of a concert of inter-state and inter-communal relations.

Building six vast economic corridors – China–Mongolia–Russia, New Eurasian Land Bridge, China–Central and West Asia, China–Indo-China Peninsula, China–Pakistan and Bangladesh–China–India–Myanmar – across Eurasia is to become the centrepiece of the project, according to Vice-Premier Zhang Gaoli.[18] Combined, these corridors will create an intricate network of 53 European and Asian countries working alongside each other, generating billions of dollars in investment capital and revenue, and creating employment opportunities across Asia and much of Europe and Africa.

China's strategy westwards (Central, South and West Asia) should be viewed in the broader context of its complex position in the international system and a relationship which is shaped by the "continual tension in the dual-identity of China as a rising power and at the same time a developing country".[19] The notion of a rising/emerging global power – terms which have been used by Western leaders and international NGOs alike about China – impose on China certain expectations that it simply is not, yet, equipped to meet. The conditionalities which follow the assumptions regarding major power status imposed on China, moreover, are expectations which Beijing either does not intend to accept at all – seeing these as a straightjacket – or are simply beyond its abilities as a still-developing country to fulfil.[20] Furthermore, it is a long leap of faith to assume that a dominant China in a post-American multipolar world order will necessarily act in the same way as its twentieth century Western predecessors did and develop a "vision" or "agenda" for global leadership – to reshape the world in its own image.[21] China is keen to separate notions of great power status from assumptions about hegemony. Evidence, arguably, speaks to China aiming to become Asia's "indispensable power".[22] Evidence also points to the reality that China's rise is so conditioned by its dual identity that it will continue to devote energy towards securing its position and interests at the subsystem level in Asia. Surrounding areas are China's first priority.[23] And the US' "pivot" has sharpened China's awareness of its near abroad and its strategic interests (and vulnerabilities) which have been highlighted by Washington's undisguised greater orientation towards Asia.

It is, thus, in the context of China's "grand" strategy of ensuring the country's national security (to be exemplified in the qualitative social and economic development the country's interior and western regions) and regional pre-eminence (its growing conviction of its status as a major power and Eurasia's great power) that the OBOR will be considered here. It is, arguably, these realities of power and China's acute awareness of Asia's geopolitical conditions that will have shaped China's OBOR strategy. The BRI, the OBOR, encapsulates a complex set of relationships that are fast shaping the Asian landmass and its maritime periphery. It is a reflection of the recognition in Beijing of the myriad of dynamics forces now at play here, and the need to channel the ensuing energies emanating from China and its neighbours, for economic development of Asia's interior. It is these factors that explain the drive to build new Asian railroads, roads, oil pipelines, and also a string-of-pearls maritime hubs from the Chinese mainland to the Strait of Hormuz, which can position China as Eurasia's engine of change and development. With China as the economic hub of Asia, it will be possible for it also to become Asia's indispensable power. Geoeconomics is buttressing geopolitics.

OBOR as common destiny

Working on the assumption that the OBOR is a key element of Beijing's grand strategy, embedded in its strategy of building an international Asian society, it is possible to argue that to legitimize Beijing's drive westwards it has to articulate the idea of a "common destiny". But this not only has to be associated with being the founder of the OBOR, but being welcomed, indeed desired, by the countries and communities which are to find themselves along China's new "Silk Lanes" (on land, rail and sea). China must be seen as the embodiment of the OBOR and for this to gain momentum it must create a set of principles and priorities that will drive the BRI.

The first of these principles is surely historical legacy; that there are real historical parallels to draw on for the purpose of building the belt and roads and pipelines. The striking pictures of the first freight train arriving in Tehran in February 2016 from China's Eastern Zhejiang province as a symbol of the possibility of new connectivities helped to underline the role of history in the remaking Eurasia in the twenty-first century. The 10,400-kilometre route which traversed Kazakhstan and Turkmenistan also underscored the responsibilities of the intermediate Asian countries for facilitating the economic regeneration of all of Asia. The arrival of the train in Tehran signalled, more than anything, the potential for building an integrated Eurasian economic zone, through which trade can take place more safely and at a fraction of the time (14 days as opposed to 45 days by sea) required for shipping goods across Asia and beyond into Europe.[24] The freight train for this journey had travelled along what might be termed the old Silk Road of railroads, which of course showed the promise of what the faster and more efficient freight travel being planned by China for Asia could accomplish when the new trans-Asian railway corridors were completed.

