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CHINA ANALYSIS

CHINA AND THE MEDITERRANEAN: OPEN FOR BUSINESS?

ABOUT

The Chinese have long been obsessed with strategic culture, power balances and geopolitical shifts. Academic institutions, think-tanks, journals and web-based debates are growing in number and quality, giving China's foreign policy breadth and depth.

China Analysis introduces European audiences to these debates inside China's expert and think-tank world and helps the European policy community understand how China's leadership thinks about domestic and foreign policy issues. While freedom of expression and information remain restricted in China's media, these published sources and debates provide an important way of understanding emerging trends within China.

Each issue of *China Analysis* focuses on a specific theme and draws mainly on Chinese mainland sources. However, it also monitors content in Chinese-language publications from Hong Kong and Taiwan, which occasionally include news and analysis that is not published in the mainland and reflects the diversity of Chinese thinking.

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Introduction
by François Godement

Partnering with China on its 'One Belt, One Road' initiative, also known as the 'Belt and Road Initiative' (BRI), is often like looking at the sky from the bottom of a well (a Chinese proverb, 井底之蛙 , *jingdi zhi wa*, 'the frog at the bottom of the well'). Each country is addressed in terms of the wonderful opportunity China presents, in the form of investment, lending, or an improvement to their relationship in general, in what is essentially a bilateral silo. But, just as the sky is large, the BRI in practice covers a range of countries now exceeding the original 65 in 2015. Each of them are at the bottom of their own well, looking up. It is in fact very difficult to distinguish the BRI from the general policy of *zouchuqu* ('going out') – the move abroad by China's economy. BRI is really about spreading out across the world, except for the United States, which represents one of the BRI's only real geographical limitations.

This issue of *China Analysis*, featuring Chinese think-tankers who share their views on the BRI in Europe and the MENA region, lifts us out of the proverbial well. In this edition, scholars weigh up the risks and opportunities of the BRI, mentioning very little about the grand scheme of things or the global order. Rather explicitly, the analysts ponder whether this is good business for China, and describe some of the obstacles. The list of ports China has invested in, or planned to invest in, may be one of the answers: there is great diversity, between Piraeus, the new 'three Seas' initiative, ventures in Italy and Spain (the articles do not mention that

Slovenia turned down several Chinese projects), and a major but little heard of project on the Algerian coast.

Beyond the details of the projects is the matter of what Chinese businesses think about them. Scepticism lurks beneath the surface due to those tough European Union rules and the alleged 'cultural' distance (another euphemism for rules). Relentlessly, Chinese analysts cite the obstacle of labour: indeed, Chinese firms are most successful when they employ their own workers on their own terms. Not being able to do so in the EU is a major concern for them. A dilemma also appears: because it was politically easier in less developed economies, China has planned a lot of projects (not necessarily yet implemented) in central and eastern Europe. But are the local markets really large enough to justify this? Chinese businesses also cite 'protectionism'. This phrase sometimes means that EU rules favour insiders, but also that there are local concerns about Chinese investment. Quite wisely, some of these analysts recommend a bottom-up approach – from successful cases of Chinese and local firms working together on reciprocal bases, often through joint ventures.

Fears about European geopolitics appear to be second hand and remain rather unspecified: 'refugees', 'populism', and, probably more to the point, frequent changes of governments (Italy being a prime example) matter to a China whose own approach is very much top-down. The prospect of a possible investment treaty between the EU and China – an issue unresolved after 13 rounds of negotiation – is never touched on by the scholars, as if it is a 'no-go' area. In the case of Italy, the analysis focuses on high-tech and brand name acquisitions in the wake of the Italian economic downturn. Analysts deny accusations of opportunism, but Chinese investors do not shy away from a good investment opportunity. The only real mention of the EU is those infernal rules…

In contrast, when it comes to the Middle East and North Africa, the focus is far more on governance and geopolitical issues, even though the region has obvious potential as a supplier of infrastructure, and even though energy purchases represent one of China's main economic interests there. Algeria, and Morocco even more, are fairly close to EU rules and European influence. Egypt is a land of its own with bureaucracy, corruption, but no real impetus from above. In fact, while there is an interesting focus on taking forward Egypt-China cooperation, several other analysts instead prioritise the rich Gulf states. Politically, mention of China's support for Iran is restrained, while the role of Saudi Arabia and others in curtailing extremism is prominent. One might note that China's practical problem is Sunni, not Shia, Islam; the country would do well by coming to an understanding with the Sunni leaders of the region, including even Turkey.

In sum, the Chinese press and analysts are a useful source for exploring what concerns exist in China about the grand BRI that has captured so much attention abroad, and that represents a real success for China's public diplomacy and soft power.

China docks at southern Europe's ports

Dragan Pavlicevic

Europe is the end destination for China's Belt and Road Initiative (BRI), so it is imperative to understand the developments that are taking its southern branch, the 21st Century Maritime Silk Road (MSR), from concept to reality. Discussion of Chinese infrastructure projects and their impact on established trade and investment patterns will likely dominate Sino-European relations in the coming years, bringing both challenges and opportunities.

Compared with the BRI's northern, land, route, there is little clarity about how the southern, maritime, route will look. Official maps depict the ports of Piraeus in Greece and Venice in Italy as end points. However, nothing is set in stone, and Chinese interests will be formed by available opportunities rather than by what is outlined on its official map.

China's interest in Mediterranean ports

Greece is currently a key terminus for the MSR. In 2008 a lease arrangement was signed for two terminals at the port of Piraeus. China Ocean Shipping Company (COSCO) then acquired a majority stake in the port in August 2016.[1] Over this period, the port's capacity, infrastructure, operations, and revenues have reportedly improved significantly due to Chinese investment and management, and through an increased volume of imports from China passing through it.[2] Recently, COSCO acquired a 40 percent stake in the company which will operate two terminals in the port of Vado in Italy. It has also registered an interest in leasing a terminal at the Algeciras port in the south of Spain, but details are currently hazy.[3]

Over the last five years, China's interest in maritime infrastructure and inland ports in central and eastern Europe (CEE) has been reported only sporadically in local media, and has not yet led to any firm agreements. However, in 2015, during the China-CEE Summit in Suzhou, the Chinese premier, Li Keqiang, set out the concept of 'Adriatic-Baltic-Black Sea Seaport Cooperation' (also referred to as the 'Three Seas Port Cooperation'), in which he envisioned "establishing industrial cluster areas around ports with

1 Zhang Yumei, "Land and Sea Route to Open New Channel between China and Europe" (陆海快线开辟中欧贸易运输新路径, *luhai kuaixian kaipi zhongou maoyi yunshu xin lujing*), *Guoji shangbao*, 20 February 2017, available here http://finance.jrj.com.cn/2017/02/20114022079091.shtml. (hereafter, Zhang Yumei, "Land and Sea Route to Open New Channel between China and Europe").

