

HEARING ON CHINA AND THE MIDDLE EAST

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

FRIDAY, APRIL 19, 2024

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

WASHINGTON: 2024

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HEARING ON CHINA AND THE MIDDLE EAST

FRIDAY, APRIL 19, 2024

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, DC

The Commission met in Room 215 of Dirksen Senate Office Building, Washington, DC and via videoconference at 9:30 a.m., Commissioner Aaron Friedberg and Commissioner Jonathan N. Stivers (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF COMMISSIONER AARON FRIEDBERG HEARING CO-CHAIR

COMMISSIONER FRIEDBERG: Thank you. Thank you all for joining us today. Thanks for our witnesses for sharing their expertise and your work on your very good testimonies. We'd also like to thank the Senate Finance Committee for allowing us to use their hearing room, and the Senate Recording Studio for their assistance in livestreaming this event. Finally, I'd like to remind everyone attending in person and those listening online that the testimonies from our witnesses will be available on the USCC's website. A transcript of the hearing will be also posted on the website.

The last time this Commission held a hearing on China and the Middle East was more than ten years ago in 2013. Since then, Chinese engagement with the region across all dimensions – economic, diplomatic, and military – has grown considerably. This hearing is especially timely in light of recent events including the ongoing Israel-Hamas war and Iran's recent missile attacks on Israel.

Our hearing today aims to take a long view, shedding light on China's goals and strategic approach to the Middle East, and contributing to a better understanding of how its expanding role in the region may affect the interests of the United States.

Beijing's growing engagements with countries in the Middle East is intended to advance its increasingly ambitious economic, military, and diplomatic objectives. China continues to rely heavily on imports of Middle Eastern energy, but it's also working hard to imbed its companies in the region's physical and digital infrastructure.

China's military, the People's Liberation Army, is deepening its involvement in the region through a combination of arms sales, exercises, counter-piracy task force deployments, and potentially future military bases.

Beijing also seeks to raise its diplomatic profile with Middle Eastern countries and to gain their support for an alternative vision of world order, which puts itself, not Washington, at the center. It's invested heavily in its bilateral relationships and it has even sought to present itself as a potential mediator or regional disputes, a part it claimed to have played in brokering the reported Saudi-Iranian rapprochement in March 2023.

Yet the limits of China's willingness to assume a constructive role in this combustible region have become clear in the wake of the deadly terrorist attack on Israel last October, Iran's missile offensive against Israel earlier this month, and continued Houthi attacks on commercial shipping. Beijing has failed to forthrightly condemn any of these events, instead placing the lion's share of the blame for regional instability on Israel and the United States.

In short, China's role in the Middle East presents complex and mounting challenges to the United States. I look forward to hearing from our witnesses on these issues, and on actionable steps Congress can take to mitigate these challenges. I'll now turn the floor over to my colleague and co-chair for this hearing, Commissioner Jon Stivers.

**PREPARED STATEMENT OF COMMISSIONER AARON FRIEDBERG
HEARING CO-CHAIR**



Hearing on “China and the Middle East”

April 19, 2024

Opening Statement of Commissioner Aaron Friedberg

Good morning, and welcome to the fourth hearing of the U.S.-China Economic and Security Review Commission’s 2024 Annual Report cycle. Thank you all for joining us today. Thank you to our witnesses for sharing your expertise and for the work you have put into your testimonies. I would also like to thank the Senate Finance Committee for allowing us to use their hearing room and the Senate Recording Studio for their assistance livestreaming this event. Finally, I would like to remind everyone attending here in person, and those listening online, that the testimonies from our witnesses are available on the USCC’s website. A transcript of this hearing will also be posted to the website.

The last time this Commission held a hearing on China and the Middle East was more than ten years ago in 2013. Since then, Chinese engagement with the region across all dimensions—economic, diplomatic, and even military—has grown considerably. This hearing is especially timely in light of recent events, including the ongoing Israel-Hamas war and Iran’s recent missile attacks on Israel. Our hearing today aims to take a long view, shedding light on China’s goals and strategic approach toward the Middle East and contributing to a better understanding of how its expanding role in the region may affect the interests of the United States.

Beijing’s growing engagement with countries in the Middle East is intended to advance its increasingly ambitious economic, military, and diplomatic objectives. China continues to rely heavily on imports of Middle Eastern energy, but it is also working hard to embed its companies in the region’s physical and digital infrastructure. China’s military, the People’s Liberation Army, is deepening its involvement in the region through a combination of arms sales, exercises, counter-piracy task force deployments, and, potentially, future military bases. Beijing also seeks to raise its diplomatic profile with Middle Eastern countries and to gain their support for an alternative vision of world order which puts itself—not Washington—at the center. It has invested heavily in its bilateral relationships and has even sought to present itself as a potential mediator of regional disputes, a part it claimed to have played in brokering the reported Saudi-Iran rapprochement in March 2023. Yet the limits of China’s willingness to assume a constructive role in the combustible politics of the region have become clear in the wake of the deadly terrorist attack on Israel last October, Iran’s missile offensive against Israel earlier this month, and continued Houthi attacks on commercial shipping. Beijing has failed to forthrightly condemn any of these events, instead placing the lion’s share of the blame for regional instability on Israel and the United States.

In short, China’s role in the Middle East presents complex and mounting challenges to the United States. I look forward to hearing from our witnesses on these issues, and on actionable steps Congress can take to mitigate these challenges. I will now turn the floor over to my colleague and co-chair for this hearing, Commissioner Jon Stivers.

OPENING STATEMENT OF COMMISSIONER JONATHAN N. STIVERS HEARING CO-CHAIR

COMMISSIONER STIVERS: Thank you, Commissioner Friedberg. Good morning. I would like to thank everyone for joining us, and thank our witnesses for their time and effort they've put into their excellent testimonies.

Today's hearing will examine the economic, diplomatic, and security dimensions of China's engagement with the Middle East, and their implications for U.S. interests in the region. Though a place of immense diversity, complexity, and cultural richness, conflicts and sectarian strife continues to afflict this part of the world and test U.S. global leadership.

While the U.S. security architecture ensures the region is more stable than it otherwise would be, policy decisions and approaches over the last few decades have fueled a negative view of the United States and undermined our influence in the region.

Sensing this opportunity, China has engaged with the region largely to achieve its self-serving economic interests while freeloading on a U.S.-led system that secures those vital interests, namely freedom of navigation for its trade routes and access to energy resources.

We know China sources roughly half of its imported energy from the region. Chinese state-owned and influenced companies have invested in critical port infrastructure and economic zones, lodging themselves in key arteries of global trade.

While Belt and Road Initiative funding has declined globally in recent years, in the Middle East, it has remained substantial. China has also sought to leverage its own vast consumer market to lock in discounted rates for Middle East suppliers, especially in Iran, and exert pressure for favorable terms on contracts and joint ventures.

Perhaps more troubling, the Chinese government is providing support to its exporters, especially its well-known Chinese technology companies to consolidate their presence in the Middle East markets to what it calls its Digital Silk Road.

Huawei is a leader in building 5G telecommunications networks in several countries that also host U.S. forces, including Saudi Arabia and the United Arab Emirates. These networks risk espionage, coercion, and stronger government control and surveillance as digital authoritarianism becomes more of a feature in the region and tramples on the rights of the people.

Each witness that will testify today on all three panels will say that access to energy resources is China's top priority in the Middle East. I think that's generally true, but, as with many issues related to China, there are inherent contradictions in the actions of the Chinese government and its state-led entities.

If access to energy resources was far and away the top priority on its own, then they would not be empowering stabilizing forces in the region. They would be taking more significant action to resolve conflicts, and at minimum, they'd be using their influence with Iran to secure central shipping lanes from Houthi militias.

Many of our witnesses will note that China is slowly building its own alternative system, even as they benefit from the U.S.-led international system. Make no mistake, China prefers to see the U.S. continue to be bogged down in Middle East conflicts.

The Chinese government is not interested in contributing to the collective security and diplomatic efforts to bring stability to the region or to exert influence to alleviate tensions in times of crisis, such as the moment in which the region currently finds itself.

Today, we will not only seek to understand the motivation of the Chinese government, but will scrutinize the implications of Beijing's long-term strategic aims for the interests of the United States and its partners and allies.

Middle Eastern countries will need to exercise agency to bring about long-term stability that will serve as the foundation of shared prosperity. This is a region fast cementing itself as a leader in emerging technologies like clean hydrogen, water de-salinization, and artificial intelligence.

The ambitions exemplified in architectural marvels like the Burj Khalifa in Dubai, or the planned futuristic city Neom on the Red Sea, are matched by a desire of the populations across the regions to have lasting peace, a say in their government, and build dynamic industries free of exploitive one-way trade relationships.

This Commission looks forward to hearing from our witnesses today and in discussing actionable recommendations for the U.S. Congress. So before we introduce the first panel, I would like to remind our audience that witness testimonies and the hearing transcript is available on our website, www.uscc.gov.

At our next hearing we'll examine the U.S. -- is examining the U.S. economic strategy in relations with China, and that will take place on May 23rd. I will turn it back over to Commissioner Friedberg.

**PREPARED STATEMENT OF COMMISSIONER JONATHAN N. STIVERS
HEARING CO-CHAIR**



Hearing: China and the Middle East

April 19, 2024

Opening Statement of Commissioner Jonathan Stivers

Thank you, Commissioner Friedberg. Good morning. I would like to thank everyone for joining us and thank our witnesses for the time and effort they have put into their testimonies.

Today's hearing will examine the economic, diplomatic, and security dimensions of China's engagement with the Middle East, and their implications for U.S. interests in the region. Though a place of immense diversity, complexity, and cultural richness, conflicts and sectarian strife continues to afflict this part of the world and test U.S. global leadership. While the U.S. security architecture ensures the region is more stable than it otherwise would be, policy decisions and approaches over the last few decades have fueled a negative view of the United States and undermined our influence in the region.

Sensing opportunity, China has engaged with the region largely to achieve self-serving economic interests while free-loading on a U.S.-led system that secures those vital interests, namely freedom of navigation for its trade routes and access to energy resources. We know China sources roughly half of its imported energy from the region. Chinese state-owned and influenced companies have invested in critical port infrastructure and economic zones, lodging themselves in key arteries of global trade. While Belt and Road funding has declined globally in recent years, in the Middle East it has remained substantial. China has also sought to leverage its own vast consumer market to lock in discounted rates from Middle East suppliers, especially in Iran, and exert pressure for favorable terms on contracts and joint ventures.

Perhaps more troubling, the Chinese government is providing support to its exporters, especially its well-known Chinese technology companies, to consolidate their presence in Middle East markets through what it calls its "Digital Silk Road." Huawei is a leader in building 5G telecommunications networks in several countries that also host U.S. forces including Saudi Arabia and the United Arab Emirates. These networks risk espionage, coercion, and stronger government control and surveillance as "Digital Authoritarianism" becomes more of a feature in the region and tramples the rights of the people.

Each witness that will testify today will say that access to energy resources is China's top priority in the Middle East. I think that's generally true but, as with most issues related to China, there are inherent contradictions in the actions of the Chinese government and its state-led entities. If access to energy resources was, far and away, the top priority, then they would not be empowering destabilizing forces in the region. They would be taking more significant action to resolve conflicts, and, at minimum would be using their influence with Iran to secure essential shipping lanes from Houthi militias.

Many of our witnesses will note that China is slowly building its own alternative system even as they benefit from the current U.S.-led international system. Make no mistake, China prefers to see the U.S. continue to be bogged down in Middle East conflicts. The Chinese government is not interested in contributing to the

collective security and diplomatic efforts to bring stability to the region or to exert influence to alleviate tensions in times of crisis, such as the moment in which the region currently finds itself.

Today, we will not only seek to understand the motivation of the Chinese government but will scrutinize the implications of Beijing's long-term strategic aims for the interests of the United States and its partners and allies.

Middle Eastern countries will need to exercise agency to bring about long-term stability that will serve as the foundation of shared prosperity. This is a region fast cementing itself as a leader in emerging technologies like clean hydrogen, water desalination, and artificial intelligence. The ambitions exemplified in architectural marvels like the Burj Khalifa in Dubai or the planned futuristic city NEOM on the Red Sea are matched by the desire of populations across the region to have lasting peace, a say in their government, and build dynamic industries free of exploitative one-way trade relationships. This Commission looks forward to hearing from our witnesses today and in discussing actionable recommendations for the Congress.

Before we introduce our first panel, I would like to remind our audience that witness testimonies and the hearing transcript is available on our website, www.uscc.gov. Our next hearing, examining U.S. economic strategy in relations with China, will take place on May 23rd.

PANEL I INTRODUCTION BY COMMISSIONER AARON FRIEDBERG

COMMISSIONER FRIEDBERG: Thank you, Commissioner Stivers. Our first panel will assess the economic relationships between China and countries in the region, looking at energy and trade flows, investment, and emerging technologies and how each play into China's broader strategic objectives.

We'll start with welcoming back Dr. Erica Downs, a senior research scholar at Columbia University Center on Global Energy Policy. Dr. Downs has over 20 years of experience working in the public and non-profit sectors, focusing on Chinese energy markets and geopolitics. Her testimony will provide a broad account of China's energy trade relationships with countries in the region.

Next, we'll hear from Mr. Mohammed Soliman, Director of Strategic Technologies and Cyber Security program at the Middle East Institute. In his current role, he leads a global team of scholars to explore policy challenges associated with the intersection of technology, geopolitics, and business in the Middle East and emerging markets more broadly. He'll discuss the significance of increasing technological partnerships between the Middle East and China.

Third, we'll hear from Dr. Karen Young, Senior Research Scholar at Columbia University's Center on Global Energy Policy. Dr. Young is a political economist, focusing on the Gulf, the broader MENA region, and the intersection of energy, finance, and security.

And she was the founding Director of the program on Economics and Energy at the Middle East Institute, recently published a book examining the economic statecraft of Gulf Arab states, and she is a new voice for the Commission.

Thank you all for your testimony, the Commission is looking forward to your remarks. And I ask that all of our witnesses please keep their remarks to seven minutes. Dr. Downs, welcome back, it's good to see you. We'll begin with you.

**OPENING STATEMENT OF ERICA DOWNS, SENIOR RESEARCH SCHOLAR,
CENTER ON GLOBAL ENERGY POLICY AT COLUMBIA SIPA**

DR. DOWNS: Good morning, members of the Commission, thank you for inviting me to testify about China-Middle East energy relations. In my remarks today, I will address three issues, China's energy imports from the Middle East, the security of China's energy supplies from the region, and the use of China's currency for energy trade settlement.

Regarding China's energy imports from the Middle East, there are four points I would like to make. And the first is that the Middle East supplies China with about half of its crude oil imports. According to China's General Administration of Customs, the Middle East had accounted for 46 percent of China's crude oil imports in 2023.

However, China's reliance on the Middle East is higher if China's imports from Iran are included. And this brings me to my second point, which is that Iran was China's third largest oil supplier in 2023, after Russia and Saudi Arabia, even though Chinese customs reports that China did not import any oil from Iran last year.

This is because Iranian crudes exported to China passed through third countries, notably Malaysia, where they are combined with other crudes, relabeled and exported to China, where they are classified as being from Malaysia. All of the crude oil imported from Iran last year, was purchased by small refineries known as teapots.

The teapots operate on thin margins and value the discounts that they can obtain from Iranian crudes. China's national oil companies did not import any oil from Iran last year due to concerns about sanctions.

My third point is that Russia replaced Saudi Arabia as China's largest crude oil supplier on an annual basis last year for the first time since 2018. However, Saudi crude oil exports to China may grow and continue the supply contracts signed with independent refineries last year.

My fourth and final point on China's energy imports from the Middle East, is that one country in the region, Qatar, is a top supplier of liquefied natural gas to China. Qatar supplied about one-quarter of China's LNG imports last year. And China's LNG imports through Qatar also look set to grow, in part due to several new long-term supply contracts signed with China's national oil companies in 2022 and 2023.

This brings me to the second part of my remarks, which is the security of China's energy supply through the region. I will briefly highlight three sources of supply security for China. First, China is an important market for energy exported from the Middle East which provides them with an incentive to assure China that China can count on them to supply security. Saudi Aramco, the Saudi national oil company, is a good example of this.

For many years, Saudi Aramco confirmed its commitment to meeting China's energy needs. In March 2021, the company's CEO stated that Saudi Aramco will ensure that China's energy security remains its highest priority for the next fifty years and beyond.

In March 2024, the company's CEO, stated that Saudi Aramco's commitment to China's long-term energy security is set in stone. And the company has backed up its words with actions to improve investment in petrochemical complexes in China that are being or will be supplied by Saudi crudes.

Second, China's navy can help ensure the flow of oil from the Middle East. It has maintained a nearly continuous three-ship presence in the Gulf of Aden since 2008 for anti-piracy missions.

These ships can move around the region to where they are needed, including for tanker protection. China's navy has a history of escorting tankers in the region.

Third, China's strategic petroleum reserve and commercial stocks provide it with the capacity to address disruptions of the flow of oil from the Middle East to the world market. The combined volume of China's strategic and commercial stocks provides China with at least 89 days of net crude oil import coverage at the 2023 level.

Now, I will turn to the last issue I plan to address, which is the use of China's currency for energy trade settlement. When China's leader, Xi Jinping, attended the first China-Gulf Cooperation Council Summit in December of 2022, he called for the use of renminbi for energy trade settlement.

However, it is unlikely that the renminbi will replace the U.S. dollar as the primary currency for energy trade settlement anytime soon, and there are three reasons for this. First is that China's tightly regulated capital account likely disincentivizes energy exporters from holding large amounts of Chinese currency because it prevents them from moving money freely in and out of China.

Second, oil exporters in the region, including Oman, Qatar, Saudi Arabia, and the United Arab Emirates, peg their currencies to the U.S. dollar, making oil trade settlement in dollars preferable to other currencies.

And third, the idea that the more a currency is used for trade settlement, the more others will want to use it, supports the dollar's continued dominance.

Now that said, the importance of the Chinese market to energy exporters in the region probably provides China with some leverage to press for the use of its currency in trade settlement.

And so far, exporters in the region appear more likely to experiment with the use of China's currency for trade settlement outside of the oil and gas sector. For example, last year Iraq decided to use China's currency to pay for private sector imports.

And this brings me to my recommendation for Congress. And my recommendation is that the committees of jurisdiction should require the executive branch to issue an annual report on the use of the renminbi for energy trade settlement.

Such a report would provide context for anecdotes that appear in the press about energy purchased with the renminbi. And it should also help the U.S. government assess whether, and to what extent, the renminbi poses a challenge to the U.S. dollar's status as the world's primary reserve currency. Thank you.

COMMISSIONER FRIEDBERG: Thanks. Thank you, very much. Mr. Soliman?

**PREPARED STATEMENT OF ERICA DOWNS, SENIOR RESEARCH SCHOLAR,
CENTER ON GLOBAL ENERGY POLICY AT COLUMBIA SIPA**

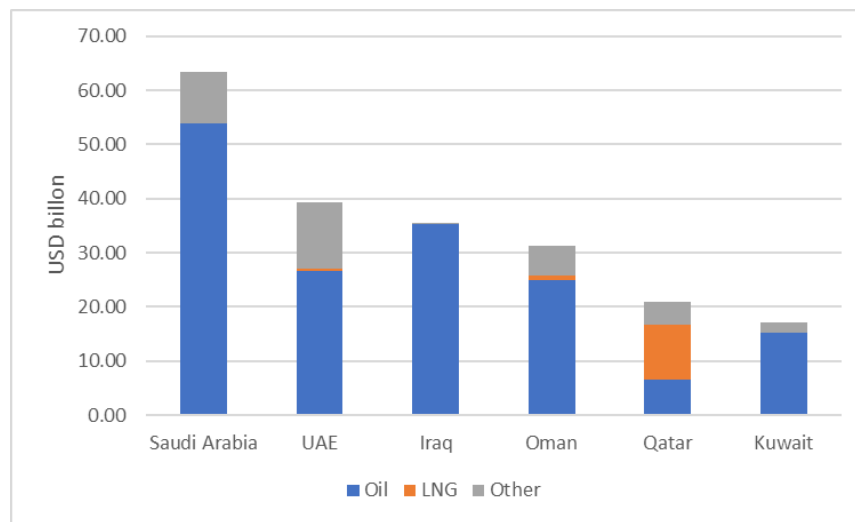
China-Middle East Energy Relations

Members of the Commission, thank you for inviting me to testify about China-Middle East energy relations. In my remarks, I will address three issues: China’s energy trade with the Middle East, the security of China’s energy supplies from the region, and the use of China’s currency for energy trade settlement.

Energy Trade

Oil and LNG dominate China’s trade with energy exporters the Middle East. At the high end, crude oil accounted for 99 percent of the dollar value of China’s imports from Iraq in 2023. At the low end, crude oil and LNG accounted for 69 percent of the dollar value of China’s imports from the United Arab Emirates in 2023 (Figure 1).

Figure 1: The Composition of China’s Imports from Selected Countries in the Middle East

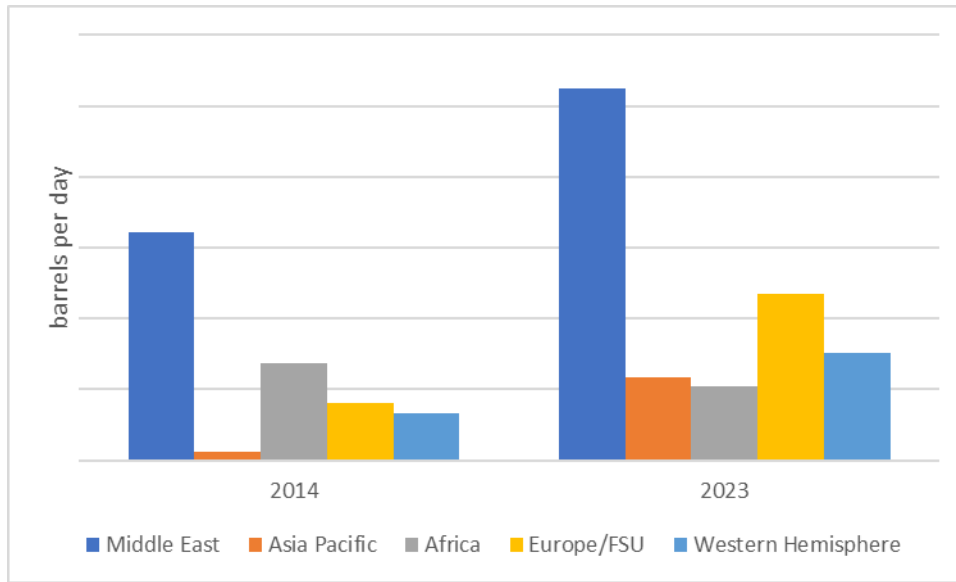


Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

The Middle East supplied about half of China’s crude oil imports on an annual basis over the past decade. According to Chinese customs data, China’s imports of crude oil from the Middle East increased from 3.2 million barrels per day (bpd) in 2014 to 5.2 million bpd in 2023 (Figure 2). These volumes correspond to a decrease in the Middle East’s share of China’s crude oil imports from 52 percent in 2014 to 46 percent in 2023.¹

¹ Tian Chunrong, “Analysis of China’s Oil and Natural Gas Imports and Exports in 2014” (2014 年中国石油和天然气进出口状况分析), *International Petroleum Economics* (国际石油经济), No. 3 (2015), pp. 60-61, CNKI; and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

Figure 2: China’s Crude Oil Imports by Region in 2014 and 2023



Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

However, the volume of oil delivered to China from the Middle East – and the Middle East’s share of China’s crude oil imports – in 2023 are almost certainly higher when the barrels Iran exports to China via third countries are taken into consideration. Although Chinese customs does not report any crude oil imports from Iran in 2023, industry press states that China imported over one million bpd from Iran in 2023.² Iranian crudes destined for China are shipped via third countries, notably Malaysia, where they are relabeled as originating with the transit country.³

In 2023, all of the Iranian crude delivered to China was purchased by small independent refineries known as “teapots.” The teapots operate on thin margins and value the discounted prices at which they have been able to purchase Iranian crude.⁴ They buy about 90 percent of Iran’s oil exports.⁵ China’s national oil companies have stopped importing crude oil from Iran due to concerns about US sanctions.⁶

² Oceana Zhou and Daisy Xu, “China’s Small Independent Refineries to Continue Favoring Iranian Crudes in 2024,” S&P Global, January 19, 2024, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/011924-chinas-small-independent-refineries-to-continue-favoring-iranian-crudes-in-2024#:~:text=These%20small%20independent%20refineries%2C%20located,ago%2C%20S%26P%20Global%20data%20showed.>

³ Muyu Xu, “Explainer: Iran’s Expanding Oil Trade with Top Buyer China,” Reuters, November 10, 2023, <https://www.reuters.com/markets/commodities/irans-expanding-oil-trade-with-top-buyer-china-2023-11-10/>

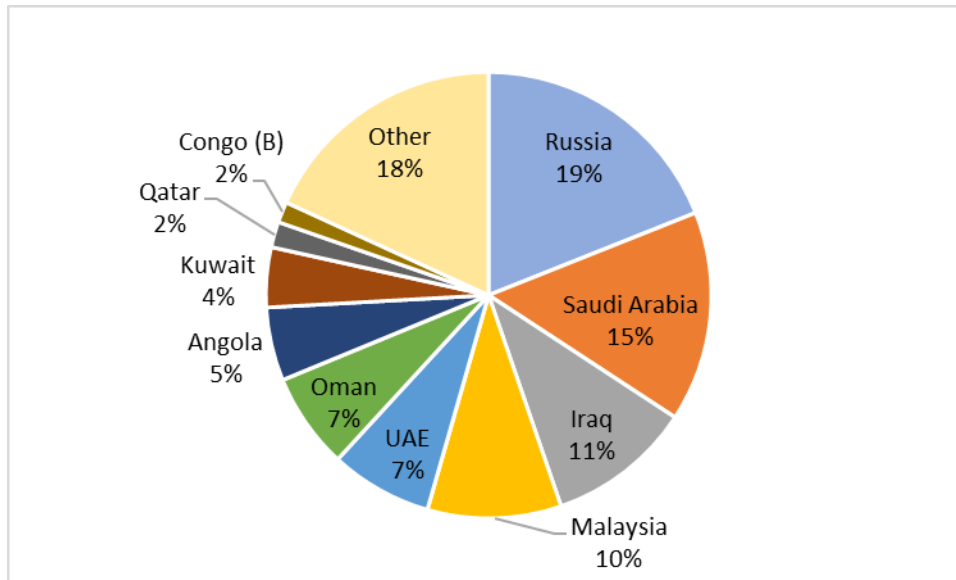
⁴ Chen Aizhu and Muyu Xu, “China Saves Billions of Dollars from Record Sanctioned Oil Imports,” Reuters, October 11, 2023, <https://www.reuters.com/markets/commodities/china-saves-billions-dollars-record-sanctioned-oil-imports-2023-10-11/>.

⁵ Chen Aizhu and Muyu Xu, “Exclusive: Iran’s Oil Trade with China Stalls as Tehran Demands Higher Prices,” Reuters, January 7, 2024, <https://www.reuters.com/business/energy/irans-oil-trade-with-china-stalls-tehran-demands-higher-prices-2024-01-05/>.

⁶ Muyu Xu, “China’s ‘Teapot’ Refiners Mop Up Swelling Iranian Crude, Defying U.S. Sanctions,” Reuters, September 14, 2023, <https://www.reuters.com/business/energy/chinas-teapot-refiners-mop-up-swelling-iranian-crude-defying-us-curbs-2023-09-14/>.

According to China’s General Administration of Customs, all of China’s crude oil suppliers in the Middle East ranked among China’s ten largest suppliers in 2023 (Figure 3). Saudi Arabia (1.7 million bpd) and Iraq (1.2 million bpd) together accounted for 25 percent of China’s crude oil imports of 11.3 million bpd. Iran also ranks among China’s largest crude oil suppliers; industry press reports that Iran exported 1.1 million bpd to China in 2023.⁷

Figure 3: China’s largest crude oil suppliers in 2023



Source: General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>

In 2023, Russia replaced Saudi Arabia as China’s largest supplier of crude oil on an annual basis for the first time since 2018. Discounted prices on Russian oil and Saudi Arabia’s production cuts as part of OPEC+ efforts to support prices enabled Russia to increase its share of China’s crude oil imports from 17 percent to 19 percent. Saudi Arabia’s share decreased from 17 percent to 15 percent.⁸

That said, Saudi Arabia is poised to export more oil to China. In 2023, Saudi Aramco agreed to sell up to 690,000 bpd to two independent refineries in China. Specifically, Saudi Aramco agreed to supply up to 480,000 bpd for 20 years to Zhejiang Petroleum Corporation (ZPC) when it purchased a 10 percent stake in ZPC’s parent, Rongsheng Petrochemical Corporation.⁹ Saudi Aramco also agreed to supply up to 210,000 bpd to a new petrochemical complex that is being developed by Huajin Aramco Petrochemical

⁷ Zhou and Xu, “China’s Small Independent Refineries to Continue Favoring Iranian Crudes in 2024.”

⁸ General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

⁹ Alfred Cang and Matthew Martin, “Saudi Aramco Deepens China Push with \$3.6 billion Refinery Deal,” Bloomberg, March 27, 2023, <https://www.bloomberg.com/news/articles/2023-03-27/saudi-aramco-takes-3-6-billion-stake-in-china-oil-refinery>.

Company in Liaoning Province.¹⁰ (Huajin Aramco is a joint venture between Saudi Aramco (30%), NORINCO Group (51%) and Panjin Xincheng Industrial Group (19%).¹¹)

One country in the region, Qatar, is a top supplier of natural gas to China. In 2023, Qatar was China's second largest source of liquefied natural gas (LNG) after Australia. Qatar shipped 16.7 million tons of LNG to China, accounting for one-quarter of China's LNG imports.¹²

China's imports of LNG from Qatar are set to grow under new supply contracts. Sinopec and China National Petroleum Corporation (CNPC) and Sinopec Corp. each signed 27-year LNG contracts with QatarEnergy for the delivery of 4 million tons per year of LNG in November 2022 and June 2023, respectively.¹³ Sinopec Corp. inked a second 27-year contract with QatarEnergy for the delivery of 3 million tons per year in November 2023.¹⁴ The contracts are some of the longest ever signed in the LNG industry, excluding legacy contracts resigned over time, and likely will ensure LNG deliveries from Qatar to China through the early 2050s.¹⁵

The Security of China's Energy Supplies from the Middle East

Sources of supply security for China include the importance of the Chinese market to Middle East energy exporters, China's naval presence in the region and China's strategic and commercial oil stocks.

The importance of China to Middle East energy exporters provides them with an incentive to demonstrate that they are a source of supply security for China. Saudi Arabia is a case in point. For many years, the company has affirmed its commitment to helping China meet its energy needs. In March 2021, the company's CEO told the China Development Forum that "Saudi Aramco will ensure China's energy security remains its highest priority for the next fifty years and beyond."¹⁶ In March 2024, Aramco's CEO, speaking at the same event, said that "Aramco's commitment to China's long-term

¹⁰ Saudi Aramco, "Aramco JV HAPCO Breaks Ground on New Refinery and Petrochemical Complex," March 29, 2023, <https://www.aramco.com/en/news-media/news/2023/aramco-iv-hapco-breaks-ground-on-new-refinery-and-petrochemical-complex>.

¹¹ Nurluqman Suratman, "Saudi Aramco, China's Norinco Start Building Panjin Petrochemical Complex in Q2," ICIS, March 27, 2023, <https://www.icis.com/explore/resources/news/2023/03/27/10869615/saudi-aramco-china-s-norinco-start-building-panjin-petrochemical-complex-in-q2/>.

¹² General Administration of Customs of the People's Republic of China, <http://stats.customs.gov.cn/>.

¹³ Andrew Mills and Maha El Dahan, "Qatar Sells 27-year LNG Deal with China as Competition Heats Up," Reuters, November 21, 2022, <https://www.reuters.com/business/energy/qatarenergy-signs-27-year-lng-deal-with-chinas-sinopec-2022-11-21/>; Andrew Mills and Maha El Dahan, "Qatar Strikes Second Big LNG Supply Deal with China," Reuters, June 20, 2023, <https://www.reuters.com/business/energy/qatar-set-strike-second-big-lng-supply-deal-with-china-ft-2023-06-20/>.

¹⁴ Suyash Pande, Melody Li and Christel Goh, "QatarEnergy-Sinopec's Long-Term LNG Contract Likely Priced Around 12.7% Slope to Oil," S&P Global, November 9, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/110923-qatarenergy-sinopecs-long-term-lng-contract-likely-priced-around-127-slope-to-oil>.

¹⁵ I thank Ira Joseph for the point about legacy contracts.

¹⁶ Muyu Xu and Florence Tan, "Saudi Aramco to Prioritise Energy Security to China for 50 Years, Says CEO," Reuters, March 21, 2021, <https://www.reuters.com/article/us-china-forum-saudiaramco/saudi-aramco-to-prioritise-energy-supply-to-china-for-50-years-says-ceo-idUSKBN2BD0GK/>.

energy security... is set in stone.”¹⁷ Saudi Aramco has supported its words with actions to include investment in Chinese petrochemical complexes mentioned above.

China’s navy can also help ensure the security of China’s energy supplies from the Middle East. It has maintained a nearly continuous three-ship presence in the Gulf of Aden since 2008 to protect its trade from pirates.¹⁸ These ships can move around the region to where they are needed for missions including tanker protection.¹⁹ China’s navy has a history of escorting oil tankers in the region.²⁰

China’s strategic petroleum reserve (SPR) and commercial stocks provide it with the capacity to address disruptions of the flow of oil from the Middle East to the world market. The combined volume of strategic and commercial stocks provides China with at least 89 days of net crude oil import coverage at the 2023 level. China’s SPR holds about 312 million barrels in above-ground storage and probably more in below-ground storage. The volume of above-ground storage provides China with 27.5 days of net crude oil import coverage at the 2023 level of net crude oil imports of 11.3 million bpd.²¹ China also holds nearly 700 million barrels of crude oil in commercial stocks which provides China with about 62 days of net crude oil import coverage at the 2023 level.²²

RMB for Energy Trade Settlement

The renminbi (RMB) is unlikely to replace the US dollar as the primary currency for energy trade settlement between China and the Middle East anytime soon.²³ To be sure, China’s leader, Xi Jinping, called for the use of China’s currency for oil and gas trade settlement during the China-Gulf Cooperation Council Summit in December 2022.²⁴ However, there are several reasons why oil and natural gas exporters in the Middle East probably prefer to settle energy trade in the dollar for now. First, China’s tightly regulated capital account likely disincentivizes energy exporters from holding large amounts of renminbi because it prevents them from freely moving money in and out of China.²⁵ Second, oil

¹⁷ “China Development Forum 2024, Remarks by Amin H. Nasser, Aramco President & CEO, March 25, 2024, <https://www.aramco.com/en/news-media/speeches/2024/remarks-by-amin-h-nasser-at-cdf-2024>.

¹⁸ Jeffrey Becker and Erica Downs, “China’s Presence in the Middle East and Indian Ocean: Beyond One Belt, One Road,” CNA, https://www.cna.org/archive/CNA_Files/pdf/obor_chinastudies_final.pdf.

¹⁹ I thank Bud Cole for this point.

²⁰ See, for example, “42nd Chinese Naval Escort Taskforce Completes First Escort Mission,” China Military Online, October 28, 2022, http://eng.mod.gov.cn/xb/News_213114/OverseasOperations/4924553.html; and “China’s 39th Naval Escort Taskforce Completes Escort Mission,” China Military Online, December 15, 2024, http://eng.chinamil.com.cn/CHINA_209163/TopStories_209189/10115196.html.

²¹ Data from Kayrros SAS and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

²² Data from Kayrros SAS and General Administration of Customs of the People’s Republic of China, <http://stats.customs.gov.cn/>.

²³ This paragraph is based on Erica Downs, “China-Russia Energy Relations in the Wake of the War in Ukraine in “The Revenge of Energy Security: Reconciling Asia’s Economic Security with Climate Ambitions,” National Bureau of Asian Research, November 2023, pp. 19-20, <https://www.nbr.org/publication/the-revenge-of-energy-security-reconciling-asias-economic-security-with-climate-ambitions/>.

²⁴ Ministry of Foreign Affairs of the People’s Republic of China, “President Xi Jinping Attends First China-GCC Summit and Delivers Keynote Speech,” December 10, 2022, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202212/t20221210_10988406.html.

²⁵ John Wu, “Chinese Yuan on Slow Path to Globalization Due to Capital Controls,” S&P Global, July 11, 2023, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/chinese-yuan-on-slow-path-to-globalization-due-to-capital-account-controls-76484922>.

exporters in the region, including Oman, Qatar, Saudi Arabia and the United Arab Emirates, peg their currencies to the U.S. dollar, making oil trade settlement in dollars preferable to other currencies.²⁶ Third, the fact that the more a currency is used for trade settlement, the more others will want to use it, supports the dollar's continued dominance.²⁷

That said, China is a key market for energy exporters in the Middle East and, as a result, China probably has a certain amount of leverage it can use to push for use of the RMB in trade settlement. Energy exporters in the Middle East are more likely to consider experimenting with RMB usage outside of oil and LNG trade. For example, Iraq's decision in 2023 to use renminbi to pay for private sector imports will not extend to the country's oil trade.²⁸ Similarly, the UAE trade minister said last year that his trade was only prepared to discuss trade settlement in different currencies for non-oil deals.²⁹

One country that currently is accepting payment for most – if not all – of its energy exports to China in Chinese currency is Russia. In September 2022, Russian president Vladimir Putin announced that China would pay Gazprom for its natural gas based on a fifty-fifty split between the rouble and the yuan.³⁰ In May 2023, Reuters reported that China was using its currency instead of dollars to pay for virtually all of its purchases of Russian coal and oil.³¹

The Commission should recommend to the committees of jurisdiction that they should require the executive branch to issue an annual report on use of RMB for energy trade settlement. Such a report would provide context for anecdotes about energy purchased with RMB.³² It should also help the US government assess whether and to what extent the renminbi poses a challenge to the US dollar's status as the world's primary reserve currency.

²⁶ Javier Blas, "The Myth of the Inevitable Rise of a Petroyuan," Bloomberg, February 27, 2023, <https://www.bloomberg.com/opinion/articles/2023-02-27/pricing-petroleum-in-china-s-yuan-sounds-inevitable-not-for-saudi-arabia>.

²⁷ Gerard DiPippo and Andrea Leonard Palazzi, "It's All about Networking: The Limits of Renminbi Internationalization," Center for Strategic and International Studies, April 18, 2023, <https://www.csis.org/analysis/its-all-about-networking-limits-renminbi-internationalization>.

²⁸ "Iraq Pivots to Yuan for Chinese Imports in Defense of Own Currency," Bloomberg, February 22, 2023, <https://www.bloomberg.com/news/articles/2023-02-22/iraq-pivots-to-yuan-for-china-imports-in-defense-of-own-currency>.

²⁹ "The Myth of the Inevitable Rise of a Petroyuan," Bloomberg, February 27, 2023, <https://www.bloomberg.com/opinion/articles/2023-02-27/pricing-petroleum-in-china-s-yuan-sounds-inevitable-not-for-saudi-arabia>.

³⁰ Muyu Xu, "Russia's Gazprom, CNPC Agree to Use Rouble, Yuan for Gas Payments," Reuters, September 7, 2022, <https://www.reuters.com/business/energy/petrochina-signs-gas-agreement-with-russias-gazprom-2022-09-07/>.

³¹ Chen Aizhu, "Vast China-Russia Resources Trade Shifts to Yuan from Dollars in Ukraine Fallout," Reuters, May 10, 2023, <https://www.reuters.com/markets/currencies/vast-china-russia-resources-trade-shifts-yuan-dollars-ukraine-fallout-2023-05-11/>.

³² See, for example, "Exclusive: Pakistan Paid in Chinese Currency for Discounted Russian Oil," Reuters, June 13, 2023, http://eng.chinamil.com.cn/CHINA_209163/TopStories_209189/10115196.html.

OPENING STATEMENT OF MOHAMMED SOLIMAN, DIRECTOR OF THE STRATEGIC TECHNOLOGIES AND CYBER SECURITY PROGRAM, MIDDLE EAST INSTITUTE

MR. SOLIMAN: Chairwoman Cleveland, Commissioner Friedberg and Stivers, honorable members of the Commission, thank you for the opportunity to appear before you today to discuss China's energy, investment, and economic interests in the Middle East. My name is Mohammed Soliman, I am the Director of the Strategic Technologies and Cyber Security Program at the Middle East Institute.

At the Middle East Institute's Strategic Technologies and Cyber Security Program, we study how emerging markets are impacting the region, analyze the rise of China as a technology super power, and seek to open up opportunities for new technology cooperation between the United States and the leading regional actors and our partners.

Before I begin, I will first say that the views being expressed through my testimony today are my own and should not be taken as official positions of the program and the Middle Eastern Institute as a whole. Now on to today's topic.

China's relationship with the Middle East and vice versa, is linked to a broad spectrum global competition with the United States, which has increasingly transformed into great power rivalry.

In the field of technology, this has sparked growing discussions and accumulating steps on both sides toward so-called technological decoupling, a reduction of an asymmetric reliance or interdependencies and, in some cases, a complete severing of their ties in technology and cyber spheres. With the acute impacts of this process between the two technology superpowers becoming clearer, the Middle East is slowly emerging as an important region to watch.

Economic and geopolitical ties with the West have long dictated the shape of the region's technological ecosystem, but the rise of great power competition and Middle Eastern countries' pursuit of economic and technological sovereignty have slowly deconstructed these old dynamics.

The return of great power competition is clearly relevant today to the new orientation of the Middle Eastern countries, particularly Gulf Arab states, including the UAE and Saudi Arabia.

Yet I want to emphasize that the movement of the Gulf states' attention to the East represents a broader shift to the global order center of gravity to Asia that goes beyond the question of great power competition from the point of view of the Gulf Arab states.

The implication of what I call Asianization of the Middle East is that, while China's share of geoeconomic power is undeniably important, it is precisely the geopolitical risks and baggage that China carries in its own competition with the United States that Middle East states wish to avoid.

And instead, their more central interest in asserting their own sovereignty and autonomy in areas including critical and emerging technologies drives their own orientation towards east in Asia.

Although China's relationship with the Middle East is absolutely evolving beyond its own energy-centric past, the flow of technological elements such as telecommunications, advanced batteries, high-capacity computing tools, is very much from China to the region, not the other way around.

While countries like Saudi Arabia and UAE are certainly aiming to develop their own domestic capabilities to manufacture and export similar items, they are still in the early stages of this process.

Moreover, this ambitious timetable for creating cutting-edge, technologically advanced economies and societies necessitates the immediate procurement of ready-to-deploy technological infrastructure such as Huawei cloud data centers.

Sovereign wealth funds across the Gulf are investing in technological advancement, EV battery, and AI companies in China, not only to diversify their own holdings, but to supercharge their own growth.

The large-scale use of export controls by the United States against China to contain the latter's development of advanced computing technologies puts some Middle Eastern countries in a delicate position, walking the fine line between obtaining the hardware needed to construct emerging technologies like artificial intelligence while complying with the American desire to not see such hardware or technology fall into China's hands.

The United States itself is also in a delicate position with respect to export controls, if we prevent the Middle Eastern states, particularly Gulf states, from accessing critical technology products like AI chips due to concerns about such states' warm relationship with China, we also risk not only alienating our critical partners in the region, but driving them further towards China.

Again, Middle Eastern governments see advanced technology as essential in their national development pursuits, and such export controls could cause officials in these governments to perceive the U.S. as sabotaging their future and economic growth.

In the end, they will not hesitate to purchase exactly what they require, be it from China or the U.S. Keeping in mind, I will offer a brief overview of my recommendations to the Commission and I'm more than happy to expand on them further during the questions.

First, The United States and its own Middle East partners stand to benefit from one another in these joint technological efforts. The U.S. should explore these benefits without viewing its partners in the region solely through the lens of great power competition.

Second, I propose launching a technology dialogue that could set conditions to create a coordination mechanism for critical technologies compliance and licensing.

Third, the United States should propose establishing multilateral academic and working groups to further the efforts previously outlined.

Finally, the United States should also establish scientific collaboration through working groups and workshops to construct a research agenda and finance joint scientific projects. The United States and its own Middle East partners stand to benefit from one another in these joint technology endeavors.

The U.S. should explore these benefits without viewing its own partners again in the region solely through the lens of great power competition. Thank you for your time.

COMMISSIONER FRIEDBERG: Thank you, very much. Dr. Young?

**PREPARED STATEMENT OF MOHAMMED SOLIMAN, DIRECTOR OF THE
STRATEGIC TECHNOLOGIES AND CYBER SECURITY PROGRAM, MIDDLE EAST
INSTITUTE**

April 19, 2024
Mohammed Soliman
Director, Strategic Technologies and Cyber Security Program at the Middle East Institute
Testimony before the U.S.-China Economic and Security Review Commission
Hearing on “China and the Middle East”

Chair Cleveland, Commissioners Friedberg and Stivers, and Honorable Members of the Commission,

Thank you for the opportunity to discuss China’s energy, investment, and economic interests in the Middle East. My name is Mohammed Soliman, and I am the Director of the Strategic Technologies and Cyber Security Program at the Middle East Institute. Founded in 1946, the Middle East Institute is the oldest Washington-based institution dedicated solely to the study of the Middle East. It is a non-partisan think tank providing expert policy analysis, educational and professional development services, and a hub for engaging with the region's arts and culture.

At the Middle East Institute’s Strategic Technologies and Cyber Security Program, we study how emerging technologies are impacting the region, analyze the rise of China as a technology superpower, and seek to open up opportunities for new technology cooperation between the U.S. and leading regional actors. Myself and the other scholars in the program have been deeply engaged in studying and analyzing the technology Cold War and the decoupling between the U.S. and China as new geopolitical fault lines emerge based on technology networks and the flow of information. This has critical implications for the Middle East as the region seeks to become an inflection point for the new digital order and a key arbiter in building the global digital architecture.

Before I begin, I will first say that the views and opinions expressed in my testimony are my own, and should not be taken as official positions of the Strategic Technologies and Cyber Security Program nor the Middle East Institute as a whole. Now, on to today’s topic.

Throughout these opening decades of the 21st century, China has steadily expanded its presence in the Middle East. Although it has traditionally focused its engagement with the Middle East primarily around economic and energy interests, Beijing is increasingly becoming involved in the region’s political and security matters, technological landscape, and broader strategic direction.

China’s relationship with the Middle East – and vice-versa – is linked to its broad-spectrum global competition with the United States, which has increasingly transformed into a great power rivalry. In the field of technology, this has sparked growing discussions and accumulating steps on both sides toward “technological decoupling” — a reduction in asymmetrical reliance or interdependencies and, in some cases, a complete severing of their ties in the technology and cyber spheres. With the acute impacts of this process between the two superpowers becoming clearer, the Middle East is slowly emerging as an important region to watch. Economic and geopolitical ties with the West have long dictated the shape of the region’s technological

ecosystem, but the rise of great power competition and Middle Eastern countries' pursuit of economic and technological sovereignty have slowly deconstructed these dynamics.

The return of great power competition is clearly relevant to the new orientation of Middle Eastern countries - particularly Gulf state actors, including the UAE and Saudi Arabia - yet I want to emphasize that the movement of the Gulf states' attention to the East represents a broader shift of the global order's center of gravity to Asia that goes beyond great power competition.

The implication of this 'Asianization' of Middle Eastern states is that, while China's share of geoeconomic power is undeniably important, it is precisely the geopolitical risks and baggage that China carries in its competition with the U.S. that Middle Eastern states wish to avoid. Instead, their more central interest in asserting their sovereignty and autonomy in areas including critical and emerging technologies drives their Eastward orientation.

At the same time, the proliferation of issue-based partnerships and multilateral formats – the I2U2, the France-India-UAE Trilateral, and the India-Middle East-Europe Corridor (IMEC), to name a few - reflects the perceived importance of linking the Middle East and South Asia and the Arabian Sea with the Indo-Pacific, as well as forming an interconnected transregional economic order, in a manner that includes the U.S. during this process of Asianization.

Although China's relationship with Middle Eastern states is primarily evolving beyond its energy-centric past, the flow of technological elements such as telecommunications, advanced batteries, and high-capacity computing tools is very much from China to the region, not the other way around. While countries like Saudi Arabia and the UAE are certainly aiming to develop their own domestic abilities to manufacture and export similar items, they are still in the early stages of this process. Moreover, their ambitious timetables for creating cutting-edge, technologically advanced economies and societies necessitate the immediate procurement of ready-to-deploy infrastructure such as Huawei cloud data centers. Sovereign wealth funds across the Gulf are investing billions of dollars in Chinese telecommunications, EV battery, and AI companies not only to diversify their holdings but to supercharge their own growth.

The large-scale use of export controls by the U.S. against Chinese firms to contain the latter's development of advanced computing technologies puts some Middle Eastern states in a delicate position: walking the fine line between obtaining the hardware needed to construct emerging technologies like artificial intelligence while complying with the American desire to not see such hardware or technology fall into Chinese hands. The U.S. itself is also in a delicate position with respect to export controls: If we prevent Middle Eastern states – particularly Gulf states – from accessing critical tech products like AI chips due to concerns about such states' warm relations with China, we risk not only alienating our critical partners in the region, but driving them further towards China. Again, Middle Eastern governments see advanced technology as essential to their national development pursuits, and such export controls could cause officials in these governments to perceive the US as sabotaging their futures. In the end, they will not hesitate to purchase exactly what they require, be it from China or the US.

Recommendation for the Commission here

I propose the following actions be taken by the United States:

First, the United States and its Middle East partners stand to benefit from one another in these joint technological endeavors. The U.S. should explore these benefits without viewing its partners in the region solely through the lens of great power competition.

Second, launching a technology dialogue creates a coordination mechanism for compliance and licensing for critical technologies. While the United States seeks to expand its export controls in areas from AI to biotechnology, such regulations should be constructed and managed in coordination with Middle Eastern partners. A coordination mechanism of this kind would signal to the U.S.' partners in the region that there is a shift in our perception of their strategic importance.

Third, the United States should propose establishing minilateral academic working groups to further the efforts previously outlined. I recommend that these working groups draw from multidisciplinary talent for collaboration on the refinement of benchmarks used to evaluate competencies of state-of-the-art AI systems in commercially sensitive subfields, including Natural Language Processing and Computer Vision.

Finally, the United States should also establish scientific collaboration through working groups and workshops to construct a research agenda and finance joint scientific projects. While the big-data approach embodied in systems like OpenAI's ChatGPT will continue to have its potential scoured by researchers around the globe, non-negligible inefficiencies in hardware, data, and energy requirements should be mitigated in the long-run.

The United States and its Middle Eastern partners stand to benefit from one another in these joint technology efforts. The U.S. should explore these benefits without viewing its partners in the region solely through the lens of great power competition.

**OPENING STATEMENT OF KAREN YOUNG, SENIOR RESEARCH SCHOLAR,
CENTER ON GLOBAL ENERGY POLICY AT COLUMBIA SIPA**

DR. YOUNG: Thank you. Thank you for this opportunity to share my views and research on the relationship between the Middle East and China. I'm going to center my remarks on the Gulf Arab states, drawing on some previous and forthcoming publications.

I would like to open my remarks with some framing of the geopolitical environment in which the Gulf states operate and their consideration of Chinese investment in trade relations. I see the geopolitics of the current age as more than great power competition between the U.S. and China.

I think it's a false narrative to limit the role of developing economies of the global south to aligning themselves with one side or the other. While we may indeed be in some interregnum period of heightened risk of conflict, I think there are broader economic trends that may be more important in the shaping of our future global political economy.

In this new economy, it is precisely the role of developing countries that will set the pace and geography of trade, as well as relationships between new trade partners and intermediaries.

In this sense, the Gulf is not between the U.S. and China, but one center or node of new trade routes and a changing energy demand landscape, new manufacturing locales, each positioning the Gulf Arab states of the Arabian Peninsula (notably Saudi Arabia and the UAE) as a burgeoning logistics hub and artery of the global economy.

Understanding Gulf positionality in a new global trade environment requires a framing of emerging market growth and connectivity.

The New Silk Road is one way of describing this geography and burgeoning economic regrouping. Stretching from East Asia to Morocco in North Africa, this is a grouping encompassing 50 countries and 4.9 billion people, including eight out of the world's top 20 economies, with a share of global gross domestic product of over 40 percent, likely to reach 48 percent by 2040.

In this sense, it's both trade and investment that are coupling in the Gulf to deploy its scale across a wide geography of increasing energy demand and consumer product demand.

To this effect, the Gulf is a hub of both capital and logistics. It's strengths, I think, are in four factors related to its geography, its access to capital and ability to deploy it swiftly, its gratuitous political access via economic statecraft to sites of emerging growth, and fourth, with their deep expertise in energy product delivery that can serve through an energy transition.

The weaknesses of the Gulf are entirely political, in that its entrepot position both geographically and politically depends on access to U.S. capital markets and a defense umbrella, alongside access to trade and consumer markets across emerging Asia and Africa, with a special relationship to China and India.

Indeed, where we find the largest investment and growth in trade infrastructure, particularly in ports, tends to be in Asia and the Gulf. Current projects in global port infrastructure investment stand at about \$500 billion, half of that in the Middle East and South and Southeast Asia.

New port construction in the GCC states in the last year includes plans to build a new terminal at Ras Al Khaimah in the UAE, with a contract awarded to China Harbour Engineering. The port connections between the Gulf and China include contracting services as well as trade. Chinese contractors are frequently winning awards for port expansions and in collaborations or joint ventures in industrial zones around Gulf ports.

And it's that industrial activity that is usually related to the energy sector in refineries, crude, or refined product storage or the transport of energy and new energy products, including green steel, critical minerals for EV production.

I would highlight that the GCC states own, or are operating, building, and investing in a wide set of regional port infrastructure, many with Chinese operators, investors, or contracting awardees, including in Yemen, Oman, Saudi Arabia, and the UAE.

There has been considerable interest and speculation about the possibilities of a more inter-connected rail system to boost intra-regional trade and to support burgeoning efforts at east-west trade corridors from India to the Mediterranean and on to Europe.

