

EDA INSIGHT



## Belt and Road Initiative: Opportunities and Obstacles for the Gulf

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## **Executive Summary**

- China's Belt and Road Initiative (BRI) invokes historic memories of the Silk Road, which facilitated communication, trade and exchanges between civilisations. In its current form, the BRI is designed to further China's economic and foreign policies. It is rooted in China enjoying economic success through infrastructure development.
- The plan is to replicate this economic strategy abroad. By attempting to create land and maritime trade routes linking China with Europe, through Asia (including the Middle East) and Africa, Beijing intends to help its own growth, especially in central and western China, and that of other countries as well.
- Of the proposed six BRI corridors, none formally includes the Gulf Cooperation Council (GCC) countries. But the five BRI connectivity themes – infrastructure, policy implementation, trade facilitation, financial facilitation, and people-to-people communication – keep the doors open for participation by the GCC countries, including the United Arab Emirates.
- The scope for the GCC countries' involvement in the BRI can be linked to at least two factors: one, the region's financial liquidity; and two, the region's infrastructure capabilities.
- While these two GCC strengths dovetail well with the BRI, there are a few obstacles too, from the GCC countries' perspective. The foremost among them is Iran, a major partner in the project.
- This Insight analyses some of the GCC's prospects and difficulties associated with the BRI. It argues that despite the drawbacks, four factors make it imperative for the bloc to consider getting on board the BRI: one, it bears the potential to influence GCC-China ties in the future; two, the initiative adds to the region's basket of economic diversification considerations; three, it offers the GCC bloc scope for multilateral partnerships beyond the region; and four, it could serve as an incentive for China to get involved in the region's political and security dynamics.

## The Issue

Chinese President Xi Jinping proposed a Silk Road Economic Belt in Kazakhstan in September 2013. A month later, in Indonesia, he unveiled the 21st Century Maritime Silk Road. Together they are referred to as the Belt and Road Initiative, or 'BRI' (formerly known as the One Belt One Road or OBOR).<sup>1</sup>

The BRI is the world's largest planned economic corridor, involving about 65 countries from the South Pacific through Asia to Africa and Europe. It aims to link China to Europe through ports, highways, communications grids, and rail links along two pathways. The Belt (Silk Road Economic Belt) stretches from Western China to Europe through Central Asia. The Road (21st century Maritime Silk Road) links China to Europe through the South China Sea, Indian Ocean and Red Sea.

This initiative is designed to enhance economic cooperation and effective allocation of resources. It is also intended to promote market integration and develop a regional economic cooperation framework that benefits all participating countries.

In 2017, when President Xi addressed the Silk Road Summit for International Cooperation in Beijing, he pledged an additional US\$124 billion in funding for the initiative. This includes assistance, grants and loans to participating countries. While the plan eventually envisages more than US\$1 trillion in infrastructure investments across all participating countries, China's own outbound direct investment in the project could reach US\$300 billion by 2030.<sup>2</sup>

The initiative has witnessed major developments since its inception. For the Middle East, it serves as a useful template to showcase converging interests of the Belt on land and the Road from the seas, and in all the manifestations it features – policy, infrastructure, trade, finance and people-to-people connectivity.

The GCC countries are among China's top energy suppliers and have benefitted from Chinese trade and investment during the last two decades. Though the GCC countries do not lie directly along the BRI routes, they have high economic and geopolitical stakes in the planned corridor.

### Box 1: BRI's Six Economic Corridors



Source: Hong Kong Trade Development Council/www.un.org

- 1. China-Mongolia-Russia Economic Corridor:** It includes two key routes – one from China's Beijing-Tianjin-Hebei region to Mongolia and Russia; and the other from China's Dalian to Russia's Chita.
- 2. New Eurasian Land Bridge:** To link the Pacific and the Atlantic, the proposal connects China's coastal cities of Lianyungang and Rizhao to Holland's Rotterdam and Belgium's Antwerp. The 10,800-kilometre-long rail link runs through Kazakhstan, Russia, Belarus, Poland and Germany.

