



Implications of Greater Chinese Involvement in the Mideast

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EXECUTIVE SUMMARY: Chinese President Xi Jinping's visit to the Middle East does not indicate an imminent new balance of power in the Middle East, but does suggest the prospect of greater Chinese involvement in the region over the long run – a likelihood that Israel and the other Middle Eastern states should take into account. Israel should continue to improve its economic and political relations with China, but not lose sight of the constant tensions between Washington and Beijing.

In January 2016, Chinese President Xi Jinping visited Iran, Saudi Arabia, and Egypt. In the cases of Iran and Egypt, this was the first visit from a Chinese president in almost a decade.

What does Xi Jinping's visit to the Middle East mean? Does it suggest a Chinese political aspiration to shift the bipolar Russian-American balance of power in the region to a multipolar order, or is Beijing simply looking for business opportunities? In either case, what might be the implications for Israel of heightened Chinese engagement? Should Israel perceive China's visits as a threat, or do they suggest the potential for cooperation and a new balance of power in the Middle East?

It seems that China's incrementally greater interest in the Middle East is mainly economic – for the time being. But over the longer term, China is likely to become a more active player, one willing to project its military power in the region to safeguard the free flow of energy to China and protect its interests.

President Xi declared several times during his visit that Beijing, in contrast to Washington or Moscow, is not looking for a proxy in the region; nor does it intend to dominate, monopolize, or politically influence it. The central object of his visit was to

promote the Belt and Road Initiative, which will revive the ancient Silk Road. The intention, as expressed by President Xi, is to enable the Middle East states to develop their economies and enjoy the financial benefits of the Belt and Road Initiative without being concerned that China will exploit or dominate their economies.

The growing significance of Middle Eastern-Chinese economic relations is illustrated by the fact that over the past decade, China has become the second largest trading partner of Iran, Saudi Arabia, and Egypt. The lifting of sanctions on Iran will allow China to increase trade with Iran and become its biggest trading partner. This has clear implications for Saudi Arabia, which is China's main supplier of crude oil. As soon as Iran is able to export, China will be able to diversify.

There is another critical element to China's Middle East relations that must be taken into account: the Asian Infrastructure Investment Bank (AIIB), established by Beijing. The AIIB is an unofficial competitor of the World Bank (WB). In the WB, China has 4.78% voting power in comparison to the US's 16%. At the AIIB, Beijing has 30.3% voting power, while Washington is not a member at all. The AIIB allows China to use funds to promote projects in the Middle East as well as in Asia.

The US opposed the AIIB, but failed to dissuade its allies in Europe, Asia, and the Middle East from joining it. American allies Egypt and Saudi Arabia, together with Iran, were the founding members of the AIIB. Egypt's decision to take part reflects its expectation of Chinese investment, either directly or indirectly through the AIIB, in infrastructure projects that can boost the Egyptian economy.

Israel made the right decision to join the AIIB in 2015 despite Washington's objections because membership will allow her to influence decisions on where investment money will go. Depending on the projects it elects to promote, the AIIB's investment in the Middle East could serve Israel's interests by helping her develop her economy, achieve some degree of stability, and potentially decrease threats to her security.

During President Xi's visit, China signed deals worth billions of dollars, promised to invest billions more in regional projects (particularly in Egypt), and signed a memorandum of understanding to promote the implementation of the Belt and Road Initiative. He visited both Saudi Arabia and Iran, notwithstanding the tensions between the two countries on the nuclear issue, Yemen and Syria.

The warmth exhibited by Supreme Leader Ayatollah Ali Khamenei toward China during President Xi's visit to Iran suggests the potential for a greater role down the road for Beijing in the geopolitics of the region. Khamenei had this to say about China's behavior during the sanctions period: "The government and people of Iran have always looked and are still looking for expanding relations with independent

and trustworthy countries like China and on this basis, the agreement between the presidents of Iran and China for the establishment of a 25-year strategic relation is completely correct and wise...The Islamic Republic of Iran will never forget China's cooperation during the time of sanctions."

The strategic cooperation between China and Iran, the P5+1 agreement in which China participated, and the billions invested in Iran by Asian and European companies will give Tehran the latitude to rehabilitate its economy now that sanctions have been lifted. In so doing, they will help Iran in its quest for regional political and military dominance.

Beijing will not replace Washington or Moscow in the Middle East in the short run, as it does not yet serve its interests to be militarily or politically involved in the region. China can be expected to deepen its economic involvement by increasing investment and trading directly or indirectly through AIIB. Beijing might boost its sea-lanes patrols in the region if it perceives its trade and oil supplies to be under threat (and indeed already has taken steps to combat piracy off the Somali Coast). Over the longer term, those sea-lanes patrols would allow Beijing to project its power.

It is worth noting that despite Beijing's protestations that it does not intend to get deeply involved in the Middle East, Tehran, Cairo, and even Riyadh already look toward China as an important player – particularly in the wake of disagreements with the Obama administration on Iran and on Abdel Fattah el-Sisi's human rights violations. China offers an appealing alternative: Beijing is understood to have no intention of sending military forces to the region the way Moscow or Washington would, but has veto leverage at the UN Security Council and billions of dollars available for investment. China therefore has the capacity to change the Middle East balance of power in the long run.

In the case of Israel, China has become an important economic player. Chinese companies are opening R&D centers in Israel, building construction projects, and buying Israeli companies outright (see, for example, Tnuva, the Haifa Tunnel, and one of the Israeli ports). The Israeli foreign office and ministry of trade have increased the number of delegations to China. From the Israeli point of view, increased trade with China will allow Israel to spread trade and investment into more than one region. Greater trade with China would also diminish the trading leverage Europe uses in its attempts to compel Israel to accept European Middle East policy.

Jerusalem understands that Beijing will not become pro-Zionist, and will not replace Washington as Israel's main ally. But Israel fully acknowledges the rising importance

of Beijing in the Middle East and globally, as President Xi's visit to the Middle East demonstrates.

The Israeli government should, accordingly, continue to improve its economic and political relations with China. But Israel should not lose sight of the constant tension between Washington and Beijing on issues in Asia, such as the South China Sea and Islands issues. These tensions should serve as a warning for the Israeli government to avoid enacting policies that might be seen by either party as tilting in one direction over the other.

Nor would it be wise to sell technologies or equipment to China that might be seen by Washington as a breach of conduct. The scuttled Phalcon deal during the Clinton administration was a painful example of the price Israel can pay if she finds herself caught between Washington and Beijing.

The Israeli government should establish an internal working group (with representatives of the foreign, defense, finance and trade ministries) to coordinate government policies as China ramps-up its involvement in the Middle East.

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