2 Yao Ling, "A New Chapter in Economic and Trade cooperation between China and Greece" (中国与希腊经贸合作掀开新篇章, *zhongguo yu xila jingmao hezuo kai xin bianzhang*), *Zhongguo yuanyang chuanwu*, 2016 (7): 15-15.

3 "COSCO marine port acquisition 40 percent interest in Italy poly pier" (中远海运港口收购意大利瓦多码头40%权益, *zhongyuan haiyun gangkou shougou yidali waduo matou 40% quanyi*), *Xinhua*, 18 October 2016, available here http://news.xinhuanet.com/fortune/2016-10/18/c_1119740219.htm (hereafter *Xinhua*, "COSCO marine port acquisition 40 percent interest in Italy poly pier"); "COSCO intends to bid for Spain's largest container port" (中远海运有意竞购西班牙最大集装箱港码头, *zhongyuan haiyun youyi jinggou xibanya zuida jizhuangxiang gang matou*), *Caixin Online*, 28 August 2016, available here http://companies.caixin.com/2016-08-24/100981421.html.

the right conditions".[4] He specified that the approach should combine "China's equipment, European technology and central and eastern European markets on the way to achieving productive cooperation projects". This idea is thus an embodiment of Li's signature concept of "industrial capacity cooperation".[5] The Three Seas initiative has since become an important part of the discussions taking place in the 16+1 framework.

One recent article focusing on the French city of Marseille also illustrates how China's interest in ports in the Mediterranean extends beyond acquisitions or upgrades, as well as state-driven strategies.[6] An initiative called the Marseille International Trade City (MITC) is being established in the vicinity of the city's port. It aims to make Marseille the largest wholesale trade centre in the Mediterranean. Initiated and financed by Chinese private enterprises, the MITC is set to house more than 200 wholesalers and to provide a trading platform for small- and medium-sized enterprises from France, Italy, eastern Europe, north Africa, and China.

Why European ports?

According to widespread media reports, Greece's Piraeus port is a European gateway for Chinese goods and a southern bridgehead to Europe.[7] The shipping of goods to European markets via Piraeus is more time- and cost-effective than via ports in other parts of Europe. Furthermore, Chinese ownership of Piraeus will speed up the implementation of the 'China-Europe Land-Sea Express Lane', a plan for the modernisation of the railway link from the port of Piraeus, through the Balkans to Hungary and onwards, which will further cut transport time and "narrow the distance between China and east and south Europe", in accordance with the "spirit" of the BRI.[8]

Zhen Yin, deputy director at the Institute of Transport Planning Research Office at the National Development and Reform Commission's Transport Research Institutes, observes that the countries of the Three Seas area play an important role in both the '16+1' format and the BRI. 'Adriatic-Baltic-Black Sea Seaport Cooperation' therefore also has strategic value for securing three-party cooperation with the CEE and the European Union.[9]

Jia Dashan, vice-president of the Water Transport Science Research Institute of the Ministry of Transport in China, discusses maritime shipping in a geopolitical context. For Jia Dashan, maritime shipping occupies a central place in both China's traditional and non-traditional security. Jia Dashan highlights its importance for China's access to sea lanes and maritime resources, the ability to efficiently transport people and resources, and to facilitate economic development through efficient, unimpeded trade.[10]

Challenges

Chinese commentators perceive a wide range of risks and challenges related to maritime cooperation within Europe and beyond. Yin Zhen notes that the populations and economies of the Three Seas area are small, and that ports in the region have limited capacity. Drawing on the analysis of the relevant enterprises and research institutions, Yin Zhen suggests that for these ports the investment payback period is longer, and the investment risk higher. Yin Zhen therefore suggests that China's decision about whether to commit large assets to investments in construction and operation of the Three Seas ports should be based on careful consideration and only when there is sufficient evidence that these investments make financial sense.

> Official maps depict the ports of Piraeus in Greece and Venice in Italy as end points of the Maritime Silk Road

Yin Zhen also notes that the EU presents China with a challenge. He notes that the EU "still has doubts and fears" about China's involvement in large-scale infrastructure projects in the area. Furthermore, Yin Zhen notes that EU competition rules and commercial policy ensure that it has "exclusive rights and advantages", and that each EU member state must obtain authorisation by the EU or comply with EU law to move forward with potential projects. Hence, Chinese enterprises invariably face barriers to entry related to public procurement, setting up production chains, third party investments, and employment, among other things.[11]

Jia Dashan is primarily concerned with the accumulated consequences of the global financial crisis, the Ukraine crisis, and the migration crisis, which have delivered "the gravest geopolitical test to Europe in more than 30 years" by causing significant economic, social, and political turbulence. He also discusses the rise of anti-globalisation and protectionist tendencies and their negative effects on China's economy. He notes that all of these factors have resulted in a slower growth rate for sea shipping, and delivered a stark challenge to the global shipping industry, including China's own, as well as to China's economy at large.[12]

4 Yin Zhen, "Stand high, look far, go steady to promote Three Seas seaports cooperation" (推进三海港区合作要站得高、看得远、走得稳, *tuijin sanhai gangqu hezuo yaozhan de gao, kan de yuan, zou de wen*), *Zhongguo yuanyang chuanwu*, 2016 (3): 54-55. (hereafter, Yin Zhen, "Stand high, look far, go steady to promote Three Seas seaports cooperation").

5 For capacity cooperation, please see: Qiu Zhibo, "The 'Triple Win': Beijing's Blueprint for International Industrial Capacity Cooperation", *China Brief*, Volume 15, Issue 18 (September 2015), available at https://jamestown.org/program/the-triple-win-beijings-blueprint-for-international-industrial-capacity-cooperation/#sthash.6PsUzf15.dpuf.

6 "Marseille builds links with the 'Belt and Road Initiative'" (法国马赛对接"一带一路"建设, *faguo masai duijie "yi dai yi lu" jianshe*), *Jingji Ribao*, 21 February 2017, it can be accessed here: http://china.chinadaily.com.cn/2017-02/21/content_28291376.htm (hereafter, *Jingji Ribao*, "Marseille builds links with the 'Belt and Road Initiative'").

7 See, for example, *Xinhua*, "COSCO marine port acquisition 40 percent interest in Italy poly pier".

8 Zhang Yumei,"Land and Sea Route to Open New Channel between China and Europe".

9 Yin Zhen, "Stand high, look far, go steady to promote three seas seaports cooperation".

10 Jia Dashan, "The geopolitical challenges for the development of China's shipping industry" (地缘政治形势对我国海运发展的挑战, *diyuan zhengzhi xingshi dui woguo haiyun fazha de tiaozhan*), *Zhongguo yuanyang chuanwu*, 2016 (12):40-42. (Hereafter, Jia Dashan, "The geopolitical challenges for the development of China's shipping industry").