The GCC rail project has been a point of discussion for over a decade, and there are projects in the Gulf which are not directly related or even in connectivity to the proposed Indian-Middle East economic corridor, including the UAE-Oman links, which focuses on rail transport of iron from the Sohar port, and new investors from Saudi Arabia and Brazil's Vale.

The Saudi-China Land Bridge Consortium, a joint venture of Saudi Railway Company and China Civil Engineering Construction, reported in November '23 its final stages of negotiation with contractors of the project.

That'll be a six-line railway that connects east-west across Saudi Arabia. These policies are distinct from the IMEC project. In the shorter term, transporting goods to and from China via air, rail, and sea continues to grow driven by Chinese e-commerce and fast fashion and discount retail.

While the oil and gas create dominate growth between Gulf and Asia right now, the expansion extends beyond oil. Non-oil sectors, particularly technology, are vital for the economic diversification of the Gulf. In 2010, for example, around 42 percent of Gulf trade was with advanced economies.

By 2022, advanced economies shared just 34 percent of Gulf trade with rising shares from emerging Asia. The Gulf needs China as an export energy market, but any political relationship with China carries limited benefits. China will likely need the Gulf states less in 20 to 30 years as a source of hydrocarbons.

China will also seek to be in some of the same businesses the Gulf states seek to dominate, specifically in renewable energy like solar, but also in contracting or construction businesses for infrastructure development across the region.

China's overcapacity in production in some products like solar panels, is a synergy for Gulf solar power developers and also serves state interest in building and manufacturing facilities. New products from iron and steel and lower carbon versions of these heavy industry are attractive, especially if the power source to build them is cheap and plentiful, along with the port facilities to move them.

China's financial institutions are also making inroads in the Gulf with Chinese banks recently serving as arrangers for some of the first UAE federal bond issuance.

The synergy now created by Chinese economic statecraft and Gulf states increase in orientation eastward is a powerful force that will affect patterns of investment in emerging markets, but also practices of development finance, plus concrete construction, and ideas about the appropriate governance of markets.

When it comes to foreign direct investment, aid capital expenditure, and job creation, China is often characterized as an investor of choice. It's erroneously labeled as the region's most important source of FDI. This happens in places, but not consistently across the region.

And often the Gulf states are a major source of FDI in that same geography.

My policy recommendation, just to sum up, is that we might better frame the challenge as how to engage emerging market economies in their trade, energy, and development needs, and to bridge policy and development finance options to support those changes.

A change in tone to recognize the vitality and centrality of growth outside of advanced economies might also be a diplomatic advantage to the United States. Thank you for this opportunity.

**PREPARED STATEMENT OF KAREN YOUNG, SENIOR RESEARCH SCHOLAR,
CENTER ON GLOBAL ENERGY POLICY AT COLUMBIA SIPA**

April 19, 2024

Karen E. Young, Ph.D.
Senior Research Scholar
Columbia University, Center on Global Energy Policy

Testimony before the U.S.-China Economic and Security Review Commission
USCC Hearing on “China and the Middle East”

Panel 1: Energy, Investment, and Economic Interests
Witness Topic: BRI and the Evolution of Chinese Investment in the Region

China's Trade, Investment and Contracting Relations in the Arabian Peninsula

Madam Chairperson and Members of the Commission, Thank you for this opportunity to share my views and research on the relationship between the Gulf Arab states (Gulf states) and China. I would like to open my remarks with some framing of the geopolitical environment in which the Gulf states operate, and their consideration of Chinese investment and trade relations. I will center my remarks on the Gulf rather than the entire Middle East and North Africa but will draw on some data from my recent book, *Gulf Economic Statecraft: Deploying Aid, Investment and Development Across the Middle East, North Africa, and Pakistan* (MENAP) and some of my previous and forthcoming publications on Gulf-China economic ties.

Introduction and Framing the Gulf-China Geopolitical Relationship¹

The geopolitics of the current age are more than great power competition between the United States and China; it is a false narrative to limit the role of developing economies of the Global South to aligning themselves with one side or the other. While we may indeed be in some inter-regnum period of heightened risk of conflict, there are broader economic trends that may be more important in the shaping of our future global political economy. And in this new global economy, it is precisely the role of developing countries that will set the pace and geography of trade as well as relationships between new trade partners and intermediaries. New trade routes, investment partnerships, energy demand, and adaptation of technology within and among developing economies will shape new political relationships and build multiple new centers of economic power. The Gulf is not between the US and China, but one center or node of new trade routes and a changing energy demand landscape, new manufacturing locales, each positioning the Gulf Arab states of the Arabian Peninsula (most notably two: Saudi Arabia and the United Arab Emirates (UAE)) as a burgeoning logistics hub and artery of the global economy. There is no fixed center of trade, but rather an eastward shift of intensity.

¹ Forthcoming, Young, K. (2024) "The Gulf as Trade Artery of the World" in *The Reshaping of Global Logistics. Geopolitics, Economics, and Technology Trends*, Italian Institute on International Political Studies (ISPI) and McKinsey & Co.

Gulf Positionality in a New Global Trade Environment

Understanding Gulf positionality in a new global trade environment requires a framing of emerging market economy growth and connectivity. The New Silk Road is one way of describing this geography and burgeoning economic regrouping. Stretching from East Asia to Morocco in North Africa, a New Silk Road grouping encompasses 50 countries and 4.9 billion people, including eight out of the world's top 20 economies. Its share of global gross domestic product (GDP) has risen to 40 percent and consultancy Oliver Wyman estimates this will reach 48 percent by 2040.² Global trade is more concentrated among emerging market economies. This transition has been underway for some time. Since 2010, emerging markets have been a global source of export activity, accounting for nearly 45 percent of global exports compared with only 25 percent in 1996 and this growth is not driven solely by China, as researchers at the Federal Reserve demonstrate.³ Integration into global financial markets is also part of the new geography of trade, and a point of connection at which the Gulf states excel. New Silk Road firms, or those based across emerging markets of Asia and the Middle East, account for 221 of Fortune 500 firms.⁴

The New Silk Road defines the complexity of global supply chains, including the flexibility created by a China+1 trend, in which relocating manufacturing out of China in turn creates opportunities for other developing countries in Asia, as well as external regional investors. The use of financial markets and investment vehicles build a web connecting capital within emerging market economies. Because so much capital is concentrated in the Gulf, there are unique opportunities for Gulf state investment vehicles, many with mandates to invest more in Asia and to allocate towards clean energy projects.

The strength of the grouping will depend on its ability to adapt technology in its manufacturing for renewable energy supply chains. For example, India's ability to ramp up its production of solar panels will integrate it both more with developed markets in North America and Europe, but more likely with the kinds of firms growing in the Gulf to expand solar power production at home and through their state-owned firms building solar power plants across Africa and West Asia. In this sense, it is both trade and investment that are coupling in the Gulf to deploy at scale across a wide geography of increasing energy demand and consumer product demand. To this effect, the Gulf is a hub of both capital and logistics. Its strengths lay in four factors and trendlines discussed below, related to: 1) geography, 2) access to capital and ability to deploy it swiftly, 3) fortuitous access to sites of emerging growth, and 4) a deep expertise in energy product delivery that can serve through an energy transition.

² Adel Alfalasi and Ben Simpfordorfer (2024) "The New Silk Road: Growth, Connection and Opportunity", Oliver Wyman. <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2024/mar/the-new-silk-road-complete-series.pdf>

³ Reyes-Heróles, Ricardo, Sharon Trailberman and Eva Van Leemput (2020). Emerging Markets and the New Geography of Trade: The Effects of Rising Trade Barriers. International Finance Discussion Papers 1278, pp. 4-5. <https://www.federalreserve.gov/econres/ifdp/files/ifdp1278.pdf>

⁴ Adel Alfalasi and Ben Simpfordorfer (2024) "The New Silk Road: Growth, Connection and Opportunity", Oliver Wyman. <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2024/mar/the-new-silk-road-complete-series.pdf>

The weaknesses of the Gulf are entirely political, in that its entrepot position both geographically and politically depends on access to US capital markets and a defense umbrella, alongside access to trade and consumer markets across emerging Asia and Africa, with a special relationship to China and India.

Gulf Infrastructure on Call

Indeed, where we find the largest investment and growth in trade infrastructure, especially ports, tends to be in both Asia and the Gulf. MEED reports that current projects in global port infrastructure investment in early 2024 (including early pre-planning stages of announcement and study, through to execution) stand with a combined value of \$497bn.⁵ Southeast Asia has the highest share of the pipeline value, standing at \$84.5bn, followed by the Middle East and North Africa region at \$73.2bn and South Asia at \$73.1bn. New port construction in the Gulf Cooperation Council (GCC) states in the last year includes plans to build a new terminal at Ras Al Khaimah in the UAE, with a contract awarded to China Harbour Engineering (Chec). Also, in Jeddah Islamic Port, Bahri Logistics began construction on a new logistics and distribution center in March 2024. AD Ports Group (Abu Dhabi government-owned) signed an agreement in partnership with the Red Sea Ports in Egypt. Ports in the Gulf (and Middle East more broadly) often rank as the most efficient ports in the world, according to regular World Bank and S&P Global Market Intelligence container port performance index.⁶ The port connections between the Gulf and China include contracting services as well as trade. Chinese contractors are frequently winning awards for port expansions and in collaborations or joint ventures in industrial zones around Gulf ports, and that industrial activity is usually related to the energy sector (e.g., refineries, crude, or refined product storage) or the transport of energy and new energy products (e.g., green steel, critical minerals for EV production, etc.)

To this end, the GCC states own, or are operating, building, and investing in the current set of regional⁷ port infrastructure, some with Chinese investment and contracting awards:

1. Port of Jebel Ali (UAE)

Owned by Government of Dubai, operated by DP World.

2. Port of Salalah (Oman)

Owned by Government of Oman, operated by APM Terminals (subsidiary of Maersk Group)

3. Port of Djibouti (Djibouti). Owned by Government of Djibouti, formerly operated by DP World, and after government take-over (2018) now operated by Djibouti Ports and Free Zones Authority.

⁵ Middle East Economic Digest (MEED) (2024). "Global Economy Needs More Port Infrastructure." <https://www.meed.com/global-economy-needs-more-port-infrastructure>

⁶ World Bank Group (2022). Middle East container ports are the most efficient in the world." <https://www.worldbank.org/en/news/press-release/2022/05/25/middle-east-container-ports-are-the-most-efficient-in-the-world>

⁷ There are important expansions of Gulf port operators outside of the Gulf region, including East and West coasts of Africa. See work by Eleonora Ardemagni (2023) "One Port, One Node: The Emirati Geostrategic Road to Africa," ISPI. <https://www.ispionline.it/en/publication/one-port-one-node-the-emirati-geostrategic-road-to-africa-131893>

4. Port of Aden (Yemen)

Owned by the Government of Yemen, operated by multiple firms, including DP World and China Merchants Port Holdings and local Yemeni authorities.

5. Port of Berbera (Somaliland, Somalia), owned by the Government of Somaliland and operated by DP World.

6. Port of Aqaba (Jordan), owned by Government of Jordan, operated by Aqaba Development Corporation (ADC), but recently AD Ports Group (Abu Dhabi government-owned) and ADC signed a joint venture (51% stake held by AD Ports Group subsidiary Maqta Gateway) to create an operating company Maqta Ayla to streamline operations at the port and in road trade to Jordan.⁸

7. Port of Duqm (Oman) is owned by the Government of Oman and operated by Port of Duqm Company, a government entity. There is investment in the special economic zone as part of Duqm, including a committed \$3.7bn development plan over 30 years from China's Oman Wanfang.⁹ That has been slow to materialize. Though an investment from Kuwait to build an oil refinery in Duqm has already paid dividends given its strategic location outside of both the Red Sea and Strait of Hormuz, given recent conflict in the region.¹⁰

8. Jeddah Islamic Port (JIP) is one of the oldest ports in Saudi Arabia, recently deepened and expanded to more than double container capacity to 6.2 million containers spread over 11 platforms.¹¹ The terminal facility is operated by DP World.

9. Ras Al-Khair Port (Saudi Arabia) Located in the Eastern Province of Saudi Arabia is part of an industrial zone serving the Ma'aden phosphate and aluminum plants, among other facilities like the Shanghai-based Baoshan Iron and Steel Co. recent \$4bn investment in the Ras Al-Khair special economic zone to manufacture steel plates.¹²

10. Dhiba Port (Saudi Arabia) Located near the NEOM project and its Oxygen industrial zone on the Red Sea coast, this port is under expansion plans to handle 3.5-4-million-ton equivalent units (TEUs) by 2030. (For comparison, Jebel Ali has a capacity over 19 million TEUs.)¹³ The port is near the Jordanian border and could play an instrumental role in broader Middle East and North

⁸ Sambidge, A. (2024, February 16). "AD ports deal to transform Jordan's Aqaba," Arabian Gulf Business Insight. <https://www.agbi.com/trade/2024/02/ad-ports-deal-to-transform-jordans-aqaba/>

⁹ Aguinaldo, J. (2017, April 4). "Chinese investor mobilises for Duqm Project," MEED. <https://www.meed.com/chinese-investor-mobilises-for-duqm-project/>

¹⁰ Paola, A. D. (2024, February 8). "Duqm oil refinery cranks up output as fuel cargoes avoid Red Sea," Bloomberg. <https://www.bloomberg.com/news/articles/2024-02-08/new-oil-refinery-cranks-up-output-as-fuel-cargoes-avoid-red-sea>

¹¹ Hammond, A. (2024, February 16). "Expansion of Jeddah Islamic Port complete," Arabian Gulf Business Insight. <https://www.agbi.com/logistics/2024/02/expansion-of-jeddah-islamic-port-complete/#:~:text=The%20project%20to%20deepen%20and,11%20platforms%2C%20a%20statement%20said.>

¹² Arab News (2023, May 30). "China's Baoshan Iron and Steel Co. invests \$4bn in Ras al-Khair Economic Zone," Arab News. <https://www.arabnews.com/node/2312891/business-economy>

¹³ Nereim, V. (2021, November 25). "Saudi prince's 'NEOM' to expand port to rival region's biggest," Bloomberg. <https://www.bloomberg.com/news/articles/2021-11-25/saudi-prince-s-neom-to-expand-port-to-rival-region-s-biggest>

Africa (MENA) connectivity for Saudi exports, in some ways in an alternative route proposed by the India-Middle East Economic Corridor (discussed below).

11. Yanbu Commercial Port (Saudi Arabia) Located also on the Red Sea coast in the Madinah region, the port is under expansion of berths, terminals, and ability to accommodate larger vessels.

12. Ras al Khaimah (UAE) Saqr Port and the RAK Free Zone and Maritime Zone are all part of RAK Ports. An expansion in 2019 included two deep water Capesize berths at Saqr Port, with annual capacity at 95 million tons, one of the largest dry bulk ports in the world. A 2024 contract awarded to China Harbor Engineering Company (Chec) will support a new steel sheet pile wharf, dredging and widening of the channel.¹⁴

13. Abu Dhabi Ports Group (UAE) operates 10 ports in the UAE, including the Khalifa Port in Abu Dhabi, in a set of commercial ports and terminals, along with community ports and tourist cruise terminals. Beyond east-west trade, the Khalifa Port and economic trade zone (KEZAD) are home to industrial processing, including a new agreement with Titan to import lithium mined in Zimbabwe to be processed into battery-grade lithium carbonate and lithium hydroxide for battery manufacturers and electric vehicle original equipment manufacturers in KEZAD.¹⁵ Abu Dhabi Ports Group also wholly owns the Port of Fujairah in the northern UAE, which is the third largest bunkering hub in the world, with more than 10 million cubic meters of crude and oil products storage capacity.¹⁶

GCC Rail

There has been considerable interest and speculation about the possibilities of a more inter-connected rail system to boost intra-regional trade and to support burgeoning efforts at east-west trade corridors from India to the Mediterranean and on to Europe. The GCC rail project has been a point of discussion for over a decade, when the Gulf Railway project was approved at the 30th GCC summit in Kuwait City in December 2009, with a completion date set for 2018. The steep decline in oil prices in 2016 created the first delay in project awards, but by 2017, the GCC dispute (formally between June 2017- January 2021) between the UAE, Saudi Arabia, Bahrain, and Egypt with neighbor Qatar disrupted all chances of regional economic integration. With the Al Ula agreement, the GCC secretariat in January 2021 effectively restarted the project, though the six member states are in different stages of new tenders and awards. GCC leaders approved the establishment of the GCC Rail Authority in January 2022. That same year, Oman and the UAE established the Oman-Etihad Rail Company to implement a 303-kilometre network, supported by a Mubadala investment. Not for passengers or necessarily consumer products, the utility of the rail network lies in energy and logistics supply chains. Oman-Etihad Rail Company signed a memorandum of understanding (MoU) with Brazilian mining company Vale to explore

¹⁴ Iqbal, Y. (2024, March 5). "Chinese contractor wins Ras Al Khaimah port upgrade," MEED. <https://www.meed.com/contractor-wins-ras-al-khaimah-port-upgrade-project>

¹⁵ Iqbal, Y. (2024a, February 14). "Titan to establish \$1.4bn KEZAD Lithium Plant," MEED. <https://www.meed.com/titan-to-establish-14bn-kezad-lithium-plant>

¹⁶ About Us - Trade Logistics Hub. Fujairah Terminals. (2023, March 16). <https://www.fujairahterminals.ae/about-us/#:~:text=Wholly%20owned%20by%20AD%20Ports,cruise%20business%20at%20the%20Port.>

using rail to transport iron ore and its derivatives between Oman and the UAE, connecting Vale's industrial complex in Oman's Sohar Port and Freezone and a planned hub in Abu Dhabi. Vale is the same firm in which the Saudi PIF and state mining company Maaden recently acquired a ten percent stake. Oman and Saudi Arabia plan to establish a railway link connecting Duqm with Riyadh through the Ibri border, for a planned economic zone in the Al-Dhahirah area.

Inside of Saudi Arabia, the land bridge project has potential for considerable efficiencies and expansion of trade networks. As Saudi Arabia plans to integrate rail with sea and dry ports, the \$7bn Saudi land bridge rail project recently began tenders for project management, with an award to US-based Hill International, Italy's Italferr and Spain's Sener in December 2023. The Saudi China land bridge consortium, a joint venture of Saudi Railway Company and China Civil Engineering Construction, reported in November 2023 its final stages of negotiation with contractors for the project.¹⁷ When finished, the six-line railway will connect Jubail and Damman to Jeddah and Yanbu, running east to west across Saudi Arabia with 1,500 km of rail lines. The Red Sea ports of Saudi Arabia have been somewhat shielded by recent attacks from the Houthis on sea transit, as they are based farther north. East-west transit avoids the Strait of Hormuz and has the advantage of Saudi port networks on the Red Sea coast.

India-Middle East Economic Corridor¹⁸

At the September 2023 G20 meeting, host country India along with the United States, the European Union, France, Germany, Italy, Saudi Arabia, and the United Arab Emirates (UAE) signed a memorandum of understanding, a non-binding commitment, to work towards building two separate "corridors", essentially envisioning a political line that is connected by some new and some existing, or already under construction, physical infrastructure. The east corridor envisions connecting India to the Arabian Gulf and the northern corridor connecting the Arabian Gulf to Europe. Its most visible infrastructure project is an old-fashioned railway, as a ship-to-rail transit network enabling goods and services to transit to, from, and between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe. More important is what else would go along the rail line, including the laying of cable for electricity and digital connectivity, and most critically, a conduit for clean hydrogen export from the Gulf to Europe.

The IMEC is part of a larger collaboration among G7 governments, international financial institutions and private (mostly US) infrastructure investors. In a belated policy response to China's BRI, the US government, and partners in the G7 announced a Partnership for Global Infrastructure and Investment (PGII) in May of 2023.¹⁹ The intention is to politically support more blended finance for clean power, transport, health, and climate resilient infrastructure in low and middle-income countries. The IMEC does not neatly fit into the PGII initiatives either,

¹⁷ Foreman, C. (2023, December 7). Firms win Saudi land bridge. MEED. <https://www.meed.com/firms-win-saudi-landbridge>

¹⁸ This passage draws from Young (2023) "All you need to know about the India-Middle East Economic Corridor," *Al Majalla*, November 4, 2023. <https://en.majalla.com/node/303536/politics/all-you-need-know-about-india-middle-east-europe-economic-corridor>

¹⁹ The White House (2023) Fact sheet: Partnership for global infrastructure and investment at the G7 summit. May 20, 2023. <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/>

as it is not an accelerator of clean energy finance and the countries it connects are not all low or middle income. The IMEC does serve broader energy security goals for European nations and allows the United States to advance a national security goal in supporting regional economic integration by knitting together its strategic partners Israel and Saudi Arabia, at least by rail.

The IMEC corridor is a Western political imagining of balancing in a multipolar system, mainly adding states to its side of the balance sheet in a future conflict with China. The IMEC corridor provides something for all, including China. The Gulf (and the UAE in particular) is already the most important re-export source of Chinese goods in the region. An additional corridor by land would only facilitate that existing capacity from Jebel Ali. The question is, if the new route is any faster, cheaper, or safer than existing sea routes. It still navigates the Strait of Hormuz and depends on another sensitive location at Israel's Haifa, a port now managed by an Indian conglomerate that is backed by Emirati state investment.²⁰ The UAE is most advantaged in cementing its trade ties with India and growing new investments in strategic infrastructure assets through Israel, the Eastern Mediterranean, and on to Europe. Despite the GCC rail network plan coming back in motion, Oman is not a signatory of the IMEC memorandum of understanding and its new port development on the Arabian Sea at Duqm, much closer to India, would not be part of the corridor.

The Gulf Logistics Thesis

The Gulf central logistics thesis rests on four factors and trends:

1) A central geographical location. The location of GCC countries is an advantage because transporting renewable energy over long distances, whether in the form of electricity or hydrogen, is costly. As the cost of producing renewable electricity and hydrogen continues to decline, transportation's share in the overall cost structure will increase. The GCC countries offer comparatively easy access to large import markets in both Europe and Asia, as well as to developing markets such as those within Africa. The Gulf states benefit not only in the shifts in inter-Asian trade occurring, as manufacturing moves from China into other Association of Southeast Asian Nations (ASEAN) countries, but also in the Gulf's proximity to India. As higher tech manufacturing also moves to India, the evolution of supply chains in renewable energy, especially in EV manufacturing and solar panel components, will benefit Gulf solar companies expanding abroad and new car manufacturing efforts at home, as well as intermediary positions in export to Africa and beyond. As a center of a new energy market, across products from electricity transmission (from solar and nuclear power), green and blue hydrogen fuels, and new energy products, the Gulf has a key advantage.

2) The Gulf states benefit in their geographic location as an intermediary of trade between high growth areas in Africa and the Middle East and Asia, but perhaps as much or more in their role as financial intermediaries and investors in infrastructure, both at home and abroad. While the cost of capital is rising given global inflationary pressures, Gulf governments and their state

²⁰ Elbahrawy, F., & Shrivastava, B. (2023, January 30). "Adani enterprises FPO: Abu Dhabi's IHC invests \$400 million in Adani Share Offer," Bloomberg. <https://www.bloomberg.com/news/articles/2023-01-30/abu-dhabi-s-ihc-invests-400-million-in-adani-share-offering>

investment vehicles have a plethora of institutions on hand to access capital markets at favorable interest rates compared to other emerging market economies. They can leverage state firms to borrow against and can issue partial privatizations to raise capital; this strategy has been essential to Saudi Arabia's Vision 2030 objectives, including raising the capital needed domestic infrastructure for trade networks. GCC states can deploy capital at scale for infrastructure for the energy transition and in transport systems. The IMF predicts that Southeast Asia, South Asia, and Sub-Saharan Africa will be central to future trade growth. It expects China's influence on global trade growth to wane as trade becomes more diversified across many countries. By 2026, it is expected that emerging economies will account for 45 percent of trade growth. The GCC states are best positioned as investors and operators of major infrastructure projects, from ports to power plants, in these growth areas.

3) Trade growth and density is changing with e-commerce trends, demand for sustainable materials like green steel, materials for low carbon products like EVs, and increasing the volume of trade between China and ASEAN and Silk Road countries. E-commerce trends across developing economies will require additional air cargo. Gulf state carriers are capitalized and expanding. GCC investment can also benefit from the relocation of manufacturing from China into other Asian locations, creating new co-investment opportunities with Chinese firms and new export routes by sea and air cargo for Gulf carriers. Air cargo is a growing market and the ability to finance and run state-owned carriers is a critical advantage. The growing trend of e-commerce, especially in apparel and household goods from Chinese discount retailers, is transforming the air cargo sector. According to the IATA, one in five parcels currently transported has been purchased online, and the figure is set to grow to one in three by 2027.²¹ E-commerce within the GCC is also booming, as traditional point of sale retail is increasingly shared by on-line purchases and delivery. In the UAE, the Ministry of Economy finds just 4.2 percent of retail is e-commerce, the largest in the MENA region, with clear room for growth.²²

As China's lower-end industrial sectors relocate towards ASEAN countries, there are opportunities for more labor-intensive manufacturing for leather, textiles, ceramics, and glass along with companies in solar, electric vehicles and lithium battery assembly processing. And while countries like Vietnam, Thailand, and Indonesia benefit, so too does Morocco, Jordan, and Egypt, as well as India as competitive labor sites. This shift in where consumption on the one hand and manufacturing and assembly happens on the other, is rapidly changing the trade and investment partners of the Gulf. It is an emerging markets story, but also one of geopolitics and sound national investment strategy.

The long-term growth fundamentals for Gulf-Asia trade are robust. In the shorter term, transporting goods to and from China via air, rail and sea continues to grow, driven by Chinese e-commerce sites of fast fashion and discount retail. As China increases its trade with ASEAN and its New Silk Road partners, the demand for logistics increases. Trade will increase as Asia's

²¹ Goldstone, C. (2024, March 14). "A 'tsunami of e-commerce growth' on course for Air Cargo," The Loadstar. <https://theloadstar.com/a-tsunami-of-e-commerce-growth-on-course-for-air-cargo/#:~:text=According%20to%20IATA%2C%20one%20out,one%20in%20three%20by%202027.>

²² UAE Ministry of Economy. "Investing in Logistics in the UAE," <https://www.moec.gov.ae/documents/20121/1121099/Logistics+Investment+Heatmap+%282%29.pdf/fd1ee021-917b-b09f-e254-ef9d86769c43?t=1646194073616>

economies, middle-class populations and their demand for energy expand over the next decade. The Gulf's efforts to diversify their economies and develop non-oil sectors, especially in sustainability and technology, will further drive cooperation. While the oil and gas trade dominate growth between the Gulf and Asia now, the expansion extends beyond oil. Non-oil sectors, particularly technology sectors that are vital for the Gulf's economic diversification and digitalization, have played a significant role. In 2010, for example, around 42 percent of Gulf trade was with advanced economies, by 2022, advanced economies shared just 34 percent of Gulf trade, with rising shares from Emerging Asia and other emerging markets.²³

4) Dominating the Energy Business. The Gulf states are best positioned to continue oil and gas production while at the same time leading investment and innovation in renewable energy production, technology, its export, and renewable project development on a wide inter-regional scale with advantage across emerging market economies alongside their position to be partner investors in clean energy policy incentives, like the Partnership to Accelerate Clean Energy (PACE) between the UAE and the United States.²⁴

*China and the Gulf: Necessary Partners*²⁵

The Gulf states are in some ways necessary but insufficient partners in China's political and economic development ambitions. The Belt Road Initiative includes the Persian Gulf in its geographic ambition, but the Gulf is more of an entrepot, a stopover that is not a high population center or high-volume export market for China. For now, China's engagement in the Persian Gulf, from Iran on one side to the Gulf Arab states on the other, has been met with a kind of businesslike acceptance. The oil and gas exporters of the Gulf Cooperation Council find themselves in an unenviable position: China seeks their resources but is less interested in providing or replacing the current US security umbrella. China needs the Gulf (both the Arab Gulf states and Iran) but has other sources of hydrocarbons. The Gulf needs China as an export market, but any political partnership with China carries limited benefits. China will likely need the Gulf states less in twenty years as a source of hydrocarbon resources. And China will also seek to be in some of same businesses that the Gulf states seek to dominate, specifically in renewable energy like solar, but also in contracting or construction businesses for infrastructure development across the Middle East and the Horn of Africa.

There is also substantial variance among the GCC states in their economic linkages with China. Iran's economic ties with China are even more tenuous. Given the restrictions of sanctions over the last decade, more progress has been made in cementing China's economic links to the Arab side of the Gulf. China is neither a monolithic presence across the Middle East, nor an equal partner across the six GCC states. China's leverage as a provider of contracting services and development finance is disparate. And in some cases, even when Beijing has been ready to act as a source of finance, in providing commitments of investment, Gulf states have had second

²³ Asia House (2023) *The Middle East Pivot to Asia*.

²⁴ The White House (2022) Fact sheet: U.S.-UAE Partnership to accelerate transition to clean energy (PACE). The White House. November 1, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/01/fact-sheet-u-s-uae-partnership-to-accelerate-transition-to-clean-energy-pace/>

²⁵ Young, K. (2023) "China and the Gulf: Necessary Partners" chapter 15 in Yahia Zoubir, ed. *Routledge Companion to China and the Middle East and North Africa*, Routledge: London.

thoughts. Iraq is one example; Iran is another. In 2021, Iraq suspended a potential deal to accept \$2 billion for future deliveries of crude oil to China, despite a desperate need for external finance.²⁶ Likewise, the much-lauded 2021 Iran-China investment memorandum of understanding was large on promises (\$400 billion of them over 25 years), but short on specifics, while facing considerable objections in Iranian domestic politics over concerns of a flood of lower priced Chinese goods to the Iranian consumer market.²⁷

My remaining testimony proceeds in the following order. First, what does China see as an endgame in the Gulf? What is the longer-term value of political and economic ties to the Gulf states? Second, how do we explain variance in the location and abundance of economic ties with China, from investments and loans to contracting across the Gulf? And what are the various sources of economic ties and what do they tell us about China's ability to partner in the development and economic diversification goals of the Gulf states? From loans to contracting and commitments of foreign investment, how can we measure or compare the depth of China's economic interests in the Gulf? Third and lastly, what are areas of potential roadblocks ahead in Gulf-China ties, specifically on investments in technology and military capability and areas of strategic competition like electricity generation from renewable energy? And how might China's own demographic transition fit into a larger picture of declining or plateaued demand for traditional hydrocarbon exports from the Gulf? I would argue that while China-Gulf economic ties are increasing, they also come at a moment of tremendous change and expected reconfigurations of global trade, energy markets and consumer demand. These ties will not be static and should be considered as part of larger reconfigurations of population growth and economic activity.

China's Outward Vision for the Gulf

China, via its ruling party, has made very clear how the Middle East is just one part of a much larger outward strategy in its foreign policy and economic growth. In January 2021, China's State Council Information Office issued a white paper entitled "China's International Development Cooperation in the New Era," a detailed policy description of China's approach to international development and how to use its state institutions and private citizens and firms to more firmly establish ties, both economic and political, in developing countries.²⁸ For the Middle East, and for the Gulf Arab states in particular, the Chinese approach to development emphasizes a South-South focus. The rhetoric of a development ideal that is divorced from liberal democratic capitalism and ideals of the West has a certain attraction to the authoritarian capitalist states of the Gulf. There are no impositions on domestic politics, and there is a welcome role for state-related entities, as well as private sector actors in economic development.

²⁶ Al-Ansary, K. (2021) Iraq walks away from \$2B upfront oil deal with China, *World Oil*, 22 February, Available at <https://www.worldoil.com/news/2021/2/20/iraq-walks-away-from-2b-upfront-oil-deal-with-china>

²⁷ Esfandiary, D. (2021) Iran's 'New' Partnership With China Is Just Business as Usual, *World Politics Review*, 22 April, Available at <https://www.worldpoliticsreview.com/articles/29593/the-iran-china-deal-isn-t-all-that>.

²⁸ United Nations Development Program (2021) Brief on White Paper on China's International Development Cooperation in the New Era, 5 February, Available at <https://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/issue-brief---brief-on-white-paper-on-china-s-international-deve.html>.

China formalizes relationships through a hierarchy of partnership agreements. Loosely, these are memoranda of understanding which are not legally binding, but rather aspirational in commitments of investment and levels of diplomatic engagement. From "Friendly Cooperative Partnership" at the lowest level to "Comprehensive Strategic Partnership" at the highest, China engages the Middle East and the Gulf in proportion to its own development objectives.²⁹ For that reason, the countries with the highest level of "partnership" are those that are most valuable to China as a source of energy products, as geographic locations for re-export with good port infrastructure, and those that are open to awarding Chinese contracting firms opportunities. China has a "strategic partnership", the second highest level of engagement, with at least a dozen Middle East states. But its "comprehensive strategic partnerships" are reserved for a few: Iran, Saudi Arabia, the United Arab Emirates, Egypt, and Algeria.

China and Iran have been slowly socializing a strategic partnership since 2016, also the year China released its "Arab Policy Paper," outlining general areas of trade and cooperation with the Middle East more broadly, making little distinction between Arab and non-Arab regional partnerships. Iran was also the site of a high-level visit by President Xi Jinping in 2016, as was Saudi Arabia.³⁰ Iran's "comprehensive strategic partnership" with Iran is less a breakthrough about the 25-year, \$400 billion investment commitment, which is not binding or real cash on the table now, but about the "sanctions free" nature of the partnership. China has made an interjection in Gulf regional politics based on economic rationale, but that is highly contentious not just with Arab state partners, but also with the United States. China needs Iran as a source (but not its only source) of reliable and inexpensive oil supply. Iran needs China more as a diplomatic wedge to the United States. Iran has feared becoming a dumping ground of cheap Chinese goods; the "sanctions free" nature of the Chinese relationship is what has been necessary to gain Iranian domestic support for the strengthening of bilateral ties.

If US sanctions on Iran's oil exports are lifted or eased as part of a return to the Joint Comprehensive Plan of Action, oil prices may weaken further given a global supply glut.³¹ But there is some question of how much impact Iran's exports to China would have on existing market share supplied by Saudi Arabia and other Gulf Arab states: probably not much, though Saudi Arabia will not welcome the return of Iranian oil to markets, especially if Iran has agreed to sell at steep discounts. China is also not likely to stop buying from Gulf Arab partners, given shared co-investments in refineries and petrochemical facilities across the wider region. All have become connected, willingly, or not.

²⁹ Fulton, J. (2019) China's Changing Role in the Middle East, *Atlantic Council*, June, Available at: https://www.atlanticcouncil.org/wp-content/uploads/2019/06/Chinas_Changing_Role_in_the_Middle_East.pdf.

³⁰ Perlez, J. (2016) President Xi Jinping of China Is All Business in Middle East Visit, *New York Times*, 30 January, Available at: <https://www.nytimes.com/2016/01/31/world/asia/xi-jinping-visits-saudi-iran.html>.

³¹ Gordon, M. (2021) Iran oil sanctions relief expected in months if Vienna talks result in deal, *S&P Global*, 6 May, Available at: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/050621-iran-oil-sanctions-relief-expected-in-months-if-vienna-talks-result-in-deal>.

For the United States, China's ability to be an economic and political actor across the Persian Gulf can be threatening. The problem with viewing China as a great power competitor in the Middle East is that China is competing in entirely different mechanisms than the United States. The goal for China is not to be a security umbrella, a regional alliance or solely to gain a market for exports. China is after energy resources and strategic locations for its trade and transport security, which means it is invested in certain choke points in the Middle East, Horn of Africa, and Indian Ocean. And China has made relationship-building a priority, as these "comprehensive strategic partnerships" signify.

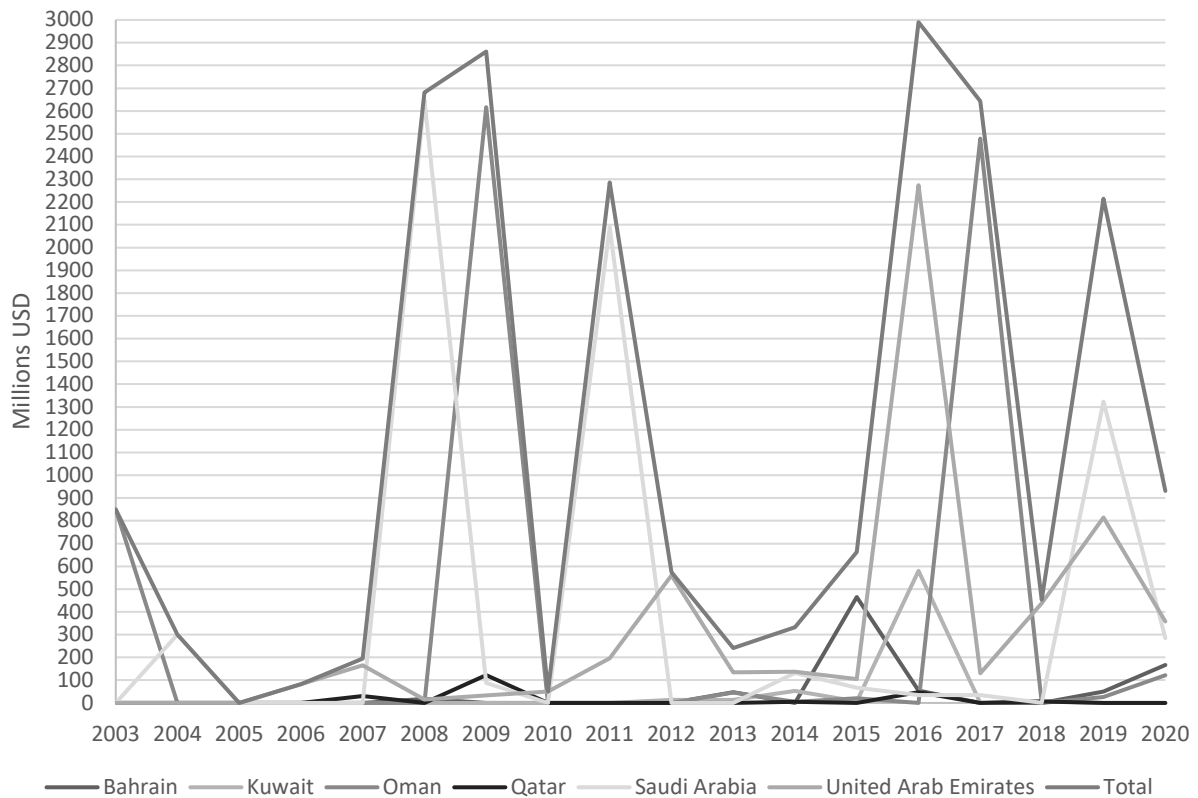
Variance in China-Gulf Economic Ties

Iran is not nearly as attractive as an investment destination to China as the Gulf Arab states can be. There is an energy imperative to China's investments and partnerships in the Gulf, mostly concentrated in Saudi Arabia and the UAE for now. Interestingly, new partnerships and co-investments include areas of potential competition, as the Gulf Arab states develop expertise in renewable, especially solar energy production, and as Gulf national oil companies begin a diversification strategy to privatize some pipelines and state port facility assets. Trade and finance have come second in importance, though China has steadily increased the presence of its banking sector in the United Arab Emirates and increased its ability to win contracting awards for its construction companies working in the Gulf Arab states.

In data collected by fDi Markets, a Financial Times company, the stand-out recipients of Chinese foreign direct investment from 2003-2020 are three states in the Gulf Cooperation Council (GCC): Oman, Saudi Arabia, and the United Arab Emirates.

Figure 1: Chinese Capital Investments in the GCC (2003-2020)
source: fDi Markets

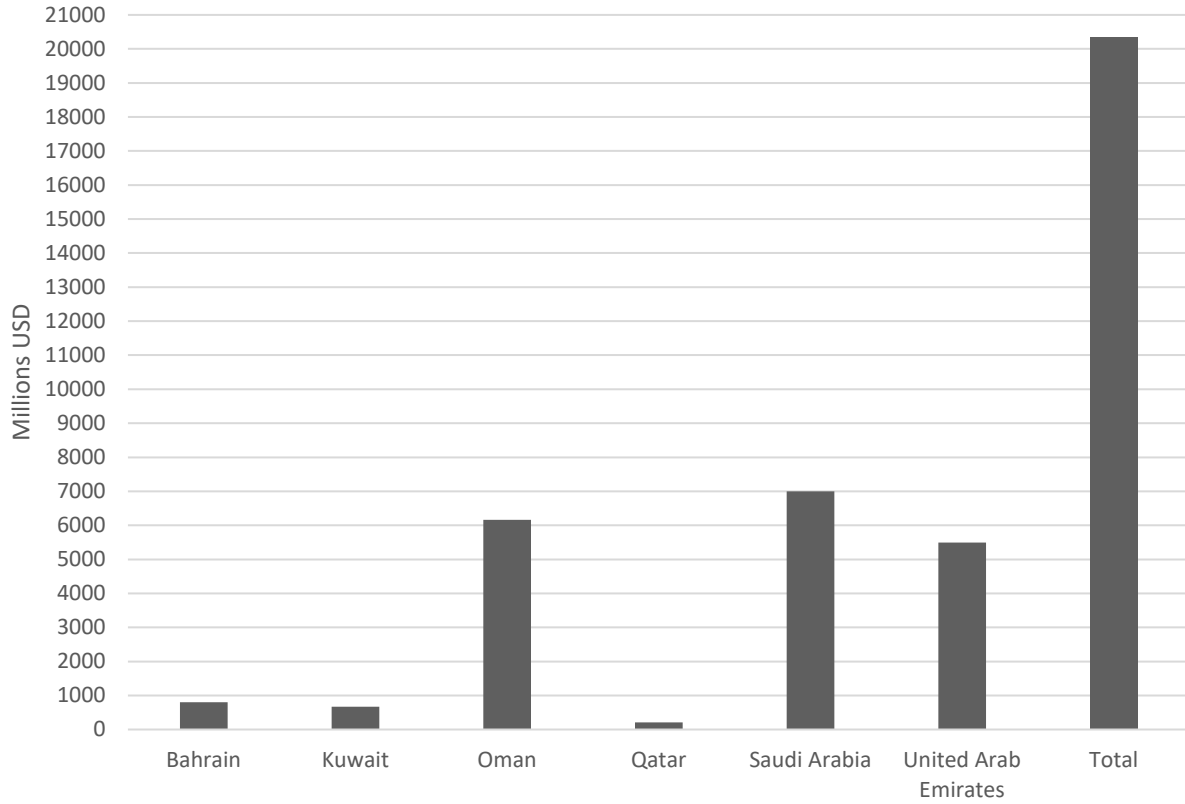
Chinese Capital Investments in the GCC (2003-2020)



In terms of job creation, these same three states are the most intense sites of Chinese investment intervention in the GCC, but not necessarily in creation of jobs for nationals, as low wage foreign workers account for most of the construction sector.

Figure 2: Total Chinese Capital Investments in the GCC (2003-2020)
Source: fDi Markets

Total Chinese Capital Investments in the GCC (2003-2020)

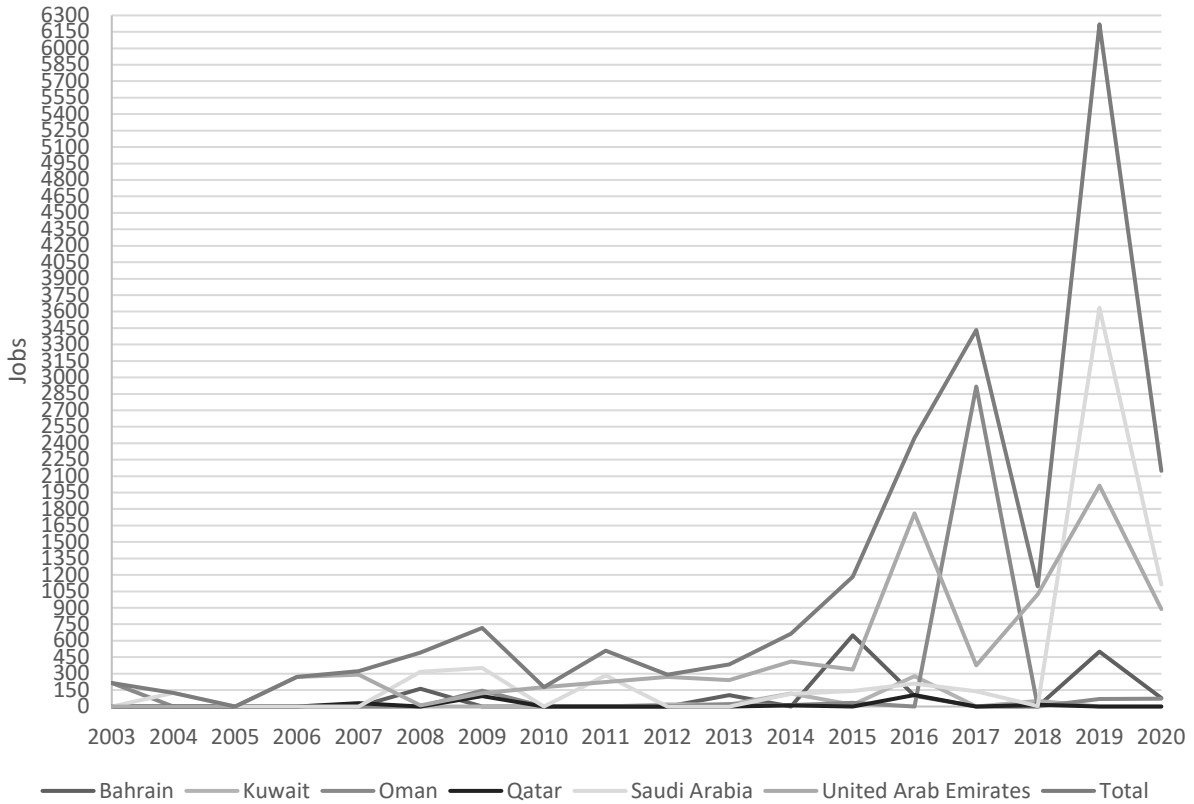


In terms of the variability over time in Chinese job creation in the GCC, the sharp increase job creation after 2016 is most evident, pointing to more contract awards in the construction sector.

Figure 3: Chinese Job Creation in the GCC (2003-2020)

Source: fDi Markets

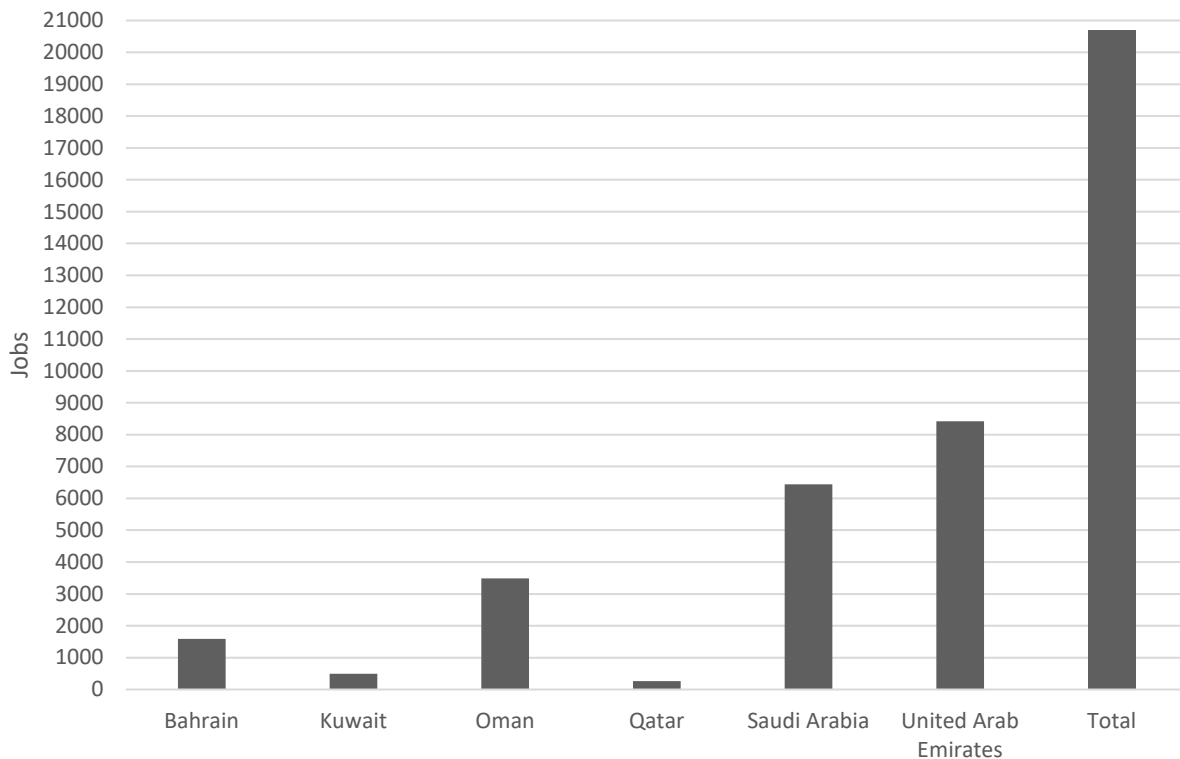
Jobs Created by Chinese Companies in the GCC (2003-2020)



In terms of Chinese capital investment flows to the GCC between 2003 and 2020, we see at least three periods of spikes or sharp increases, in the period around 2008, 2011 and 2016. The other trendline that emerges is the variability in those states most "favored" by China in its economic linkages.

Figure 4: Total Jobs Created by Chinese Companies in the GCC (2003-2020)
Source: fDi Markets

Total Jobs Created by Chinese Companies in the GCC (2003-2020)



The UAE is certainly emergent in that trend now, though competition between Gulf national oil companies in attracting investment partners in partial privatizations means China also has a bit of new leverage.

China's direct economic gains in the wider Middle East relied mostly on winning contracting awards from Gulf governments, including a recent award in Etihad rail in the UAE (Bhatia, 2020). As part of strategic partnerships, there is also equal interest from the Gulf side to become a part of the China One Belt One Road initiative. The appointment of Chinese contractors to Gulf infrastructure projects is a complementary Gulf state policy objective, as evidenced by Dubai Silk Road strategy, which comprises 9 initiatives and 33 projects aimed at enhancing the emirate's trade and logistics capacity.³²

After Saudi Crown Prince Mohamed bin Salman's state visit to China in 2019, investors signed \$28bn worth of MOUs for projects in Saudi Arabia, including construction sector agreements with China State Construction Engineering Corporation (CSCEC), including an agreement to

³² Oxford Business Group (2019) Dubai Silk Road strategy to capitalise on logistics infrastructure and global connections, Available at: <https://oxfordbusinessgroup.com/analysis/sleek-strategy-dubai-silk-road-strategy-outlined-mid-2019-aims-capitalise-emirate%E2%80%99s-trade-and>.

build housing units (worth \$667m) for the Saudi National Housing Company.³³ CSCEC has completed \$7.8 bn worth of projects in the Middle East in the last 15 years and has \$19bn worth of contracts according to MEED Projects. In 2019, there were \$520bn worth of pre-execution phase projects in Saudi Arabia alone.

By 2021, Chinese solar firms had gained contract awards to help Saudi Arabia reach its ambitious solar electricity generation goals, in partnership with ACWA power, a firm partly owned by the Saudi sovereign wealth fund, the Public Investment Fund, including a co-ownership with China's Silk Road Fund in ACWA's renewable energy holding company.³⁴ Outside of oil and gas, renewables have also been a focus of Chinese investment in the Gulf. In 2017, Abu Dhabi awarded a contract to a consortium led by Japan's Marubeni Corporation and China's Jinko Solar to develop a 1,177 MW PV solar independent power project at Sweihan, the world's largest single-site solar project.³⁵

China imported \$6.7 bn (or 2.8 percent) of its total oil requirements from the UAE in 2018. But more than a key export market, China is increasingly an active investor in Gulf oil and gas infrastructure, including recent co-investments in Abu Dhabi National Oil Co (ADNOC) onshore concession and new offshore concessions. In the summer of 2020, for the first time a dedicated Chinese offshore oil and gas company has joined ADNOC offshore concessions. ADNOC pointed out that PetroChina holds a 10-percent interest in the Lower Zakum concession as well as 10 percent of the Umm Shaif and Nasr concession. With the agreement, CNOOC will hold four percent interest in Lower Zakum and Umm Shaif/Nasr, with PetroChina holding the remaining six percent.³⁶

Total trade between the UAE and China totaled \$50bn in 2017, and 60 percent of Chinese goods imported into the UAE are re-exported to the Middle East and Africa, making the UAE more central to China's trade ambitions and networks regionally. (Non-oil trade between the UAE and China exceeded \$72 billion by 2023.)³⁷ Chinese financial institutions are also making inroads in the Gulf finance sector. The UAE's federal government-owned development bank (Emirates Development Bank-EDB) issued its first bond in 2018 (after a decree allowing federal debt issuance), in which the \$750m five-year bond was arranged by Emirates NBD Capital, Industrial and Commercial Bank of China, and Standard Chartered. China's largest state-owned commercial banks—Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of China—have been increasing their market share in the

³³ Yiu, K. (2019) Saudi prince's trip to China highlighted by \$10 billion petrochemical deal, *ABC News*, 22 February, Available at: <https://abcnews.go.com/International/saudi-princes-trip-china-highlighted-10-billion-petrochemical/story?id=61233563>.

³⁴ Aguinaldo, J. (2018) Chinese contractors are becoming a dominant force, *MEED*, 5 December, Available at: <https://www.meed.com/chinese-contractors-relentless-pursuit-bears-fruit/>.

³⁵ AP News (2020) JinkoSolar Sells Its Stake in Abu Dhabi Sweihan Power Station, 27 November, Available at: <https://apnews.com/press-release/pr-newswire/business-brazil-corporate-news-latin-america-and-caribbean-north-america-2401d0ed5f0c5eadbb392ed7b8f71e42>.

³⁶ Saadi, D. (2020) UAE's ADNOC adds CNOOC of China as new partner in two offshore concessions, *S&P Global*, 27 July, Available at: <https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/072720-uaes-adnoc-adds-cnooc-of-china-as-new-partner-in-two-offshore-concessions>.

