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China’s Economic Diplomacy towards the Arab Countries: challenges ahead?

DEGANG SUN and YAHIA H. ZOUBIR*

Since the outbreak of the Arab revolts in late 2010, China has adhered to its ‘business-first’ economic diplomacy towards the Arab countries, a policy driven by China’s ongoing geo-economic interests. The ten-year-old China–Arab States Cooperation Forum serves as the nucleus for China’s economic diplomacy in the region. The Chinese authorities have also initiated interagency coordination and central–local governments’ power sharing in order to pursue this diplomacy successfully. However, while its economic diplomacy may be evolving, China, unlike what it has achieved in Black Africa, seems to have failed to develop strategic, political and cultural exchanges with its Arab counterparts. The intertwined geopolitical and geo-economic factors that have emerged since the Arab revolts might make it harder for China to reap economic benefits while shelving political entanglement to sustain this economic diplomacy in the longer run.

I. Introduction

In the past three decades, China’s annual average Gross Domestic Product (GDP) growth rate has kept a historic pace of about 10%, making it one of the fastest-growing economies in the world. Not only has China emerged as the world’s second largest economy, but it has also become an active economic player worldwide: the largest exporter of commodities, biggest manufacturer, principal holder of foreign exchange reserves, biggest creditor nation, second largest importer and second largest recipient of foreign direct investments (FDI).1 China’s rapid rise as an economic powerhouse with a global presence has fundamentally reshaped its foreign policy orientation. In September 2014, at Nazarbayev University, Kazakhstan,

* Degang Sun is a Professor of International Relations at the Middle East Studies Institute, Shanghai International Studies University, China. Dr Yahia H. Zoubir is a Professor of International Relations, Director of Research in Geopolitics, KEDGE Business School, Marseille, France. The authors are indebted to the research programs of China National Social Science Foundation (13CGJ042) and China’s Ministry of Education (14JJD810017), to ‘The Program for New Century Excellent Talents in Universities’ (NCET), to the ‘Shanghai Pujiang Talent Program’ (14PJJC092) and to the Shanghai International Studies University research innovation team (‘The All-round Cooperation between East Asia and the Middle East’); special thanks go to the anonymous reviewers for their invaluable comments on the earlier version of the article. The authors can be reached by email at sdgsdg@163.com and yahia.zoubir@kedgebs.com


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President Xi Jinping proposed to build a ‘Silk Road Economic Belt’ to boost cooperation with Central Asian and Middle Eastern countries; during his visit to Indonesia thereafter, President Xi suggested that China and the South and Southeast Asian nations build a ‘Maritime Silk Road in the 21st Century’. The two ‘Silk Roads’ indicate that Beijing’s grand strategy has shifted from ‘looking eastward’ to ‘looking westward’. But, with respect to its policy toward Arab countries, there is no evidence that China is changing its business-first diplomatic strategy—protecting its expanding commercial interests while eschewing political entanglement remains one of the principles of Beijing’s Middle East and North Africa (MENA) policy.

Developing economic cooperation while eluding political engagement is one of the cornerstones of China’s diplomatic principles; China’s response to the Arab uprisings is a case in point. The sudden outbreak of the revolts startled China’s leadership. Confronted with uncertainty and political chaos, the government’s response remained cautious and risk-averse. The main objective was to protect China’s overseas investment projects and to guarantee the safety of its citizens in the Arab countries undergoing transition.

The Arab world is one of the essential rings in China’s economic diplomacy. In 2013, the Arab world as a whole ranked as China’s seventh largest trading partner whereas China is the Arab countries’ second largest trading partner, and the largest one to nine individual Arab states. Addressing the third China—Arab States Economic and Trade Forum in 2012, the UAE’s Minister of Foreign Trade, Sheikha Al Qasimi, stated that, ‘We are confident in realizing our common aspirations to increase the bilateral trade volume to $300 billion in the next two years’. In 2013, for instance, China became Algeria’s main commercial supplier, surpassing France, which had traditionally been Algeria’s main supplier (with US$6.6 billion before year’s end, while France, the traditional supplier, exported less than US$5 billion).

However, contrary to the aggressive Western powers and Russia’s deep involvement in the Libyan, Yemeni and Syrian conflicts, China has kept a guarded distance from Arab politics. In 2012, China invited representatives from both the Assad regime and the opposition parties to visit Beijing, but Beijing’s diplomatic mediations failed to offer any innovative agenda to settle their disputes. Although it sided with Russia and vetoed UNSC resolutions on Syria three times to demonstrate the solidity of the Beijing–Moscow quasi-alliance, Beijing has abstained from getting further involved politically, preferring to remain economically engaged instead.

Why has China chosen a foreign policy articulated around ‘political non-involvement and economic engagement’ toward the Arab countries since 2011? Is China’s economic diplomacy toward the Arab countries a well thought-out strategy


or an expedient tactic? Until now, most of the literature on China’s response to the Arab revolts has focused largely on politics; only a few scholars have attempted to investigate China’s response from an economic perspective. In terms of empirical research or area studies of China’s economic policies, most of the literature focuses on China’s economic ties with neighboring countries, such as those in East, South-East and Central Asia. Therefore, we endeavor to fill the gap, and examine China’s economic diplomacy towards the Arab countries since the revolts.

Given the difficulty of accessing the classified archives on China’s top leadership’s decision-making, we have relied on primary and secondary sources, and on top Chinese policymakers’ interviews, public speeches, policy declarations and official reports. We attempt to decode Beijing’s decision-making dynamics, process, interagency coordination, central–local government relations and efficacy of China’s economic diplomacy towards the Arab countries. We do this through in-depth observation of the PRC’s economic policy process and outcome in the Arab world.