11 Yin Zhen, "Stand high, look far, go steady to promote Three Seas seaports cooperation".

12 Jia Dashan, "The geopolitical challenges for the development of China's shipping industry".

Going forward

To overcome the challenges identified, Yin Zhen urges China to direct research, policymaking, financing, and collaboration efforts towards a holistic package where industrial parks, ports, and "supporting systems and functions" are developed in sync with the corridor approach envisioned under BRI.

Furthermore, China should encourage partnerships between its own enterprises, host countries, and the EU to cooperate on the projects related to the ports and other infrastructure networks. For this to be possible, Yin Zhen argues, Chinese enterprises should obtain the relevant EU accreditation for its technology, equipment, and engineering and technical personnel.

On a tactical level, Yin Zhen recommends linking up with the Juncker Plan, an investment programme central to the EU's efforts to ensure stable and sustainable growth in Europe. China should also continue 'lobbying' efforts with European governments and strengthen communication with the EU to address its doubts. State-level involvement is necessary, according to the Chinese consul-general to Marseille, Zhu Liying, who highlights the importance of several documents signed between Marseille's local government and Chinese enterprises in recent years. These documents dispelled some of the initial concerns on the French side and prompted Marseille to pursue Chinese investors more proactively.[13]

Jia Dashan complements Yin Zhen's thinking by recommending that China should conduct regular assessments of geopolitical and local-level risks, including along the BRI routes. Jia Dashan also advises the government to "actively shape the transnational characteristics of enterprises" through means such as "diversification" of enterprises' operations, setting up overseas subsidiaries, globalisation of their capital, and developing joint ventures. He also urges enterprises to strengthen their corporate diplomacy, make more efforts to "integrate and embed" themselves in the host countries, and develop relations with all relevant stakeholders to improve their business prospects.[14]

Conclusion

The number of European ports earmarked by China betrays the open and flexible nature of China's BRI, despite the rigidity of its official maps. For China, fulfilling its end goal – to develop trade links and various forms of economic cooperation and integration – is much more important than the form that this takes. But China is clearly well aware of the obstacles standing in its way, and the analyses reviewed here clearly express the need for the government and private enterprises to adjust to a dramatically different European business and political context.

This suggests that European countries insisting on adherence to EU standards and pursuing one's own interests will not damage the prospects of identifying suitable projects and attracting Chinese capital. After all, China, and Chinese enterprises, will seek to invest in and expand their operations in Europe for as long as there is a solid 'business case' to do so.

13 *Jingji Ribao*, "Marseille builds links with the 'Belt and Road Initiative'".

14 Jia Dashan, "The geopolitical challenges for the development of China's shipping industry".

China's buying spree in Italy

Agatha Kratz

Recent analysis of Chinese investment in Europe has tended to focus on large, strategic merger and acquisition (M&A) operations in the 'Big Three' European economies (Germany, France, and the United Kingdom), or on China's foray into central and eastern Europe (CEE) through the creation of the '16+1' format.[15] Such focus, however, leaves aside large swathes of China's investment activity in Europe. In particular, China's interest in southern Europe has risen quickly since 2012; so much so that in 2015 the region represented more than 40 percent of China's investment in the European Union,[16] compared to an average of 7.2 percent between 2000 and 2011.[17] The growing importance of southern Europe has not been lost on Chinese researchers, and Italy in particular has inspired various analyses following the visit of the Italian president, Sergio Mattarella, to Beijing in February 2017.

Much to like about Italy

For Chinese authors, there are plenty of reasons why Italy is a destination of choice for Chinese investors. As one, Zhou Limiao, points out, Italy fits well with China's current development priorities.[18] It boasts leading technology companies, whose specialisation meets China's current policies almost exactly. Zhou Limiao notes, for example, that Italy's expertise in machine tools, robots, and industrial automation, fits with the technological priorities outlined in China's most recent five-year plan. This expertise is accompanied by significant overseas experience and a solid brand image. It is little wonder, then, that China's Zhejiang Rifa Precision Machinery Co snapped up an 80 percent stake in Italian machine tool company MCM in 2014.[19] By engaging in these kinds of M&A activities, Chinese companies are able to speed up their internationalisation, and climb the technological ladder.

Wang Xuguang of the Chinese Academy of Sciences says that another pull factor is Italy's highly qualified workforce, who are trained at outstanding universities.[20] The quality of Italy's education system has even pushed some of China's top universities, such as Tsinghua University, to forge closer ties with their Italian counterparts. In doing so, Chinese institutions can raise their own profiles internationally while setting up combined education projects with Europe and developing people-to-people exchanges, which is a stated aim of China's Belt and Road Initiative (BRI).

Taking advantage of Italy's talent pool, Chinese companies such as Huawei have set up a large number of research centres there. With its top-notch professionals, universities, and companies, the country is 'fertile ground' for cooperation and investment, according to Huawei's chief executive.[21] As a result, since 2007 Huawei has set up no fewer than three 'Innovation Centers' with Telecom Italia. In Milan, Huawei has also cooperated with Vodafone on a Core Network Innovation Centre, working on areas of shared interest for their businesses. Huawei, which has been present in Italy for the past 13 years, is actively looking to partner with Italian companies in 'Industry 4.0', the 'internet of things', smart cities, and all other areas where its key technologies can be used. In the longer term, Huawei hopes to become a bridge in Sino-Italian and Sino-European cooperation. In the 5G sector, for example, it hopes to be part of the discussion for shaping global norms and standards alongside the EU.

> Bi Shujuan argues that Italy represents a "natural" entry point for Chinese goods

A natural entry point for the BRI

Wang Xuguang and Bi Shujuan note that Italy also has a role to play in China's BRI.[22] Unsurprisingly, Wang Xuguang sees Italy's participation in China's initiative as mutually beneficial, and notes that Italian companies, equipped with competitive strength in the infrastructure sector, would be more than welcome to participate in the open and fair international bids promoted by the newly created China-led Asian Infrastructure Investment Bank. In return, their participation would benefit Asia by spreading European governance norms and skills eastwards.

Bi Shujuan's approach is slightly different to Wang Xuguang's. Bi Shujuan argues that Italy lies at the confluence of China's Silk Road Economic Belt and of its 21st Century Maritime Silk Road (the two components of the BRI), and thus represents a "natural" entry point for Chinese goods into Europe. Yet, Bi Shujuan argues, due to its poor economic performance, Italy suffers from a shortage of infrastructure

15 On this topic, see the European Council on Foreign Relations' December 2016 issue of *China Analysis*: Angela Stanzel, Agatha Kratz, Justyna Szczudlik, and Dragan Pavlićević, "China's investment in influence: the future of 16+1 cooperation", ECFR, 14 December 2016, available at http://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204.

