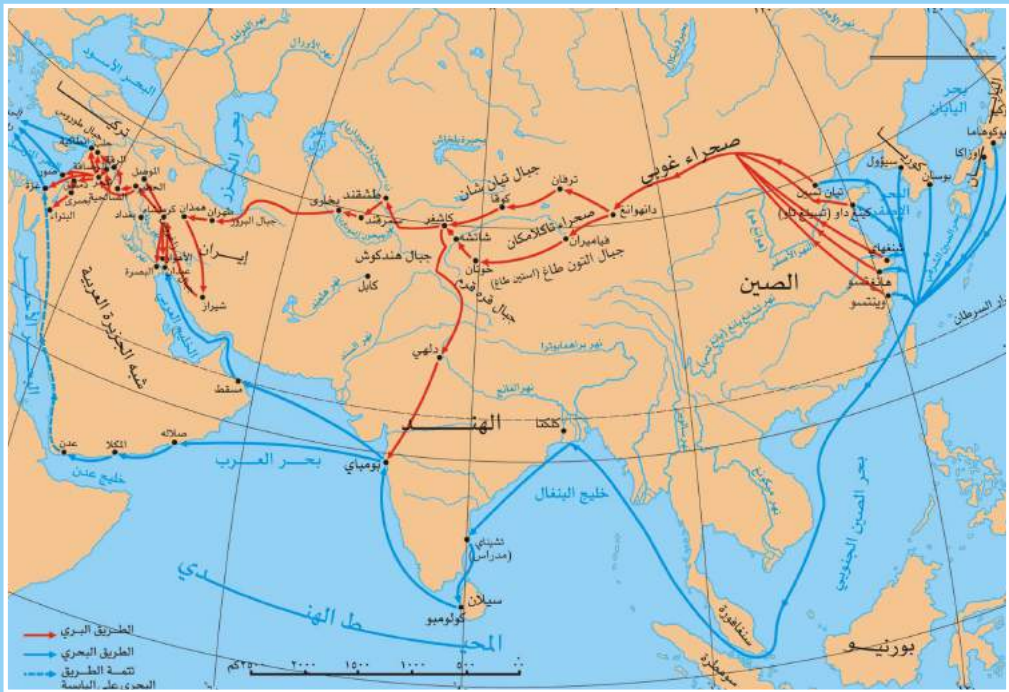


# CHINA'S BELT AND ROAD INITIATIVE: AN OPPORTUNITY FOR IRAQ



## **About**

Al-Bayan Center for Planning and Studies is an independent, nonprofit think tank based in Baghdad, Iraq. Its primary mission is to offer an authentic perspective on public policy issues related to Iraq and the neighboring region. Al-Bayan pursues its vision by conducting autonomous analysis, as well as proposing workable solutions for complex issues that concern academia and policymakers.

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## **CHINA'S BELT AND ROAD INITIATIVE: AN OPPORTUNITY FOR IRAQ**

Since assuming the seats of the General Secretary of the Communist Party of China and President of the People's Republic of China in 2012, the governance of Xi Jinping has been defined by far-reaching projects and initiatives. On the surface, these policies have sought to continue China's upward economic growth and development that picked up under his predecessor, Hu Jintao. Unlike Hu, however, Xi's approach to internal and foreign policy has been defined by greater assertiveness. Xi's signature anti-corruption campaign, the tightened restrictions on Chinese civil society, his calls for further market economic reforms, the strengthening legal institutions, and the emphasis on individual and national aspirations under the slogan "Chinese Dream" have all signalled that government policy under him seeks to address the structural pressures upon the Chinese economic and political system that have become increasingly visible as a result of slowing economic growth.

It was in this context that Xi Jinping announced the Belt and Road Initiative. First mentioned in 2013 and subsequently codified in 2015 with a policy document, the Initiative represents one of the most ambitious foreign policy and investment schemes ever conceived. Upon completion, the Initiative would create direct land and sea links between China's industrial heartlands in the eastern provinces, through its sparsely populated and under developed western provinces, through India, Russia, Central Asia, Iran, Turkey and parts of the Middle Eastern (referred to in China as "West Asia") and North African countries such as Saudi Arabia, Oman, Egypt and Sudan before ending in Europe.