- 3. China-Central Asia-West Asia Economic Corridor:** Covering the ancient Silk Road, this plan links China and the Arabian Peninsula. The corridor starts from China's Xinjiang and cuts across Central Asia before reaching the Gulf, the Mediterranean Sea and the Arabian Peninsula. It crosses five Central Asian countries – Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan – and 17 countries and regions in West Asia or Middle East, including Saudi Arabia, Turkey and Iran.
- 4. China-Indochina Peninsula Economic Corridor:** This is an attempt to extend from China's Pearl River Delta westward along the Nanchong-Guang'an Expressway and the Nanning-Guangzhou High-speed Railway via Nanning and Pingxiang to Hanoi and Singapore. This land bridge links China with the Indochina Peninsula and the Southeast Asian countries of Vietnam, Laos, Cambodia, Thailand, Myanmar and Malaysia.
- 5. China-Pakistan Economic Corridor:** The 3,000-kilometre-long corridor starts from China's Kashgar and ends at Pakistan's Gwadar, and connects the Silk Road Economic Belt in the north and the 21st Century Maritime Silk Road in the south. It is a trade network of highways, railways, pipelines and optical cables.<sup>3</sup>
- 6. Bangladesh-China-India-Myanmar Economic Corridor:** Starting from China's Kunming in Yunnan province, the plan is to link Kolkata in West Bengal, India, through Bangladesh and Myanmar, with the help of road, rail, water and air bridges.<sup>4</sup>



## China's Vision for the BRI

The BRI is being promoted as a project that is capable of solving several developmental problems, not just in China, but in all the countries involved. The initiative has been conceived on the grounds of “peace, cooperation, openness, transparency, inclusiveness, equality, mutual learning, mutual benefit and mutual respect by strengthening cooperation on the basis of extensive consultation and the rule of law, joint efforts, shared benefits and equal opportunities for all.”<sup>5</sup> Indeed, there are a number of philosophical motivations for China's endeavour to conceive and promote the BRI.

First, it is a new interpretation of the spirit of the ancient Silk Road and reflects China's experience in modernization and its ambition to share it with other countries.

Numerous trade routes have impacted human history, but very few left positive memories. For example, between the late 16th and early 19th centuries, 'triangular trade' carried cash crops and manufactured goods among West African, Caribbean or American colonies and the European colonial powers. However, millions of people had to endure slavery as part of the trade.<sup>6</sup> Eventually, the economic interaction supported the development of Western powers at the cost of Africa.

In contrast to the bitterness of the trilateral trade route, human interaction along the Silk Road was relatively peaceful. People of different cultural backgrounds not only exchanged their commodities but also exchanged their ways of lives. Chinese people learnt to grow fruits and vegetables, and China's four great inventions – the compass, gunpowder, papermaking and printing – spread to West Asia and Europe.

In modern times, the BRI has become China's instrument to redevelop the Silk Road spirit of “peace and cooperation, openness and inclusiveness, mutual learning, mutual benefit and win-win results.”<sup>7</sup>

Second, the BRI is the natural result of China's previous domestic and foreign economic policies. One of the major experiences of China's economic success is infrastructure development. Backed by government investment, it revived the economy particularly when exports slacked. The flow of commodities and human travel also became easier and cheaper.

Thus, China believes that its experience could be promoted through the BRI in its external economic

relations. The infrastructure connectivity would not only promote economic growth in the regions along the Belt and Road, but would also strengthen economic linkages between China and these regions.

Though the initiative was formally unveiled in 2013, it is an upgraded version of China's 'going out' strategy practiced since President Jiang Zemin's era.<sup>8</sup> Two decades after China initiated its reform policy, opened up its economy, attracted foreign investments, and entered the new century, it also found itself becoming capable of investing abroad, backed by its huge foreign currency reserves.

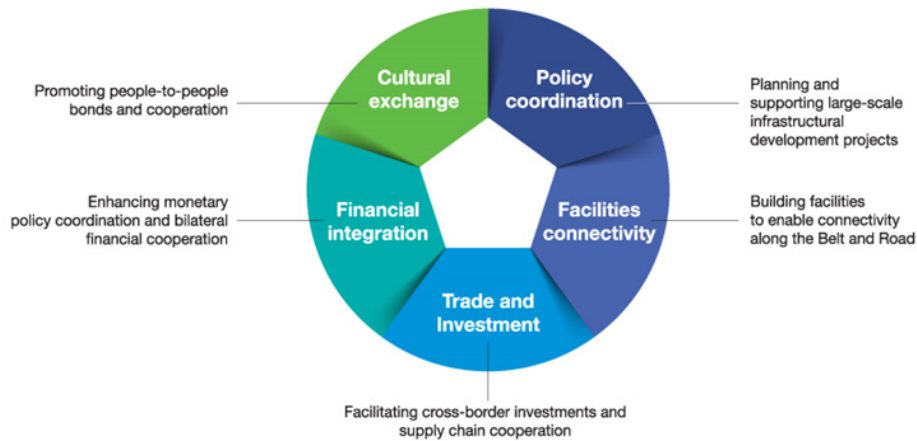
Domestically, China also regards the BRI as an important part of its strategy to develop the central and western parts of its territory. China has made remarkable progress in its internal development in the three decades since opening up its economy. But problems are also visible. One of them is the development gap between the eastern and coastal areas and the central and western areas. Most developed areas are in the eastern and coastal areas like Beijing, Shanghai, Guangzhou and their neighbourhoods. But the central and western areas remain underdeveloped.