³⁷ UAE Ministry of Economy (2023) <https://www.moec.gov.ae/en/-/uae-and-china-discuss-investment-opportunities-in-new-economic-sectors-trade-transportation-technology>

Middle East. With their first foothold established in the Dubai International Financial Center (DIFC), each of the Big Four have opened operating branches in the Middle East and North Africa (MENA) region since 2008. From their branches in the DIFC, these banks run major regional operations and continuously expand their activities. As of March 2019, the Big Four contributed a quarter of DIFC's collective balance sheet for banking.³⁸

China is quickly becoming a major contender in large project development in the Middle East. Because Chinese contractors can often bid on awards with state-backed financing, they are able to assess and win projects with higher risks in new and less established markets. Chinese financing has played a significant role in a railway network in Iran and other projects in Iraq, Algeria, and Saudi Arabia, according to research by MEED in its "The Future of Middle East Energy" report (2018). These four countries, along with the UAE, accounted for 75 percent of the total estimated value of projects awarded to Chinese contractors in 2000-2017. China's total share of contracts awarded across the region was almost 13 percent, and Chinese contracting is expected to grow further. The UAE was a prime destination for Chinese policy lenders in the last two years, with \$2.3 billion in loans, including financing towards the expansion of both Dubai International Airport and Al Maktoum Airport. Jordan came in second, with total lending valued at \$1.7 billion, followed by Saudi Arabia with \$977 million and Egypt with \$890 million.

Looking towards new projects, Chinese firms are aggressively bidding on MENA infrastructure. They bid to build part of a railway in the UAE, a rail network already linked to Huawei technology products. MENA governments have encouraged Chinese firms to bid and often award contracts because they are the most price competitive, given their ability to rely on state banks for financing for projects that relate to the Belt Road Initiative. The linkages of technology to infrastructure projects have created a sensitive collaborative model, in which companies like Siemens agree to partner with Chinese contractors to win participation in these large projects.³⁹

Competition and Transition: The Future of Gulf-China Economic Relations

Export-oriented growth now includes the provision of finance as a service. The Chinese strategy of port development, large-scale construction services and the provision of state-backed finance instruments is gaining traction in the Gulf, but it is also inspiring Gulf states to emulate this strategy, sometimes in the same places where China is engaged. As these forces combine, their incentives to create opportunity and development in recipient countries will differ sharply from traditional multilateral sources of development finance.

The synergy now created by both Chinese economic statecraft and Gulf states' increasing orientation eastward is a powerful force that will affect patterns of investment in emerging markets, but also practices of development finance, of post-conflict reconstruction, and ideas about appropriate governance of markets of the Middle East. Much of this relationship involves Gulf supply of China's seemingly insatiable demand for energy, but China is also eyeing the Gulf

³⁸ Xueqing, J. (2019) BOC unit to ramp up services in Middle East, *China Daily*, 29 March, Available at: <http://www.chinadaily.com.cn/a/201903/29/WS5c9d85daa3104842260b34a7.html>.

³⁹ Siemens (2018) Siemens awarded high efficiency steam turbine modernization and upgrade project in China, 27 March, Available at: <https://press.siemens.com/global/en/feature/siemens-awarded-high-efficiency-steam-turbine-modernization-and-upgrade-project-china>.

for its own industries and investment. China and Arab Gulf states are likely to use their capacities a financiers, contractors and developers to increase ties and exert regional influence at a time the United States signals a desire to be less engaged in the Middle East.

The future of growth for the Gulf states will rely on the control of ports and transit waterways (of the Red Sea corridor, Arabian Sea, and Indian Ocean), of export markets for energy products in Asia, and favorable access to the largest economies in the Middle East and Africa. Trends in urbanization and energy demand map closely to where the Arab Gulf states are now investing their political and economic resources. Chinese investment is symbiotic to Gulf security and economic objectives; though they are competing for many of the same projects, they are at times cooperative rivals.

China is a source of finance, a competitor in infrastructure projects, and a constant reminder of the power of alternative economic organization to the West. The growth in financial flows is compelling, but it requires constant feeding from its state-backed forces. Both China and the Gulf states use state-owned firms, including financial entities and banks, such that constant expansion of projects and financing serves a domestic objective on balance sheets as well. Some scholars term the expansion of Chinese state-backed lending as "debt book diplomacy" as the expansion serves a political goal of the Belt Road Initiative, but also gives commercial purpose to a growing financial sector. Lending, however, is not as substantial as the gain from contracting awards and co-investments in the energy and transport sectors.

Both Saudi Arabia and the UAE are courting Chinese investment in shared energy projects, encompassing traditional oil production to renewable capacity and energy storage. State-owned enterprises Aramco and SABIC aim to partner with China's Sinopec and China North Industries Corp, creating a synergy of government firms. In the UAE, these projects include a contract worth \$1.6 billion between ADNOC and the China National Petroleum Corporation (following an earlier \$1.17 billion investment in Abu Dhabi's offshore fields).⁴⁰ In addition, there is a partnership and investment agreement between Dubai's Electricity and Water Authority (DEWA) and China's Silk Road Fund to create the world's largest solar energy plant.⁴¹ In November 2018, ADNOC signed a new agreement for the sale of liquified petroleum gas (LPG) to Wanhua Chemical Group of China, owner of the world's largest underground LPG storage facility.⁴² According to research by Qamar Energy, there are at least ten current energy projects planned or active in the GCC with Chinese investment, from traditional and solar electricity generation, to pipeline development in the UAE, methanol production in Oman, and uranium exploration in Saudi Arabia.⁴³

⁴⁰ Gulf News (2018) Adnoc awards \$1.6b contract to China's CNPC, 19 July, Available at:

<https://gulfnnews.com/business/energy/adnoc-awards-16b-contract-to-chinas-cnpc-1.2254117>.

⁴¹ Halligan, N. (2018) China's Silk Road Fund to invest in Dubai solar project, *Arabian Business*, 22 July, Available at: <https://www.arabianbusiness.com/energy/401242-chinas-silk-road-fund-to-invest-in-dubai-solar-project>.

⁴² Bridge, S. (2018) UAE's ADNOC signs major LNG sales deal with China's Wanhua, *Arabian Business*, 12 November, Available at: <https://www.arabianbusiness.com/energy/407837-uaes-adnoc-signs-long-term-lng-sales-deal-with-chinas-wanhua>.

⁴³ Mills, R., Ishfaq, S., Ibrahim, R. & Reese, A. (2017) China's Road to the Gulf: Opportunities for the GCC in the Belt and Road initiative, *emerge85*, October, Available at: <https://emerge85.io/wp-content/uploads/2017/10/Chinas-Road-to-the-Gulf.pdf>.

The recent growth in ties is based in China's demand for energy and the Gulf's ability to provide an important and growing market. China requires energy, especially to supply its infrastructure and construction boom as it builds new cities. Automobile sales in China quadrupled between 2008 and 2016, and transportation needs have also increased petroleum and related product demand. As China seeks to shift its own energy mix away from polluting coal-fired power plants, its demand for gas has multiplied. The most important factor driving global gas consumption in 2017 was the surge in Chinese gas demand, where consumption increased by over 15 percent, accounting for nearly a third of the global increase in gas consumption (BP, 2018). It may create some leverage for Gulf major gas producers to shift China's attention their way in the first phase of a post-oil transition, as liquefied natural gas is considered a bridge fuel to more renewable sources.

The Gulf states are competing to secure China as an export market for their energy products beyond just oil and gas. The proliferation of downstream energy products in petrochemicals, including the construction of new refineries and chemical plants, is both a diversification strategy and a new product arena (and profit maker) for Gulf state energy companies. Despite this synergy of interests, there is already conflict in third party states, as evidenced in the dispute over control of shares of the Doraleh Container Terminal in Djibouti between DP World, the Dubai-based port management company, and the Djibouti Ports Authority (PDSA). Djibouti forced DP World out of the site by nationalizing the terminal; notably, the government partner of the port authority, the Hong Kong-listed China Merchants Port Holdings Company Ltd, a company overseen by Beijing's State Assets Supervision and Administration Commission, holds a 23.5 percent ownership stake in the terminal. Effectively, the government of Djibouti made a choice of prioritizing ties to China as an investor, over its commercial ties to DP World.

Yet, there is a demographic dilemma in China, and it could acutely affect the oil exporters of the Gulf. It poses the most serious threat to the political economy of the region, and that includes the legitimacy of ruling families. A report from the investment bank Natixis finds that population aging in China will be fast and furious, with a steep decline on economic growth rates, from 6 percent a year in 2010 to 2.5 percent by 2030, with real impacts on global potential growth.⁴⁴ As domestic demand falls with an ageing population that is not replenished, that commodity demand will fall. Saudi Arabia may still pump the last barrel of oil, but it will almost certainly be the cheapest barrel and one that fewer consumers in China will need.

But the idea of a forced choice between superpowers, in a Cold War scenario between China and the United States, is not realistic for the Gulf states or the Middle East. There are states that are more vulnerable in their need for access to finance, which China might serve as an alternative, though the provision of development finance continues to diminish. And there are states that are simply serving their export markets and seeking longer-term investment partners. And there are states that have few other options. The problem in pitting the US versus China in each of these situations is ignoring a larger universe of investment sources and partners, both private, multilateral and state-supported in nature. The GCC states themselves are equally, if not more

⁴⁴ Cheng, E. (2021) China's aging population is a bigger challenge than its 'one-child' policy, economists say, *CNBC*, 28 February, Available at: <https://www.cnbc.com/2021/03/01/chinas-aging-population-is-bigger-problem-than-one-child-policy-economists.html>.

important as China in the Middle East as sources of capital investment and job creation, not to mention fewer formal sources of aid and bilateral government support.

When it comes to foreign direct investment, aid, capital expenditure and job creation, China is often characterized as the investor of choice in the Middle East. It is often erroneously labeled as the region's most important source of FDI. Certainly, China is a major source of FDI in a few places, especially in the GCC. When Chinese investment does arrive, it usually targets the energy sector and large government contracts. China's investment can be volatile, with surges and then declines. When compared with American and European private investment efforts, China spends less and creates fewer jobs in most of the Middle East, North Africa, and West Asia.⁴⁵ Indeed, the GCC states have higher capital expenditure and create more employment across the Middle East and North Africa than China—and that's not counting remittance flows, aid, financial intervention such as central-bank deposits, and in-kind oil and gas transfers. China is active as a regional investor and contractor where private capital doesn't want to go—places like Iran, Syria and, to a degree, Turkey. One notable exception is the United Arab Emirates, where Chinese investment and contracts have surged since 2016. This skews the data and inflates China's reputation as a regional investor and source of capital. The view that China is the largest investor in the Arab region overlooks the fact that Beijing has invested inconsistently over time, and picks and chooses its engagement in the broader region, from Morocco to Pakistan. The assertion also fails to mention that the GCC is a major source of FDI in that same geography, and in the Horn of Africa.

China and the Gulf are linked and will continue to rely on each other for trade, investment, and partnerships in the years ahead. But their partnerships are in no ways cemented on any ideological basis or political or security pact. And as the energy exporters of the Gulf seek to diversify their own economies and become more engaged in the production and expertise of renewable energy, China could become less of a customer and less of an active local investor.

US Policy Recommendations

Instead of centering concern on China-Gulf or China-Middle East relations, we might better frame the challenge as how to engage emerging market economies in their trade, energy, and development needs, and to bridge policy and development finance options to support those changes. A change in tone to recognize the vitality and centrality of growth outside of advanced economies might also be a diplomatic advantage to the United States. There is also mutual benefit to encouraging the growth of China+1 manufacturing and industrial capability across emerging markets in Asia, Africa, and the Middle East.

Thank you for this opportunity and I look forward to addressing your questions.

⁴⁵ Organization for Economic Co-operation and Development (2018) FDI in fragile and conflict affected economies in the Middle East and North Africa: trends and policies, 4 December, Available at: <https://www.oecd.org/mena/competitiveness/ERTF-Jeddah-2018-Background-note-FDI.pdf>.

PANEL I QUESTION AND ANSWER

COMMISSIONER FRIEDBERG: Thank you, very much. Commissioner Cleveland, we'll begin with you.

CHAIRMAN CLEVELAND: Thank you. I appreciate your very helpful testimony. I have a general question and I'm not sure whether or not any of you will be able to answer, and then a question for you, Ms. Young -- Dr. Young, and Ms. Downs.

The first question is: in January, I think, Cairo announced substantial increases in the fees to transit the Suez Canal and they exempted traffic to Asia, and those fees amount to close to half a million dollars per tanker. I'm curious if you have any thoughts as to why traffic to Asia was exempted from those substantial fees?

For you, Dr. Young, I'm very interested in your discussion about port construction. And I'm curious as to your characterization or assessment of the transparency of the financial terms and the way in which Chinese contractors have been winning these port contracts. Are they consistent with World Bank or other standards? So I'm curious about that.

And then, Ms. Downs, you mentioned in your testimony that the anti-piracy missions that the Chinese have carried on, they have a history of protecting tankers, do they have a history of protecting tankers other than their own?

Have they engage in a coordinated effort, for example, to protect trafficking against Houthis? So perhaps, Dr. Young, if you could go first?

DR. YOUNG: Thank you, very much, Chairperson. I can't speak to the Egyptian question on the fees for transit.

But I would say on ports and the ability of Chinese contractors to win these very, very large awards, it certainly is about, you know, a process of statecraft in which they are able to combine those or piggyback with other investment commitments.

And in every port across the Gulf, you will often find, and this is true outside of the Gulf as well, special economic zones, which are, of course, in the business of attracting foreign investment. And so China often makes commitments to be present there, particularly in manufacturing.

For states that are seeking to diversify from oil, this has been a national development priority. So that certainly would influence the allocation of or tenders of awards. China also can compete at lower prices and so they are winning contracting awards in the Gulf because of that.

What's interesting is that we are also seeing the use of Chinese banks. I mentioned that in the UAE we now have four very large Chinese banks who are creating or generating some of the lending capacity within the country that is becoming really important to their financing not only their own projects, but they are able to lend financing for government projects as well.

CHAIRMAN CLEVELAND: Has anybody done an assessment of the port construction process in terms of how the Chinese have been winning these contracts?

DR. YOUNG: Not that I'm aware of and tender processes in the Gulf are not always public processes.

CHAIRMAN CLEVELAND: Ms. Downs, do you want to comment on the anti-piracy missions?

DR. DOWNS: Yes. So when I was preparing for this hearing, I did come across several sources that talked about Chinese anti-piracy, their ships involved in anti-piracy missions escorting tankers, that were described as being from other countries. These were Chinese sources.

And they talked about escorting tankers that were from Qatar, from Singapore. And I don't know if that was a reference to the flags these ships were flying or ownership. But it does appear that tanker escorts have been provided, or tanker escorting services have been provided to, you know, ships other than those owned, operated by Chinese companies.

And then when it comes to the Red Sea and the stability of trade in the Red Sea, in my view it looks -- it appears that China has been focusing primarily on protecting its own interests. And back in January, it was reported that when Chinese officials were speaking to Iranian counterparts, the message there was if our interests are harmed, then that is going to in turn harm China's business with Tehran.

You know, you can see that with these stating that Chinese and Russian ships would have safe passages through the Red Sea, you know, again, you know, that's sort of obviously beneficial to China and not everyone who's shipping through the Red Sea.

And then, I guess the final issue I flagged on this is that there are some opportunities with Chinese companies that, you know, are looking to take advantage of this perceived immunity that China has.

Companies such as one ship called Sea Legend have been advertising their services and saying that they can transport cargo through -- safely transport cargo through the Red Sea, you know.

At one point, this company, Sea Legend, even had, you know, like an anti-piracy task force schedule, you know, on their website. And they advertised that they have, you know, Chinese naval ships, you know, providing safe passage through the Red Sea.

I don't know who's taking advantage of that service, I don't know if it's only Chinese, you know, Chinese cargo that is being carried or if other shipping companies domiciled in other countries have taken advantage of their services.

CHAIRMAN CLEVELAND: I have a follow-up but I'll wait until the second round.

COMMISSIONER FRIEDBERG: Thank you. Dr. Downs, just to pick up on this issue of security, shipping security. Are you aware of any discussion in Chinese literature, maybe military writings in particular, about the implications or lessons to be learned from recent events?

And in particular, whether there is discussion, the possible need for an expanded Chinese presence in the region because of the demonstrated vulnerability of sea lines there?

DR. DOWNS: I am not aware of any writings on this issue. This doesn't mean that they're not out there, it's just not something that I have been looking for.

COMMISSIONER FRIEDBERG: Okay. Thank you. A couple of factual questions to you. You mentioned that Middle East energy provides half of Chinese energy imports. Do you know what share of total Chinese energy consumption is made up of imports, and in particular, imports from the Middle East?

DR. DOWNS: So total energy consumption including like coal, natural gas?

COMMISSIONER FRIEDBERG: Yes, everything?

DR. DOWNS: I would have to get back to you on that. I can do the calculation, I just can't do it off the top of my head.

COMMISSIONER FRIEDBERG: Okay. Another factual question, you mentioned the current status of China's stockpiles. Do you know if there's been any trend in the size of those stockpiles, have they increased recently over the last several years?

DR. DOWNS: I would have to get back to you on that.

COMMISSIONER FRIEDBERG: Okay. Question on Iran. You mentioned that the Chinese, the large Chinese energy companies have avoided importing energy from Iran, but smaller companies have continued to do that through third parties.

Do you know if those imports are, from the U.S. or the international perspective, in violation of existing sanctions?

DR. DOWNS: I am sorry, I don't know the answer to that off the top of my head.

COMMISSIONER FRIEDBERG: Okay, all right. Dr. Young, listening to your description of what's been happening in the Gulf states and in particular since this is our special interest, what China's role in that has been, is it correct to say that China has been investing in extracting energy from these states, and building infrastructure for that purpose and also for purposes of passing through the region to get to other places?

But rather less in directly helping or investing in the development of those economies? You mentioned in your testimony that U.S. and European investors have done more to create jobs and so on in these countries than China has.

DR. YOUNG: Thank you, Commissioner. Yes, I think we can say that China's investments have focused in sort of relationship building and winning contract awards, which is not for a direct investment, right. That's a service provision.

And the data is really skewed, so this perception that China is the most important source of foreign direct investment region-wide across the Middle East, North Africa, including the Gulf, is not consistently true.

And so yes, in my book, Gulf Economic Statecraft, I demonstrate where that is, where we see kind of bumps over time. And really the period 2016, '18 is very important in places like Ethiopia and the Horn of Africa and Egypt.

And the rise in investment in the UAE is another point where the data is really skewed, and that happens again after 2016. So there are places where China is a very important source of investment outside of the energy sector and in the energy sector and in infrastructure. But it's not everywhere and it's not consistent through geography or over time.

Your point to the rational why, is this in order to access other markets? I think yes, that's true, and that's why there's synergy between particularly the Gulf states and their interest in building out logistics hubs and in China's.

Because they're basically trying to reach the same people, they are looking for high growth, high population economies in Africa, in East Asia, so going both directions. Where for China, where they can access sort of consumer markets, and for the Gulf states, they will be in competition, particularly in the way that they are developing power projects in the renewable energy space, and the components that make up those projects.

COMMISSIONER FRIEDBERG: Okay. Thanks, very much. Commissioner Glas?

COMMISSIONER GLAS: I want to take a moment and thank all of you for your expert testimony.

Dr. Young, I have a question for you. Based on the analysis you've done in the air cargo investments, your testimony outlines that air cargo is a growing market and the ability to finance and run state-owned carriers is critical, or a critical advantage.

And it sounds like the Chinese are doing a lot of co-investments with Gulf states as a result of the growing trend of e-commerce sales. Your testimony goes on to say the growth of Chinese discount retailers is transforming the air cargo sector and one in five parcels currently transported have been purchased online, and that's set to grow to one to three.

So kind of peeling that back a little bit, can you talk more about those investments in the air cargo space? And then taking a step back for a second, what is the national and economic security implications to the United States in an era of potential conflict, whether we're talking about Taiwan, or any other conflict because of these investments?

DR. YOUNG: Thank you, Commissioner, those are very good questions, difficult ones. We're not seeing necessarily Chinese co-investment in Gulf national carriers. But yes, China is investing in its own capacity as are the Gulf states.

And really that's because of this expansion in China, and its, you know, very much export-oriented growth model particularly in e-commerce and these discount retailers.

The Gulf states have an ambition to be a hub to distribute those goods produced in China to a wider network, so going even further west again into those high growth, high population consumer markets and emerging market economies.

So they're investing in their own carriers, state-owned carriers to do so, to have that capacity. The Middle East is generally underdeveloped in terms of this air cargo and e-commerce delivery, and so it's a site of enormous potential growth.

So the country with the largest amount of kind of e-commerce saturation is the UAE, and that's still only less than 5 percent of their market, of their retail market.

So you can imagine just, you know, what it means in terms of creating both the data centers to enable that e-commerce, but then also the supply routes, mostly by air, and of course the port systems are important as well.

In terms of the security risk, I mean I think, most of these goods are not of high sensitivity, I would think in the most part. But it is very clear to our own domestic economy which we saw during the pandemic, what supply chain disruptions of all sorts can do.

And so inflation, I do believe is a security risk in its own right. And so yes, if those routes and carriers were disrupted or chose to bypass certain destinations, yes, I believe that would have an economic impact in the United States.

COMMISSIONER GLAS: A quick follow up. With all the investment in, more investment in renewable energy, and all of you have pointed to different investments of the Chinese in port infrastructure and things like this. I mean, I know the U.S. government and the Biden administration has talked very actively about engaging in trying to meet our greenhouse gas emission goals.

But I don't see how we're decreasing our reliance on fossil fuels when they're so dependent still on the Gulf. When you're building out air cargo, that's five times more carbon intensive; when you're building out the port infrastructure and using bunker fuel. I mean, I'm trying to square this up of how we are going to meet our climate goals with the heavy reliance on carbon intensive fossil fuels. Any comments, Mr. Soliman, I might start with you?

(Off mic comment.)

DR. YOUNG: I think the main trend line is that absolutely where we see growing energy demand is in emerging market developing economies. And so where we see the growth in oil and gas use and consumption will be in those markets. That's why India and China matters so much in order to meet that zero targets.

We have to be able to tackle where they get energy from and how they use it. And so a continued reliance, particularly on coal in both India and China, is, I think, detrimental to that goal.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Miller?

COMMISSIONER MILLER: I'd like to thank all the witnesses for your testimony and for coming here and making us smarter today. Dr. Downs, you had mentioned in your testimony the use of the yuan as a payment mechanism.

And I think this is something the markets have come to refer to as the petroyuan, something that has created a lot of fears about the future use of the dollar and the global reserve currency status of the dollar.

You said very authoritatively that the yuan was not going to replace the dollar in these payments anytime in the near future, and I, of course, agree with you. Because a big difference between replace and not replace, there's a big area in between where you have a lot of flexibility, a lot of different possibilities in terms of what the yuan could be used for and the share of yuan use in payments in the future.

What would you say is the upside range of the shared yuan that could be utilized for energy payments in the next five or ten years in a sort of a scenario for the yuan or a downside scenario for the use of the dollar? You may be on mute, Dr. Downs?

DR. DOWNS: Oh, sorry about that. So right now, the countries that are primarily or exclusively using non-energy trade settlements are ones under sanctions, and Russia, you know, pays for all of its energy imports in yuan or in rubles, and probably a lot more done in rubles.

And then, you know, there are reports with Iran that those payments are being made in China's currency. You know, and then there are a lot of sort of anecdotes out there about, you know, one company or country paying for a cargo in yuan.

But I think that I don't have a clear picture of everything that's going on, just like a lot of other people don't either, and that was the, you know, rationale for my recommendation, you know, for an annual report that looks at this, that looks at the extent to which the yuan is being used for trade settlement.

And, you know, perhaps that report could also, you know, sort of shed light on the ranges that you asked about.

COMMISSIONER MILLER: Thank you. Mr. Soliman, much of your focus was on technology. And you provided a number of recommendations on ways the United States can collaborate more effectively with the region. But I would like to turn this on its head, because that's what we do.

Are there particular companies, or even specific groups of companies that Congress should be particularly worried about in their build up and increasing Middle Eastern reliance on Chinese companies and Chinese infrastructure and Chinese technology?

Huawei obviously comes to mind as one, in terms of communications. But are there others that we should be looking at more closely?

MR. SOLIMAN: Commissioner, thank you for that question, in no way an easy question to answer. But I would say the usual suspects are always the companies to watch. Huawei for many reasons because it's a multi-disciplinary company from cloud regions to other hardware, technology that they have been providing, not only in the Middle East, but all around Africa.

I would say also ByteDance, and again, we are in the middle of discussions surrounding ByteDance and TikTok, it's also a company that we should keep an eye on. I would say solar energy, Chinese solar energy companies are interesting to watch in terms of the industry, in terms of their IP.

They are willing to also domesticate some of their industries. I would say those are the top three that comes to mind at this point in the Gulf. I would say Chinese electrical vehicles companies, I know we are looking to the Gulf from a production IP standpoint at this moment.

COMMISSIONER MILLER: And to the other two witnesses, are there any particular companies, when you are looking at your particular areas of focus, that jump out to you as Chinese companies that are doing big, important things that the United States Congress should be looking more closely at going forward?

DR. YOUNG: Thank you, Commissioner. I would say iron and steel and the production of lower carbon versions of those products.

COMMISSIONER MILLER: Okay. Dr. Downs, anything?

Thank you. Commissioner Price?

VICE CHAIR PRICE: Good morning. And thank you all, this is so interesting. Looking through all of this as through the lens of how China's relations are challenging or could challenge or threaten to challenge U.S. interests, I want to go back to your recommendations and understand exactly what your vision is.

Mr. Soliman, can you go back, you have several and I'm just not sure what joint technology endeavors, kinds of projects you have in mind. And specifically on the concept of working groups, what this would like and how you see this engaging in that question?

MR. SOLIMAN: Thank you, Commissioner, an excellent question. I would say what I'm proposing is not really new to what we're doing right now with our own allies and partners where you have a technology project council that they will be in, so also trying to engage on technology with India, Korea, Japan, we have a technology dialogue with Israel.

So what I'm proposing is doing the same concept, executing the same concept with our own Gulf allies. I think the core of my own proposal is the Gulf is more than just energy and producers of energy. They are going through a moment of additional transformation in terms of requiring high end technologies, they are able to invest with different partners.

And I think we need to be very much aware of their needs, so we aren't surprised in the future if they have drifted away to other countries and other partners.

VICE CHAIR PRICE: So just creating a tighter infrastructure of conversation and working together?

MR. SOLIMAN: At this point we already have as you said, an infrastructure or a format that we are able collectively to address some of the concerns that we have about compliance, third-party compliance, IP protection.

It's eventually, as we have seen in the last year, between G42 and Microsoft, it eventually ended up being a few names here, a few names there, meeting together, trying to solve these sort of problems.

However, what I'm proposing is having that sort of format on an ongoing basis, they were able to address some of these issues as they arise.

VICE CHAIR PRICE: Thank you. And, Dr. Young, a similar question on your recommendation as well. Can you flesh out your thinking a little further?

DR. YOUNG: Yes, thank you, Commissioner. I suppose it's not very concrete, but the recommendation was basically to change some of the tones of our diplomacy, and this would be about trade policy as well. So when we think about China Plus One strategies, where manufacturing is relocating to countries in Southeast Asia, for example, from China in order to respond to the current kind of U.S. industrial policy direction.

That we would be supportive of those countries and their ability to attract foreign investment, and to help strengthen the way that they are able to make agreements with those investors.

So that's really, in technical capacity and, you know, provide -- I know the State Department has programs that provides legal advice when countries are going through these negotiations.

So that's, I think, a more specific way to say, to strengthen the U.S. position which is in favor of economic growth in growing economies that are facing an investment from China and give them the strength to embolden or reinforce their own regulatory environment and the ability to negotiate deals which are in their interests and I think ultimately in U.S. interests as well.

VICE CHAIR PRICE: So could I characterize both of your recommendations in terms of there could be a threat, but there isn't a direct threat right now to U.S. interests?

DR. YOUNG: From China?

VICE CHAIR PRICE: Yes. But if we engage in new ways or increased ways, we can be at the part and parcel to the future in these areas moving forward?

DR. YOUNG: No, there is a threat, there is absolutely a threat. But my concern is that a focus on that threat alone neglects attention and an opportunity to be supportive of the development goals and economic growth in the places where our global economy will be growing and be the most important sites of the economy of the next century. And so to say choose us or them, is not going to be good enough, that's my concern.

VICE CHAIR PRICE: Thank you. Mr. Soliman, do you have anything else to add?

MR. SOLIMAN: I concur with my colleague, there may be a threat in the future if we're not engaging now, but also at the same time, we should be very aware of the development goals that these countries have for themselves.

They are pursuing their interests and the interests could align with us, that may also at some point, may not align with us, and I think engagement early on is the only way possible of our relationship with our partners in the Gulf.

VICE CHAIR PRICE: Thank you.

COMMISSIONER FRIEDBERG: Thank you, very much. Commissioner Schriver?

COMMISSIONER SCHRIVER: Thank you. Good morning, and let me add my thanks to the witnesses for your excellent statements and your thoughtful answers today. I have two questions, one for Dr. Downs, one for Dr. Young.

Dr. Downs, I was also interested in the question that Commissioner Friedberg asked about the sanctions evasion scheme that they seemed to have constructed with Iran. And I appreciate the answer you didn't have off the top of your head about is it a sanctionable activity.

But I wanted to ask, is it an easily trackable, easily documented knowable activity? Because it seems to me whether it's sanctionable or not, some transparency shining a light on this and having a clear understanding of how much the Chinese are really dependent on Iranian oil and, by the way, contributing to the Iranian economy as a result of that would be useful. Is this something that could be tracked with some specificity and understanding?

DR. DOWNS: Yes, there is tracking going on right now. There is a website by an organization called United Against Nuclear Iran, and they have very detailed information on that website. And they indicate, you know, which refinery in China, you know, they have the names of the refineries in China that are buying Iranian crude, they mention the names of the crude that they're buying.

And they're also mentioning, you know, the amount of oil purchased. So in terms of getting a clear picture of who the buyers are, there is information out there, you know.

What I have not, you know, what's not on that, you know, that sort of very detailed list, is information about the banks involved, you know, or any insurance companies involved. So that is something that, you know, probably still needs to be identified, you know.

And then the other issue here, and it's a caveat that I'm not a sanctions expert, is sort of where is this money ending up, you know. Is it going into an escrow account in China which Iran is not necessarily, you know, free to use as it pleases. Or is the money somehow finding its way back to Iran.

So yes, bottom line, my answer is yes, you know, there is some pretty detailed information out there, but there is more information that could be added to that to sort of complete the picture of all the different actors involved in China's crude oil imports from Iran.

And while I have the floor, I just wanted to go back and provide an answer to the previous questions about companies to watch. And, I guess in my view, there are some tie-ups between, you know, Saudi and Chinese firms that I view as interesting and important.

One, I would look at the relationships between Saudi Aramco and independent refineries in China. A lot of these are, you know, sophisticated petrochemical complexes.

They have contracts to import crude from Saudi Arabia, end goal, this is partly about security of supply for China and security of demand for Saudi Arabia. It's also consistent with Saudi Aramco's strategy of putting more crude oil directly into chemicals, and of course, today's independent refineries in China, you know.

They are interested in producing more of the products that are needed for the energy transition, so, you know, chemicals, petrochemical products that are used like in solar panels for example, or wind turbines.

And then the other partnership that I would, or partnerships that I would flag involve Chinese companies and a Saudi firm called ACWA Power. And Chinese companies, both financial firms and contractors have been partnering with ACWA Power to develop energy projects, including solar projects, you know, in the region and beyond.

COMMISSIONER FRIEDBERG: Great, well thank you. And I appreciate the first answer, I think again to repeat, shining a light on this and having as much information including closing those gaps you mentioned could be important.

COMMISSIONER SCHRIVER: I had a second question, I can wait for a second. Okay. Dr. Downs, you talked a lot about, pardon me, Dr. Young, you talked a lot about infrastructure investment in your statement and have addressed that in some of your answers. I'm wondering if they have, I'm sure, multiple objectives, motivations for this.

I'm wondering if you could sort of disaggregate and talk about a resilience piece. I mean it's, I'm sure some of the investment helps with efficiency and brings costs down, et cetera.

But I'm very interested in the insecurity China feels with respect to the transport of energy in the event of a crisis, you know. The Chinese themselves refer to it as the Malacca Dilemma, that goes all the way back to Hu Jintao.

Is some of this investment, if you could disaggregate it, related to that resilience question, and would it be harder for us if we were inclined in a crisis to disrupt shipment of energy to China, is that making it harder for us?

DR. YOUNG: Thank you, Commissioner, that's a very good question. I think when we see contracting awards that's a different category than joint ventures or investments in what are usually alongside port facilities, which would be special economic zones.

And that's where I'm talking about the steel production in particular. Or places where Chinese companies are particularly invited in manufacturing, whether that's in NEV space or

mineral processing. And so, yes, that is a, I suppose, a security concern for China, but also it's an opportunity in sectors that Gulf states want to expand.

To Dr. Downs point, the way that China purchases its energy needs from abroad, it's not that it's dependent on Iran, it's being opportunistic for a cheap product right now. And so China has many sources and suppliers of its energy needs. And so in the event of a disruption to trade routes or an attack on port facilities in the Gulf, China would be prepared with other options.

And notably, as I think also Dr. Downs mentioned, they have enormous storage capacity. And so they are in arguably better position than even we are as the most important oil and gas producer in the world because of that capacity.

COMMISSIONER FRIEDBERG: Thank you. We are joined by Commissioner Sims online. Commissioner Sims?

COMMISSIONER SIMS: Thank you, and sorry I couldn't be there in person with you all. But I appreciate your testimony, I'm learning a lot this morning. There's already been a couple of mentions of countries in the Middle East very openly talking about their preparation for a world that is less dependent on fossil fuels.

And it's hard to tell sometimes whether these public plans are realistic or how much they're just more aspirational. But there's a dynamic that I would be curious to get everyone's views on. Number one, there is an undeniable shift happening away from fossil fuels, or at least an aggressive push for the U.S. and the world to shift away from fossil fuels.

This shift seems to benefit China because of their dominance in rare earth elements that are essential for lithium ion batteries and other so-called green technologies.

The shift also seems to hurt the Middle Eastern countries whose economies are so reliant on fossil fuel export, hence their stated goals to prepare for this shift.

And then the shift also seems to hurt the United States economically because of our own domestic energy production capacity being stronger in oil and natural gas rather than rare earth elements, et cetera.

So my question for everyone is, you know, I would love to hear from each of you. How are Middle Eastern countries viewing this dynamic as they are navigating the great power competition between the U.S. and China and how they are choosing to align themselves inside of that dynamic?

DR. YOUNG: Thank you, Commissioner. I would say that the demand curve for oil and especially for gas will be strong for some time. Oil demand this year continues to surprise us in its resilience.

And so for oil and gas exporters in the Middle East, they have a different view, and that they know that their product will have a market for some time, and more importantly what they can turn that product into, and that's in petrochemicals which will have an even longer and more resilient demand globally.

In terms of the understanding of revenue dependence, absolutely. I think there's a deep understanding that nothing will be as cheap to pull out of the ground and produce for export revenue as oil and gas has been.

And so for many countries that have larger populations, they will be having to make choices that they can spend less in terms of social expenditure on these populations.

And so governments will have to operate differently and that has enormous political consequences, so I think it's well understood.

It's also well understood that in terms of future oil supply, OPEC will be a larger proportion of global supply. So for the last 30-plus years, OPEC has been about 30 percent of the

global market for oil. And if we look forward to 2030, 2040, that proportion is likely to grow to 50 percent or more.

MR. SOLIMAN: I would say in the additional transformation efforts that we are seeing right now, the rationale behind it is that very question, which we know for a fact that energy as a source of income and extra income is going to be dwindling.

So the Gulf states, part of the rationale for investment in high value technology is doing joint partnerships. You see all this news about AI initiatives, investing billions of dollars in AI large models, building open network, open rand, part of it is they are trying to pivot away from energy but also making sure that they have investment that they could rely on the future that can have some sort of return to support the budgets.

And that dynamic means that the Gulf states will be pursuing more issue based alignments based on where they see the opportunity in terms of investment, in terms of industries, in terms of rare earth minerals shipping, so forth.

DR. DOWNS: So I would echo what Karen said about petrochemicals, produce oil companies in the Middle East and in China expect more oil to go into petrochemicals, you know. Saudi Aramco, I think, wants to put a certain percentage of its crude oil in, directly into chemical and petrochemical productions.

As I mentioned earlier, you have these super sophisticated refineries and petrochemical complexes in China that either have Saudi Aramco as an investor and/or a supplier.

And again, I think that's sort of reflecting the fact that there is a recognition that as, perhaps as less oil goes into transportation, it will still be needed for petrochemical and chemical production. So I think that's what's going on in, you know, that's sort of one of the big shifts I see in the oil and gas space.

But yes, we're still seeing countries in the region wanting to continue to supply crude oil to China, but it's not just for the transportation sector, that it's going to increase through a need for petrochemicals.

COMMISSIONER SIMS: Great, thank you all.

COMMISSIONER FRIEDBERG: Great, thank you very much Co-Chair Schriver, I'm sorry --

COMMISSIONER STIVERS: Stivers.

COMMISSIONER FRIEDBERG: Stivers.

COMMISSIONER STIVERS: Thank you. Thank you all for your excellent testimonies again. Going back, Dr. Downs, to the trans-shipment of Iranian oil through third countries.

I find it extremely interesting that in the third page of your testimony, you have the Figure 3, which is a chart of China's largest crude oil suppliers in 2023, and there's no Iran in that entire, and that's a pie chart from custom stats from the government of China.

So we do know that there is trans-shipment of Iranian oil through third parties. You mention in your oral testimony, Malaysia. What are the other countries, ports, that we should be looking at? And do you have any recommendations for how the U.S. should respond to that?

DR. DOWNS: So Malaysia appears to be the largest trans-shipment points. And just to illustrate that, Malaysia produces about half a million barrels per day of crude oil and last year they shipped, you know, north of a million barrels per day to China, so clearly, you know, there is oil passing -- there is oil that is being exported from Malaysia that's not Malaysian in origin.

Two other countries that often come up in discussions of the trans-shipment of Iranian oil are Oman and the United Arab Emirates. But Malaysia seems to, you know, it seems to be the largest trans-shipment country.

COMMISSIONER STIVERS: Thanks. Any recommendations for what you think the United States should do about that, if anything?

DR. DOWNS: I think that there are trade-offs involved with different courses of action. And so I think it's, I guess, useful for the United States to be cognizant of those trade-offs, you know.

For example, you know, if the United States is able to, you know, successfully, you know, pressure these independent refineries and China to buy less Iranian crude or even to get crude from somewhere else, I think that somewhere else most likely would be Russia.

So then there's the issue of, you know, do we care about whether these independent refineries are buying more Iranian crude or more Russian crude, then there's sort of the issue of how would these sanctions play into, how would they impact the broader U.S.-China relationship.

And then finally, there's the issue of, you know, prices at the pump, and what would, you know, paying, what we're paying in a million barrels per day of oil from the world market due to gasoline prices.

So I think that there are a bunch of trade-offs that need to be considered when thinking about what the United States wants to achieve. And then, I guess, the other issue I would bring up, and again this is with the caveat that I'm not a sanctions expert, is sort of, where is this oil going.

Back in, I want to say 2012, 2013, the U.S. did implement sanctions that, you know, required payment for, required the buyers of Iranian crude to, you know, put their payments into escrow accounts.

And so again, in the case of China, that would be -- those would be escrow accounts held in China. And then the question is what's happening to that money, is it actually making its way back to Iran or is it just sitting there in these -- in these accounts because that's also, I think that would also provide some insight into, sort of, the effectiveness of current sanctions on the books and that might provide insight into next steps.

COMMISSIONER STIVERS: Okay, great. Thank you. Mr. Soliman, you state in your testimony that, you know, the Middle East wants critical and emerging technology first and foremost in their relationship with China and the U.S. and others, and you talk about export controls. Are you familiar with UAE's big AI company G42 Holdings?

MR. SOLIMAN: Yes.

COMMISSIONER STIVERS: Yes, so as I'm sure you know well, after pressure from Congress and a lot of quiet diplomacy, G42 announced that it would sever ties with blacklisted Chinese entities at the U.S. request.

And the concern from the U.S. was over ties with Huawei that enables tech transfer and the transfer of sensitive genetic data of U.S. citizens. This also included severing ties, an estimated \$100 million stake with ByteDance, owner of TikTok.

And it should also be noted that the chair of G42 was also the UAE's national security advisor. So my question, you know, well, also it should be noted that China is UAE's top trading partner, over a quarter million Chinese live in UAE, a country of only about one million UAE citizens.

China is clearly enmeshed in Dubai as strongly as any other city in the region. And so my question to you is that given this reality, can we trust G42 and UAE companies to actually sever ties with Chinese hardware suppliers? What are your views on those discussions and the announcement from G42?

MR. SOLIMAN: Certainly a very good question, Commissioner. So I'm going to be very careful here. I don't envision a scenario where a deal as what we have seen a few days ago between G42 and Microsoft would be concluded without strong assurances to the U.S. government.

I believe we had Secretary Raimondo in the UAE prior to this deal, so the assumption I have, and I do not really have any sort of information on this, my assumption is there was some sort of guardrails that the U.S. government has asked the UAE to provide to the U.S. government to ensure that the U.S. tech, especially large models and any sort of IP that we deem critical would not really have -- would not be spilled over into other countries. That's my assessment.

COMMISSIONER STIVERS: Do you see this agreement or this announcement from G42, an interaction between the U.S. and UAE, do you see this as a success story in how the U.S. should handle these sorts of sensitive technology issues?

MR. SOLIMAN: That's a very excellent question. I think my criticism for the last few years was, we're still thinking about the Gulf as an energy producer, right. And I think that deal between Microsoft and G42 is a new way forward in terms of thinking about them as AI leaders.

Second, it also offers us a framework about what sort of guardrails we want to impose when it comes to our own IP and our own technology. Three, it also addresses some of the questions about what's a sort of governance structure that we have for these sort of technology partnerships.

Over the headlines you always hear and read these stories about we need to have joint ventures and joint partnerships, we should cooperate. But what does that mean, does it really mean that much in terms of, there's no real concrete recommendation about what sort of governance.

I think that deal is a model in terms of governance, in terms of having Microsoft as a seat on the board, being able to be part of the discussions about what sort of commercial deals are there, what sort of development they are seeking.

So I think it's a model for whatever we should be doing in the future with other countries that have similar efforts among companies that we care about.

And I would add one final thing here, G42 is a leader in AI. They have been, many companies around Asia have been very interested in doing that sort of partnerships. So ignoring these sort of companies is not really a strategic decision, I think engagement is always the right way.

COMMISSIONER STIVERS: So, I know I'm over time, but so you think Microsoft's involvement here, the \$1.5 billion deal that they're included in that, is key to the agreement?

MR. SOLIMAN: I agree, yes, I think so.

COMMISSIONER STIVERS: Thanks.

COMMISSIONER FRIEDBERG: Thank you, Commissioner Stivers. Commissioner Helberg joining us online.

COMMISSIONER HELBERG: Thank you, Commissioner Friedberg and Commissioner Stivers for hosting this hearing. And thank you to our witnesses for the excellent testimonies today. My line of questioning actually builds on the questions that Commissioner Stivers raised.

Are you aware -- this is a question to our witnesses as a whole. Are you aware of any bilateral rule or framework between the U.S. and its Middle Eastern partners preventing PLA entities or companies from using the quickly growing technology infrastructure of Middle Eastern countries like the UAE, to develop advanced dual-use AI capabilities?

MR. SOLIMAN: Commissioner, thank you for that excellent question. I don't believe we do have that sort of framework. I think we have been managing some of the differences we have with our own partners and allies on case-by-case basis, mostly when you hear some sort of leaks about some sort of disagreements.

Quite frankly, this is when the poles start moving and we have more negotiations and more talks, but we do not really have that framework in place.

COMMISSIONER HELBERG: And did any of the other witnesses want to weigh in on that question?

DR. YOUNG: No, sir.

COMMISSIONER HELBERG: Okay. So in February, China spotlighted Chinese made drones at a Saudi defense show. China is flooding the Middle East with drones, and according to U.S. Assistant Secretary of State for Near Eastern Affairs, the UAVs used by Iranian proxies militias in recent years have been supplied by China.

Is China's relationship with aligned countries like Iran shaped by a tech for oil agenda? Ms. Downs, I guess you have a background in FDIs, maybe you can speak a little bit to the oil trade and maybe Mr. Soliman can speak to the tech portion?

DR. DOWNS: What would you like to know about the oil trade?

COMMISSIONER HELBERG: If you zoom out and look at the overall bilateral relationship between China and several of its Middle Eastern partners like the UAE or Iran, if the organizing principle for those relationships often boils down to China imports vast amounts of oil in exchange for various types of tech oriented engagements that China provides, whether it's UAVs, whether it's technology investments like Huawei and the like, is China's engagements with the Middle East increasingly shaped by a tech for oil agenda?

MR. SOLIMAN: Commissioner, I would say that I don't think they're correlated. I believe that the -- and again, my colleagues here are more expert than me on the question of energy. I do believe that the energy agenda of the bilateral relationship has been there.

And then going, there's nothing really very new. But I don't believe that the technology aspect of the relationship is tied to the energy dynamic. I believe that the Gulf states, when they're pursuing some investments from China, there is a question of cost.

And quite frankly, we don't really have alternative to Chinese technology that's cheaper and easier deployed as Huawei and ZTE offer. Second, there has been more tendency for Chinese companies to share IP to some of the partners and allies in the Gulf and Africa. So I would say those are the two main drivers for that sort of technology partnership between China and the Gulf states.

COMMISSIONER HELBERG: There's no question that cost is definitely a factor in the equation, but you don't think the Chinese government correlates the two when they organize bylaws around the Gulf and Road Initiative, for example, where they talk about both energy and technology infrastructure?

MR. SOLIMAN: So I'm not really an expert on the BRI, I don't claim to be. But what I can say is that sometimes when the Gulf states are investing heavily in technology or infrastructure or connectivity projects, sometimes there's a tendency to lump them together as under BRI framework, I don't believe so.

I think the Gulf states right now are pivoting to Asia, they are also pursuing their own Asia minus China strategy by engaging quite heavily with Asian, Korea, Japan, and India.

And I mean, they have been part, a cornerstone to our own India, Middle East road corridor and now it's in the G20. So I don't think that they are pursuing these sort of massive investment projects because they believe that somehow the BRI is a strategic trajectory.

COMMISSIONER HELBERG: And, Ms. Downs, does China import anything from the Middle East other than oil and gas? I mean, isn't it basically 90 percent of its import from Iran and the UAE? I would love to know what the breakdown is.

DR. DOWNS: So energy, oil and natural gas, do dominate China's trade with exporters of these commodities. And in my written testimony, I do have a chart that shows the percentage of trade with countries with energy exporters in the Middle East and what percentage is occupied by oil and gas.

And I think the ranking just from a low of, you know, 69 percent in the case of the UAE, and you know, close to 100 percent in the case of Iraq, and this is based on Chinese customs data.

COMMISSIONER HELBERG: That's the pattern that stood out to me, was China was making an aggressive push to push its own technology stack onto the Middle East while at the same time, leaning in heavily into imports of oil and gas. Thank you very much. I defer to my colleagues for the rest of the questioning.

COMMISSIONER FRIEDBERG: Thank you, very much. We have a bit of time for further questions, I know Commissioner Cleveland you have one?

CHAIRMAN CLEVELAND: Okay. Dr. Downs, you may not know this, but for the record I want to ask if you could provide some kind of summary or table that reflects the number of ships that Chinese anti-piracy dedicated mission vessels have been used to protect travel in the region, tankers in the region.

And what I'm particularly interested in is you noted they protected a Singapore flagship, was that a ship headed to Singapore, or was that a ship with Chinese oil headed to the region? So if you could do that for the record.

I'm interested, Dr. Young, in your testimony, and it's the topic we've avoided where we talk a lot about the UAE and Oman, but you mention in your written testimony that Israel's port, Haifa, is now managed by an Indian conglomerate that's backed by the Emirati state investment corporation and that the UAE is cementing ties with Israel and India and in this process, we just heard from Commissioner Stivers and Helberg's questioning, there's a relationship with China. Just, this is a generic question, could you talk about how Israel fits into this whole equation? And I promise not to follow up.

DR. YOUNG: Thank you, Chairman. So Israel fits into the equation in energy transit and investment opportunity. That's of course, what the Abraham Accords were based on, I think largely an Emirati interest in access to natural gas off the coast of Israel and having a foot in that market.

The Haifa port is under contract operated by the Adani Group, which is a large Indian conglomerate in lots of businesses, including in the business of green ammonia. And their green ammonia facility in India was also a site of UAE investment.

I think the UAE has exited that investment, it was through the IHC group which is a holding company chaired by Sheikh Tahnoon. But there are many, many other businesses associated across trade logistics and energy infrastructure in which the UAE, India, and Israel is some part of that.

There are lots of reasons for that, but I think it goes back to this broader trend in which we see large, sovereign investors, those in the Gulf with the ability to intervene and be stakeholders in what they see as the future of the global economy.

And so there's a wide geography about that and it really stretches across what we kind of imagine as this new Silk Road. So it goes as far as Morocco as well, and in fact, investment in our own clean energy infrastructure here in the United States.

CHAIRMAN CLEVELAND: All right. I don't think it bears commenting but I'm curious about Chinese, Iranian oil funding China's economy, China shipping drones to Iran and being used in the regional war. And yet, and financed in part by the UAE, and yet, they're also financing the port and working in the port. It feels like a confusion if not a conflict of interest.

DR. YOUNG: A multi-nodal global economy, that is our future, yes, you're right.

COMMISSIONER FRIEDBERG: Okay. Good news and the bad news. Commissioner Glas?

COMMISSIONER GLAS: And, Dr. Young, I had a clarifying question from your testimony. You noted in your testimony that China is often characterized as the investor of choice in the Middle East and you go on to say that sometimes they make investments where others may not.

I'm wondering where that characterization comes from? Is it coming from Gulf states? Is it coming because the Chinese are saying, we're the, you know, we're the best investor that you can work with?

And then, you know, just kind of comparing Chinese investment under the Belt and Road Initiative, we've, the Commission has heard a lot of testimony over the years about, you know, the contracts, similar to Commissioner Cleveland's question, the bottom line, the terms aren't favorable if you default on a payment and things like that.

And given how much infrastructure build out is happening right now with Chinese investment or co-investment, what are some of the -- have you seen some risks already play out, you know? What are some of the risks that we may not be or they, these countries may not be thinking of in this particular climate?

DR. YOUNG: Thank you, Commissioner. Yes, I think, you know, the BRI and China had a reputation for basically going into higher risk environments where certainly U.S. private investors weren't willing to go.

And so they were also trying to build out their concessional finance, their development finance, as a strategic opportunity as well. And they did that, and it's slowed down considerably. I would give some examples in the MENA region, Iraq has been a place where we've seen considerable Chinese investment, particularly in the energy sector and the oil sector, with terms which are probably not so favorable.

I don't know enough to really delve into detail about that. But I could also use the case of Oman. So Oman borrowed heavily from a set of Chinese banks a few years ago, nearly \$5 billion, and very quickly worked to restructure that debt and repay that debt.

Because I think a realization that, I mean, Oman has a more favorable credit rating than Iraq does, they have better access to capital, but I think a realization that that was probably not in their interests.

COMMISSIONER FRIEDBERG: Do other commissioners have further questions?

COMMISSIONER STIVERS: Yes, thanks. Dr. Downs, we've talked a lot about the strengths of the relationship between China and Iran. Can you talk a little bit about the

weaknesses and tensions in the economic relationship that maybe the Commission should be aware of?

DR. DOWNS: So I guess one tension in the relationship, and this is in the oil and gas sector, is that if there were no sanctions on Iran and companies, you know, from around the world could, you know, invest freely in Iran, I suspect that Iran would want to have other companies involved in its oil industry, that they would not want it to be dominated by Chinese companies.

So I think that is sort of one weakness in the relationship that Chinese companies aren't necessarily, you know, the investor of choice. And they certainly, I would imagine, do not want their industry to be dominated by them.

And then I guess, another issue, another tension or possible source of tension is the extent to which, you know, goods imported from China are adversely affecting local industries, adversely affecting local firms, and so that I would identify as another source of tension.

COMMISSIONER STIVERS: Okay. Thanks. Anyone else have any comments on that? Okay, that's all. Thanks.

COMMISSIONER FRIEDBERG: Mr. Soliman, I had a couple of final factual questions for you. Are you aware or do you have any information on the extent to which the IT networks of Gulf countries now have been built by Chinese companies? Are they 75 percent, Huawei, are they 100 percent, do you know?

MR. SOLIMAN: I don't have a certain number in my mind, but I would say almost half. And I wouldn't say when the decision, just a commentary here, when a decision was made in the mid-2010s to go to Huawei, that was not an issue.

I think the question in the Gulf was mostly about which one is cheaper and which one was easier to deploy before Expo Dubai and the World Cup in Doha. And on top of that, it was the cost, 40 to 50 percent cheaper than the rest. And so that's my understanding.

However, another caveat that's important, the Gulf states have been building Open RAN Initiative, which is our own alternative to diversifying the 5G ecosystem and be able to bring more vendors outside of having a fully enclosed network proposed or provided by Huawei, which is, I think, is a very welcomed move.

COMMISSIONER FRIEDBERG: And are you aware of instances in which Chinese companies or the Chinese government has provided assistance to local governments in surveillance, and in particular using communications network, CCTV networks for surveillance of their population?

MR. SOLIMAN: Providing hardware is something that Huawei provides to many of the regional partners. About the use of these into surveillance, I am not really aware, especially of today, because I know there has been more push to try to diversify away from these sort of hardware equipments.

COMMISSIONER FRIEDBERG: Okay. Thank you. Any further questions? All right, seeing none, we're going to adjourn for ten minutes. Thanks very much for our witnesses and we will see you back here in ten minutes.

MR. SOLIMAN: Thank you.

