

Presence of Non-Euro-Mediterranean Actors in the Mediterranean

# The Chinese Breakthrough in the Arab and Mediterranean Markets

**Professor Bichara Khader**

Catholic University of Louvain

Although distant regions, China and the Arab countries have maintained relations that date back to the first centuries of our era, well before the appearance of Islam. Arab readers interested in the history of these relations might enjoy the detailed features on historic Sino-Arab relations published by the excellent Arab magazine *Al-Mustaqbal Al-Arabi* in 2017. In any case, these relations experienced a long eclipse from the 15th century to the proclamation of the People's Republic of China in 1949. Originally limited to political matters, they increased dramatically once China opened its economy to the world as of 1978. At first centred on the Gulf States, the Chinese would eventually spread their attention to all Arab countries, including those of the Maghreb. This study aims to report on China's remarkable breakthrough onto the Arab and Mediterranean markets.

## China and the Arab Countries as of 1949

The Popular Republic of China was proclaimed in 1949, in the middle of the Cold War pitting the liberal West against the Soviet Union. China decided not to align itself with either camp, preferring to engage in the non-alignment advocated in Bandung in 1955 and then officialized in Belgrade in 1961. This did not prevent China from supporting all national liberation movements against colonialism and imperialism. Hence China's support to Egypt during the

tripartite Suez aggression in 1956, its recognition of the provisional Algerian government in 1958 and its support for the national Palestinian movement, for which it has trained numerous military cadres.<sup>1</sup> For their part, Arab countries supported granting the People's Republic a permanent seat on the Security Council in 1971, and began establishing diplomatic relations with China between 1956 and 1990.<sup>2</sup> But from 1949 to 1978, economic relations shrank to a trickle.

Under Deng Xiaoping (1978-1992), China engaged in timid economic reform and a prudent opening to the global economy.<sup>3</sup> Slowly but surely, it entered accelerated development, becoming the industrial workshop of the world, achieving considerable trade surpluses and garnering sovereign wealth funds now estimated at over three trillion dollars.

It is precisely when China becomes an economic power that it rediscovers the importance of the Arab World for its economy and its international influence.

## The Interests of China in the Arab World

China's interests in the Arab World are legion – we will point out the most significant ones.

### *Their First Interest is Geopolitical*

As a global trading power, China depends largely on maritime transport, which is used for 90% of Chinese exports. Navigation security is thus of primordial interest. Of the four main straits – Malacca, Hor-

<sup>1</sup> Mohammad Al-Sayyid SALIM. *Chinese Policy Regarding National Causes: The Arab Point of View* (in Arabic), in *Al-Fikr al Siyasi*, No. 7, 1999.

<sup>2</sup> Egypt in 1956, Morocco in 1958, Tunisia in 1964, Kuwait and Lebanon in 1971, Jordan in 1978, Oman in 1978, the United Arab Emirates in 1984, Qatar in 1988, Bahrain in 1989 and finally Saudi Arabia in 1990.

<sup>3</sup> Wang Jisi. *China's search for a grand strategy*, in *Foreign Affairs*, Vol. 90, No. 2, March-April 2011.

TABLE 1 Chinese Oil Imports (millions of barrels/day) 2010-2016

Region	2010	2016	%
Middle East	2,260	3,660	48.1%
Africa	1,414	1,347	17.7%
Former Soviet Republics	521	1,207	15.0%
North and South America	413	1,033	13.6%

Source: Nasser Al-Tammimi. *The Emergence of China: Chinese Interests and their Consequences for Arabic Countries* (in Arabic), *Al Mustaqbal al-arabi*, July 2017, p.82.

muz, Bab-el-Mandeb and Gibraltar – three are located in the Middle East North Africa region (MENA). It is estimated that half of China's oil imports and a quarter of its natural gas imports go through the Strait of Hormuz in the Arab-Persian Gulf. Bab-el-Mandeb or the Mandeb Strait, at the entrance to the Red Sea, is even more important, since a fifth of Chinese exports to the Middle East, North Africa and Europe take this route, through which some 300,000 barrels/day also go, travelling from Algeria, Libya and Sudan on their way to China.

#### *The Second Interest Is Energetic*

According to the economic newspaper, *MEES* (27 January 2017), China imports nearly 3.6 million b/d from the Middle East, that is, nearly 48% of its total oil imports. Its dependence on Arab and Iranian gas is only slightly lower (41% of its overall gas imports). Considering China's growing needs, it is highly likely that the country's dependence on the Arab and Middle East region become more pronounced over the coming two decades.