History also serves to justify, if any was needed, for the new interconnectivity of Asia. In the ancient world China benefitted fully from the exchanges along the Silk Road, and also provided the ultimate destination for the medieval traders and explorers of Europe.[25] Highlighting the past in this manner also serves to illustrate what for the Chinese leadership are increasingly intertwined Asian interests. China, through BRI therefore, is not only recognizing these interests but is in fact giving them a set of common platforms. Realizing the intertwined nature of Asian interests is the first step for nurturing and cultivating them into an appreciable common destiny – creating interdependence. Integration in this sense also creates for China new orbits of economic influence. Third, as the old Silk Road was ultimately built on China's own creativity and ingenuity, on its soft power as it were, so it is to be again. It was China whose technological and knowledge explosion electrified the old world Eurasian exchanges and Chinese leadership further intimates that through the BRI it is again they who have mobilized to help steer the rising Asian interconnectivity towards prosperity and it is their unparalleled economic might which can facilitate the birth of a new Asia. President Xi's "China dream" lights Asia's path.

China today projects its influence westwards, in the context of the BRI, through investment, construction, extraction and commerce – through the exercise of soft power on a massive scale. The sum of $4 trillion allocated to the OBOR has the potential to be transformational in its impact. To provide a sense of the scale of the Initiative, in the dozens of countries in Asia, Europe and Africa coopted into its routes there are hundreds of projects already under way. One commentary draws on the official Chinese statistics to show that before the end of 2015 some 900 agreed projects were already being worked on to the value of $890 billion.[26] Inter-OBOR trade of over $2.2 trillion is anticipated. The OBOR is also the focus of China's direct investment largesse, which provides the vehicle for the mobilization of Chinese businesses in Asia. So, in 2015 44 per cent of China's engineering projects were in the OBOR countries, but the figure had jumped to over 52 per cent in 2016.[27] This is a pre-emptive Marshall Plan unleashed on a massive continental scale, but unlike the post-1945 American Marshall Plan for Western Europe (which the Soviet Union saw as a direct assault on its interests in Europe), the OBOR has apparently been accepted unopposed by the marginal states, emerging powers, as well as the established giants of Asia. In presenting the OBOR as an expression of common destiny, moreover, the Chinese leaders have invoked the cognitive power of the Initiative, with proclaims common goals without invoking ideology or notions of superior values. The strategy is not about making Asia Communist, nor about the imposition of China's values, or the imposition of its (rich) civilization on others, but rather about practical inter-state engagement.

Common destiny also denotes a "win–win" scenario for the OBOR parties. The Initiative will commence by deploying, using up essentially, abundant Chinese steel, concrete, cement, glass, engineering products, and using China-sourced goods and services in the interest of developing neighbouring countries, all the while encouraging Chinese enterprise. In the words of an European Union assessment, "the construction of new transport facilities in Asia will reduce transport times and costs and stimulate demand for Chinese construction material, construction company services and high-value manufactured goods", spurring on a new wave of Chinese companies' overseas expansion.[28] The Initiative's own many billions of dollars will be used to buy Chinese goods and services and the countries along the OBOR will be able to access loans made available by the AIIB. China will then not only be the project manager, but also financier and ultimate underwriter. China, to be sure, will be carrying much of the risk of the belt and road projects but it should also profit from the myriad initiatives being pushed by the OBOR architects.

The success of the Initiative can have far-reaching consequences for the Asian countries involved and also the wider international order, for the reason that as China pushes westwards into Asia so it will be able to exploit more or less unopposed inner Asia's vast natural sources and at the same time lock into its own orbit the world's greatest energy zones around the Caspian sea and the Persian Gulf. China will become the main market for these countries' exports, and by the same token will be a major trading partner for them.

The OBOR also illustrates the ambitions of a country prepared to encourage global integration on an unprecedented scale, involving over 60 countries. In so doing China will also be creating the conditions for the regionalization of Asia as one giant entity. Smaller regions will remain, of course, but there now exists in the OBOR the real prospects of a super-Asian region emerging before the end of the twenty-first century. This, were it to emerge, will dwarf the European Union in scale, size and economic potential.