(Whereupon, the above-entitled matter went off the record at 11:05 a.m. and resumed at 11:21 a.m.)

PANEL II INTRODUCTION BY COMMISSIONER JONATHAN N. STIVERS

COMMISSIONER STIVERS: Good mid-morning to everyone. Our second panel today will examine how China views the Middle East within the context of its global objectives and diplomatic engagement with the region.

We'll start with Dr. Jonathan Fulton, non-resident Senior Fellow for the Atlantic Council's Middle East Programs, and the Scowcroft Middle East Security Initiative. He also serves as an Associate Professor of Political Science at Zayed University in Abu Dhabi, and has written widely on the topic of Chinese policy toward the Middle East. He will provide an overview of China's strategic objectives in the region.

Next, we'll hear from Dr. Jon Alterman, a Senior Vice-President and Director of the Middle East Program at the Center for Strategic and International Studies (CSIS). Prior to joining CSIS in 2002, Dr. Alterman served as a member of the Policy Planning Staff, U.S. Department of State, and as a Special Assistant to the Assistant Secretary of State for Near Eastern Affairs. His testimony will explore China's key bilateral relationships in the region.

And then third, we'll hear from Dr. Dawn Murphy, an Associate Professor of National Security at the U.S. National War College where her research analyzes China's interests and behavior as a rising global power towards the existing international order.

Dr. Murphy recently published a book on China's foreign policy approach towards the Middle East and Sub-Saharan Africa. And her testimony will pertain to China's engagement with Middle Eastern countries, via original and international organizations.

Thank you all very much for your excellent written testimonies. And I would like to remind all of our witnesses to please keep their remarks to seven minutes to preserve time for questions and answers. Dr. Fulton, we'll begin with you.

OPENING STATEMENT OF JONATHAN FULTON, NONRESIDENT SENIOR FELLOW, ATLANTIC COUNCIL

DR. FULTON: Well, first of all, thank you very much for the invitation to join you today. I wish I could be there in person, I'm speaking from Abu Dhabi, where I live. I didn't think I would be able to get away from campus, and then it turns out that we had the massive storm here this week and my campus was closed, so I probably could have been there after all.

So I was asked to speak about China's strategic objectives in the Middle East. This is an issue I think about pretty regularly. It's something that folks here in the Gulf where I live are constantly thinking, talking, and writing about.

A point I would like to bring up, Andrew Scobell and Andrew Nathan wrote a really great book on China called *China's Search for Security* back in 2012. And they started with a concentric circle model, defining how China thinks about its foreign policy objectives.

And I think it's a really useful way to frame this. They said the first circle is its core interests, which are primarily, not primarily, completely, domestically centered.

They're focusing on things like economic issues, domestic pressures, urban rural divide, all of these issues that are shaping a lot of the -- or taking a lot of the political energy of CCP leaders. In thinking about foreign policy, often it's how they can use foreign policy to address those domestic pressures.

The second circle is the 20-odd countries in China that share either land borders or maritime boundaries with China, many of whom either see China as a threat, many of whom are fragile or weak states, many of whom are U.S. allies or partners. When you look at the map of China and its environs, you really do see these strategic challenges that China is facing.

The third circle is these competitive regions like South Central, South East Asia where China's got to maneuver around a lot of other competing powers. It's only when you get to the fourth circle where you find the Middle East, and basically everybody else.

Now that's not to minimize the importance of the Middle East, but just to kind of right size it, I think. It is a place where China has a lot of interest, it gets a lot of energy, it does a lot of trade, a lot of contracting, but it really isn't as central to China's overall strategic calculus as is often seen.

I like to keep this in mind because there was a period from December 2022 until early October of last year, where China's gains in the region seemed to tell a different story. Starting with President Xi Jinping's summit in Riyadh, or set of summits, rather, with tens of billions of dollars in MOUs and deals signed, followed by Iran's President Raisi visiting Beijing a couple months later.

Then of course, the dramatic Saudi-Iran rapprochement announced in Beijing in March 2023, the expansion of BRICS and Shanghai Cooperation Organization to the Middle East, Mahmoud Abbas's visit to Beijing in June of that year.

The story really was, China was playing a role of a major extra-regional actor in the Middle East, and it looked like this was, within, you know, really creating a different presence for China. That was, it's economic presence in the region was finally being matched by its strategic objectives.

And I think in October 7th with the Hamas attack, it really undermined that narrative, because we saw the limits of what China's been able to achieve in the region. That said, a lot of these big moves that I just described from President Xi's trip up until Abbas's trip, are often framed in the context of China's plan to create a set of global alternatives to Western liberalism.

These are evident in things like the Global Security Initiative, Global Development Initiative, Global Civilization Initiative, where China is trying to create alternative norms and values to shape local governance and to promote itself as a leader of the global south.

And of course, in this, the Middle East, is seen as a very useful playing field, especially given the region's traditional relationship with the U.S. China's been creating wedges, or tried to create wedges between the U.S. and its allies and partners, undermining America's leadership by promoting it as a duplicitous or trying to leave the region or unreliable.

And I think that those narratives were being matched by regional expectations that the U.S. wanted to leave. Again, I think what we've seen from China since the Houthi attacks on the Red Sea and its response to Gaza have really demonstrated that China does really have what it takes to play a larger role in this space.

In terms of its diplomatic activities, this is based on the foundation of a very deep, wide set of initiatives, whether it's bilateral relationships, especially to strategic partnership diplomacy. We've seen this especially in its role of the Saudi-Iran rapprochement.

China has the hierarchal approach to diplomacy, it has a non-alliance approach. But at the top level of policy is a strategic partnership, is when China says a country serves both regional and global means for China. And those countries in the Middle East, you see Algeria, Egypt, Saudi, Iran, and the UAE are at the top level China's regional policy and in this you see greater depth of official meetings, visits.

You see a lot more contracting, you see a lot more investment, you see a lot more trade. And through this you see also the mechanisms that allow China to play a role as it did in the Saud-Iran rapprochement.

I think in that, there's been a, I think an exaggerated sense of what China was able to achieve there. It's been pretty well documented that other actors, the Kuwaitis and Iraqis had done most of the heavy lifting.

The deal was announced in Beijing, because they needed a great power sponsor, and China with its conference of strategic partnerships in both Riyadh and Tehran, it was able to play a role that no other great power could. But I don't think that necessarily means that China had a whole lot to do with the construction of it.

And as we've seen since, it doesn't really have the skin in the game to make it play a meaningful role. I don't know how many calls I've gotten in the past seven or eight days from journalists asking, does China have the leverage in Iran, and if so, why isn't it doing anything. And I think again, this is where we've seen that China is primarily an economic actor in the region.

It has tremendous interests, that doesn't necessarily mean it has tremendous influence, but it does see the region as a place where it can compete with the U.S.

And we've seen a lot of this since October of last year, but it doesn't necessarily result in tangible outcomes. I think being based in the UAE, we've seen this just in the past two weeks, with the UAE's white paper on AI, how they are moving towards the U.S. and how Huawei and other Chinese AI companies have been shuttered out, you know.

Again, its economic presence isn't necessarily resulting in strategic gains. Look forward to any questions you have and thank you again for the opportunity to speak today.

COMMISSIONER STIVERS: Thank you. Dr. Alterman?

**PREPARED STATEMENT OF JONATHAN FULTON, NONRESIDENT SENIOR
FELLOW, ATLANTIC COUNCIL**

China's Strategic Objectives in the Middle East
Testimony before the US-China Economic and Security Review Commission
Hearing on "China and the Middle East"
April 19, 2024

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The Middle East – North Africa (MENA) has emerged as an important strategic region for the People's Republic of China (PRC), with a significant expansion of its interests and presence across the region.¹ However, at this stage China remains primarily an economic actor there, with growing political and diplomatic engagement and little in the way of a security role. This economics-first approach has contributed to improved public perceptions of China across MENA; public polling data from the Arab Barometer consistently shows positive views of China as an external actor, with respondents from 8 out of 9 countries perceiving China more favorably than the US.² At the same time, its modest involvement in regional political and security affairs, evident in its minimal response to Houthi strikes on maritime shipping, underscores its reluctance to play a more meaningful role in MENA, which has no doubt been recognized by governments that expected a more robust response given Beijing's outsized economic presence.

This highlights an important point about how MENA features in the PRC's broader strategic objectives. It is first and foremost a region where China buys energy, sells goods, and wins construction infrastructure contracts. These economic interests have not required a corresponding political or security role, and Chinese leaders have not indicated that they will do so; they benefit significantly from the US security architecture that underpins the region's fragile status quo. China works closely with US allies and partners in MENA, especially the Gulf Cooperation Council states and Egypt, and in many regards Beijing's interests in the Middle East have been consistent with those of the US.

At the same time, MENA has to be considered as part of a larger global strategy under which US-China interests diverge substantially. China's more assertive foreign policy since the global financial crisis started under the leadership of Hu Jintao and has intensified under Xi Jinping.³ The 2017 US National Security Strategy identified China as a great power competitor, and the rivalry is playing out in MENA as elsewhere. Beijing has rolled out new global initiatives – the Global Development Initiative (GDI), Global Security Initiative (GSI), and Global Civilization Initiative (GCI), discussed

¹ For an overview, see Jonathan Fulton (ed.), *Routledge Handbook of China – Middle East Relations* (Abingdon: Routledge, 2022).

² Michael Robbins, "Public views of the U.S.-China competition in MENA," Arab Barometer, July 2022, https://www.arabbarometer.org/wp-content/uploads/ABVII_US-China_Report-EN.pdf.

³ See Susan Shirk, *Overreach: How China Derailed Its Peaceful Rise* (Oxford: Oxford University Press, 2022).

below⁴ – to present itself as a leader of the Global South, using a state-centered alternative to Western liberalism.

In this effort, the MENA is a region where China aims to establish a normative consensus consistent with Beijing's preferences. As a result, we see several examples of PRC leaders promoting narratives that the US is unreliable, or that its presence in the region exacerbates tensions and conflict. After a January 2022 meeting with MENA officials, for example, Chinese Foreign Minister Wang Yi said the Middle East “is suffering from long-existing unrest and conflicts due to foreign interventions... We believe the people of the Middle East are the masters of the Middle East. There is no ‘power vacuum,’ and there is no need of ‘patriarchy from outside.’”⁵ Whereas in the preceding two decades the PRC rarely overtly challenged the US position in MENA, it has become a regular feature as Chinese leaders exploit pressure points between the US and regional actors in order to differentiate itself from the US and to create friction between Washington and its MENA partners and allies. This has been especially present in Chinese messaging since the October 7, 2023 Hamas attack on Israel, as PRC leaders have consistently used the crisis to undermine the US and present itself as a more reliable partner to the Arab world.⁶

China's diplomatic activities in the Middle East

While it has not been widely recognized, China has developed a deep, broad and systematic approach to diplomatic engagement across MENA. It uses a range of bilateral and multilateral diplomatic tools, and these have been complemented in recent years with international organizations where Beijing has significant influence. It also has appointed special envoys for region-specific issues.

At the bilateral level, China has diplomatic relations with all regional countries. Several of these are enhanced by strategic partnerships, which are mechanisms to coordinate on regional and international affairs. Five MENA countries – Algeria, Egypt, Iran, Saudi Arabia, and the UAE – have been elevated to comprehensive strategic partners, the top level in China's hierarchy of diplomatic relations. This results in the “full pursuit of cooperation and development on regional and international affairs.”⁷ To be considered for this level of partnership a country has to be seen as a major regional actor that also provides added value, such as Egypt's control of Suez, or Saudi's leadership role in global Islam and

⁴ See Michael Schuman, Jonathan Fulton and Tuvia Gering, “How Beijing's Newest Global Initiatives Seek to Remake the World Order,” Atlantic Council, June 21, 2023, <https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/how-beijings-newest-global-initiatives-seek-to-remake-the-world-order/>

⁵ “Middle East Has No ‘Power Vacuum,’ Needs No ‘Foreign Patriarch’: Wang Yi,” *Global Times*, January 16, 2022, <https://www.globaltimes.cn/page/202201/1246036.shtml>

⁶ See Grant Rumley and Rebecca Redlich, “Tracking Chinese Statements on the Hamas-Israel Conflict,” The Washington Institute for Near East Policy, updated February 28, 2024, <https://www.washingtoninstitute.org/policy-analysis/tracking-chinese-statements-hamas-israel-conflict>

⁷ “Quick guide to China's diplomatic levels,” *South China Morning Post*, January 20, 2016, <http://www.scmp.com/news/china/diplomacy-defence/article/1903455/quick-guide-chinas-diplomatic-levels>

energy markets.⁸ Therefore, when assessing China's diplomatic efforts in MENA, these countries (Algeria to a lesser extent) are the load-bearing pillars of Beijing's approach. They see more official visits, attract more investment, do more contracting, and generally support a wider range of China's interests in the region. That China has comprehensive strategic partnerships with both Saudi Arabia and Iran means there are more frequent bilateral high-level meetings, no doubt contributing to China's role in the Saudi-Iran rapprochement.

At the multilateral level, China uses the China Arab States Cooperation Forum, which includes all Arab League members, and the Forum on China Africa Cooperation, which includes nine Arab League members.⁹ These forums present China with regular ministerial-level meetings where they map out cooperation priorities. They also have several sub-ministerial level issue-specific working groups. The result is a relatively deep level of diplomatic engagement.

China has appointed special envoys for the Middle East, the Horn of African Affairs, and the Syrian Issue, all of which were designed to present the PRC as an actor with influence and interest in these issues, although the impact of each has been marginal.

Finally, two international organizations where China plays an influential role, BRICS and the Shanghai Cooperation Organization Forum, have admitted Middle Eastern states as members in recent years. BRICS expanded for the first time in 2023 to include Saudi Arabia, Egypt, Iran, the UAE, and Ethiopia, giving the organization a presence in MENA and the Horn. The SCO admitted Iran as a full member in 2023, a position it has coveted since 2005. Other MENA participants in the SCO are Bahrain, Egypt, Kuwait, Qatar, Saudi Arabia, and the UAE, all of which are dialogue partners. This does not make them SCO members; it is a position for countries that wish to participate in discussions with SCO members on specific issues that they have applied to join as dialogue partners.¹⁰ It could eventually result in full membership but that does not appear to be on the horizon for any Middle Eastern dialogue partners for now.

All in all, Chinese diplomacy has been highly active and quite successful laying the groundwork for a deeper presence in the Middle East.

China's involvement in MENA conflict mediation

China's efforts to position itself as a conflict mediator is part of a larger strategy, embedded in the GSI, to present the PRC as a leading global actor. As a 2023 report from MERICS cautioned, "China's current mediation push seems to be largely a reflection of its geopolitical competition with the United

⁸ For more on China's partnership diplomacy, see Georg Strüver, "China's Partnership Diplomacy: International Alignment Based on Interests of Ideology," *The Chinese Journal of International Politics* 10 (1) (2017), 31-65; Jonathan Fulton, "Friends with Benefits: China's Partnership Diplomacy in the Gulf," *Project on Middle East Political Science: Shifting Global Politics and the Middle East*, 34, (2019), pp. 33-38.

⁹ See Dawn Murphy, "Chinese Diplomatic Outreach to MENA: Cooperation Forums and Special Envoys," in Jonathan Fulton (ed.) *Routledge Handbook on China-Middle East Relations*, pp. 384-395 (Abingdon: Routledge, 2022).

¹⁰ Eva Seiwert, *The Shanghai Cooperation Organization and China's Strategy of Shaping International Norms*, PhD Dissertation, Freie Universität Berlin, 2021, p. 239.

States and its ambition to expand its global influence at the expense of the West.”¹¹ In MENA as elsewhere, the results have been mixed. The Saudi-Iran rapprochement is an example of a low cost ‘win’ for China. It has been well documented that much of the negotiation that led to the March 2023 announcements in Beijing had been done through Iraqi and Omani efforts.¹² China’s involvement appears to be as a great power sponsor that was broached during Xi Jinping’s December 2022 summit in Riyadh and further discussed during President Ebrahim Raisi’s visit to Beijing in February 2023. Given China’s comprehensive strategic partnerships with the Saudis and Iranians, it has significant diplomatic relations with both countries and was therefore the only major power that could play such a role. However, it has to be stressed that most of the groundwork had been laid before China’s involvement, and that the rapprochement itself was the result of domestic political and economic pressures within Saudi and Iran.

Given this highly publicized diplomatic ‘win’, Chinese analysis promoted a narrative of a “wave of reconciliation” in the Middle East as a result of Beijing’s efforts. Ding Long, a Middle East expert at Shanghai International Studies University, described China’s mediation diplomacy, guided by the GSI, as driving events in the Middle East in the wake of the Saudi-Iran deal:

Within a month since then, the Saudi-Iran rapprochement is like a key that opens the door to peace in this region. The warring parties in Yemen took a critical step toward a political solution; Bahrain and other Arab countries have restored diplomatic relations with Iran; Saudi Arabia and other Arab powers are interacting more frequently with Syria. A wave of reconciliation is also encouraging more joint efforts between China and the Middle East in pursuing peace.¹³

Shortly after the Saudi-Iran deal, the PRC announced that it was willing to wade into the Israel-Palestine conflict during a June 2023 visit from Palestinian President Mahmoud Abbas. Immediately following this, Israeli Prime Minister Benjamin Netanyahu announced that he had accepted an invitation to Beijing for October¹⁴; for obvious reasons the visit did not happen. China’s response to the Hamas attack, discussed below, has negated any prior work towards being a mediator on the issue; its relationship with Israel has been deeply damaged at this point and it is hard to see how Beijing could play a constructive role negotiating between the two. The March 2024 meeting in Doha between Chinese ambassador Wang Kejian and Hamas official Ismail Haniyeh further cements this.¹⁵ Any role China can play would be in support of Palestine and highly partisan.

¹¹ Helena Legarda, “The Geopolitics of China’s Mediation Push,” MERICS China Security and Risk Tracker, May 31, 2023, <https://merics.org/en/tracker/merics-china-security-and-risk-tracker-022023>

¹² Niloufar Baghernia, “China’s Marginal Involvement in the 2023 Iran-Saudi Arabia Reconciliation,” *Asian Affairs* (2024), 1-18; Saeed Azimi, “The Story Behind China’s Role in the Iran-Saudi Deal,” Stimson Center, March 13, 2023, <https://www.stimson.org/2023/the-story-behind-chinas-role-in-the-iran-saudi-deal/>

¹³ Ding Long, “Global Security Initiative Drives Forward Deeper Reconciliation in Middle East,” *Global Times*, April 26, 2023, <https://www.globaltimes.cn/page/202304/1289834.shtml>

¹⁴ “Netanyahu Says Invited to China, with US-Israel Ties Tense,” *Arab News*, June 27, 2023, <https://www.arabnews.com/node/2329116/middle-east>

¹⁵ Dewey Sim, “Chinese Envoy Meets Hamas Political Leader in Qatar to Discuss ‘Gaza Conflict and Other Issues,’” *South China Morning Post*, March 19, 2024,

In any case, just over a year after Beijing's first successful foray into Middle East diplomacy, the region is less stable than it has been in recent memory, and China's efforts at mediation have had little tangible impact. It has little influence on Iran or its nonstate partners of Hamas, the Houthis, or Hezbollah, and is not seen as credible by Israel.¹⁶ Generally, its response to events since the Hamas attack have made China look very transactional and self-interested in the region, rather than a responsible extra-regional power with substantial Middle East interests.

A point worth considering on this topic is that China is a relative newcomer to Middle East political diplomacy. As described above, it is primarily an economic actor in the region, and despite its special envoys, cooperation forums, and strategic partnerships, it does not have the depth of regional specialization that the US or European countries do, given their longstanding involvement in MENA. As China develops a deeper pool of MENA talent this will change, but it is early days. Its area studies programs in universities and think tanks are not nearly as developed as their US counterparts, making for a much shallower pool of expertise.

China's response to the Hamas attack on Israel

The Hamas attack on Israel had significant repercussions for China's approach to the MENA and resulted in a more blatantly realpolitik approach to the Israel-Palestine conflict. China's ambition to play a role in resolving this conflict was based largely on the 'peace-through-development' framework of the GDI/GSI.¹⁷ The attack demonstrated the need for a more robust response, but in the wake of the attack the limits of Beijing's normative approach were evident. Since then, China has not pursued a mediator role, siding firmly with Palestine while frequently condemning Israel and the US. Pointedly, it did not blame Hamas for the attack and has seemingly made the 'one man's terrorist is another man's freedom fighter' argument; during International Court of Justice hearings Ma Xinmin, a legal advisor for the Chinese Ministry of Foreign Affairs, argued that Palestinian acts of violence against Israelis are legitimate "use of force to resist foreign oppression and to complete the establishment of the Palestinian state."¹⁸

A point worth considering is that within China, the Israel-Palestine conflict resonates differently than it does in the US and other Western liberal democracies. The demographic composition of the West with large immigrant populations means that there are significant Jewish, Muslim, Christian and Arab

<https://www.scmp.com/news/china/diplomacy/article/3255898/chinese-envoy-meets-hamas-political-leader-qatar-discuss-gaza-conflict-and-other-issues>

¹⁶ Parisa Hafezi and Andrew Hayley, "China Presses Iran to Rein in Houthi Attacks in Red Sea, Sources Say," Reuters, January 26, 2024, <https://www.reuters.com/world/middle-east/china-presses-iran-rein-houthi-attacks-red-sea-sources-say-2024-01-26/>; Jonathan Fulton, "China Doesn't Have as much Leverage in the Middle East as One Thinks – at Least when it Comes to Iran," Atlantic Council, February 1, 2024, <https://www.atlanticcouncil.org/blogs/menasource/china-mena-leverage-iran-houthis-yemen/>

¹⁷ On 'peace through development', see Sun Degang and Zhang Jieying, "Peace Through Development: China's Peace Initiative for the Middle Eastern Conflict Resolution," *China Quarterly of International Strategic Studies* (2021), 7(4), 383-408.

¹⁸ "China at the World Court: Palestinians Have the Right to 'Armed Struggle' against Israelis," *The Times of Israel*, February 22, 2024, https://www.timesofisrael.com/liveblog_entry/china-at-the-world-court-palestinians-have-the-right-to-armed-struggle-against-israelis/

communities for whom the Israel – Palestine conflict is a major issue that animates voters, NGOs, and lobbyists. Democratic leaders are expected to have positions that represent their constituents, and Middle East policy has to try to thread the needle of interests and values in a manner that balances citizens’ often deeply held convictions. In China, religious minorities - especially of the Abrahamic faiths - are comparatively insignificant in the demography, and the immigrant population from the Middle East is virtually non-existent. The Party has increased repression against Muslims, Jews, and Christians during the Xi Jinping era, making overt political action from them incredibly costly.¹⁹ This, combined with the fact that China has an authoritarian government, means the issue of Israel and Palestine does not mobilize Chinese citizens like it does in the US, and the government is less concerned with being responsive to citizens’ concerns. It is, therefore, a purely geopolitical issue. The CCP can use its policy in the region to advance its own interests while challenging the US and its Western allies without the additional consideration of managing domestic pressures. Its messaging on the war in Gaza is therefore more about China presenting itself as an alternative to the US as a global leader than it is about the war itself.

China’s global initiatives and international order

At this point China’s three global initiatives (GDI, GSI, GCI) are following the same early-stage trajectory of the Belt and Road Initiative (BRI). When it was announced in 2013 there was little understanding or awareness of it outside of China, and within China ministries, agencies and municipalities spent most of 2014 and 2015 incorporating the BRI into their missions.²⁰ The 2015 white paper on the BRI²¹ and the 2017 Belt and Road Forum enhanced its global profile. The GDI, GSI, and GCI have been appearing in joint communiqués across MENA and are cited by local actors as useful contributions from China, but they do not appear to be widely understood yet, nor do many local governments seem to be aware of them. It is likely that the GSI first came to a wider audience when then-Foreign Minister Qin Gang described the Saudi -Iran rapprochement as “a case of best practice for promoting the Global Security Initiative.”²²

However, the normative framework of these initiatives has appeal for regional governments. Whereas liberal norms of global governance focus on democracy, free markets, human rights, and international institutions, China’s trio of initiatives promote sovereignty, territorial integrity, self-determination, and

¹⁹ “Government Policy toward Religion in the People’s Republic of China: A Brief History,” Pew Research Center, August 30, 2023, <https://www.pewresearch.org/religion/2023/08/30/government-policy-toward-religion-in-the-peoples-republic-of-china-a-brief-history/>

²⁰ Michael Swain, “Chinese Views and Commentary on the ‘One Belt, One Road’ Initiative,” *China Leadership Monitor* 47:2 (2015)

²¹ National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People’s Republic of China (2015) Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road. March, https://www.fmprc.gov.cn/eng/topics_665678/2015zt/xjpcxbayzlt2015nnh/201503/t20150328_705553.html. Accessed 18 December 2023.

²² Embassy of the People’s Republic of China in the Islamic Republic of Iran, “Qin Gang Has a Group Meeting with Saudi Arabia’s Foreign Minister Faisal bin Farhan Al Saud and Iranian Foreign Minister Hossein Amir-Abdollahian,” April 6, 2023, http://ir.china-embassy.gov.cn/eng/zyxw/202304/t20230409_11056460.htm

noninterference in the domestic affairs of states. Essentially, it rejects the universalism of liberal norms and promotes a statist vision instead. For governments and societies long frustrated by the inconsistent promotion of liberal values from the west, or by those that reject liberalism altogether, China's model is attractive.

The impact of China's global initiative and the BRI should also be considered as a consequence of a global order transition. During the Cold War, bipolarity meant governments in need of development assistance could turn either to the West or the Soviets. The end of the Cold War meant the developing world was limited to Western institutions underpinned by liberal values that imposed conditions, often inconsistent with local norms. The emergence of China and its global initiatives provides alternatives, and that Beijing presents these initiatives in contrast to liberal institutions is appealing to many governments in the Middle East.

The issue of Xinjiang

The CCP identified its 'core interests' in a 2011 white paper, "China's Peaceful Development". These core interests are state sovereignty, national security, territorial integrity, national reunification, maintenance of its political system and social stability, and maintaining safeguards for sustainable economic and social development. Importantly, all of these are domestic concerns. In practical terms, anything another country does to undermine these – especially including support for independence movements in Xinjiang, Tibet, Hong Kong and Taiwan – will damage the relationship. The CCP faces numerous challenges from issues of domestic governance, and pressure from within is the most significant threat to its continued rule. When foreign governments apply pressure on Beijing on domestic issues there is pushback, typically in the form of coercive economic statecraft.²³

All of this is to say that Middle Eastern governments have shown no inclination to speak or act on the issue of repression of Uyghurs or other Muslim minorities in China. No regional government wants to jeopardize a bilateral relationship with one of its most important trading partners on an issue that few feel is relevant to their own core interests of building sustainable economies and improving governance in the face of significant domestic pressures. Engagement with China is largely seen as an opportunity for regional governments to address these challenges, and China's own experience of development since the Reform Era began in 1978 is perceived as a model for this.

Another consideration here is that Beijing frames its repression of Uyghurs as a response to a conservative religious ideology that promotes separatism and has used terrorism in an attempt to establish an independent state. In doing so, it addresses a concern for many Middle Eastern governments, most of which are deeply concerned about the spread of political Islam in their own countries. As such, the issue is less about any notion of pan-Islamic solidarity than it is about challenges to the state from an ideology seen with deep hostility from regional governments.

Policy Recommendations

- Provide explicit support for MENA countries in their development programs.

²³ Evan A. Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?" *Macro Polo*, July 25, 2017, <https://macropolo.org/coercion-new-normal-chinas-economic-statecraft/>

- Encourage more investment into MENA from private US companies.
- Improved messaging on what the US does in the region beyond the realm of security.
- Improved messaging on how MENA features in US interests and policy.
- Enhance public diplomacy – bring more MENA students to US on training and education programs.
- Draw upon the narratives of other extra-regional allies and partners that have interests in MENA and have also had challenges in dealing with China. They can help with the messaging – what have their experiences with China been? What issues should MENA countries be considering?
- Where possible, align approaches to MENA with US allies to provide a greater range of investment, development, and trade options.

OPENING STATEMENT OF JON ALTERMAN, SENIOR VICE PRESIDENT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

DR. ALTERMAN: Commissioner Stivers, Commissioner Friedberg, Chairman Cleveland, who I first met in a room very much like this one in my first job out of college many years ago, distinguished members of the Commission, I'm honored to share my views with you today on China's Middle East ties.

CSIS does not take policy positions so the views represented in this testimony are my own and not those of my employer. In my testimony, I would like to give you my assessment of China's ambitions in the Middle East and the Middle East's ambitions with China.

It's my strong sense that we wrongly assume that China is interested in winning a symmetrical competition with us. And we underestimate the extent to which China is seeking to use the Middle East to reshape global competition on more favorable terms.

We also underestimate the extent to which our partners in the Middle East welcome Chinese influence as a check on what they see as U.S. excesses. They seek to sustain their strong ties with us, while simultaneously building stronger ties with China.

China's overarching goal in the Middle East is to peel the region away from the United States and advance the goal of a more globally un-aligned world. Chinese strategic thinkers see the Middle East as a place with far more peril than promise.

China is concerned that extremist ideologies originating in the Middle East will infect Western China. China is also concerned that the Middle East is well within the U.S. sphere of influence and differences all over the region could precipitate a U.S.-China conflict.

As I understand them, China's actions in the Middle East, are clearly subordinate to its global strategic concerns, the most significant of which is its rivalry with the United States. But there's also a Middle East side to this equation.

To a remarkable degree, there is great regional enthusiasm for stronger relationships with China. In part, this stems from a general sense that China is a rising power in the world and closer ties with that country are prudent. But the most significant driver is energy.

Beginning in the late 20th century, China became the single largest driver of energy demand growth in the world, and the Middle East has the only exporters who could meet their growing need.

Countries and populations in the Middle East feel that a closer relationship with China would give them the ability resist U.S. hegemony, and resist demands to reshape their domestic and foreign policies to reflect U.S. preferences.

Even U.S. partners and allies feel that the U.S. had enjoyed monopoly power in the Middle East for too long, and competition would be to their benefit. The difference between Chinese relations in the Middle East versus a place like Latin America or Africa, is that China sees the region as having difficult, and some Chinese would say intractable security challenges.

China sees little advantage in working to resolve them and little capacity to do so. It has different goals. China sees the Middle East as the point of the spear of creating a world which is more mercantilist and less committed to international law and multi-lateralism.

The more international relations revolve around the bilateral relationship between states, the better it is for China, which is the stronger party in all of its bilateral relations, except with the United States. I have five recommendations which you see reflected in the written testimony.

The first is that while the overall frame of U.S. foreign policy is increasingly focused on competition with China, the U.S. government needs to understand that while China is focused on

that competition, it has an added and distinct element, it's committed to asymmetric competition with the United States.

The U.S. government, in my experience, is focused more on symmetric competition where the U.S. has an advantage. So we put more energy into where we're better and we miss what the Chinese are doing.

Second, we need to understand the Sino-Iranian relationship for what it is, and not mistake it for what it isn't. Iran is a tool for China to use in China's relations with the United States, and China will not make sacrifices for Iranian benefit. There is no alliance here, and the prospect of one should be less alarming than many U.S. officials seem to assume.

Third, China often repeats that the United States is forcing countries to choose between the United States and China and countries should resist that of their own economic interests. The U.S. government cannot repeat enough, that the volume of U.S. trade with China is prima facie evidence that the United States does not object to economic ties with China.

Fourth, China's passivity and frequent irrelevance to addressing the robust security challenges facing the Middle East today, and the central role U.S. diplomacy plays in seeking to resolve them, should give lie to the theory that the United States is leaving the region and China is the rising power in the region. It's obviously not true.

And fifth, while China performs well in Middle Eastern public opinion polls, those polls are not reliable indicators of Middle Eastern governments' behaviors. Regional leaderships are fascinated by China in an almost completely superficial way, and they don't know much about China. They are mostly interested in the way China's example seems to refute Western insistence on country's need to adopt liberalism.

The United States should make clear that human capital development is the only way the Middle East can make it through the energy transition hole. The unique value proposition of Western education and training versus the Chinese model is irrefutable and gives strong strategic advantage to sustained influence of the United States and its allies in the region. And I look forward to your questions. Thank you.

COMMISSIONER STIVERS: Thank you. Dr. Murphy?

**PREPARED STATEMENT OF JON ALTERMAN, SENIOR VICE PRESIDENT,
CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**



**Statement before the
U.S.-China Economic and Security Review Commission**

“China and the Middle East”

Testimony by:

Jon B. Alterman

Senior Vice President, Zbigniew Brzezinski Chair in Global Security
and Geostrategy, and Director, Middle East Program, Center for
Strategic and International Studies

April 19, 2024

Commissioner Friedberg, Commissioner Stivers, distinguished members, I am honored to share my views with you on China's Middle East ties. CSIS does not take policy positions, so the views represented in this testimony are my own and not those of my employer.

In my testimony, I would like to give you my assessment of China's ambitions in the Middle East, and the Middle East's ambitions with China. I have been exploring this subject for almost 20 years, and it has evolved considerably. It is my strong sense that we wrongly assume that China is interested in winning a symmetrical competition with us, and we underestimate the extent to which China is seeking to reshape competition on more favorable terms. We also underestimate the extent to which our partners in the Middle East welcome Chinese influence as a check on what they see as U.S. excesses. They seek to sustain their strong ties with us while simultaneously building stronger ties with China. The consistent message from China is that doing so is both possible and desirable, and they should undermine U.S. efforts to divide them from China. In the process, China seeks to peel the region away from the United States and advance China's strategic goal of a more globally unaligned world.

China's Regional View

China became a net oil importer in 1993, since the beginning, about half China's oil has come from the Middle East. China therefore has found itself persistently reliant on a region that the United States continues to dominate, and its investments have been steady for decades.

Chinese strategic thinkers see the Middle East as a place with far more peril than promise. The region has a history of both intra-regional strife and domestic unrest, and China is concerned that extremist ideologies originating in the region will infect western China. China is also concerned that the Middle East is well within the U.S. sphere of influence, and differences over the region could precipitate a U.S.-China conflict. As I understand it, China feels it cannot afford to be disengaged in the Middle East, but its engagement must be selective. In addition, China's actions in the Middle East are clearly subordinate to its global strategic concerns, the most significant of which is its rivalry with the United States.

The Chinese position in the Middle East has been dynamic for the last quarter-century, not least because the U.S. position in the region has been dynamic. China has developed strong relations with U.S. allies and adversaries alike, building robust commercial ties all along the way. Several years ago, Indian Minister of External Affairs S. Jaishankar said, "For the last 20 years, the United States has been fighting but not winning in the Middle East, and China has been winning but not fighting in the Middle East." That seems accurate to me.

To a remarkable degree, there is great regional enthusiasm for stronger relationships with China. In part, this stems from a general sense that China is a rising power in the world, and closer ties with the country are prudent. But the most significant driver of this enthusiasm is a mutual belief that energy brings the two regions together. Beginning in the late 20th century, China became the single largest driver of energy demand growth in the world. The rapidly expanding Chinese industrial base was hungry for oil, and the Middle East has the only exporters who could meet that growing need. As demand plateaued in the United States and began to fall in Europe, it was

China's growth that kept global demand growing. It became unthinkable for energy producers not to seek to grow their relationships with China as a consequence.

There is also deep admiration for China's economic growth, and quiet appreciation for the fact that China has grown strongly without making the concessions to the political, economic, and social liberalism that Western states often insist are necessary for prosperity and stability. The Belt and Road Initiative was a masterstroke of branding, persuading state after state in the Middle East that it could play a central role in the geostrategic calculations of the world's greatest rising power, with each imagining the growing power it would accrue as a result. Of course, the dividends of the Belt and Road initiative in the Middle East are scant, but the residual desire to engage more closely with China endures.

The Middle East also has suffered from growing disenchantment with the United States. For decades there has been disappointment with U.S. policy toward the Palestinian-Israeli conflict, and this disappointment and anger has become acute in the last six months. There was also frustration that U.S.-led wars in Iraq and Afghanistan had little justification in the international law the United States claimed to be upholding, and the United States prosecuted the wars while indifferent to the civilian casualties they imposed. Governments were discomfited by the U.S. embrace of democratization in the Arab Spring, they complained of U.S. abandonment as the Obama administration announced its rebalancing toward Asia, and Arab governments complained that U.S. policy toward Iran was recklessly empowering the Islamic Republic.

Countries and populations felt that a closer relationship with China would give them the ability to resist U.S. hegemony and resist demands to reshape their domestic and foreign policy to reflect U.S. preferences. Even U.S. partners and allies felt that the U.S. had enjoyed monopoly power in the Middle East for too long, and competition would benefit them.

In this, China had a great deal to offer. Not only did China have the aura of geostrategic heft, but it brought economic resources to bear. Trade relationships have grown exponentially over the last two decades, through massive energy exports, the importation of Chinese manufactured goods, and the extensive use of Chinese companies to build infrastructure, housing, factories, and more. Where Western companies moved slowly toward agreements, sought external financing, and had extensive regulations that governed everything from environmental protection to anti-corruption statutes, Chinese companies were one-stop shops in league with the government, they were happy to build things quickly if not always well, and they were open to the costs of doing business in an environment with extensive patronage networks.

China doesn't want to supplant the United States in the Middle East but wants to supplement the United States in the Middle East. China also doesn't want to sacrifice much to advance any of its interests in the Middle East. Where it invests, it does so deliberately.

China, as you know, has created a hierarchy of relationships, with the most elevated being a "comprehensive strategic partnership." In the Middle East, it has such a partnership with Saudi Arabia, the UAE, Iran, Egypt, and Algeria. The latter, it feels to me, is mostly sentimental, tied to the links the two revolutionary countries established in the 1950s and have sustained in the

decades since. As China has become more market-oriented, it has turned a mercantile eye toward regional states, making shrewd efforts to build ties where they have the most potential for China.

Saudi Arabia

Saudi Arabia has been among the Middle Eastern countries most interested in courting China. Part of the interest is simply about energy: China was driving global growth, and Saudi Arabia has the world's largest proven oil reserves. As Saudi Arabia sees its role as "the world's central banker of oil," it would be ludicrous in the Saudi view not to build a close relationship with the world's largest customer for imported oil. Strategically, Saudi Arabia also sought to displace Iran as China's largest foreign supplier of energy. From a Saudi perspective, closer trade relations with China puts a cap on how close Iranian-Chinese relations can grow and gives the Saudis some assurance that China will not advance Iranian interests in international forums.

Saudi Arabia began engaging more deeply with Chinese firms when it sought low-cost construction options amidst a slumping economy in the 1990s. When oil prices rose in the 2000s and the Saudi economy was flush with cash, Chinese-Saudi trade grew strongly. In 2012, China and Saudi Aramco agreed to build a massive refinery together in Yanbu, on the Red Sea. Within four years, the refinery was operational, processing about 400,000 barrels per day of crude. China has built some of the country's most important projects in the last two decades, including light rail, desalination plants, and industrial estates. China is intimately involved in building out the Saudi IT backbone, and Chinese firms are key partners in constructing NEOM, the futuristic city on the Red Sea.

China has explicitly sought to portray itself as an essential strategic partner to Saudi Arabia. It has done so partly in the wake of Saudi concerns that the United States has been abandoning the Middle East as it pivots toward Asia, and partly by marketing the idea that the Chinese experience in economic growth holds lessons for Saudi Arabia's own ambitious economic diversification efforts. China has portrayed itself as an essential partner to Saudi Vision 2030, which Crown Prince Mohammed bin Salman has used as a focus for Saudi Arabia's economic planning.

In recent years, Saudi Arabia has had a sustained but superficial fascination with Deng Xiaoping's efforts in the 1980s to transition China from a relatively poor and parochial Maoist dictatorship to a robust and cosmopolitan global economic powerhouse. I recently wrote a paper on Middle Eastern states' understanding of the China model, and one of the fascinating examples is a modern art exhibit in Diriyya a couple of years ago that was curated by an American curator of modern Chinese art. The exhibit was entitled, "Crossing the River by Feeling the Stones," a phrase attributed to Deng Xiaoping. An explanatory panel explained, "When it was coined, this maxim referred to strategies for implementing and adapting to the massive economic and cultural transformations that were then taking place. Saudi Arabia finds itself today in a similar moment of optimistic energy, willingness to ask questions, and openness to new futures."

The Chinese-Saudi relationship is more robust than merely an energy relationship. There is also a military strand that runs through bilateral ties. Starting in the 1980s, Saudi Arabia occasionally saw China as a source for weapons that the United States would not provide, such as the CSS-2 missiles. This trend has continued, with China reportedly selling Saudi Arabia drone aircrafts

and helping Saudi Arabia build ballistic missiles. There seems to be extensive Chinese involvement in efforts at domestic surveillance.

Even so, when it comes to human capital, the Chinese are not very present. The Chinese have no role, for example, in extensive Saudi efforts to reform their defense establishment, which are being done along an Anglo-American model. There's also little evidence that China helps provide management training to senior Saudis, whose experience is almost entirely Western (and mostly American). Given that there is such a huge need in the Kingdom for management expertise for a vastly growing enterprise, and given the role of Western institutions providing it, this appears to provide a ceiling for how closely Chinese ties can develop.

Even so, ties are clearly developing. Saudi interlocutors have told me that Chinese representatives often come in and explicitly red team the United States. When they make an offer, they also predict what the United States would do, the kinds of conditions it would impose and the timelines it would give. They explain why their offer is better, and by Saudi estimates, they understand the U.S. position as well as Americans.

The Saudi ambition to draw closer to China grew after U.S. outrage at the murder of Jamal Khashoggi and now-President Biden's promise during the 2020 presidential campaign that he would treat the Saudis "like the pariahs that they are." This ambition has dampened in recent years, partly because the Biden administration has reassured Saudi Arabia that it is not hostile, and because China's regional diplomacy has demonstrated it is no substitute for the United States. While some expected that the Chinese role brokering a Saudi-Iranian agreement a year ago was a sign of China's regional diplomatic clout, it was largely Saudi determination that drove the diplomacy—including China's own involvement—and China has played no serious role trying to resolve the conflict in Gaza or resolving issues in Yemen, which is a long running Saudi security concern.

It is clear to Saudis that the country needs a robust relationship with China. Even if China doesn't replace the United States, Saudi Arabia sees China as an important check on the United States, and an important supplement to what the United States is willing to provide to China.

United Arab Emirates

The UAE has an even more complicated relationship with China than Saudi Arabia, in part because the UAE has distinctive sets of interests within a single country. Dubai has been a trading entrepot for centuries, and China's global trade and Dubai's role as a vital global transshipment point have grown in tandem. Today, 60 percent of China's trade with Europe and Africa passes through the UAE (mostly Dubai), as does a large percentage of its trade with the Middle East. About a quarter-million Chinese live in the UAE, again mostly in Dubai, compared to only a million Emirati citizens in the whole country. Chinese firms have driven much of the construction in Dubai, and the country's mercantilist spirit jogs quite well with the Dubai business community. Chinese organized crime operates in Dubai as well, including gambling enterprises, and the Dubai police closely monitor its progress.

Abu Dhabi is less interested in transshipment and trade, and much more focused on its role as a major oil exporter. As such, the Abu Dhabi leadership concentrates on security and geopolitics.

As in Saudi Arabia, there appears to be extensive cooperation between the national government and China on domestic security issues including surveillance, but Abu Dhabi works extensively with other security providers including Israel to bolster its surveillance capability. Abu Dhabi had a close partnership with China in the early months of the COVID pandemic on both testing and vaccines, although that cooperation dimmed when evidence emerged that the Chinese vaccine was much less effective than Western versions. While there were reports about a year ago that China was working closely with Abu Dhabi on artificial intelligence (ironically or perhaps significantly, led by a company chaired by the UAE national security advisor), some of that cooperation seems to have cooled, presumably in alignment with U.S. concerns.

The Abu Dhabi government increasingly has sought to strike an “active neutrality” posture in the world, retaining intimate ties with the United States but growing substantial ties with Russia and China. After the invasion of Ukraine, billions of dollars and thousands of Russians found safe haven in the UAE, despite—and arguably because of—U.S.-led sanctions on Russia. In a widely reported incident, in late 2021 the UAE shut down construction of what U.S. officials claimed was a Chinese military facility in Khalifa Port in Abu Dhabi, although there have been scattered reports that construction has continued.

The issue is not so much that there is overt tension between the United States and the UAE, but rather that the UAE has a growing sense that it is large enough and powerful enough to advance its own interests and should not slavishly follow the diktats of the United States. Whereas Saudi Arabia feels like it is embarking on a transformation, the UAE is more self-confident that its transformation has been underway for decades. The UAE sees itself as a regional thought leader, and the model it has demonstrated is one of careful balance between regional and global concerns, Western and Arab mores, and private and public capital development.

The UAE’s balancing reflects itself in complicated ways in domestic affairs. In foreign policy, though, it feels more straightforward. Perhaps surprisingly, the tiny UAE seems to be adopted a foreign policy that is in line with that advocated by India, a growing global heavyweight. Ties between the two, which date back centuries, are interesting. India is closer to the UAE than Kuwait, and there are more than two and a half times as many Indian citizens in the UAE as Emiratis in the UAE. Despite the large disparities in size—with India’s population almost 15 times that of the UAE when the UAE includes expatriates, and 150 times its size without them—the two countries have leaders with strong domestic support who share a vision of not needing to fall in line with a world that's broken into blocs.

Iran

Rather than seek to balance within the global system like the UAE, Iran seeks to undermine the structure of that system, which the Iranian leadership sees as hostile to Iran. In this effort, China is an eager partner. Both countries share discomfort with what the United States claims is a “rules-based order” and which China and Iran agree is an order that is intended to constrain them. In addition, China prefers a world in which the United States is bogged down in the Middle East and alienates much of the Global South through its actions there. In a way, sustained U.S.-Iran tensions are a manifestation of the United States trying to impose its will on a smaller state, and many countries feel some combination of solidarity and sympathy with Iran. China is eager to stand by Iran, as long as it doesn’t cost China much. In 2021, China and Iran made

headlines by signing a 25-year cooperation agreement that promised a \$400 billion investment in the Iranian economy. While the agreement made headlines, implementation has been weak at best, and the more Iran has seemed desperate for Chinese investment, the scarcer it has proven to be.

Despite common cause, there are vast disparities between China and Iran. The starkest area is economics. China represents about a third of Iranian trade, but Iran represents less than one percent of Chinese trade. It is clear who is in control of this relationship. Time after time, China has instrumentalized its relationship with Iran in order to advance Chinese interests. In political science terms, the Iranian-Chinese relationship is always a dependent variable based on China's other interests in the world. The Iranians both resent this and know there's nothing they can do about it.

It was a little bit surprising to me China has not been more outspoken about Houthi attacks on Red Sea shipping. Iran supports the Houthis with arms, cash, and reportedly with some targeting data. Attacks on shipping does more than hurt Chinese trade with Europe. Chinese ships have now been attacked despite Houthi promises they would not be, and the need to circumnavigate Africa has added to costs delays. In addition, the Houthis attacks have cut Suez Canal revenues in half since the first of the year, denying billions of dollars in hard current to a country with which China has a comprehensive strategic partnership and in which China has invested billions of dollars in recent years. It seems to me that's a reflection of two things. The first is that China has decided it can't have much of an impact. But the second and more important aspect is that it reveals that virtually everything China does in the Middle East is with an eye toward its most serious consideration: strategic competition with the United States.

China plays off the two beautifully. In circumventing U.S. sanctions by purchasing Iranian crude oil, China simultaneously undermines the U.S. ability to use the international financial system to sanction adversaries while gaining access to discounted oil. For China, this is a win-win solution, but the strategic goals (constraining U.S. hegemony, undermining the centrality of the global dollar economy, and demonstrating the inability of the United States to strangle the economies of its adversaries) are even more important than near-term economic benefit. China is guarding against a world in which the United States might seek to isolate China, and chipping away at its ability to do so is a central Chinese concern.

Israel

Israel is a close U.S. ally that actively courted China starting in the early 2000s, and China responded in kind. China not only sought Israeli counterterrorism assistance in the years after 9/11, but it also saw Israel is an important source of technical expertise. Chinese firms began investing in Israel, for example buying the country's largest dairy producer in 2014, but that wasn't where the real news was. About a decade ago, concern began to grow in the United States that China would use Israeli technology and the infrastructure it was building in Israel to advance Chinese espionage efforts. Israelis were dismissive of that fear 10 years ago, but in the last five have seemed to be more open to U.S. concerns. Whether that is a result of what Israelis themselves saw, what Americans were able to persuade them of, or a general assessment that the U.S. relationship needed to be protected is unclear.

But the largest shift in China-Israel ties came in the weeks and months after October 7. China has been openly critical of Israel and has shown little sympathy for Israel's assertions that it is in an existential struggle against a terrorist group. Instead, China has swung firmly behind a strategy of showing solidarity with the Global South, and thus siding with Palestinians over Israelis. We haven't yet seen this manifest in terms of disinvestment, but there is certainly less engagement, and the scars of this conflict are likely to run deep. Even so, it is likely that China will seek to reassert itself when the conflict begins to ebb. If there is some sort of broad international effort to resolve the conflict between Israelis and Palestinians, China is certain to pursue a central role in that effort as a matter of prestige. From that position, China is likely to seek to revive its relationship with Israel.

China And the Global South

China's role in the Gaza conflict now has been almost entirely opportunistic. While China's default position has been to favor states over non-state actors, China slid quickly into a position expressing solidarity between the countries of the Global South and Palestinians. China has had little positive to say to Israel, and its messaging stresses the hypocrisy of a U.S. position that on the one hand advocates international law but also turns away from any responsibility to protect Palestinian civilians from Israeli Army assault.

The difference between Chinese relations in the Middle East versus a place like Latin America or Africa is that China sees the region as having difficult—some in China would say intractable—security challenges. China sees little advantage in working to resolve them, and little capacity to do so. Instead, China seeks to position itself behind the United States, allowing the United States to get sucked in. China is focused on two things in the region: ensuring its competition with the United States does not escalate to outright conflict, and not replacing the United States. Instead, China sees the Middle East as the point of the spear of creating a different world which is more mercantilist and less committed to international law and multilateralism. The more international relations revolve around the bilateral relations between states, the better it is for China, which is the stronger party in all of its bilateral relations except with the United States.

Recommendations

1. While the overall frame of U.S. foreign policy is increasingly focused on competition with China, the USG must understand that China is committed to asymmetrical competition in the Middle East. At the same time, Chinese strategy in the Middle East is focused on China's global rivalry with the United States. Understanding these two distinct points is vital to constructing an appropriate U.S. policy toward China's role in the region.
2. Similarly, it is appropriate to understand the Chinese-Iranian relationship for what it is, and not mistake it for what it isn't. Iran is a tool for China to use in China's relations with the United States, and China will not make sacrifices for Iranian benefit. There is no alliance here, and the prospect of one should be less alarming to U.S. officials than many seem to assume.

3. It is important to continue to articulate the USG view that while it is appropriate for countries to develop close economic ties with China, it is also appropriate to be wary of China's actions. China has an interest in saying the United States is forcing countries to choose, and they should resist out of their own economic interest. It cannot be repeated enough that the volume of U.S. trade with China is *prima facie* evidence that the United States does not object to economic ties.
4. China's passivity and frequent irrelevance to addressing the robust security challenges facing the Middle East today, and the central role U.S. diplomacy plays in seeking to resolve them, should give lie to the theory that the United States is leaving the region and China is the rising power in the Middle East. Neither is true, and the USG should remind regional governments why.
5. There are any number of polls that attest to the popularity of China and the unpopularity of the United States in the Middle East, yet public opinion polls on foreign policy are not reliable indicators of Middle Eastern governments' behaviors. Regional rulers are presumed to have the prerogative to make foreign policy as they see fit. Regional leaderships are fascinated by China in a superficial way, but they don't know much about China. They are mostly interested in the way China's example seems to refute Western insistence on their need to adopt liberalism. The United States should focus less on issues of political ideology and more on the fact that human capital development is the only way the Middle East can make it through the energy transition whole. The unique value proposition of Western education and training versus the Chinese model is irrefutable and gives a strong strategic advantage to sustained influence of the United States and its allies.

**OPENING STATEMENT OF DAWN MURPHY, ASSOCIATE PROFESSOR,
NATIONAL DEFENSE UNIVERSITY**

DR. MURPHY: So thank you to Co-Chairs Friedberg and Stivers and the rest of the Commissioners for having me here today. I need to start with a disclaimer that the views I express today are my own, and they do not represent the National War College, Department of Defense, or the U.S. government more broadly.

I've been asked to speak about China's engagement with Middle Eastern countries in regional and international organizations. China engages with Middle Eastern states through a wide range of multilateral regional and international organizations.

For the purpose of this testimony, the Middle East includes the League of Arab States including North Africa, as well as Iran, Israel, and Turkey. My testimony focuses on a sub-set of China's interactions including with cooperation forums, the Gulf Cooperation Council, the League of Arab States, the BRICS, and the United Nations Security Council.

Through these regional and international organizations, China seeks to advance its interests in the Middle East and globally.

Those interests include ensuring access to resources and markets across the region; fostering support for China's goals and behavior in the broader international system; ensuring silence or supportive statements from states in the region about China's actions in Xinjiang and Hong Kong; maintaining and developing support for China's stance on issues of territorial integrity such as Taiwan and South China Sea disputes; and promoting China's global initiatives of Belt and Road, the Global Development Initiative, the Global Security Initiative, and the Global Civilization Initiative.

One important driver of China's behavior in these organizations is to promote regional stability in the Middle East. This is because China tends to view the Middle East as a region of turmoil, potential interstate war, and a breeding ground of non-state actor security threats, such as terrorism, that could threaten China's interests in the Middle East and beyond.

China's interactions with regional and international organizations in the Middle East provide China with many benefits, including they provide China with efficient and effective way to interact with large numbers of countries in the region and better understand their needs and positions.

China in these organizations, can amplify its voice and join together with other states to coordinate positions on issues. And these organizations give China platforms to highlight shared norms it wants to promote, for example, a strict interpretation of Westphalian sovereignty, South-South cooperation, and a heavy role for the state in economic interactions.