16 Thilo Hanemann and Mikko Huotari, "Record Flows and Growing Imbalances: Chinese Investment in Europe in 2016", Rhodium Group and MERICS, January 2017, available at http://rhg.com/wp-content/uploads/2017/01/RHG_Merics_COFDI_EU_2016.pdf. In this report, 'Southern Europe' includes Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia, and Spain.

17 Thilo Hanemann and Daniel H Rosen, "China invests in Europe: Patterns, Impacts and Policy Implications", Rhodium Group, June 2012 available at http://rhg.com/wp-content/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf.

18 Zhou Limiao, "Analysis of cases and risk elements of Chinese companies' M&A in Italy", (中国企业在意大利并购案例及风险因素分析, *zhongguo qiye zai yidali binggou anli ji fenxian yinsu fenxi*), *Zhongguo Jingji Hezuo*, 2017, n°2 (hereafter, Zhou Limiao, "Analysis of cases and risk elements of Chinese companies' M&A in Italy").

19 Ibid.

20 Wang Xuguang, "China and Italy ought to reinforce cooperation in many fields" (中意两国将从多方面加强合作, *zhong-yi liangguo jiang cong duofangmian jiaqiang hezuo*), *Guoji Shangbao*, 28 February 2017 available here http://epaper.comnews.cn/news-1159814.html.

21 Quoted in: Wang Xuguang, "China and Italy ought to reinforce cooperation in many fields".

22 Wang Xuguang, "One Belt, One Road helps Sino-Italian mutual benefit" ("一带一路" 助力中意互利共赢, *'yidai yilu' zhuli zhong-yi huli gongying*), *Guoji Shangbao*, 28 February 2017, it can be accessed here: http://www.tjcoc.gov.cn/html/2017/dui-waimaoyi_0228/42108.html (hereafter: Wang Xuguang, "BRI helps Sino-Italian mutual benefit"); Bi Shujuan, "A new step for Sino-Italian trade relations" (中意经贸合作迈上新台阶, *zhong-yi jingmao hezuo maishang xin taijie*), *Zhongguo lianhe shangbao*, 27 February 2017 (hereafter: Bi Shujuan, "A new step for Sino-Italian trade relations").

investment that diminishes its chances of making a speedy recovery. By embracing the BRI, he believes that Italy could see a new wave of infrastructure investment that would bring economic benefits.

Bi Shujuan backs up his argument using the example of the port of Venice. The design and construction of the port's offshore-onshore platform had been stuck in a bottleneck for many years, but China's participation in the project through a Sino-Italian consortium – the 4C3 grouping led by the China Communications Construction Company – transformed this into a business opportunity, to the benefit of Italy. The project marked China's first win in the EU high-end infrastructure market. Bi Shujuan hopes that such mutually beneficial projects can improve China's image in Europe and help it to build trust in its companies for future projects.

"Once-in-a-century opportunities"

Beyond theoretical reasons for Chinese companies to invest in Italy, authors argue that another, more practical, one lies behind China's interest in Italian assets; the question of timing. Indeed, Zhou Limiao explains that Italy's economy is still recovering from the global and euro crises.[23] Such difficulties have created what Zhou Limiao calls "once-in-a-century opportunities" for Chinese companies to buy world-class brands, and shares in pivotal national infrastructure assets, on the cheap. Of little strategic value to China's economy, but of much symbolic value to both sides, Suning Group's acquisition of close to 70 percent of Inter Milan football group in 2016 is a case in point. Buried in debt, the landmark club's stake was valued at just €270 million – a bargain from China's perspective. The same was true with many of Italy's utilities, which attracted great interest from Chinese investors looking for secure, long-term investments with steady and predictable returns. Such acquisitions would have been unthinkable before the crisis. In manufacturing, the prolonged lack of liquidity in Italy's financial sector has pushed a number of high-quality Italian small- and medium-sized enterprises to seek foreign partners and financing for expansion.

Such opportunities have led to a wave of Chinese acquisitions in Italy in recent years. In 2014, China's purchases represented an impressive 27 percent of foreign investment in Italy. In return, in 2015 Italy was China's main global destination for takeovers, attracting total investment of $14 billion.[24] ChemChina's acquisition of iconic tyre-maker Pirelli for $7.7 billion made up a large part of this figure. And Italy was not the only target of opportunistic Chinese interest: Portugal, Spain, and Greece, all saw big-ticket deals signed in the wake of the euro crisis when strategic southern European assets plunged in value.[25]

Bi Shujuan does not believe that China's buying spree should be perceived as predatory, but that it represents a shared opportunity.[26] Both China and Italy are faced with economic challenges. On the one hand, China is struggling with the necessity of rebalancing its economy and changing its economic model. On the other hand, Italy is in the midst of painful economic reforms that are necessary for it to become competitive again. In both cases, the only way out is innovation and responding to market demands. In the process, China can contribute capital and consumers (through access to its huge domestic market), and Italy can offer its tech, design, and fine art excellence. Combined, Bi Shujuan believes that these complementary resources can bring huge benefits to both partners.

Wang Xuguang also notes the potential for mutual benefit.[27] He says that China's market is huge and still growing, and one which many Italian companies would be happy to tap into. Take Italy's Fincantieri, the world's largest ship-maker. With the right Chinese partner, it could capture part of the enormous Chinese demand for ferries (4 million units by 2020, says Wang Xuguang), and escape a saturated EU market. This is precisely what it has done through a Chinese joint venture with Zhongchuan Group (CSSC). So Italy should not see China as a threat, but as an opportunity. In particular, it is to both countries' advantage to re-examine the global division of labour, and push for more specialisation.

Bi Shujuan and Zhou Limiao believe that Chinese interest in Italy will not wane any time soon

China's steep local learning curve

Acknowledging China's buying frenzy in Italy over the past five years, Zhou Limiao says that the activity has come with significant challenges for Chinese companies.[28] For one, although Italy is a large European economy and a major player in EU-China relations, it has fickle domestic politics that weigh on Chinese investments in the country. Zhou Limiao notes that in the eight years since the global financial crisis first hit, Italy has had no fewer than five leaders. Frequent political change hinders stability, a crucial factor for the corporate sector. Such political discontinuity has been magnified by issues stemming from the migration crisis, which he believes explain events such as the Five Star Movement winning the Rome and Turin local elections.