Despite the scope and ambition, however, much of the specifics of the Initiative, including which countries will partake in it, remain vague. The Chinese Government has maintained that the Initiative operates on an opt-in system and has generally refrained from setting targets and specifically quantifiable goals around the initiative. The vagueness around the Initiative has led many academics and China analysts to try and fill in the blanks themselves, particularly with regards to impact assessment on individual countries.

At present, Iraq is not listed as a participant of the Belt and Road Initiative. However, the country is one of the principal suppliers of oil to China. Bilateral trade between the two countries has been increasing steadily over the past decade, only suffering a dip over the course of 2014 and 2015 owing to the conflict taking place in the country. Given that Iraq's southern (Saudi Arabia), northern (Turkey) and eastern (Iran) neighbours are all slated to be participants of the Initiative, it stands to reason that Baghdad should gauge its options on whether participation in the Initiative will be feasible or beneficial for Iraq.

This paper looks at how Iraq can pursue a healthy economic relationship with China within the context of the Belt and Road Initiative. It investigates the primary features of the Initiative and what China desires from it. As part of understanding Beijing's motivations for setting out the Initiative, this paper analyses China's political, economic, social and security priorities in the current era. This paper then links the Initiative to China's broader infrastructure-led foreign investment and development model. China has pursued such models with nearly all its principal suppliers of oil (and other raw materials). As such, this paper looks at the experiences of Angola, Mozambique and Iran, analysing the costs and benefits of such a relationship with China. This paper concludes that the infrastructure-led foreign investment and development model has provided all these countries with significant

socio-economic dividends. The case of how China assisted Angolan reconstruction following its years-long civil war is deemed particularly relevant to Iraq as the process of recovering from the war against the Islamic State takes shape over the course of 2018 and beyond. This paper also concludes that Chinese investment has, at times, inflamed local tensions due to unfamiliarity of the local dynamics; exacerbated environmental damage; put additional stress on natural resources; increased unemployment in instances where locals were not employed; caused uneven development; and exacerbated corruption.

This paper further concludes that participating in the Initiative can be of great benefit to Iraq and advises that Baghdad leverages its oil sales with the reconstruction of major cities that have suffered damage over the course of the past three years. Oil-rich but development-poor cities such as Basra also stand to benefit, allowing the Iraqi Government to realise its goal of turning Basra into a world city. As mentioned above, three of Iraq's neighbours are participants in the initiative. Meanwhile, relations between Beijing and Damascus have been growing steadily, with China expressing interest in Syrian reconstruction. This paper argues that there is great potential for regional synergy in which Iraq can play a bridging role. Lastly, this paper advises the Iraqi Government to avoid relying solely on Chinese investment but rather maintain a diverse set of partnerships, giving Iraq the luxury to pick-and-choose. This is particularly relevant for a number of high-tech sectors where China continues to lag behind its rivals such as Japan.

### **The Belt and Road Initiative**

The Belt and Road Initiative, also known by its full name, The Silk Road Economic Belt and the 21st-century Maritime Silk Road or its older former name, One Belt One Road Initiative, is a development strategy that was proposed by Chinese President Xi Jinping. The

Initiative, which focuses on connectivity and cooperation across Eurasia, aims to create a China-centric trade network that consists of two main segments: The land-based Silk Road Economic Belt and the oceangoing Maritime Silk Road.

First referenced by President Xi in Kazakhstan in late 2013 in fairly generic terms, the Initiative gradually took form over the course of the following two years, transforming into what has been described as “the most ambitious foreign policy approach adopted by China so far”<sup>1</sup>. The Initiative envisions a series of infrastructure projects that span Central Asia and the Middle East (or “West Asia” in Chinese), ultimately “connecting the vibrant East Asia economic circle at one end and the developed European economic circle at the other, and encompassing countries with huge potential for economic development”<sup>2</sup>.

