CHINESE INVESTMENTS IN THE MIDDLE EAST AND POSSIBLE OPPORTUNITIES FOR PAKISTAN: A CASE STUDY OF OMAN

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Abstract

Over the last few years, Gulf countries have been increasingly engaging with China primarily because the latter is fast emerging as the world's leading economy. China's rapid economic growth has necessitated an aggressive pursuit of much-needed natural resources. Beijing's multi-billion Belt and Road Initiative (BRI) focuses on enhancing connectivity through both diplomatic and economic activity and thus is a conduit for consolidating trade and commercial relations between China and the countries in the Gulf. To a substantial degree, Chinese ventures in the Gulf focus on energy, infrastructure, construction, agriculture, and finance. The China-Pakistan Economic Corridor (CPEC)—which is the flagship project of China's Belt and Road Initiative (BRI)—has the potential to noticeably increase bilateral trade and investment between China and the Gulf countries. Due to the ongoing economic glut in both the Gulf countries and Pakistan, Chinese investments provide an ideal opportunity for helping revive the Covid-19 hit economies of both regions. Focusing specifically on Oman's Vision 2040, a Middle Eastern country with which Pakistan needs to enhance its economic engagement, this paper gives a brief overview of Chinese investments in the Middle East and highlights opportunities for collaboration among Pakistan, China, and the Middle Eastern countries in terms of energy and food security.

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Introduction

Over the last few years, Gulf countries have been increasingly engaging with China as opposed to the US, their traditional ally. This is primarily because China is fast emerging as the world's leading economy. China's rapid economic growth has necessitated an aggressive pursuit of much-needed natural resources. Beijing's multi-billion-dollar Belt and Road Initiative (BRI) focuses on enhancing connectivity through both diplomatic and economic activity and, thus, is a conduit for consolidating trade and commercial relations between China and the countries in the Gulf. To a substantial degree, Chinese ventures in the Gulf focus on energy, infrastructure, construction, agriculture, and finance. Both sides have compatible interests in integrating the BRI into national redevelopment projects, examples of which are the Saudi *Vision 2030*, the UAE's *Vision 2021*, Jordanian *Vision 2025*, Turkey's *Middle Corridor*, Bahrain's *Vision 2030*, China-Iran Comprehensive Strategic Partnership, and Kuwait's *Vision 2035*.

Pakistan and the countries in the Middle East have friendly relations, originally established on the basis of religious affinity but now including political, security, and economic ties as well. At the same time, the China-Pakistan Economic Corridor (CPEC)—which is the flagship project of China's BRI—has global importance due to its focus on increasing linkages and connectivity. It also has the potential to noticeably increase bilateral trade and investment between China and the Gulf countries.

Due to the ongoing economic glut in both the Gulf countries and Pakistan, Chinese investments provide an ideal opportunity for helping revive the Covid-19 hit economies of both regions, particularly in areas of energy and food security. Focusing specifically on Oman's *Vision 2040*, a Middle Eastern country with which Pakistan needs to enhance its economic engagement, this paper gives a brief overview of Chinese investments in the Middle East and highlights opportunities for collaboration among Pakistan, China, and the Middle

Eastern countries in terms of energy and food security. It will aim to answer the following questions:

- What is the nature of Chinese investments in the Middle East?
- What are possible opportunities for collaboration between Pakistan, China and Oman?

Nature of Chinese Investments in the Middle East

China's BRI remains the most promising specimen of transformation in China's policies from isolation to outward ambitious endeavours. The BRI is a gigantic project focusing on amplifying linkages through both sea and land routes, concurrently cementing commerce and trade between China and the BRI associated nations. This Chinese illustration of South-South cooperation guarantees that both Beijing and partner countries will benefit from the investments.