Another barrier is Italy's complex web of labour laws. The labour environment in Italy is highly unionised, and there are countless decrees and collective agreements beyond the foundational workers' rights laws. These, Zhou Limiao argues, grant workers "excessive protection" at the expense

23 Zhou Limiao, "Analysis of cases and risk elements of Chinese companies' M&A in Italy".

24 Marco Bertacche and Tommaso Ebhardt, "Italy Becomes China Favorite Place for Deals with Pirelli", *Bloomberg,* 23 March 2015, available at https://www.bloomberg.com/news/articles/2015-03-23/italy-becomes-china-preferred-shopping-country-with-pirel.

25 For more on China's investment in Europe in the wake of the global and euro crises, see: François Godement, Jonas Parello-Plesner and Alice Richard, "The scramble for Europe", ECFR, 11 July 2011, available at http://www.ecfr.eu/page/-/ECFR37_Scramble_For_Europe_AW_v4.pdf.

26 Bi Shujuan, "A new step for Sino-Italian trade relations".

27 Wang Xuguang, "BRI helps Sino-Italian mutual benefit".

28 Zhou Limiao, "Analysis of cases and risk elements of Chinese companies' M&A in Italy".

of enterprises and their owners. According to Zhou Limiao, such benefits are acceptable in a period of high growth, but burden the economy in times of economic difficulties. Zhou Limiao acknowledges Matteo Renzi's efforts to reform Italy's jobs market, but notes that these ended with huge demonstrations and a referendum defeat.

Zhou Limiao also points to a lack of trust across the EU towards Chinese investment, which hinders China's M&A activity there. In Italy, Zhou Limiao notes that there is a profound worry that Chinese investors are only interested in acquiring top Italian technologies and brands, and that once acquisitions are completed and Chinese companies have extracted intellectual property, these investors might simply close down factories in Italy and leave the country.

Finally, cultural differences can play a negative post-acquisition role. Zhou Limiao explains that Italian management teams are somewhat less internationally experienced than French, German, or British teams. Besides, Chinese investors have to face a "dual cultural adaptation" at both country and at company level. Such learning is not specific to Italy, but a review of M&A activity in the country reveals that it is an important obstacle in the Italian case.

Overall, Wang Xuguang, Bi Shujuan, and Zhou Limiao believe that Chinese interest in Italy will not wane any time soon. The country has much to offer, and lingering economic difficuties mean prices should remain low a little while longer. Yet the difficulties discussed here represent a tough and costly realisation of the problems associated with 'going out', especially in culturally distant Europe. Zhou therefore hopes that any future investment in Italy will be preceded by a thorough political risk assessment – or Chinese investors could risk much and lose often in the country's M&A market.

Chinese perceptions of country risks in north Africa

Abigaël Vasselier

In April 2017, China Bond Rating, an association of inter-dealer brokers, and the Chinese Academy of Social Sciences jointly released the 'Blue Book on Foreign Investments and Risks'.[29] The report notes that for the first time Chinese foreign direct investment has exceeded FDI into China. But it also highlighted that religious and ethnic factors, geopolitical changes, and global economic imbalances constitute risks and challenges for Chinese foreign investment. The Blue Book hence calls for more in-depth country risk analysis highlighting that the Chinese companies which are 'going out'[30] – as the national strategy of the same name asks them to – should assess more precisely both investment opportunities and risks in the recipient country.[31]

Since 1979, Chinese FDI has increased in north Africa, according to Wei Min, an associate professor at the Chinese Academy of Social Sciences. Indeed, needs match demand, and vice-versa: as a region made up of economies driven by natural resources, it benefited from the rise in oil prices over that period, which led to increasing demand for construction material and infrastructure. This fitted well with what China had to offer and with its energy security needs. Companies such as PetroChina and Sinopec made significant investments in the region, especially in Libya, Tunisia, and Egypt through cooperation and mergers and acquisitions in oil exploitation. Between 2000 and 2008, Chinese companies expanded in the region and broke the monopoly of Western companies in oil and gas. Since 2008, the region has suffered from the economic crash and experienced the Arab uprisings.[32] This has led Chinese experts to rethink the perceptions of risks in north Africa, especially in Tunisia, Libya, and Egypt. Chinese investment is unevenly distributed across north Africa. That said, the countries in the region often have a similar profile in terms of the balance between the risks and the opportunities of investing in them.

29 Fengdi Fan, "BRI and the national risk: the economy dragged down by commodity prices" (一带一路沿线国家风险：经济受大宗商品价格拖累, *yi dai yi lu yanxian guojia fengxian: jingji shou dazong shangping jiage tuolei*), *Yicai*, N°1, 10 April 2017. Hereafter Fengdi Fan, "BRI and the national risk: the economy dragged down by commodity prices." It can be accessed here: http://www.yicai.com/news/5263056.html. Fengdi Fan is a journalist for *Yicai* (formerly China Business Network).

30 The 'going out' strategy (走出去战略, *zouchuqu zhanlüe*) was launched in 1999 with the aim of to increasing Chinese outward investments.

31 "'The Blue Book on Foreign Investments and Risks' is released: a move forward towards becoming a 'foreign investment great power'" ('对外投资与风险蓝皮书'： 发布 进一步迈向 '对外投资大国', *dui wai touzi yu fengxie lanpishu fabu jinyibu maixian dui wai touzi daguo*), *Xinhua*, 11 April 2017, available here http://news.xinhuanet.com/2017-04/11/c_1120786287.htm.

32 Wei Min, "International productivity cooperation between China and the Middle East countries: Policies and theories" (中国与中东国际产能合作的理论与政策分析, *zhongguo yu dongguo guoji shineng hezuo de lilun yu zhengce fenxi*), *Alabo shijie yanjiu*, N°6, November 2016. Hereafter Wei Min, "International productivity cooperation between China and the Middle East countries: Policies and theories." Wei Min is associate professor at the Institute of West Asian and African Studies at the Chinese Academy of Social Sciences.

A new drive for growth

The expert articles reviewed in this chapter agree that there is great complementarity between what China needs and what the region needs. China wants oil and gas supplies as well as new markets for its steel overproduction, while north Africa is in growing need of equipment and construction materials to foster economic growth. Indeed, according to the World Bank, every 10 percent increase in infrastructure assets in the region leads to a 1 percent rise in growth.[33] China has the means to meet this burgeoning demand in infrastructure.[34] Even though the north African market for infrastructure and construction materials remains small, it still represented $9 billion in January 2016 compared to $7 billion in 2013.[35] Dawei He, Dressta's sales director for the Middle East, Africa, and, Pacific,[36] argues that north Africa has the potential to generate greater demand given the size of the territory, the abundant resources, and the low level of engineering skills in the local population.[37] Even though the drop in oil prices has affected these countries' financial capacity, the current reforms in places such as Egypt or Tunisia create increasing demand in the construction of public facilities. There is a "positive momentum of the market growth",[38] according to Cheng Fan, the local correspondent of Industry Analysis in north Africa.

