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STRENGTHENING TRANSATLANTIC COOPERATION

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Summary: Many factors will play in favor of stronger economic relations between China and Mediterranean countries in the coming years. Nevertheless, following the political transformation triggered by the fall of Zine al-Abidine Ben Ali in Tunisia and Hosni Mubarak in Egypt, China will face challenges and dilemmas similar to those faced, for many years, by Western countries. While events in the Mediterranean region are still unfolding, it is too early to assess how China will react. A lesson may, however, be taken from the recent evolution of Chinese policy in Sudan: China will prioritize the defense of its economic interests over its political relations with the incumbent regimes. On the other hand, new governments in the Mediterranean region will be much less attracted by the Chinese "model" than the fallen regimes. The decline of both political solidarity and the attractiveness of the Chinese model will put a strain on the relations between China and Mediterranean countries.

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China in the Mediterranean: Recent Developments and New Challenges

*by Franco Zallio**

In the last decade, trade and economic relations between China and the countries on the southern and eastern shores of the Mediterranean have expanded exponentially. This has been supported politically by a sense of solidarity between authoritarian regimes that have been often accused of human rights violations, and economically by the ambition of many Mediterranean regimes to emulate the Chinese "model" of rapid economic development in a context of political closure. It is important to highlight that, with the exception of the relevance assigned to the Mediterranean Sea as a transit route for its exports to Europe, China does not exhibit any specific foreign policy towards the region. Similarly to the United States, but unlike the European Union, there is no Chinese policy designed for the Mediterranean region nor is this a particular area of priority. While for the time being China's presence in the Mediterranean region is mainly driven by economic interests, political relations will evolve in reaction to the transformation produced by current events in the Mediterranean region. Even if it is too early to assess size and depth of this transformation, some preliminary considerations on its impact on China's regional role are included in the final section.

The Expansion of Economic Relations: From Natural Resources to Construction Projects

The strengthening of China's trade relations with Mediterranean countries stems from its interest in natural resources. The large — current and forecast — Chinese demand for energy has led to the prioritization of economic relations with major oil and gas producers. This is a trend that, in the Middle East and North Africa (MENA), has primarily concerned Gulf countries (including Gulf Cooperation Council countries, as well as Iran and Iraq), but was progressively extended to Mediterranean countries (Algeria, Egypt, Libya, and, close to them, Sudan which we will address below). This is still an ongoing process, as shown by the massive increase in Chinese energy imports from Libya recorded in 2010.

Moreover, this trend is not limited to hydrocarbons; many other natural

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resources are also involved. A relevant example in the Mediterranean region is that of phosphates and the other minerals around which China has developed its trade relations with Morocco, the third world producer, the biggest world exporter, and holder of the world's largest reserves of phosphates.

Clearly, imports of natural resources are but one aspect of China's trade relations with Mediterranean countries, and they are not the most significant from a quantitative point of view either. China records large trade surpluses with Mediterranean countries, a sign of the dominant role of its exports. Given the favorable economic performance of Mediterranean countries over the last decade, Chinese exports grew at a significant rate. This was partly achieved through replacing European supplies but also by pushing local producers out of business (a typical case is the textile sector in Morocco). In some Mediterranean countries, imports from China have increased very rapidly, especially in oil-producing ones. China is today the second largest exporter to Algeria and Libya, having outperformed Italy and Germany respectively. It is also approaching the pole position in exports from these countries, currently held by France in Algeria and, barely, by Italy in Libya.

Given their lower per capita income, Mediterranean countries' imports from China have not grown as much as in Gulf countries. For example, Dubai boosts the largest trading center specialized in Chinese products outside China, covering an area of 150,000 square meters with over 4,000 shops. Given the intensity of trade relations, Emirates (Dubai's government-controlled carrier) operates more daily flights to China than to the United States.

Nothing of comparable importance has so far occurred in Mediterranean countries. Nevertheless, the growth of Chinese exports has been very significant and fast. It began with textiles and other low price consumer goods and then spilled over to more advanced products such as consumer electronics, telecommunications, and vehicles. Algeria imports considerable volumes of vehicles from China and today its presence in this sector is particularly relevant in Egypt, where the Chinese company Chery assembles vehicles with a local partner and has achieved an 8 percent market share.

The development of economic relations has not been limited to trade. The role Chinese construction companies play is also very important, particularly in Algeria where they were awarded the major share of infrastructure contracts. Chinese companies have benefited from the fact that the market has been overlooked, for security reasons, by contractors from many countries. The Chinese presence is also quite relevant in the construction sector of other Mediterranean countries, such as with highways and other infrastructure projects in Morocco.

