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CHINA'S BELT AND ROAD INITIATIVE AND THE MEDITERRANEAN REGION: THE ENERGY DIMENSION

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Introduction

China's Belt and Road Initiative (BRI) – previously called 'One Belt, One Road (OBOR)' - has been designed by China as its new guiding economic and foreign policy framework with a focus on its direct neighborhood at its southern and western borders, but also reaching out to the Persian Gulf, Africa and Europe, involving 65 countries and 15 Chinese provinces until 2015/16. Meanwhile, investments as part of the BRI have extended to more than 80 countries. As centuries ago during the times of Marco Polo, China views itself as the 'Middle Kingdom' geographically and geopolitically and, therewith, as the global center of world trade.¹

But the BRI is not just a strategy to enhance China's commercial, trade and other economic interests. According to official declarations by China's president Xi Jinping in May 2017, designating it as 'the project of the century', it is considered as a vehicle to open markets, expand export overcapacities, generate employment, reduce regional inequalities, promote political stability and security through development as well

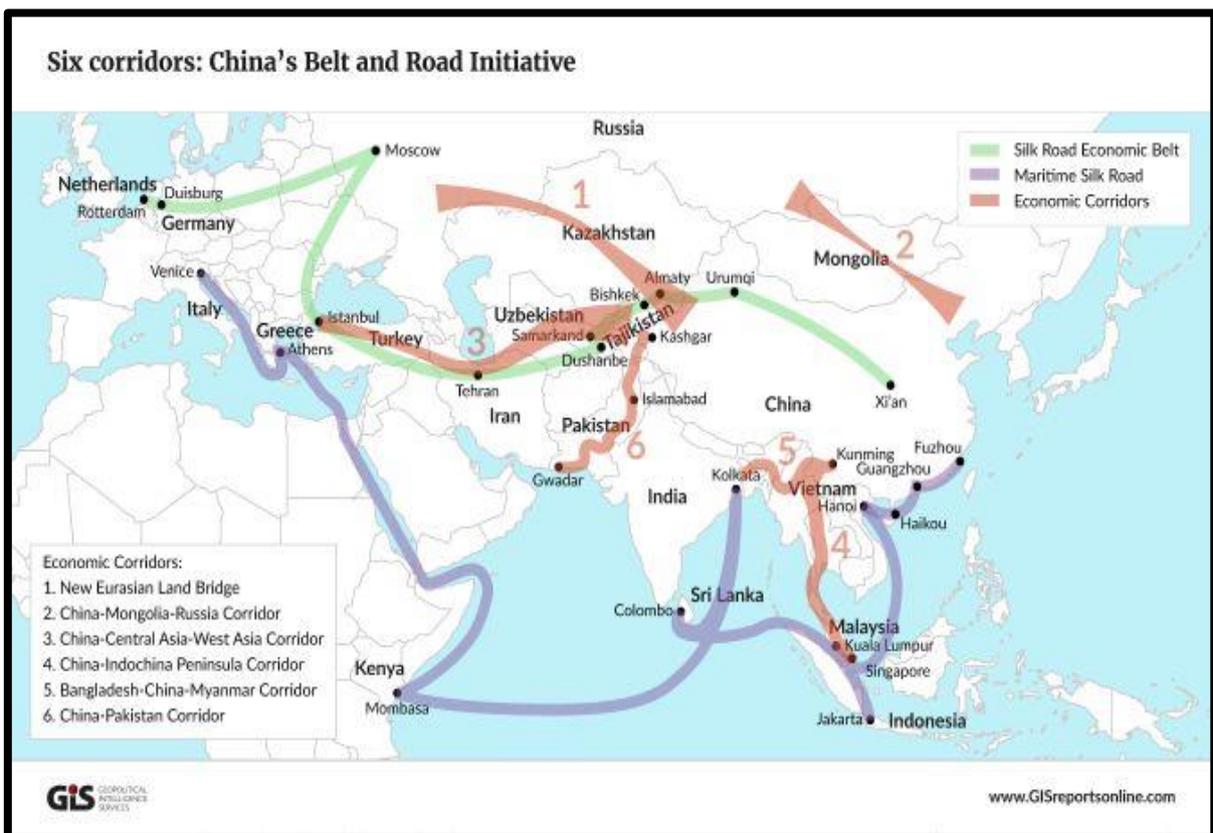
¹ See also F.Umbach/Ka-ho Yu, 'China's Expanding Overseas Coal Power Industry – New Strategic Opportunities, Commercial Risks and Geopolitical Implications', EUCERS-Strategy Paper No. 11, September 2016, pp. 50 ff.; F.Umbach/Slawomir Raszewski, 'Strategic Perspectives for Bilateral Energy Cooperation between the EU and Kazakhstan - Geo-economic and Geopolitical Dimensions in Competition with Russia and China's Central Asia Policies', Konrad-Adenauer-Foundation/EUCERS, Berlin-Astana, EUCERS-Strategy Paper No. 8, February 2016, pp. 32 ff.; F.Umbach, 'China's Infrastructure Initiative – Part 1: Implications for Eurasia, the US and Europe', Geopolitical Information Service (GIS - www.geopolitical-info.com), 6 November 2015; and idem, 'China's Infrastructure Initiative – Part 2: Investment Opportunities and Security Risks', *ibid.*, 9 November 2015.

as prosperity and to restore Chinese spheres of influence in the Eurasian landmass and beyond. It is conceived in China's historical roots, designed as a multipurpose umbrella for its comprehensive economic, domestic and foreign policy development in order to increase its geo-economic and geopolitical influence. Ultimately, it is a renewed form of China's traditional hegemony over its neighbors and rivals as practiced centuries ago, but adopted for the 21st century.