The OBOR in the three circles of influence

As we have seen, the OBOR is a truly ambitious and forward-looking economic project, with immense proportions and huge consequences. That China has embarked upon it is a measure of the country's self-confidence and a public expression of its efforts to become the heart of Asia. So, the BRI should not be taken lightly by outside observers; nor should it be viewed in isolation of China's other strategic policies. These other policies take different forms and manifest themselves differently too. The OBOR (and the associated AIIB) forms the latest the ring of the circles in China's strategic priorities in Asia, which combines cooperation with the Association of Southeast Asian Nations (ASEAN) as a strategic imperative and the strengthening of the SCO as a security priority. Together, it seems to me, these spheres form China's three circles of influence in Asia. These, in different but complementary ways, contribute to China's efforts of building security and economic bonds across its neighbourhood. Using different mechanisms arguably enhances and accentuates China's strategic reach as each of these circles has the material power to change and shape countries' policies and regions well beyond their immediate areas of attention. Together they multiply China's policy instruments and give it a credible, though perhaps not always a welcome voice, from the Pacific to the Atlantic.

In terms of observations regarding the Initiative's strategic aims and planning, it is significant that China has "packaged" the proposed transport links in maritime, concrete and steel terms. These make an unprecedented transport strategy! The like of this has not been seen anywhere in the world and the scale of the operation surpasses the infrastructure that past European empires had built in parts of Asia, Africa and Latin America. The OBOR is not only multifaceted and multidimensional but is, in its approach, integrated and comprehensive. The ways in which Thailand, Sri Lanka, the Maldives, and Pakistan (Gwadar port) have been knitted together in the maritime belt stretching from the East China Sea to the Persian Gulf is a good example of the integrated approach that China has adopted for the realization of the BRI. But this same integrated approach also creates vulnerabilities in terms of China not being able to build the necessary infrastructure systematically and uniformly across different country settings, and in terms of managing the unintended consequences of competition and geopolitical stresses which its presence can create.

Pitfalls

The vision, as we have seen, is indeed a grand one. But the OBOR is not without its pitfalls and it should be recognized that its implementation can create significant strategic vulnerabilities for China. The pitfalls I would like to divide into the realms of technical problems, geopolitical obstacles, security dilemmas and reputational risk.

The *technical* pitfalls are many. For starters, how are uniformly acceptable technical specifications for the various transport networks going to be determined? It may be useful to focus on the important railways dimension of the One Road to give a flavour of the technical difficulties ahead, as identified by a technical expert:

> Rail projects require the management of several complex interfaces involving not just civil works but also, typically, sophisticated engineering and systems (e.g. signalling, SCADA, GPS), supporting infrastructure (e.g. power generation and transmission), rolling stock delivery and commissioning, operations and ongoing maintenance. All parts need to come together to provide an effective project. Often the risk in these interfaces is managed by aggregating requirements within a single point of responsibility, wrapping

> all interfaces under the auspices of one provider, using a well-established model such as a Build-Operate-Transfer (BOT) structure. However, OBOR is not a single project. It will involve multiple projects of different types, each essential for OBOR to operate as an integrated network but with each one being delivered using one of a number of different procurement and contract models. Even so, whilst distinct in terms of their procurement, very few OBOR schemes will be possible to treat as a genuine stand-alone project. As a result, the critical interfaces for OBOR are not those within a project but the "project-to-project" interfaces. It will not be possible to manage these interfaces by bringing them under a single umbrella; OBOR is just too large.[29]

If China is going to be supplying all the equipment and technical support, on what basis will Chinese contractors operate in the OBOR countries, which parties will run local tenders for the intermediate and follow-up projects? Which parties will be responsible for maintenance and upkeep of the built infrastructure? Who will have access to the roads, railways and pipelines transmitting goods along the OBOR? Can national governments determine usage or will these decisions have to be made in consultation with China? Will Chinese vessels have preferential access to the port developments financed through the OBOR? How will payment be distributed and in which currency? Who will be responsible for the settlement of penalties arising from contractual delays or substandard completion? Who will arbitrate disputes, particularly those arising between the host OBOR countries? How will the OBOR manage national regulations, trade regimes and issue of access?

These are just some of the complex problems to be addressed and is likely that these matters will be addressed through the discussions and negotiations that will follow every agreement, but there will not be a uniform answer to the hugely complex questions that the OBOR will raise and an army of bureaucrats will have to be trained, inducted and retained just to administer the multitude of projects being unleashed.