### *Features*

Despite its far-reaching vision, however, the Chinese Government has been noticeably vague in defining exact parameters for the Belt and Road Initiative. While numerous mentions of “economic development”, “mutual benefit”, “opportunities”, “win-win” and “cooperation”, official documents avoid giving exact details for the parameters, targets, deadlines of the Initiative or even which countries are taking part, highlighting instead the opt-in nature of the Initiative. Indeed, even the term “Initiative” is emblematic of this approach, as it has

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1. Mayer, Maximilian (ed.). *Rethinking the Silk Road: China’s Belt and Road Initiative and Emerging European Relations*, Singapore: Palgrave-Macmillan, 2017, p. 2

2. *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, National Development and Reform Commission, 28-March-2015, <[en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)>, [Accessed 03-January-2018]

been chosen in favour of terms such as the “project” or “strategy”<sup>3</sup>. On numerous occasions, the Chinese Foreign Minister Wang Yi dismissed the notions that the Belt and Road Initiative was a geopolitical strategy akin to the United States’ Marshall Plan, describing it as a “product of inclusive cooperation, not a tool of geopolitics”. Similar claims have been made by numerous Chinese scholars who described the Initiative as being “neither an ideological, nor a geopolitical tool”<sup>4</sup>. The lack of clear boundaries and coherent institutional form have caused confusion not only among international observers but also among the countries slated to participate in the Initiative<sup>5</sup>. Chinese diplomats have come under increased pressure to explain what the Belt and Road Initiative exactly entails. Meanwhile, scholars both in China and around the world have sought to read between the lines or analyse Beijing’s past and present behaviour to identify what the Initiative entails, resulting in different interpretations and predictions for the Initiative.

For its part, the Chinese Government has framed the Initiative as the third round of its economic opening, the first having been the establishment of the Special Economic Zones (SEZ) in the Chinese mainland and the second having been its accession into the World Trade Organisation (WTO). In this case, however, the Initiative has been framed not as a purely-Chinese ambition or even a China-dominated one but as a multilateral effort in which China takes a leading role. President Xi himself noted that the Initiative “should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the routes. It is not closed but open and inclusive; it is not a solo by China

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3. Mayer, Maximilian (ed.). *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging European Relations*, Singapore: Palgrave-Macmillan, 2017, p. 7

4. *Ibid*, p. 7

5. *Ibid*, pp. 7-8

but a chorus of all countries along the routes”<sup>6</sup>.

### *Participants*

The opt-in nature of the Initiative has made it difficult to gauge the exact number of countries that are slated for involvement in the Belt and Road Initiative. Maps and documents listing the countries participating in the Initiative have varied from source-to-source, many of them having been produced by Chinese academia and think tanks rather than government institutions themselves<sup>7</sup>. On the whole, however, 60 to 68 countries spanning Asia, Africa and Europe are expected to partake. However, the actual number of countries involved in the Initiative may be higher. For instance, In January 2017, Chinese Foreign Minister Wang Yi declared that both Mozambique and Madagascar were “natural extensions of the Maritime Silk Road” despite neither country being listed as participants of the Initiative<sup>8</sup>.

Although the exact identities and numbers of the countries that are expected to participate in the Belt and Road Initiative remain varied, the Chinese Government and academia have nevertheless identified six main land and sea routes that are expected to get much of the development. These consist of:

- The New Eurasian Land Bridge: Also known as the New Eurasian Continental Bridge, this network of railways lines is expected to

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6. One Belt One Road: A Role for UK Companies In Developing China’s New Initiative, China-Britain Business Council; Foreign and Commonwealth Office, 2015, p. 7

7. Stokes, Jacob. China’s Road Rules, Foreign Affairs, 19-April-2015, <<https://www.foreignaffairs.com/articles/asia/2015-04-19/chinas-road-rules>>, [Accessed 03-January-2018]

8. Mayer, Maximilian (ed.). Rethinking the Silk Road: China’s Belt and Road Initiative and Emerging European Relations, Singapore: Palgrave-Macmillan, 2017, p. 71



run from the port of Lianyungang in the Jiangsu Province of eastern China all the way to Rotterdam in Western Europe, passing through the Xinjiang Province of western China, Kazakhstan, Poland and Russia<sup>9</sup>. Part of the railway, running between Lianyungang and Kazakhstan, has already been activated in 2015.