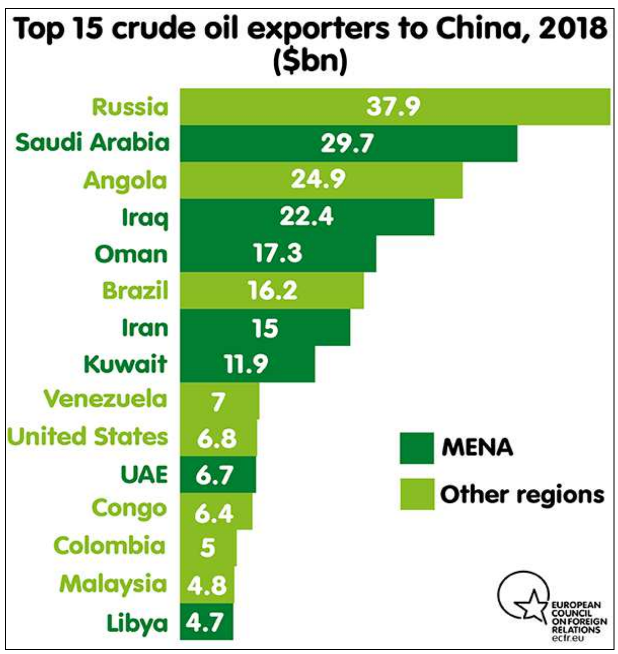
Over time, China has significantly increased its economic and diplomatic participation with countries in the Middle East, particularly the Gulf. The Gulf holds immense significance for the BRI primarily because of its ideal location at the junction of three continents as well as also at the intersection of five seas. Moreover, the region links the crucial maritime routes of the Bosporus, Dardanelles, Bab El-Mandeb Strait, and the Strait of Hormuz.

China's approach towards the Middle East, particularly the Gulf, is based on the following factors:

- China's interests in terms of national security, economic growth, and energy needs. necessitating uninterrupted flow of oil and gas;
- Beijing's belief in economic development as essential for the maintenance of peace in any region;
- A significant shift in the US policy away from the Middle East leaving space for China to make inroads; and
- The 2008 financial crisis, shifting the focus of many countries in the Middle East towards China to seek economic investment.

By early 2020, China had entered into more than two hundred partnerships under the fold of the BRI.[1] The welcome attitude towards the BRI by its partner countries is a confirmation of the prospects the BRI offers in terms of augmented economic progress. Furthermore, the fact that Beijing refrains from all political entanglement and instead focuses its policies upon practicalities is a plus point for many countries. A case in point is the way China has always maintained rationality in the Saudi-Iran conflict. Therefore, the BRI exemplifies a new notion of regional security, based on inclusivity, contrary to the Western model which is based on reducing risks by implementing democratisation supported by military intercession if deemed necessary.

Gulf countries' harbours and commercial parks have been central to their cooperation with China. This can be seen in the UAE's Khalifa Port, Oman's Duqm Port, and Saudi Arabia's Jizan Port. In terms of construction contracts for Chinese companies, Qatar's Lusail Stadium and the Haramain High-Speed Railway in Saudi Arabia are also good illustrations.[2]



Regarding China's engagement with the Gulf, the energy sector continues to be the main building block. This can be seen in the fact that almost 56 per cent of Chinese investment between 2013 and 2019—amounting to over $75 billion—in the form of projects was in the energy sector.[3] Since the International Energy Agency (IEA) has predicted that China will double its oil imports from the Middle East by 2035, an increasingly upward trajectory is expected in terms of oil trade.

Covid-19 has provided a possibility for both China and the Gulf countries to showcase camaraderie. For example, at the start of the Covid pandemic, the Gulf states provided medical assistance to China. This was later reciprocated by Beijing when the virus spread in the Gulf.

Even though it was believed that decreasing oil prices concurrent with an economic glut as a result of Covid-19 could affect the performance of the BRI projects in the region, it did not happen because China successfully overcame the Covid-19 pandemic. All this said, it should not be forgotten that diverse intricacies concerning religious, ethnic, and humanitarian connotations are sure to play a significant part in determining the trajectory of the BRI in the Gulf in terms of security as well as economic and cultural exchanges.

