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East Mediterranean in the Context of China's Belt and Road Initiative

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This is the second instalment in a series of articles examining The Belt and Road Initiative (BRI), China's flagship international economic project.

The series will be examining the BRI by geographic areas in the context of its economic and geopolitical interaction with different regions it is traversing, and consequently, implications for East Mediterranean and broader EU-China relations.

On the 1st of January 2017 the freight train left the city of Yiwu, on China's east coast, and travelled 7,500 miles (12,000km), crossing seven countries, before arriving at a freight depot in Barking, UK eighteen days later. Yiwu Timex Industrial Investments, which is running this service with China's state-run railways, says prices are half that of air cargo and cut two weeks off the journey time by sea.¹

Almost eight months later, on the 5th of August 2017, China formally opened its first overseas military base with a flag raising ceremony in Djibouti in the Horn of Africa, the same day as the People's Liberation Army marks its 90th birthday.²

Two days before that the trans-Caspian rail route was launched 65 kilometres from Baku in the city of Alyat, a new Azerbaijani seaport on the Caspian Sea. The train covered more than 3,500 km from China through Kazakhstan and the Caspian Sea in five days, delivering caustic soda to Azerbaijan.³ The event was critically important for Kazakhstan, Azerbaijan and China, as it inaugurated the

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¹ 'Silk Road' freight train from China arrives in Barking BBC, 18.01.2017, <http://www.bbc.com/news/uk-38666854>

² China formally opens first overseas military base in Djibouti Reuters, 01.08.2017, <https://www.reuters.com/article/us-china-djibouti/china-formally-opens-first-overseas-military-base-in-djibouti-idUSKBN1AH3E3>

³ Trans-Caspian Rail Route Launched The Astana Times, 05.08.2017, <https://astanatimes.com/2015/08/trans-caspian-rail-route-launched/>

rail route, which in late October 2017 would be officially linked to the BTK, brand new Baku-Tbilisi-Kars railway, thereby completing the missing link of the much-heralded middle corridor of the New Silk Road, or as the Chinese government likes to promote it recently, the Belt-and-Road Initiative (BRI).⁴

If the world map to be compared to the board of the ancient Chinese strategic game of Go, by inaugurating two critical land transport routes and its first overseas naval military base, China placed important "stones" on the board, thereby marking geographic areas and directions of its long-term strategic intentions (note: although Chinese capital did not finance the construction of BTK, the logic behind the project was to link the route to BRI).

From the days of its official launch in 2013 the BRI label has ballooned to embrace projects as far afield as New Zealand, Britain and even the Arctic. China has identified 65 countries along the Belt and Road that will be home to hundreds of projects bearing the BRI stamp (countries included in the Initiative are populated by 4.4 billion people and accounting for 30% of world gross domestic product. These countries generate more than a third of world trade, and will require roughly \$5 trillion worth of new infrastructure in the next decade.⁵ China's overseas investments continue surging, with a 44.1% year-on-year growth, and reached USD 170.11 billion in 2016.⁶).

Since BRI's official announcement four years ago, the Initiative attracted significant international attention, and received a lot of negative coverage, mainly, by the Western expert and media community. The nay-sayers argue that many of the BRI projects are economically unviable, or at least would be very difficult to break-even, and politically Beijing would inadvertently be supporting anti-liberal practices, thereby helping authoritarian rulers across the Eurasian landmass to solidify their power.

Critics argue that under President Xi China's foreign policy will increasingly be more assertive, drawing comparisons with what Edward Luttwak, the military strategist, has called "geo-economics" — when the "logic of conflict" is pursued through "methods of commerce".⁷

⁴ Shepard W. *How Azerbaijan, Georgia, And Turkey Subverted Russia And Isolated Armenia With New Railway* Forbes, 30.10.2017, <https://www.forbes.com/sites/wadeshepard/2017/10/30/new-silk-road-azerbaijan-georgia-and-turkey-unite-over-new-rail-line-armenia-further-isolated/#668e1c63aff0>

⁵ *Five issues facing China's Belt and Road Initiative* Nikkei, 04.05.2017, <http://asia.nikkei.com/Viewpoints/George-Magnus/Five-issues-facing-China-s-Belt-and-Road-Initiative>

⁶ *China to extend outbound strategy by riding the Belt and Road Initiative* Hellenic Shipping News, 05.04.2017, <http://www.hellenicshippingnews.com/china-to-extend-outbound-strategy-by-riding-the-belt-and-road-initiative/>

⁷ *China encircles the world with One Belt, One Road strategy* The Financial Times, September 2017,

Strong suspicion that BRI is a vehicle for Beijing to increase its political influence abroad already created first backlash this year. Thus, Australia declined to embrace the Initiative formally (in contrast to neighbouring New Zealand), following its strategic allies in the Indo-Pacific, Japan and India, which kept a clear distance from BRI.

Critics in Washington, Tokyo, New Delhi and Canberra observe that some of the major BRI projects seem to be for strategically significant assets, like the oil and gas pipelines across Central Asia, and the Indian Ocean ports in Pakistan and Sri Lanka, which might serve military as well as commercial uses.