The BRI has originally been launched by China's new President Xi Jinping as the OBOR initiative in a speech at the Nazarbayev University in Astana (Kazakhstan) in September 2013. The framework concept, which combines the previous programs of 'China's Silk Road Economic Belt' and '21st-Century Maritime Silk Road Strategy (MSR)', makes the country's regional neighborhood – both on the continent and in the seas – the main strategic priority in its economic, foreign and security policies along six economic corridors (see figure 1). Should China successfully implement its BRI and its ideas of regional as well as global order, the Eurasian map might be re-defined and the geopolitical influence of the U.S., the EU as well as Russia might be marginalized. But as big as China's geopolitical ambitions are, the economically related security challenges of the BRI are equally as big. This also holds true for its MSR-strategy, which itself is being considered one of the largest trading networks in world history.²

With the BRI, China envisages to spur regional cooperation by leveraging China's economic and financial power potential of up to USD 1 trillion for regional investments and trade. It will not only link China's economy with those of Southeast, South and Central Asia, but also with the Middle East (i.e. the Gulf region), Africa and Europe. Already now, China is the world's largest economy (based on GDP and the World Bank's purchasing power parity calculations) as well as the worldwide biggest energy producer, exporter, and consumer. By 2020, China could become the world's largest overseas investor as well. Its offshore assets might triple from USD 6.4 trillion to almost USD 20 trillion.

Figure 1: The Six Economic Corridors of the BRI



Source: Geopolitical Intelligence Service (GIS) 2017.

² See also Mathieu Duchatel/Alexandre Sheldon Duplaix, 'Blue China: Navigating the Maritime Silk Road to Europe'. European Council on Foreign Relations (ECFR), Policy Brief, April 2018.

China's geo-economic strategy of an interconnected economy with its neighboring countries and countries beyond the regional neighborhood aims at creating an integrated economic network of supply and value chains - especially in the production, transport and energy sectors. It demands massive investments in ports, airports, transnational railways, highways, container trade and fiber optic cables as well as energy projects such as the development of onshore and offshore oil and gas fields, energy infrastructures and the expansion of renewable energy sources (RES).

Traditionally, China has always interpreted energy import dependencies as vulnerabilities and, therefore, has opted for 'energy independence' and self-sufficiency. On the side of its BRI partners, China's overseas energy projects as part of the BRI need to be analysed in more detail as they offer both opportunities and strategic risks for international energy cooperation and global climate mitigation policies. The overseas (energy) investments in the framework of BRI are becoming ever more important in the light of the mid- and longer-term strategic developments of China's energy security nexus.

The focus of the following analysis is directed towards the Middle East and North Africa (MENA) region, here separately examined for the Persian Gulf region and in a second step North Africa. As highlighted during a conference on "China's Belt and Road Initiative: The Return of the Silk Road to the Mediterranean" by the KAS Regional Program Political Dialogue South Mediterranean in April 2018, North African countries are looking with great interest and expectations at any larger Chinese investments in their region as part of the BRI. The discussions revealed, however, that they tend to overlook some of China's problematic conditions and circumstances of those BRI investments as has already been demonstrated in Africa, Central Asia, South Asia and Europe. In the EU, China's investment policies, including those of the BRI, have come increasingly under criticism as those investments are seen at best to serve the member states' short-term economic interests, but to undermine their mid- and longer-term strategic interests, such as the EU's common foreign and security policies towards China and other third powers.³ In Germany, China's largest trade partner in Europe, the China debate has shifted from a largely positive tone to a very critical and sceptical tone. Moreover, and despite the official support of the IMF, its managing director Christine Lagarde recently warned Chinese policymakers of financing unneeded and unsustainable projects in countries with heavy debt burdens, which limits other spending such as debt services and creating balance of payments and makes these countries dependent on China's geopolitical interests.⁴ According to a report by the Washington Center for Global Development, eight countries included in the BRI strategy are already facing problems of servicing debt due to their large borrowing from China, namely Pakistan, Djibouti, the Maldives, Laos, Montenegro, Mongolia, Tajikistan and Kyrgyzstan.⁵

The following analysis will at first give an overview of China's energy security nexus as well as energy dimensions of the BRI as determining Beijing's BRI investment strategies. It will then explore China's BRI strategy focusing on the Persian Gulf as part of its larger energy investment and energy security strategy towards the MENA region. Thereupon, it will give an overlook of North Africa's energy sector and potential investment options for China's extending BRI strategy.

³ The European Commission is currently preparing an official analysis and its standing points to China's BRI. See also again my own publications (footnote 1) and Francois Godement/Abigael Vasselier, 'China at the Gates: A New Power Audit of EU-China Relations', ECFR, December 2017; Richard Ghiasy/Jiayi Zhou, 'The Silk Road Economic Belt. Considering Security Implications and EU-China Cooperation Prospects', SIPRI-Friedrich Ebert Foundation, February 2017; Sibren de Jong et al., 'A Road to Riches or a Road to Ruin? The Geo-economic Implications of China's New Silk Road', Hague Centre for Strategic Studies, The Hague 2017; Alice Ekman et al., 'Three Years of China's Silk Roads. From Words to (Re)action?', IFRI, Paris, February 2017; Frans-Paul van der Putten et al., 'Europe and China's New Silk Roads'. A Report by the European Thinktank Network on China (ETNC), December 2016, and Michael Makocki/Zoran Nechev, 'Balkan Corruption: the China Connection', EUISS-Issue Alert, No. 22, July 2017.

⁴ See Charles Glover, 'IMF's Lagarde Warns China on Belt and Road Debt', FT, 12 April 2018.