Chinese decision makers and scholars fear that if the development gap persists, it could have serious political implications. Hence the government initiated a strategy, partly through the BRI's infrastructure development and transfer of goods to western markets, to narrow the gap.

Third, China's views on globalization are reflected in the 19th Chinese Communist Party Congress (CPC) report of 2017. It “calls on the people of all countries to work together to build a community with a shared future for mankind”.<sup>9</sup> The report also states that “China will actively promote international cooperation through the Belt and Road Initiative” to “achieve policy, infrastructure, trade, financial, and people-to-people connectivity and thus build a new platform for international cooperation to create new drivers of shared development”.

Along with including “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” in the CPC Constitution, the constitutional amendment committing to pursuing the BRI signals that the project is now much more than just investment and infrastructure projects, both at the national and international levels.<sup>10</sup> This means that Beijing is likely to pursue the BRI more robustly than before.

**Figure 1: Opportunities in Five Key Areas**



Source: Hong Kong Trade Development Council

## Middle East and the Gulf

The BRI has witnessed major developments around the world since its inception.

First, the progress is visible in the strengthening of policy coordination between China and some of the Middle East countries, where China has been consistently working hard to develop its relations. Together they have devised mechanisms of dialogue and communication such as the China-Arab Cooperation Forum and the Strategic Dialogue between China and the GCC countries.

China's first 'Arab Policy Paper' published in 2016 states that joint efforts will be made with Arab countries to promote the initiative under the principle of "wide consultation, joint contribution and shared benefit".<sup>11</sup> It also states that China and Arab countries will adopt the '1+2+3 cooperation' pattern:

1. energy cooperation as the core infrastructure;
2. construction and trade and investment facilitation;
3. innovative technologies in nuclear energy, space satellite and renewable energy.

This emphasis could be linked to the BRI. After the initiative was proposed, high-level exchanges of visits between the leaders of China and Middle East countries have become frequent. China has signed strategic partnerships with eight Arab countries and BRI-related construction agreements with six Arab countries. Further, seven Arab countries – including Oman, Qatar, Saudi Arabia, and the UAE from the GCC bloc – are founding members of the Asian Infrastructure Investment Bank (AIIB).<sup>12</sup>

These have served to promote the Middle East countries' understanding of the BRI as well as enhanced policy coordination.

Second, the progress is visible in infrastructure connectivity. Within the BRI framework, Chinese companies participated in the construction of several ports in the Middle East, including the Ain Sokhna Port of Egypt and the New Hamad Port of Qatar. The construction of these ports will increase capacity and connectivity, thereby reducing transportation costs. China also established a logistics support base in Djibouti, designed to enhance its capability to safeguard maritime transportation under the UN framework.

On land, in January 2016, the first freight train between China and Iran, via Kazakhstan and Turkmenistan, completed its journey in just two weeks – 30 days faster than the time taken previously.<sup>13</sup> Some Chinese experts have also proposed building a railway line linking China with Saudi Arabia via Afghanistan, Iran and other GCC countries. This might not be feasible given the ongoing political tension between the GCC countries and Iran.<sup>14</sup>

Third, progress in the Middle East is visible in China's efforts to help regional countries improve their industrial capacities. China-Egypt TEDA Suez Economic and Trade Cooperation Zone, which started in 2008, picked up speed after the BRI was announced.<sup>15</sup> Chinese President Xi Jinping inaugurated the second stage of the project during his visit to Egypt in January 2016.