The experts reviewed here concur that the Belt and Road Initiative (BRI) and the national development plans launched by several countries in the region generate economic opportunities, creating stable frameworks and incentives for foreign investors. Egypt and Algeria are currently implementing two national development plans aimed at increasing their economic growth. As it is, BRI generates favourable economic conditions for Chinese investment in the region. This is an opportunity for both sides to exploit. In Algeria, the port of Cherchell is a key hub in Chinese economic development in the Mediterranean Sea. In January 2016, a consortium comprising China Construction, China Harbor, and Algiers Port Group established a joint venture for the construction of the Algerian Central New Port.[39] This is a project worth $3.3 billion whose aim is to build a key distribution centre for the Mediterranean Sea with a capacity of 6.5 million containers and 30 million tons of bulk cargo per year.[40] China is already Egypt's largest trading partner, and political trust and economic relations have been deepened further through the convergence of BRI and the Egyptian government's "revitalisation plan". In addition to this plan, the current Egyptian president's 'Look East' policy aims to attract Chinese investment in the energy, infrastructure, agricultural, and finance sectors, as well as to encourage China to promote the Suez Canal Special Economic Zone.[41] For the Chinese government, Egypt is one of the five stakeholders most welcoming of BRI projects in the region. It considers the country a "strategic pivot" and a "regional priority"[42] and focuses on synergies between the national development strategy and BRI.[43] The recent strengthening of China-Egypt relations has been signalled by a currency swap, and the establishment of the Sino-Egyptian economic and trade zone.[44]

For the Chinese government, Egypt is one of the five stakeholders most welcoming of BRI projects in the region

Barriers to investment

Wei Min and Zhao Jun an associate professor at Shanghai International Studies University, examine the investment opportunities in the region, identifying a number of barriers. Despite real efforts made by a number of national governments, local authorities are sometimes known to apply protectionist regulations. Indeed, some countries impose restrictions on foreign labour and wages, which impedes Chinese comparative advantage on labour-intensive projects.[45] In this regard, Morocco, as the most stable country in the region with a very good business environment, is presented as an interesting example.[46] Indeed, Chinese investments are hindered by a long and slow visa process, corruption (especially in land acquisition), and local protectionist regulations (for example, a Chinese company needs almost a year to complete the visa process). Egypt's attractiveness has also declined to 131 out of 189, according to one World Bank business environment ranking. This is due to the lack of transparency in the legal and regulatory process, contract defaults, and issues with customs which put investors off operating in a given jurisdiction.[47]

33 Ibid.

34 Ibid.

35 Cheng Fan, "North Africa: Geopolitical stability drives the reinforcement of the machine and construction market" (北非：地缘政治稳定驱动工程机械市场走强, *beifei: diyuan zhengshi wending qudong gongcheng jixie shichang zouqiang*), *Jinri gongcheng jixie*, January 2016. Hereafter, Cheng Fan, "North Africa: Geopolitical stability drives the reinforcement of the machine and construction market".

36 Dressta is a major manufacturer of construction equipment. In 2012, LiuGong Machinery acquired Dressta. In north Africa, this company has a a dominant position in the Algerian and Libyan markets.

37 Cheng Fan, "North Africa: Geopolitical stability drives the reinforcement of the machine and construction market."

38 Ibid.

39 MOFCOM, "Chinese funded enterprises will build the largest port of Algeria" (我中资企业将与阿尔及利亚共建阿最大港口, *wo zhongce qiyue jiang yu aerjiliya gong jian zuida gangkou*), 19 January 2016.

40 "Chinese companies signed with Algeria to build up the largest port" (中国公司与阿尔及利亚签约共同兴建阿最大港口, *zhongguo gongsi yu aerjiliya qianyue gongtong xingjian zuida gangkou*), *China Daily*, 18 January 2017.

41 Zhao Jun, "Egypt development strategy and the construction of the 'Belt and Road Initiative'" (埃及发展战略与‘一带一路’建设, *aiji fazhan zhanlue yu "yi dai yi lu"*), *Alabo shijie yanjiu*, May 2016. Hereafter Zhao Jun, "Egypt development strategy and the construction of 'One Belt One Road'".

42 Gao Shangtao, "The Arab stakeholders and China's Belt and Road Initiatives" (阿拉伯利益相关者与中国"一带一路"建设, *alabo liyi xiangguanzhi yu zhongguo 'yi dai yi lu' jianshi*), *Guoji Guanxi Yanjiu*: 06, 2016. Hereafter, Gao Shangtao, "The Arab stakeholders and China's Belt and Road Initiatives." Gao Shangtao is associate professor at the Institute of International Relations at China Foreign Affairs University.

43 Ibid.

44 Zhao Jun, "Egypt development strategy and the construction of the 'Belt and Road Initiative'".

45 Wei Min, "International productivity cooperation between China and the Middle East countries: Policies and theories."

46 "The business environment in the Kingdom (of Morocco) is hindered by five major obstacles", (宫商环境反好存五大投资障碍, *gongshang huanjing fanhao cun wuda touzi zhangai*), *Zhongguo duiwai maoyi*, April 2016.

47 Zhao Jun, "Egypt development strategy and the construction of the 'Belt and Road

Wei Min also highlights that international competition is a barrier to investment in north Africa. Chinese companies suffer from the national preferences that north African countries give to European countries – a legacy of their long-standing relationship. For instance, the steel market is a traditional market for European companies in the region. In 2012, the Algerian Highway Authority excluded Chinese companies, setting up trade barriers after a strong lobbying effort on the part of European firms.[48] In addition, a number of countries still apply European standards, creating difficulties for Chinese companies. For instance, Chinese companies have lost contracts in Algeria as they do not comply with the standards set for engineering projects there, which are essentially a replica of French standards. Finally, the increasing number of suppliers has deflated prices. Hence, in some countries such as Egypt the comparative advantage of Chinese prices is limited.[49]

The external dependence of these countries generally represents a very high risk for Chinese investors. A few years ago, high oil prices boosted the foreign currency reserves and the import of machines and construction equipment, especially in Algeria.[50] Despite its large energy resources few external investors are interested in Libya despite its significant natural resources. Besides, Morocco and Tunisia are among the countries the most affected by the 2008 economic crisis. Tourism and the machine manufacturing and construction markets are still suffering from the European debt crisis.[51]

But the most significant barriers to real improvement of the business environment in the region are political turmoil and social instability, which generate risks for bilateral trade, direct investments, and safety in oil and gas infrastructure.[52] According to Cheng Fan, Libya formerly had the most attractive construction and machine manufacturing market in the region. The civil war has hindered any foreign investors who may otherwise have invested in this flourishing market.[53]

Fengdi Fan, a journalist for Yicai, explains that non-traditional security risks have increased in the region through the presence of terrorist organisations and the spread of extremist ideology. Alongside al-Qaeda and its branches, he points to the spread of the Islamic State group. This discourages Chinese investors in regions such as the Sinai in Egypt where terrorism is rampant.[54]

Initiative'”.