Also, operating through these regional international on security issues gives China opportunities to emphasize that it does not seek a unilateral security role in the region, and to differentiate itself from other great powers and their security role, for example, the U.S. and Russia.

Now I will say few words about specific organizations. With the Gulf Cooperation Council, China interacts through two major organizations. One is the China-Arab States Cooperation Forum and the other is direct interaction with the GCC.

The China-Arab States Cooperation Forum was established in 2004, and it is the primary multi-lateral coordination mechanism that China uses with Arab states. It meets every two years, and it encompasses a very broad range of functional areas.

Arab states use this organization as an opportunity to communicate with China in a unified voice regarding their needs and across a very wide range of issues.

The cooperation forum I just described is the primary unilateral mechanism, but China is also starting to interact more with the GCC in a stand-alone way. So for example, in 2022, there was a GCC summit that was conducted between China and the GCC.

China has strategic partnerships with the League of Arab States, and is now pursuing one with the GCC. It also has been pursuing a free trade agreement with the GCC. And its recent push to interact with the GCC reflects the increasing role of the way in which China sees states in the GCC in energy security as important economic partners and because of the cohesiveness of the GCC since the end of the embargo against Qatar.

Another regional organization that is expanding to include the Middle East is the Shanghai Cooperation Organization. Israel joined in 2023, Turkey has expressed a desire to join as a full member, and five out of six of the GCC states, as well as Egypt are currently dialogue partners.

Another organization that is expanding to include the Middle East is the BRICS. In August 2023, there were invitations extended for three new members in the Middle East, I'm sorry, for four new members in the Middle East, Iran, Saudi Arabia, Egypt, as well as the United Arab Emirates.

In relation to UN National Security Council voting since October 7th with the Palestinian-Israeli conflict, I was asked to speak specifically to this issue, I want to say a few words. China's voting behavior in the UN Security Council needs to be considered in the broader historical context of its approach to the Palestinian-Israeli conflict.

Its approach since October 7th has mirrored its longstanding approach to this issue. It views the Israel-Hamas war currently as a flare-up in the broader Palestinian-Israeli and Arab-Israeli conflict. It sees this as the core threat to peace and security in the Middle East.

And over the years, it has clearly articulated that it wants to see a two-state solution as well an independent Palestinian state, with East Jerusalem as the capital.

I'm happy to go through a lot of details regarding this issue in Q&A, but I think it is important to note that at this point, China is deeply concerned about the Israel-Hamas war escalating into a broader conflict. And that it has used debates about the Palestinian-Israeli conflict to highlight the ways in which its approach differs from the U.S.'s approach to this issue.

Finally, for policy recommendations, I suggest that Congress make better efforts to understand China's interactions with regional organizations in the Middle East.

I encourage the U.S. government to establish multilateral mechanisms similar to China's cooperation forums to engage with the League of Arab States and the GCC.

Congress should avoid overreacting to China's engagement with regional organizations, because many of the interactions in these organizations within the region are viewed in a very positive way, so the U.S. should triage our concerns regarding the most problematic aspects.

The U.S. needs to better understand how China's Palestinian-leaning stance in the Security Council as well as other organizations resonates with the Middle East and the Global South more broadly.

And finally, Congress needs to better understand the role of the GCC in China's broader relations with the Middle East. Thank you very much for your time, I appreciate it.

**PREPARED STATEMENT OF DAWN MURPHY, ASSOCIATE PROFESSOR,
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April 19, 2024

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Testimony before the U.S.-China Economic and Security Review Commission

USCC Hearing on “China and the Middle East”

Disclaimer: The views expressed in this testimony are those of the author and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the US Government.

China’s Engagement with Middle Eastern Countries in Regional and International Organizations

Thank you for the opportunity to participate in this hearing on “China and the Middle East.” My testimony today focuses on China’s engagement with Middle Eastern countries in regional and international organizations. I have structured my testimony around the questions put forward by the commission staff.

Why does China engage with Middle Eastern states through regional and international organizations? What interests or initiatives is it seeking to advance?

China engages with Middle Eastern states through a wide range of multilateral regional and international organizations. For this testimony, the Middle East includes members of the League of Arab States (Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen), Iran, Israel, and Türkiye. This testimony focuses on a sub-set of China’s interactions with regional and international organizations, including cooperation forums (the China-Arab States Cooperation Forum- CASCF and the Shanghai Cooperation Organization- SCO), the Gulf Cooperation Council (GCC), the League of Arab States (LAS), the BRICS (Brazil, Russia, India, China, and South Africa), and the United Nations (the United Nations Security Council and the United Nations Human Rights Council).

Through these regional and international organizations, China seeks to advance its interests in the Middle East and globally. Those interests include ensuring access to resources and markets across the region; fostering support for China’s goals and behavior in the broader international system; ensuring silence or supportive statements from states in the region about China’s actions in Xinjiang and Hong Kong; maintaining and developing support for China’s stance on issues of territorial integrity such as Taiwan and South China Sea territorial disputes; and promoting China’s global initiatives of Belt and Road, the Global Development Initiative (GDI), Global

Security Initiative (GSI), and Global Civilization Initiative (GCI).¹ One important driver of China's behavior in these organizations is to promote regional stability in the Middle East. It tends to see the region as having a high potential for turmoil and interstate war. It also views it as a breeding ground for non-state actor security threats, such as terrorism, that could threaten China's interest in the Middle East and beyond.

China's interactions with regional and international organizations generate many benefits in the Middle East. These organizations provide China with an efficient and effective way to interact with a large number of countries and better understand their needs and positions. Through these organizations, China can amplify its voice and join together with other states to coordinate positions on issues. These organizations give China a platform to highlight the shared norms it wants to promote in the international system, including a strict interpretation of Westphalian sovereignty, South-South cooperation, and a heavy role for state involvement in economic interactions. Operating through regional organizations and international organizations on security issues also gives the PRC an opportunity to emphasize that it does not seek to play a unilateral security role in the region and differentiate itself from other great powers, such as the United States and Russia.

Assess China's interactions with the Gulf Cooperation Council (GCC), which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. How does China's engagement with the GCC advance its energy and economic interests?

China interacts with GCC states through regional organizations in two ways, through cooperation forums and direct interactions with the GCC.

Established in 2004, the China- Arab States Cooperation Forum (CASCF) is China's primary multilateral coordination mechanism with the Arab States, including the GCC states.² The Forum on China-Africa Cooperation Forum (FOCAC), established in 2000, also encompasses North African states (Algeria, Djibouti, Egypt, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia), but this testimony focuses on the CASCF.

The LAS represents its twenty-two members in the CASCF. All of those states recognize the People's Republic of China (as opposed to Taiwan). Due to coordination by the Arab League in the CASCF, the Arab States have the opportunity to communicate with China in a unified voice and the ability to actively negotiate for the inclusion of collective projects involving multiple Arab countries.

CASCF conducts ministerial meetings every two years. In 2022, CASCF conducted its first summit level meeting with Xi Jinping in attendance. The next meeting of the CASCF is planned for later this year in 2024.

¹ For an in-depth discussion of China's interests in the Middle East, see Dawn C. Murphy, *China's Rise in the Global South: The Middle East, Africa, and Beijing's Alternative World Order*, Stanford University Press, 2022, ch. 3.

² For an in-depth discussion of the China-Arab States Cooperation Forum, see Murphy, *China's Rise in the Global South*, Ch. 4.

This testimony focusses on the political, economic, and security aspects of the CASCf. That said, almost every type of state-to-state interaction is in scope for this organization, including environment, health, education, culture, foreign aid, media, legislature cooperation, science and technology, policing, and a wide range of other functional issues.

The CASCf emphasizes political cooperation with China. The foundational norms of political cooperation in the CASCf are China's Five Principles of Peaceful Coexistence (5POPC) and South-South Cooperation. The 5POPC represent a very conservative interpretation of Westphalian norms of sovereignty, territorial integrity, and non-interference. The 5POPC are: mutual respect for territory and sovereignty, mutual non-aggression, mutual non-interference in internal affairs, equality and mutual benefit, and peaceful coexistence.

The CASCf also explicitly includes cooperation on key Arab political issues, in particular the Middle East peace process. The Palestinian-Israeli conflict is the most important political issue addressed in the forum and China has constantly emphasized the issue. China also seeks support from Middle Eastern states in the CASCf for its behavior in Xinjiang.

Through the CASCf, China also solicits support from Middle Eastern states for its approach to territorial claims. One clear example of this type of behavior was the inclusion of wording in CASCf documents supporting China's position on territorial disputes in the South China Sea in 2016.³

The CASCf is also the primary multilateral mechanisms through which China coordinates economic activities with the Middle East. The main areas of economic cooperation in the forum are trade, investment, finance, infrastructure, economic security, and BRI. CASCf also encourages energy cooperation between China and Arab states.

Finally, CASCf officially promotes security cooperation but compared to economic and political interactions, this activity is minimal. The forum calls for establishing a nuclear-free zone in the Middle East. CASCf documents also highlight the need to combat global terrorism, but unlike the Shanghai Cooperation Organization (SCO), CASCf forums do not contain actual mechanisms for bi-lateral counter-terrorism activities.

The CASCf is the primary multilateral mechanism for China's interactions with the GCC members, along with the rest of the LAS, but China now is also setting up standalone mechanisms to interact directly with the GCC. In 2022, immediately following the CASCf summit, Xi Jinping held a summit with the GCC leaders in Riyadh. Also, although China already has a strategic partnership with the LAS, it is now pursuing one with the GCC as an organization.⁴

³ The 2016 CASCf declaration states "Arab states support China and relevant countries to peacefully settle territorial disputes and maritime issues using friendly consultations and negotiations through bilateral agreements and regional consensus; emphasize the need to respect the right of sovereign States and States parties to the United Nations Convention on the Law of the Sea to choose dispute settlement methods." See "China-Arab Cooperation Forum Ministerial Conference of the Seventh Doha Declaration," (2016), section 6, www.cascf.org.

⁴ "HE GCCSG: Conditions for Establishing GCC-China Strategic Partnership Are Based on Political Trust, Mutual Respect, Strong Understanding Among them and Their Weight in Global Economy, Building on Outcomes of 1st

China has also been negotiating a free trade agreement with the GCC since 2004 and both sides hope to finalize the agreement soon.

China's recent push to set up organizations to interact with the GCC reflects the rising role of the Arab Gulf in China's Middle East strategy, the importance of GCC states as economic partners with China, and increasing cohesion among GCC members since the ending of the embargo against Qatar. The aim of these new GCC-focused organizations is to pursue China's economic, energy, and political instruments with a block of countries that are increasingly important to China's economic and political interactions with the Middle East.

Why have several Middle Eastern states become members, dialogue partners, or observers of the Shanghai Cooperation Organization (SCO)? How could relationships through the SCO potentially amplify China's influence in the Middle East?

In 2023, the SCO expanded to include Iran as a formal member.⁵ Turkiye is already a dialogue partner and has expressed an interest in membership.⁶ Five out of six GCC member states (Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates) together with Egypt have become dialogue partners in the last few years. Saudi Arabia has expressed an interest in joining the SCO as a full member in the medium term.⁷ Each of these states has different motives for joining the SCO.

Before 2023, the only Middle Eastern states that were not yet part of a Chinese cooperation forum in the Middle East were Iran, Turkiye, and Israel. China's CASCFC already encompassed all of the League of Arab States members, including all GCC members, and North African states are also already in scope for the FOCAC.

Joining the SCO provides Iran opportunities to further institutionalize its relations with China, Russia, the Central Asian states, India, and Pakistan. As a result, it offers the possibility of more robust economic, political, and security cooperation with these states. Due to Iran's relative isolation from the international system, joining this organization provides it with more opportunities to build relations with regional countries and legitimize its role in the international arena.

GCC-China Summit in Saudi on Dec. 09, 2022," GCC website at <https://www.gcc-sg.org/en-us/MediaCenter/NewsCooperation/News/Pages/news2023-10-22-1.aspx>

⁵ Jonathan Fulton, "Iran joining the SCO isn't surprising. But Beijing's promotion of illiberal norms in Eurasia should get more attention," Atlantic Council blog, July 13, 2023, <https://www.atlanticcouncil.org/blogs/iransource/iran-sco-china-bri-illiberal-norms/>

⁶ "Turkey's Erdogan targets joining Shanghai Cooperation Organisation, media reports say," *Reuters*, September 17, 2022, <https://www.reuters.com/world/middle-east/turkeys-erdogan-targets-joining-shanghai-cooperation-organisation-media-2022-09-17/>; and Umut Uras, "Can the SCO be Turkey's alternative to the West?" *Aljazeera*, September 21, 2022, <https://www.aljazeera.com/news/2022/9/21/turkey-shanghai-cooperation-organisation-membership-nato-west-alternative>

⁷ "Riyadh joins Shanghai Cooperation Organization as ties with Beijing grow," *Reuters*, March 29, 2023, <https://www.reuters.com/world/riyadh-joins-shanghai-cooperation-organization-ties-with-beijing-grow-2023-03-29/>

Turkiye also does not currently participate in the other Chinese-led cooperation forums in the Middle East. Although Turkiye is a NATO member, full membership in the SCO would provide Turkiye more opportunities for economic, political, and security cooperation with regional countries. Through joining SCO, Turkiye can demonstrate it has options for relations with multiple great powers outside the US and NATO.

There are three primary drivers for GCC states and Egypt to join the SCO as dialogue partners and possible future full members. First, it provides a way for these Arab States to balance against potential Iranian influence in the SCO. Next, as states in the Arab World become increasingly concerned about perceived lack of attention to the Middle East, joining the SCO is a way to build stronger ties with China. Also, as states in the Arab Gulf and Egypt become more important in China's overall foreign policy, SCO provides yet another venue for demonstrating the importance of the countries to China and coordinating policy positions with the states the PRC sees as key regional actors.

What is the significance of the recent admission of four Middle Eastern countries to the BRICS (Brazil, Russia, India, China, and South Africa) grouping? How could relationships through the BRICS potentially amplify China's influence in the Middle East?

In August 2023, the BRICS (Brazil, Russia, India, China, and South Africa) announced plans to expand to include members from the Middle East. Four out of six of the new invited members were from the region: Iran, Saudi Arabia, Egypt, and the UAE.⁸ The other two proposed members were Argentina and Ethiopia. Although Argentina ultimately decided to decline the invitation, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates all confirmed that they plan to join.⁹

The fact that six of the new members invitations for the BRICS were extended to Middle Eastern countries indicates the importance of key regional powers from the Middle East (Saudi Arabia, the UAE, Egypt, and Iran) to BRICS members in general and China in particular. Historically, China has viewed Egypt and Saudi as the two leaders of the Arab World, Iran as an important regional power, and the UAE as an economic powerhouse with increasing regional influence and economic development plans that align well with China's own economic priorities. Iran and Egypt's inclusion in the list with Saudi Arabia and the UAE likely indicates that the PRC is not wanting to pick sides between states in the region and is attempting to maintain a balanced approach.

⁸ Julian Borger, "Brics to more than double with admission of six new countries," *The Guardian*, August 24, 2023, <https://www.theguardian.com/business/2023/aug/24/five-brics-nations-announce-admission-of-six-new-countries-to-bloc>.

⁹ "South Africa says five countries confirm they are joining BRICS," *Reuters*, January 31, 2024, <https://www.reuters.com/world/south-africa-says-five-countries-confirm-they-are-joining-brics-2024-01-31/>

Assess China’s efforts to cultivate Middle Eastern countries’ support for its initiatives and positions at the United Nations. Where has Middle Eastern countries’ support proven most valuable?

In the United Nations, Middle Eastern countries’ support for China’s positions has been most valuable in the UN Human Rights Council to shield China from criticism about its behavior in Xinjiang. For example, in July 2019, after twenty-two countries formally condemned China for its mass detention of ethnic and religious minorities in China, thirty-seven states signed a letter praising China’s “remarkable achievements in the field of human rights.” Signatories included several Middle Eastern states, such as Algeria, Bahrain, Egypt, Kuwait, Oman, Qatar, Saudi Arabia, Syria, and the UAE.¹⁰ Also, in 2022, Middle Eastern states (Qatar and the UAE) voted in the UN Human Rights Council to prevent debate of China’s behavior in Xinjiang.¹¹

Address China’s use of its UN Security Council veto to block U.S. sponsored moves in the organization, such as the October 2023 U.S.-sponsored draft resolution calling for pauses in fighting to allow humanitarian aid access, the protection of civilians and a stop to arming Hamas and other militants in the Gaza Strip.

China’s voting behavior in the United Nations Security Council since October 7, 2023, needs to be considered in the broader historical context of China’s approach to the Palestinian-Israeli conflict. During the Mao era, China provided material support to various Palestinian groups seeking national liberation. China recognized the State of Palestine in 1988 and established robust state-to-state relations with Israel in 1992. Since at least 1997, China has articulated its contemporary views on the Palestinian-Israeli conflict, and in 2002 it established a Special Envoy for Middle East Issues to attempt to contribute to resolution of the contemporary conflict.¹² The Palestinian-Israel conflict has been a centerpiece of China’s political discourse with the Arab States, reflected in declarations of the China-Arab States Cooperation Forum.

China’s approach to events after October 7, 2023, including its voting behavior in the United Nations Security Council, mirrors its longstanding approach to the Palestinian-Israeli conflict. China views the current Israel-Hamas war as a flare-up in the Palestinian-Israeli conflict and Arab-Israeli conflict. China considers the Palestinian-Israeli conflict as the core threat to peace and security in the Middle East. For over twenty years, the PRC has advocated for peaceful negotiations, an end to violence, a two-state solution with an independent Palestinian state based on pre-1967 borders with East Jerusalem as the capital, a return of the Golan Heights to Syria, a cessation of Israeli settlements in occupied territories, the establishment of an international supervisory mechanism, and the utilization of a multilateral mechanism to resolve the conflict.

¹⁰ Joshua Berlinger, “North Korea, Syria and Myanmar among countries defending China’s actions in Xinjiang,” CNN, July 15, 2019.

¹¹ “China: Xinjiang vote failure betrays core mission of UN Human Rights Council, Amnesty International, October 6, 2022, <https://www.amnesty.org/en/latest/news/2022/10/china-xinjiang-vote-failure-betrays-core-mission-of-un-human-rights-council/>; and Emma Farge, “U.N. body rejects debate on China’s treatment of Uyghur Muslims in blow to West,” *Reuters*, October 6, 2022, <https://www.reuters.com/world/china/un-body-rejects-historic-debate-chinas-human-rights-record-2022-10-06/>

¹² For an in-depth discussion of China’s Special Envoy for the Middle East, see Murphy, *China’s Rise in the Global South*, ch. 5.

Although it is different from its material support for Palestinian groups during the Mao era, China's behavior over the last twenty years has been Palestinian-leaning, including in its United Nations Security Council voting. Since 1991, China's votes in the UNSC about issues involving the Palestinian-Israeli conflict often vary from the US. Over the years, it has consistently criticized what it considers to be Israel's disproportionate responses towards the Palestinians and violations of international law. It considers its approach to the Palestinian-Israeli conflict to be a long-standing principled stance to stand up for the Palestinians.

Starting immediately after October 7, 2023, China's official statements from the Ministry of Foreign Affairs, Special Envoy to the United Nations (Zhang Jun), Special Envoy for the Middle East Issue (Zhai Jun), and Xi Jinping were all consistent with its past stance on the Palestinian - Israeli conflict. China emphasizes that it condemns violence against civilians, but it refuses to characterize Hamas (or other Palestinian groups) as terrorists. China tends to frame Palestinian actions as part of an armed struggle for national liberation rather, not terrorism. In the 2023 UNSC vote referenced in this question, and other cases where China's vote differs from the US on this issue, China vetoed the resolution, because it does not align with China's longstanding stance on the Palestinian-Israeli conflict. China's complaint about that particular resolution was that it did not call from an unconditional cease fire.¹³

At this point, the PRC is deeply concerned the Israel-Hamas war could escalate into a much broader conflict. China views the Middle East as a region of instability that is ripe for conflict. In particular, it expresses concerns that violence could increase between Israel and Hezbollah in Lebanon, Iranian-backed groups in Syria and Iraq, as well as the Houthis in Yemen.¹⁴ The PRC also likely worries that conflicts between those Iranian proxies and Israel could ultimately draw Iran into direct conflict with Israel or the United States. A broader war in the region could further threaten China's shipping through the Middle East, cause global oil prices to rise, and pose a danger to Chinese citizens and businesses in countries involved in the conflict. China's top interests in the Middle East are economic. A regional war would pose significant risks to those interests.

Since October 7, the PRC has highlighted how its approach to the Palestinian-Israeli conflict differs from the US. It often leverages debate in the UNSC to highlight those differences. Much of the framing of this issue is centered on criticism of the US role in the Middle East, support for Israel, and broader US international behavior that the PRC considers to be hegemonic. Although China's relations with Israel may be damaged by its current approach to the Palestinian-Israeli conflicts, it is likely Beijing's position on the Israel-Hamas war and its UNSC voting on this issue will positively resonate with the Arab World, the Muslim-majority world, and many countries in the Global South more broadly.

¹³ Michelle Nichols, "Russia, China veto US push for UN action on Israel, Gaza," Reuters, October 25, 2023, <https://www.reuters.com/world/un-security-council-vote-rival-us-russian-plans-israel-gaza-action-2023-10-25/#:~:text=UNITED%20NATIONS%2C%20Oct%2025%20%28Reuters%29%20-%20Russia%20and,Hamas%20and%20other%20militants%20in%20the%20Gaza%20Strip>

¹⁴ Dewey Sim, "Israel-Gaza war: China will 'do anything' to restore peace, but 'prospects are worrying', envoy says," The South China Morning Post, October 23, 2023, <https://www.scmp.com/news/china/diplomacy/article/3238893/israel-gaza-war-china-will-do-anything-restore-peace-prospects-are-worrying-envoy-says>

The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?

- Congress should make efforts to better understand China's role in regional organizations in the Middle East and the ways in which China's interactions with these organizations translate into influence in the region.
- Congress should consider urging the US government to establish multilateral organizations in the Middle East similar to China's cooperation forums in order to fully engage with members of the League of Arab States and the Gulf Cooperation Council. Those new organizations could be leveraged to pursue a wide range of joint activities with states in the region across functional issues.
- Congress should avoid overreacting to China's engagements with regional organizations. Many of China's activities with these regional organizations are viewed in a positive light by members of the LAS and GCC. The US government should triage which Chinese behavior in multilateral organizations is most problematic for US interests and focus on addressing those specific issues.
- Congress should make efforts to better understand how China's Palestinian-leaning behavior in the United National Security Council resonates with states in the Middle East and the Global South more broadly.
- Congress should make efforts to better understand the role of GCC states in China's broader strategy for the Middle East. Increasingly, China is incorporating GCC states into a number of multilateral organization formats. The US government needs to better assess the significance of those actions and how to interpret them relative to China's relations with other states in the Middle East (e.g., Iran, Egypt, Israel, Turkiye).

PANEL II QUESTION AND ANSWER

COMMISSIONER STIVERS: Thank you all again for your testimony. So we'll go in reverse alphabetical order which happens to start with me.

Dr. Alterman, as you state in your testimony very articulately, that we underestimate how much Middle Eastern countries welcome Chinese influence to check U.S. excesses.

And this strikes me as being the exact opposite of the Indo-Pacific region, where the U.S. is generally welcome to play a more prominent role to check Chinese aggression and their economic strength.

It seems like there's a strategic reality here that we're slowly losing the competition with China in the Middle East, for influence in the Middle East based on our policies and as you state, our ideology.

Yet, we continue to invest so much time and effort and resources in the region, and military footprint also. And it's a paradigm that seems to promote Chinese interests or protect Chinese interests as the U.S. slowly loses influence, you know.

I hesitate to ask this to a Middle Eastern expert, and anyone can chime in here, but isn't this an argument that maybe our engagement in Asia, the Indo-Pacific region and other parts of the world should be strengthened, perhaps at the expense of the Middle East?

DR. ALTERMAN: Thank you very much for that question. First, when I talk to people from Asia, they're alarmed by U.S., the prospect of U.S. bouncing away from the Middle East for two reasons.

One is they feel their security is intimately imbedded with the Middle East. Asia's energy continues to come from the Middle East, U.S. energy doesn't come from the Middle East but Asia's does.

Second, they see the Middle East as the laboratory for U.S. engagement with allies and partners. And they think if the U.S. is willing to walk away from the Middle East, we're not backup for allies for under armed attack in the Middle East, then that's a sign for what the U.S. would do in the Pacific.

So I think we'll, to me, a focus on the Western Pacific doesn't get us out of the Middle East, it gets us into the Middle East from the other side.

I think we have to appreciate just how much our Asian partners look at our behavior in the Middle East as an indicator of how we'll behave with them. And we have to find a way to reassure both our Asian partners and Middle Eastern partners of how we expect the world to work and how we want to -- and the kinds of role we want to play, the kinds of roles we want them to play together.

I think this I2U2 is a sort of example, this is the India-Israel-U.S.-UAE format, whatever it is, is an interesting example, similar to AUKUS. The one of the -- and I think you see these kinds of examples, we have to find ways to informally align our allies.

We should use some of the things we've learned in the Pacific to apply to Middle Eastern security issues, and some of the things we've learned in the Middle Eastern security issues to apply to the Pacific.

I guarantee you, all of our Asian allies look at how the U.S. network of partners shot down the Iranian air attack over the weekend and say give me some of that. And so I, to me, there's an artificial disaggregation in a sense that one has to come at the expense of the other.

I think we would do well to think through the complementarity because these are two areas of the world that are geostrategically important, where our allies in each place, and

especially our allies in Asia, are keenly paying attention to how we behave and how they expect us to behave in the future.

COMMISSIONER STIVERS: Okay. Thanks, that's a great answer, thanks for that. I do take issue with your recommendation Number 5, where you state that the U.S. should focus less on issues of political ideology. I hope you can clarify, maybe define what that means.

Because to me, that means democracy promotion, transparency, anti-corruption efforts, support for democratic institutions such as the press and civil society. And I hope you can differentiate here between the governments and the people.

Because I find it hard to believe that the people in the Middle East believe that they shouldn't have these things or think that the U.S. is unpopular because of our support for democracy and human rights. I would think it's more from our policies, so could you kind of clarify your recommendation here?

DR. ALTERMAN: Sure. First, I wasn't talking about democratization policy. I don't think that's either central to our effectiveness in the region or governments' hostility to it.

I think governments want to have a tool to push back, and that's where the Chinese comes in. I think this needs to be a piece of what we do. But here's what I was really trying to point out and I apologize for not making it as clear as I should have.

The most important, the single most important factor in the security of Middle Eastern states going forward, is they diversify their economies and they have populations that go from being a liability to the state to an asset to the state.

The way to do that is to have people who are economically productive. Being economically productive requires education, it requires investing in people, not just to be subjects, but to be citizens and engaging, that whole aspect of educating people, training people, managing skills.

You're not going to get a single one of them from the Chinese in a way that helps you transition. You might be able to train some technicians who work in a mining company, fine.

But in terms of transitioning economies, transitioning societies toward being genuinely productive and supporting the state rather than state supporting them, I don't see any way Middle Eastern states can do that with Chinese partnership.

I see lots of ways they can do it with American partnership. I think with, as I say education, management training, all the kinds of things that are our unique value proposition to the world, I think they need. And we don't spend enough time talking about how we can partner with them in the long term to help them get over what is going to be the largest geostrategic shift since oil became the strategic commodity after World War 2.

COMMISSIONER STIVERS: Okay. Thank you. I'm sorry. Commissioner Sims?

COMMISSIONER SIMS: Yes, thank you all for your testimony today. I have a couple of questions. But I think I want to start by I think, continuing to pull a little bit on the threat that Commissioner Stivers is getting at here. You know, America's case to allies and partners focuses on some combination of shared values, democratic values, whatever term you want to use for that, and then shared national interests.

I'm particularly interested in the case for aligning more closely with the U.S. or China based on shared national interests. And I'd be curious for each of you, how do you assess the strength of U.S. and China's cases for closer alignment based purely on shared national interests?

DR. ALTERMAN: Jonathan, do you want to start?

DR. FULTON: Oh, sorry, I thought you said Dawn start.

I think that's a really interesting question. I mean, been watching this a lot, especially with the Houthi attacks and China's non-response.

As Jon mentioned, they're -- primarily, what's driving a lot of governments in the region is this need to diversify their economies, to build sustainable economies, to get away from this hydrocarbon based or to create new jobs for these big, young populations.

You saw in Egypt and Saudi, especially, their cooperation with China, sorry, yielding a lot of economic benefits to them, but not really addressing -- reinforcing those vulnerabilities, you know, the trade with China and energy or selling a lot of cheap commodities doesn't really help train people the same way trade and services does.

When China -- when the Houthi's started attacking Red Sea shipping, China didn't really have a response to that. Right?

And the Saudi's, I think, were expecting to see something. Look, we rolled out the purple carpet for Xi Jinping in December of '22, we've done all this trade, we're your biggest supplier of energy, where are you when we need you?

And China didn't do anything because China's ships weren't being attacked. And I think that it became pretty clear, you know, to answer your question, where the national interests do line up when the U.S. and Saudi's and partners are saying, look, we're going to do the heavy lifting on this. It's not popular.

I think a lot of regional governments, especially in the GCC, while they can't overtly go out in public and say, we want the U.S. to do this in Yemen, absolutely, they're thankful for it.

And I think they look at what China is doing and think, you're purely transactional, mercantilist actor in the region.

I think it really put a stain on what China's doing in the region.

DR. MURPHY: So, the way I look at this as far as the overlap of national interests, I'll speak more from a Chinese perspective.

But I think China's primarily interests -- primary interests are economic and political and that there's a lot of overlap.

And increasingly, although we shouldn't exaggerate China's FDI participation in the region, increasingly, China is the most important economic partner of countries across the region, whether you look at the Gulf or North Africa, Iran, et cetera.

I also think that there's growing overlap of political interests and that many states in this region are particularly interested in non-intervention and non-interference.

And they come from a post-colonial legacy that they're very sensitive to countries that attempt to spread ideology and values as part of their national interests.

Also, I think a number of these states see themselves as part of a broader global south and having interests that are shared with China in that way.

All that said, I think China's security interests are quite minimal in the region and that it has no desire to serve as this security guarantor that the U.S. does or to play the unilateral security role that the U.S. does in the region.

So, that's what I would say from a Chinese perspective. I think that there's a lot of overlap and that, in many ways, these shared interests generate a situation where China has a deep desire, ultimately, for stability in the region.

DR. ALTERMAN: If I may, I'm not sure it's vital that we share values with partners. I think we certainly share interests with lots of partners around the world.

We share interests with lots of partners in the Middle East.

We do things that China absolutely cannot do in the security space, and as I said, in the sort of human capital space.

I think China also is exploitative as an economic partner. And I'm sure you guys know more than I do about that. And that gives us some ability to engage and add value.

But what China is interested in doing is having the Middle East move to a space where the United States makes all the enemies and they make all the friends.

And so, when the Middle East is at war, on the one hand, countries want the United States to help provide security.

The Chinese are happy to let the United States get involved, swinging at people, happy to have the United States involved in alienating people.

It doesn't feel a real responsibility to engage or an ability to engage productively.

I think that they think that a region that is past war and conflict and interested in economic development is a region that they can excel in and where we have less of a comparative advantage.

And I think their whole interest in peace and security in the Middle East is let's have people care less about peace and security because that's where they think they have more to add, as I would differ with that conclusion.

But it's striking to me and, Jonathan mentioned both the very light-handed diplomacy and mediation the Chinese did between the Iranians and the Saudis.

I think the spectacular absence of Chinese diplomatic engagement on Arab/Israeli issues, Red Sea navigation, any number of things where they have equities is a sign that China's not replacing us in the Middle East and doesn't want to play a larger role.

But they are looking to watch us trip and they'd love to help.

COMMISSIONER SIMS: Yes, thank you all. If I have an opportunity for a second round, I'll have some follow up. But thank you very much.

COMMISSIONER STIVERS: Commissioner Schriver?

COMMISSIONER SCHRIVER: Thank you. Thank you to all our witnesses, appreciate your contributions today.

I've two completely separate questions, if there's time. I'd like to start with Dr. Alterman, nice to see you again.

I want to give you an opportunity to talk a little bit more about your Recommendation 2, that China/Iran is not an alliance and shouldn't be so alarming. To the untrained eye, you know, provision of anti-ship cruise missiles, military training, Navies training, seemingly pretty close coordination on what's happening related to the Houthi attacks.

So, your recommendation seems to imply a more nuanced, sophisticated understanding of this would possibly lead to different approaches and policy outcomes.

You know more about this than I do, so I just wanted to hear more why that distinction is important and how that could affect policy?

DR. ALTERMAN: Sure, thank you very much. It is -- I think that the starting premise is that China represents more than 30 percent of Iranian trade.

And Iran represents a fraction of 1 percent of Chinese trade. China's trying to get some oil from Iran, and it's an important stream.

But China is Iran's principle oil market and if that went away, and certainly, with sanctions, their ability to export oil outside of China is quite limited. Iran would have no end of trouble.

There is this huge power disparity which the Iranians are deeply aware of and deeply uncomfortable with and see no alternative to.

And every account I've heard from both the Chinese and the Iranian side of Chinese/Iranian engagement is that there's profound tension between these two sides because of that disparity, that the Chinese disrespect the Iranians and feel the Iranians are uselessly and needlessly causing tension in the region which hurts their interest. They would like then to calm down.

They don't feel a need to solve U.S. problems. They don't feel a need to be a partner with us in calming down the security environment in the region. But they're respect for the Iranians and their interest in really protecting Iranian interests directly is zero.

The Iranians are an instrument that the Chinese use vis-a-vis us. Our sanctions on Iran provide economic opportunities for the Chinese to get deals at much more favorable terms because nobody else will make a deal with the Iranians. The Iranians think of themselves, we're a formal imperial power, we're a serious player. If you want to have an Iranian's head explode, talk about the Arabian Gulf and not the Persian Gulf.

And whatever their political strand, there is this deep nationalist sense of Persian pride which they always feel is being violated by the Chinese who see them as a two-bit power. So, I think this is a relationship of convenience. It's a relationship that, to the Iranians frustration, mostly has to do with us. It's a relationship the Iranians can't control.

And it's a relationship that the Chinese instrumentalize, use completely to their benefit. And because the Chinese have more important trade relations with the Arab side of the Gulf, they're not taking any hits for the Iranians. I mean, they're interested in Saudi Arabia. They're interested in the UAE as well. And so, they're trying to keep it in balance.

And so, I think the Iranians take what they can get. The Chinese give them what they want. But this is not a pillar of Chinese strategy. And the Iranians have no alternative, no alternative than for whatever they get being the principle pillar of their security policy strategy.

COMMISSIONER SCHRIVER: Thank you, I appreciate that.

I can wait for a second round or --

COMMISSIONER STIVERS: You can go ahead.

COMMISSIONER SCHRIVER: Okay, thanks.

This is a complete separate topic and I'd welcome remarks either from Dr. Fulton or Dr. Murphy. But the issues of Uyghurs and genocide in Xinjiang, I mean, two U.S. administrations in a row have declared a genocide, and not really a peep from anyone in the Middle East. And my guess is this is largely a result of elite capture and their own interest for non-interference.

But is there any evidence of concern among civil society populations? Is this a potential wedge issue if we chose to use it as one?

DR. MURPHY: I would emphasize --

DR. FULTON: I can take this one if you don't mind, Dawn.

DR. MURPHY: Go ahead, Jonathan.

DR. FULTON: Okay.

Well, just from my experience here, I've been watching this a lot, I know that I've heard it used as a potential wedge from a lot of different Western governments and it just hasn't taken hold yet. I think there's a lot of reasons for this.

First, I think the PRC frames this as their response to a non -- or sorry, a radicalized political ideology that's based on political Islam and is against the state.

When they frame it this way, that resonates with Middle Eastern governments, many of whom see political Islam as a fundamental threat to state power.

So, when China says, this is our response to this type of dangerous ideology, that does resonate with a lot of leaders in the region.

Also, a regional condition is, most media is state owned. You don't see this being reported in local newspapers.

You know, my students who are primarily emeriti have to read, say, The New York Times or The Guardian if they're going to learn anything about this because it just isn't being reported in the region.

I think another issue is just regional geopolitics. The Uyghurs are Turkic people throughout most of the post-Arab Spring period.

There are a lot of tensions between Saudi and its allies and Turkey.

And a lot of regional actors would say, look, if anybody's going to do something about this, it should be Turkey. Why are you giving us a hard time? Go get Erdogan, get him involved. So, I think all of that contributes to kind of the non-response.

And I think the big issues is, everybody knows that China has core interests and if you interfere with them, you get the sharp end of the economic state craft stick.

And I think regional governments don't see that as something pan-Islamic cooperation doesn't really resonate the same way that national interests and development to -- and working with China on trade, on development, on infrastructure construction is very important.

They realize if they push on this issue, even though it doesn't really matter to them that much, they're only going to suffer in their relationship with China.

So, it just doesn't work as a wedge issue.

COMMISSIONER STIVERS: Commissioner Price?

VICE CHAIR PRICE: Thank you. And thank all of you. I had actually wanted to ask the Uyghurs as well.

So, my question is, does anyone else have anything you want to add? Dr. Murphy, it looked like you did.

DR. MURPHY: Right.

So, in addition to what Jonathan emphasized, I would also say, I think the level of violence against the Uyghurs, going back over time, if you think about compared to the level of violence against Rohingya and other groups that, because although there are obviously a number of very significant human rights violations occurring, it doesn't necessarily rise to the level of creating a concern.

And something that I have seen over time with my own interviewing is actually, I think, China's narratives are getting more traction over time.

And I think there's several different root causes to that.

I would say, one, you know, since the beginning of COVID and as we come out of COVID, there's been less prominent reporting on the Uyghur issue, so I think it's been less emphasized in a number of ways.

And I also think that China's narrative that the U.S. emphasis on the human rights violations against the Uyghurs is part of a broader strategic competition or something that the U.S. is using instrumentally against China is becoming, I think, elites are becoming more receptive to that narrative, partially because of their own skepticism and concerns regarding U.S. behavior in the region over decades.

So, what I've seen in recent years is actually states are coming out with more proactive statements through the cooperation forums or even the Palestinian authority when President Abbas visited Beijing, very explicitly making statements that what's happening in Xinjiang was not seen as a human rights issue from the Palestinian perspective.

VICE CHAIR PRICE: Do we see the same influence campaigns that we see China pushing elsewhere in the region?

DR. MURPHY: Regarding the Uyghurs?

VICE CHAIR PRICE: Yes.

DR. MURPHY: Yes, but I think a lot of the traction is actually more behind closed doors in discussions with elites and with government representatives and with think tanks. But so, I can't speak to how effective the kind of information campaigns are.

But I am seeing more and more that government officials and think tanks are parroting Chinese talking points on these issues.

DR. ALTERMAN: And I'm told that Chinese officials make quite stark demands which our officials exceed to.

It's interesting just as somebody who has been a Middle Easterner for many, many years and people talk about, well, that's just the third row, you can't talk about that.

And then, Saudi Arabia, one of the third rails.

You can't reign in the religious authorities because, you know, everything would blow up. And they reigned in the religious authorities and everything didn't blow up.

The fact is, the Chinese government made very specific demands about how you talk about the Uyghur issue and our government complied.

VICE CHAIR PRICE: Great, thank you, well, not great, terrible, but thank you.

To Dr. Fulton, I want to go back to what you were talking about earlier related to the Houthis. And in response to the question, you said that China's ships weren't being hit. Is that still the case? And what about ships flagged from other countries but headed to China?

DR. FULTON: I'm not sure about ships from other countries going to China. I know that China and Russia both were exempt from Houthi attacks as long as they weren't going to Israeli ports.

VICE CHAIR PRICE: Okay, terrific.

DR. ALTERMAN: But there were some Chinese ships that were hit. There's reportedly an Iranian intelligence ship that's helping the Houthis with targeting. Whether they're competent, whether they made a mistake, whether something else was going on is unclear. But certainly Chinese ships do not enjoy the protection that was widely assumed.

Two other issues is, of course, there's a huge amount of Chinese trade to Europe that goes through the Red Sea that has to be diverted. It's complicated logistics chains, more expensive to ship around Africa.

But the other piece is the Chinese have made a large investment in Egypt strategically. And Egypt's Suez Canal tolls are down about 50 percent since the beginning of the year.

And so, to the extent that China's identified Egypt as a crucial country and the Houthi attacks hurt Egypt, it's a little surprising that China hasn't been a little more engaged to try to protect a very important economic and growing economic partner of China.

VICE CHAIR PRICE: Can you expand on why?

DR. ALTERMAN: When I've raised this with Chinese, and I raised it as recently as of breakfast this morning with a leading Chinese strategic thinker.

They said, well, we just don't think we can, so we don't.

And --

VICE CHAIR PRICE: That they can't influence or --

DR. ALTERMAN: They can't influence and why try, because it just reveals that you can't.

There's also an assessment that when U.S. adversaries are doing well or doing well in the Middle East, that's good for China.

When U.S. adversaries are doing poorly, that's bad.

So, why would you help the United States tamp down its adversaries?

There is a strain of thought in Chinese strategic thinking that the U.S. having problems in the region is all we need and that should be the goal of Chinese policy.

And China shouldn't play a constructive role, reducing tensions because that would just extend U.S. hegemony and U.S. strategic reach in the region.

VICE CHAIR PRICE: We're out of time.

Should -- do we have time for her? Dr. Murphy to answer?

Yeah, go ahead.

DR. MURPHY: I also look at it from another perspective in that they see the Houthi attacks as part of the broader Israel/Hamas war and spillover from that.

And so, them not wanting to pick sides.

And I also agree with Jon's assessment that they don't think they would be able to impact the behavior through coercing or trying to influence Iran or proxies.

VICE CHAIR PRICE: Thank you all.

COMMISSIONER STIVERS: Commissioner Miller?

COMMISSIONER MILLER: Thank you.

And thank you to all the witnesses for your testimonies. They have been very illuminating.

A good jumping off point from Dr. Alterman's comments from a moment ago, I would like to take us back to something that Chair Stivers had said in his introduction and his earlier question, discussing the problem of China freeriding on the U.S. security presence in the region.

If we were to assume, United States, that in the next five years starts to withdraw itself very significantly from the region, not whether this is a good idea, but let's assume it is happening.

What does this region look like under those conditions? And does that boost Chinese power or on net weigh them down in terms of cost and responsibilities?

DR. ALTERMAN: First, I'm aware that the more I talk, the more frowns I see on the Commission, so I apologize. But it is the region I cover. I think the first thing to understand is what is withdrawal mean? Does it mean military withdrawal? Other kinds of diplomatic withdrawal?

I am convinced that we are going to be spending -- the world is going to be spending a decade trying to sort out the future of Gaza, what role we have, what role China has.

I think China's very reluctant to come in except when things are well along. And then, will insist on a place at the table. I think China's going to try to capitalize on that.

Whether Gaza turns out to be something that is an asset for U.S. power and influence, or a continued black eye, I don't really know.

It's hard for me to imagine the conditions in the region and the openness and desire for different kinds of U.S. engagement in five years because it seems to me a lot is uncertain.

Again, I think that the attack -- the response of U.S. partners and allies to the Iranian air attack, 300 rockets, missiles, drones, 99 percent shot down. Nobody was hurt.

The network seemed to work reasonably well, but there's still more to do. I think that, to the extent that countries in the region are going to remain insecure about their international situation, that give us a profound opportunity to shape how they engage with us.

Whether we have troops there or whether we're providing networking structures, technology, I don't know.

But I think, to me, continued security uncertainty is very much to our advantage. As I say, I think, when it comes to the national security that comes from the energy transition, I don't think we talk nearly enough about the fact China doesn't trade managers.

China doesn't train countries in economic diversity. It just doesn't do those things.

China will build stuff for you. Right? They'll do contracting that you pay for. But in terms of helping countries get on their two feet, I think we have a remarkable value proposition that is going to be very important over the next five to ten years and beyond in the Middle East that we need to both sharpen and spend a better time -- and spend -- and be more successful articulating.

COMMISSIONER MILLER: Dr. Murphy?

DR. MURPHY: My view is if the U.S. withdrew, right, in a few years what we would see is China not playing the unilateral military role but wanting to continue to work with other partners in the region. Right?

So, partnering with Saudi Arabia and the Emirates and Egypt, I think continuing to facilitate better relations between Iran and its neighbors and possibly involving all of these organizations and regional institutions.

So, I think they would take a very different approach potentially, at least based on what we've seen of their behavior to date.

COMMISSIONER MILLER: Dr. Fulton?

DR. FULTON: Yes. So, you take the U.S. out of the region, I don't think it's a matter of China just waltzes in. I think a lot of Asian geopolitics are going to feature in that.

Jon had mentioned the volume of trade and energy that other major Asian economies rely on in the Gulf. A lot of those countries have deep reservations or problems with Chinese state craft and Chinese policy crossing the Pacific.

There was a very interesting think tank report published here in Abu Dhabi in January where an Emirati analyst was thinking, what should we do, not in the face of China/U.S. competition, but in the face of China/India competition.

And their conclusion was, look, we've got about 40 percent of our population is from subcontinent. We're deeply familiar with them, culturally familiar with them. We've got a long history.

We don't know China. China's problematic for a lot of our biggest customers. So, I think what you would see is, you know, as Jon's pointed out a couple of times already, countries like Japan are helping them with the clean energy transition.

Countries like South Korea are helping here in the UAE with the Barakah Nuclear Plant. India plays a very big role.

So, I think what you'd see is a lot of other geopolitics would factor in. If the U.S. leaves, it's not like China's got an easy ride here. I think they'd face a lot of other competition from other actors, most of whom are U.S. allies and partners.

COMMISSIONER MILLER: Thank you. I have other questions, but I'll save them for round two.

COMMISSIONER STIVERS: Commissioner Glas?

COMMISSIONER GLAS: Many thanks to all of you for your testimony.

And Mr. Alterman, I'm going to start with you and for others to sort of chime in. But in your testimony, you talked about Saudi Arabia wanting to continue to court more Chinese interests.

You know, I'd be interested, given the complicated relationship many countries have with Saudi Arabia, including some of the egregious activities in Saudi Arabia that have been rebuked by law makers and by the administration.

What do you think China's perspective, from -- I understand in your testimony how Saudi Arabia's trying to court, but what's China's perspective of Saudi Arabia?

And then, more broadly, given the various tensions that continue in the Middle East, especially as of today, what relationship should the United States really double down on? You know, as to further strategic partnerships as part of the -- an overall risk assessment?

DR. ALTERMAN: Thank you.

The Chinese have done a lot of business in Saudi Arabia and think there's a lot of business to do in Saudi Arabia.

I think the -- they like the fact that the Saudis are very open to them on any number of aspects.

There's a -- I recently wrote a paper that I can send you about what Middle Eastern states make of the China model.

And one of the incidents I cite is there was an Art Biennale in Diriyah which was curated by an American curator who lives in China.

And there's some placards up talking about how similar Saudi Arabia's current journey is to the one China went through in the 1970s.

There was one titled Feeling the Stones While Crossing the River, Deng Xiaoping's famous phrase.

There was a commentary about just how similar the task Saudi Arabia is spending as it tries to transition to having a more diversified economy to what China did in 1970s.

So, the Chinese are interested in building things. And the Saudis have almost endless amounts of capital. You have an important energy relationship. Saudi Arabia's often China's number one source of imported oil. China is almost invariably Saudi Arabia's number one market for its oil. I think that Chinese and Saudis cooperate a lot on the issues of monitoring and perhaps even influencing social media, I don't have specific examples of that, but I think this -- what I see the Saudis doing is very similar to what I see the Chinese doing in that space. After the murder of Jamal Khashoggi, the China relationship was a judgment free zone for the Saudis.

And you had a U.S. presidential candidate saying, we're going to treat the Saudis like the pariahs that they are. That all being said, the U.S. relationship with Saudi Arabia has grown really remarkably over the last couple of years. I was talking to a senior Saudi official a couple of days ago. They share the Administration's expectation that there is going to be some sort of U.S./Saudi deal that will really move the bar and where that relationship is.

Nobody knows what it's going to look like yet, but I understand that Jake Sullivan is going over to the region again for multiple days to try to negotiate something. So, I think the -- there's a way in which, as the region thinks about its real needs and security issues in particular, there's a way in which the Chinese can't provide what the U.S. does and certainly, on the

international from, maybe on the domestic surveillance front, but the international front, they can't.

And they think they really need us and they find a U.S. administration that is willing to work with them, which they thought they didn't have, but obviously, now they do.

COMMISSIONER GLAS: I'm up on time, so come back.

DR. ALTERMAN: I'm sorry, I apologize.

COMMISSIONER GLAS: No, thank you.

COMMISSIONER STIVERS: Thanks.

Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thanks very much, and thanks to all of our witnesses.

Pose the question to all three of you.

I'm trying to resolve what seems to be to be a tension in the description in what it is that China is trying to accomplish and what its strategy may be.

On the one hand, and Professor Murphy, you say in your testimony that one important drive of Chinese policy is to promote regional stability.

But it seems to me, in fact, that China benefits from continued instability as long as it doesn't reach too high a level, that it wants to keep the pot boiling.

It benefits from the pot boiling, but it doesn't want it to boil over.

And it benefits in part because that keeps the United States bogged down, as Dr. Alterman suggests, and making more enemies than friends.

So, is that characterization of what China is after correct?

Do they want to keep the pot boiling? And if so, what are they doing, in fact, to keep it boiling and to the keep the U.S. bogged down?

And then, finally, is there a longer term vision here? What is it that China might want in the long run? This is fine for the time being, but do they eventually was the United States out of the region?

So, Dr. Murphy, maybe we can start with you?

DR. MURPHY: So, actually, I would argue that, right now, that they're benefitting from the U.S. being bogged down in certain ways.

But I think that's kind of just a side benefit that's occurring. But more broadly, in an ideal world, I think they would prefer for there not to be interstate war, to not have terrorism within these societies, for their businesses and their citizens not to be targeted.

Because ultimately, since their interests are primarily economic, any instability in that way, in the long term, actually does threaten their interests.

That said, with this broader dynamic of strategic competition in the international system, the fact that the U.S. is seen as having a very strong military role and is siding with Israel in this case, there's -- I think that they see this as a way to differentiate themselves.

And through inaction, can actually show that, from their perspective, that they're on the side of peace and but, right.

So, I think there is a little bit of a tension there. But I do think ultimately, their preference would be to have stability.

And I think their longer term vision, you know, right now, it's about energy, but at least, when I look at the interactions with the region, I think they see, in particular, the Arab Gulf, but the Middle East more broadly, as the future of their economic cooperation, technological cooperation.

They're looking at a post-petro, you know, environment in the longer term.

And that as relations between the U.S. and China sour, as relations between China and Western Europe sour, the global south, and in particular, the Arab Gulf are going to be very important markets and partners.

So, they don't want to displace, but I think they want to build this very long term future with the region.

COMMISSIONER FRIEDBERG: Thanks very much.

Dr. Alterman?

DR. ALTERMAN: First, I think that the Chinese are very comfortable not responding to everything.

The U.S. government is uncomfortable not responding to everything. We have all kinds of, including congressional hearings, right? I mean, there's always pressure to have a policy toward everything and China doesn't have a policy toward everything.

I think, in many cases, they see instability in the Middle East as something that they don't have to react to. It's the weather. The question is, how do they capitalize on it?

The other piece, and I think I disagree a little bit with Professor Murphy on the long term vision. I don't think China has thought through whether it will have any relationship with the Middle East after the energy transition.

The energy is the premise of China's relationship with the region. And I can well imagine in 20 years there'll be no significant relationship with China in the region except for transshipping Chinese goods to Europe.

COMMISSIONER FRIEDBERG: Dr. Fulton?

DR. FULTON: Yes, just a couple points. I think the thought of the pot boiling over is very troubling to China. I think with about half million Chinese nationals living in the region and no way to deal with that, right, they have no basis in the region. They've got this installation in Djibouti that doesn't play that kind of a role. This is very, very troubling for the party.

I think also, you know, were things to spill over, then you'd probably see a resurgence and political groups that start to promote ideologies that then reverberate in Xinjiang or other parts of China. I think they'd be very worried about the region boiling over. I think to the point of competing with the U.S., there's a lot of ways they can do that. We've seen just with the case of Iran.

When the China-U.S. relationship was souring about 2019, you saw suddenly Beijing start to instrumentalize Iran to push back on the U.S.

You know, the comprehensive strategic partnership that got so much notice in 2020 was actually signed in 2017, sorry, 2016 but never went anywhere because a few months after it was signed, Donald Trump was elected and he said that, you know, the JCPOA was the worst deal ever signed and China's, you know, undermining our interests.

And Beijing kind of dropped Iran like a hot potato and they were happy to under -- throw Iran under the bus to maintain a better relationship with the U.S.

When the U.S.-China relationship deteriorated, then China was able to say, look, we're going to, you know, activate this partnership with Iran. We're going to talk about massive investment into the country.

And you can see the U.S. thinking about the Gulf as, oh my goodness, if China and Iran are going to start coordinating their policy in this strategically important region, then we can't get out.

Never mind that China didn't really do anything in this space, they just talked about doing it the same way they talked about building a base in the UAE.

So, I think they're able to keep the U.S. bogged into the region pretty easily without, you know, regional instability.

I think like Jon pointed out, they're interests are very much economic and regional instability really does undermine that.

COMMISSIONER FRIEDBERG: Thank you.

Commissioner Cleveland?

CHAIRMAN CLEVELAND: Thank you.

Thank you all.

I'm going to sound like Commissioner Friedberg, I'm trying to understand what I'm hearing. And a piece of this puzzle that seems to have been left out is the Palestinian -- concerns around Palestinians.

I am old enough to go back to Abba Eban's quote that the Palestinians have never missed an opportunity to miss an opportunity. And I'm not sure what October 7th says about that.

But Dr. Fulton, you started by itemizing a series of events, Xi's visit, Abu Abbas's visit, the Saudi deal, and that those transactions signal potentially a new role or presence for China in the region.

And that October 7th undermined, I think that was your word, that perception, if not -- or if not hopes by some.

Dr. Murphy, you talked about -- well, let me finish with Dr. Fulton.