Also, Beijing is accused of unfair competition by offering, mainly, to its SOEs in strategic industries direct support to expand abroad. Besides cash injections, the government protects Chinese companies by writing laws designed specifically to help them grow. China's secret services are suspected of engaging in industrial espionage and cyberattacks against foreign competitors.

Thus, for example, the heavily indebted state-owned chemical giant ChemChina was able to acquire Swiss firm Syngenta and biotech assets for USD 43 billion only because the Chinese government made clear that food security in China is a strategic priority - and that the state would guarantee ChemChina's financial stability. Private firms benefit too. Telecoms firm Huawei is poised to dominate the global deployment of fifth-generation mobile infrastructure, particularly in developing countries, thanks to a hefty credit line from China Development Bank, which lends in support of the Chinese government's policy agenda.⁸

In spite of Western narrative being dominated by criticism and even hostility towards BRI (like in case of India), China continues promoting the Initiative unabated. There is no sign that Beijing is backing down on its plans. On the contrary, following election of President Trump with his inward-looking "Make America Great Again", and the EU struggling with Brexit and a slew of other challenges, China is trying to introduce new international narrative by presenting the BRI as the leading vehicle for increasing global trade.

On the BRI summit (May 2017) in his keynote address Mr Xi ignored the doubters. He talked of a new model of win-win co-operation. The President said that it was time for the world to promote open development and encourage the building of systems of "fair, reasonable and transparent global trade and investment rules". "We should build an open platform of co-operation and uphold and grow an open world economy," he added.⁹

<https://www.ft.com/content/0714074a-0334-11e7-aa5b-6bb07f5c8e12>

⁸ Bremmer, I., *China's State-Dominated Economy is Built to Win the Future Time*, 13.11.2017, p. 20.

⁹ *China's big push for its global trade narrative* BBC, 12.05.2017, <http://www.bbc.com/news/world-asia-china-39880163>

"China is willing to share its development experience with all countries. We will not interfere in other countries' internal affairs," Mr. Xi said.¹⁰

The message generally resonated with many state leaders from across the Eurasian landmass, who try both to secure Chinese investments into their ailing economies and diversify their geopolitical contacts at the time when the US and the EU no longer demonstrate decisive and reassuring leadership.

Major East Mediterranean powers, Turkey, Israel and Egypt, were no exception, and have been deepening their cooperation with Beijing for some years now.

The East Med, especially, after the capacity of the Suez Canal was expanded back in 2015, will be playing increasingly important role not only in the context of BRI trade but also in the context of China-US, and generally, Asia-US economic relations. Container shipping between China and the North American east coast increasingly makes use of the Suez Canal and the Mediterranean Sea. Because, unlike the Suez Canal, the Panama Canal is not wide enough for the largest container vessels, there is a shift from the transpacific to the transatlantic route for container traffic between Asia and the North American east coast. Recently the container capacity from Asia to the US east coast through Suez surpassed that of the Panama Canal for the first time. Although the Panama Canal is in the process of being widened, after this is completed it will still be unable to accommodate the largest container vessels that are currently in use.¹¹

Compared to other great powers, China's deeper involvement with the region is relatively new, and therefore Beijing is treading very carefully by focusing on development of economic ties in the first place, and in the meantime, accumulating its expertise in the political affairs of this very complex and explosive area.

So far China managed to develop equally balanced relations with each of the major powers in the East Med, mostly, carefully manoeuvring around contentious regional security issues and prioritizing trade and investments instead. Thus, China has been a consistent partner for Egypt despite the latter's years of instability going back to the Arab uprisings of 2011.

China has become the biggest investor in Suez Canal Area Development Project, a mega initiative showcasing a win-win partnership between the two countries. The aim of the giant project, launched in 2014, is to increase the role

¹⁰ *China invests \$124bn in Belt and Road global trade project* BBC, 14.05.2017, <http://www.bbc.com/news/world-asia-39912671>

¹¹ van der Putten F.P., "Infrastructure and geopolitics: China's emerging presence in the eastern Mediterranean", *Journal of Balkan and Near Eastern Studies*, 2016 VOL. 18, NO. 4, 337–351.

of the Suez Canal region in international trading and to develop the three canal cities of Suez, Ismailia and Port Said.

China's TEDA Group, one of the oldest industrial developers of the region, has seen a steady increase in the number of its development projects and factories since it entered Egypt and established a joint Suez Economic and Trade Cooperation Zone in the Ain Sokhna district of the Suez Canal Corridor east of capital Cairo.¹²

However, the most consequential of China's recent economic interactions with Egypt is probably the \$2.6 billion currency swap the two countries concluded in December 2016. That deal replenished Egypt's reserves of foreign currency in the wake of el-Sissi's decision to float the Egyptian pound. It also helped Egypt secure a \$12 billion loan from the International Monetary Fund.¹³

Such a careful attention to Cairo is explained not only by the importance of the Suez Canal for the safe passage of Chinese vessels but also by the role this country potentially can play in China's trade relations with the rest of the African continent within the BRI framework. If Egypt remains stable and avoids internal political and social-economic destabilisation, it stands a chance to become one of major manufacturing hubs for Chinese goods destined not only for the Black continent but also for other countries in the Middle East and Europe.