Brief Overview of Chinese Investments in Oman

Oman Vision 2040

Amidst a dilatory state of affairs and an objective of weaning the country off of dependence on hydrocarbons, the Government of Oman introduced its national rejuvenation plan called vision 2040 (which in essence is the renewal of its Vision 2020 introduced in 1995). This Vision is expected to help stimulate the country towards a knowledge-based economy.[4] The vision represents a set of socio-economic policies aimed at boosting tourism, modernising agriculture, and establishing free industrial zones. In March 2021, in the backdrop of economic damage caused by the Covid-19 pandemic, the Sultanate presented tax incentives for companies, as part of an economic inducement plan to improve growth rates. The vision aims to increase Omani investment in the private sphere to 42 per cent as well as bolster FDI to 10 per cent of its GDP. A primary objective is also that non-oil sectors should contribute to 90 per cent of the GDP of the country.[5]

Chinese Investments in Oman

Over time, China has intensified its economic participation with Oman, especially in the oil sector. Currently, China is the recipient of almost half of Oman's total oil exports. In 2002, state-owned China National Petroleum Corporation (CNPC) procured 50 per cent shares in Oman's oil field.[6] Even though oil is the dominating factor in China-Oman relations, China has slowly been expanding itself within Oman's non-oil areas as well through the BRI. In this regard, the Oman-China Friendship Association has been working to reinforce bilateral cooperation ties to increase mutually beneficial projects in different fields of economic, social, cultural, and sports arenas for the past 10 years. China has also initiated the China-Oman Industrial Park in the Duqm Special Economic Zone and it is anticipated that it will invest approximately 8.5 billion Euros by 2022.[7] Moreover, in 2019, the State Grid Corporation of China purchased a 49 per cent interest in Oman Electricity Transmission Company. The Asian Infrastructure Investment Bank (AIIB) has also become an important fount of funding for Oman's projects. For example, in 2017, the bank invested $239 million in Oman's fibre broadband network and in March 2020 it provided $60 million of non-sovereign funding for Oman's Ibri-II 500MW Solar PV Independent Power Plant Project.[8] China's FDI into Oman has grown by more than five times between 2018 and 2019.[9]

Oman's plans to transform its Duqm Port and the adjacent Special Economic Zone (SEZ) have coupled with China's BRI and provide the Chinese companies with an ideal operating base through which to cultivate and carry out its operations in the Gulf and the wider region. Deepening engagement with China is a testament to Oman's objective of taking its economy away from dependence on hydrocarbons towards inviting FDI and expertise into the non-oil sectors. Several measures have already been taken in this regard such as the establishment of free zones which offer incentives such as tax exemptions and lower quotas for hiring Omanis. Laws that facilitate public-private partnerships and privatisation of state companies have also been introduced. An example is the Royal Decree 50/2019 which enables 100 per cent foreign ownership as well as no longer requires local participation.[10] China's expansion into Oman is a mutually profitable venture as it aids Oman in realising its Vision 2040 while simultaneously helping expand China's footprint in the region.

Opportunities for Pakistan within Chinese Investments in the Middle East

In the backdrop of the Covid-19 pandemic and the dropping oil prices, the International Monetary Fund's (IMF's) World Economic Outlook report forecast economic losses of $323 billion in the Middle East and North Africa region.[11] This amount is equivalent to almost 12 per cent of the GDP of the region with the major losers being the oil-exporting countries. The report also highlighted that countries dependent on energy export would suffer a loss of $295 billion and oil-exporting countries of the region could potentially lose revenue up to $23 billion in 2020 primarily due to the lack of demand for oil in the global market. The debt of these countries was also projected to increase simultaneously. The IMF predicted that debt would touch $1.46 trillion for 2020 and the fiscal deficit would be higher as well. It also warned about the exacerbation of the situation due to the ongoing conflicts in the region.[12]

This unfavourable economic situation could affect millions of expatriate workers in the Middle East, particularly the Gulf, which is host to a significant number of expatriates from South Asian countries.

The social and economic cost could also be very high and reliance of these countries on food imports for sustenance could increase food insecurity coupled with increasing food prices. It has already been warned by UN agencies that due to the Covid-19 pandemic, food trade and supply chains could be impacted. Since long-term partners of the Gulf countries, such as the US and Europe, are going through adverse impacts of the virus themselves, they are in no position to help the region. Moreover, the energy market of the US has instead become a competitor for the Gulf energy market.

Chinese inroads into the Gulf countries have already been discussed. For Pakistan, the Gulf is of primary importance, especially in terms of remittances that make up almost 86 per cent[13] of the secondary income of the country, nearly 60 per cent[14] of which comes from Gulf countries. For too long, Pakistan has remained focused on its strategic ties with the Gulf countries. Only recently has there been a clear shift towards cementing economic ties.