II. Economic diplomacy: a conceptual debate

Today, the terminology ‘economic diplomacy’ is widely used by academics, politicians and reporters, but few have explored the implications of this relatively vague concept. As former Indian Ambassador and Professor Kishan S. Rana put it:

> economic diplomacy is a multi-hued activity, easy to describe in broad brushstrokes, but harder to pin down with precision. From the perspective of members of diplomatic and commercial or trade services, and those that are the ‘customers’ or users of these services, economic diplomacy is a multifaceted set of practices, all aimed at advancing the home country’s external economic interests. 

There are many scholarly definitions of economic diplomacy, but there is no consensus on its very essence, particularly on what the ‘means’ and ‘ends’ of economic diplomacy are.

The first group of scholars argues that economic diplomacy can be characterized as ‘business for business’, i.e. business is both the means and the ends of economic diplomacy. According to this school of thought, economic globalisation in the twenty-first century has had a far-reaching effect on all actors worldwide; thus, the

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major concern of many sovereign states is to explore economic and trade opportunities to advance the well-being of their citizens. In the context of foreign trade, business transactions and interactions, economic diplomacy relates essentially to economic activities in international and diplomatic affairs, including foreign trade, business, finance, investment and energy. As a diplomat put it:

The phrase ‘economic diplomacy’ assumes the diplomatic official activities that are focused on increasing exports, attracting foreign investment and participating in work of the international economic organizations, i.e. the activities concentrated on the acknowledgement of economic interests of the country at the international level.

Economic diplomacy consists, first of all, of using the full spectrum of the economic tools in the hands of a state to achieve its national interests; such activities include, but are not limited to, export, import, investment, lending and development aid. Business relations between sovereign states and the relations between internal and international economic relations through the links of transnational companies are major features of economic activities in the new epoch. Economic diplomacy, according to this group, involves multiple players, and it hinges not only on sovereign states, but also on multilateral economic institutions, such as the IMF, World Bank Group, WTO, OPEC, as well as a series of regional economic blocs and multinational corporations (MNCs). Therefore, business and commercial activities are both the means and the ends of economic diplomacy.

The second group of scholars argues that economic diplomacy aims at achieving political ends through economic means. The exercise of economic leverage for political goals is prevalent in diplomatic practice, including through positive means of economic aid (aka ‘the carrots’, in the form of trade concessions, grants, low-interest loans and donations of overseas infrastructure projects) and through negative means (‘the stick’), like economic sanctions (understood as ‘coercive tools’ through embargos, blockades and the reduction of import quotas). For instance, when the China–Philippines dispute over the Huangyan Island (Scarborough Shoal) escalated into a crisis in 2012, Beijing’s policymakers retaliated through ‘economic diplomacy’ by blocking Filipino bananas from entering the Chinese market, arguing that they failed to pass the customs quarantine inspection, which caused a direct loss to the Philippine treasury. Another case occurred when, in September 2010, China used trade as a weapon to compel Japan to alter its policy; Beijing blocked shipments of rare earth minerals to Japan to retaliate against the Japanese authorities for detaining...
the captain of a Chinese fishing trawler in a dispute near the Diaoyu Islands, which both mainland China and Taiwan also claim. Economic aid and sanctions, which this school regards as economic statecraft, are economic means to achieve the user’s political goal, i.e. to manipulate the target country’s policy orientation and persuade the latter’s top leaders to capitulate to the user’s tactical political resolve. As Berridge and James put it, economic diplomacy is concerned with economic policy questions, including ‘diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective’. Apparently, this school regards the economy as a means that a given country uses to achieve political goals in its implementation. The same idea is also persuasively illustrated in an article arguing that ‘China is promoting its own economic and political agenda by using various economic diplomacy practices’.

In this article, we argue that economic diplomacy is the integration of economic and political statecraft, and that the two are complementary and mutually geared toward achieving ‘excellence’ in diplomacy: to maximize national interests while minimizing the input of diplomatic resources. Here national interests are of three types: the first are political interests focused on democracy promotion and the defense of one’s allies; the second are security interests aimed at maintaining regional leadership, antiterrorism and prevention of the proliferation of weapons of mass destruction; and the third are commercial interests related to trade, investment and energy supply. The input of diplomatic resources takes various forms of economic aid, political commitment and military assistance to the target countries. Different from the above two schools, we argue in this article that economic diplomacy is by nature a ‘political means’ for ‘economic ends’: sovereign states use political leverage to facilitate economic, trade and financial cooperation. For instance, states establish various economic cooperation fora, organize summits and enter strategic partnerships to create better conditions for business operations. Therefore, political leverage is the means, and economic cooperation constitutes the ends in economic diplomacy. As Rana noted, ‘economic diplomacy is the process through which countries tackle the outside world, to maximize their national gains in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges’. The decision-making processes in foreign economic policy include international relations, government, politics and economics from the angle of international political economy.

China’s economic diplomacy has three major features. First, it attempts to engage in economic and trade activities with overseas counterparts without interfering in the target countries’ internal affairs; second, it relies on political and diplomatic measures to facilitate economic expansion abroad; third, it uses economic leverage

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(including development aid) to entice the target countries to enhance closer economic
ties. It should be noted that in the application of economic diplomacy, the PRC has
used, in some regions, commercial relations to extract diplomatic support on such
issues as human rights, Taiwan and Tibet;\textsuperscript{20} but, in the Arab world, Beijing has often
used political means to achieve economic ends. In the twenty-first century, Chinese
foreign policy in the MENA has been primarily driven by the search for energy
resources and the desire to increase its overseas markets and investment
opportunities.\textsuperscript{21} To further investigate this issue, we have chosen China’s economic
measures towards the Arab countries as a case, and we analyze the dynamics, tactics,
teragency cooperation, central–local governments’ relations and the effectiveness
of its economic diplomacy.