#### *The Third Interest Is Economic*

The Chinese economic penetration into the Arab markets over the past 25 years has been spectacular, making Chinese exports to Arab countries go from \$10 billion in 1990 to \$220 billion in 2016. This is a 22-fold increase. Though this only amounts to 5.2% of estimated Chinese exports in 2016 at \$3.96 trillion, the trend seems to indicate that Chinese commerce with Arab countries will surpass \$300 billion well before 2025.

#### *The Fourth Interest Is Fostering Investment*

Sub-Saharan Africa attracts greater investment for the time being than the Arab African countries or

the Middle East: \$252 billion as compared to \$177 billion, \$70 billion of which in the Gulf States. However, the growth rate for investment in Arab countries has been particularly strong over the course of the past decade and will be even stronger over the next few years, considering new Chinese initiatives, in particular the New Silk Roads discussed below.

#### *The Fifth Interest Is of a Religious Order*

This should come as no surprise, for it is of the essence, from the Chinese point of view, to maintain close relations with Muslim countries. First of all because China, on its border with Mongolia, has a Muslim minority of 20 of 25 million – the Uyghur – who consider themselves marginalized and stigmatized. China fears both their separatist demands and their possible radicalization (certain Uyghur youth having joined the ranks of Daesh in Iraq and Syria). Moreover, the New Chinese Silk Roads, in both the North and South, cross or run along the borders of many countries where 80% of the population is Muslim.<sup>4</sup> And finally, more and more Chinese Muslims are making the pilgrimage to Mecca every year: there were 20,000 in 2017. China is also multiplying initiatives designed to show its respect for Islam, such as the World Muslim City, which opened in 2016 in Yinchuan.

#### **Arab Interests in Fostering Relations with China**

After the implosion of the Soviet Union, Arab countries didn't take long to discover the interest they have in building cooperation relations with China. There are various reasons:

- a) **Escaping the stifling embrace of the United States**, whose unfortunate interventions in

<sup>4</sup> Michel NAZET. "Les routes de la Soie mènent au Moyen-Orient," in *Conflits*, Autumn 2017, p.70.

the Middle East and systematic alignment with Israel's colonial policies offend the sensibilities of Arab and Muslim populations;

- b) **Diversifying their export markets** and attracting Asian investment;
- c) **Establishing partnership cooperation** with a major Asian country with no colonial past in the Arab countries and with whom relations are more tranquil than with European countries.

For the Arab states, in fact, China seems a counter-model: its foreign policy is based on respect for national sovereignty, territorial integrity, and recognition of the regimes in power. As far as its diplomacy is concerned, it prioritizes win-win partnerships, dialogue, negotiation, non-interference, respect for international regulations, rejection of sanctions and conditionalities, and rejection of collective punishment, which are common practices of Western chancelleries. Arab leaders, who are far from being paragons of democracy, appreciate the concept of an 'harmonious world' based on respect for the specificities of all.<sup>5</sup>

### The 2004 Arab-Sino Cooperation Forum

In view of the growing interests, the Chinese launched an Arab-Sino Cooperation Forum in 2004. The results were not long in coming: trade between China and the members of the League of Arab States rose from \$36.7 billion in 2004 to \$145,4 in 2010, in other words, it more than quadrupled in six years.

In March 2012, China and the Arab countries took a further step and launched the High Council for Energy Cooperation. In May 2012, the 5th Sino-Arab Cooperation Forum was held in Hammamet, Tunisia. At the 6th Forum in 2014, under Sino-Moroccan presidency, the Chinese and Arabs expressed satisfaction with the results of the first decade of cooperation (2004-2014) and decided to increase trade for the coming decade (2014-2024) by diversifying spheres of cooperation, multiplying cross investment and encouraging exchange among civil society.

To do this, China intends to make its relations with the Arab world fall within the project launched by

Chinese President Xi Jinping in 2013, called New Maritime and Terrestrial Silk Roads.