Some of the *geopolitical* obstacles confronting China's drive to implement the OBOR are to be found in the countries with which it has chosen to engage in this Initiative. Taking the post-Soviet states of Central Asia, it is clear that governance has remained a major problem for the five successor states. They certainly have strongmen leading them but structures and institutions remain weak, moribund or simply non-existent. China will need reliable and credible partners in every Central Asian country for its ambitious rail, road and pipeline projects to be implemented successfully. Corruption in these countries can seriously hamper progress and can suck China into the domestic affairs of these countries' secretive and unaccountable elites. By working with these corrupt elites China will by extension be associated with the unethical practices of repressive and securitized groups and damage its own reputation as an honest broker.

Similar problems will present themselves in the Middle East as well, but the main problem here will be linked to the deepening rivalry between two of its main energy partners, Iran and Saudi Arabia. Both these countries want to make a success of their economic ties with China and may want to see Beijing emerge as a political ally too as they reorient further towards Asia. But China cannot afford to pick sides and as it is not prepared to play a more active and interventionist part in managing the Middle East's many state and sub-state crises it will not able to advance its interests unhindered, let alone imposing its own order on the region. The OBOR, as it reaches West Asia, will expose China's vulnerabilities to regional disorder in the Middle East, and its inability to stabilize the region. Indeed, without the United States China will be reliant on Russia to do its bidding in the Middle East – but Russia's record in recent years has been less than positive. Instability in the Middle East, I submit, is not in China's interest and Russia's interventions, if anything, have further aggravated regional tensions. The United States certainly does not have the best record in the region either, but at least has a more credible military presence in the region and enjoys the fruits of an extensive – though strained – alliance structure in the Middle East. Furthermore, unlike Russia the US also has the resources at its disposal for long-term stay in the region.

The other geopolitical pressures relate to the reception of China's westward march by India, Russia and to a lesser extent Japan. Russia appears content to see China pay and carry out the development of Central Asia and also its own far East. They worked closely in the BRICS and SCO settings, and of course in the UN Security Council, have developed a similar view of the US in the world and in regions (such as the Middle East and Northeast Asia) that are of particular importance to their national interests. They have amicably settled the old territorial disputes between them, and have even managed to separate their respective relations with India (Russia as a close military ally of India and China as a geopolitical rival of India) from their bilateral ties. But the general growth in China's weight in the world does cause a degree of anxiety in Russia, as indeed in Japan.[30] For Japan it is about security, diplomacy and economics. China's resources in OBOR can directly challenge Japan's position as the premier nation for building modern infrastructure, and re-orientate countries with which Japan has been cultivating close links towards China, denting Japan's diplomatic overtures. The growth in China's military and commercial presence in the seas on which Japan's trade and prosperity relies is a further concern. So, China's global rise means in the Asian context just one thing to these neighbours: Chinese hegemony. China's rapid rise in the global ranks can be interpreted in Asia as this region's economic, political and security domination by China. Russia and Japan also do not cherish the prospects of a new bipolar world in which Washington and Beijing would be occupying the high table while they became reduced to the ranks of "regional powers" to be consulted only on lesser issues of concern. Sitting uncomfortably with both Moscow and Tokyo is the reality that China not only has the means, but the will to press ahead with its desire to become Asia's indispensable power, and with that also an undisputed global power. Furthermore, differences over the future direction of the SCO as a major security organization, Russian fear of the gradual Sinicization of its far East, and the threat to its own presence and interests in Central Asia persist sufficiently to make Moscow pause and push its own Collective Security Treaty Organization in Central Asia as a subtle counter to China's inevitable rise there.

With India the relationship is somewhat more complex. There is little ideological tension between the two as so much of their differences are rooted in geopolitical and geoidentity realms.[31] A critical aspect of the tensions between China and India is to do with the simultaneous rise of the two Asian powers as major international actors.[32] Such phrases as "Chindia", branded about at global settings such as the World Economic Forum, have intimated the dual rise of Asia's economic giants. But what the phrase Chindia disguises is the fact that China has stolen the march on India and while India is certainly an emerging powerful economy its archaic bureaucracy, its unruly states, uncontrolled corruption, and its cumbersome political system, continue to hinder its rise relative to its potential. So, while India stumbles forward, exuding little in the way of a vision, China marches forward with such creative strategies as the OBOR. From New Delhi's perspective, the next door neighbour is no longer content with grooming as its South Asian ally India's nemesis (Pakistan), but has embarked on a strategy of encirclement of India.[33] To a worried India, the maritime links being built with the Maldives, Myanmar, Sri Lanka and Pakistan by China must be for the purposes of securing a naval presence in the Indian Ocean and effectively in India's own backyard.[34] Its push into Central Asia and the Persian Gulf merely compound this fear of encirclement.[35] This perception of an intrusive China is taking shape on the back of long-standing military competition and border disputes between the two countries. China's military modernization, the expansion of its naval fleet and its planned space exploration all represent further concerns in New Delhi about China's intentions.