\section*{III. Geoeconomic motivation and the dynamics of China’s economic diplomacy
towards the Arab countries}

There is no uniform Chinese economic diplomacy across the board. In the Asia–
Pacific regions, Beijing attaches great importance to both economic and security
interests. Apart from trade, investment and financial interests, China also seeks to
secure its sovereignty and territorial integrity through rivalry with Japan and the
Philippines over the disputed islands, on the one hand, and with the US over political
order in the Asia–Pacific, on the other hand. Therefore, while most ASEAN states
have welcomed the US as a deterrent against growing Chinese military buildup, their
economies have become increasingly dependent upon China. However, in Africa,
Latin America, Central Asia and the Arab world, Beijing focuses mainly on
economic interests; its security interests are secondary and minimal.

China’s economic diplomacy towards the Arab countries is embedded in its
business-first strategic culture, i.e. making economic development the priority of the
government’s tasks. Strategic cultures of sovereign states differ and can generally be
categorized into two groups: geopolitics-driven and geoeconomics-driven,
respectively (see Table 1). In the first group, policymakers perceive military might
as the core of national power, and that the major task of the state is to maintain
security. These countries are represented by the US, UK, France and Russia, as
illustrated in their policies towards the contemporary MENA. In other words,
geopolitics-driven states are more consumed with regional security challenges,
without however neglecting their economic interests. Therefore, based on the
‘security-first mentality’, these states tend to highlight the importance of building
overseas military presence and expanding their sphere of political influence to thwart
potential threats to their supremacy. In his 2013 speech to the UN General Assembly,
President Barack Obama stated unequivocally that, ‘the United States of America is
prepared to use all elements of our power, including military force, to secure our core
interests in the region’.\textsuperscript{22}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
Country & Strategic Culture \\
\hline
US & Geopolitics-driven \\
UK & Geopolitics-driven \\
France & Geopolitics-driven \\
Russia & Geopolitics-driven \\
China & Geoeconomics-driven \\
\hline
\end{tabular}
\caption{Strategic Cultures of Sovereign States}
\end{table}

\textsuperscript{21} Mordechai Chaziza, ‘The Arab Spring: implications for Chinese policy’, \textit{Middle East Review of International Affairs} 17(2), (Summer 2013), p. 74.
\textsuperscript{22} ‘President Obama’s speech at the UN General Assembly’, \textit{The Washington Post}, (24 September 2013).
In the second group, states perceive economic power as the core of national strength and contend that the top priority of the government is to promote national economic development. This group is represented by China, India, Brazil and South Korea, whose policies towards the MENA support such objectives. Influenced by the ‘economy-first mentality’, these states are not too concerned with the imbalance of regional military power, democracy promotion, regional conflict resolution, overseas military deployment or expanding political influence. Instead, their top agenda is meeting their domestic needs and enhancing economic and trade cooperation abroad to improve their citizens’ economic welfare which is regarded as the fundamental task of the government to garner domestic legitimacy.

China’s economic diplomacy towards the Arab countries is driven more by commercial interests than by security interests. In the face of ongoing Arab revolts, the PRC has taken a pragmatic stance: seeking the maximum economic benefits and minimum political adventures/risks. Using the China Development Bank and the Export–Import Bank, Beijing has become the major provider of low-interest development loans to the MENA countries. These loans are contingent upon repayment via resources, or are built around Chinese companies undertaking the projects employing Chinese sources and using Chinese materials.23

The first factor governing China’s economic diplomacy relates to its national conditions. As Joshua Eisenman points out, ‘Unlike the Maoist era, when China’s trade policies served its leaders’ political goals, now they aim to access markets as part of China’s larger domestic development strategy’.24 The PRC has a huge population of 1.3 billion to feed and each year about ten million people look for jobs, a formidable challenge. Since the late 1970s, China has initiated reforms and opening-up policies, and has striven to promote economic development to legitimize

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its political rule at home. In the 1980s and 1990s, China’s economic diplomacy mostly targeted Japan, the US, Europe and other developed economies that boast plentiful funds, advanced technology and managerial expertise, regarded as indispensable factors for China’s economic modernization drive. With the gradual saturation of its domestic market since the early 2000s, as well as its redundant manufacturing industries, China’s economic diplomacy has shifted from the developed countries to the developing nations, including the energy-rich Arab states. Compared with the developed economies that are suffering from systemic economic slowdown and shrinking markets, the resource-rich Arab countries in the Gulf and North Africa represent promising emerging markets, which constitute ideal destinations for China’s surplus capital and manufacturing goods. In 2013, China imported about 133 million tons of oil from the Arab countries, representing 47.2% of the total imported volume.²⁵ With the rapid development of its economy, China has become vulnerably dependent on the Arab markets and energy. As pointed out by the official Xinhua News Agency, the Arab world is of great significance to China’s ‘market diversification’ and ‘going-global’ strategy.²⁶ Meeting the domestic demand has been the major consideration in China’s economic diplomacy towards the Arab countries since 2011.

The second factor driving China’s economic diplomacy towards the Arab countries is the consolidation of China–Arab relations. Former Chinese Premier Wen Jiabao emphasized that:

China and the Arab countries share a lot of similarities, as both are developing countries with long histories, brilliant civilizations and glorious cultures; both were humiliated and colonized by Western powers in the modern times; and both are seeking national revitalization in the new era.²⁷