### The New Silk Roads, or Belt and Road Initiative (BRI, 2013) and Arab Countries

The BRI is an initiative launched in 2013 by Chinese President Xi Jinping in a speech delivered in Kazakhstan. It aims to connect China with the rest of the world via a complex network of roads, railways and maritime routes, with the aim of increasing China's trade with Asia, Europe and Africa and improve its connectivity with its main partners. The initiative is multidimensional. It has various components:

The growth rate for investment in Arab countries has been particularly strong over the course of the past decade and will be even stronger over the next few years, considering new Chinese initiatives, in particular the New Silk Roads

1. **A Land-Based Component** (rail and roadways), with railways and motorways connecting China and Europe, consisting of six corridors connecting China with Asia, Europe and the Middle East;
2. **A Maritime Component, with two routes:** that of the Arctic to the north, and the southern one, through the Strait of Malacca, the Strait of Hormuz and the Suez Canal to reach the port of Piraeus in Greece, already under Chinese control, and possibly to Tangier-MED in Morocco (this is not yet settled but is under consideration).

It is thus a large-scale project for the future that will connect China to all continents and which requires the mobilization of major investments that could

<sup>5</sup> C. HUANG. "Theory of China's participation in global governance," *Journal of International Relations*, No. 4, 2013.

TABLE 2 China – GCC Countries Trade 2015 (in billions of dollars)

Country	Imports	Exports	Total
Saudi Arabia	21.6	30.2	51.8
United Arab Emirates	37.0	11.2	48.2
Oman	2.1	15.0	17.1
Kuwait	3.7	7.4	11.1
Qatar	2.2	4.6	6.7
Bahrein	1.0	0.1	1.1
<b>Total</b>	<b>67.7</b>	<b>68.5</b>	<b>136.0</b>

Source: International Monetary Fund (IMF) – figures are rounded off.

range from 4 to 26 trillion dollars, according to specialists.<sup>6</sup> To finance this gigantic project, China plans on mobilizing a multitude of actors, both public and private, in particular the China Development Bank, the Silk Road Fund, the Asian Infrastructure Investment Bank (AIIB), etc.

Arab countries showed interest in the Chinese initiative right away and many countries have already joined it. Some, such as Saudi Arabia and other Gulf States, are participating in the Asian Infrastructure Investment Bank (AIIB) as well. Morocco even wants the New Silk Roads to reach as far as Tangiers.

China is satisfied with the favourable and even enthusiastic reception of its initiative among Arab countries and published an official document in January 2016 called “China’s Arab Policy Paper” in which China is pleased to indicate that the Arab world has become China’s top oil supplier and 6th trade partner, with trade amounting to over \$220 billion.

The Chinese stated they wish to increase this trade to over \$300 billion by the 2024 horizon, which will be the 20th anniversary of the Cooperation Forum, but it’s safe to assume that this threshold will be crossed well before.

### China and the Gulf States: An Insatiable Appetite for Energy

Since China has opened up to the world, three geographic areas have occupied a prominent place in its economic policy: South East Asia for its geographic proximity, Sub-Saharan Africa for its resources, and the Gulf States for their oil and gas.

Indeed, the increasing dependence of Chinese imports on oil and gas lends the Gulf States as well as Iraq and Iran a special place in Chinese economic policy.

Exclusively considering the Gulf Cooperation Council (GCC) countries, total trade with China in 2015 reached \$136 billion and trade balance was good, putting China in 2nd position after the EU, which remained the GCC’s main trade partner in 2015, with a total trade of \$166 billion (150 billion euros) but a trade balance of nearly \$60 billion in favour of the EU.<sup>7</sup>

With \$136 billion in trade in 2015, the GCC countries became China’s 6th trade partner. However, considering the growth rate of GCC-China trade, the EU will be surpassed in its turn, likely before 2020,<sup>8</sup> making China the leading trade partner of the GCC.

Naturally, energy occupies a prime place in trade between China and the GCC countries. With a population of 1,3 billion and a nearly double-digit growth rate, China has become the 2nd world consumer of oil (from 2.3 million barrels/day in 1993 to 12 million b/d in 2016) after the US and is the top importer. GCC countries already supply 33% of China’s oil imports and this dependence will grow over the coming decade.

Apart from trade and energy exports, Gulf States are increasingly attracting Chinese enterprise. Hundreds of Chinese companies now operate in GCC countries in the spheres of infrastructure, construction, petrochemicals, refinery and nuclear power. There are even military drone factory installation projects. Such cooperation allows the Gulf countries to diversify their alliances and markets and align their

<sup>6</sup> Eric MOTTET and Frédéric LASSERRE. “L’Initiative ‘ Belt and Road ’ : stratégie chinoise du Gran Jeu,” *Diplomatie*, No. 90, January-February, 2018, p.37.

<sup>7</sup> Bichara KHADER. *Europa y el mundo árabe. Una evaluación de las políticas europeas, 1957-2015*, IEMed-Icaria, Barcelona, 2016.