While cross-border investment and acquisitions remain limited, trade between the two neighbours has ballooned, which could be seen as providing an opportunity for dialogue. But the rapid growth in trade has taken place to China's advantage. China is now India's largest trading partner, exporting over $60 billion worth of goods to the South Asian country annually and importing $26 billion of goods and commodities from India.[36] China's dependence on the Indian market appears greater than the other way around but in reality, given that China's total exports stand at over $1.2 trillion and India's figure is only $260 billion, India is not a significant market for Chinese exporters. With a GDP of over $11 trillion, moreover, China's economy is five times bigger than India's, so viewed purely in economic terms China dwarfs India and holds all the cards. China's superiority is not without its own problems. Indeed India's awareness of the overwhelming superiority of China in developmental, macroeconomic and military terms has in recent years pushed India towards warmer ties with the greatest power in the Pacific, the United States, and has at the same time facilitated the convergence of Asia's three other economic powerhouses (India, Japan and Republic of Korea) around an alliance of democracies.[37] The promotion of an Indo-Pacific economic corridor by New Delhi and Tokyo in 2016 has more than a hint of a brewing rivalry. Finally, China's flexing of its naval and jurisdictional muscles in the South China Sea and the East China Sea have adversely affected its presentation of the One Belt in several Southeast Asian countries as well as Japan. Despite the international ruling in 2016 against China's claims in the South China Sea, Beijing has not stopped its policy of reef grabbing and island building in order to extend its territorial waters to the doorstep of every ASEAN country. The result has been alienation of China in several of the South China Sea riparian states and a rapid warming of US' military relations with several ASEAN countries simultaneously.

So, it is in the *security* realm that the intractable problems could present themselves. First, the political landscape of inner Asia is bleak. Weak states compete with each other against a tide of jihadists, insurgents and separatists. All of this flies in the face of China's own battles against the three dangers of "extremism, terrorism and separatism". There is little consensus, beyond the conversations held via the SCO, on the role that China could play in managing insecurity in the OBOR zone and China itself appears unsure of the correct strategy. China's dependence on the Malacca Strait is a further security problem for Beijing to navigate and its efforts in building the One Belt can only make it more exposed to the resident navies and also the US' Seventh Fleet which has active visiting rights all along the Strait. While the proposed China–Indochina Peninsula land corridor could alleviate some of China's maritime concerns it cannot really act as a substitute for the Malacca Strait, so the vulnerability remains.

Further, in Central and West Asia, China will be exposing itself to the dual dangers of possible implosion in the former and fallout from the explosion of the latter. Middle East quarrels, as we have seen, do not need much encouragement to jump the region's borders. The jihadi violence that has been unleashed in Europe in recent years serves as an example of what could also happen in China. China's growing presence in these regions, therefore, can only expose China more deeply to the negative currents blowing eastwards. In the words of an Iranian historian of the Silk Road, the Silk Road "is not only for trade of goods. Roads transfer culture, religions and technology".[38] Impact of these currents on its own minorities and its restive Muslim population is another factor for the Chinese leadership to bear in mind. Ironically, the security of the very (western) provinces that Beijing wants to develop socioeconomically through the OBOR could be compromised, and instability here could lead to greater securitization of relations between the capital and these border regions. The OBOR's assumption of security and stability along its pathways is therefore flawed.

The final pitfall is *reputational* risk. By leading this mission China has left itself exposed to forces beyond its control. Being at the head of history's most daring, diverse, expensive and complex developmental initiative is not risk free and one can imagine situations in which tensions at the local level in any of the OBOR countries being blamed on China, or Beijing being asked to resolve disputes – anything from the allocation of funds to contractual, financial or environmental disputes. The buck as it were must stop with Beijing. Additional reputational risks include delays in the completion of projects, misuse of resources and funds, shoddy workmanship, over-budget delivery. These are some examples of a whole host of unpredictable challenges that operating in over 65 countries with different traditions, government types, management styles and developmental levels can present. Beijing also has to be mindful of the conduct of its own enterprises and contractors in the OBOR countries – not to appear exploitative, insensitive to local needs and conditions, not be so directive as to appear domineering. As a champion of the developing countries and promoter of a more balanced world order China cannot afford the reputational risk of being branded exploitative or domineering, so it will have to be very careful to get the balance between self-interest and altruism right.