China firmly supports the just cause of the Palestinians and believes that their dream of establishing an independent state will materialize sooner or later.²⁸ However, since the outbreak of the Arab revolts, China has realized that the Arab countries have different national conditions and policy orientations and that China and the Arab countries barely share real common values. Within the League of Arab States, the club of pro-Western, oil-rich, tribally-based, geopolitically vulnerable Gulf Cooperation Council (GCC) monarchies has strikingly different policy orientations from the Arab republics, like Syria, Egypt and Algeria. In the view of the top leadership in Beijing, the most apparent commonality between China and the Arab countries is the win–win and bilateral economic cooperation. Beijing also believes that in order to achieve these goals it is better to ignore the differences in their development paths and their relations with the US and European countries. The

perception is that the MENA political conflicts are so deep-rooted and complex that they cannot be resolved in the foreseeable future. The countries undergoing political transition (such as Egypt, Yemen, Tunisia and Libya) and old ruling regimes (such as those in Algeria, Sudan and the GCC countries) all realize that feeding their people and providing more job opportunities are the major tasks of all governments, the so-called ‘bread is more important than the ballot’ perspective. In recent years, many Arab governments have adhered to the economically ‘looking eastward’ strategy and attach greater importance to developing strategic commercial relations with the rising Asian economies of India and China. Assistant Minister of Commerce, Qiu Hong, pointed out in September 2012 that:

as two great developing economies, China and the Arab world are undergoing a key historical juncture of economic and social transition and are both faced with arduous tasks of improving people’s well-being. Therefore, the two sides should consolidate their cooperation and enhance their capacity to resist external ventures in win–win development.\(^{29}\)

The third factor propelling China’s economic diplomacy towards the Arab countries is the top leaders’ perception of the rivalry that exists among great powers in the new era. Since the new central leadership was elected in 2012, Chinese top policymakers, particularly President Xi, underscored time and again the desire to achieve the ‘Chinese Dream of National Rejuvenation’ because great strategic opportunities are offered to China in the twenty-first century. During the Central Economic Work Conference of February 2013, President Xi highlighted that, ‘the connotation and conditions of our strategic opportunities have changed, but [we] still boast precious opportunities and favorable conditions for our development’.\(^{30}\) Since it is believed that a world war is unlikely in the coming decade, rivalry among great powers will be mostly in the form of economic competition, the core of the general national strength.\(^{31}\) Viewed from the China–Russia–West strategic triangle, Beijing’s economic diplomacy towards the Arab countries will not only achieve better political relations with the Arab world, but it will also enhance China’s economic influence and soft-power presence in the volatile Arab world, a presence which will sooner or later be converted into political advantage over Western powers. In the longer run, China’s economic diplomacy in the Arab world will produce a strategic outcome and may help to achieve Beijing’s grand strategy of building a China–Central Asia–Middle East passageway in the fields of logistics and energy, providing China with stable and prosperous ‘close neighbors’ and ‘extended surroundings’, building the ‘Silk Road Economic Belt’, as President Xi advocated.\(^{32}\)

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32. 钟声 [Sheng Zhong], ‘丝绸之路经济带立意高远’ ['The idea of building a Silk Road Economic Belt is foresighted'], 人民日报 [People’s Daily], (14 November 2013), p. A3.
Therefore, when the US underscores the importance of democracy promotion, the guarantee of Israeli survival, countering terrorism, preventing the proliferation of weapons of mass destruction, and maintaining US hegemony in the Middle Eastern political and security affairs, China unobtrusively penetrates the MENA and seeks a pragmatic, win–win development with the Arab countries in the field of energy and trade, a tactic that circumvents confrontation with US predominance in the region. Through this method, Beijing top leaders believe that China’s economy-driven development strategy in the MENA parallels that of the security-driven US strategy. China’s huge economic power will finally be transformed into political influence in the MENA, without having to be aggressive.

The above three factors can explain China’s policy towards the Arab countries and make clear that geoconomic considerations dominate its foreign policy in the region.

IV. Approaches of China’s economic diplomacy towards the Arab countries

In order to fulfill its economic interests rather than pursue hazardous political or military objectives, China seeks to protect its burgeoning and expanding economic presence in the Arab countries. Thus, it has adopted a number of measures to secure China’s economic interests.

First, China strives for new mechanisms to facilitate Sino–Arab economic development in its economic diplomacy. In 2004, former President Hu Jintao paid a historic visit to the headquarters of the Arab League in Cairo, and the two sides announced the establishment of the China–Arab States Cooperation Forum (CASC), the most important mechanism for the promotion of bilateral relations at the ministerial level conforming to the win–win approach. With abundant foreign exchange reserves, Beijing has established two of the world’s largest sovereign wealth funds: the official China Investment Corporation (CIC), and the non-official and less transparent State Administration of Foreign Exchange Investment Company (SIC). The Arab world is one of the major destinations for future investment funds.

Since the outbreak of the Arab revolts, Chinese policymakers continued economic pursuits while avoiding getting enmeshed in the Arab political chaos. Within the grand mechanism of the CASC, China and the Arab countries have established other sub-forums, such as the Forum for China–Arab Civilization Dialogues, the China–Arab Friendship Conference, the China–Arab Press Cooperation Seminar and the China–Arab Cultural Festival which serve as multilateral arenas for the promotion of China’s economic diplomacy. China signed agreements on governmental, economic, trade and technological cooperation with all Arab countries, except Somalia. China also signed Investment Protection Agreements with 16 Arab countries and Double Tax Avoidance Agreements with 11 Arab countries.

33. See, 吴建明 [Jianmin Wu], ‘中东印证发展才是硬道理’ [‘The Middle East revolts show that development is the ultimate criterion’], 人民日[People’s Daily], (4 March 2011), p. A3.
Second, Chinese top leaders initiated economic diplomacy towards key Arab countries through high-level exchange of visits. China’s high level visits to the Arab countries have been more frequent since the outbreak of the revolts. In the Gulf area, China has devoted greater attention to Saudi Arabia, Qatar and the UAE, seen as the hubs of China’s economic diplomacy. The Bank of China has established branches in the UAE, Qatar and Kuwait; the Industrial and Commercial Bank of China has established branches in the UAE and Qatar. Airline companies, such as Air China, China Southern and China Eastern have established businesses in Saudi Arabia, the UAE and Qatar, as well. China is now the largest importer of Saudi oil. President Hu Jintao visited Saudi Arabia twice in 2006 and 2009; then Vice President Xi Jinping visited Saudi Arabia and Qatar in 2008 and former Premier Wen Jiabao visited Saudi Arabia, the UAE and Qatar in early 2012. In 2014, Yu Zhengsheng, the Chairman of the Chinese People’s Political Consultative Conference (CPPCC), paid official visits to Algeria, Morocco, Bahrain and Jordan.