In contrast, Beijing's relations with Israel are of different nature, given the latter's level of economic, technological and military sophistication. It is also important to remember that China is still under the Western arms embargo because of the events on the Tiananmen square in 1989.

And Israel's export of sophisticated technologies involving controversially dual-used know-how of civilian products remains one of the key providers for China. Also, Beijing looks toward Tel Aviv to provide advanced technologies, such as in agriculture and manufacture, to secure the industrialization and social stability of the region in the context of BRI.

Israel, in turn, is equally responsive to political, economic as well as limited military engagement with China (there are objective constraints to military relations with Beijing, since there is no doubt that Tel Aviv will remain Washington's strategic ally in the years to come).

¹² *China now biggest investor in Suez* China Daily, 23.03.2017, http://www.chinadaily.com.cn/business/2017-03/23/content_28648386.htm

¹³ *How China Uses One Belt, One Road to Foreground Longstanding Egypt Ties* World Politics Review, 06.04.2017, <http://www.worldpoliticsreview.com/trend-lines/21771/how-china-uses-one-belt-one-road-to-foreground-longstanding-egypt-ties>

Thus, despite some geopolitical challenges to Israel, China is developing a 300-km rail line linking Ashkelon with the Red Sea worth approximately USD 2 billion – the so-called “Red-Med” link, which will be an additional transport corridor of great importance to both countries. Additionally, Chinese Navy seeks assistance from Israeli counterparts in anti-piracy missions in the Indian Ocean and the Gulf of Aden.¹⁴ Thus, Israel's geo-strategic location, its technological sophistication and military capability to operate in the region as a security provider makes it almost ideal strategic partner for China in the area of the East Med and the Red Sea. And finally, probably the most complicated relations Beijing has in the region are those with Ankara.

Turkey, a country with regional hegemonic ambitions, had a history of tumultuous relations with China from the moment of their establishment in 1971. During most of the twentieth century, the two sides were making little effort to improve them. Gradual rapprochement began with the active phase of globalisation in the 1990s, when it made sense to normalize relations in order to reap benefits from trade. In the first fifteen years of the current century, the volume of trade between the countries grew significantly, from USD 1 billion in 2000 to roughly USD 30 billion in 2015.¹⁵

However, even then relations were never cordial. Political domination in Turkey of Mr. Erdogan, a strong supporter of the idea of pan-Turkism as well as his ambition to play a role of the defender of the fellow Muslims around the world, was regularly poisoning relations with Beijing, which from time to time uses force against restless Muslim Uyghur minority in its North-Western province of Xinjiang.

China, in turn, was accusing Turkey of providing refuge to Uyghur extremists on its territory. Situation dramatically changed several years ago when Turkey's relations with the West began deteriorating, and Ankara urgently needed to search for new allies in the East.

Ankara's courting was welcomed in Beijing, which sees equal interest in rapprochement with Turkey in view of its economic potential and indispensable geographic location as a transit bridge for BRI. The failed coup in 2016, and further deterioration of relations with the EU and the US, gave additional impetus to Turkey's decisive pivoting to the East.

¹⁴ Belt and Road Initiative: An Impetus to Sino-Israeli Strategic Partnership *Modern Diplomacy*, 04.05.2017,

http://moderndiplomacy.eu/index.php?option=com_k2&view=item&id=2541:belt-and-road-initiative-an-impetus-to-sino-israeli-strategic-partnership&Itemid=135

¹⁵ Yellinek R. Why Are Relations Tightening Between China and Turkey? BESA Center, Perspectives Paper No. 576, 01.09.2017,

<https://besacenter.org/perspectives-papers/china-turkey-relations/>

In the past year, Ankara went as far as declaring China's security being tied to Turkey's. And in August of this year, Turkish Foreign Minister Mevlüt Çavuşoğlu said, after meeting his Chinese counterpart, that Turkey would move to stamp out any anti-China reports in its media.¹⁶

Given current vulnerability of Turkish domestic political environment and tendency of President Erdogan to concentrate full power in his hands, China's model, where government embraces commerce while tightening control over domestic politics, economic competition and control of information, looks more than attractive.

It is relatively safe to argue that Beijing and Ankara will continue building closer economic and military relations, each being driven by its own geopolitical and geo-economic imperatives, including within the BRI framework, where Turkey will be playing increasingly important role as both the Black Sea, the Mediterranean and the Middle Eastern power.

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¹⁶ *Turkey promises to stamp out anti-China media reports* Euractive, 04.08.2017, <http://www.euractiv.com/section/global-europe/news/turkey-promises-to-stamp-out-anti-china-media-reports/>