Conclusion

The OBOR is a historical leap forward, and it is a leap of faith, showing the world what can be imagined in the realm of the possible. The OBOR celebrates inter-state cooperation on a truly grand scale and points the way to new and innovative ways of configuring regionalization. The OBOR shifts the point of the compass of development from the West to the East and underlines the Asianization of the long curve of globalization. The OBOR is in this regard rather benign; it is consistent with China's self-image of "peaceful rise" and pursued through dialogue and accommodation.

Observers of China's foreign policy tend to agree that the OBOR is a credible effort at the projection of China's soft power, which is being sought through the exercise of its strong economic and financial arms. Beeson and Li, for example, argue that,

> China is playing an increasingly prominent role in the extant institutional architecture we associate with a rudimentary form of global governance … that it is simultaneously creating an alternative, possibly complementary, institutional order in which its influence – and money – will play a prominent part. Even more significantly … China has the desire and the wherewithal to underpin the institutional and ideational efforts with very tangible forms of investment and infrastructure development that are likely to make its policy influence and objectives more difficult to resist.[39]

But, as Callahan reminds us, in China's case the exercise of soft power is less about projecting itself externally, which does happen, but more about the reinforcement of the CCP's legitimacy to rule, for which it tends to posit soft power "indicators" negatively – to show China's strength at home and against "the other" (historical humiliation of China by European powers, Japan's militarism, and the US' hegemony).[40]

For all its revolutionary potential, the OBOR as China has envisioned and planned is (un)surprisingly conventional, indeed conformist. First, it is based entirely on the neoliberal approach to development. Concepts of social justice and pursuit of a socialist utopia are absent from China's developmental narrative. Even the OBOR's measures of success and achievement are conventional and consistent with neoliberal approaches to development. The only way in which the OBOR might differ from a World Bank or IMF-type approach is China's heavy emphasis on state intervention and state-led funding. Economic liberalization, arguably, is a working assumption of the OBOR but not a driver of it.

As was argued earlier, also in foreign policy terms the Initiative can be firmly located within the mainstream. Indeed, it so pointedly talks of partnership and the search for common ground that one can place the vision of the OBOR within the English School approaches to what that School calls an "international society". In this case we are dealing with an Asian one. The OBOR has the potential to reorient the world and place China at the heart of new world order. The norms and values of this potential new world order do not, as yet, look unfamiliar and China has not signalled a desire to rewrite the international rules to reflect its own preferences, whatever they may be. But the OBOR ought to raise questions about Beijing's perceptions of its place in a post-Western, or at the very least a post-unipolar world. The assumption made in Beijing that the first decades of the twenty-first century will define China's golden age must, therefore, require further reflections on what Breslin has termed "China's reflections of China's global role".[41]

China is big and getting bigger on the global scene but it is unlikely to be a global power matching the United States any time soon. Structural problems – slowing GDP growth rates, an ageing population, a still relatively weak military offensive capability, inflexible political structures, limited scientific and technological breakthroughs (despite high R&D expenditures), high domestic debt levels, high external energy dependency, environmental degradation, geopolitical constrains – all dim, for the foreseeable future, the prospects of China becoming the dominant force in the international system. This reality will impose its own conditions on China.

But China is and will become more powerful, able, vocal and visible. So, ultimately, power will create its own dynamics and provide the momentum for China to behave as a global power. This of course does not mean that China would not seek a restructuring, reform, of the international system to give it proper Chinese characteristics; or it not building a parallel universe of institutions and tools to suit its interests. It will be this that will also shape the behaviour of its rivals. Ironically, the reactions to China's uncontested rise will first be felt more immediately in (North and Southeast) Asia – in the very economic powerhouses which have tended to veer even more closely towards the United States to counter China's rise. An indirect response to its "containment" in the east is arguably Beijing's concerted drive westwards – into the heart of Asia – where regional states are hungry for China's investment, goods, technology and expertise. These countries, on the whole, do not see in a rising China neo-colonial domination of their economies and societies. So, despite reservations in some quarters about some of China's business practises (prioritizing its own companies in its trade and investment negotiations, restricting lending to its own companies), the durability of some of its products, and the reliability of some of its technologies, it is welcomed as a partner. Even India and Russia, its potential Asian rivals, have not (in public at least) associated its westward orientation as threatening. Although for India the Chinese–Pakistan economic corridor remains a strategic challenge. These Asian giants have been careful, notes Deng, not to confront each other, which in practice has meant to "rein in competition while at the same time enhancing cooperation between them".[42]