Compared with the frequent visits to the GCC countries, China’s top officials’ visits to Iraq, Lebanon, Yemen, Syria and other poor Arab countries are much rarer, indicating that China’s economic diplomacy centers on resource-rich and politically stable Arab countries. However, economic relations with Egypt have strengthened in the last few years. Former President Mohamed Morsi’s first visit to great powers was to China, where he secured many agreements.

Third, China strives to promote economic diplomacy through aid packages. The assistance to Arab countries comes in different forms, such as economic aid, training programs and the recruitment of Arab students. In 2012, more than 1,000 Arab professionals from different sectors received professional training in China, and approximately 8,000 Arab students were studying in China. During the fifth CASCF ministerial conference in Tunisia in 2012, China declared that it would train 5,000 more technicians and intellectuals from the Arab countries in the following three years, the Ministry of Commerce promising to implement the ‘Action Plan’ earnestly. In June 2014, President Xi declared during the 10th anniversary of the founding of the CASCF that in the next three years, Beijing would train 6,000 people to work in Arab countries and have 10,000 artists visit each other in the coming decade. In addition to tangible aid and training programs, the Chinese reiterated that, as the largest developing country in the world, they would be willing to share their experience of state governance with their Arab partners without reservation.

Through these economic packages and intellectual aid programs, China strives to improve its national image as a ‘responsible power’ and ‘reliable brother’, in order to pursue successfully its economic diplomacy in the Arab countries.

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V. Actors of China’s economic diplomacy

V.1. Interagency cooperation

There exist various institutions in charge of implementing China’s economic diplomacy, divided into different agencies. Economic engagement abroad involves more than the ministries of foreign affairs, commerce and industry; it is the business units of the country, associations of industry and chambers of commerce, the financial sector, business schools and think-tanks, the tourism industry and a host of domestic actors that are both the stakeholders and the prime movers. In this century, while China’s Foreign Ministry has played a key role in the process, other ministries and bureaucratic agencies have also had significant and even growing input in an increasing number of functional areas, such as trade, finance, economy, climate change and soft power. Specifically, China’s economic diplomacy is implemented through the close coordination of different ministries and administrations, such as the National Development and Reform Commission (NDRC), the National Energy Administration, Foreign, Commerce, Science and Technology, as well as the International Department of the Central Committee of the Communist Party of China (CPC), among others. Due to the central–local government dichotomy, China’s economic diplomacy is also executed at the level of the municipal, provincial and autonomous regions.

First, China’s Foreign Ministry bears the major responsibility for implementing the PRC’s economic diplomacy. Since the founding of the CASCF forum, China has viewed the Arab countries as a ‘unified entity’—in spite of their different conditions—and China’s Foreign Ministry plays a pivotal role in coordinating different Ministries of Commerce, Science and Technology, as well as the agencies from the ruling CPC. Besides, within the Foreign Ministry, the Department of West Asian and North African Affairs and the Department of African Affairs constitute the two major branches in promoting the CASCF and in implementing economic diplomacy with the former being the dominant actor. Since Arab states are geographically overstretched, Djibouti, Somalia and the Comoros are designated as the area of responsibility within the Department of African Affairs, while the other 19 Arab countries belong to the area of responsibility of the Department of West Asian and North African Affairs. Within the framework of CASCF, the two departments maintain close coordination under the leadership of the Foreign Ministry.

Second, the Ministry of Commerce plays an important role in economic diplomacy towards the Arab world, especially in the negotiation of the China–GCC Free Trade Area (FTA) and the hosting of the China–Arab States Economic and Trade Forum. The Ministry of Commerce regards the exploration of Arab markets as the strategic focus of China’s advance, and has issued new requirements for substantive progress in bilateral negotiations to accelerate the process of the China–GCC FTA. In the CASCF mechanism, the Ministry of Commerce is the secondary player but is sometimes more active than the Foreign Ministry due to its stronger influence over

39. Rana and Chatterjee, Economic Diplomacy, ch. 11.
China’s domestic power structure in the State Council and its *de facto* power over foreign aid.

Third, China’s Ministry of Science and Technology has also contributed to China’s economic diplomacy in the Arab countries, with the Asia and Africa Department as the implementing organization. For instance, in its economic cooperation with Algeria, Vice Minister of Science and Technology, Zhang Laiwu, suggested that Algeria should emulate China’s ‘high-tech park’, and attract both Chinese and Arab entrepreneurs to settle down in the high-tech park, and promote industrialization of scientific and technological research.41

Fourth, apart from the aforementioned three agencies of the ‘State Council’ (habitually called ‘the government’), 中联部 [Zhonglian Bu], i.e. the International Department of the Central Committee of the CPC (customarily identified as ‘the Party’) is also a key player in China’s economic diplomacy in the MENA. As a liaison office of the CPC foreign relations, Zhonglian Bu strives to serve as a bridge connecting Arab ruling parties with China’s through economic links. By making use of the platform of inter-party exchanges with their counterparts in the Arab countries, Zhonglian Bu assisted China’s provincial and local governments in their cooperation with Arab partners. For instance, in late June 2010, sponsored by Zhonglian Bu, Yangzhou, in Jiangsu Province, hosted the first ‘International Forum on Yangzhou–GCC Countries Cooperation on Petro-Chemical Industries’, and over 20 ambassadors, consuls-general and other diplomats, together with representatives of gigantic petro-chemical enterprises from the GCC countries, such as Saudi Arabian Oil Company, Qatargas, Abu Dhabi National Oil Company, and others, attended the forum.42 Sponsored by Zhonglian Bu and the GCC Secretariat, the China–GCC States Forum on Sustainable Development opened in Abu Dhabi in December 2012.43