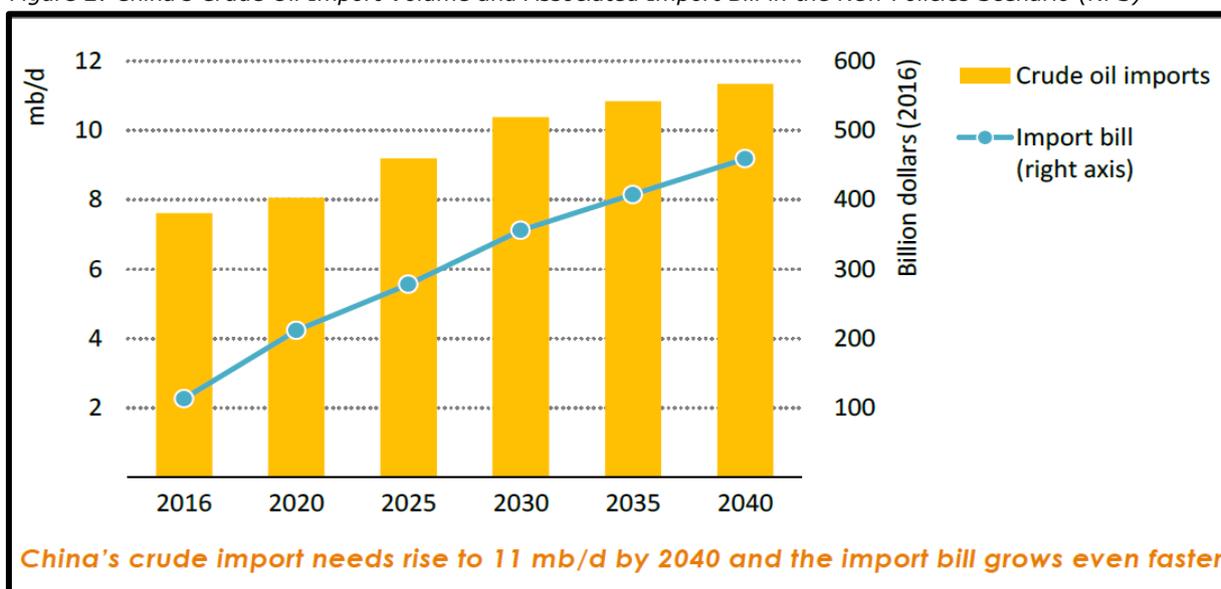
⁵ See John Hurley/Scott Morris/Gailyn Portelance, 'Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective'. Center for Global Development, Washington D.C., CGD Policy Paper 121, March 2018, and Go Yamada/Stefania Palma, 'Is China's Belt and Road Working? A Progress Report from Eight Countries', FT, 28 March 2018.

China's Energy Security Nexus and the Energy Dimensions of the BRI

According to Western estimates, energy projects and stakes combined accounted for no less than two-fifths of China's USD 630 billion total overseas investments during the last decade. China has already increased its investments in foreign RES projects, reaching USD 32 billion in 2016, thus representing a 60% increase compared to 2015. It has become the world's largest investor in RES both at its domestic and foreign energy markets. It is home to five of the world's six largest solar panel manufactures and five of the top ten wind turbine producers. But China is also the largest global provider of public financing for foreign coal power plants. In 2013, China's public financing for coal power plants amounted to no less than 40% of worldwide financing. Furthermore, it is also the world's largest investor in nuclear power projects. Its expansion of its nuclear power capacity to achieve a higher share of its national energy is accompanied by an ambitious program to build nuclear power plants abroad with Chinese investments and by Chinese companies aiming to become the world's new nuclear technology leader. Through the expansion of its nuclear power generation, China will represent around half of the global increase by 2035. It will become the largest producer of 'climate-friendly' nuclear power after 2030 by adding more capacity than the total installed U.S. capacity at present.⁶

Like the U.S., China seeks to switch from coal to gas (with the aim of a 10% share of natural gas of its primary energy consumption by 2020) in order to decrease emissions. But in contrast to the U.S., to this end China not only has to increase its indigenous gas production, but also its imports via pipelines and liquefied natural gas (LNG) from foreign suppliers.

Figure 2: China's Crude Oil Import Volume and Associated Import Bill in the New Policies Scenario (NPS)



Source: IEA, 'WEO 2017' (Paris: OECD/IEA, 2017).

In 2017, China has revised its overall oil and gas demand forecast several times, which could reduce its future oil and LNG imports – but rather in the long-term future. Its indigenous oil production has been declining for years down to 4 million barrels per day (mb/d) in 2016, though it remains the seventh-largest producer in the world. By 2040, its production is projected to further fall to 3.1 mb/d, while its oil demand will increase by 35% up to 15.5 mb/d. Hence, China's oil import dependency will rise from presently 70% to more than 80% of its demand.⁷

As part of its previous 'Going Abroad' strategy and the BRI to revive the ancient Silk Road, Chinese oil companies have increasingly engaged abroad and increased their overseas equity production to around 3 mb/d in 2016. Their expanded investments in oil and gas infrastructures and supply chains included high risk countries such as Sudan. In 2016, its crude oil imports increased up to 7.6 mb/d. More than 1 mb/d is transported via pipelines from Kazakhstan, Myanmar and Russia. In 2017, China might have become the