You then went on to say in your written testimony that China has not pursued a mediator role, rather they have sided firmly with Palestine while we're frequently condemning the Israel and the U.S. And you went on to use some very forceful quotes as to how they've gone about doing that.

Dr. Murphy, you said they don't want to pick sides. If they can't influence events, they're likely to be more cautious.

And Dr. Alterman, you said something similar, that when it comes to the long term interest in Gaza, they're likely to sit on the sidelines until things are well enough along and then, perhaps, step in.

So, I'd like each of your perspectives on the regional views, the views of the countries in the region on China's role, relationship, and how they may or may not have contributed to the Palestinian problem, for lack of --

That's inartful, but I feel like the Palestinian issue needs to be addressed in the context of these countries' interests.

Dr. Murphy, you want to start?

DR. MURPHY: Sure.

And I should clarify, I know in my testimony I said that China doesn't want to pick sides, but this particular issue is one where its behavior has been Palestinian leaning for decades. Its voting in the UN security council, its statements, its criticisms of what it sees as Israel's disproportionate response to various actions associated with the Palestinians over time.

So, I think the way China has approached this is, they're trying to maintain pretty much absolute consistency with what their stance has been for decades.

And I can say that definitely before October 7th, the Palestinian really issue was something that was very key to their interaction with Arab states, especially through multilateral forums.

So, in this case, I think they are -- they don't frame it as picking sides. But they're picking sides from the standpoint of their supporting the Palestinians in a greater way.

But I think, ultimately, what they want is, after the conflict, that relations with Israel would go back to what they were before, very much more focused on, you know, the economic interest between the two sides.

And so, I think part of their consistency is they want to stay true to what they have said before. That message resonates with the Arab world, with a lot of Muslim majority world as well as a lot of the global south.

And I do think that their calculation is, they don't have a lot of actual ability to influence the situation on the ground in Gaza right now.

But to Dr. Alterman's comments earlier, I think in the long term, they actually very much want to be involved in the broader negotiation of a Palestinian/Israeli, you know, conflict resolution and that, ultimately, they would like to see that situation resolve.

So, as far as Arab views, I don't know, I think it's a fluid situation right now and whether you're looking at elites versus the Arab street on what the perceptions of this would be.

But what I have seen definitely before October 7th was that China's voicing concerns regarding the Palestinians is something that was very much appreciated throughout the Arab world and that there was value seen in that from states.

DR. ALTERMAN: As Professor Murphy points out, China walked away from its quite close Israel relationship immediately after October 7th and hasn't looked back for a while. I think I agree, it's going to look to, but it has been spending years building up -- two decades building up an Israel relationship that it quite quickly walked away from.

I think the most important piece of China's motivation here is they see the Arab/Israeli conflict as something prestigious.

I can remember any number of conversations I had with Chinese interlocutors desperate that China be included in the Arab/Israeli quartet, if you remember that, long after the quartet ceased to be viable.

But the quartet to do what?

And there's a sense, but this is where all the -- this is grownups table and we want to be there. And to me, there is no desire to actually play a role, it's just the desire to sit at the grownups table.

As far as I can tell, in the near term, China's goal is partly to quietly enjoy the fact that the U.S. seems to be getting bruised here, but also to try to use the conflict in Gaza as a way to rally the global south against the United States.

It's completely opportunistic. It's not especially responsible. But from a Chinese public diplomacy perspective, this is an opportunity that China is exploiting to the hilt.

DR. FULTON: I think this is a purely geopolitical issue in Beijing. I think that China realized pretty early on that they weren't going to peel Israel away from the U.S., so that meant that they could use Israel to try to get votes from Arab League member states and the global south and the international forum, you know, so they could take shots at Israel and they would assume that the Arab League would work with them, that they would support China and Xinjiang or other issues that matter to China when it counts.

I think also something that doesn't really come up a whole lot but in Western liberal democracies where you have huge immigrant populations, lots of Arabs, lots of Muslims, lots of Christians who care about Israel and Palestine and lots of Jewish citizens.

This is a very, very important issue for a lot of your constituents. You don't have that in China. There aren't, you know, there's not a huge Arab population in China who are saying we want the party to be -- to do something about this. It doesn't resonate the same way.

This is seen as somebody else's problem.

And they see it as something that the U.S. and the West have been, you know, deeply involved in for a very long time.

So, it's kind of like, again, they can look at this as geopolitical. It doesn't resonate to our publics. It doesn't matter to us as a domestic issue. So, we can use this.

And I think they've done a pretty job of showing that to us that they've been very instrumental about looking at it in the past few months.

COMMISSIONER STIVERS: So, we have a few more minutes for this panel, so I'd like to open it up to any other Commissioners who have a second round of questions.

COMMISSIONER FRIEDBERG: I wanted to take another shot at this question of what China's up to, what its goals are and Dr. Alterman.

You said that China seeks to peel the region away from the United States.

What did you mean by that and how exactly do you think China is attempting to do that?

DR. ALTERMAN: So, I -- every conversation I've had with both general Chinese strategists, but also Chinese who work on the Middle East is they consider to be the U.S. as the preponderant power by far in the Middle East.

And they see -- they look at the region and they see a region that is almost entirely aligned with the United States.

As I understand China's global goal, it is to have a world that is unaligned, a world that doesn't work on special ties between states, but where every state is constantly improvising and making near term agreements that serve its immediate needs.

And so, I think what the world that China would like is a -- or a Middle East that China would like is a Middle East where the United States doesn't have longstanding partnerships, that has more transactional relationships that more closely mirror China's relationship.

Where China is building more infrastructure, especially telecommunications infrastructure, that they'll use to their benefit, that when the U.S. tries to rally the region, around U.S. principles and against external threats of any kind, that it fails.

And that this just becomes a -- the region becomes a pickup game.

The region, of course, is never been that. There are a series of external guarantors and external powers in the region dating back to the Portuguese presence in the 16th Century.

But I think that the Chinese view, and it appeals to a lot of local sentiment is, we don't need outside powers, we can -- we'll do it all ourselves and we'll work it out.

And I think that China would like nudge the region in that direction, not because they think it will benefit them in all respects, but they think it will undermine us in virtually all respects and will give them more unimpeded opportunities in a number of areas where the Chinese are well positioned.

COMMISSIONER FRIEDBERG: Given the intensity of the animosities among the various members of the region, Israel and Iran, Iran and the Arab states, Arab states and Israel, how would Chinese strategists think that a world along the lines you described would remain stable?

DR. ALTERMAN: Well, from an Iran -- from a Chinese perspective, they have managed to have close relations with Israel, Saudi Arabia, and Iran at a time when Israel, Saudi Arabia,

and Iran were absolutely not on speaking terms and were fighting low grade wars with each other.

So, from a Chinese perspective, that's not a problem. I don't think they feel a need to say to solve the problems of the region either. I think they may embrace the idea that the region can come to its own equilibrium and a smaller U.S. presence would allow the region to come to its own equilibrium.

As you know, some U.S. administrations have embraced that view as well. I think it probably comes down to, do you believe that the Ken Waltz agreement that, if everybody has nuclear weapons, you'll have more security rather than less security.

Do you think if there's not an external guarantor that it'll have more peace in the Middle East or less peace in the Middle East?

I think the Chinese perspective, since you're not going to be the guarantor, you might as well bet on the other option. And if it doesn't work out, it's somebody else's problem.

COMMISSIONER FRIEDBERG: Well, I can say, as a political scientist, that only a political scientist could believe that a world in which everyone had nuclear weapons would be a better one.

DR. ALTERMAN: It was your status as a political scientist that had me invoke Ken Waltz.

COMMISSIONER FRIEDBERG: Thank you.

COMMISSIONER STIVERS: Commissioner Cleveland?

CHAIRMAN CLEVELAND: Dr. Alterman, you mentioned the significant investment with Egypt as a partner.

And I had asked in the first panel about the fact that Chinese ships or ships heading to Asian seemed to be exempt from the new fees in the Suez Canal.

Do you believe that these half million dollar fees that China is being exempted from is because of that economic investment?

DR. ALTERMAN: I honestly don't have any visibility into that at all.

CHAIRMAN CLEVELAND: Thank you.

COMMISSIONER SIMS: Mr. Chairman, I have a question, if I can.

COMMISSIONER STIVERS: Commissioner Sims?

COMMISSIONER SIMS: First, I want to say this is probably the most insightful panel that I've seen since being a part of the Commission. So, I want to commend Commissioners Friedberg and Stivers and staff and all the panelists for a job well done.

Now, don't take too much from that, this is only my third hearing, but nonetheless, the best of the third -- of the three.

Dr. Fulton, you noted earlier that China seeks to create wedges between Middle East countries and the U.S.

I was curious, what are the wedge issues that the U.S. uses or perhaps could use to create wedges between Middle East countries and the PRC?

The Uyghur issue was mentioned earlier. It doesn't sound like that is a particularly potent issue in terms of creating wedges there.

But what issues do you see that could be effective in that regard?

DR. FULTON: I think one of the things that doesn't come up a whole lot is we don't really get a sense of the tensions in a lot of China's bilaterals with Middle Eastern countries.

So, when we were talking about China/Saudi a few minutes ago, I remember after that summit in '22 talking to a Chinese official who used to be based in the Gulf and he said, I can't

believe how the West is covering this. Our relationship with the Saudis hasn't been this bad in years.

You know, that this summit was really a way for us to try to reset it because things have really been very bad for quite a while.

And we've seen since then, a lot of folks coming here to the Emirates to try to reset the UAE relationship because they feel that the way the Emiratis felt slighted that they gave this big gift to the Saudis.

One thing I think doesn't come up a whole lot is, these are very early days for China's larger presence here. And they don't have the same kind of Rolodex that the American's have.

You know, I'm always impressed when I go to Washington, everybody, you know, there's more Middle East talent in a two block radius than you'll find in all of China.

You know, their universities have just started Arab studies programs. They don't have any really deep pool of specialized Asians. They don't have a lot of folks who are doing, you know, cutting edge work on the region.

So, I mean, when you talk about wedge issues, China is very much a blank slate. You know?

I always start my intro to IR class every semester talking to Emirati students, which countries do you think are the most important partners? And almost always, somebody says China. You know? And I say, okay, look, what kind of words come to mind when you hear China? And they say, it's the biggest, it's the strongest, it's the most powerful military. It's the richest, all these superlatives. I was like, cool. Who's the president of China? And they don't know. And I say, name a Chinese movie star. And they don't know. Have you ever been there? Can you -- do you know any Chinese words? Do you know anything about the place? And nobody does.

You know, it's a blank slate because, I think, for a lot of folks here, it's just not the U.S. Right? So, they see it as an alternative great power but they don't know what it'll look like. And one of the things I thought was interesting talking to an Emirati political scientist was he said, you know, it's very strange, when I talk to people in the Gulf, everybody says nice things about China.

When I talk to people from South Korea, from Japan, from Vietnam, they always say horrible things about China. It's strange, the closer you get, the less attractive it is. And I think that's the wedge, right, is people just haven't really seen the sharp end of how China does stuff yet in the region. They haven't really experienced it very deeply.

I think the further you go, a lot of what China's been trying to do in the region is very state centric and it's very popular with authoritarian governments, but it's not that popular with Republics.

So, I think what I would advise the U.S. to do is do a better job on public diplomacy front because, when I talk to people in the region, it's all the U.S. is the military actor and China's the economic actor. Something Jon said a couple of times, I say constantly, there's trade and good and there's trade and services.

And for these countries, these governments, what they need is the trade and services. And that's where the U.S. totally dominates. Right? It gives them the stuff they need to get past these very vulnerable economies. And China just reinforces those vulnerabilities.

So, those are the wedges I'd build is just to say, look, this is the stuff we do well and we've seen that happening here.

I mentioned in my opening comments, this white paper that the UAE government released on AI, for years, living here in Abu Dhabi, the story's always Chinese tech, Chinese tech, Chinese tech. And then, when it came down to it, you know, they said, hey, Microsoft just has -- they've got a better product.

And if the Chinese party doesn't trust its own tech companies, why should we? Right? If we can't invest safely in those countries and know what our rights as investors are, we don't feel very safe in that environment.

So, you know, despite the constant grumbling about the U.S. policy in the region, everybody here knows the place.

I mean, I was talking to an Emirati recently and he said, I want to university in Texas. My son is going to university in Texas. And Inshallah, my grandson will go to university in Texas, and I can't name a single Chinese person in the world.

You know, our relationship with them is very transactional. What about these transactions have you so worried?

So, I think that's the way to frame it is, look, the U.S. gives stuff that's very strategic and very important and China just doesn't and I don't think it ever will.

COMMISSIONER STIVERS: All right, we'll go to Commissioner Price and then, I have one last question, and then, we'll wrap.

VICE CHAIR PRICE: Thank you.

And I just have one quick clarification.

In response to Commissioner Cleveland's question, I think it was Dr. Alterman who said China walked away from the Israel relationship after October 7th.

Can you just spell that out a little bit more? Because don't they still have interests in ports and a few other things as well?

DR. ALTERMAN: So, the -- China had been -- China/Israel have been investing in growing a much stronger relationship for about 20 years.

It was remarkable to me when I first went to China that every Chinese Middle East expert I met had been to one Arab country and Israel.

All of them went to Israel, they all went to the Israeli embassy.

This was something the Israelis invested in. I think the Chinese invested in it. There was economic investment that the Israelis sold Tnuva, the largest dairy company in Israel to a Chinese company.

There's Chinese involvement in Israeli tech, Chinese investment in Israeli infrastructure. The U.S. had concerns about this relationship, and especially with Chinese building infrastructure in Israel.

Haifa Port which is operated by a Chinese company.

And this was something where you could have a quite legitimate conversation about how much concern was warranted.

These -- when I spoke to Israelis in, I think, 2018, I spoke to a senior Israeli who said, you know, we're good at intelligence. We're not worried about counterintelligence. We understand what the Chinese are up to.

And I think that tone changed and the Israelis grew much more concerns about Chinese activities in Israel, their work with tech companies and I think were more closely aligned with the U.S. government on that.

Since October 7th, the Chinese have done absolutely nothing to meet Israeli concerns about condemning the Hamas attacks, about giving Israeli support, about understanding the Israeli need to support -- I'm sorry, the Israeli need to defend its citizens.

China has doubled down on a Global South narrative that Israel is an extension of the United States, which is oppressing oppressed people even further. And the world has to gather and protect oppressed people.

As Professor Murphy says, there's a long running Chinese official sympathy for Palestinians dating back to about '50s or '60s. And that has resurged.

What is interesting, as I said, is there were decades in which China was trying to build a very different relationship with China -- I'm sorry, China was trying to build a very different relationship with Israel.

And after October 7th, it threw away everything it had been building for 20 years with the government of Israel and the economy of Israel and, instead, doubled down on this third world narrative of rise and standing up against oppression.

VICE CHAIR PRICE: Yes?

DR. MURPHY: I just want to quickly respond to that.

I agree that they have used that narrative. I don't -- I think it's way too early to tell what the relationship with Israel looks like going forward.

But on this particular issue, and they've been very clear on how they're going to frame the Palestinian issue.

Can I make on other quick comment?

So, on the peeling the region away from the U.S., I look at this a little bit differently in that I think China, for decades, has focused on building institutions to have relations with the region.

And is very careful in not framing it in that way. But it is, again, it's a side benefit of what's occurring. But I think that the U.S. would be well positioned to focus on the positive aspects of our relations rather than trying to peel the countries away from China.

I think one of the reasons China's effective is it doesn't frame its relations in that way. It tries to have a very region centered approach.

DR. ALTERMAN: Right, in which -- I mean to say that the -- it's not that China wants countries to align with China as opposed to the United States, they want to peel them away from the United States so countries are unaligned.

And I think the Chinese institutions are intended to sort of create this greater sense of unalignment.

And the Chinese narrative to these states is constantly the Americans force you to choose.

And I think we have to be clear, there is no choice, there are choices you have to make on technology and other issues, but we have deep relations with China, too, and that's normal.

And I think China is trying to create this false narrative that gets countries not to feel aligned with the United States, not necessarily at all to align with China.

China doesn't, you know, China doesn't have any allies. It doesn't believe in alliances and that's the world they'd like to have.

COMMISSIONER STIVERS: Great, thank you so much.

I'll save my question for the next panel, but really appreciate your testimonies today. I certainly learned a lot and I think my fellow Commissioners did, too.

Just an announcement, we'll return at 1:50 for our Panel 3 on China's security interests and activities in the Middle East.

Thanks a lot.

(Whereupon, the above-entitled matter went off the record at 12:52 p.m. and resumed at 1:51 p.m.)

PANEL III INTRODUCTION BY COMMISSIONER AARON FRIEDBERG

COMMISSIONER FRIEDBERG: Our third panel will examine China's security presence, capabilities, and objectives in the Middle East.

We will start with Mr. Grant Rumley, a fellow at the Washington Institute for Near East Policy, where he specializes in military and security affairs. From 2018 to 2021, Mr. Rumley served in both the Trump and Biden Administrations as an advisor for Middle East policy in the Office of the Secretary of Defense, Office of the Undersecretary of Defense for Policy. And today he will provide testimony on China's military interests and operational experience in the region.

Next we will hear from Dr. Maria Papageorgiou, a lecturer in politics and international relations at the University of Exeter. Her current research focuses on China's engagement in the Middle East, Sino-Russian relations, and China as a maritime power. And she will testify on China's arms sales and security cooperation with Middle Eastern partners.

And, lastly, we are joined virtually by Dr. Alessandro Arduino, who is an affiliate lecturer at King's College London. He is recognized as a foremost expert on Chinese private security and the author of several books on the subject. And his testimony will address China's private security companies and surveillance cooperation with Middle Eastern countries.

So, Mr. Rumley, we will begin with you.

OPENING STATEMENT OF GRANT RUMLEY, SENIOR FELLOW, WASHINGTON INSTITUTE FOR NEAR EAST POLICY

MR. RUMLEY: Thank you. Distinguished commissioners and staff, thank you for the invitation to present my testimony today on this important topic. It is an honor to testify alongside the experts on these panels today, and I am thrilled to be joined by Dr. Papageorgiou and Dr. Arduino.

I'd like to also publicly acknowledge my colleague, Rebecca Redlich, who is here today and whose research and expertise was instrumental to this testimony.

Today my testimony will focus on China's military and security presence in the region. Like many great powers preceding it, China has gradually developed a military and security force to protect its interests abroad. In the Middle East, China has five main interests worthy of protecting. The first is in securing its access to the region's energy resources. China is careful to not over rely on any single source or form of energy to meet its domestic needs, but the Middle East is, nevertheless, a key source for its energy supply.

The second interest is in advancing China's non-energy trade and investment. China is the top trading partner for nearly every country in the Middle East, and the region is a transit point for a majority of China's exports to Africa and Europe.

Considering these economic ties to the region, China's third interest is in securing sea lines of communication and the free flow of commerce in and out of the region.

Beyond the economic, China's fourth interest in the region lies in what the West would consider broadly counterterrorism, but for Beijing equates to both protecting its assets in the region as well as ensuring that violent extremist groups in the region do not threaten China's internal domestic stability.

Finally, China's fifth interest in the region is in utilizing it as a platform to advance its image as a global power. Beijing has long viewed the region as an important proving ground for global powers and has trumpeted its diplomatic achievements, such as the Saudi Arabia-Iran agreement, as an example of China's global standing.

To protect these interests, China has deployed a mixture of military and economic investment to create the foundation of a security network. This network is a distinctly Chinese blend of traditional military deployments, arms sales and transfers, and investment in key critical infrastructure projects throughout the region. It is a security framework designed to protect Chinese commercial interests first and foremost.

Its military footprint is comprised of the Naval Escort Task Force, China's longest-running continuous deployment beyond its borders, which in turn has led to the creation of China's first overseas base in Djibouti. From this foothold, China has conducted conventional military operations in the region, whether that's naval escorts or evacuation of civilians, while also conducting port calls and military exercises with neighboring countries.

This has contributed to a gradual increase in Chinese arms sales and transfers to the region, most notably in the UAV and air defense domains. Nested throughout the region is a network of Chinese investment in critical infrastructure such as ports and industrial parks that, given the features of China's civil and military fusion, could contribute support to security operations.

In years past, this presence was largely viewed as innocuous by the U.S. Many of China's interests in the region, the free flow of commerce, stability, and regional security are ostensibly

shared interests with the U.S., yet the way in which China has gradually pursued these interests has made cooperation a remote possibility.

The nature of China's overseas practices, its increasing support to Russia and Iran, and the trend in U.S.-China competition means the Middle East will be a theater for great power competition for the foreseeable future. To navigate this competition, I recommend the Commission consider the following options.

First, coordinate China-related messaging to regional countries with partners outside the region. Regional partners have heard the U.S. talking points regarding China for years. Some are receptive; others are not. Some view the U.S. as a non-objective actor in this domain, given the U.S. competition with China.

One way to circumvent this phenomenon is for other global partners, in particular those with experience dealing with China, to convey their own experiences and subsequent warnings to Middle Eastern countries. Coordinating their messages to countries in the region could foot stomp U.S. talking points.

Congress should in the course of its engagement with U.S. partners emphasize the importance of imparting these lessons to third-party countries around the world, including in the Middle East.

Second, support defense modernization efforts in the region. Security is key in this competition. Regional countries seek to bolster their own defense industries and in pursuit of this goal are pursuing a combination of foreign investment, diverse suppliers, and external partnerships that include technology transfers, research and development, and co-production agreements.

U.S. security cooperation is notoriously inflexible when it comes to some of these. China, on the other hand, is perceived to be more flexible. To date, the U.S. has been wary of such commitments, given select countries' commercial ties to China and the subsequent risk to proprietary U.S. defense information.

Yet a defense technology-sharing arrangement, if done carefully, could accomplish two objectives at once in both boosting the defense partnership with a partner country while also adding another structural constraint; namely, in this case, the requisite safeguards on U.S. information on a third-party country's relationship with Beijing.

Finally, synchronized efforts between the legislative and executive branches to limit China's influence in the Middle East. The recent Group 42 Holdings saga represents the potential of unified U.S. messaging. The Emirati firm, which is led by the UAE's national security advisor, recently announced this divestment from Chinese firms and the investment of \$1.5 billion by Microsoft.

This comes on the heels of months of patient and transparent diplomacy from the Biden administration and calibrated bipartisan pressure from Congress. This combination is particularly potent in an era of enhanced competition with China. Congress and the administration should capitalize on this momentum to identify other specific China-related concerns in the region and coordinate subsequent messaging accordingly.

Thank you again for your time and consideration, and I look forward to your questions.

COMMISSIONER FRIEDBERG: Thank you very much.

Dr. Papageorgiou.

**PREPARED STATEMENT OF GRANT RUMLEY, SENIOR FELLOW, WASHINGTON
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China's Military Objectives and Operational Experience in the Middle East

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Distinguished commissioners and staff, thank you for the invitation to present my testimony on this important topic. It is an honor to testify alongside the experts on these panels today. My name is Grant Rumley and I am the Meisel-Goldberger Fellow at the Washington Institute for Near East Policy, where I focus on military and security issues in our Diane and Guilford Glazer Family Program on Great Power Competition and the Middle East.

Today my testimony will focus on China's military and security presence in the region. I have structured this testimony to answer the commissioners' questions directly.

What are China's military interests and/or objectives in the Middle East? How important are these compared to its interests in other regions of the world? Please be sure to address the importance of securing sea lines of communication (SLOCs) in your answer.

Broadly speaking, China has five core interests in the Middle East. The first is in securing its access to the region's energy resources. China is careful to not over-rely on any single source or form of energy to meet its domestic needs, but the Middle East is nevertheless a key source for its energy supply. In 2022, China produced 5.1 million barrels of petroleum and other liquid products per day while importing 10.2 million barrels per day.¹ Middle Eastern countries represented a significant portion of these imports, making up 56% of China's crude oil and condensate imports, 29% of its petroleum product imports, and 15% of its natural gas imports.² The second interest is in advancing China's non-energy trade and investment. China is the top trading partner for nearly every country in the Middle East, and since 2005 has poured over \$250 billion in investment and construction projects into the region.³ The Middle East has also been a leading recipient of investment under China's Belt and Road Initiative (BRI): in 2023 the region was second only to Africa globally.⁴ And, of course, the region is a transit point for a majority of China's exports to Africa and Europe.⁵ Considering these economic ties to the region, China's third interest is in securing the sea lanes of communication and free flow of commerce in and out of the region. While it has not joined U.S.-led military efforts to counter efforts by Yemen's Houthi rebels to close the Red Sea to maritime traffic, Beijing has reportedly engaged in diplomatic efforts to protect its own shipping in those waterways.

¹ "China Country Analysis Brief," *U.S. Energy Information Agency*, November 2023. <https://www.eia.gov/international/analysis/country/CHN>

² Ibid.

³ "China Global Investment Tracker," *American Enterprise Institute (AEI)*, accessed March 2024. <https://www.aei.org/china-global-investment-tracker/>

⁴ Wang, Christoph Nedopil, "China Belt and Road Initiative (BRI) Investment Report 2023," *Green Finance & Development Center*, February 5, 2024. <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2023/>

⁵ "Chinese Money is Behind Some of the Arab World's Biggest Projects," *The Economist*, April 20, 2019. <https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects>

Beyond the economic, China's fourth interest in the region lies in what the West would consider counterterrorism, but for Beijing equates to both protecting its assets in the region from threats from violent non-state actors as well as ensuring that groups in the region do not threaten China's internal domestic stability. China has looked to the region for approval of – and even at times cooperation in – its persecution of the Uyghur Muslims. Finally, China's fifth interest in the region is in utilizing it as a platform to advance its image as a global power. China has long-viewed the region as an important proving ground for global powers, and has trumpeted its diplomatic achievements – such as the Saudi Arabia-Iran agreement – as an example of China's global standing.

Like many great powers preceding it, China has gradually developed a military and security presence to protect its interests abroad. In recent years, Chinese leaders have directed the People's Liberation Army (PLA) to increase its forward presence in order to project power, protect commercial interests, and improve the image of the state. Chinese President Hu Jintao first directed the PLA to begin focusing on “new historic missions” in 2004, urging the military to begin preparing to protect Chinese interests beyond its borders.⁶ The 2010 Defense White Paper directed the PLA to safeguard China's “maritime rights and interests.”⁷ Likewise, the 2015 paper on China's Military Strategy called for the development of a modern maritime force that could “protect the security of strategic SLOCs and overseas interests.”⁸ China's 2019 Defense White Paper took this concept a step further, declaring that “to address deficiencies in overseas operations and support” the PLA “builds far seas forces, develops overseas logistical facilities, and enhances capabilities in accomplishing diversified military tasks.”⁹

Given the importance of the Middle East to China's economy, it is perhaps only natural that Beijing would increasingly deploy its security apparatus to the region to protect these interests. Today, China's military and security presence in the region is comprised of three main efforts:

Traditional military presence and security cooperation. China has rarely deployed its troops beyond the Indo-Pacific in recent years, but when it has deployed them it has been to the Middle East. In response to the wave of piracy in the Red Sea and Gulf of Aden in 2007-2008, China began deploying its Naval Escort Task Force (NETF) in December 2008. As described by Chinese military officials in 2010, the mission was “mainly

⁶ Hartnett, Daniel M., “The ‘New Historic Missions’: Reflections on Hu Jintao's Military Legacy,” in “Assessing the People's Liberation Army in the Hu Jintao Era,” ed. Roy Kamphausen et al., *U.S. Army War College Press*, 2014.

⁷ “China's National Defense in 2010,” *Information Office of the State Council, The People's Republic of China*, March 2011. https://english.www.gov.cn/archive/white_paper/2014/09/09/content_281474986284525.htm

⁸ “China's Military Strategy,” *Information Office of the State Council, The People's Republic of China*, May 2015. https://english.www.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm

⁹ “China's National Defense in the New Era,” *Information Office of the State Council, The People's Republic of China*, July 24, 2019.

https://english.www.gov.cn/archive/whitepaper/201907/24/content_WS5d3941ddc6d08408f502283d.html

charged with safeguarding the security of Chinese ships and personnel passing through the Gulf of Aden and Somali waters.”¹⁰ This deployment is ongoing, and today represents China’s longest continuous deployment beyond its borders.¹¹ Since its inception it has kept largely the same configuration of two surface combatants and a refueling ship, though at times has augmented this presence with unconventional forces (in 2014, for instance, the NETF was accompanied by a Song-class diesel-electric submarine).¹²

Sustaining the NETF operationally led China to pursue an agreement with Djibouti for the establishment of its first overseas base in 2017. This base, just miles away from the U.S. base at Camp Lemonnier, became the primary support node for supporting the NETF as well as other Chinese military operations in the region, whether that is joint training exercises with regional partners, the 2014 escort of a ship carrying Syrian chemical weapons, or the 2015 evacuation of Chinese civilians from Yemen.¹³ Upon its establishment, the DoD noted the facility included “barracks, an underground facility, a tarmac and eight hangars for helicopter and UAV operations,” but that it notably lacked “a dedicated naval berthing space, requiring PLA ships to dock at the commercial port [in Doraleh].”¹⁴ Since its founding, the base’s capabilities have been gradually expanded. The base originally included a contingent of PLAN Marine Corps (PLANMC). In 2020, the U.S. noted a PLANMC special operations forces (SOF) unit had joined the base.¹⁵ The base’s pier has likewise been expanded and in 2022 supported its first resupply of a PLAN supply ship.¹⁶ According to the U.S., the pier is now likely “able to accommodate the PLA Navy’s aircraft carriers, other large combatants, and submarines.”¹⁷

The base and NETF represent the core of China’s traditional military footprint in the region. It should be noted this is still modest in comparison to the U.S. footprint in the region. China’s presence centers around several narrow objectives: protect Chinese

¹⁰ “China’s National Defense in 2010.”

¹¹ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2021,” *U.S. Department of Defense*, 2021. <https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF>

¹² Herzinger, Blake and Ben Lefkowitz, “China’s Growing Naval Influence in the Middle East,” *The Washington Institute for Near East Policy*, February 17, 2023. <https://www.washingtoninstitute.org/policy-analysis/chinas-growing-naval-influence-middle-east>

¹³ Shah, Khushbu and Jason Hanna, “Chinese Ship Arrives to Help in Removal of Syrian Chemical Weapons Materials,” *CNN*, January 8, 2014. <https://www.cnn.com/2014/01/08/world/asia/china-syria-chemical/index.html>;

Rajagopalan, Megha and Ben Blanchard, “China Evacuates Foreign Nationals from Yemen in Unprecedented Move,” *Reuters*, April 3, 2015. <https://www.reuters.com/article/idUSKBNOMU09M/>

¹⁴ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2018,” *U.S. Department of Defense*, 2018. <https://media.defense.gov/2018/Aug/16/2001955282/-1/-1/1/2018-CHINA-MILITARY-POWER-REPORT.PDF>

¹⁵ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2023,” *U.S. Department of Defense*, 2023. <https://media.defense.gov/2023/Oct/19/2003323409/-1/-1/1/2023-MILITARY-AND-SECURITY-DEVELOPMENTS-INVOLVING-THE-PEOPLES-REPUBLIC-OF-CHINA.PDF>

¹⁶ *Ibid.*

¹⁷ *Ibid.*

shipping interests, project Chinese military might (typically via port calls and joint exercises), and be prepared to support Chinese commercial entities in any crisis scenario. Chinese officials likely see this current footprint as sufficient to meet these objectives.

Investments in critical infrastructure. One way China's security presence manifests itself is in investments in large, critical infrastructure projects. These can typically include but are not limited to ports, industrial parks, and airports. This is a uniquely Chinese security footprint, as these investments reflect a blending of civilian enterprises with government access and control. Chinese regulations require Chinese companies abroad to be prepared to service the Chinese military. For instance, the 2010 National Defense Mobilization Law gives broad powers to the military over commercial assets, mandating that "all citizens and organizations are obligated to accept the requisition of civilian resources."¹⁸ The 2016 National Defense Transportation Law further improved the PLA's legal ability to commandeer civilian entities in times of crisis – in the words of one analyst the law "placed obligations on Chinese transportation enterprises located abroad or engaged in international shipping" and "required them to provide logistical support for PLA forces operating overseas."¹⁹

One former Biden administration official has noted that China's investment in ports "are made cautiously and with an eye toward their future potential for military access."²⁰ According to some analysts, Chinese firms now own or operate over a hundred ports around the world, and the PLAN has made port calls at over a third of these ports.²¹ Of course, the type of servicing to the PLA a Chinese owned or operated foreign port could provide is theoretically limited by host nation considerations and the capabilities of the port in question. Still, that these regulations provide the legal framework for Chinese commercial entities to support Chinese military operations presents a different dilemma for measuring China's overseas power projection.

In the Middle East, this phenomenon is most often observed in Chinese investments in ports and industrial zones. Chinese firms have signed operating agreements at ports in

¹⁸ Mulvenon, James, "2010 National People's Congress Highlights: Defense Budgets and the New National Defense Mobilization Law," *The Hoover Institution*, 2010.

<https://www.hoover.org/sites/default/files/uploads/documents/CLM32JM.pdf>

¹⁹ Kennedy, Conor M., "China Maritime Report No. 4: Civil Transport in PLA Power Projection," *U.S. Naval War College*, 2019. <https://apps.dtic.mil/sti/trecms/pdf/AD1148864.pdf>

²⁰ Doshi, Rush, "The Long Game: China's Grand Strategy to Displace American Order," *Oxford University Press*, 2021. 207.

²¹ Kardon, Isaac B., "Statement for the Record Before the U.S.-China Economic and Security Review Commission Hearing: 'China's Military Diplomacy and Overseas Security Activities'," *U.S.-China Economic and Security Review Commission*, January 26, 2023. https://www.uscc.gov/sites/default/files/2023-01/Isaac_Kardon_Statement_for_the_Record.pdf

Israel, Egypt, the UAE, Turkey, Saudi Arabia, Iraq, Kuwait, Morocco, and Algeria.²² China has invested in industrial parks in Egypt, Oman, Saudi Arabia, and the UAE.²³ China frames these investments as taking place on the “Maritime Silk Road” between Beijing and Europe, further solidifying connectivity and control for Chinese commerce. At the opening of the 2018 China-Arab States Cooperation Forum (CASCF) summit in Beijing, China’s foreign minister Wang Yi described a vision of a network of “industrial park-port interconnection” across the region.²⁴

Arms transfers. Like many countries, China has utilized arms sales and transfers to advance its defense industrial base, gain leverage in relationships, and boost its military’s image. For decades, China was a minor player in the global arms market given its reliance on arms imports. Yet China’s decades-long defense modernization effort has gradually reached a point where its indigenously produced platforms are becoming competitive on the global market. In 2019, the U.S. noted China was the world’s fastest-growing global arms exporter.²⁵ Today China markets and sells a wide variety of platforms, including fighter jets, advanced missiles, and naval vessels. According to the Stockholm International Peace Research Institute (SIPRI), China was the fourth largest global arms exporter from 2019-2023, behind the U.S., France, and Russia.²⁶

Like many arms exporters, China has found the Middle East to be an appealing market for arms sales. Historically, the Middle East provided a boost to Chinese defense industry: in the 1980s, sales of fighter jets to Iraq and Iran rocketed Beijing to briefly becoming the fourth largest global arms exporter at the end of the Cold War.²⁷ Though that was short-lived, in recent years China has made slow but steady progress breaking back into the market through a shrewd marketing strategy. The appeal for Beijing is two-fold: the region is consistently home to some of the top arms importers in the world,

²² Sly, Liz, “China Has Acquired a Global Network of Strategically Vital Ports,” *The Washington Post*, November 6, 2023. <https://www.washingtonpost.com/world/interactive/2023/china-ports-trade-military-navy/>

²³ Fulton, Jonathan, “China’s Gulf Investments Reveal Regional Strategy,” *The Arab Gulf States Institute in Washington*, July 29, 2019. <https://agsiw.org/chinas-gulf-investments-reveal-regional-strategy/>

²⁴ “Wang Yi: China and Arab States Should Jointly Forge the Cooperation Layout Featuring ‘Industrial Park-Port Interconnection, Two-Wheel and Two-Wing Approach’,” *Ministry of Foreign Affairs of the People’s Republic of China*, July 10, 2018. https://www.fmprc.gov.cn/mfa_eng/gjhdq_665435/2675_665437/2903_663806/2905_663810/201807/t20180712_536469.html

²⁵ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2019,” *U.S. Department of Defense*, 2019. https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019_CHINA_MILITARY_POWER_REPORT.pdf

²⁶ Wezeman, Pieter D., Katarina Djokic, Mathew George, Zain Hussain, Siemon T. Wezeman, “Trends in International Arms Transfers, 2023,” *Stockholm International Peace Research Institute*, March 2024. <https://www.sipri.org/publications/2024/sipri-fact-sheets/trends-international-arms-transfers-2023>

²⁷ Rumley, Grant, “China’s Security Presence in the Middle East: Redlines and Guidelines for the United States,” *The Washington Institute for Near East Policy*, October 2022. <https://www.washingtoninstitute.org/policy-analysis/chinas-security-presence-middle-east-redlines-and-guidelines-united-states>

many of whom have security partnerships with the U.S. that China can attempt to undermine. China has wisely offered platforms the U.S. has not generally offered, such as armed UAVs, on terms and conditions the U.S. typically does not match. As the U.S. has noted, “many Chinese systems are offered with enticements such as gifts, donations, and flexible payment options.”²⁸

Today, China has made inroads selling to several countries in the region. The top purchasers of Chinese weaponry between 2011 and 2021 were Saudi Arabia, Sudan, the UAE, Qatar, and Iran, according to SIPRI.²⁹ Chinese platforms are generally of a lesser quality, but that has not stopped customers from purchasing. The CH-4 UAVs purchased by Iraq were largely sidelined due to crashing or maintenance issues during the country’s fight against the Islamic State, while similar Chinese UAVs kept crashing for Algeria and the UAVs purchased by Jordan were eventually resold.³⁰ Yet Chinese UAVs continue to be sold across the region, including to Egypt, the UAE, and Saudi Arabia, the latter of which is due to take possession of the Wing Loong-10 UAVs this year.³¹ At the World Defense Expo hosted by Saudi Arabia in February, China sent over 70 defense companies (second only to Saudi firms) to market their platforms and flew an exhibition of the J-10 fighter jets, the first time they’ve demonstrated the J-10s at an expo abroad.³² Regional customers understand the trade-offs with Chinese platforms, but still consider them for a number of reasons, including gaining access to Chinese technology, securing a typically lower price point, fostering a security relationship with China, expressing dissatisfaction with its other arms suppliers, and/or operating weaponry without end-use restrictions.

What range of military activities does the People’s Liberation Army (PLA) undertake in the Middle East? Please include the following in your answer:

a. PLA Navy’s “counter-piracy” task force in the Gulf of Aden;

As discussed above, the NETF stemmed from a realization in Beijing that China’s overseas economic interests were subject to the volatility of the region. The spate of piracy in the Red Sea in the late 2000s also affected China: several Chinese merchant vessels were either hijacked or

²⁸ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2019.”

²⁹ Rumley, “China’s Security Presence in the Middle East.”

³⁰ Rumley, “China’s Security Presence in the Middle East.”

³¹ Parakala, Askshara, “WDS 2024: AVIC WL-10B to be Delivered to Royal Saudi Air Force,” *Janes*, February 9, 2024. <https://www.janes.com/defence-news/news-detail/wds-2024-avic-wl-10b-to-be-delivered-to-royal-saudi-air-force>

³² Meyer, Henry and Christine Burke, “China Grabs Spotlight with Major Presence at Saudi Weapons Show,” *Bloomberg*, February 7, 2024. <https://www.bloomberg.com/news/articles/2024-02-07/china-grabs-spotlight-with-major-presence-at-saudi-weapons-show?embedded-checkout=true>

attacked by Somali pirates in the Red Sea and Indian Ocean.³³ When the Libyan civil war erupted in 2011 China was forced to conduct a massive evacuation of over 30,000 of its citizens in the country and in the immediate aftermath Chinese officials were primarily focused on tallying up all the millions lost in investment in the country.³⁴ Establishing and deploying a presence to mitigate these security concerns became a crucial imperative for Beijing. As Xi Jinping said at the start of his third term as president: “security is the bedrock of development, while stability is a prerequisite for prosperity.”³⁵

In 2022, Chinese state media claimed that since the NETF began, the PLAN has deployed more than a hundred ships and 30,000 service members in escorting over 7,000 commercial ships.³⁶ As piracy attacks gradually decreased in the years following its initial 2008 deployment, so too did the NETF’s escort missions. As of 2020, the NETF had escorted just forty-nine ships according to the U.S.³⁷ Yet from the success of the NETF came the establishment of the PLA logistics base in Djibouti, and from there the PLAN has supported other traditional military options in the region, including the 2013 escort of a ship removing chemical weapons from Syria, the 2015 evacuation of Chinese nationals from Yemen’s Port of Aden, and the 2023 evacuation of Chinese nationals from Sudan to Saudi Arabia.³⁸ The PLAN’s 46th iteration of the NETF departed China in February 2024 for the region and follows a routine formula: two surface combatants and a supply ship depart China while the previous NETF finishes its deployment to the region, thus providing a near continuous presence in the region.³⁹

b. Chinese participation in peacekeeping operations; and

³³ “China to Send Warships to Gulf of Aden,” *France 24*, December 21, 2008.

<https://www.france24.com/en/20081221-china-send-warships-gulf-aden->; Rice, Xan, “Somali Pirates Capture Chinese Ship and 25 Crew in Indian Ocean,” *The Guardian*, Oct 19, 2009.

<https://www.theguardian.com/world/2009/oct/19/somali-pirates-hijack-chinese-ship>

³⁴ Collins, Gabe and Andrew S. Erickson, “Implications of China’s Military Evacuation of Citizens from Libya,” *The Jamestown Foundation*, March 11, 2011. <https://jamestown.org/program/implications-of-chinas-military-evacuation-of-citizens-from-libya/>;

Jingjing, Huang, “China Counting Financial Losses in Libya,” *The Global Times*, March 4, 2011. <https://www.globaltimes.cn/content/629817.shtml>

³⁵ Law, Elizabeth, “Security is the Foundation for China’s Development: President Xi,” *The Straits Times*, March 13, 2023. <https://www.straitstimes.com/asia/east-asia/security-is-the-foundation-for-china-s-development-president-xi>

³⁶ “Chinese Naval Escort Task Forces Conduct Mission Handover at Gulf of Aden,” *PLA Daily*, June 13, 2022. http://english.pladaily.com.cn/view/2022-06/13/content_10162772.htm

³⁷ “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2020,” *U.S. Department of Defense*, 2020. <https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF>

³⁸ Shah and Hanna, “Chinese Ship Arrives to Help in Removal of Syrian Chemical Weapons Materials.”; “Yemen Crisis: China Evacuates Citizens and Foreigners from Aden.” *BBC*, April 3, 2015.

<https://www.bbc.com/news/world-middle-east-32173811>; Xuanzun, Liu and Guo Yuandan, “PLA Navy’s Routine Escort Operations Not Related to Regional Situation: Spokesperson,” *The Global Times*, February 29, 2024.

<https://www.globaltimes.cn/page/202402/1307939.shtml>

³⁹ Xuanzun and Yuandan, “PLA Navy’s Routine Escort Operations Not Related to Regional Situation: Spokesperson.”

China views peacekeeping operations as a useful way to improve its image, gain military experience, and in some cases, protect its overseas economic interests. China has participated in UN PKOs since 1990, and Chinese officials claim they have sent over 50,000 peacekeepers to 20 countries (notably suffering losses of 25 Chinese peacekeepers) in the years since.⁴⁰ China also offers training to foreign peacekeepers at its academies.⁴¹ In 2015, Xi Jinping offered 8,000 Chinese soldiers as potential available peacekeepers in his General Assembly address, yet as of November 2023 China had only 2,267 peacekeepers deployed on service with the UN.⁴² The majority of China's peacekeepers are deployed to Africa, specifically in countries with sizable Chinese investments.⁴³ In the Middle East, 409 Chinese peacekeepers are currently deployed to south Lebanon in support of the UN Interim Force in Lebanon (UNIFIL), while 5 peacekeepers are deployed to Jerusalem as part of the UN Truce Supervision Organization (UNTSO).⁴⁴

c. Naval and other military exercises with regional partners

Naval diplomacy is a relatively new phenomenon for China. The PLAN only first demonstrated its capability as a blue water navy in a 2002 circumnavigation of the globe, and in 2004 was still unable or unwilling to provide maritime support to Indonesia following the tsunami.⁴⁵ The PLAN made only eleven foreign port calls from 2003 to the establishment of the NETF in 2008. In 2015 alone, the PLAN conducted forty port calls.⁴⁶ The establishment of the NETF and its base in Djibouti has likewise expanded China's operating environment and provided a foundation for further military operations in the region, including naval exercises. The PLAN has conducted joint naval exercises in the region with Iran, Saudi Arabia, Egypt, Russia, and Pakistan.⁴⁷ Some of these exercises are more symbolic than practical, such as the recent joint exercise with Iran and Russia that featured tactical maneuvering drills and a hostage rescue

⁴⁰ "Foreign Ministry Spokesperson Mao Ning's Regular Press Conference on May 30, 2023," *Embassy of the People's Republic of China in the United States of America*, May 30, 2023. http://us.china-embassy.gov.cn/eng/fyrth/202305/t20230530_11086032.htm

⁴¹ Zhou, Bo, "How China can Improve UN Peacekeeping," *Foreign Affairs*, November 15, 2017.

https://www.foreignaffairs.com/articles/china/2017-11-15/how-china-can-improve-un-peacekeeping?check_logged_in=1

⁴² Note: Chinese officials claim they've made good on Xi's pledge by establishing a stand-by force of 8,000 PLA troops ready to contribute to PKOs. "China's Xi Says to Commit 8,000 Troops for UN Peacekeeping Force," *CNBC*, September 28, 2015. <https://www.cNBC.com/2015/09/28/chinas-xi-says-to-commit-8000-troops-for-un-peacekeeping-force.html>; "Troop and Police Contributors," *United Nations Peacekeeping*, November 30, 2023. <https://peacekeeping.un.org/en/troop-and-police-contributors>

⁴³ Dyrenforth, Thomas, "Beijing's Blue Helmets: What to Make of China's Role in UN Peacekeeping in Africa," *Modern War Institute at West Point*, August 19, 2021. <https://mwi.westpoint.edu/beijings-blue-helmets-what-to-make-of-chinas-role-in-un-peacekeeping-in-africa/>

⁴⁴ "Troop and Police Contributors," *United Nations Peacekeeping*.

⁴⁵ Erickson, Andrew S. and Justin D. Mikolay, "Welcome China to the Fight Against Pirates," *USNI Proceedings*, March 2009. <https://www.usni.org/magazines/proceedings/2009/march/welcome-china-fight-against-pirates>

⁴⁶ McCaslin, Ian Burns, Andrew S. Erickson, "The Impact of Xi-Era Reforms on the Chinese Navy," *Chairman Xi Remakes the PLA*, National Defense University Press, 2019. <https://ndupress.ndu.edu/Portals/68/Documents/Books/Chairman-Xi/Chairman-Xi.pdf>

⁴⁷ Rumley, "China's Security Presence in the Middle East."

scenario.⁴⁸ Others, like the 2019 three-week joint counter-piracy exercise with Saudi Arabia, are more sophisticated and have led to reciprocal exercises in China.⁴⁹ Some have expanded beyond the maritime domain, such as the first-ever joint China-UAE air exercise in Xinjiang in August 2023.⁵⁰ All are designed to showcase the capabilities of the Chinese military, build up PLA experience, and improve China's image as a security partner.

Why and where might China seek to establish military bases or logistics facilities in the Middle East? Is there a high likelihood that China will seek to establish one in the region in the future?

It is clear that China is looking to protect its overseas assets, occasionally with a conventional military force. Sometimes this protection can take the form of an economic investment in a third-party country's infrastructure, however. At times the line between these two methods of overseas protection is blurred due to the nature of China's civil-military fusion. The revelation in 2021 that the U.S. had discovered a secret Chinese facility under construction at the al Khalifa port in Abu Dhabi, just miles from U.S. forces at al Dhafra Air Base, demonstrates the dilemma of China's dual-purpose overseas infrastructure.⁵¹

In 2020, the DoD annual report to Congress was the first to confirm publicly that China was seeking another overseas base, noting Beijing was "seeking to establish a more robust overseas logistics and basing infrastructure to allow the PLA to project and sustain military power at greater distances."⁵² It also listed several locations China had "likely considered" for future overseas military facilities – the only Middle Eastern country listed was the United Arab Emirates (UAE).⁵³ In October 2023, however, *Bloomberg* noted Chinese officials had reached out to Oman about potentially establishing a Chinese military facility, and that Omani officials had been "amenable" to China's overtures.⁵⁴

⁴⁸ Mahadzir, Dzirhan, "Russia, China and Iran Finish Drills in Gulf of Oman," *USNI News*, March 14, 2024.

<https://news.usni.org/2024/03/14/russia-china-and-iran-finish-drills-in-gulf-of-oman>

⁴⁹ "China, Saudi Arabia Launch Joint Naval Exercise – Media," *Reuters*, November 19, 2019.

<https://www.reuters.com/article/china-saudi-military-idUSL3N28010M/>; "Saudi, Chinese Navies Launch Military Drill in Zhanjiang," *Arab News*, October 10, 2023. <https://www.arabnews.com/node/2388781/saudi-arabia>

⁵⁰ Lau, Jack, "China, UAE Set for Joint Air Force Training in Military First, as Beijing Forges Closer Middle East Ties," *South China Morning Post*, July 31, 2023. <https://www.scmp.com/news/china/military/article/3229485/china-uae-set-joint-air-force-training-military-first-beijing-forges-closer-middle-east-ties>

⁵¹ Lubold, Gordon and Warren P. Strobel, "Secret Chinese Port Project in Persian Gulf Rattles U.S. Relations with UAE," *The Wall Street Journal*, November 19, 2021. <https://www.wsj.com/articles/us-china-uae-military-11637274224>

⁵² "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2020."

⁵³ *Ibid.*

⁵⁴ Jamrisko, Michelle and Jennifer Jacobs, "Biden Briefed on Chinese Effort to Put Military Base in Oman," *Bloomberg*, November 7, 2023. <https://www.bloomberg.com/news/articles/2023-11-07/biden-briefed-on-chinese-effort-to-put-military-base-in-oman?embedded-checkout=true>

More broadly, it is likely China will try to solidify another node in the region for protecting its interests given the region's importance to China's economy and Xi's prioritization of protecting overseas interests. In 2013, the PLA's Science of Military Strategy paper called for building "strategic strongpoints that rely on mainland, radiate out into the periphery, and go into the two oceans [i.e. Pacific and Indian Oceans], providing support for military operations or serving as a forward base for the deployment of military forces overseas, as well as exerting political and military influence in relevant regions."⁵⁵ Whether that takes the form of a declared military base, ala Djibouti, or a dual-use facility will depend on China's aims and the third-party country's receptivity.

Assess Chinese naval operations in the Middle East amid the ongoing war between Hamas and Israel:

- a. *Is the PLA providing protection to Chinese commercial ships that are vulnerable to attacks from the Houthi rebels?*

The primary mission of the PLAN ships in the region is to protect Chinese commercial shipping. PLAN ships started escorting select Chinese commercial vessels in January, according to one Chinese maritime tracker, and as of March had escorted at least five commercial vessels.⁵⁶ As the Pentagon spokesperson noted in November 2023, PLAN ships had not responded to nearby distress calls from non-Chinese ships.⁵⁷ Beijing has navigated the turbulence caused by the Houthis' attacks using non-military means as well. China has repeatedly sent messages to Iran for the Houthis to restrain from threatening its commercial vessels. Chinese commercial ships have been broadcasting their nationality and announcing their presence as they enter the vicinity of potential Houthi attacks.⁵⁸ China also notably refused to join the U.S. and UK condemnation of the Houthi attacks at the UN in January, and one report in March noted China and Russia had reached an understanding with the Yemeni group to avoid being targeted in exchange for potential political support.⁵⁹ The cumulative effect has been the relative safety of Chinese commercial shipping. Indeed, apart from the seemingly errant targeting of a Chinese vessel in

⁵⁵ Doshi, "The Long Game." Page 206.

⁵⁶ Babb, Carla, "Where is China in the Red Sea Crisis?," *Voice of America News*, March 1, 2024.

<https://www.voanews.com/a/where-is-china-in-the-red-sea-crisis-/7510435.html>

⁵⁷ "Pentagon Press Secretary Brig. Gen. Pat Ryder Holds an Off-Camera, On-the-Record Press Briefing," *U.S. Department of Defense*, November 27, 2023.

<https://www.defense.gov/News/Transcripts/Transcript/Article/3598749/pentagon-press-secretary-brig-gen-pat-ryder-holds-an-off-camera-on-the-record-p/>

⁵⁸ Longley, Alex, "Ships Advertise Chinese Links to Avoid Houthi Attack in Red Sea," *Bloomberg*, January 11, 2024. <https://www.bloomberg.com/news/articles/2024-01-11/ships-advertise-chinese-links-to-avoid-houthi-attack-in-red-sea?embedded-checkout=true>

⁵⁹ Dagher, Sam and Mohammed Hatem, "Yemen's Houthis Tell China, Russia Their Ships Won't be Targeted," *Bloomberg News*, March 21, 2024. <https://www.bloomberg.com/news/articles/2024-03-21/china-russia-reach-agreement-with-yemen-s-houthis-on-red-sea-ships?embedded-checkout=true>

March, Chinese commercial vessels have not been purposely targeted by the Houthis since November 2023.⁶⁰

b. Is the PLA adjusting its own operations in the area in response to the conflict?

Chinese leaders likely assess that the current PLA posture in the region – to include the NETF – is sufficient to match the current risks to Chinese interests. Chinese media reported that PLA officials pledged to continue “standard operations” during the current Red Sea crisis.⁶¹ Beijing may consider augmenting its presence in the region, of course, if Chinese commercial entities were directly attacked or had become collateral damage in a regional escalation. China could also decide to change the operating principles of its military presence if the UN Security Council issued a resolution calling for a halt in the Houthi attacks. In such a scenario, it is likely China would want to be seen as contributing to a UNSC effort, whether or not that contribution was meaningful militarily. Barring these scenarios, it is likely China will seek to maintain the status quo.

c. Is the PLA providing any military assistance to either side?