China’s economic diplomacy towards the Arab world is not a fully centralized strategy, for domestic actors are not only cooperating with each other, but they are also sometimes competing for their respective parochial interests in the Arab world. For instance, the NDRC plays a key role because it boasts the rights to ratify Chinese enterprises’ overseas investment projects that exceed US$1 billion. The Ministry of Commerce is somehow more influential than the Foreign Ministry in the CASCF because it enjoys the rights of implementing Beijing’s aid packages in the Arab world.44

V.2. Central–local governments’ coordination

China’s economic diplomacy towards the Arab countries reveals its power sharing not only among different ministries, but also between the central and local governments. In China, provinces and municipalities are important actors in regional

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41. ‘中阿双边贸易额每年持续增长’ [‘China–Arab bilateral trade volume witnesses steady growth per year’], 中国商报 [China Business Times], (28 April 2013).
44. Interviews with a former Chinese Ambassador to the Arab countries who requested to remain anonymous.
diplomacy, and their economic exchanges are frequent with the countries that adjoin them.\textsuperscript{45} As of 2011, Chinese provinces, municipalities and autonomous regions established 30 pairs of sister cities with their counterparts from the 22 Arab countries, implying that some local governments have also participated actively in China’s economic diplomacy.\textsuperscript{46} The Ningxia Hui Autonomous Region and the Yiwu city of Zhejiang Province are two typical examples.

First, Ningxia serves as a ‘melting pot’ of Chinese and Arab cultures, therefore playing a pivotal role in promoting bilateral economic cooperation. This is the only autonomous region at the provincial level, established by the Hui majority. Landlocked and backward in infrastructure, Ningxia is one of China’s poorest regions. However, it is now offered a good opportunity to promote its economic and trade relations with Arab countries. The region has boasted, since 2010, the only permanent headquarters of the China–Arab States Economic and Trade Forum. The third China–Arab States Economic and Trade Forum opened in 2012 in Yinchuan (renamed ‘China–Arab States Exposition’ in 2013). More than 7,000 domestic and overseas officials, exhibitors, purchasers and investors from Libya, Jordan, Iraq, Qatar and other developing countries attended the forum. Simultaneously, Ningxia hosted the third China–Arab States Energy Conference, the fourth China–Arab Conference on Friendship, the China–GCC States Investment Conference, the China–Arab States Joint Chamber of Commerce Meeting, as well as the 2012 Yinchuan International Muslim Enterprisers’ Summit.

Ningxia’s participation in China’s economic diplomacy towards the Arab countries has invigorated the local industries. Since 2011, Ningxia has been the major halal [licit for Muslims] meat producer and exporter to the Arab countries:

The short-term goal of increasing halal meat for the Arab countries is to build up the local economy and workforce, but the real goal is to introduce the Arab world and get them comfortable with the idea of building up their relations with Ningxia.\textsuperscript{47}

Second, Yiwu city of Zhejiang Province also plays an active role in implementing China’s economic diplomacy towards the Arab countries. Located in central Zhejiang Province, Yiwu is regarded as the largest commodity distribution center in the world, and simultaneously the largest business transaction hub of the Middle East countries in China. The fluctuating number of businessmen with foreign passports in the city has exceeded 580,000, and 1,500 companies from over 20 Islamic countries have set up offices in the city. It is difficult to estimate the exact number of workers and businesspeople coming from the Arab countries, but according to the local statistics, the registered permanent Arabs alone are around 12,000, making up the largest Arab community in contemporary China. As of 2011, for instance, 189 Egyptian enterprises had registered in Yiwu and 400 more were planning to register in the near


\textsuperscript{46} 贾伶 [Lin Jia], ‘中阿友好城市发展的现状及前景分析’ [‘On the development and prospect of Sino–Arabian sister cities’], \textit{阿拉伯世界研究} [\textit{Arab World Studies}] 34(6), (2011), p. 47.

\textsuperscript{47} William Wan, ‘China looks to meat exports to boost ties to Arab world’, \textit{The Washington Post}, (27 December 2012).
future. Yiwu has spared no efforts to improve its investments and cultural milieu. For instance, the city allocated RMB8 million (approximately US$130 million) to repair mosques in the local communities.48

In addition to the above branches, China’s national oil companies, such as the CNPC and SINOPEC, also serve as important lobbies shaping China’s economic diplomacy in the Arab world. As long as they can obtain approval from the top leadership, these state-owned oil giants are able to integrate their overseas investment strategy into China’s going-global strategy. CNPC and SINOPEC investments in Sudan, South Sudan, Iraq, Saudi Arabia and Libya are cases in point. For instance, the two companies own major stakes in the al-Ahdad, Halfaya and Rumaila oil fields in Iraq. In order to foster closer relations with Baghdad, Beijing wrote off about 80% of Iraq’s US$8.5 billion debt.49 President Xi and Premier Li warmly received Crown Prince Salman, Deputy Prime Minister and Defense Minister of Saudi Arabia in 2014. The two sides reiterated their determination to consolidate the bilateral strategic partnership.50

VI. Challenges to China’s economic diplomacy towards Arab countries

Since 2008, the global financial crisis has provided China with a strategic opportunity to implement its economic diplomacy towards the Arab world. As former US Deputy Treasury Secretary Roger Altman asserted, China’s relatively unscathed position gave it the opportunity to solidify its strategic advantages as the US and Europe struggle to recover; China did not have to deal with such ‘obstacles’ as a legislature or judiciary or free media that could question or block its actions. China’s economy-oriented model of development is still attractive to the Arab countries after the Arab revolts. When it is led by a reasonably enlightened group of people, as in China today, it can also have great advantages.51