Besides China-Egypt TEDA, Chinese companies are also negotiating construction of an industrial zone in Tangiers, Morocco, which could help in connecting European and African markets. Further, talks are reportedly under way about China constructing economic zones in Saudi Arabia and the UAE.<sup>16</sup>

Fourth, the BRI's progress in the Middle East is visible in financial cooperation through the establishment and activities of the AIIB. Among its 57 founding members, ten are from the Middle East, including four from the GCC bloc. China has also signed currency swap agreements with a number of Middle East countries, including the UAE.<sup>17</sup>

As a result of these developments, for example, Saudi Arabia's Minister of Energy, Industry and Mineral Resources Khalid Al-Falih welcomed Beijing's "assiduous effort" to fulfil the BRI's potential. Riyadh feels that reviving such ancient trade routes complements the Kingdom's Vision 2030, based on their agendas' "common features and notions."<sup>18</sup>

Located at a strategic intersecting point of the two main routes, Saudi Arabia has a crucial role to play as a key driver of regional development. The opening of the Riyadh branch of the Industrial and Commercial Bank of China in 2015, for example, could help the Kingdom lure foreign investment for its mega projects.

Among the other GCC countries, Kuwait has stressed that the BRI has the potential to help it achieve the 2035 Vision for Development,<sup>19</sup> and Oman has indicated that it would be interested in investing in Gwadar's special economic zone, a project promoted by China in Pakistan.<sup>20</sup>

In fact, Beijing has underlined that "any type of bilateral cooperation (with China) can be considered part of the Belt and Road."<sup>21</sup>

## Benefits for the UAE

The UAE has huge potential to become a key facilitator and beneficiary of the BRI. Ranked 16th in the Global Competitiveness Report of the World Economic Forum, one of the highest among the countries along the Belt and Road, it stands to benefit directly and indirectly.<sup>24</sup>

First, it will provide opportunities for the UAE to invest in infrastructure overseas. In April 2015, the UAE joined the AIIB, which is a multilateral entity established by China to support the BRI. As a prospective founding member, the Abu Dhabi Fund for Development was mandated to represent the UAE on the AIIB's Board

### Box 2: China-Oman Industrial Project, Duqm

Since late 2016, China has invested billions of dollars to transform Duqm, a fishing village 550 kilometres south of Muscat, into an industrial centre. While the project is a part of Oman's economic diversification strategy, it is also a potential success in China's efforts to promote the BRI.

Duqm, which lies on the Arabian Sea, is a probable operating base for Chinese businesses near export markets which they want to develop in the Gulf, the Indian subcontinent and East Africa. Duqm is also close to some of the raw materials which Chinese companies will need for that purpose: the oil and gas resources of the Gulf.

Chinese firms have already invested more than US\$3 billion, which could increase to nearly US\$11 billion in Duqm, according to Oman Wanfang, the Chinese consortium of six firms, many of them from the Ningxia Hui Autonomous Region in north-central China, an area with a large Muslim population that is actively promoting business ties with Arab nations.

Oman Wanfang's operations show how the BRI supports Chinese investment abroad. The consortium says its member firms are private and has announced no direct financial aid from Beijing, but it enjoys political support.<sup>22</sup>

In another development, Saudi Arabia announced in early 2018 a US\$210 million grant to Oman for two projects in Duqm. The Saudi Development Fund will contribute towards a fishing facility and a road network. Oman is also building a 230,000 barrel per day oil refinery in Duqm with Kuwait.<sup>23</sup>

of Governors. By joining this bank, the UAE and other founding members could profit from joint investment.

Minister of State, Dr Sultan Ahmed Al Jaber, who represented the UAE at the 2017 BRI Summit in Beijing, believes that "being a founding member of the AIIB will boost the prime economic role played by the UAE regionally and internationally, by focusing efforts on development projects with great socio-economic benefits".<sup>25</sup>

In addition, UAE companies will be able to seize some of the investment opportunities directly. DP World, a UAE company that operates marine and inland terminals, has already "hitched" a lift. The first direct freight train from the UK to Yiwu, eastern China, departed from DP World's London Gateway in April 2017. Describing the BRI as a huge business

opportunity, Sultan bin Sulayem, Chief Executive of DP World, said: "The Chinese horizon is changing...We will work with the Chinese to prepare our ports to be ready...They need to build thousands of kilometres of rail network to make it work."<sup>26</sup>

DP World has about 20 terminals that could take advantage of the BRI, including six in South Asia, four in China, and others in Thailand, Vietnam, South Korea and Indonesia. Further, DP World is contributing to the development of the Khorgos Eastern Gate terminal near the China-Kazakhstan border, which is a vital rail route connecting China and Europe.<sup>27</sup>

Second, it will reinforce the UAE's position as an economic hub. Existing infrastructure, such as the Jebel Ali port, already serves as a key hub of international trade between several continents. Its role is bound to gain prominence as the BRI develops.