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By securing large contracts in oil-producing countries, China is following in the footsteps of another emerging Asian country, South Korea, whose presence in MENA countries has continued for a few decades now. South Korean contractors have registered a spectacular success in the Arab monarchies of the Gulf, where they are today the primary contractor for large and highly specialized work.[1] Given their inferior technology and lower level of specialization, Chinese companies must mainly rely on price competition. This implies an intense use of Chinese labor.

Consequently, the Algerian oil boom and the related expansion in construction have benefited its citizens less than expected, breeding resentment towards the tens of thousands of Chinese working in Algeria as laborers in the construction sector or as merchants operating shops throughout the country. Algeria, where unemployment is very high, especially among the youth, already witnessed some isolated but significant episodes of violence against the Chinese diaspora in the country. Furthermore, in

[1] One of the most relevant examples is the contract worth $20 billion won by a consortium of Korean companies in 2009 to build four nuclear reactors in the UAE.

2009, a terrorist group known as Al-Qaeda in the Islamic Maghreb made serious threats to Chinese communities in Maghreb countries, purportedly retaliating against Chinese policy towards the Uyghur people, a Turkic Muslim minority that lives in the northwest of China.

Despite these events, the Chinese presence in North Africa is steadily progressing, reflecting a true Chinese diaspora that is becoming particularly significant in Algeria, Egypt, and Morocco.

Chinese Investments and Political Relations

Another element of great importance in the economic relations between China and Mediterranean countries is Chinese foreign direct investment. It is particularly evident in Egypt, especially in the free zone areas, one of which will be developed specifically for cooperation with Chinese investors. In 2009, in the middle of the international economic crisis, China was the main foreign investor in Egypt, exerting an important role in supporting economic growth when the country was affected by the decline in European imports and investment.

Chinese investments went into many productive sectors, from energy and fertilizers to textiles and communications, and, as mentioned above, vehicles. Furthermore, in the specific case of Libya, the only rentier economy in the Mediterranean region, there is ongoing cooperation in investment between sovereign funds of the two countries.

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The development and deepening of economic relations was favored by a long history of good political relations. For example, Egypt was the first African country to recognize the People’s Republic of China and the PRC was the first non-Arab country to recognize Algerian independence. Political relations are marked, especially in North Africa, by the common experience of the struggle against colonialism and of non-alignment. The principle of non-interference in the internal affairs of another state and the pattern of political authoritarianism, coupled with an economic system where the state plays a major role, has strengthened solidarity between Mediterranean regimes and China. Furthermore, in North African countries, Chinese economic development is often viewed as a model to emulate. Despite that, the political changes in the Mediterranean region evident by the unrest in Tunisia and Egypt indicate that — after a long period where the expansion of economic relation has hardly faced obstacles — even China must begin to deal with challenges and dilemmas not too different from those often experienced in the region by Western countries.

China and the Referendum in Sudan: A First Test?

A first example of the challenges facing China is the self-determination referendum in Southern Sudan that took place in January. An overwhelming majority was in favor of independence, which should take effect in July 2011, and in the six-month interim period, a large number of open questions between the North and South will need to be settled. These range from defining borders to the management of oil resources, for which China is the main operator, as well as the use of the oil pipeline going North. Its terminal is located in Port Sudan on the Red Sea and is currently the only channel to export oil produced in the South.

While China has for a long time been a strong supporter of the government in Khartoum, it has recently come to terms with the unavoidability of separation between the North and South. Consequently, it is repositioning itself to maintain good relations with the future government of the South, home of its major oil interests. Half of the oil production in Sudan (around 490,000 barrels per day) is exported to China. Most of it is extracted in the South, 90 percent of which by Chinese companies. In November 2010, China upgraded its consulate to embassy–rank, which had opened in 2008 in Juba, the future capital of the South. Similarly, China National Petroleum Co. (CNPC), an operator in many fields of Sudan, has recently opened a branch office in Juba in addition to its headquarters in Khartoum. The opening to the South is not limited to this; it is reported that China has started negotiations with Juba authorities for the construction of a pipeline linking oil fields in the South with Kenya. This pipeline would free the South from its dependence on the existing pipeline going to Port Sudan, but it would damage the regime of Khartoum, which would lose transit fees on oil produced in the South. Therefore, the Chinese attempt to maintain close relation with Khartoum and, at the same time, engage, at least in economic terms, in good relations with the South is already facing its first challenges. Further difficulties may arise during the forthcoming negotiations on oil revenue sharing.

China's new policy toward Sudan shows that it prioritizes the defense of its economic interests over the development of its political relations with the incumbent regimes.