China’s economic diplomacy towards the Arab countries has achieved preliminary success, as shown in a number of statistics. For instance, the China—Arab States trade volume has increased dramatically, reaching US$107.4 billion in 2010, and rocketing to US$238.86 billion in 2013 (see Table 2). President Xi pointed out that China, as the world’s second largest economy, expects to increase its trade volume with Arab nations and reach US$600 billion by 2024.52

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52. 习近平 [Xi Jinping], ‘习近平出席中阿合作论坛第六届部长级会议开幕式并发表重要讲话：强调弘扬丝路精神，深化中阿合作’ ['Carry forward the spirit of the Silk Road and deepen China–Arab States cooperation'], 人民日报 [People’s Daily], (6 June 2014), p. A1.
The Chinese foreign ministry explained that, ‘the global economic governance system is faced with deep reforms, and a profound transformation of the world economic structure is in the making’.\(^{53}\) China, Russia, India, Saudi Arabia, South Africa and other emerging economies could make use of their growing economic power, and take proactive steps to reshape the world’s financial architecture. In March 2012, Brazil, Russia, India, China and South Africa (the BRICS), were moving forward with their plan to unseat the US dollar as the global trade currency and to replace it with a Chinese denominated ‘super-sovereign’ international currency.\(^{54}\) Therefore, China and the Arab countries, Beijing reckoned, can engage in fruitful collaboration through the mechanisms of the IMF, the World Bank, Asian Infrastructure Investment Bank and the G20, to give more weight to the voice of the major developing countries.

However, China’s economic diplomacy is not a panacea, as it itself is faced with various challenges ahead; China–Arab strategic relations have not reached their heyday as was expected. First, China’s economic diplomacy cannot effectively cope with the increasingly diversified interests and political orientations of the Arab countries. Before the Arab revolts, most Arab regimes were authoritarian, constituting almost a monolithic force for China to exploit; since 2010–2011, however, Arab countries have been increasingly fragmented, facing various hurdles. The CASCF is more symbolic than

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\(^{53}\) Chinese Foreign Minister Yang Jiechi, ‘Boosting Arab–China strategic cooperation’.


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### Table 2. China–Arab states trade volume (US$1 billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export from China</th>
<th>Import from China</th>
<th>Trade volume</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>12.38</td>
<td>13.06</td>
<td>25.44</td>
<td>42.40%</td>
</tr>
<tr>
<td>2004</td>
<td>17.63</td>
<td>19.08</td>
<td>36.71</td>
<td>44.30%</td>
</tr>
<tr>
<td>2005</td>
<td>27.66</td>
<td>23.64</td>
<td>51.3</td>
<td>39.70%</td>
</tr>
<tr>
<td>2006</td>
<td>31.5</td>
<td>33.97</td>
<td>65.47</td>
<td>27.60%</td>
</tr>
<tr>
<td>2007</td>
<td>40.97</td>
<td>45.43</td>
<td>86.4</td>
<td>32.00%</td>
</tr>
<tr>
<td>2008</td>
<td>70.26</td>
<td>62.58</td>
<td>132.84</td>
<td>53.80%</td>
</tr>
<tr>
<td>2009</td>
<td>55.96</td>
<td>52.28</td>
<td>108.24</td>
<td>−18.50%</td>
</tr>
<tr>
<td>2010</td>
<td>64.9</td>
<td>80.5</td>
<td>145.4</td>
<td>34.30%</td>
</tr>
<tr>
<td>2011</td>
<td>77.9</td>
<td>118</td>
<td>195.9</td>
<td>34.70%</td>
</tr>
<tr>
<td>2012</td>
<td>91.3</td>
<td>131.1</td>
<td>222.4</td>
<td>13.50%</td>
</tr>
<tr>
<td>2013</td>
<td>101.36</td>
<td>137.5</td>
<td>238.86</td>
<td>7.40%</td>
</tr>
</tbody>
</table>

substantial, and it is still at a low level of institutionalization. The difficulty of coordinating among the 22 Arab countries, entrenched national policies, and the disparities among Arab states in terms of their national interests vis-à-vis China have all prevented the development of a common Arab policy toward China. In Central Asia, Chinese, Russian and Central Asian leaders have held summits within the framework of the Shanghai Cooperation Organization (SCO); in South East Asia, China, Japan, South Korea and ten ASEAN countries have forged a mechanism of summity (‘10 + 3’), and, even Chinese and African leaders have formed the China–Africa summit mechanism within the framework of the Forum on China–Africa Cooperation (FOCAC). Compared with those mechanisms, the CASCF is still held at the ministerial instead of at the summit level. Moreover, the Arab revolts have exposed the fragility of China’s economic diplomacy. Before the outbreak of the Libyan civil war, Beijing imported 11% of Libyan crude oil and boasted about 50 projects in the country’s infrastructure, telecom and energy sectors worth an estimated US$18.8 billion and employing more than 35,000 Chinese citizens who had to be evacuated in late 2011. Beijing’s commercial interests have not yet been restored due to the chaotic Libyan situation.

Second, Arab countries have yet to become a priority for China’s foreign policy. China’s diplomatic strategy is characterized by four rings, ‘relations with great powers are the key; relations with the surrounding countries are primary; relations with the developing countries are fundamental; and relations with multilateral organizations are essential arenas’. Among the ‘four-rings’, the Arab countries have not ranked as a priority; in 2013, President Xi’s first foreign tour was to Russia and a series of African countries; Xi’s second foreign tour destinations were Latin America and the US; his third foreign tour destinations were Central and Southeast Asian nations, not the Arab countries. Meanwhile, many Arab countries have given top priority to their strategic relations with the US and European countries, particularly in the security and military fields, and the lion’s share of their investments are geared towards the Western countries, not China. As of 2010, 16,000 Chinese workers dispatched from 70 Chinese companies took part in various economic and trade activities in Saudi Arabia; about 200,000 Chinese in Dubai forged the largest non-residential Chinese community abroad, and Chinamex Middle East Investment and Trade Promotion Center in the city occupied 150,000 square meters with representatives from 3,000 Chinese companies. However, the China–Arab world two-way investments have not reached their potential highpoint. In 2013, China’s FDI to the Arab countries amounted to only US$2.2 billion, about 2.2% of China’s total FDI abroad. China’s economic diplomacy has not yet ushered the China–Arab bilateral relations to an overall strategic level in the political and military arena.