Since energy cooperation and infrastructure development are important components of UAE-China engagement and the BRI, there is scope for synergy in this domain too.

For example, the Gwadar route is expected to reduce the shipping distance of nearly 15,000 km between the UAE ports and Xinjiang in China to just about 2,500 km. When the road, rail and energy pipelines are in place, Gwadar would also help secure the transportation of Gulf oil to China and goods from China to the region, eliminating any danger of choking at the Straits of Malacca.<sup>28</sup>

The BRI will also further enhance the UAE's advantage as a financial hub, as UAE-China bilateral financial cooperation is also making progress. In December 2016, the Agriculture Bank of China (ABC) was authorized to establish a renminbi (RMB) settlement bank in the UAE, followed by ABC RMB Clearing Bank starting operations in Dubai in May 2017.<sup>29</sup>

By the end of 2017, the four state-owned Chinese commercial banks had established seven branches in the UAE. These are bound to promote the growth of trade between the two countries and explore funding of important BRI projects.

Third, it will enhance the UAE's production capacity through various cooperation mechanisms with China. For example, in July 2017, Abu Dhabi Ports signed a 50-year Musataha agreement with China's Jiangsu Provincial Overseas Cooperation and Investment Company Limited for setting up projects in the Khalifa Port Free Trade Zone. The investment of about US\$300

million broadens the financial and physical scope of the zone. The Chinese company also promised to develop the zone into a landmark programme of the BRI and a beacon of UAE-China exchange and cooperation.<sup>30</sup>

Dr Sultan Al Jaber, who is also Chairman of Abu Dhabi Ports, said the commencement of the 'Belt and Road' and 'Maritime Silk Road' initiatives will foster economic growth.<sup>31</sup>

Finally, the BRI will benefit the UAE in many indirect ways too. The UAE enjoys a favourable geographical location, capable of serving as a connection centre for Asia, Europe and Africa. It has diversified its economy during the last decade and become home to finance, air transportation, logistics and shopping hubs. Moving ahead, getting on board the BRI is bound to enhance the UAE's reputation in these and other sectors.

The prospects are also huge for more businesspeople travelling to and through the UAE and more goods being transported to or via the UAE to other markets. These would establish the UAE as a more vibrant and robust economic centre in the region.

## Potential Challenges

Most challenges could be linked to the misunderstanding surrounding China's Middle East policy in general and the motive behind the BRI in particular. First, questions are constantly posed about China's geopolitical intent in promoting the BRI.

Among several clarifications, President Xi Jinping said: "Instead of looking for a proxy in the Middle East, we promote peace talks; instead of seeking any sphere of influence, we call on all parties to join the circle of friends for the Belt and Road initiative."<sup>33</sup>

This reflects Beijing's bid to rebalance from "politics among nations" to "politics among networks," focussing on "connectivity" rather than "control". Beijing has also clarified that this is an initiative featuring the principle of achieving shared growth through discussion and collaboration rather than being a vision, programme or strategy.<sup>35</sup>

Despite these clarifications, critics have a skeptical view of China as a power seeking geopolitical dominance, attempting to use the BRI as an instrument to achieve its geopolitical ambitions.<sup>36</sup> Such a misperception could undermine the confidence of several potential partners.

### Box 3: Digital Silk Road

Apart from the Belt and Road components, the 2017 BRI Forum highlighted a third dimension – the 'Digital Silk Road'. The joint communique pledged support to "innovation action plans for e-commerce, digital economy, smart cities and science and technology parks." This idea gels well with recent plans announced by Saudi Arabia and the UAE. The 'Information Silk Road' proposal incorporates digital sectors like telecommunications, internet of things infrastructure and e-commerce into BRI. It gives shape to the 2015 BRI white paper calling for growth in digital trade and the expansion of communications networks. China's state-owned telecommunication companies intend to invest massively in the world's largest 5G mobile infrastructure over the next decade to encourage better data traffic and facilitate huge productivity gains. In fact, a Chinese official has taken this idea a notch higher by saying: "We can build a digital silk road, a silk road in cyberspace".<sup>32</sup>

Second, the BRI is sometimes misunderstood as an 'aid' programme and often associated with the US's Marshall Plan for Western Europe's recovery after World War II. But China has been very clear that it is an initiative for partners to work together along the Belt and Road. This means active participation of partners in all aspects of the project even as China takes the lead role in its implementation.