CNPC is also the operator of the oil fields straddling the current "border" between the North and the South as part of a consortium, of which it holds a 40 percent share (other foreign investors are the Malaysian Petronas, with 30 percent, and India's ONGC with 25 percent. Sudan's national oil company holds the remaining 5 percent). These fields produce around 185,000 barrels per day (b/d) of excellent quality oil. In recent years, production has been declining, after reaching a peak of 270,000 b/d in 2006. The "border" cuts through another field also operated by CNPC as part of a different consortium, whose other partners are Petronas and China's Sinopec, producing around 240,000 b/d of low quality oil. CNPC also heads a consortium that produces 30,000 - 45,000 b/d of low quality oil in northern Sudan that is refined for local consumption. However, China does not participate in the consortium that produces 20,000 -30,000 b/d of oil in southern Sudan, which includes Petronas, ONGC, and Sudan's national oil company.

China's recent attempts to repositioning itself have also had preventive purposes. On one hand, after separation, the South would provide favorable conditions to foreign investors. On the other hand, sanctions in place against the government of Khartoum would probably be removed, thus allowing Western investors access to resources in the South and, later on, to those in the North, increasing the limited competition that CNPC has faced so far.

To protect its economic, trade, and investment interests, China had to downsize the close alliance with the Khartoum regime, eventually intervening in those matters that, in previous years, it considered mere Sudanese internal affairs. This development will allow China to maintain a significant position in the economy of the two Sudans, despite the expected flows of Western investments. However, this will bare a cost, namely decreasing the credibility of its foreign policy doctrine based on noninterference. This will also affect its relations with Mediterranean countries.

Conclusion: China's Mediterranean Challenges

Without doubt, several factors will play in favor of stronger economic relations between China and Mediterranean countries in coming years. First, the slow European recovery from the international economic crisis will encourage Mediterranean countries to diversify their economic relations and further strengthen those with high-growth markets like China. Rapid technological developments will also allow China to increase its range of exports and investment in the Mediterranean region. Moreover, tourism, up to now largely underexploited, could play an important role. The boom of Chinese tourist flows could in fact extensively benefit Mediterranean countries. Finally, the presence of the Chinese diaspora will be a crucial element for the future development of economic relations.

Nevertheless, following the political transformation triggered by the fall of Zine al-Abidine Ben Ali in Tunisia and Hosni Mubarak in Egypt, China will face challenges and dilemmas similar to those faced, for many years, by Western countries. While events in the Mediterranean region are still unfolding, it is too early to assess how China will react. A lesson may however be taken from the recent evolution of Chinese policy in Sudan.

China's new policy toward Sudan shows that it prioritizes the defense of its economic interests over the development of its political relations with the incumbent regimes and, if necessary, it disregards principles such as noninterference in internal affairs. This may have repercussions on China's relations with Arab countries, which have long opposed the separation of Sudan. More generally, relations with the Islamic world are destined to remain complex, especially in light of the Uyghur issue – around which strong feelings prevail in Turkey. Another cause of tension, if not a challenge to China's foreign policy in the region, could manifest itself in another country where China's economic interests are important: Algeria. If the contagion of the Tunisian and Egyptian revolts reaches Algeria, China might find itself in front of multiple challenges. These include the defense of significant economic interests but also the protection of Chinese workers in the country, who could become the scapegoat of a social and political crisis. In this case, China would have to face challenges that Western countries experienced during the Algerian civil war in the 1990s.

More generally, China's response to the emerging challenges in the region, if it follows the Sudanese example, will reduce the political solidarity between Mediterranean countries and China. On the other hand, new governments in the Mediterranean region will be much less attracted by the Chinese model than the fallen regimes.

The decline of both political solidarity and the attractiveness of the Chinese model will create difficulties to the relations between China and Mediterranean countries. However, the United States and the European Union, dedicated for some time to come to solving their fiscal and debt crises, will not necessarily seize the opportunity to boost their relations with Mediterranean countries.

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STRENGTHENING TRANSATLANTIC COOPERATION

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Paralleli's mandate is to contribute to the creation of a Euro-Mediterranean area of freedom and of economic and social development. The institute acts at the local, national, and international level with the aim of meeting the needs of the North-West region of Italy concerning its relations with the other sides of the Mediterranean Sea. The activities of the Institute fall within the process of Euro-Mediterranean partnership initiated by the European Union with the 1995 Barcelona Process and currently undergoing a major relaunch through the "Union for the Mediterranean," since July 2008. Paralleli intends to contribute to the reinforcement of political relations, economic cooperation, cultural exchange, and human flows between the European and the South-East Mediterranean countries. Its main objective is to promote dialogue at cultural, social, and political level between the societies of the Mediterranean countries, with the aim of encouraging and improving economic relations between them, with a particular focus on the dimension of sustainability and co-development. For this reason, the institute has decided: to involve civil society in the development of Euro-Mediterranean relations; to create and to support networking in the Mediterranean area; and to increase the value of research in order to suggest truly effective policies to local, national, and international actors.

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