<sup>8</sup> Tim NIBLOCK. “China’s Emergence as the Gulf’s Greatest Trade Partner” (in Arabic), *Al-Mustaqbal al-arabi*, July 2017, p.79

development plans with the Chinese Road and Belt strategy.

### China and the Maghreb: Promising Cooperation

Until the end of the 20th century, the Maghreb, with the exception of Algeria, was ignored: the Maghreb seemed distant and was perceived as a market in the hold of the European Union. But since then, China has discovered the great interest of the Maghreb, and particularly Morocco, to its global economic deployment strategy.

And yet China and the Maghreb have had diplomatic relations since the 1950s. Indeed, China was one of the first countries to recognize the provisional government of Algeria in 1958 and Algeria granted the People's Republic of China the same recognition in 1962. With regard to Morocco, it recognized Mao's People's Republic in 1958. Tunisia did the same in 1964.

But apart from mutual recognition, China neglected the Maghreb. The Chinese offensive in the Maghreb began at the end of the 20th century and first targeted Libya and Algeria, two oil countries. With a non-functional Arab Maghreb Union, Chinese policy has been structured according to bilateral relations. This orientation is convenient for the Chinese, who wish to stay out of intra-Maghreb disputes.

#### *Algeria: China's Historic Partner*

Because of its energy resources, its geographic size and the importance of its market, it is Algeria that was first targeted by the Chinese.<sup>9</sup> And it was this country that attracted the bulk of investments and numerous Chinese businesses. All major Chinese oil and refinery enterprises are present in Algeria (CNOOC, SINOPEC and CNPC), as well as engineering and public works companies (ports, motorways, airports) and construction companies (social housing and shopping centres). The number of Chinese works in Algeria is beyond counting today: the Algiers Opera House, the Djamaa Al-Jazaïr Mosque, the new Algiers Airport, the buildings housing the Ministry of Foreign Affairs and the

Constitutional Court, a 750-kilometre aqueduct from Salah to Tamanrasset and the East-West Motorway, not to mention the automobile and small lorry assembly factories in Tlemcen and Annaba. There is even talk of building a deep-water port for container ships at El Hamdania. All of this means the Chinese presence in Algeria is estimated at 80,000 expatriates.

Exclusively considering the Gulf Cooperation Council (GCC) countries, total trade with China in 2015 reached \$136 billion and trade balance was good, putting China in 2nd position after the EU

Naturally, as in Morocco and Tunisia, Chinese penetration in local markets is staggering: low-value products, electric and electronic products, toys, fabrics, household products, communications products, etc. The inhabitants do not seem to be complaining of such a plethora of Chinese products at souk stalls. But the risk of the disappearance of artisan know-how is real and could lead to the disappearance of numerous traditional professions. It is distressing, moreover, to note the lack of interest shown by politicians regarding this aspect.

#### *Chinese Interest Veering towards Morocco and Tunisia*

Until recently, Morocco, and above all Tunisia, were the poor relations of Chinese policy in the Maghreb. But an interesting change has been taking place since 2000. Tunisia, for instance, has launched a joint venture with the Chinese company, Haier Maghreb (HHW), to distribute its products (freezers, refrigerators, microwave ovens, washing machines, dishwashers, etc.) throughout North Africa. Other companies intend to do the same to take advantage of Tunisia's central location in the Maghreb and its proximity to European markets.

<sup>9</sup> Thierry PAIRAULT and Fatiha TALAHITE (eds.). *Chine-Algérie : une relation singulière en Afrique*, Riveneuve Editions, Paris, 2014.

### *Morocco Has Begun Interesting the Chinese in More Ways than One*

Its internal stability, the size of its market, its geographic location between the EU and Sub-Saharan Africa, its two seaboard, the port of Tangiers (Tanger-Med), the EU-Morocco Association Agreement and the US-Morocco Free Trade Agreement are considerable assets for Chinese entrepreneurs and investors.

But there is another significant asset: the positive feelings towards China in North Africa, in particular in Morocco: there is no historic resentment and China does not get involved in countries' internal affairs.