While this is not as grave an impediment as the geopolitical misperception, it could still deter some of the potential partners. Some GCC countries may choose to adopt a wait-and-see approach before proactively deciding on their participation.

Third, Beijing has claimed that the BRI is not a "solo, but a symphony performed by all relevant countries."<sup>37</sup> Yet, China and Chinese companies have taken the lead in the BRI projects. Though Chinese companies are efficient and have a diligent workforce, Chinese companies – as latecomers in the international investment and construction market – and their employees are not familiar with the religions, customs, investment laws and regulations in different parts of the world. If not dealt properly, this could cause unexpected problems.

The fourth perception gap is about the potential economic competition. While China believes that BRI will be more of opportunities rather than problems, some Gulf observers are concerned that some ports in the GCC countries might lose market share if some terminals on China's BRI routes (like Gwadar, Pakistan) become very successful. Similarly, some

of the GCC countries' economic free zones may also face stiff competition if Chinese-promoted economic zones (like Duqm, Oman) thrive in the future.

But it is equally true that such competition could be overcome with innovation, a quality that the GCC countries have deployed successfully during challenging times in the past.

The fifth perception gap is in understanding Iran's role. China and Iran have significant economic relations and their cooperation within the BRI framework is certain to grow in the years ahead. Iran's infrastructure projects connecting Central Asia dovetail with the BRI. However, China believes that this is unlikely to negatively impact strong China-GCC ties as the BRI is an inclusive, not exclusive, multilateral mechanism, which would yield win-win results rather than a zero-sum outcome. But the UAE is concerned that China-Iran BRI cooperation will boost the strength of Iran, which is pursuing very aggressive expansion in the region.<sup>38</sup>

Jonathan Fulton, a GCC-China analyst, sounds a cautious note:

*"Of the five existing economic corridors, two feature the Gulf as an endpoint: the CCWAEC, which connects China to Iran, and the CPEC, which ends in Gwadar Port . . . situated just over 600 nautical kilometers from the Hormuz Strait. Both corridors present strategic considerations and challenges for the GCC, and emphasize the point that, while Chinese leaders insist that the BRI is an economic initiative, it creates political and security concerns for the states in regions through which it passes."*<sup>39</sup>

The sixth perception gap is in the interpretations of problems regarding some South Asian projects.<sup>40</sup> Chinese scholars argue that the problems have been magnified by media, and they should not be generalized.

The seventh perception gap lies in relation to the BRI and a few other projects in the offing. As part of the Indo-Pacific strategy, Australia, the United States, India and Japan are discussing establishing a joint regional infrastructure scheme as an alternative. There is also the North-South Transport Corridor that India is developing separately.

While Chinese scholars believe that the BRI is incomparable, with no geopolitical intent, some GCC scholars are worried that the countries in the region might be dragged into geopolitical competition.



## Conclusion

The BRI could be a new opportunity for the GCC countries to get on board a new wave of globalization. They were able to capitalize on globalization's first wave because of their status as major energy suppliers. Since energy is still an important component of the economic mix, the initiative could encourage regional energy amalgamation, including electricity transmission, gas pipelines and strategic energy security enterprises such as storage services.

Looking ahead, the GCC countries could also tap into the opportunities emerging from the BRI to diversify their economic structures. Efforts to reduce economic dependence on energy exports and further promotion of their developing status as a financial, logistical and transition hub could receive a major boost by partaking in BRI projects.

The UAE and other GCC countries could consider joint investment with China in the infrastructure projects of other countries that are part of the initiative. This could promote multilateral arrangements and enhance the GCC's international footprint beyond the region.

Beyond the economic dimension, though the BRI does not feature a security footprint, the GCC countries could use economic engagement to explore tentative Chinese involvement in managing the security affairs of the region in the future.

To translate some of these into action, however, China needs to address a few concerns revolving around the BRI, especially regarding Iran, and increase the confidence of the GCC countries. Equally, the GCC countries should attempt to leverage the BRI to their advantage to offset gains made by Iran.

On another front, China must take steps to ensure that its companies are well prepared to implement BRI projects without hurting local cultural sentiments, which are very important in a tradition-bound region.

It must also be borne in mind that parts of Eurasia remain unstable in the political and security arenas. There is also the enduring threat of piracy that could pose additional problems. These, along with a potential financial crunch in some countries involved in the BRI, could delay project completion timelines.

Overall, however, as protectionism rises in some parts of the world, China is offering the GCC countries access to a new global marketplace. Riding the BRI wave would be more beneficial than detrimental.

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