48 Wei Min, “International productivity cooperation between China and the Middle East countries: Policies and theories.”

49 Ibid.

50 Cheng Fan, “North Africa: Geopolitical stability drives the reinforcement of the machine and construction market.”

51 Cheng Fan, “North Africa: Geopolitical stability drives the reinforcement of the machine and construction market.”

52 Zhao Jun, “Egypt development strategy and the construction of the 'Belt and Road Initiative'”.

53 Cheng Fan, “North Africa: Geopolitical stability drives the reinforcement of the machine and construction market.”

54 Fengdi Fan, “BRI and the national risk: the economy dragged down by commodity

Mechanisms to reduce risks in north Africa

In order to reduce risks in north Africa and foster trade and investment with China, Chinese authors make a number of policy recommendations.

Looking at the specific example of Egypt, Zhao Jun suggests a number of ways to reduce risks and foster Chinese economic engagement in the country. First, he calls for a bilateral joint mechanism which would operate as a platform to exchange views on economic development strategies and trade, and create synergies between the current working groups (respectively the Chinese Central leading group on the BRI and a 'Chinese Affairs group' in the Egyptian government). Second, he calls for the establishment of standardised mechanisms for trade facilitation and the creation of a predictable and transparent environment. Egypt should simplify procedures and promote better circulation of goods and services, and China should rebalance its balance of payments, increase non-financial direct investment, and support the modernisation of Egypt's industrial system. Third, intellectual exchanges that go beyond the official agreements between the two countries should be reinforced. Finally, improving financial support and planning through the Silk Road Fund, Asian Development Bank, and China-Africa Cooperation Fund should also increase investment opportunities.[55]

Chinese companies lack experience in managing the process of internationalising their business

Although Cheng Fan concludes that “the future of the economic situation in Africa is good”, the authors of the Blue Book recognise that there is greater scope for Chinese companies and the Chinese government to manage upstream country risks and standardise analysis. As argued by Wei Min, Chinese companies lack experience in managing the process of internationalising their business. In this regard, the Blue Book proposes reducing this risk by supporting companies to standardise management practice in their overseas branches. It also highlights the need for companies to develop effective risk management systems and to improve their capacity in crisis management. On the national level, they call for the establishment of a comprehensive government framework for the protection of overseas investments which would complement a bilateral mechanism (recommended by Zhao Jun above).[56]

prices.”

55 Zhao Jun, “Egypt development strategy and the construction of the 'Belt and Road Initiative'”.

56 Fengdi Fan, “BRI and the national risk: the economy dragged down by commodity prices.”

Conclusion

The so-called 'Arab policy paper', published by the Chinese government in 2016, sets out the main lines of China's engagement in the region.[57] Wei Min argues that this political willingness to further strengthen investment is a positive signal for business cooperation.[58] Through national development plans and policies, north African countries have sought to attract Chinese investment, especially in infrastructure, which is a real need for the region. However, volatile political situations and investment barriers need to be taken into account in the analysis of business environments in the region. To bridge the gap between risks and opportunities, the Blue Book is a first step in developing country risk analysis.

57 On 23 January 2016, the Chinese government released its paper on "China's policies regarding Middle East countries".

58 Wei Min, "International productivity cooperation between China and the Middle East countries: Policies and theories."

China's security strategy towards the Middle East

Moritz Rudolf

China is rapidly becoming a strategic actor in the Middle East – a region that it has been detached from for several centuries. China's Belt and Road Initiative (BRI) is accelerating this development, although its key interests in the region remain economic, rather than security-focused. Beijing's ambition to promote connectivity in Eurasia, and the latent political instability in the Middle East, mean that security considerations are gaining importance, raising the question of how China can balance the economic benefits of expanding into the region, with the security risks such expansion entails.

China's interests in the Middle East

According to Li Shaoxian, the president of the China Institute of Arab Studies, China's current Middle East focus is limited to energy imports, but to a lesser degree the region is becoming attractive as a growing market for Chinese commodity exports and infrastructure investments.[59] Regarding the question of security, he argues that the stability of north-western China is connected to the situation in the Middle East since there are some 20 million Muslims living in China, and the threat of jihadist terrorism is of common concern to both regions. In addition, he points to the strategic importance of the Middle East for China's BRI, especially as a potential trading hub and as an intersection between Asia and Europe.

> Beijing's ambition to promote connectivity in Eurasia means that security considerations are gaining importance

Researchers Xi Guigui and Chen Shuisheng identify energy supplies, followed by industrial upgrading and financial cooperation as China's main strategic considerations in the Middle East.[60] The authors point to China's first Arab policy paper from January 2016 (中国对阿拉伯国家政策文件, *Zhongguo dui alabo guojia zhengce wenjian*),[61] which describes the so-called "1+2+3 cooperation pattern" (1+2+3合作格局, *hezuo geju*)

59 Li Shaoxian "China's response to the chaos in the Middle East and the 'Belt and Road Initiative'"(中东大乱局及"一带一路"背景下中国的应对, *zhongdong daluan ju ji "yidai yilu" beijing xia zhongguo de yingdui*), *Lingdao kexue luntan da jiangtang*, 2016, No. 9, available at http://www.360doc.com/content/17/0307/14/12211992_634707293.shtml.

60 Xi Guigui and Chen Shuisheng, "The Belt and Road" Initiative and China's Economic Diplomacy in the Middle East" ("一带一路"背景下中国的中东经济外交, *'yidai yilu' beijing xia zhongguo de zhongdong jjngjj waijiao*), *Alabo shijie yanjiu*, November 2016. No. 6, available at: http://doc.qkzz.net/article/d1c54f33-33ad-4187-8faa-91f25a06aeae.htm. Xi Guigui, Ph.D. is associate professor of the School of International relations at Sichuan International Studies University. Chen Shuisheng is a postdoctoral researcher at the China University of Political Science and Law.

61 For the English version of the policy paper, see: "China's Arab Policy Paper", Chinese government, 13 January 2016, available at: http://news.xinhuanet.com/world/2016-01/13/c_1117766388.htm.

as the foundation for Chinese-Arab cooperation in the context of the BRI. The "1+2+3 cooperation pattern" proposes that energy cooperation should form the core of the relationship, with construction and trade and investment forming the first two, and the 'third part' comprising breakthroughs in the high-tech fields of nuclear energy, space satellites, and new energy sources.