From the Moroccan perspective, relations with China are a new window of opportunity:

- They allow Morocco to attenuate **the verticality of EU-Morocco relations** by diversifying export markets;
- They **reinforce Morocco's policy of opening up to Sub-Saharan Africa**, making Morocco not only a place of transit from Africa to Europe, but above all a strong link where China can delocalize a good number of its economic activities;
- They **attract Asian investment towards Tangiers**, contributing to making the Tanger-Med port a maritime transport hub;
- They **contribute to opening Morocco up to international competition** and thus to its general attractiveness to other investors.
- They **integrate Morocco into the Chinese New Silk Roads Initiative** (BRI), making Tanger-Med a transport hub of the greatest importance. At the China-Africa Summit in Johannesburg in December 2015, Morocco's head of government, Abdelilah Benkirane, indicated the importance he lent the Chinese Initiative and even proposed that the Maritime Silk Route be connected to Atlantic Europe via Tanger-Med. It is in this context that on 16 November 2017, Moroccan Foreign Minister Nasser Bourita and his Chinese counterpart, Wang Yi, signed a memorandum of understanding making Morocco the first African country to join the Chinese project.

Morocco grasped early on the important role played by China in the global economy and since the beginning of the 21st century, well before the launching of the New Silk Roads in 2013, it undertook a series of initiatives designed to strengthen Chinese-Moroccan relations: Inter-Parliamentary Friendship Group (2000), Ibn Battuta Friendship Association (2000), and China-Morocco Trade Association (2012). China, for its part, has multiplied the creation of Confucius Centres like the one in Rabat (2009), after opening centres in Tunisia's Sfax in 2005 and Cairo and Ismailia in 2008.

On the diplomatic level, there is a multiplication of initiatives: the Moroccan Minister of Foreign Trade's visit to China in 2009, the visit to Morocco by his Chinese counterpart in 2011, the China-Morocco Investment Forum in 2011, the Sino-African Entrepreneurs Summit in Marrakesh in 2015, and finally, the King of Morocco's visit to China in 2016, during which a Joint Declaration was signed concerning the establishment of a strategic partnership between China and Morocco.

**China has become the 2nd world consumer of oil (from 2.3 million barrels/day in 1993 to 12 million b/d in 2016) after the US and is the top importer**

This Moroccan policy of openness is apparently bearing fruit: China has become Morocco's 3rd supplier and its 18th client. However, China-Morocco trade is very unequal: since in 2014, Moroccan exports were only the equivalent of 7.7 % of its imports.

Insofar as Chinese investments, they are developing at a steady pace. According to Fathallah Oualalou,<sup>10</sup> there were some 20 Chinese businesses in Morocco in 2014, in the sectors of textiles (Li Fung), communications, fishing with freezer trawlers, and basic equipment (LENOVO, HAIER, ZTE, SEPCO, FORPETRO, HUAWEI, etc.). But there is still considerable potential for cooperation in many other spheres.

<sup>10</sup> Fatahallah OUALALOU. *La Chine et Nous : répondre au second dépassement*, Editions de la Croisée des Chemins, Casablanca, 311p.



Naturally, banks must hone their services to facilitate investment operations. The Chinese bank, Eximbank, is already present in Casablanca. The Moroccan BMCE bank is likewise present in China.

### In this deployment of new Chinese strategies, Morocco will most certainly play a more important role insofar as consumer market, maritime hub, junction point between continents, and gateway to the EU and Africa

In fact, at the last China-Africa Investment Forum, held in Marrakesh on 27 and 28 November 2017, Mr. Othman Benjelloun, president of the BMCE Bank of Africa group, made a strong plea for tripartite Chinese-Moroccan-African cooperation and

emphasized the leading role Morocco intends to play in the New Silk Roads initiative.<sup>11</sup>

And finally, there is a sphere where Morocco has a significant comparative advantage but which has yet to be used to its full potential: cultural tourism. Today there are millions of Chinese tourists traveling the world. Morocco could attract hundreds of thousands of them. But this requires an effective marketing policy, Chinese-speaking guides, reception facilities, a hotel offer meeting Asian needs, and more frequent flights.

In conclusion, the Chinese are growing increasingly interested in the Maghreb countries. Certainly, the Chinese appetite for oil and gas is insatiable and continues to determine China's trade policy, lending Gulf countries and Algeria and Libya particular importance. However, the Chinese increasingly wish to connect to the outer world through the New Silk Roads to make China a global actor. In this deployment of new Chinese strategies, Morocco will most certainly play a more important role insofar as consumer market, maritime hub, junction point between continents, and gateway to the EU and Africa.

<sup>11</sup> BENJELLOUN, Othman. "Les 8 convictions de Othman Benjelloun : un modèle de partenariat agissant", in *Maroc Diplomatique*, December 2017, p.10-11