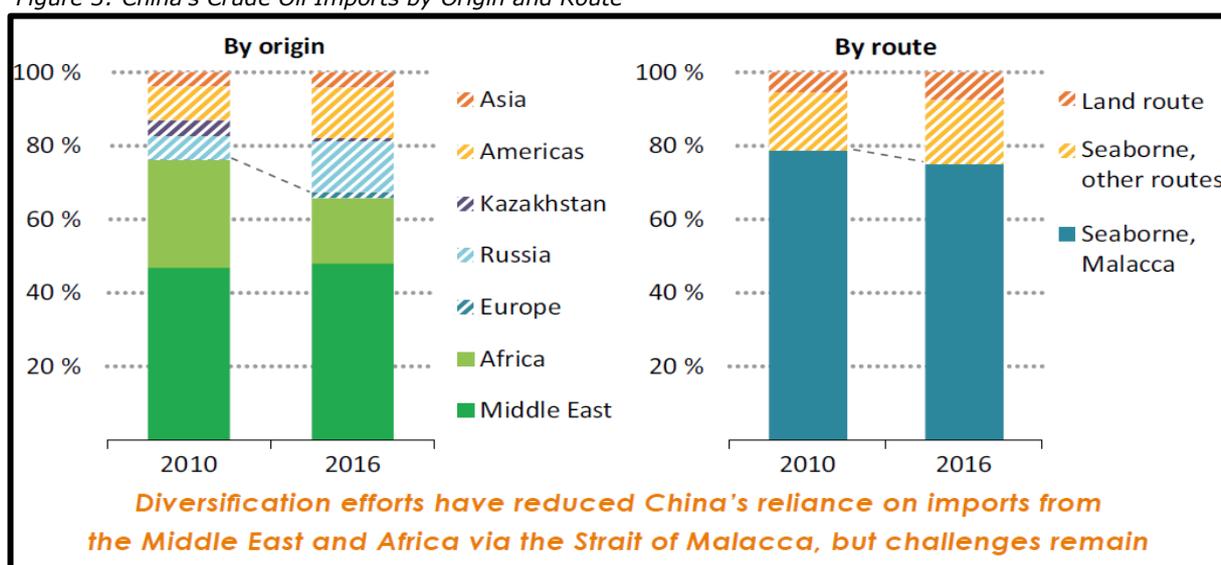
⁶ See also F.Umbach, 'China's Belt and Road-Initiative and its Energy-Security Dimensions', RSIS-Study, Singapore (forthcoming next summer).

⁷ See also International Energy Agency (IEA), 'World Energy Outlook 2017' (Paris: OECD/IEA, November 2017), pp. 561 ff.

world's largest oil-importing country (importing around 30% of the internationally traded oil), thus surpassing the U.S., which relies increasingly on its rapidly expanding indigenous shale and tight oil production. Despite rising oil imports from Russia, China will remain dependent on oil imports from the Middle East for half of its oil imports and, therewith, on unstable Sea Lines of Communication (SLOCs) and the congested Strait of Malacca.

In its oil supply security strategy, Beijing and its oil companies have increased (1) their equity of overseas oil production, (2) their oil stocks to around 245 million barrels (mb) (equaling more than 30 days of net imports), (3) land-based pipeline supplies to reduce its reliance on seaborne shipments and (4) the diversification of its oil imports. The share of imports from Russia has more than doubled from 6% of its imports in 2010 to 14% in 2016, thus surpassing imports from Saudi Arabia. As a result, the combined share of oil imports from the Gulf Region and Africa to China has decreased from 75% to less than 65% and the share of oil deliveries via the Strait of Malacca from around 80% to 75% (mainly due to the China-Myanmar oil pipeline) since 2010.

Figure 3: China's Crude Oil Imports by Origin and Route



Source: IEA, 'WEO 2017' (Paris: OECD/IEA, 2017).

While China's coal demand might decline and low-carbon fuels will grow as the largest energy resource by 2040, its gas demand will also significantly increase by 400 billion cubic meters (bcm) up to more than 600 bcm in the same period. The share of natural gas in its primary energy mix will more than double from less than 6% today to more than 12% by 2040.

China's gas imports in general and LNG imports in particular will rise even faster compared with its oil imports. But the volumes of the imports depend to a large extent on whether its shale gas projects and ambitions can be realized. Its estimated shale gas resources of 32 trillion cubic meters (tcm) are globally the largest ones (15% of the worldwide shale resources). In 2016, China produced around 140 bcm of natural gas, while its gas demand increased to 210 bcm. In that year, it was already the fourth-largest gas importer in the world, with 73 bcm. Half of its gas imports were delivered as LNG imports from 16 countries, the rest of it as pipeline gas from Turkmenistan, Uzbekistan, Myanmar and Kazakhstan. China has now 17 LNG import regasification terminals in operation with a total capacity of 70 bcm per year. The total capacity of the three Central Asia gas pipelines and the one with Myanmar stood at 67 bcm in 2016. By 2040, its overall gas imports could expand up to 280 bcm, making it the second-largest gas importer after the EU. Accordingly, its gas import dependency will grow from around 35% in 2016 to around 50% by 2040. Its pipeline imports could rise from 40 bcm in 2016 to 150 bcm.

As new data indicates, China's LNG imports have sharply increased during the second half of 2017. China might have become the world's second biggest LNG importer in 2017 as it has overtaken South Korea, though its imports of Liquefied Petroleum Gas (LPG) as the previous world's largest importer had been estimated to be surpassed by India for the first time last December. By 2040 or potentially even much earlier, China might also become the world's largest LNG importer, surpassing Japan. As new analysis suggests, China might already overtake Japan as the world's largest natural gas (but not LNG) importer in 2018.