Against this backdrop, China, Pakistan, and the Gulf countries must create a plan which can help them on a mutual basis. The Special Economic Zones (SEZs) were created in Pakistan because of the China-Pakistan Economic Corridor (CPEC) which is the flagship project of China's BRI and provides grounds for mutual collaboration. Both China and Pakistan should look towards the countries in the Gulf which can invest in the SEZs.

Various countries in the Gulf have already voiced interest in investing in the SEZs. For instance, in 2019, the UAE proposed that it would set up an oil refinery in Gwadar.

Hence, dedicated zones can be offered in this regard. The investment in the SEZs should be two-tiered: construction of SEZs and industrial development of SEZs. This would help provide much-needed momentum to Pakistan's domestic economy and help create good business opportunities for all investor countries. Alongside, good livelihood prospects would be created for skilled and unskilled labour in Pakistan.

Another area of cooperation can be in the agriculture sector. First, Pakistan and China can look for ways to boost their scope in the agriculture sector and expand it to include the Gulf countries. Since they already have an MoU in place they can expand on it. The agriculture sector is ideal because Pakistan is home to vast arable lands, while China has the necessary technology and the Gulf countries have the required resources. Moreover, the Gulf countries are looking for quality food and concurrently Pakistan is looking for sizeable investment in its agriculture sector to modernise it. An MoU would help refine these into a win-win scheme. Cooperation between Pakistan and the Gulf countries vis-à-vis China would also help decrease reliance and dependence on the Western markets and also enhance the domestic capability of Pakistan.

Opportunities for Pakistan within Vision 2040 vis-à-vis CPEC

Even though it is the closest Arab neighbour to Pakistan in terms of proximity, not much is known about Oman, apart from military exercises. The two countries share very close ethnic, cultural, and religious ties. More than 30 per cent of Omanis share similar descent with the people of Balochistan province in Pakistan and more than 800,000 Pakistanis have migrated for work to Oman since 1971.[15] Pakistan and Oman also share a maritime border—the significance of which is evident from the Gwadar port which is the linchpin of CPEC. Gwadar remained under Oman for 174 years till it was bought by Pakistan in 1958. Although not considered at the same level as its Arab counterparts, Oman portends a lot of opportunities for Pakistan in terms of untapped potential, particularly in the realms of tourism, technology, and energy. The number of opportunities for collaboration between Pakistan and Oman has increased in the backdrop of CPEC. These need to be identified and carried out expeditiously, especially in the coastal belt. Due to CPEC, Pakistan has become an ideal linkage for the entire Gulf region, especially Oman, which is the closest of Gulf countries in terms of location. Pak-Oman collaboration vis-à-vis CPEC will also open space for the absorption of more Pakistanis into Oman. For this to optimally materialise, mutual needs have to be identified and labour welfare schemes need to be in place. It is needless to contend that Oman offers a vast variety of opportunities for collaboration between Pakistan and the Gulf, particularly in the realm of energy and food security.

Energy Security

For almost two decades, Pakistan has been facing a huge energy shortfall. Oman has already expressed willingness to invest in both the oil and gas sectors of Pakistan as well as in the SEZs of CPEC. Omani officials have recognised CPEC as a host of benefits and that through this venture, bilateral trade between Pakistan and Oman would significantly improve.[16] Pakistani officials have likewise stated that through cooperation, both countries can benefit from the connectivity that is proposed under the CPEC.

Oman presently relies on China for exports in the energy sector. Thus, if it diversifies its exports to energy-starved Pakistan, Muscat will get much-needed diversification of its energy exports instead of relying on one country alone. The proposed oil city in Gwadar also provides fertile ground for Omani investments. Additionally, the SEZs in Pakistan can also play a conducive role in creating avenues for increased Pak-Oman bilateral cooperation in the petroleum sector.

Moreover, Pakistan can benefit from Oman's technical progress in the oil sector. As Pakistan is revising its infrastructure for the import of LNG from the Gulf States, Oman’s venture into Pakistan can result in a win-win situation for both countries.