59. Xi Jinping, ‘Carry forward the spirit of the Silk Road and deepen China–Arab States cooperation’, p. A1.
Third, due to the disturbances in the Arab world, China’s economic diplomacy has tended to avoid the chaotic entanglement in politics, thus hindering the implementation of its economic diplomacy. In the early twenty-first century, the ‘China threat’ and the ‘Islamic threat’ theories have been prevalent in Western media which suggests that China and the Arab countries would form a coalition, a thesis that Huntington enunciated in his *Clash of Civilizations*. Certainly, Western policymakers will not remain idle and they feel quite threatened by China’s gradual penetration of the MENA, a region they deem vital for their geopolitical interests. Furthermore, since the outbreak of the Arab revolts, the Chinese government has been accused of siding with the autocrats and family rulers instead of with the people; China was criticized as being aloof and silent in the face of the ‘slaughter of civilians’ in Syria, while the use of its veto power three times in the UNSC on the Syrian crisis was also criticized as ‘irresponsible’.60 The lack of political consensus between China and the GCC on the one hand, and between China and the Arab countries in transition, on the other hand, could impact negatively upon Beijing’s economic diplomacy.61

Finally, China has apparently ignored cultural exchanges, a factor which has also hindered its economic diplomacy. For a long time, China’s foreign ministry, overseas embassies and consulates have put economic and business cooperation as their priority. Although since 2013 the Xinhua News Agency has established branches in Iraq, Kuwait, the UAE, Oman, Bahrain, Qatar, Saudi Arabia, Syria, Lebanon, Jordan, Palestine, Yemen, Egypt, Sudan, Libya, Tunisia, Algeria and Morocco, it has been unable to compete with Western media. China–Arab exchanges between academia, the media, the youth and think-tanks are insignificant. The rise of the bilateral trade volume does not necessarily bring the improvement of China’s national image in the Arab world, and Beijing still has a long way to go to win the hearts and minds of the common Arab people, another factor that has undoubtedly hindered the efficacy of China’s economic diplomacy.

China seems to have been cognizant of the above problems and, to better implement its economic diplomacy, Beijing has taken a more proactive approach towards Middle East politics, such as its more active engagement in the ‘6 + 1’ talks over the Iranian nuclear issue, its invitations to both Israeli Prime Minister Benjamin Netanyahu and Palestinian President Mahmoud Abbas to visit Beijing almost simultaneously in 2013, and, its diplomatic mediations to conciliate Sudan and South Sudan and ease the Syrian crisis. However, the ultimate goal of all this political activism is to achieve economic goals.

VII. Conclusion

China’s economic diplomacy towards the Arab world is increasingly active due essentially to the expansion of trade exchanges. China exceeded the World Bank and became the largest lender to developing countries, including many in MENA


61. Interviews with Qatari diplomat in Beijing Embassy who requested his name to remain anonymous.
countries. Different from the US pursuit of geopolitical interests in the Arab World, China’s policy orientation towards the Arab countries is more pragmatic, tactical and transitory: driven by a pragmatic geoeconomic vision. Beijing is convinced that ‘good governance is better than bad democracy’ and that ‘feeding one’s people is the most crucial’. Since the outbreak of the Arab revolts, China’s economic diplomacy has sought to safeguard its energy, investment and trade interests in the Arab countries.

China’s economic diplomacy aims at safeguarding its economic interests through both economic and political leverages. However, Beijing has not made effective use of its economic instruments to coerce the Arab countries so it could extricate political gains, as it did in recent years to coerce Japan and the Philippines in East Asia through economic embargo and sanctions for political ends. The reason it could not use such coercion is mainly due to China’s heavy dependence on the Arab countries’ budding market, investments and energy supplies. In 2011, members of Libya’s National Transitional Council openly voiced their disappointment with Beijing’s belated diplomatic recognition, and threatened that the new Libya would therefore not guarantee China’s investment projects in the country. However, Beijing responded cautiously and avoided further worsening of bilateral relations with the new authorities. With respect to Egypt, when elected President Morsi was toppled in July 2013, Beijing quietly established contact with the military and asserted that Beijing respects ‘the choice of Egyptian people’.

China’s economic diplomacy towards the Arab countries has been driven by domestic demand for overseas oil and markets, and is coordinated through different agencies both within the State Council and between the state and the ruling CPC. China’s economic diplomacy has also shared power with both the central and local governments. Since different agencies have divergent parochial interests, executing a centralized economic diplomacy towards the Arab world is rather difficult, if not unattainable.

So far, the Chinese government has striven to avoid the political side-effects of the MENA turmoil on its increasingly growing but relatively fragile economic interests, concerned about the possible threat to its overseas projects and expatriates. China’s economic diplomacy focuses on the economic partnership with the GCC countries, and, meanwhile, seeks a strategic economic alliance with key African Arab countries, namely, Sudan, Algeria and Egypt. It seeks to establish this alliance through the CASCF, visits of Chinese heads of state, and delivering development aid packages. However, with the increasing intertwining of geopolitical and geoeconomic factors following the Arab revolts, China’s economic diplomacy of seeking mere economic benefits while shelving political entanglement may prove impractical.

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