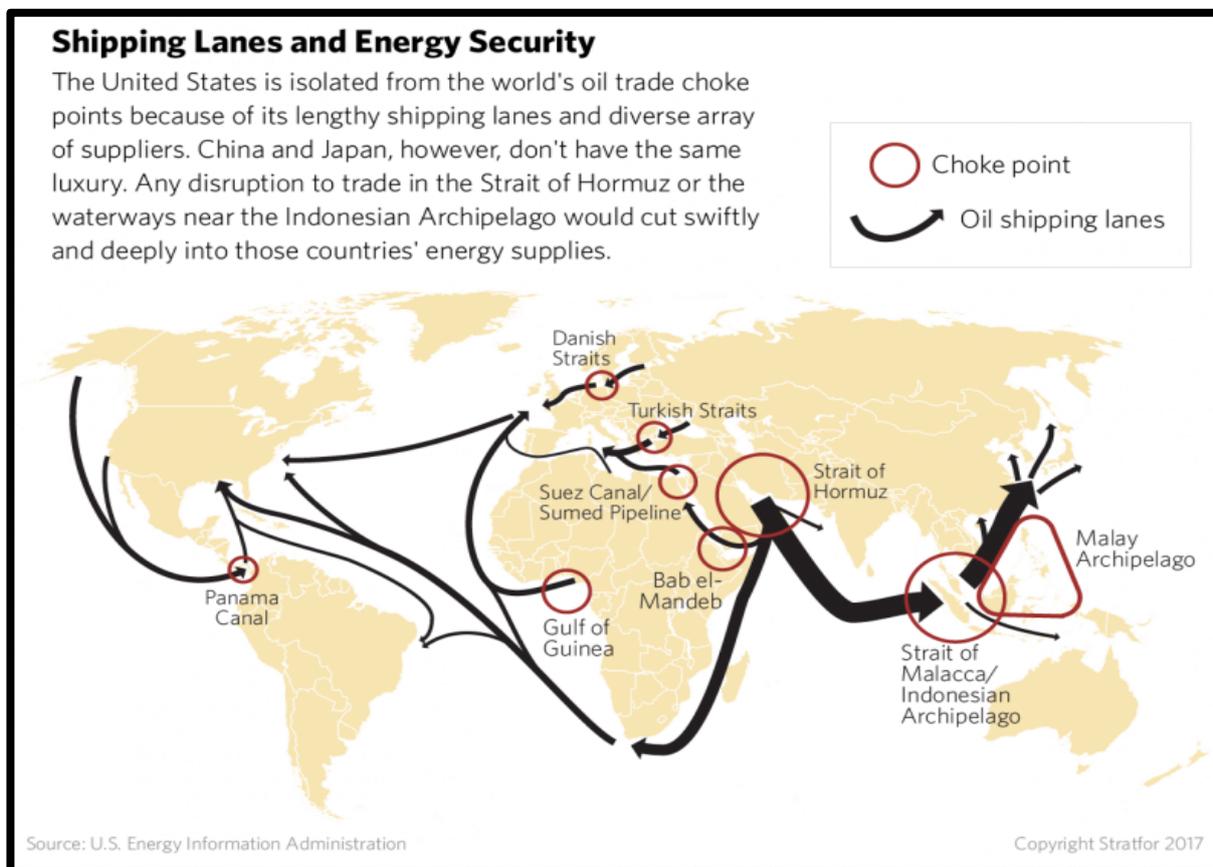
Middle East and Persian Gulf – Rising Energy Import Dependency and the Vulnerability of China’s Maritime Energy Imports

As the result of its constantly growing volumes of oil and LNG imports from the Gulf Region and the wider Middle East and Africa, China’s foreign and security policies towards these regions have become proactively engaged, accompanied by a shift of strategic priorities as well as an overall strategic calculus. In 2016, China has become the world’s largest investor in the Arab world, with investments of USD 29.5 billion with a focus on infrastructure, pipelines, ports, roads and industrial parks.

As the world’s largest oil importer, having just replaced the U.S., China received about 52% of its total crude oil imports from the Middle East and 22% from Africa. More than 82% of its oil imports are shipped via the SLOCs of the Indian Ocean through the Malacca Strait and South China Sea to China. In 2016 more than 40% of its crude oil imports were transported through the Strait of Hormuz and almost 40% of its foreign trade was transferred through the Indian Ocean. Given these energy and trade dependencies on secure sea lines, the MSR-strategy has an increasing strategic importance for China’s expanding naval forces in the Indian Ocean. While the initial mission of the PLA-Navy (PLAN) was to protect Chinese shipping from pirate attacks in the Gulf of Aden and the Somalian offshore waters, it has used the opportunity to raise China’s maritime power status. In Djibouti, China has created its first overseas military base as a support facility for warships and aircrafts as well as peace, stability and security missions in Africa and beyond.

China’s hitherto closest ally in the Middle East and the Persian Gulf has been Saudi Arabia, the world’s largest crude oil exporter and also China’s largest oil importing source. In 2016, it imported around 1 mb/d from Saudi Arabia – accounting for 20% of China’s annual oil import demand. China is also Saudi Arabia’s largest oil export destination country, having surpassed the U.S. since 2009. Both sides are also negotiating to involve Chinese companies in building 16 nuclear power plants worth of USD 100 billion. Their bilateral relationship is expected to further grow alongside China’s rising energy demand and related regional security interests in the Persian Gulf and the Middle East. Together with Iran, China considers the relationship with Saudi Arabia as a ‘comprehensive strategic partnership’.

Figure 4: Shipping Lanes and Energy Security



Source: Stratfor.com 2017

Due to its rising LNG demand, China has become one of the world's largest LNG importers, and therefore has also expanded and deepened its relations with Qatar - the world's largest LNG exporter - up to the level of a strategic partnership. Qatar on its side supports the BRI and the Chinese-led Asian Infrastructure Investment Bank (AIIB) as one of the most important funding source for the BRI's infrastructure and energy projects.

After sanctions have been lifted, Iran has become even more important for China not only due to its oil and gas resources (having the fourth-largest oil and the globally largest gas resources), but also for Teheran's own North-South infrastructure connections to Azerbaijan, Turkmenistan and other countries of Central Asia and the various transit roles Iran can play in the infrastructure plans of BRI connecting the Eurasian landmass. Both sides want to increase their present bilateral trade of only USD 50 billion up to USD 600 billion over the next decade.

At the same time, China's green energy revolution has attracted the interests of the United Arab Emirates (UAE) for its 'Clean Energy Strategy 2050'. Both sides have expanded its cooperation on solar power, other joint investments and currency cooperation. The UAE is also a founding member of the AIIB. Furthermore, the UAE has become an important infrastructure hub for various ports and land and maritime transport routes.