But they have not shown any appetite for a tripartite alliance against the US either, which has allowed Washington to continue to build economic and military relationships all around China. So, while "peace in Asia" has suited China's westward drive it has also given the other Asian regional powers the confidence to work closely with China in the realization of the BRI. But the question remains, can the Initiative fully address China's broader security dilemma, which is associated with the transformation of China from an "autonomous continent" into an island whose prosperity and security has become increasingly dependent on "sea routes dominated by the US Navy and its allies – and those allies include India, the other Asian giant"?[43] In reaching out to its neighbours China may at the same time have made itself more vulnerable to US indirect pressure. To break containment, it may well have invited a coalition against itself, which makes the implementation of the OBOR a strategic necessity for reducing tension in the neighbourhood and for giving most of its neighbours, and beyond, a stake in the prosperity and stability of the People's Republic. But, there is another interpretation of China's Initiative, in which the OBOR would secure China's position as Asian's indispensable power, its hegemon. In a world of competing powers the OBOR would arguably give China the edge in Asia and guarantee its hegemony of Asia, as Mearsheimer would see it, thus over time reducing America's presence in its backyard. "States that gain regional hegemony have a further aim: to prevent other geographical areas from being dominated by other great powers", argues Mearsheimer, and regional hegemons "do not want peer competitors".[44] The OBOR in this sense is a grand strategy for the domination of Asia, and Asia as a platform for eyeballing the United States on the world map. However, as one looks at Asia's hotspots it becomes immediately clear that it is the United States that is trying to hold the line and manage the many security and strategic challenges that can directly threaten China – from the pursuit of a multilateral counter-proliferation strategy to a counter-terrorism policy aimed at containing the spread of radical Islam to other parts of Asia. China, arguably, is nowhere near ready to contemplate life in a post-American age in Asia, so it is questionable how far it would be prepared or able to push back against US influence and presence. So, perhaps, assumptions about China's hegemonic drive are premature. China has "socialized" to the prevailing international system and even if it harbours the ambition of changing the international order to its own advantage it can only do so through what Brzezinski notes as "the cautious spread of Chinese influence … [as] the surest path to global preeminence".[45]

But as was argued at the outset, the OBOR is also about changing China domestically. The priority of the OBOR seems to be to facilitate the development of China's western provinces. However, as the OBOR also looks outwards the question of linking its western regions to unstable and dynamic territories in Central and West Asia remains important. Does Beijing have the resources and insights to prevent the penetration of its poorer and more vulnerable western regions by the sectarian, radical and violent forces blowing in from the west? Finally, while analysts "write" the OBOR very much from China's vantage point and present it as the object ball, logic of dialectics dictates that as the OBOR begins to change Asia and the surrounding areas it will in the same process also change the wider international system in which China and its powerful neighbours operate. In this process, however, it is China that will have a comparative advantage as it is Beijing that will facilitate the construction and completion of OBOR. Cognitively and materially China has opened up itself to Eurasia and has taken this risk in order to secure its own place, to change Asia's economic dynamics in its own favour, to improve the socio-economic conditions of its western regions, to check other powers' influence in its own backyard, and to tie into its own sphere of influence a whole host of resource-rich countries who can guarantee the necessary ingredients for China's maturing economy for decades to come. The OBOR then is not hegemonic but pragmatic. As Breslin observed in 2010 "finding ways of peacefully promoting change is not just a matter of assuming global responsibility, but a matter of pragmatic national self-interest as well".[46] Further, the OBOR and the AIIB in this broader context, I venture, are not about China looking back, reliving an old "China dream", but looking forward and creating the conditions for the fourth stage of what Kim has articulated as the three transformations of the "evolving Asian system".[47] The fourth phase which China has begun with the OBOR has given Asia's new regionalism centre stage.

Notes

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