Food Security

Pakistan is rich in agricultural lands, however with a potential that remains rather underutilised. CPEC serves as an opportunity to optimally utilise this comparative advantage. China is already providing technical assistance and support to develop Pakistan's research capacity. It will also provide scholarships to Pakistani students as well as commence exchange programmes for undertaking agriculture studies soon which in itself would be good exposure for the students in how China ensures food security for its 1.4 billion-plus population.

The agricultural MoU signed between China and Pakistan in 2020,[17] rightly focused on addressing some of the problems that the latter has been facing. MoUs are effective instruments of ensuring development and creating prospects for future cooperation only when they are fully materialised. In the case of MoUs signed between China and Pakistan, both countries must actively follow up on the commitments made. Under the existing MoU between China and Pakistan, China is to establish several agricultural research laboratories according to Pakistan's requirements as well as provide technical assistance to help enhance Pakistan's agricultural capacity. Access to modern machines will help Pakistani scientists bridge the theory-practice gap which exists in the country.

Chinese help will also enhance Pakistan's capacity to meet the necessary sanitary requirements of agricultural produce which, in the backdrop of Covid-19, will be more important than ever. This may aid Pakistan in cementing its niche in agricultural exports, especially against competitors like India which was downgraded in 2019 for using too many pesticides.

Performing agricultural activities has always been a capability limitation for Gulf countries because of arid weather conditions. However, this has never been an issue for them given that they are all capital-rich. It is important to note, however, that while the countries in the Gulf may fulfil all markers of food security at the moment, this does not amount to being self-sufficient in terms of food. It is for this reason that these countries are heavily reliant on food imports as they realise that they might not be able to secure food because of market shortages in future. This has reinforced in them the notion that food security cannot be left to market shortages.

Oman has a rich history in agricultural activity in the south of the country as well as in fisheries. In light of the changing advancements, Oman now needs to modernise its agricultural sector. Omani policymakers are now also faced with choices between trying to expand domestic production or investing in enhancing their land and water productivity. The former will of course put a strain on the scarce resources of land and water, something Oman would want to avoid altogether. Oman's *Vision 2040* specifically focuses on finding means to address food security and agricultural problems.[18]

In recent years, Pakistan has emerged as a food surplus country, yet a significant number of its people are caught in cycles of food insecurity because the government has failed to fully utilise its export industry, for instance through legislation aimed at securing productivity targets.[19]

Pakistan and Oman make a natural partnership and are natural allies in solving their agro-based dilemmas. For instance, Pakistan produces a poultry surplus and can easily tap into the niche of the poultry market in Oman, where there is a huge demand for poultry items. Oman imports around 57.5 per cent of its poultry at the moment.[20] This and other areas of cooperation can be facilitated through a joint business council where each country could regulate bilateral trade between them.

Pakistan may also consider dedicating one of the SEZs entirely to food processing where Chinese food manufacturing groups can be invited to participate in value addition. Moreover, it will link Pakistan to China's agro-supply chain. Along the same lines, Omani companies can be invited to invest in Pakistani SEZs in terms of food production. This will prove beneficial for both countries in terms of foreign direct investment (FDI), production, and export.

Conclusion

Taking into account the fact that Oman is Pakistan's closest neighbour in the Gulf as well as the special relationship that Oman shares with the people of Balochistan province, the government of Pakistan should devise a plan for a larger role in Oman's *Vision 2040*. A special joint development package to facilitate the development of aquaculture along the coastal belt could be developed. There is also a need to start ferry services that would link the entire Gulf region to CPEC. This would also facilitate the transport of trucks carrying goods from Oman to Pakistan.

It goes without saying that at an individual level, no country is in a position to revive its economy on its own. CPEC and, by extension, the BRI provide a mutually beneficial proposition for Pakistan, China, and the Gulf countries. While Pakistan would be able to not only mitigate its energy woes it will also be able to expand and secure its export portfolio to the Gulf countries in the economic realm. China will benefit also by further increasing its footprint in the Gulf region and will find new avenues to export its goods under the umbrella of CPEC. Oman is on its way to implementing its *Vision 2040* with some of the main focus areas being tourism, transport, mining, and agriculture.

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