Perspectives for China's BRI and Energy Investments in North Africa

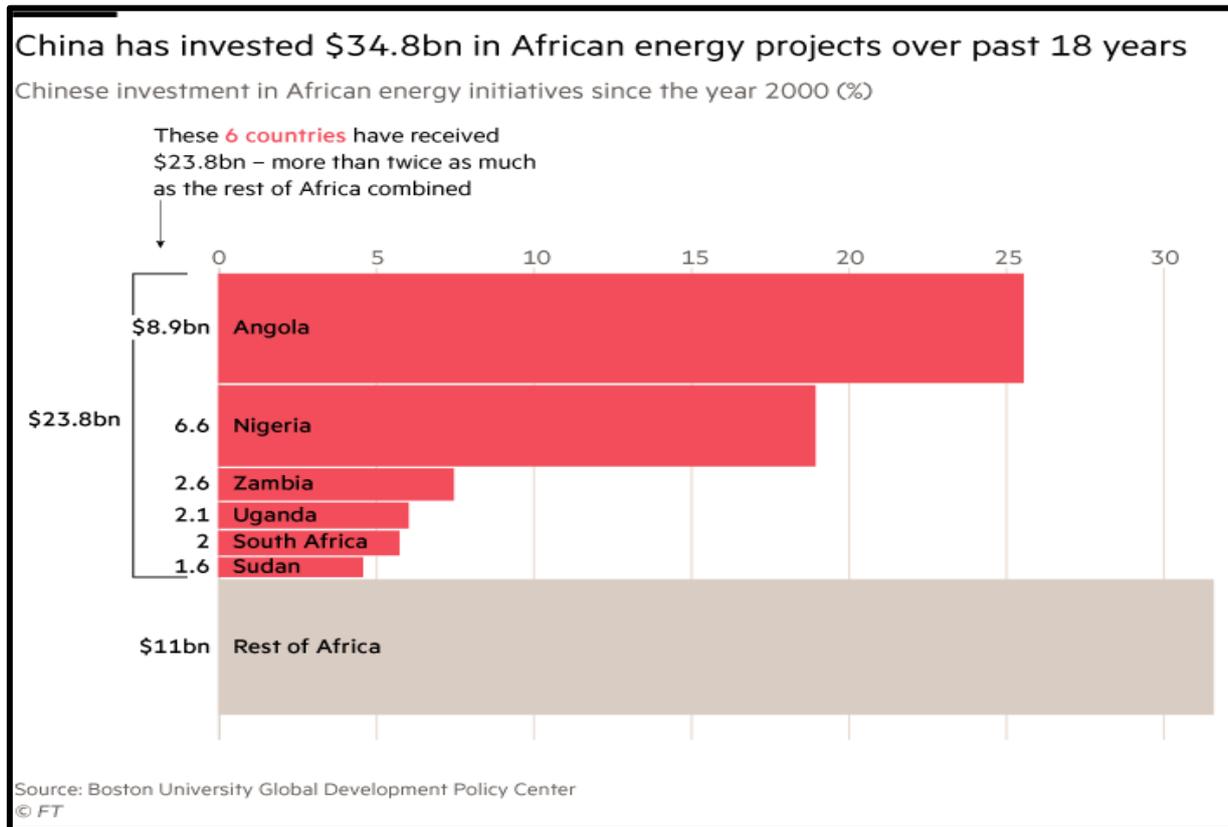
Regional states, international banks as well as other states, such as China, have so far committed USD 345 billion for energy projects in the entire MENA region which have already been implemented and an additional USD 574 billion for projects in the planning stage. Saudi Arabia and the UAE represent 38% of all planned investments. The power sector accounts for the largest share of investments at USD 187 billion. The majority of these investments have however been allotted for the development of energy projects in the Persian Gulf countries. Initially, Africa has been rather at the sidelines of the BRI. As the only African city, Nairobi has been identified as a potential hub of China's MSR-strategy.

China's oil and gas import interests hitherto have been focused on the Persian Gulf region due to geographic position and the region's much larger oil and gas reserves compared with through North African sources. Furthermore, continuing political instabilities in Libya have hindered any plans to diversify China's oil imports from North Africa. Any oil imports from North Africa to China also need to be shipped either around Africa or using the additional unstable choke points of the Suez Canal and the Bab-el Mandab and along the coast of Yemen, a country plagued by civil war fueled by the ongoing Saudi-Iranian proxy war.

China's investment interests in North Africa up until now are focusing mostly on renewable energy projects, the power sector and electricity grids. The China-led Asian Infrastructure Investment Bank (AIIB) has widened its investment strategy from an Asia-focused lender into a global investment bank (similar to the World Bank) with increasing spending on infrastructures and energy projects in Africa and Latin America. Since 2000, total Chinese energy financing in Africa has amounted to USD 34.8 billion, which is considerably less than in Europe and Central Asia (USD 69 billion), Latin America (USD 62 billion) and Asia (USD 60 billion).

China's President Xi Jinping has promised to raise the investments for Africa to USD 60 billion by the end of this year. Despite accusations by some African countries that China has deliberately destroyed their strategically important textile industry, has not created jobs for the African countries (as most infrastructure projects are being built by Chinese companies bringing their Chinese workers with them to Africa), and thus having been called the 'new colonial power' of the 21st century, some opinion polls found a much more positive image of China's investment and development strategy, compared to the EU and the U.S.

Figure 5: China's Energy Investments in Africa since 2000



Source: FT/Boston University Development Center, China's Global Energy Finance, Chinese Development Bank (CDB) and Export-Import Bank of China (Ex-Im), 2018 (<https://www.bu.edu/cgef/#/all/Country>; accessed on May 10, 2018)

The largest lending segment of China's energy financing of USD 34.8 billion in Africa has been invested in power generation and transmission grids up with USD 22.3 billion. The remaining investments have been allocated to oil and gas exploration and extraction. This lending and investment has been concentrated on Angola, Nigeria, Zambia, Uganda, South Africa and Sudan. North Africa did thus up until now not play a prominent role in China's Africa energy investment strategy and the BRI. But with an improvement of the regional investment conditions, China could be interested to expand its investments particularly in renewable projects and the modernization of North Africa's transmission networks.

