

Report

“One Belt One Road”: A Vision for the Future Of China-Middle East Relations

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Abstract

The One Belt One Road initiative (OBOR), proposed by Chinese President Xi Jinping in 2013, aims at further promotion of international economic cooperation against the backdrop of de-globalization. As China strengthens relations with its Middle East partners, it hopes that the OBOR will form the backbone of future trade arrangements.

East-West Trade: historical background

The disruption of trade between East and West by the Ottoman occupation of Byzantine in the middle of the 15th century fueled the ambition of European merchants to explore new paths to the Orient, initiating a new wave of globalization. Accelerated maritime trade and the eventual colonization of many seaports forged a coastal trade network that created an economic imbalance between coast and hinterland in many parts of Asia.

With high-speed rail and other upgraded land transport developments, China strives to promote land and maritime trade simultaneously through OBOR. The initiative is designed to promote the principles of open, inclusive, global free trade to build deeper regional cooperation. The OBOR is aimed at promoting orderly and free flowing commerce, highly efficient allocation of resources, and deep integration of markets, thus encouraging countries along the Belt and the Road to achieve economic policy coordination and implement regional cooperation toward higher standards.

Connecting China and the Middle East

China views the Middle East region as a critical partner in the OBOR initiative. At the opening ceremony of sixth China-Arab States Cooperation Forum in June 2014, President Xi expressed that China and the Arab states have enjoyed mutual understanding and friendship since the original Silk Road, and are natural partners to jointly build the One Belt One Road. In his address, President Xi suggested that the two sides should adhere to the principle of discussion, co-construction, and cooperation to build a community of common interest and common destiny.

President Xi elaborated that the two sides should share a sensible, common vision to establish a so-called "1+2+3" cooperation framework. Under this framework, energy will form the core ("1"), infrastructure construction and trade/finance will serve as its two wings ("2"), and both will be enhanced by development cooperation in the high-tech fields of nuclear energy, space satellite, and new energy ("3").

Accelerating cooperation

Over the next 10 years, China seeks to increase the bilateral trade volume with Arab states from 2013's \$240 billion to \$600 billion, increase non-financial investment stock in the Arab markets from 2013's \$10 billion to over \$60 billion, accelerate negotiations for the establishment of a free trade area between China and the GCC, and push forward the Arab states' participation in the Asian Infrastructure Investment Bank.

President Xi is also promoting people-to-people interactions and cultural exchanges. He has proposed that by 2020 China will provide professional training for 6,000 individuals from Arab states. In the coming decade, the Chinese government intends to organize mutual visits and exchanges for 10,000 Chinese and Arab artists, and support cooperation between 200 Chinese and Arab cultural institutions. ⁽¹⁾

These initiatives and more were elaborated in a report published by the Chinese government in March 2015: "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road." This paper describes plans for how the Belt will link China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia, and how the Road will connect China with Europe through the South China Sea and the Indian Ocean. ⁽²⁾ This means the Middle East will serve as a hub of the two routes, entailing many added economic benefits.

Possible headwinds and tailwinds

It is expected that the construction of the OBOR will face a host of challenges in the Middle East region. The main challenges include political unrest within several countries as well as broader instability sown by regional rivalry. Furthermore, the economic strength of many regional states—outside the GCC—is still weak. Nevertheless, China’s outlook for increased cooperation remains very optimistic. Promise and progress can be seen in several areas.

First, China and the countries of the Gulf have formed a strategic mutual trade relationship. In 2015, China imported one-third of its oil and liquid gas from the Gulf. ⁽³⁾ These countries (Iran, Iraq, and the GCC) have become China’s most important oil suppliers, accounting for 60% of its imported oil; at the same time, China has become the second largest oil export market for these countries. It is estimated that China’s oil and gas import dependency will reach 67% in 2020. ⁽⁴⁾ Meanwhile, because of shale gas and other factors in North America, the US is expected to decrease its oil imports from GCC countries, and the GCC will lose its position as the largest oil supplier to the US and Europe. Thus, the Asian Market, especially China, is vital to these countries, and the strategic trade relationship will push forward mutual trade and investment.

Second, many countries in the Middle East are undergoing major industrial adjustments, providing many new opportunities for Chinese investors, especially in the sectors of high-tech and other emerging strategic industries. For instance, Saudi Arabia’s Vision 2030 aims at replace its basic economic model in which oil exports predominate. GCC members are eager to develop non-oil industries to reduce over-dependency on oil. There is a rush to develop the information industry and renewable energy. According to Gartner Inc., the public sectors in the Middle East are expected to spend \$11.6 billion in information technology products and services in 2017. ⁽⁵⁾

Third, expected population growth and wealth accumulation could drive strong demand for commodities, housing, and infrastructure. For China, this presents a major opportunity. Egypt, the UAE, Turkey, Israel, and other countries are expected to make major investments in infrastructure projects, such as high-speed rail, new road networks, and massive housing projects. For instance, the Gulf’s railway network project is expected to accelerate in the coming years, connecting the Gulf states from Kuwait to Oman by Saudi Arabia and the UAE, including branch connection to Qatar and Bahrain.

Initiatives and infrastructure to support OBOR

Considering the above opportunities, China will push to establish the OBOR with the countries in the Middle East. There are several key areas of activity.

First, China will strengthen regional policy communication in order to coordinate various national development strategies with OBOR. For example, China and Egypt have worked to harmonize the OBOR and the Egyptian national revitalization plan. The two sides have built the Egypt Suez economic and trade cooperation zone as a symbolic project that represents an early success of OBOR. Following Egypt's Suez project, Saudi Arabia, Oman, and other countries have worked with China to develop similar industrial zones. China has discussed harmonizing OBOR with Saudi Arabia's Vision 2030 and Jordan's Vision 2025.

Second, China will play an active role in addressing the forces that destabilize the Middle East. China will coordinate with other powers and relevant international organizations to create a secure and stable regional environment for the construction of OBOR. For example, China played a role in the P5+1 negotiation on Iran's nuclear program, resulting in the historic joint agreement. China also has appointed a special envoy to Syria to advance mediation.

Third, China will strengthen and broaden energy cooperation with the countries of the Middle East. In addition to deepening upstream and downstream oil and gas cooperation, China will spur solar, wind, and other renewable energy cooperation. China is also willing to work with Arab countries to explore the peaceful development of nuclear energy. These investments in energy will be paired with investments in other sectors, including satellite manufacturing, satellite launching, and related technical exchanges and personnel training. In order to promote the Middle East industrialization process, China will work with Arab states to jointly implement capacity building programs. China has invested \$15 billion in the Middle East industrialization through special loans and established a total of \$20 billion joint investment funds with the UAE and Qatar.

Fourth, China will fully support the role and function of regional cooperation mechanisms. China will continue to strengthen the China-Arab Cooperation Forum and spare no effort to negotiate with the GCC for a free trade arrangement. China will also consider accepting new members to the Shanghai Cooperation Organization (SCO) from Middle East countries.

Finally, China will expand the cultural and educational exchanges to promote dialogue between civilizations and enhance the mutual understanding between the people of China and Arab countries.

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