There is little public evidence that China is providing overt military assistance to Israel or Hamas. Arms trade between Israel and China is minimal. Chinese small arms have shown up in Hamas weapons caches and Chinese components have, of course, turned up in weapons systems throughout the region but these are more likely a result of illicit small arms trade and sanctions evasion techniques by non-state actors than a concerted effort by Beijing to sell conventional military weaponry.⁶²

Is the PLA “learning any lessons” from the ongoing conflict between Hamas and Israel?

One of the lessons Chinese military planners could take from Hamas’ October 7 attack on Israel is how complacency and a distracted leadership can increase a country’s susceptibility to attack. Israel had a de facto arrangement in place with Hamas, whereby it facilitated economic incentives to the Gaza-based leadership in exchange for calm. That Hamas violated this arrangement at a time of seeming mutual benefit, and that it conducted its attack as effectively as it did, may cause China to consider the implications for its own geopolitical contests. Another

⁶⁰ Raydan, Noam, Farzin Nadimi, “Tracking Maritime Attacks in the Middle East Since 2019,” *The Washington Institute for Near East Policy*, February 12, 2024. <https://www.washingtoninstitute.org/policy-analysis/tracking-maritime-attacks-middle-east-2019>

⁶¹ Dang, Yuanyue, “China PLA Stationed Up to 6 Warships in Middle East Over Past Week Amid Rising Tensions from Israel-Gaza War: Reports,” *South China Morning Post*, October 19, 2023.

<https://www.scmp.com/news/china/military/article/3238536/6-chinese-warships-present-middle-east-over-past-week>

⁶² Biesecker, Michael, “Hamas Fights with a Patchwork of Weapons Built by Iran, China, Russia and North Korea,” *The Associated Press*, January 15, 2024. <https://apnews.com/article/israel-hamas-war-guns-weapons-missiles-smuggling-adae9dae4c48059d2a3c8e5d565daa30>

lesson could be in the U.S. response to the attack against Israel. The U.S. repositioned two carrier strike groups, dramatically accelerated the delivery of military aid, and sent a wave of senior officials – including the president – to Israel in order to reinforce a message of deterrence to Israel’s adversaries. Chinese officials could attribute this response to the close relationship between the U.S. and Israel, or they could posit – correctly or incorrectly – that this is how the U.S. would likely respond to Chinese aggression against Taiwan.

Does China’s leadership perceive the United States’ shift away from the Middle East and toward the Indo-Pacific as an opportunity to establish itself as an alternative security partner in the region? Are there any indications that China may be reconsidering its approach given the ongoing war between Hamas and Israel?

It is possible to look at the repeated directives from Chinese leadership for the PLA to become a more global force, coupled with the rapid build-up and modernization of the PLA, and conclude that Chinese military power projection may start reaching areas like the Middle East soon. This discounts, however, the premium Chinese leaders place on their own regional issues. The bulk of Chinese military might remains decidedly focused on the Indo-Pacific, where China has maritime disputes with almost all of its neighbors, an ongoing land border dispute with India, and the constant desire to dial up pressure on Taiwan.

The reality for China in the Middle East is that it greatly benefits from the U.S. security architecture. This architecture promotes freedom of navigation, stability, and the integration of like-minded state actors. It is in China’s interest for this security architecture to remain in place. Further, it is arguably in China’s interest for the U.S. to commit even more resources to maintaining this security architecture, as doing so not only helps preserve the free flow of commerce in a region crucial to China’s economy, but also potentially siphons away U.S. military capabilities from the Indo-Pacific. So long as this architecture remains in place and China can continue to augment its presence through a combination of modest military deployments and investments in critical infrastructure, Chinese leaders are likely to remain satisfied with the level of security protection for their economic interests in the region.

The war between Hamas and Israel and subsequent regional escalation has given Middle Eastern countries another example of what a security partnership with China offers and exposed the limits of China’s role as a security provider. Chinese officials were quick to condemn Israel and champion the Arab countries’ talking points, but were largely unable to make any meaningful progress on de-escalating regional tensions. Further, China’s military actions demonstrated yet again that its security presence in the region is designed to protect China’s economic interests first and foremost. With the exception of a tenuous relationship with North Korea and its “no limits” partnership with Russia, China strictly follows a ‘no allies’ policy set forth in the Cold

War.⁶³ Beijing is unlikely to change this policy for the conflict-prone Middle East. China is, therefore, highly unlikely to offer countries in the region the type of military support the U.S. has in the past. Beijing will, of course, continue to offer these countries access to select weaponry, investment in critical infrastructure (so long as this infrastructure serves China's interests), and potentially political support on select issues. But, the recent and ongoing regional escalation has hopefully revealed to countries in the region that a security partnership with China offers little by way of security or partnership.

Please describe China's professional military education and training programs with Middle Eastern partners.

The exact numbers of foreign participants in China's professional military education (PME) programs is difficult to ascertain publicly. China's 2019 Defense White Paper offers the most detail publicly, noting that "more than 10,000 foreign military personnel from over 130 countries have studied in Chinese military universities and colleges."⁶⁴ Beyond that, however, information on exact attendance by participant country and year is scarce. By comparison, according to the U.S. State Department, the U.S. trained approximately 10,000 foreign military personnel in 2021 alone.⁶⁵

The general consensus remains that PME opportunities in the U.S. or Russia are still more valuable than in China. PME offerings in China are limited by language restrictions, typically separate foreign students from Chinese students, and avoid issues sensitive to Beijing. According to the U.S., Chinese schools "rarely teach students about the root causes of security problems."⁶⁶ Still, China is looking to incentivize attendance through higher stipends and "greater exposure to Chinese technological and scientific innovations."⁶⁷ To date, the PLA has prioritized attendance from Africa and Latin America.⁶⁸ Were China to seek greater attendance from the Middle East and North Africa, its approach may gain traction in coming years.

⁶³ Keith, Ronald C., "The Origins and Strategic Implications of China's 'Independent Foreign Policy'," *International Journal*, Vol. 41, No. 1, 1985-1986. Pages 95-128.

⁶⁴ "China's National Defense in the New Era," *Information Office of the State Council, The People's Republic of China*.

⁶⁵ Of these, approximately 2,800 military personnel were from the Middle East and North Africa. "Foreign Military Training and DoD Engagement Activities of Interest, 2020-2021," *U.S. Department of State*, 2022. <https://www.state.gov/reports/foreign-military-training-and-dod-engagement-activities-of-interest-2020-2021/>. Note, the Defense Security Cooperation Agency (DSCA) claims that it trained nearly 25,000 international military students through its own separate programs in 2022. "DSCA Fast Facts: Fiscal Year 2022," *Defense Security Cooperation Agency*, 2022. <https://www.dsca.mil/sites/default/files/2023-01/DSCA%20Fast%20Facts%202022%20-%20FINAL%20FOR%20PRINT.pdf>

⁶⁶ "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2023," *U.S. Department of Defense*.

⁶⁷ *Ibid*.

⁶⁸ Nantulya, Paul, "China's 'Military Political Work' and Professional Military Education in Africa," *Africa Center for Strategic Studies*, October 30, 2023. <https://africacenter.org/spotlight/china-pla-military-political-work-pme-africa/>

The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to the topic of your testimony?

- 1) **Support defense modernization efforts in the region.** For a variety of reasons, several countries in the region are looking to develop their own defense industrial bases. In pursuit of these ambitions, countries have sought a combination of foreign investment, diverse suppliers, and external partnerships that include technology transfers, research and development, and co-production agreements. U.S. security cooperation is notoriously inflexible when it comes to the latter. China and Russia, on the other hand, are perceived to be more flexible. Further, some U.S. partners see Washington entering into creative defense agreements with other countries – whether that is the AUKUS arrangement with Australia and the UK or INDUS-X with India – and perceive a general lack of interest in similar agreements in the Middle East.

For the U.S., shedding this inflexibility and sharing technology with regional partners is one way to reinforce the security partnership beyond simply committing military resources on the ground. To date, the U.S. has been wary of such commitments given select countries' ties to China and the subsequent risk to proprietary U.S. defense information. Yet a defense technology sharing arrangement, if done carefully, could accomplish two objectives at once in both boosting the defense relationship with the partner country while also adding another structural constraint – i.e. the requisite safeguards on U.S. information – on a third-party country's relationship with Beijing.

- 2) **Coordinate China-related messaging to regional countries with global partners.** Regional partners have heard the U.S. talking points regarding China for years. Some are receptive, others are not. Some view the U.S. as a non-objective actor in this domain, given the U.S. competition with China. One way to circumvent this phenomenon is for other global partners, in particular those with experience dealing with China, to convey their own experiences and subsequent warnings to Middle Eastern countries. Some of these countries, like Japan or Singapore, have established relationships in the Middle East and a history of navigating China's practices. Coordinating their messages to countries in the region could foot-stomp U.S. talking points. Congress should – in the course of its engagement with such U.S. partners – emphasize the importance of imparting these lessons to third-party countries around the world, including in the Middle East.
- 3) **Synchronize efforts between the legislative and executive branches to limit China's influence in the Middle East.** In January, the House Select Committee on the Chinese Communist Party asked the Department of Commerce to investigate the Emirati firm

Group 42 Holdings (G42) regarding its reported ties to China.⁶⁹ This followed years of bipartisan concern from the executive and legislative branches regarding the firm, which is led by the UAE’s national security advisor, and its relationship with China.⁷⁰ A month later, G42 announced that its investment arm had divested entirely from Chinese companies.⁷¹ The episode is an example of the potential power unified, clear, and patient messaging can have in addressing China-related concerns with U.S. partners. Congress and the administration should expand efforts to identify specific China-related concerns in the region and coordinate subsequent messaging.

⁶⁹ “Gallagher Calls on USG to Investigate AI Firm, G42, Ties to PRC Military, Intelligence-Linked Companies,” *House Select Committee on the Chinese Communist Party*, January 9, 2024. <https://selectcommitteeontheccp.house.gov/media/press-releases/gallagher-calls-usg-investigate-ai-firm-g42-ties-prc-military-intelligence>

⁷⁰ Mazzetti, Mark and Edward Wong, “Inside U.S. Efforts to Untangle an A.I. Giant’s Ties to China,” *The New York Times*, November 27, 2023. <https://www.nytimes.com/2023/11/27/us/politics/ai-us-uae-china-security-g42.html>

⁷¹ “Abu Dhabi AI Group G42 Sells its China Stakes to Appease US,” *Financial Times*, February 9, 2024. <https://www.ft.com/content/82473ec4-fa7a-43f2-897c-ceb9b10ffd7a>

OPENING STATEMENT OF MARIA PAPAGEORGIU, LECTURER, UNIVERSITY OF EXETER

DR. PAPAGEORGIU: The esteemed chairs, commissioners, organizing team, I would like to thank you for the opportunity to discuss this critical and timely issue in the contemporary international system. Today I will focus on China's increasing involvement in the Middle East and particularly its military and defense initiatives.

Over the past decade, China's engagement in the Middle East has exhibited a multi-phased character, but particularly since 2022, we have seen the highest engagement of China in the region, mainly due to energy insecurity from sanctions imposed to Russia for the war in Ukraine.

When it comes to the Chinese military engagement, we can see it in various forms, from arms transfer, but also through military diplomacy, which entails military exercises, official defense visit, and joint arms production.

In regards to security initiatives, the Middle Eastern states have been quite receptive to China's Global Security Initiative, but also to China's announcement in 2022, the promoting of a new security architecture in the Middle East to achieve common security in the region, which indicates a growing security focus in the region.

Firstly, now, when it comes to the arms trade, China's sales in the post-Cold War period have been increased primarily since the early 2000s and have expanded the recipients. China's low-cost, affordable services, lack of geopolitical strings, and offering of upgrade packages, as well as its willingness to sell high-tech, sensitive weapon technology, which Western countries have refrained from doing so, it makes it a particular appealing option for the Gulf States and the region, thus, selling weapons to United Arab Emirates, Saudi Arabia, Qatar, Iraq, among others.

Its advantage is in exporting U.S. drones, which was also indicated by the large number of exhibitions in the two recent defense expos in Saudi Arabia and United Arab Emirates, with Saudi Arabia purchasing the Wing Loong 10 drone in 2024.

However, when we are considering the overall arms sales in the region, China's market share is still minimal compared to United States, Russia, and other European countries, remaining in single digit, ranking even fifth or sixth, with a 4.6 percent share in regards to all arms export in the region, with a majority of them going to Pakistan.

However, it is important to note that Middle East is not the main export market of China who are still focusing on Asia. In addition, we can see from its arms export that there has been a volatile tendency, so we cannot talk about an upward tendency, but we have seen some spikes in 2003, 2009, 2018, and 2023, particularly indicating this heightened engagement since 2022.

The type of Chinese purchases are primarily drones, the Wing Loong I, and its upgraded Wing Loong II, the CH-4 and missiles, particularly the Blue Arrow-7 missile. However, it is important to note that Beijing doesn't seek to profit via arms transfer, but level it in asymmetric capability, particularly providing weapons unavailable from Western suppliers in order to foster distrust in the cooperation of Gulf States with the West and position itself as a more credible alternative.

Now regarding arms sales to Iran, they have plummeted after 1988, and they have ceased since 2015. And though the 25-year strategic agreement between the two countries in 2021 entails more military cooperation, this has not materialized in arms transfer. However, in 2023, there has been an increase in Beijing supply to Tehran of part -- about these drones.

Now when it comes to military exercises in the region, they have also been limited, but they have also seen an increase. These exercises are primarily naval exercises based on anti-piracy, anti-terrorist cooperation with no interoperability or combat readiness.

China has conducted exercises with Saudi Arabia, United Arab Emirates, and Egypt, and its navy has made port calls since 2010 in various countries in the region, some of these exercises the Blue Sword 2023 with Saudi Arabia, and the Falcon Seal 2023 with United Arab Emirates.

In regards to Iran and China military exercises, from 2014 to 2023, there have been at least six military drills conducted alongside Russia, which they indicate a more robust strategic, triangular relationship on challenging U.S. power in the region. Beijing has also promoted weapon co-production with U.S. allies, particularly Saudi Arabia and United Arab Emirates, but also has emphasized their willingness to enhance military cooperation by other countries in the region, Kuwait, Oman, and Qatar, which has been facilitated by recent high-profile defense visit.

I would like to emphasize a statement by the Chinese foreign minister during the visit of GCC foreign ministers in Beijing, which he mentioned, and I quote, “China emphasizes that the Middle East is suffering from long-existing unrest and conflicts due to foreign intervention. We believe the people of the Middle East are the masters of the Middle East. There is no power vacuum, and there is no need for patronage from outside.”

This statement clearly indicates that China’s military engagement in the region primarily focuses not on becoming an important arm exporter or a security actor, but on boosting the strategic autonomy of this state and undermine and eventually reduce U.S. influence in the region. So it doesn’t seek to become the absolute security provider in the region.

Now, regards to policy recommendation, I consider that engagement with Gulf States on an equal footing is essential, along with providing viable alternatives to Chinese initiatives. Also, there needs to be a continuous monitoring of indigenous weapon development for U.S. to uphold its military superiority in drone production, and also to rethink joint military production and arms transfer of specific technology with countries in the region.

Finally, rather than opting for a with us or against us approach, Washington should offer the Gulf countries a more inclusive role in the region’s security architecture.

Thank you.

COMMISSIONER FRIEDBERG: Thank you very much.

Dr. Arduino.

**PREPARED STATEMENT OF MARIA PAPAGEORGIU, LECTURER, UNIVERSITY
OF EXETER**

Date of the hearing – 19 April 2024

Dr Maria (Mary) Papageorgiou

Lecturer in Politics and International Relations at the University of Exeter, UK

Testimony before the U.S.-China Economic and Security Review Commission

China's engagement in the Middle East shows a growing tendency and a multifaceted character (Eslami & Papageorgiou, 2023).¹ The primary area of focus still remains economic, with a number of investments and technological cooperation initiatives. Since 2020, China has become the largest partner of the Gulf Cooperation Council (GCC), and 16 Middle Eastern countries have joined the Belt and Road Initiative (BRI), enhancing their cooperation by signing numerous Memoranda of Cooperation.² China's engagement centers around energy cooperation due to its reliance on fossil fuels, but it has extended to promoting initiatives in harnessing solar, hydro, wind, and nuclear technologies and fostering collaborative projects in the region.

China has promoted soft power initiatives, such as culture and educational exchanges, with countries in the region. Its engagement is based on the peaceful coexistence of civilizations, acknowledging the diverse cultures and political systems in the region, which has been well received by the countries involved. Since 2019, when China upgraded its strategic partnership with the UAE³ to a comprehensive strategic partnership, ties with the members of the GCC have increased. However, since the war in Ukraine, China has doubled down its efforts in the Middle East due to its dependence on energy and to secure its maritime routes and interests amidst the conflict in the region. This also indicates broader geopolitical and strategic considerations.

In 2022, China also upgraded its relationship with Saudi Arabia⁴ to a comprehensive strategic partnership, deepened its partnership with Qatar⁵, and engaged more closely with Bahrain⁶. Although China prefers bilateralism as a form of engagement in the Middle East (Papageorgiou

¹ Eslami, M., & Papageorgiou, M. (2023). China's Increasing Role in the Middle East: Implications for Regional and International Dynamics. *Georgetown Journal of International Affairs*. <https://gjia.georgetown.edu/2023/06/02/chinas-increasing-role-in-the-middle-east-implications-for-regional-and-international-dynamics>.

² Evolution of China's interaction with Middle Eastern countries under the Belt and Road Initiative
Junhua Chen, Xiaolu Yang, Meijun Wang, Min Su

³ <https://www.mofa.gov.ae/en/MediaHub/News/years/2019/7/23/23-07-2019-uae-china-statment1>

⁴ [Saudi Arabia, China sign comprehensive strategic partnership agreement \(alarabiya.net\)](#)

⁵ [China, Qatar to build higher level of bilateral strategic partnership - CGTN](#)

⁶ https://www.newsofbahrain.com/bahrain/93072.html#google_vignette

& Eslami, 2024), it has also promoted multilateralism and engaged closely with both the GCC and the Arab League. The two meetings with these institutions in 2022 further indicate a growing focus in the region.

The first China-Gulf Cooperation Council (GCC) Summit took place on December 9, 2022⁷, at the King Abdulaziz International Conference Center in Riyadh, focusing on the China-GCC strategic partnership. Another summit between China and the Arab states took place also on December 9, 2022⁸, highlighting economic development and promoting win-win cooperation. The timing of these meetings indicates the importance of the region in China's geopolitical considerations and its attempts to capture dissatisfaction with the Western response to the conflict in Gaza to promote a more positive image of itself and secure contracts. China's "non-interventionist" approach to conducting business in the region has made it a preferred choice for partnership. Even in military cooperation, whether it involves arms transfers, military exercises, or security training, China's stance is appealing to Middle Eastern states, especially GCC members, who view their growing ties with Beijing as a means of diversification (Eslami & Papageorgiou, 2023).⁹

Military cooperation has been high on the foreign policy agenda of China and Middle Eastern partners, including Kuwait, Oman¹⁰, and Qatar. They have emphasized their intention to increase cooperation with China, particularly in defense and military matters, and have facilitated high-profile defense visits with the respective countries to enhance mutual interests. Moreover, in mid-January 2022, the Gulf Cooperation Council (GCC) foreign ministers visited Beijing, and Chinese Foreign Minister Wang Yi made the following statement: "China emphasizes that the Middle East is suffering from long-existing unrest and conflicts due to foreign interventions... we believe the people of the Middle East are the masters of the Middle East. There is no 'power vacuum,' and there is no need for 'patronage from outside'."¹¹

⁷ [President Xi Jinping Attends First China-GCC Summit and Delivers Keynote Speech \(fmprc.gov.cn\)](https://fmprc.gov.cn)

⁸ [President Xi Jinping Attends the First China-Arab States Summit and Delivers a Keynote Speech, Underscoring the Importance of Carrying Forward the Spirit of China-Arab Friendship Featuring Solidarity and Mutual Assistance, Equality and Mutual Benefit, and Inclusiveness and Mutual Learning and Jointly Building a China-Arab Community with a Shared Future in the New Era \(mfa.gov.cn\)](https://mfa.gov.cn)

⁹ Eslami, M., & Papageorgiou, M. (2023). China's Increasing Role in the Middle East: Implications for Regional and International Dynamics. *Georgetown Journal of International Affairs*. <https://gjia.georgetown.edu/2023/06/02/chinas-increasing-role-in-the-middle-east-implications-for-regional-and-international-dynamics>.

¹⁰ ¹⁰ <https://omannews.gov.om/topics/en/79/show/108515>

¹¹ [Middle East has no 'power vacuum,' needs no 'foreign patriarch': Wang Yi - Global Times](https://www.globaltimes.com)

This statement indicates China's military cooperation in the region, which primarily focuses not on becoming an important exporter or security actor, but on boosting the strategic autonomy of the states in the region and reduce US influence.

When it comes to arms sales in the region, China has managed to enter third-world markets, particularly due to its low-cost, affordable services, lack of geopolitical strings, and offering of upgrade packages and training, which come as particularly appealing options (Lin & Singer, 2016).¹² China's arms sales continue to adhere to three principles "First, our military products export should help strengthen the legitimate self-defense capability of the countries concerned; second, it should help safeguard and promote peace, security, and stability in the regions concerned; and third, we do not use the military sale to interfere in the internal affairs of other nations" (Foreign Ministry, 1988)¹³. This approach seems to be gaining ground in its relations with Arab states in the Middle East. Its "blanket" style in arms transfers, including exporting various types of weapons to diverse states (Tian, 2018)¹⁴, as well as its willingness to sell high-tech sensitive weapon technology, which Western countries have refrained from doing, have made it a considerable market. This was exhibited in its participation in the two recent defense expos in Saudi Arabia and the UAE.

China's charm offensive in arms sales was evident in its presence at the Saudi Arabia expo in 2024¹⁵, where its floor space amounted to 4,668 square meters (over 50,000 square feet), the largest of any international invitee. Similarly, at the UAE Expo¹⁶, Chinese companies held the second-largest space, ahead of the US and behind only the host country. Chinese company Norinco, displayed under the banner of the Emirati defense distributor International Golden Group after its acquisition by UAE conglomerate EDGE Group, showcased systems such as BLUE ARROW missiles and the BZK-005E MALE UAV¹⁷. The exhibitions of UAVs further indicate their demand in the region and also China's willingness to provide new and advanced models.

Nevertheless, when considering arms sales, China's market share in the region is still minimal compared to the USA, Russia, and other European countries. An analysis of its arms exports in

¹² Lin, J. & Singer, P. W. (2016). The Dragon Muscles In: Growing Number of Victories in Chinese Arms Exports, Popular Science, 9 June 2016, <http://www.popsoci.com/>

¹³ Foreign Ministry Holds Weekly News Briefing. Xinhua in Foreign Broadcast Information Service, Daily Report, China (hereafter FBIS, DR/CHI), 8 September 1988, p. 1.

¹⁴ Tian, N. (2018). China's arms trade: A rival for global influence. Lowy Institute.

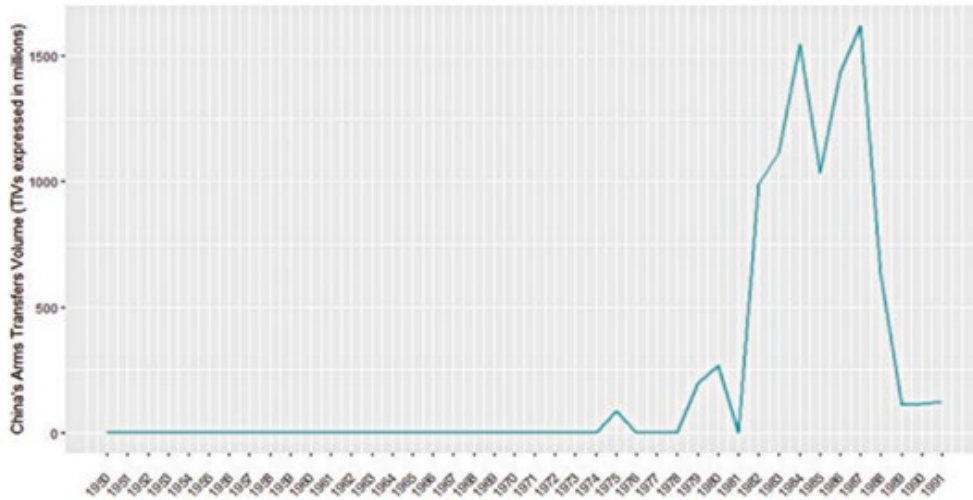
¹⁵ [China makes presence felt at Saudi Arabian defense show, outpacing US, Russia - Breaking Defense](#)

¹⁶ [Outdoing US, China makes a splash at Emirati unmanned defense tech show - Breaking Defense](#)

¹⁷ *ibid*

the region reveals that China has not yet reached the level of exports it achieved during the height of the Cold War period (graph 1), particularly during the Iran-Iraq war (Papageorgiou, 2023).¹⁸

Graph 1. Chinese arms exports to the Middle East during Cold war¹⁹



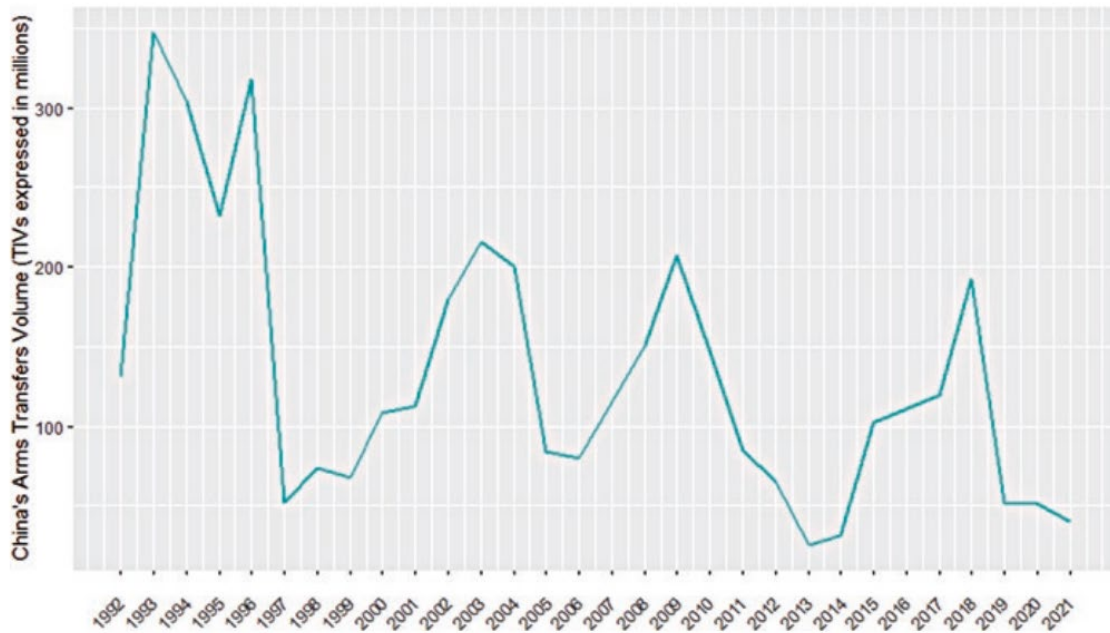
Source: Papageorgiou (2023) data from SIPRI

In the post-Cold War period (graph 2), Chinese arms transfers exhibited a volatile downward trajectory with peaks in 1993, 1996, 2003, 2009, and 2018, and lows in 1992, 1997, 2005, 2009, 2013, and 2014. Since 2019, there has been a relatively steady trend, albeit at a low level compared to the peaks of the 1980s. The decline in 2020 and 2021 is partly attributed to the economic consequences of the COVID-19 pandemic (Papageorgiou, 2023).

¹⁸ Papageorgiou, M.M. (2023). China's Growing Presence in the Middle East's Arms Race and Security Dynamics. In: Eslami, M., Guedes Vieira, A.V. (eds) *The Arms Race in the Middle East. Contributions to International Relations*. Springer, Cham. https://doi.org/10.1007/978-3-031-32432-1_16

¹⁹ 16 countries: Afghanistan, Egypt, Turkey, Iran, Iraq, Saudi Arabia, Yemen, Syria, Jordan, UAE, Israel, Lebanon, Oman, Kuwait, Qatar, and Bahrain

Graph 2. Chinese arms exports to the Middle East in the post-Cold war period ²⁰



Source: Papageorgiou (2023) data from SIPRI

However, what differentiates these two periods is the number of recipient countries and their strategic selection. In the post-Cold War period, almost all Gulf Cooperation Council (GCC) countries, including Iran, have purchased weapons from China.

Graph 3. Recipients of China's arms transfers in the Middle East

²⁰ same

	Arms Transfers Volume (1950-1991)	Proportion
Iraq	4263	45.96%
Egypt	2357	25.41%
Iran	2201	23.73%
Saudi Arabia	450	4.85%
Syria	4	0.04%

Arms Transfers Volume is the Trend Indicator Values (TIVs) expressed in millions.

	Arms Transfers Volume (1992-2021)	Proportion
Iran	6220	36.0%
Iraq	4475	25.9%
Egypt	3536	20.5%
Saudi Arabia	1085	6.3%
Turkey	596	3.4%
UAE	360	2.1%
Yemen	300	1.7%
Qatar	235	1.4%
Kuwait	197	1.1%
Syria	157	0.9%
Jordan	70	0.4%
Oman	36	0.2%
Bahrain	8	0.0%
Afghanistan	2	0.0%

Arms Transfers Volume is the Trend Indicator Values (TIVs) expressed in millions.

Source: Papageorgiou (2023) with data from SIPRI

In the post-Cold War period, Saudi Arabia and the UAE saw the greatest increase in Chinese arms transfers from 2016 to 2020, with increases of 386% and 169%, respectively. Specifically, during this period, the highest number of Chinese purchases was initiated on drones,

particularly the Wing Loong 1 and its upgraded version, the Wing Loong 2, as well as guided bombs. Saudi Arabia began acquiring Chinese CH-4 drones in 2014 and has since acquired at least 15 of the more lethal Wing Loong II drones. The United Arab Emirates also bought 500 Blue Arrow-7 missiles²¹. Thus, China has positioned itself as the main supplier of drones in the region, including Egypt, Iraq, Saudi Arabia, UAE, and Jordan²², giving it a strategic advantage in selling UAVs in the region. The Wing Loong UAV is a medium-altitude, long-endurance drone that can also be armed with missiles, while its third generation, an intercontinental drone that can fly 10,000km, made its debut at China’s Zhuhai Air Show in 2022.²³ Saudi Arabia also purchased this Wing Loong-10 Drone, which is a High Altitude Endurance drone that can carry several munitions, during the World Defense Show that took place in Riyadh from February 4th–8th, 2024.²⁴ In regards, to missiles UAE announced during the IDEX show held in Abu Dhabi from 20 to 24 February, 2023 that it has awarded a \$245 million contract to procure AR3 multiple rocket/missile launchers made by Chinese company Norinco.²⁵

Table 4. Types of Chinese arms purchases

Recipient	Supplier	Designation	Description	Weapon Category	Order Year	Number Ordered	Delivery Years
Saudi Arabia	China	Wing Loong-1	armed UAV	Aircraft	2014	15	2017
UAE	China	Wing Loong-1	armed UAV	Aircraft	2011	25	2017
Saudi Arabia	China	CH-4B	armed UAV	Aircraft	2014	20	2018
Bahrain	China	SR-5	self-propelled MRL	Artillery	2015	4	2016
Saudi Arabia	China	CH-4A	UAV	Aircraft	2017	5	2018
Saudi Arabia	China	FT-9	guided bomb	Missiles	2016	50	2018
Saudi Arabia	China	Wing Loong-2	armed UAV	Aircraft	2017	50	2022
Qatar	China	BP-12A	SSM	Missiles	2016	48	2018
Qatar	China	SY-400 MRL	self-propelled MRL	Artillery	2016	8	2018

²¹ <https://www.defensenews.com/opinion/2021/04/23/chinas-surprising-drone-sales-in-the-middle-east/>

²² [CNASReport-DroneProliferation-Final.pdf \(ethz.ch\)](https://www.ethz.ch/cnas/CNASReport-DroneProliferation-Final.pdf)

²³ [Why is Saudi Arabia looking to China to buy weapons after years of arms deals with the US? | South China Morning Post \(scmp.com\)](https://www.scmp.com/news/asia/south-china/article/3121212/why-is-saudi-arabia-looking-to-china-to-buy-weapons-after-years-of-arms-deals-with-the-us)

²⁴ [Saudi Arabia to Acquire Wing Loong-10 Drone | Atlas News \(theatlasnews.co\)](https://www.atlasnews.com/news/saudi-arabia-acquires-wing-loong-10-drone) and [Saudi Air Force Acquires Chinese Wing Loong-10B Reconnaissance-Strike Drones | Al Defaiya](https://www.aldefaiya.com/news/saudi-air-force-acquires-chinese-wing-loong-10b-reconnaissance-strike-drones)

²⁵ <https://www.janes.com/defence-news/news-detail/idx-2023-uae-orders-norinco-ar3-launchers>

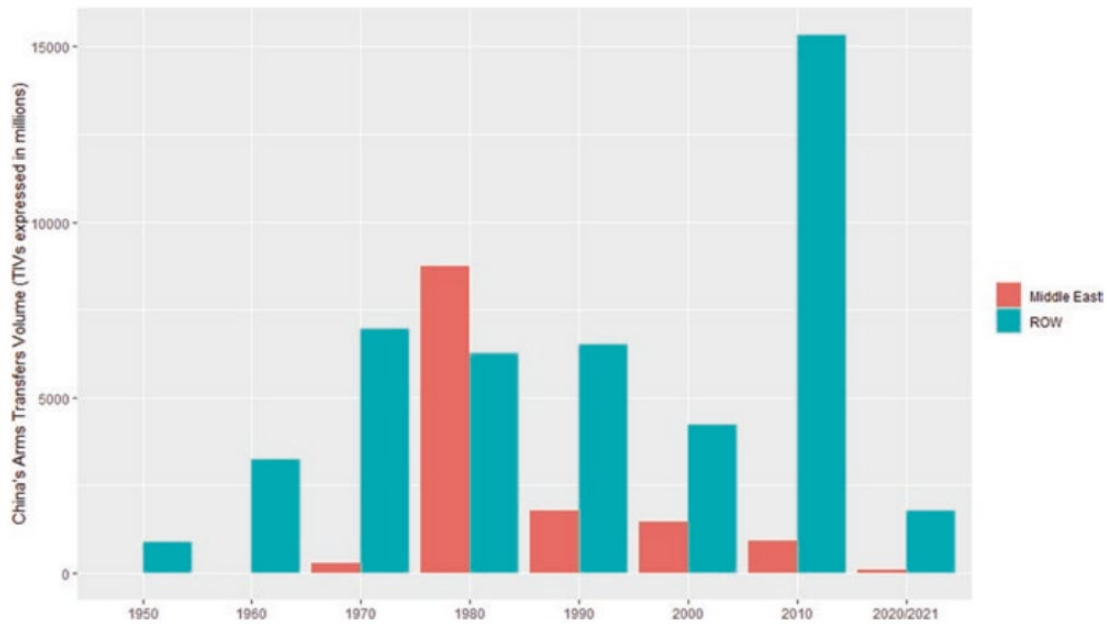
UAE	China	Wing Loong-2	armed UAV	Aircraft	2017	15	2018
UAE	China	AH-4 155mm	towed gun	Artillery	2018	6	2019
UAE	China	Blue Arrow-7	anti-tank missile	Missiles	2017	500	2020
UAE	China	SR-5	self-propelled MRL	Artillery	2018	5	2020
UAE	China	CR-500	armed UAV	Aircraft	2019	10	0
Saudi Arabia	China	TWA	air search radar	Sensors	2020	5	2021
UAE	China	L-15 -	trainer/combat aircraft	Aircraft	2023	15	0
UAE	China	AR-3 MRL	self-propelled MRL	Artillery	2023	?	0

Source: Author's compilation with data from SIPRI

Overall, however, Middle East still doesn't account as the top region in China's arms exports as indicated in graph 4. And China exports to the wider Middle East remain in single digits, ranking fourth in the region with a 4.6 percent of all arms exports, with majority going to Pakistan.²¹ Regarding the type of military arms exports China is not an MTCR member (although has agreed in principle to apply the original MTCR guidelines), which precludes any sale of such missiles and related technology due to considerations of proliferation in the region.²⁶ Moreover, China is not part of the Wassenaar Arrangement, a voluntary export control regime that promotes transparency and greater responsibility in the transfers of conventional arms and dual-use goods and technologies in its arms sales with Iran.²⁷

Graph 4. China's exports to the ME compared to ROW

²⁷ Winter, L., Warner, J., & Baar, J. (2023). Instruments of Russian Military Influence in Iran. US Army Foreign Military Studies Office (FMSO), Training and Doctrine Command (TRADOC) G2.



Source: Papageorgiou (2023)

Regarding arms sales to Iran, official arms supply from China to Iran ceased after 2015, Chinese designs and technology still influence contemporary arms production in Iran. Despite also their 25 years agreement and the lifting of UN sanctions on Iran, Chinese companies have engaged in talks with Iran regarding potential arms purchases, particularly fighter jets like the Chinese J-10. Of course, many Iranian missile series, including the Oghab, Nazeat, and Shahab 3, draw on Chinese designs and Chinese arms manufacturers Aviation Industry Corporation of China, China Electronics Technology Group Corporation and China South Industries Group Corporation operate manufacturing facilities in Tehran.²⁸ Given that China, Iran and Russia, have emerged as a strategic triangle, have used several soft balancing mechanisms such as entangling diplomacy, territorial denial, economic strengthening and regional cooperation that excludes the United States, to counter the hegemon's power and unilateral policies employing soft balancing to counterbalance the United States without directly engaging with American military power (Papageorgiou et al., 2023).²⁹ Nevertheless, the Chinese brokered Iran-Saudi agreement can boost a wide anti-Americanist and anti-hegemonism in the region that can turn Middle Eastern countries to join forces and seek alternative security arrangements as shown from their willingness to become dialogue members of the SCO and supporting China's Global Security Initiative.

While it is commonly believed that China's primary interests in the Middle East are economic, its arms transfers extend beyond mere financial considerations. China's motivations are multifaceted, including a desire to challenge traditional US influence in the region and establish

²⁸ [Not "business as usual": The Chinese military's visit to Iran | Middle East Institute \(mei.edu\)](#) and Winter, L., Warner, J., & Baar, J. (2023). *Instruments of Russian Military Influence in Iran*. US Army Foreign Military Studies Office (FMSO), Training and Doctrine Command (TRADOC) G2.

²⁹ Papageorgiou, M., Eslami, M., & Duarte, P. A. B. (2023). A 'Soft' Balancing Ménage à Trois? China, Iran and Russia Strategic Triangle vis-à-vis US Hegemony. *Journal of Asian Security and International Affairs*, 10(1), 65–94.

a regional counterbalance to American power (Siddi & Kaczmariski, 2019³⁰; Papageorgiou et al., 2023)³¹. Moreover, China leverages asymmetric capabilities by providing weapons unavailable from Western suppliers to Gulf states, fostering distrust in their cooperation with the West and positioning itself as a more credible alternative, disrupting existing partnerships.

Another significant aspect of China’s military presence in the region, or its military diplomacy, is its willingness to engage in joint production of weapons. Beijing has actively promoted weapon co-production initiatives with US allies in the region, exemplified by the announcement of a factory in Saudi Arabia for producing CH-3 UAVs (Chan, 2017)³². Furthermore, in 2022, Saudi Advanced Communications and Electronics Systems Co. signed an agreement with China Electronics Technology Group Corp., with both companies announcing their partnership during the World Defense Show in Riyadh, held from March 6-9.³³ In addition, technology transfer and localized production between the two states is evident in Saudi Arabia's Saqr drone, produced domestically which incorporates Chinese-designed air-launched missiles with the Kingdom also showing interest in the JF-17, a joint Pakistani-Chinese fighter jet, with potential plans for its manufacture in Saudi Arabia.³⁴

Military exercises have been conducted with Middle Eastern countries since 2019, with a majority occurring after 2022, a year that marked heightened cooperation between China and the Middle East. Examples are the second edition of China-Saudi Arabia naval exercise Blue Sword-2023 at a camp in Zhanjiang, South China's Guangdong Province.³⁵ Egypt has also completed joint military drills off Egypt's Mediterranean Coast with China in 2019 testing counterterrorism and anti-piracy activities and inspect suspected vessels.³⁶

Table 2. Chinese military exercises with ME states

Participants	Name of operation	Where	Year	Type
China and Saudi Arabia	Blue Sword-2023	Zhanjiang, South China's Guangdong Province	October 25, 2023	Naval
China and Saudi Arabia	Blue Sword 2019	King Faisal Naval Base in Jeddah	November 17, 2019	Naval
China and UAE	Falcon Shield 2023	Xinjiang	August 9, 2023	Air forces
China in Qatar (3rd visit)	44th Chinese naval escort taskforce	Hamad Port	October 24 to 28, 2023	Naval
China in Kuwait	44th Chinese naval escort taskforce	Failaka	October 22, 2023	Naval
China in Oman	44th Chinese naval escort taskforce	Muscat	October 14, 2023	Naval

Two other interesting areas is Chinese military presence in the region is also the establishment of China’s Overseas Police Service Stations in the Middle East in UAE³⁷ and its expanding

³⁰ Siddi, M., & Kaczmariski, M. (2019). Russia and China in the Middle East: Playing their best cards. FIIA Briefing Paper, 275

³¹ Papageorgiou, M., Eslami, M., & Duarte, P. A. B. (2023). A ‘Soft’ Balancing Ménage à Trois? China, Iran and Russia Strategic Triangle vis-à-vis US Hegemony. *Journal of Asian Security and International Affairs*, 10(1), 65–94.

³² [Chinese drone factory in Saudi Arabia first in Middle East | South China Morning Post \(scmp.com\)](https://www.scmp.com/news/china/diplomacy/article/2017/03/23/chinese-drone-factory-saudi-arabia)

³³ <https://www.defensenews.com/unmanned/2022/03/09/chinese-and-saudi-firms-create-joint-venture-to-make-military-drones-in-the-kingdom/>

³⁴ [China Seizes Arms Exporting Opportunity in the Middle East – Defense Security Monitor \(forecastinternational.com\)](https://forecastinternational.com/news/china-seizes-arms-exporting-opportunity-in-the-middle-east/)

³⁵ [China, Saudi Arabia Launch Joint Naval Special Operations Exercise \(defense-aerospace.com\)](https://www.defense-aerospace.com/news/china-saudi-arabia-launch-joint-naval-special-operations-exercise/)

³⁶ <https://english.ahram.org.eg/NewsContent/1/64/344171/Egypt/Politics-/Egypt,-China-naval-forces-carry-out-joint-military.aspx>

³⁷ <https://thediplomat.com/2023/06/chinas-overseas-police-service-stations-in-the-middle-east/>

law enforcement activities and training in MENA mainly Egypt³⁸. Lastly, contracting private security companies for guarding duties in MENA including Saudi Arabia of oil and gas state-owned enterprises (SOEs) also indicates an increasing presence along the Belt and Road Initiative showcasing Beijing's desire to nurture a professional private security sector able to operate in complex environments (Arduino, 2021³⁹) and able to project power and influencing developments in the region.⁴⁰

Policy Recommendations

To mitigate the security threats posed by the adoption of 5G networks and significant technological cooperation with China in the Middle East, the United States should implement and expand the Zero-Trust Network Model⁴¹. This model ensures stringent security checks within the network to safeguard U.S. forces and allies operating in the region from potential risks such as blocked access to wireless networks, insertion of trojan horses and viruses into connected devices, or data harvesting for exploitation. Additionally, the USA should consider offering alternatives within the network infrastructure or promoting multilateral collaboration, including China, to monitor and address such activities.

Engagement with Gulf states on an equal footing is essential, along with providing viable alternatives to Chinese initiatives. This entails increased investments in telecommunications and infrastructure to offer options that align with the region's 2030 vision for modernization and development. Furthermore, inclusion of the Middle East in connectivity projects in the Asia-Pacific region is crucial to assure these countries that the USA remains committed to its security obligations, but also supporting their efforts for strategic autonomy.

Participation in joint exercises with Gulf states, including the use of Chinese drones to assess operability and advancements, is recommended. These exercises should simulate crisis situations involving drone usage, as well as potential reactions from other parties, such as the interception of drones. Moreover, expanding signatories to agreements like the October 2016 Joint Declaration for the Export and Subsequent Use of Armed or Strike-Enabled UAVs can enhance regional security cooperation. Continuous monitoring of indigenous weapons development, such as the collaboration between Emirati conglomerate Edge and Turkish Bayraktar in drone production⁴², while it is also necessary to uphold U.S. military superiority in this domain.

Furthermore, it's crucial to closely monitor Saudi Arabia-Iran relations, especially regarding potential collaboration involving China and Russia. The normalization of ties between these nations poses risks, as highlighted by Iranian Defense Minister Mohammad Reza Ashtiani's readiness to expand military and technical cooperation with Saudi Arabia. During a meeting in

³⁸ [How China is expanding its law enforcement activities across Africa | South China Morning Post \(scmp.com\)](#)

³⁹ Arduino, A. (2021). Chinese private security companies in the Middle East. In *Routledge Handbook on China–Middle East Relations* (pp. 312-321). Routledge.

⁴⁰ [A Stealth Industry: The Quiet Expansion of Chinese Private Security Companies \(csis.org\)](#)

⁴¹ <https://www.nsa.gov/Press-Room/Press-Releases-Statements/Press-Release-View/Article/3695223/nsa-releases-maturity-guidance-for-the-zero-trust-network-and-environment-pillar/>

⁴² [UAE's EDGE Group, Turkey's Baykar to put Emirati payloads on Turkish drones - Breaking Defense](#)

Tehran with Saudi Arabia's Ambassador Abdullah bin Saud al-Anzi, Ashtiani discussed areas of potential cooperation in military, security, intelligence, and technology domains.⁴³

Finally, rather than opting for a 'with us' or 'against us' approach, Washington should offer to the Gulf countries in the region a more inclusive role in the region's security architecture and engage in joint military production.

⁴³ [Iran says ready to expand military cooperation with Saudi Arabia - China.org.cn](http://china.org.cn)

OPENING STATEMENT OF ALESSANDRO ARDUINO, AFFILIATE LECTURER, KING'S COLLEGE LONDON

DR. ARDUINO: I want to start thanking the Co-Chairs, Commissioner Friedberg, and Commissioner Stivers, as well as all the Commissioners for allowing me to testify today. The views that I will be presenting are solely of my own and should not be seen as representing any organization I am affiliated with.

In my initial statement, I want to focus my talk on three points. First, the evolving role of Chinese private security in the Middle East; second, the private security in maritime sector, especially in the Red Sea; and, third, Chinese private security as security technology ambassador.

While the People's Republic of China is gradually moving away from its longstanding principle of non-interference to, let's say, a more reactive role, it remains very cautious of getting involved in the Middle East security quagmire. Therefore, to address security concern in the region, without committing Chinese military personnel from PLA or PAP, People's Armed Police, China is turning to the private security sector as, let's say, a convenient security gap filler.

All over the Belt and Road Initiative from Central Asia to Pakistan to the Middle East, and especially now in Africa, Chinese private sector protect Chinese worker and Chinese infrastructure against piracy, hijacking, kidnapping, and terrorist threat. But the role of private security in the Middle East pre-date the protection of the Belt and Road Initiative. It started way early when Chinese state-owned enterprises looking at the protection of oil and gas field were looking at cooperating with Chinese private security company.

At the time, it was an international certainty in which Chinese private security were working alongside with Western private security sector as their evolutionary model was fixed on the U.S. private military company and private security company. Having said that, at the time, the cooperation was with U.S. firm, UK firm, and even Israeli firm working to protect and to support Chinese private security.

As soon as the deterioration of the international relation between China and the United States increased, then Chinese state-owned enterprises start to opt for different kind of partnership. For a very limited time, there was an interest and a kind of flirting with Russian quasi-PMC. I don't like to talk about Russia as a private military company because group, like Wagner Group for example, are more near to mercenary group than PMC.

But as we saw the recent armed mutiny of Mr. Prigozhin, moving his forces to Moscow definitely put off of the table most of the possible cooperation, looking at the kind of Wagner model.

Up to now, Chinese security company mostly are related to a passive stance. What I mean by passive stance, providing unarmed security force, basically security managers, in between the Chinese worker and locally contracted security force.

So in area like the Gulf, who are pretty safe, Chinese security from UAE to Saudi Arabia, and so on, provide basically guardian service for office and warehouse, while in more complex environment, like Iraq, they cooperate with local PMU or local armed militia to provide security. In area like Syria and Yemen, with ongoing civil war, probably there will be an increase of Chinese private security footprint when there will be post-conflict operation, if China is going to get involved.

Looking at the maritime sector, mostly Chinese private security companies are the most high level among all the environment of Chinese private security that offer that kind of service. And considering the basic difference with the other is that they are armed.

Having said that, since the Somali pirate activity dwindled in 2019, especially thanks to Task Force 151, most of the Chinese PSCs providing maritime security moved on the other side of Africa, especially near the Gulf of Guinea.

But at the start of the year, this year, in 2024, when Ansar Allah, better known as their tribal affiliation, the Houthis, started the marauding activity on the Red Sea, then Chinese private security sector at international level with international cooperation started to look to offer advanced service, including anti drone capabilities.

Moving from the maritime sector to the cybersecurity sector, then we can see that besides the fact that Chinese private security are a latecomer in the international private security market, they are leaning toward a high-technology evolutionary model, meaning that they are becoming the ambassador of China crowd management technology, such as facial recognition, and probably sooner they could be also the entry point for China AI in safe cities product.

So we are looking at the trend that is at a global level, not only for China, in which the security sector is shifting to a more proactive approach focusing on Big Data, CCTV, and predictive analysis and preventive solution.

So, essentially, my recommendation would be related to three points. The first is that there is still a very tiny window of opportunity in cooperating with transparent and accountable private security firm from China that are willing to follow internationally recognized certificate.

Then, if we look at the same aspect on the cyber realm, and not so confident, that there are a possibility of cooperation, because there is a need at the international level to strain the regulation to curb rogue private military, private -- sorry, cyber actors, especially cyber mercenary.

And the third point is the evolution. One of the possible evolution of Chinese private security firms could be in favoring People's Liberation Army multi-domain operation. And in this regard, then there would be a tendency in blurring the line between private security and private military company.

Thank you, and I am looking forward to your questions.

COMMISSIONER FRIEDBERG: Thank you very much.

**PREPARED STATEMENT OF ALESSANDRO ARDUINO, AFFILIATE LECTURER,
KING'S COLLEGE LONDON**

“China and the Middle East”

Testimony before the U.S.–China Economic and Security Review Commission

April 19, 2024

China’s Security Interests Panel III

Dr Alessandro Arduino,

Affiliate lecturer Lau China Institute King’s College London, visiting professor Geneva Graduate Institute

I want to start by thanking co-chairs Commissioner Aaron Friedberg and Commissioner Jonathan Stivers, as well as all the Commissioners, for giving me the opportunity to testify today. The views I'll be presenting are solely my own and should not be seen as representing any organization I'm affiliated with.

Setting the Stage. Chinese Private Security Companies Presence in the Middle East

Once more, the Middle East teeters on the edge, stirring China's unease over escalating regional instability. With porous borders, rampant transnational crime, attacks on the sea lanes of communications, and the relentless spread of terrorist networks, the threat to China's Belt and Road Initiative (BRI) looms large. While Beijing is gradually moving away from its longstanding policy of non-interference and becoming more reactive, it remains cautious about actively involving itself in the Middle East security quagmire.ⁱ

To address security concerns without committing Chinese military personnel, China is turning to private security companies (PSCs) as a convenient security gap filler. In the Middle East, Chinese oil and gas state-owned enterprises (SOEs) have been utilising these firms to protect Chinese engineers from kidnapping and to safeguard infrastructure from attacks by terrorist or criminal groups. This approach predates the specific security needs of the BRI. Still, the evolution and expansion of the Chinese private security sector, especially from the Middle East to Africa, is indicating China's proactive stance in mitigating risks without the necessity to deploy the People’s Liberation Army (PLA) overseas. Initially, the Chinese private security sector defending Chinese oil fields in the Middle East aimed to emulate the role played by US Private Military Companies (PMCs) in Iraq. At that time several security companies from the US, UK and Israel supported with armed guards, security analysis and training the Chinese PSCs protecting national energy companies, mostly in the southern part of Iraq. Yet, increasing tensions with the US have made Chinese SOEs more hesitant to engage with Western security contractors. In this respect, the emergence of Russian quasi-PMCs and especially the Russian Wagner Group presented a

novel approach, combining mercenary activities with quasi-private proxy services for authoritarian regimes. In this respect, Russian quasi-PMCs attempted to enter the profitable market of safeguarding the BRI in the Middle East, especially against maritime piracy from the Red Sea to the Gulf of Guinea. However, this approach lost its allure relatively quickly, particularly after Wagner's boss Yevgeny Prigozhin's armed mutiny cast a shadow over the Wagner Group's loyalty, raising concerns in Beijing about the potential threats spanning from unaccountable heavily armed contractors returning home.

The growing presence of Chinese PSCs along the Belt and Road Initiative in the Middle East reflects Beijing's desire to cultivate a professional private security sector capable of operating effectively in complex environments far from China's borders while keeping intact the decades-old principle of non-interference. In this respect, the challenge lies not in determining the presence of Chinese PSCs overseas, but rather in distinguishing where the involvement of the State ends and the private sector starts.