The authors state that China has become Arab countries' second largest trading partner, and has contributed to several infrastructure construction projects there already. Furthermore, they observe that China and the Arab states have expanded the scope of their cooperation and are now jointly combating the "three evils" (三股势力, *sangu shili*): terrorism, extremism, and separatism.

> Tian Wenlin refers to the 'clash of civilizations' thesis and hints at the possibility of an alliance between the Confucian and Islamic worlds.

Tian Wenlin, an associate research fellow at the China Institute of Contemporary International Relations, identifies the BRI as an upgraded version of China's reform and opening-up policy.[62] He argues that in the context of the BRI, the Middle East is viewed from China as a huge market for Chinese products and infrastructure investments. In addition, the BRI can facilitate the economic restructuring of the Middle East, since its economies are currently in the process of reducing their dependency on oil and gas exports. Tian Wenlin also argues that geopolitical pressure on China has increased, due to its strategic rivalry with the United States, creating an incentive for it to bring the Middle East closer, and break the strategic containment policy imposed by the US. Tian Wenlin even refers to Samuel Huntington's 'clash of civilizations' thesis, and hints at the possibility of an alliance between the Confucian and Islamic worlds.

China's key strategic partners in the region

Gao Shantao, an associate professor at the Institute of International Relations of the China Foreign Affairs University, applies stakeholder theory in his comprehensive analysis.[63] He concludes that Saudi Arabia is the most promising strategic target, and encourages China to participate in the Saudi economic diversification strategy. After Saudi Arabia comes the United Arab Emirates, where one key area of cooperation is the development of clean energy. Qatar also finds itself high up on the list, with Iraq and Egypt trailing behind it. With regard to Iraq, he urges the Chinese government and Chinese enterprises to take into account the fragility of the Iraqi political order and the risk inherent in investing there, largely stemming from terrorism.

Gao Shantao advises China to develop 'strategic fulcrums' in these key countries before gradually spreading out to the neighbouring countries to link them together. Once this has been achieved, he says that China should then think about building a BRI economic zone.

Xi Guigui and Chen Shuisheng argue that, although many Middle Eastern countries face political uncertainty, the traditionally rich Gulf States, in particular Saudi Arabia and the United Arab Emirates, already possess the requisite economic and social stability for BRI initiatives to begin there.

Li Shaoxian suggests that while highlighting bilateral cooperation with Arab states, China also actively seeks cooperation with Iran and Turkey. He is optimistic about strategic Chinese-Iranian relations, but admits that the future link between Beijing and Tehran also depends on the relationship between Iran and the US. On Turkey, he argues that while Ankara could play a key strategic role in the BRI as a bridge between east and west, the "East Turkestan Problem" (东突问题, *dongtu wenti*) remains a major obstacle for the development of Sino-Turkish relations. The Turkish government has given verbal support to the Uighur minority (a Turkic ethnic group) in Xinjiang – something Beijing considers interference in its internal affairs.

Tian Wenlin argues that Iran provides a strategic opportunity for China and serves as an important "firewall" (防火墙, *fanghuoqiang*) to prevent extreme religious forces penetrating into Xinjiang.

He also claims that the ability and willingness of the US to dominate the Middle East has declined. The US has therefore become unreliable, forcing Saudi Arabia, Egypt, Israel, and other traditional allies to strengthen their relations with China. At the same time, China's development and values have become increasingly attractive for those countries.

Uncertain security environment

Li Shaoxian describes the Middle East as the world's most complicated region and identifies the rise of the Islamic State group and the disintegration of a sovereign Syrian state as the main reasons for the current chaos. He further attributes the situation to the volatility of relations among the main geopolitical forces in the Middle East (Turkey,

62 Tian Wenlin, "'The Belt and Road' Initiative and China's Middle East Strategy" ("一带一路"与中国的中东战略,*"yidai yilu" yu zhongguo de zhongdong zhanlüe*), *Xiya Feizhou*, 2016, No. 2, available at http://www.xyfzqk.org/UploadFile/Issue/gzjzmntc.pdf. Tian Wenlin is an associate research fellow at the China Institute of Contemporary International Relations.

63 Gao Shantao, "The Arab Stakeholders and China's Belt and Road Initiatives" (阿拉伯利益相关者与中国"一带一路"建设, *alabo liyi xiangguan zhe yu zhongguo "yidai yilu" jianshe*), *Guoji Guanxi Yanjiu*, 2016, No. 6, available at http://mt.sohu.com/business/d20170117/124581044_465554.shtml. Gao Shangtao is associate professor at the Institute of International Relations of the China Foreign Affairs University.

Iran, Israel, and the Arab states) and the aftermath of the Arab uprisings in 2011.

For Tian Wenlin, political instability but also sectarian conflicts, the spread of terrorism, and the general trend towards a fragmentation of the geopolitical landscape (which he identifies as a relic of Western imperialism) constitute the main challenges to the success of the BRI in the Middle East. In addition, he refers to "third party risks", which he defines as the strategic interests of other major powers in the region, especially the US. Since Washington remains reluctant to accept China's growing influence in the Middle East, Beijing and the BRI face suspicion and interference from the US, he claims.

Recommendations

Xi Guigui and Chen Shuisheng argue that, since the uprisings in 2011, American influence in the region has declined. China should not behave as a "free-rider" in the region but actively shape it, because the decisions of other states could damage China's own economic interests. They point out that China and the US have room for cooperation, since maintaining stability in the Middle East is in the interest of both states. As the US remains the dominant power in the region, it is important for China to successfully promote the BRI and expand its political and economic influence in the Middle East without challenging the dominance of the US.

Tian Wenlin recommends that China avoid regional conflicts and focus instead on economic and trade cooperation, with a preference for energy cooperation. Since China is far less powerful than the US, and since its main strategic focus is not in the Middle East, China needs to be prudent when expanding its interests in the region. He also proposes that China consider cooperating with other 'BRIC' countries to push forward initiatives in the Middle East.

Li Shaoxian advises China to adhere to Xi Jiping's "three no's" ("三不" 原则, *"san bu" yuanze*) when engaging in the region: "Not seeking agents, but advising and mediating; not establishing spheres of influence, but offering everyone to join the BRI; not seeking to fill a power 'vacuum', but expanding a mutually beneficial win-win cooperation network". While accepting that the Middle East is becoming more and more important for China, and specifically within the BRI, he warns that the Middle East is known as a "great powers' graveyard" (大国的坟墓 *daguo de fenmu*). Li Shaoxian concludes that China can play a substantive role in the Middle East, but since it does not have any agents in the region, he advises it to play it safe, acting as a mediator, as it did during the Iran nuclear talks.

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