Morocco, for instance, is building the world's largest and most modern concentrated solar-power plant ("Noor"), which covers an area of around 1.4 million m² (a size similar to Paris). Based on these new power generation capacities, Morocco, which until recently imported 97% of its energy needs, might become an energy exporter in the near future.

At present, the country's electricity generation still relies on coal-fired power generation based on coal imports to guarantee energy supply security as it has failed to secure LNG imports. Its tender for a LNG-to-power project has seen a delay of several year, but might finally take place this year. Morocco plans to generate 42% of its energy needs from RES by 2020 and 52% by 2030. It is the only North African country that has received some larger energy investments of China with around USD 300 million in 2014. Morocco's King Mohammed VI even hopes that his country might become the BRI gateway to West Africa.

While the country appears politically more stable than most of the other North African countries due to the role of King Mohammed VI and the monarchy's control of the armed forces, security apparatus, domestic and foreign intelligence services as well as coordination of foreign policies, the gap between the political elite and ordinary citizens has continued to widen as the younger generation keeps pushing for more robust democracy and greater economic equality. The risks of political instability are thus increasing, though still lower than in most of the other North African countries.

As an important gas pipeline exporter to Europe, Algeria also has some ambitious plans for expanding RES. Its existing renewable installations still consist mostly of pilot projects amounting to 663 Megawatts (MW) or just

3.7% of the country's installed generation capacity of around 18 Gigawatts (GW). Without new investment plans for renewables, it will miss its energy target of installing 22 GW of renewable capacity by 2030, despite a huge potential of solar and wind energy projects across the country. Like in other North African and Middle Eastern countries, a more rapid expansion of renewable energy projects depends on creating attractive regulatory and legal frameworks to inspire the confidence of foreign investors, including China.

More than 50 years ago, Algeria was the world's first LNG exporter and is still Africa's biggest gas producer and the third-largest gas supplier to Europe (after Russia and Norway). Over the last years, 90% of its gas exports went to Europe. In 2017, it exported 54 bcm mainly to the European gas market with the new Reggane and Touat gas fields coming on-stream. But the country is also facing difficulties regarding its ambitious plans to increase its oil and gas production, which are due to budgetary constraints, political problems, insufficient investment conditions and rising costs of security needs for its critical energy infrastructures. The fall of export oil and gas revenues due to the declining oil and gas prices are threatening not just the government's state budget balance but also its investments programs of USD 12 billion in the medium-term as its offshore exploration projects are costly. It thus urgently needs regulatory and market reforms to attract foreign investments. If these reforms are not designed and implemented in time, Algeria may not be able to produce sufficient gas volumes for any exports as its domestic gas consumption (82.5 bcm in 2015) will also rise in the years ahead. Symptomatically, the Italian oil company ENI focuses its investment strategy in Algeria on maximizing the output of its existing oil and gas fields rather than developing new oil and gas fields.

Despite being hailed as the only successful democratic revolution of the Arab Spring, Tunisia's transition has been fraught by political fragility and slow economic recovery. Its textile industry is facing increasing competition from Asia (including China), and its tourist industry is still suffering from the aftereffects of terrorist attacks in 2015. Since 2000, the country is a net importer of energy. The investment climate for its oil and gas industry has worsened due to technical and commercial difficulties as well as continuing high security, political and social risks. Its proven conventional oil and gas reserves (425 mb and 56 bcm respectively) are limited, though the country has considerable shale oil and gas reserves (1,500 mb and 644 bcm), which have yet to be explored. The production of its conventional oil and gas reserves is declining due to depletion of the existing aging fields, the needs for maintenance and rising security costs for doing business in Tunisia. In 2014, the national investment in oil and gas exploration stood at only 50% of the investment in 2010. Natural gas still has a share of more than 90% in Tunisia's national electricity generation. Government plans however seek to increase the share of renewables from 3% in 2015 to 30% by 2030, mostly by expanding the capacities of wind and solar PV power. Tunis also hopes to build an electricity interconnector with Europe, which would offer Tunisia cheaper electricity rates than those for its domestically produced power – a prospect which appears increasingly questionable with the rapidly falling prices of solar PV and wind power. Grid interconnections between Tunisia and Algeria as well as between other North African countries are limited and mostly used only as stand-by facilities for energy supply security.

As long as the conflict in Libya's is continuing, the prospects for a higher oil production and much needed investments for expanding renewables are limited. In 2017, its oil production has increased up to 0.7 mb/d after three years of declining production rates. But the output capacity is still less than 50% of the capacity before the revolution against Muammar Qadhafi in 2011, which stood at 1.6 mb/d. Due to the conflict, security costs for operating any energy business in Libya have skyrocketed. Although Libya's state-owned National Oil Corporation (NOC) has lifted a ban on foreign investments in the country's oil and gas sector in 2017 as part of a strategy to raise the national output and works towards creating more favorable conditions for international oil companies (IOCs), the lack of political stability will still deter most IOCs.

In Egypt, attention is giving predominantly to boosting the country's oil and gas production. The discovery of the offshore Zohr gas fields in the Mediterranean will potentially make Egypt a net gas exporter in the mid-term perspective. Other new gas fields such as West Nil Delta, Atoll and Nooros are projected to satisfy Egypt's exports interests as well as its rising domestic gas consumption. It is expected that Egypt will achieve self-sufficiency by the end of 2018, stopping any LNG imports by June and resuming LNG exports next year. Given the size of the Zohr gas field and the recent positive reform efforts of Egypt's government in this regard, the country might become a Mediterranean hub for gas and crude oil exports to Europe by the beginning of 2021. Its gas production is expected to rise from 127 million cubic meters per day (mcm/d) in 2016 to 176 mcm/p by mid-2018 – the highest level since 2009/10. But its gas consumption is also expected to increase from 152 mcm/d in 2016/17 up to 166 mcm/d this year. It is thus not entirely predictable whether the country will be able to meet its rising mid-2020 gas demand if no additional new gas sources are found and developed in time.