In the Middle East, China's PSCs have a lesser presence compared to their activities in Asia and Africa. For example, in the affluent Gulf States, Chinese PSCs are primarily tasked with guarding offices and warehouses, as local police adequately ensure the safety of Chinese workers. However, in more volatile environments like Iraq, experienced Chinese PSCs support national oil and gas companies by leveraging longstanding relationships with Iraqi popular mobilization units (PMU), particularly when direct support from Baghdad is not feasible. In Syria and Yemen, Chinese investments have dwindled amid civil wars, with the possibility of seeing a surge in the Chinese private security sector only once Beijing commits to participating in post-conflict reconstruction efforts. Despite claims from various quarters, including Beirut, Damascus, and Sana'a, that Chinese billions in foreign direct investment (FDI) will revolutionise national economies' rebuilding, Beijing remains cautious. Simultaneously, Israel holds significance for Chinese PSCs not primarily as a market, but rather as service providers. Israeli companies and individuals possess valuable expertise in counter-terrorism and cybersecurity, which they can transfer to Chinese PSCs seeking to enhance their capabilities on a global scale.

According to Chinese scholars, since the onset of "the Arab Spring, optimism can still be hard to find in the Middle East."ⁱⁱ Russia returning to the Middle East as a major power through the military intervention in Syria and the US reorienting its Middle East strategy is accompanied by regional powers such as Saudi Arabia, Turkey, and Iran striving for power and security. Nevertheless, due to the large influx of capital and Chinese workersⁱⁱⁱ, "the protection of overseas Chinese citizens has emerged as a new diplomatic imperative."^{iv} The 2018 State Council Report on the Protection of Overseas Chinese Rights and Interests emphasises that "the overseas Chinese have an irreplaceable and vital role in realising the Chinese dream," therefore for China, safeguarding nationals in the Middle East has become a cornerstone of its foreign policy. Amid rising terrorist threats and conflicts, the interconnectedness between China's human and economic presence in the Middle East and its security policy is of growing significance.

Compared to their Western counterpart the Chinese PSCs are latecomers into the international private security arena. In 1993 the operational scope of PSCs with "Chinese characteristics" was restricted, primarily allowing former military and police personnel to register such companies. However, since 2009, subsequent laws have broadened their operational horizons. These changes include loosening restrictions on weapon access and easing the stringent registration procedures that were in place earlier. However, the majority of the several thousand Chinese PSCs operating in mainland China are still established and managed by former security officers, with key personnel recruited from the People's Liberation Army, People's Armed Police, and the police force. Simultaneously, while there exists a

detailed law governing the operation of PSCs within China, there is a lack of precise rules and regulations for those operating overseas. This ongoing legal vacuum exposes the entire sector to competition from semi-legal Chinese private security companies that establish themselves overseas without proper licensing domestically^v. Nevertheless, while the Chinese private security sector is increasing its professionalisation, it's improbable that Chinese PSCs will attain in the short term the same level of expertise and capability as their Western counterparts^{vi}.

The Party Controls the Gun. Regulating the Evolution of the Chinese Private Security Sector

Prior to President Xi Jinping's flagship foreign policy initiative, the Belt and Road, Chinese investments in the Middle East and North Africa (MENA) primarily targeted natural resource extraction and trade. However, since 2013's surge in infrastructure investments driven by the BRI, aiming to connect the MENA region with Chinese trade routes like the estimated 63 billion US\$ China-Pakistan Economic Corridor (CPEC), Central Asia, the Red Sea, the Indian Ocean and the Mediterranean basin has also heightened risks and threats to Chinese personnel and infrastructures. In this respect, Beijing's position on MENA is "shifting away from harvesting economic benefits while avoiding political entanglements ... albeit in a cautious way"^{vii}. Therefore, China is gradually increasing its political, security^{viii} and economic presence in the region, with economic cooperation still the centrepiece of this effort.

While China trails behind the US as the primary security provider in the MENA region and across Africa, it stands as one of the leading economic actors. In 2018, the MENA region ranked second globally in terms of investment and Chinese construction projects, following closely behind Europe, with this trend on the rise. However, security remains a significant challenge. Complicating Beijing's development-security approach is the increasing presence of over one million Chinese expatriates in the region, spanning from construction workers to businesspeople, students, and even religious pilgrims visiting Saudi Arabia and Iran.

In this respect, Chinese security pundits are increasingly vocal on Chinese social media that it is time that China's private security sector increases its capability and footprint abroad to protect Chinese nationals against terrorist threats. Yet, the Chinese Communist Party (CCP) remains resolute, adhering to the Maoist principle that "the party controls the gun."^{ix} Despite Beijing's scepticism, Chinese private security firms are poised to assume an important role in safeguarding Chinese interests overseas and bolstering security capabilities in a domain where the boundary between private and public realms is often blurred.

While the private security sector with "Chinese characteristics" is adapting to meet increasing challenges abroad^x, Beijing's imposed limitations on access to weapons are still forcing the Chinese PSCs to rely on armed personnel hired from local or international sources. Consequently, Chinese PSCs primarily engage in passive roles such as asset protection against various threats like riots, theft, kidnapping for ransom, terrorism, and maritime piracy. This restriction has prompted numerous Chinese security experts over the past decade to advocate for the professionalisation and restructuring of the sector, potentially modelling it after Western private military frameworks or incorporating elements from the Russian approach to PMCs^{xi}.

Following the launch of the BRI, the Chinese private security sector briefly experimented with a model akin to Blackwater. This was evident in the establishment of Frontier Services Group (FSG), a Hong Kong-

based joint venture co-founded by Erik Prince the founder of US PMC Blackwater in collaboration with the Chinese state conglomerate CITIC. However, as tensions between China and the US escalated, the prominence of the Blackwater-inspired model began to decline.

Also, the Russian model did not find fertile ground. Before the Wagner Group armed mutiny, several Chinese security firms had started contemplating collaborations with Russian counterparts. They were attracted to three main advantages offered by Russian security providers: skilled contractors with a demonstrated combat track record, a lack of evident Western ties that might jeopardize the confidentiality of SOEs, and competitive pricing. Nevertheless, Chinese foreign investments demand stability while the Wagner Group's promise of "armed stability" thrives in chaos. This presents a paradoxical challenge for Beijing and Moscow's "no-limits friendship," while simultaneously making it difficult for the Chinese private security sector to maintain a low profile.

In the Middle East, wherever there are Chinese economic interests, Chinese PSCs are there operating alongside local or international armed contractors. These Chinese contractors usually consist of a small number of unarmed security managers who serve as contact points between the Chinese company's workers located in a gated compound and the local security forces. In cases where regulations in the host country prohibit the registration of independent Chinese PSCs or joint ventures with local private security firms, it's not uncommon for a limited number of Chinese security managers to operate under working visas granted to the Chinese SOE. The risk management approaches of Chinese companies vary, with state-owned enterprises (SOEs) in natural resource exploitation being better funded and equipped to procure necessary security services^{xii}.

Maritime Security: From Anti-piracy to Anti-drones.

Since the surge of piratical activities along the Somali coast the Chinese private security sector has provided guards to Chinese commercial vessels, mostly related to Chinese commercial shipping lines and China's State energy companies. Since 2019, with Somali pirate activities nearly eradicated due to the efforts of Combined Naval Task Force 151, Chinese PSCs have shifted their focus to addressing the maritime security needs of the BRI in response to the increase in piracy incidents in Western Africa.

The most common maritime incidents in the region involve boarding ships to steal valuables from crews, but hijackings and kidnappings also occur. Various types of pirates still operate around maritime chokepoints, leaving vessels with limited options for navigation. However, rising insurance costs to protect sea lines of communication from piracy are compelling the private security sector to enhance their capabilities at sea. Nevertheless, in 2024, the Middle East is back in the global spotlight after a Yemeni militant group, the Houthis, began engaging in marauding activities in the Red Sea. The Bab al Mandab chokepoint is a crucial link in one of the world's most important maritime routes connecting the Mediterranean to the Indian Ocean facilitating the continuous transportation of millions of barrels of oil daily and contributing to 12% of global trade.

In this respect, the Chinese PSCs have been forming their own response to armed drone attacks and hijack attempts on Red Sea shipping. Providing security service in the maritime domain entails logistic constraints to carry weapons onboard when commercial vessels dock into national waters. In contrast to Chinese PSCs operating on land, a select few engaged in maritime security boast a vast international network of partners. This includes offering logistical services aimed at bolstering maritime security, exemplified by the presence of floating armouries. In the past decade, the proliferation of floating

armouries has increased in response to rampant piracy in high-seas areas and stringent national regulations regarding the transportation of heavy firearms. These armouries play a vital role in coping with the restrictions on private security forces carrying firearms into the ports of numerous countries.

The onslaught of Houthi attacks has intensified the imperative to safeguard the crucial sea lanes responsible for over 40% of China's hydrocarbon transport. In response, Chinese PSCs are getting ready to deliver advanced services, including deploying jammers to disrupt transmission signals between controllers and drones, along with kinetic options such as anti-aircraft guns.

Chinese PSC as Chinese Security Technologies Ambassadors

In China's Arab Policy Paper of 2016^{xiii}, Beijing outlined its strategy for economic and cultural development with Arab states, emphasizing enhanced connectivity within the BRI. The paper discusses security cooperation briefly, focusing on enhancing capabilities to address nontraditional security threats and supporting efforts against piracy, cyber security, and maintaining maritime security in the Gulf of Aden and off Somalia. Although China's defence cooperation in the Middle East remains limited compared to the United States and Russia, there is a growing trend in military cooperation. Chinese PSCs are positioned as ambassadors for Chinese high-tech security products. According to the Stockholm International Peace Research Institute (SIPRI), China accounted for only 5% of arms transfers to the MENA region between 2014 and 2018, significantly lower than the United States (54%) and Russia (9.6%)^{xiv}. However, China's military hardware sales and transfers in the region focus on niche sectors, including combat-armed and scouting drones and missiles, such as the transfer of an armed drone production line to Saudi Arabia.

While the Chinese private security sector is a latecomer in the international private security market, the Chinese PSCs, could lean toward a high-tech evolutionary model. Chinese PSCs are becoming ambassadors of China's crowd management technologies, such as facial recognition and sooner could be the entry point for Chinese AI's "safe cities" product.

In the Middle East, when States have the option to choose a partnership with China in the cyber realm it is possible to predict that it will follow an ongoing trend of relations balancing with Beijing and Washington. For example, "the UAE is a small yet ambitious state, both powers are crucial to its strategy for maintaining security and diversifying its economy."^{xv} As the UAE prioritizes its security ties with the US, particularly concerning the Iranian threat, it's one of only five countries in the Middle East and North Africa to have a 'comprehensive strategic partnership' with China. In navigating this dynamic, the UAE effectively balances between relying on the US security umbrella and leveraging Chinese ICT and AI technologies, which are pivotal to its development policies and contribute significantly to digital advancements in the region.

The UN's 2022 call for enhanced oversight on the trade of military-grade cybertechnologies is a case in point, with at its core the reevaluation of the conventional regulatory approach toward dual-use technologies^{xvi}. Given that most technologies have multiple potential applications, there's an urgent need for revised regulations that clearly distinguish between commercial uses and national security imperatives.

However, the real challenge lies in distinguishing between legitimate private cybersecurity firms and cyber mercenaries, and determining when private sector initiatives to enhance government espionage capabilities cross ethical boundaries. The inherently chaotic nature of the Internet only exacerbates this challenge.

In the realm of cyber security, both state and non-state actors are tapping into defensive and offensive capabilities provided by the private sector. Nevertheless, distinguishing between offensive and defensive cyber services is even more complex^{xvii} due to the inherent opacity of the sector. Since the inception of the Internet, states have sought to leverage cyberspace for intelligence and coercive power. Nonstate cyber operators can traverse borders with minimal digital traces and at low costs, presenting an attractive option for states aiming to wield influence in cyberspace. In both times of peace and conflict, certain cyber activities blur the lines with mercenary-like activities. In this respect, the emergence of Big Data applied to border management profiling and new surveillance technologies is already prone to abuses.

The emergence of cyber mercenaries is already evident, although they are not yet formally recognized as such. In this respect, the UN Working Group on Mercenary Activities defines cyber mercenaries as companies using military-grade cyber weapons to carry out tasks for foreign powers, nonstate actors, or even criminal and terrorist groups^{xviii}.

In the Western world, particularly in the US, the liberal attitudes towards cyberspace create a vast grey area ripe for exploitation. This isn't just by cyber mercenaries but also by PMCs and PSCs seeking to capitalize on a lucrative and rapidly expanding market. Conversely, authoritarian regimes provide no insight beyond their firewalls, tightly guarding Big Data under the guise of national security.

Cyber Security and Cyber Mercenaries

The expansion of the Digital Silk Road within the BRI is promoting "digitization with Chinese characteristics." This initiative aims to position China at the forefront of the fourth industrial revolution, encompassing digital security, e-services, and integration into smart cities. It involves various components, ranging from underwater fibre-optic cables to the Beidou satellite navigation system^{xix}.

Amidst escalating strategic rivalry between the United States and China, Beijing is increasing its strategic presence in the MENA region not only to safeguard its energy security but also to assert its dominance in the digital realm. While many countries are striving to balance the utilization of Chinese technology against American efforts to block such systems, Chinese PSCs are a component of Beijing's push in the digital domain.

The smart cities sector presents a potential clash of interests between China, the US, and regional actors. The integration of Chinese sensors, Big Data analytical software, and narrow AIs into smart cities has broader national security implications. For instance, Chinese PSCs are transitioning from offering basic guarding services to providing comprehensive high-tech solutions, such as semi-autonomous patrol robots equipped with sensors and narrow AI. However, this raises concerns about privacy issues stemming from the use of collected video feeds and biometric data.

China's ambition to become a "cyber great power" and its implications for data access fuel suspicions regarding Chinese PSCs operating high-tech equipment abroad. While China's role as a security provider

in regions like the Middle East is still evolving, its digital influence in the region, from 5G to cybersecurity and Big Data analytics, is rapidly expanding. Consequently, the operational space for Chinese PSCs venturing abroad is increasing.

Chinese security companies are transitioning from offering low-cost bids to providing additional high-tech services, leveraging competitively priced AI-enabled facial recognition and surveillance drones, which are unavailable in the US market due to regulatory restrictions. The use of CCTV and Big Data analysis is shifting the private security sector toward a more proactive approach, focusing on predictive analysis and preventive solutions.

However, challenges arise from the Chinese National Cybersecurity Law, especially in countries with their own cybersecurity frameworks. Concerns about the gathering and processing of personal data by Chinese PSCs abroad persist, with doubts lingering regarding the security of sensitive information. The ongoing algorithm weaponization is reshaping the development of smart cities and society, prompting Middle Eastern monarchies to weigh their exposure to Chinese technologies within the Digital Silk Road.

Blurring the distinction between security and military roles presents a significant risk, particularly in the realm of cyberspace, where private security firms often operate. These firms, untroubled by potential labels like "private military entities" or even "cyber mercenaries," operate without fear of consequences. Unlike PSCs with boots on the ground, who can face swift repercussions for bolstering the military capabilities of sanctioned governments or non-state actors, those operating in cyberspace do not fear backlashes.

On the global stage, while mercenaries on the ground sow disorder, their cyber counterparts capitalise on the demand for easily deployable offensive cyber capabilities. These professionals, enticed by lucrative opportunities in the private sector, often prioritize financial gain over national allegiance. However, in China, monetary gain and nationalistic pride are closely intertwined. As China increasingly favours the use of private security firms with boots on the ground to protect President Xi's flagship foreign policy initiative, it appears to also be employing the same strategy in cyberspace. In this respect, Beijing is discovering the hard way^{xx}, as the West has, the perils and advantages of outsourcing security to private companies to maintain plausible deniability. A February 2024 data dump of files from a Chinese cyber security firm revealed alleged hacking exploits. Like the West, Beijing is finding out the hard way the perils and advantages of outsourcing to private cyber security firms to maintain plausible deniability.

As it is happening in the boots on the ground private security sector, there's a similar trend occurring in the cyber security sector in China. The debate is anchored on whether to follow a Western approach or a Russian one. In China, there's been some interest in the idea of privatizing cybersecurity, however, adopting the Russian model would be more challenging for China as Beijing heavily emphasizes control over its security providers. On the contrary, Moscow's cyber capabilities rely on a close relationship with skilled cybercriminal organizations. This relationship is based on two principles^{xxi}: first, the state protects criminal hackers who avoid targeting national interests, and second, hackers must carry out operations for the Kremlin when needed.

Moreover, amidst the ongoing debates within the Chinese government regarding the increased involvement of private security firms in protecting Chinese interests globally, also in the digital realm, it revolves around the extent of "the Party control the cyber gun," echoing the longstanding Maoist principle.

Recommendations

China primarily expands its influence in the Middle East through economic means, leveraging its economic prowess as a key tool. Meanwhile, the region is open to the idea of increasing China's cultural soft power footprint, as long as it doesn't pose a challenge to existing local power dynamics. In this respect, China believes that its vision of global order and the solutions it proposes could find fertile ground in the Middle East. China is steadfast in out-competing the West, and given the region's perceived openness to China's global ambitions, its engagements on the continent are expected to intensify. Nevertheless, Beijing's economic tools are severely constrained by a rapidly deteriorating security environment and unpredictability.

Apart from the recent brokered detente between Saudi Arabia and Iran, Beijing is hesitant to actively involve itself in the security complexities of the Middle East.

The rise in violence against Chinese nationals abroad has prompted a call for the professionalisation of the private security sector. While some top Chinese security firms operate internationally, most PSCs struggle due to late entry into the global security sector and difficulty in finding competent Chinese contractors, often relying on local fixers. Challenges include training personnel with local knowledge and security skills, limited lucrative contracts, and few PSCs providing internationally accredited training certifications to staff. Moreover, the notion of "private" in China is influenced by the pervasive presence of the CCP in businesses, dealings with SOEs, and government bureaucracy shaping the private sector.

While Chinese PSCs may not pose an immediate challenge to Western counterparts in shaping the Middle Eastern private security sector, their presence demands a clearer understanding of their role and future development trajectories. Therefore, to compete effectively in the region, strategic policies must be crafted, focusing on three pivotal aspects.

Firstly, there's the imperative of ongoing monitoring of the Chinese private security sector. Across the expanse from the Middle East to Africa, the progression of Chinese PSCs adhering to global standards and attaining internationally recognised certifications could prove advantageous not just for China but also for local stakeholders and the international community. A small window of opportunity for collaboration with Western counterparts still exists in promoting transparency and accountability. For example, the maritime domain along the Red Sea presents a prime opportunity to enhance existing collaborations that vertically integrate security services, risk mitigation, negotiation, and the insurance sector. However, neglecting to seize this chance promptly might crack the door open to alternative evolving models for the Chinese private security sector, such as the assertive Russian approach, which already forcefully imposes its Wagner model in supporting autocratic regimes to stay in power in exchange for local resources and access to strategic logistic hubs. Regulating the ascent of Chinese PSCs through comprehensive norms reduces the risk of adverse consequences overseas and amplifies potential advantages, particularly in situations where China must uphold its proclaimed "principle of peaceful rise."

The second aspect revolves around the cyber realm. While there might be room for cooperation with the Chinese private security sector boots on the ground in cyberspace is far more complex. The murky nature of cyber operations blurs the lines between state and private entities, particularly when passive security measures morph into active military engagements. Hence, strengthening international regulations is paramount to curb and punish cyber actors who cloak themselves as private cybersecurity

entities but function as cyber mercenaries, especially as AI integration in cybersecurity becomes ubiquitous.

The last aspect pertains to the potential integration of Chinese PSCs in the Middle East, particularly those assigned to guard logistic hubs, into the PLA's multi-domain operations. Although Chinese PSCs currently maintain a passive stance, primarily focused on supporting the economic and trade endeavours of Chinese SOEs and companies abroad, there exists the possibility of future involvement in safeguarding ports, collecting local intelligence and providing ground support for non-combatant evacuation operations. Such developments could further blur the distinction between private security and private military services.

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PANEL III QUESTION AND ANSWER

COMMISSIONER FRIEDBERG: Commissioner Cleveland.

CHAIRMAN CLEVELAND: Thank you. Appreciate the testimony. We heard this morning, and then we heard from each of you, about the role of the Houthis and Chinese naval operations. I'm interested in -- and I'm going to expect some cleanup from Commissioner Schriver in terms of whether this is an intelligent enough question, but I'm interested in operations, activities, and exercises.

And, first, are they under regional Chinese command or are they under service based? Because the Chinese have shifted -- they want to shift to joint commands, and I'm just curious who these naval forces report to through their structure, if you know. But I'm particularly interested in, to what extent are they protecting the missions or the mandate of anti-piracy and anti-terrorism under which they were invited into the region.

Are they actually participating in those kinds of activities or are they exclusively promoting their self-interest? And if you could identify occasions where they have escorted a commercial vessel through the region to protect it from Houthi attacks or they have taken a role that is -- that reflects the mandate under which they came into the region.

Mr. Rumley, if you want to go first?

MR. RUMLEY: Yes. Thank you for that question, Commissioner. Well, I would say recently on the -- on the Houthis, we have seen parts of that PLA and task force start escorting, around January was when we saw them start escorting Chinese ships through that transit point. I think before that the strategy was to sort of blast on AIS that this is a Chinese ship, this is a Chinese crew, and sort of hope for the best. Some traffic has been reverted, obviously, around -- around Africa, but, you know, I think more broadly it's clear in times in the past that that task force has escorted other ships.

I heard earlier panelists talk about, you know, were they flagged under one country, but unclear who they were owned and operated by. What's -- those instances may be select, sure, but the priority is Chinese shipping and Chinese commercial interest.

I think what's also clear is that, you know, NATO officials, European officials that have participated, U.S. officials that have participated in these task forces, have noted that the Chinese ships have not cooperated with the U.S. or the NATO ships there, right? And so they could be escorting other non-Chinese entities or vessels, but they are not necessarily participating in, you know, our task forces or any of the sort of after -- especially after the initial wave of piracy, the sort of NATO-led task force. They weren't participating in that. And so I think, you know, that's sort of the key feature of it.

In terms of the command and control, you know, my understanding is that the NETFs have sort of a routine playbook of one is dispatched while the other one is still in the region and returning, and that sort of along the path port calls to friendly countries are paid. In terms of the -- you know, the actual sort of operational procedures, I am not entirely certain on where the command and control goes in terms of back to, you know, either the southern fleet, or whatnot.

CHAIRMAN CLEVELAND: Okay. I'm interested in the event that if something escalates, who are they reporting to, so yeah.

Dr. Papageorgiou, do you have any thoughts on --

DR. PAPAGEORGIU: Okay. Thank you for the question. If I may add something, I think when we are considering China's naval military drills with countries in the region, we have

to consider that they have a primarily symbolic nature. They represent a common front that China wants to develop with the countries in the region in order to have joint training. They want to find common responses and communication when it comes to seized ships in the region, but there is no common interoperability. There is no Chinese in command. They are mostly training exercises in the region.

And I think it's very important because China's primary goal is actually to secure its trade routes primarily. So when we are considering about this type of exercise, we need to account for a low interoperability level and more of a training exercise that it has to foster cooperation with countries in the region and even communicate to them certain Chinese practices for them to adhere to.

CHAIRMAN CLEVELAND: So when you say training, you mean Chinese training of local -- can you elaborate?

DR. PAPAGEORGIOU: Training in how to respond, for example, when there are certain ships in the region. For example, one of the first areas of response, for instance, how they can communicate better, individual responses, and how can they coordinate joint responses. I think this is the main area of focus in these naval drills.

COMMISSIONER FRIEDBERG: Thank you. Mr. Rumley, if I could start with you. Do you see evidence -- or what evidence would you expect to see if China was moving towards a larger, more capable, more permanent military presence in and around the Gulf?

MR. RUMLEY: Thank you, Commissioner. That's a great question. I think the most obvious would be an additional naval facility, an additional base, anything that could support further operations. There were the reports a couple of years ago about the facility in the UAE.

The 2020 DoD annual China report noted that China was seeking to establish an additional overseas base and enlisted the UAE as one such location.

There was the report in October in Bloomberg that Chinese officials had reached out to Omani officials and that Omani officials were apparently receptive to a potential Chinese facility there. I think that would be probably the most -- the most obvious sort of example of deepening their presence there.

But, you know, apart from that, increased port calls, increased exercises, exercises that I would note that also sort of have reciprocal exercises in China, and so we have -- we saw last year the UAE participated in an air exercise in mainland China, in Xinjiang actually. This is sort of the result of years of their own sort of security cooperation with China.

And so exercises, port calls, and an additional facility, those would all be indicators to me of an increased Chinese footprint in the region.

COMMISSIONER FRIEDBERG: And it seems like there are -- is a bit of a few of those, not the base, but exercises, port calls.

MR. RUMLEY: Absolutely. I think -- I think that's the issue of debate is, is this presence designed to supplant the U.S.? Is it designed to do something more than what it currently is? I sort of look at all the turbulence of the Houthi attacks in the region post October 7th and think that Chinese officials look at their footprint in the region as adequate to meet the threat level. And if they didn't, we probably would have seen a plus up of PLA forces at some point.

I'm not certain if long term we can expect to see a larger footprint in the region. I think they might have more aspirations off the -- you know, the western coast of Africa or different parts of the world, but certainly I think it's there. There is potential for that.

COMMISSIONER FRIEDBERG: And it's adequate in part because you think they are content to rely essentially on the United States, Western alliance, to defend those sea lanes on their behalf.

MR. RUMLEY: Certainly. I mean, it's certainly a shared interest, and I think there definitely -- they definitely take advantage of the security architecture through which we provide it of course. But I also think the combination of their diplomatic initiatives in the region, and sort of the messaging that they are sending, as well as the fact that the NETF is already off the coast of Yemen and already operating in the area where there are these attacks, I think that gives them sort of a layered feeling of comfortability.

COMMISSIONER FRIEDBERG: Okay. Thank you.

Dr. Papageorgiou, I'd like to ask you a couple of questions about Chinese arms sales to the region. To your knowledge, do Iranian drones rely on Chinese parts and/or Chinese designs?

DR. PAPAGEORGIU: Thank you for the question. First of all, as we have seen from earlier models from Iranian production, because we have to know that Iran produces 90 percent of its military capacity in local production, in region's production.

So significant -- an earlier version of their drones, they were reverse engineering from Chinese models, and later on some of the models, for example, that they have reverse engineered from either Russia or North Korea, they had further facilitated and been advanced with Chinese technology.

We know that certain Chinese companies operating -- and they have military production in Iran, and also we know that China provides parts for Iranian drones. Thank you.

COMMISSIONER FRIEDBERG: So things like Servo motors, circuit boards, electronic components, those things are manufactured in China?

DR. PAPAGEORGIU: For instance, we know that the Shahed 136, it contains Chinese parts, for instance, and we have seen it because it was recently used in the Ukraine war by Russia. So there are parts that they have been provided by China, but the most important thing is that China facilitates the Iranian know-how in the production of drones.

COMMISSIONER FRIEDBERG: And to your knowledge, do the Iranians now have a complete supply chain for the components to their drones, or are they importing most of that from China?

DR. PAPAGEORGIU: We know that, for example, the China Electronics Technology Group Corporation and the China South Industries Group Corporation, they operate manufacturing facilities in Tehran, and also in early 2010 the Tehran unraveled a factory that in order to produce the Nasr-1 anti-ship missiles which have been modeled based on China C-704 missile.

So we know that there is an increased cooperation, and we know that there is a facilitation of Iranian drone production by Chinese part, but also the know-how.

COMMISSIONER FRIEDBERG: Thank you very much.

DR. PAPAGEORGIU: Thank you.

COMMISSIONER FRIEDBERG: Commissioner Glas.

COMMISSIONER GLAS: That was a very good question and a very good answer. I had a very similar question.

Just a clarifying -- from your testimony, Dr. -- and I'm going to mispronounce your last name -- Papageor -- can you pronounce it for me, so I don't get this wrong?

DR. PAPAGEORGIU: It's Papageorgiou.

COMMISSIONER GLAS: Thank you. Thank you. In your testimony, you said regarding arms sales to Iran official arms supply from China to Iran ceased in 2015. What do you mean by official? Meaning is there -- do you believe that the Chinese may actually be selling arms to Iran right now that are, quote, unofficial? Sorry if I'm asking a pretty obvious question, but --

DR. PAPAGEORGIU: Okay. Thank you for the question. It's not only on Iran. There have been numerous consideration of secretive agreements, particularly on small arms weapon export, not only on Iran but also in Saudi Arabia and United Arab Emirates. So we know that there is some sort of secretive agreements.

In regards now to larger production and weaponry system, since 2015, we have seen that the Chinese arms transfers have ceased in Iran, particularly due to the UN sanctions as well. But I think the most interesting question is, why since the embargo was lifted, the UN sanctions were lifted, we have not seen arms transfers --

COMMISSIONER GLAS: Right.

DR. PAPAGEORGIU: -- from China in Iran. So I think the main focus in the military cooperation is joint production, and since the 2021 agreement clearly states that the two countries will seek to join military produced weapons. So I think that will be the main area of focus for at least the short term. Thank you.

COMMISSIONER GLAS: Thank you.

Dr. Rumley, this builds on testimony from the last panel, but there has been, obviously, significant investment in port infrastructure by the Chinese. What are your thoughts about the why? Is it economic in terms of their motivation, or do you think it's more strategic from a conflict standpoint and access standpoint, et cetera, et cetera, or both?

MR. RUMLEY: Thank you, Commissioner. It's a great question. I think, you know, you'd look back to a 2018 multilateral summit where the Chinese foreign minister was speaking to the Arab States and, you know, described a vision for a network of industrial park/port connections throughout the region.

You know, I think it's like most things China does in the region. It's economic, first and foremost. But it's with a view towards the potential for security military access at some point down the road.

I think, you know, we tend to perhaps maybe extrapolate a little bit too much from their own regulations when it comes to CIV/MIL fusion and think, okay, well, you know, these ports or industrial parks would have to serve as PLA platforms in the event of an emergency, and that is of course the regulation. But there are other considerations, the capacity of the industrial park or zone, the receptivity of the host nation country, as well there.

I think broadly it's -- you know, the problem or the issue for the U.S. is that it's simply a form of power projection we are not entirely familiar with. And so it's the ability to have this network of sustaining and maintenance nodes across the region, around the world, that look different from our own.

COMMISSIONER GLAS: Just a quick follow up there. I think you answered that question really well because of the variables that could happen in a conflict scenario of how a host nation could respond and what sort of access would the Chinese demand. But I'm just trying to think of, given the significant investments by the Chinese in this kind of infrastructure, what should the United States be doing as a result?

MR. RUMLEY: Thank you, Commissioner. I think, you know, our sort of -- the nearest gator to the boat is protection of our own information and our own -- not only our defense information, but our commercial information, so we want to make sure that, you know, we're not

exposed or vulnerable at any certain point when these investments are taking place in proximity to U.S. assets.

I think the other thing, and this is just sort of a broad point, is that I think the messaging from the U.S. for so long has been to these countries in the region hosting these types of projects is, well, you know, don't do it because, you know, we have this competition with China. It's in -- you know, it's in our interest for you to not do this, et cetera, et cetera.

But I think, you know, a more effective message would be, you know, don't have this level of cooperation with China because it exposes you to risk, and that China may not have an ask right now, but at some point down the road they may have an ask. And they will have all of these sort of points of leverage over you, over your economy, that they could use to, you know, pursue their own interests.

And so I think that's -- you know, it's -- first off, it's making sure that we're protected, but it's also changing the messaging a little bit to reflect the host nation sovereignty and their own interests.

COMMISSIONER FRIEDBERG: Commissioner Miller.

COMMISSIONER MILLER: Thank you all for your testimonies today. I want to start with a big question. One of the themes that we got over and over and over in the recommendations all day today was that we need to make sure that we don't treat the region as with us or against us. You know, it's us or China, our way or the highway.

On the other hand, there has been talk for years about the desire by several, perhaps many, Gulf States to get a U.S. security umbrella over top of them. If the U.S. extended countries like Saudi or UAE a defense security blanket as part of a regional peace deal, what concessions would you suggest is helpful and reasonable in terms of this quid pro quo?

Obviously, the United States would have great leverage. There would be very much a change in the idea that you can't pick and choose because now we're defending you. What would we ask? What should we ask for, particularly in terms of the relationships with the Chinese? Any of you.

MR. RUMLEY: I'm happy to take the first swing at it. Thank you, Commissioner. That's a great question. If we are extending this sort of -- or formalizing this security umbrella to countries in the region as part of, you know, sort of a broader normalization initiative. I think it's not unfair for us to make a number of asks of countries in the region. The first would be to not purchase advanced Chinese weaponry. I think, you know, most -- when I was in the Department, we could live with some of the CH-4s and Wing Loong drones being sold to partner countries in the region. A lot of them broke. A lot of them were pretty faulty. Sustaining them was a difficulty.

But once it got higher than that, obviously, that creates both a level of risk to our own information if it comes with any sort of follow-on support or maintenance, but it also creates concern about where the relationship is going. So certainly I think the Emirati purchase of the L-15 trainer jets and what that could portend towards the purchase of fighter jets would be something that we would want taken off the table, right?

We wouldn't want to see fighter jets, any significant air defense systems, et cetera, et cetera. So we would want to put a cap on that I think. I think we would also want to put a cap on critical infrastructure developments, investment in key nodes. I think that kind of goes without saying. And then, you know, the other one is probably information protection, right?

So, you know, if we are looking to share sensitive information with partners in the region, if that network is supported or built out by Huawei or ZTE, that obviously is sort of a non-starter

for the U.S. And so, you know, you can look at the G-42 and the shift to Microsoft and how expensive that is, and it's likely to be a one-way street, and conclude that that's a move a country would make if it wants to collaborate with the U.S. in very sensitive areas.

And so those, off the top of my head, would probably be the three.

COMMISSIONER MILLER: Great.

Would either of the other two witnesses like to comment?

DR. ARDUINO: Can I jump in? Yes.

COMMISSIONER MILLER: Sure.

DR. ARDUINO: Definitely. As the colleague mentioned, the information protection is a foremost priority. I do believe that with the ongoing security transition in the Middle East, there is -- there is a different perception, especially among U.S. allies, of abandonment of the U.S. And I mean perception, because, practically, still U.S. forces from CENTCOM to AFRICOM are still there, but with this perception there is an ongoing balancing act.

While, security-wise, China is not able at the moment to compete with what U.S. is offering, if we look especially at information, meaning the cyber arena, a balancing act can create in future not too far definitely a cybersecurity issue for the U.S. force present in the region. And, therefore, the actions have to be more focused in preventing cybersecurity issue, information issue, and expansion in the site.

COMMISSIONER MILLER: Okay.

DR. PAPAGEORGIOU: If I could make -- add some points. I don't know if I have time. I think the primary thing that United States has to change in its approach and interaction in the region is this hierarchical engagement. The countries in the region recently, and through the promotion of the strategic visions, they have shown that they want to be global actors. They have shown that they want to promote multi-alignment, and particularly strategic autonomy.

So if the United States cannot provide alternatives, for example, for drones, then these countries, they have to turn to some other country, for instance. And I think it is very important also to note that Saudi Arabia, for instance, in its 2030 vision, it has mentioned that it wants to have 50 percent of its arms production from the country. So I think it's very important that the United States should consider joint initiatives with the region.

Also, in regards to information, I think an important initiative is to expand the zero trust network model. Also, it's very important to support local technology firms from the region as well.

And also, in regards to the global ambitions of the countries in the region, and in order to indicate that United States, it still has the security commitments, and it still considers its role in the region, it needs to include particularly Saudi Arabia and United Arab Emirates to its interconnectivity projects in the Asia Pacific.

Thank you.

COMMISSIONER MILLER: Thank you. Looks like I'm out of time.

COMMISSIONER FRIEDBERG: Commissioner Price.

VICE CHAIR PRICE: Thank you. And thank you all for your testimonies today. All of my questions really focus on your recommendations. And it might be a little redundant to some of your answers already, but I'm going to go there anyway.

So start with, Dr. Rumley, your third recommendation talking about expanding efforts to identify specific concerns in the region and what might come next after the Group 42 Holdings efforts. What do you think comes next? What would you advise comes next?

MR. RUMLEY: Thank you, Commissioner. It's a great question. I mean, I think you want to sort of take a scrub of what are sort of the open tenders and commercial contracts on the horizon. So it's retroactive, of course, but one of these was the Jordan 5G selection last year where some of its providers were looking for a sort of 5G partner. Huawei was in the mix, but ultimately they went with -- they went with Ericsson, and one other -- and then I think Nokia as well.

So I think you're looking at, on a country-by-country basis, you're probably wanting to coordinate with the State Department, with folks that are in the region, and say, okay, what's on the horizon in terms of large tenders that are coming down that -- where we think China may be competitive and where we could potentially coordinate an alternative. That's on the commercial side.

I think, you know, there is a whole host of issues in China's presence in the region that are of concern to the U.S., influence networks information, public messaging, infrastructure beyond sort of critical infrastructure, building up schools, medical facilities, all things that, you know, I think what we want to do is probably look at it and say okay, well, what can we live with? What are we okay with? And what are areas that are of concern to the U.S.? And what are ways in which we can sort of coordinate our messaging?

VICE CHAIR PRICE: Thank you. Very helpful.

And, Dr. Arduino, in your recommendation you talk about in your last -- in your second recommendation where there might be room for cooperation with -- can you expand on that?

DR. ARDUINO: Yes. Thank you, Commissioner. Great question. Basically, I am saying that still there is a very tiny window of possibility of cooperation with Chinese private security firm operating outside China, the kind of firm that are willing to certify according to current international standard, that are transparent and are accountable.

If we still engage in this kind of company, there will be a possibility to operate in area with beneficial cooperation, especially to the local population and to the local site holder. If we fail to seize this opportunity in working with this company, then their possibility of cooperation is with other actor, not excluding the Russian one.

VICE CHAIR PRICE: Okay. Thank you. That's it.

COMMISSIONER FRIEDBERG: Commissioner Schriver.

COMMISSIONER SCHRIVER: Thank you. And thank you to our witnesses. I thought the statements were great, and the discussion so far has been good, so these are just really kind of clarifying questions.

Maybe start with you, Mr. Rumley. Your second recommendation about -- my interpretation of what you have written here -- third country validators. You have listed Singapore and Japan, which in my mind have very different approaches to China and think about China differently.

But I just would like you to expand a bit on who has the sufficient influence and weight in the Middle East and whose voice would be respected and well received in the Middle East to complement our talking points, which they have heard so often. And what would you expect the outcome to be or what, you know, might the effect be in your opinion?

MR. RUMLEY: Well, thank you, Commissioner. I mean, I did list Singapore and Japan with purpose there. I think a lot of countries in the region look to Singapore in particular as sort of a model of advanced economy, a country that has a security relationship with the U.S. but has also been careful about its economic relationship with China and how deep its connections go to China and some of the sort of -- the key areas.

And so I think to me I look at Singapore as sort of a potential model for navigating this era, where you're not forcing a country to choose necessarily between obviously it's largest economic relationship and its primary security relationship.

I would look at, you know, Japan of course because the messaging is very clear on that, but also, Japan, because they have a consistent small naval presence in the region, protecting their own interests, they typically have a surface ship, usually a destroyer, that is there after the wave of piracy in 2019. So they have had a forward-deployed presence in the region as well. South Korea would be another one. Not only is South Korea reliant on the region for its own energy resources as well, but I think there also -- they also have aspirations to become a global arms exporter. And so you're in this -- this point in the global arms market post Russian invasion where countries are looking at sort of fortify their acquisitions. They are starting to look at South Korea. There is an increased interest there.

And so I think, you know, the South Koreans have a carrot that they can offer to the region and perhaps, you know, with that comes concerns about protecting defense information, concerns that would be shared and similar to the U.S. And so those are probably the three countries I think of off the top of my head.

COMMISSIONER SCHRIVER: Appreciate the further explanation there.

Ms. Papageorgiou, if I was close -- I'm sorry -- you noted the cessation of arms sales to Iran by 2015 or formal or acknowledged arms sales, I think something to that effect. Are they still active in servicing, supporting, and maintaining arms sales made previous to that date, do you know? And the reason I ask is I guess I'm old enough to have been operating in the Persian Gulf when the things that kept us up at night were the old C-801/802 cruise missiles, and I think they're still in the inventory.

DR. PAPAGEORGIU: Thank you for the question. Like I have mentioned earlier, the main focus currently of the Sino-Iranian relationship, it has been on joint military production.

And I would like to highlight something that I think it's very important to incorporate in our discussion, that Iran is the only country, along with Pakistan, in the region that uses China's BeiDou navigation satellite system. And I think it is a very important development in regards to certain information and common interoperability. So I think it's very important to note this one and to consider that the relationship, it's not only as China sending weapons to Iran, but it has developed further in what China calls a win-win cooperation.

So in terms with the relationship with Iran, we will see joint initiatives. We know that previews and current -- some of the current Iranian systems are based on Chinese blueprints. So I think it's very important to monitor the developments in regards to these type of joint initiatives in the region.

COMMISSIONER SCHRIVER: No. I appreciate that. But do you know, are the old systems -- are the Chinese active in maintaining, supporting, and --

DR. PAPAGEORGIU: In regards to China's arms export, in all of its packages it offers, for example, military, for example, correcting, for example, or updating its weapon systems. However, they are not exactly Chinese weapon systems that they are currently used by Iran. Iran primarily is using its domestic production of weapons, so there is no reason for upgrades for all their weapons that they have been, for example, supplied during the Cold War or during the peak of the Iran-Iraq War.

So the main thing is providing new parts and advancing Iranian production.

COMMISSIONER SCHRIVER: I appreciate that very much.

DR. PAPAGEORGIU: Thank you.

COMMISSIONER SCHRIVER: Thank you.

COMMISSIONER FRIEDBERG: Commissioner Sims.

COMMISSIONER SIMS: Thank you all for your testimony today. We have already talked a lot about how China has sold drones to Iraq, Jordan, Saudi Arabia, UAE, the trainer jets that were mentioned that were sold to UAE. I don't know if we've talked about the Silent Hunter air defense system to the Saudis.

Go down the list of these things, but it looks like on the surface that the Chinese value proposition is essentially, number one, lower cost perhaps than U.S. equivalent hardware, and then, secondly, they don't have the same proliferation concerns that the U.S. does. But the downside seems to be, to put it bluntly, their stuff breaks a lot more than ours does.

Mr. Rumley mentioned issues with the Wing Loong drones. You know, they offer these maintenance service agreements, but it's probably because their stuff just breaks all the time. And the second downside being if you're kind of weighing, you know, whether I want to acquire these systems from the U.S. or China, China doesn't seem to have an interest in actually helping with security in the region, maritime or otherwise.

So, you know, with these variables in mind, how are the Chinese marketing their arms sales in the Middle East? And how do you each compare the competitive advantages of the U.S. and the PRC in arms sales in the region? Whoever would like to start.

DR. PAPAGEORGIU: Thank you for the question. If I may start first, I think we have to consider Chinese arms sales in the region based on its broader engagement and on its published Arab policy in the region in 2016. Chinese arms sales are promoted as an alternative, as an alternative on weapon systems that they are not provided by the West, and they want to positioning themselves as a credible partner.

They want to indicate the five principles of peaceful coexistence that China has particularly promoted in the region, and they want to indicate that their own arms sales, they don't have geopolitical strings attached. They have adopted a blanket style of arms sales, that it has been consistent through the Cold War. They don't mind selling different types of weapons to even adversary or competitive countries in the region. They don't mind doing that, and they don't mind selling high-tech weapons in the region.

So they are positioning themselves as an alternative to the West. And as I mentioned earlier, it's not one of the main ambitions to become a key arm exporter in the region. They use this as asymmetric capabilities in order to undermine U.S. and Western influence.

Thank you.

DR. ARDUINO: If I may jump in, if we are looking at the competition for drones, armed combat drone, and lighter ammunition in the region, it's not a competition between the U.S. and China for market share. It's a competition between China and Turkey, because U.S. has the best drone capability, the most expensive one, and also there is a regulation that don't allow to sell to everyone.

While the competition for market share in the Middle East and expanding very fast to the MENA region and Africa is between Chinese drone and Turkish drone, and especially after the 44 days war in Nagorno-Karabakh, Turkish drones are even getting more sell competitive to the Chinese one.

MR. RUMLEY: If I could just add here, and build off my colleague's points. You know, I would say it's a great question. I think the appeal for countries in the region in buying Chinese weaponry is access to Chinese technology. Typically, in buying platform A, you can get access to platform A.2 or the next generation of whatever comes after it.

So we have seen that with the Wing Loong progression from, you know, Wing Loong 4 to Wing Loong 10. There is also no end user requirements. There is no pesky thing, such as human rights violations when it comes to it. There is no Leahy laws there, so that's certainly appealing to some countries in the region who are looking to buy weaponry without the strings that come with U.S. purchases.

It can also send a signal to the U.S. of course, but, you know, broader discontent with the relationship. And it can also come with -- in addition to being cheap, it comes with -- it can sometimes come with inducements or very flexible payment options that are appealing to countries.

That being said, the cons to purchasing are pretty substantial. You can't integrate these Chinese platforms into -- for most of these countries, their existing security architecture, which is sort of formulated around NATO or working with NATO, things like Link 16, for instance, you can't integrate these Chinese platforms there, and they're faulty and they break down, right?

And so I think the bottom line for me from a U.S. perspective is, if I'm looking for a sign of tangible discontent from the region, it's not whether or not they buy, you know, armed drones from China necessarily, it's if they buy from NATO countries, non-U.S. NATO countries, that they could integrate, that they could use to sort of supplant what they are buying from the U.S.

COMMISSIONER SIMS: Great. Thank you all.

COMMISSIONER FRIEDBERG: Commissioner Stivers.

COMMISSIONER STIVERS: Thank you. At the risk of talking a little bit more about arms sales and Iran and UAVs, just so I'm clear, what is it that China provides to Iran for their UAV production that's so valuable? I think you said, if I heard you correctly, new parts and uranium, but what is it specifically?

DR. PAPAGEORGIU: China is providing particularly specific parts in regards to drones that they can carry particular missiles system. Also, by providing the BeiDou navigation system, it can allow Iran to bypass anti-missiles protection.

So I think it's very important, particularly amidst the conflict with Israel right now. Thank you.

COMMISSIONER STIVERS: Thanks. Thanks. Is the Chinese government in violation of international nonproliferation regimes and arms embargoes?

DR. PAPAGEORGIU: As I have mentioned, and also in my -- in my hearing, China is not participating in the -- in MACTC agreement, like other countries. It has mentioned concerns about the proliferation, but it doesn't has assign or, for example, abide with certain rules in regards to nonproliferation.

And that is why it has expanded its arms sales, both in the Middle East but also in Africa and even rogue states, when it comes to this, and that's why these countries in the region, they have turned to China. And even going back to the previous questions, when they cannot -- they have purchased, for example, drones, they buy drones from Turkey, but the new and alternative version that China offers that also integrate AI and autonomous capabilities, it's something that China wants to compete and expand in its arms sales in the region.

Thank you.

COMMISSIONER STIVERS: Okay. Thank you.

Dr. Arduino, can you -- I'm trying to -- is there a way to quantify the amount and level of PSC engagement -- Chinese PSC engagement outside of China?

DR. ARDUINO: Yes. If we are looking at the private security inside China, the number is staggering. We are talking about 7, 8,000, to even 10,000 companies. If we are looking at

proficient Chinese company operating outside China, in the Middle East, Africa, Central Asia, we are talking about less than 20 companies, the one that can provide deliverable service and higher level and service compared to the one provided by the West.

There is a huge number, growing number, of what I like to call do-it-yourself companies that are Chinese companies that operate at a lower standard and even especially in area not only in the Middle East but mostly in Africa, bribe their way in to get local licensing, and operate without the current procedure.

But if you want a direct number, let's say below 20 companies that operate at the highest level, and most of them with unarmed security manager that coordinated local armed guards or international contractors.

COMMISSIONER STIVERS: And what countries are they most concentrated in?

DR. ARDUINO: Well, if we look all over the Belt and Road Initiative, this company operator and along with the maritime road, especially now Red Sea, and when there is more political activity that is Gulf of Guinea.

But this company tried to operate in area where still there is a certain degree of safety. For example, we don't see many of them operating right now in Pakistan or in Sub Saharan Sahel, while they are confident in the Middle East to operate in the southern part of Iraq and not in the northern part.

COMMISSIONER STIVERS: Great. Thank you.

Dr. Rumley, you discussed UAE's AI firm, G-42, and its announcement that it would sever ties with blacklisted Chinese companies, including Huawei. You described this as a success, and I would agree, but implementation is going to be key here. We know the deep relationship between the UAE and China based on their trade relationship, their government-to-government relationship, and military and intelligence relationships.

Can we trust them? And -- is my first question. And my second question is, who is doing the -- who is monitoring the implementation? Are we outsourcing that to Microsoft?

MR. RUMLEY: Well, thank you for the question. It's a great question, Commissioner. I think on the -- on the first point, you know, the proof is in the pudding of course, right? I think in the pro column G-42 is sort of the flagship enterprise for the UAE's overall AI effort.

Given its connection to the leadership, given its prominence, I think it's a good sign that it overall has shifted its orientation and divested from Chinese firms. Of course, there could be other entities on the side that will keep up that relationship. I think that's probably more than likely, but the flagship enterprises sort of pursuing this direction I think is a good sign.

In terms of monitoring it, I would imagine that that would probably primarily fall to the State Department, to the embassy that is there that has these contacts regularly, to the IC of course, that sort of monitors everything that is happening above board and below board as well.

But I don't think we are necessarily going to outsource that. I think that's something the State Department would monitor or take the lead on.

COMMISSIONER STIVERS: I mean, tell me if this is wrong, but it seems like the key to success here was the public-private partnership in this agreement is -- and that is something that would need to be replicated with a large amount of funding. Is that -- would you agree with that?

MR. RUMLEY: I think that's -- I would definitely agree. I would also think we are sort of blessed in our adversaries in a sense. And I think Gulf countries have watched the way that China has treated the tech industry at home and looked at that and seen something less than commercial freedom taking place.

And so I think, you know, that has sort of cooled some of the enthusiasm for deepening ties in some of these sensitive fields, but as well, you know, obviously, coupled with U.S. and Western pressure, U.S. and European pressure on these -- on these countries to reconsider.

You know, I think broadly zooming out, the narrative in the region is still that, okay, you know, China may be going through some economic hardship right now, but the overall trendline for the Chinese economy and the role in the global economy is overwhelmingly positive.

And so I don't think you will see them close these doors fully. I think they are willing to sort of close them a little bit right now, open up ties with the U.S. and European firms, but given all of their economic ties to China not necessarily shut that out all the way.

COMMISSIONER STIVERS: Yeah. Thank you.

COMMISSIONER FRIEDBERG: All right. We have some time for a second round of questions. Does anyone have questions they'd like to ask?

Okay. I have just a couple to close. Dr. Papageorgiou, I'm sorry to keep sort of banging away on this. You've been asked this by several people. But if China were to stop selling parts to Iran, could they -- could Iran continue to manufacture drones?

DR. PAPAGEORGIU: Thank you for the question. Iran has already -- it has been one of the countries that it has advanced reverse engineering for many years now. So they have indigenous capability, and they will continue to produce.

And also, we shouldn't remove from the equation Russia's relationship with Iran as well.

COMMISSIONER FRIEDBERG: Okay.

DR. PAPAGEORGIU: Thank you.

COMMISSIONER FRIEDBERG: Do you happen to know, is there publicly available information on the source of the missiles that the Houthis have been using? Are they from Iran? Might they be purchased directly from China? Where are they coming from?

DR. PAPAGEORGIU: Do you mean the use of Iranian missiles during the conflict now?

COMMISSIONER FRIEDBERG: What is the source of the Houthis' missiles that they're firing on ships? Where have they gotten these?

DR. PAPAGEORGIU: From the announcement of the ones from Iran, from the ones that they mentioned that they have used, they are all indigenous productions. They have used some of their older capacity, for instance, and they have introduced some of their newer missiles.

But we don't have any indication that they were purchased from another country. We know that there is an indigenous production, Iranian indigenous production.

COMMISSIONER FRIEDBERG: But it's Iranian, not Houthi indigenous production. Is that right? So the Houthis are buying them from the Iranians?

DR. PAPAGEORGIU: They are buying from Iran --

COMMISSIONER FRIEDBERG: Okay.

DR. PAPAGEORGIU: -- and even Iran has sent them as aid --

COMMISSIONER FRIEDBERG: Okay.

DR. PAPAGEORGIU: -- missiles. Yes. Thank you.

COMMISSIONER FRIEDBERG: One last question. Missile sales to Saudi Arabia, China sent or sold medium-range, range -- intermediate-range ballistic missiles to Saudi Arabia back in the '80s. There was discussion of possible sales early 2000s.

There has been some reporting on the presence of a manufacturing facility of some kind in Saudi Arabia to build missiles with Chinese assistance. Can you give us any information on that?

DR. PAPAGEORGIU: Yes. Thank you for the question. In my hearing, I have provided some detailed information about these sort of initiatives, for example, and we have seen, for instance, certain discussion as well in the latest 2024 expo in Saudi Arabia, and also previous indication after the Chinese visit in 2022 about joint military production in the region.

And if I may find the particular indication of the companies, yes, also with -- I wanted to emphasize this. We have to know the joint military production of potentially collaboration between China and United Arab Emirates, that they have already set up particular research facility in order to facilitate both drones production and ballistic missiles.

So I think it's very important that Saudi Arabia wants to promote indigenous ballistic production, and China is more than willing and through specific companies has provided know-how and consultations, but we have not seen further, like, production or specific and more concrete developments for the time being. Thank you.

COMMISSIONER FRIEDBERG: And do you know anything about the capabilities of these ballistic missiles that China has either sold or helped the Saudis build?

DR. PAPAGEORGIU: Because there are no official reports that we know what types of ballistic missiles they are targeting in developing, so I cannot attest to that. Thank you.

COMMISSIONER FRIEDBERG: Okay. Thank you very much. Are there any further questions?

All right. Hearing none, in closing, I want to thank you again, all of our witnesses, for their excellent testimonies today. I also want to say a special word of thanks to our outstanding staff for their excellent work in preparing for this hearing.

You can find today's testimonies as well as a recording of the hearing on our website. And I want to note that the Commission's next hearing will take place on Thursday, May 23rd, and that hearing is titled Economic Strategies in U.S.-China Relations.

And with that, we are adjourned.

(Whereupon, the above-entitled matter went off the record at 3:00 p.m.)