Moreover, the Egyptian government plans to expand RES in its power sector with solar and wind capacities. It has also announced a considerably cut of its fuel and electricity subsidies by 19% and 48% respectively over the next three years and has taken steps to liberalize its gas sector.

Despite efforts of the states in the region to expand solar PV and concentrated solar power plant projects, the expansion of RES projects is still mostly seen only as an opportunity to decrease the domestic fossil fuel consumption in order to free additional oil and gas resources for exports. This in turn increases the state budget dependency on oil and gas export revenues and can act as further obstacle to an economic diversification of their economies. The impact of this dynamic is even more pronounced in oil-exporting countries, such as Saudi Arabia, Kuwait, Bahrain and the UAE, since their levels of energy subsidies tend to be higher than those in oil-importing countries such as Morocco, Tunisia, Jordan and Egypt. The higher the subsidies, the higher are economic losses as they distort the economics of energy and the price signals of energy resources, thus weakening the competitiveness of renewables against fossil fuels and undermining efforts for energy conservation and enhancing energy efficiency.

Strategic Perspectives

China's previous 'going out' strategy has cumulated in its BRI as framework for buying energy production markets and infrastructure facilities in a much more strategically designed and framed long-term plan that seeks to reduce the risks and vulnerabilities of its rising energy import dependence, but also to contribute to broader Chinese-designed political stability at home as well as abroad. The strategic objective behind the BRI and the MSR is to establish secure sea routes from its coast to the Indian Ocean and the Mediterranean Sea and to create alternative supply routes overland to ensure a diversification of transport routes for its oil and LNG supplies, trade and access to foreign markets in the case of maritime supply disruptions. Increasing Chinese investments into renewable and transmission projects abroad also serve to reduce its domestic overcapacity problems, to acquire sensitive high-tech technologies as well as to create a dependency of the receiving countries in order to contribute to China's future economic and wider geopolitical ambitions.

In the BRI investment strategies, Beijing has also supported and implemented energy (infrastructure) projects, which are commercially questionable or unprofitable. Those projects and strategies have demonstrated repeatedly that China's long-term geopolitical energy interests and projects often outweigh the commercial side of deals.

At the same time, the need to protect its overseas energy investments and projects drives China's security and military interests abroad as well as the capabilities of the PLA, particularly its naval and air forces. But these Chinese strategies to enhance its overall geo-economic and geopolitical power in the Eurasian landmass and along its MSR have also produced new security dilemmas for both China and its BRI cooperation partners.

China's equally rising energy and military ties with Iran and the Syrian regime of Bashar al-Assad for instance could complicate its future relationship with Saudi Arabia and have negative impacts on its MSR strategy in the region. The present U.S. withdrawal from the 2015 international nuclear agreement with Iran is challenging China's traditional diplomacy as Beijing has officially supported the EU and Russia to salvage the nuclear agreement with Iran. It raises the stakes for China not only because of the overall importance of its bilateral economic relations with the U.S. (USD 636 billion in 2017 compared with Iran's USD 37.8 billion, thus just 5% of the U.S.). It could also hurt its bilateral relations with UAE and Saudi Arabia, its most important oil supplier in the Persian Gulf. At the beginning of the year, Chinese banks have also refused to participate in a one-year extension of a USD 575 million syndicated loan to Doha bank, Qatar's fifth-largest lender as a result of Saudi Arabia's diplomatic conflict with Bahrain. But any Chinese support for Iran, such as upholding the nuclear agreement together with the EU and Russia, poses a much more existential threat to Saudi Arabia's strategic interests and could threaten Beijing's close relations with Riyadh.

Up to now, Chinese companies have not really shown any strategic investment interest in the Mediterranean gas export potential of Israel, Egypt, Cyprus and Lebanon. China thus seems to take Russia's strategic interests in those exports into account. Given Russia's dependency on oil and gas export revenues, it has tried to block these Mediterranean export projects by becoming itself a shareholder in them (like Rosneft in the Zohr project or offering deals with sensitive weaponry exports) to prevent any gas exports to Europe, which would make those efforts an unwanted rival to its own gas exports to Europe for both geo-economic and geopolitical

interests.⁸ China has respected these Russian strategic interests in Central Asia and the Mediterranean region up until now as Rosneft/Russia has become the largest oil supplier for China. But Beijing increasingly fears that Russia's hard power policies in the region may further escalate regional conflicts such as Syria and Iraq and, therewith, complicate China's mushrooming strategic interests in the region. China's diplomatic efforts for de-escalating the Israel-Palestine, Syria and the rising Saudi-Iran conflict over the last years have proven rather unsuccessful and have not weakened the superior position of the U.S. and Russia in the region beyond the establishment of China's first foreign military base in Djibouti.

Looking ahead, China itself is facing numerous new challenges and security dilemmas for its foreign and security policies related to the BRI and its investment strategies in the MENA region. The region itself and in particular the North African countries need to assess carefully the given investment opportunities as well as their strategic risks for their long-term economic interests. In this regard, a closer dialogue with the EU's debates and 'lessons learned' on China's BRI and its ambivalent investment strategies could be useful for North African countries and their need to more adequately balance those opportunities and risks.

⁸ See F. Umbach, 'EU Energy Supply and its Strategic Interests for Interregional Energy Cooperation with the Eastern Mediterranean Rim', Konrad-Adenauer Foundation (KAS), Tunis, June 2017 (http://www.kas.de/wf/doc/kas_49417-1522-2-30.pdf?170630141754).

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