- The China - Mongolia - Russia Corridor: This high-speed rail and road network will depart from Beijing, leading through Mongolia and Kazakhstan to arrive in destinations in western or southeast Russia. It adheres to not only the Belt and Road Initiative but also Russia's Transcontinental Rail Plan<sup>10</sup>.
- The China - Central Asia - West Asia Corridor: Primarily consisting of oil and natural gas pipelines, this network runs from Xinjiang in west China, running through Uzbekistan, Kazakhstan and reaching the Arabian Peninsula, Turkey and Iran. As part of the programme, China has proposed a comprehensive cooperation strategy that will bolster economic ties with Middle Eastern countries, focusing on nuclear and renewable energy, infrastructure construction, aerospace technology, trade and investment<sup>11</sup>.
- The China - Indochina Peninsula Corridor: Consisting of high-speed railways and motorways, this corridor aims to connect economic hubs of Guangzhou, Hong Kong and Shenzhen to Cambodia, Myanmar, Laos, Thailand and Vietnam. The Corridor is intended to link up with the Greater Mekong Economic Area formed by the Asian Development Bank and serves as a platform for

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9. One Belt One Road: A Role for UK Companies In Developing China's New Initiative, China-Britain Business Council; Foreign and Commonwealth Office, 2015, p. 10

10. Ibid, p. 11

11. Ibid, p. 12

industrial cooperation<sup>12</sup>.

- The Bangladesh – China – India – Myanmar Corridor: The main purpose is to connect China’s industrial heartlands with those of India through Myanmar. India and China have set up a cooperative mechanism to set up railway construction, industrial cooperation and professional training services<sup>13</sup>.
- The China – Pakistan Corridor: This high-speed rail network is intended to run between Kashgar in Xinjiang and Gwadar in Pakistan, potentially providing China with a shortcut to the Middle East and Africa via Dubai and Oman, bypassing the Strait of Malacca which is deemed as a point of logistical vulnerability due to the strong regional presence of the United States. Although China and Pakistan have reached agreements worth \$40 billion in 2015, the plan has been strongly opposed by India due to the network passing through the disputed territory of Kashmir<sup>14</sup>.

If and when the construction of all these Corridors reaches completion, they will effectively create a continuous transport link that stretches all the way from Western Europe to Southeast Asia, with China’s economic and industrial heartlands along its eastern coast at its centre. Indeed, although the Chinese Government has made a point of expressing the mutual development goals of the initiative, its goals and objectives nevertheless remain highly China-centric.

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12. Ibid, p. 13

13. Ibid, p. 13

14. Ibid, p. 14

### *Funding*

According to official documents published by the Chinese Government, the funding for the Initiative will not be handled solely through the Chinese Government. Instead, a number of international financial institutions will be handling the funding, chief among them the Asian Infrastructure Investment Bank (AIIB), the New Silk Road Fund and the New Development Bank initiative between the BRICS (Brazil, Russia, India, China, South Africa) nations. Between them, the Initiative is expected to have access to at least \$140 billion<sup>15</sup>. President Xi expressed hope that the investment provided by these institutions in helping fund the Initiative could result in an annual trade of \$2.5 trillion between China and its partners<sup>16</sup>.

How these new financial institutions, primarily under the influence of China, and, to a lesser extent, Russia and India, will interact with existing international financial institutions such as the World Bank and the International Monetary Fund (IMF) that are primarily under the influence of the US and other Western powers, remains to be seen. It is no secret that the founding process of the AIIB was laden with drama. The efforts to found the AIIB came on the heels of the US trying to limit China's growing clout in the World Bank and the IMF. Subsequently in late-2015, the Obama Administration attempted to

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15. Mayer, Maximilian (ed.). *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging European Relations*, Singapore: Palgrave-Macmillan, 2017, p. 211

16. Wee, Sui-Lee. China's Xi: Trade between China and Silk Road nations to exceed \$2.5 trillion, Reuters, 29-March-2015, <<https://www.reuters.com/article/us-china-economy-oneroad/chinas-xi-trade-between-china-and-silk-road-nations-to-exceed-2-5-trillion-idUSKBN0MP0J320150329>>, [Accessed 04-January-2017]

convince, pressure and even threaten other countries not to join AIIB<sup>17</sup>. Indeed, US officials and economists made no secrets of regarding the organisation with cautious scepticism. Indeed, the dominant view in Washington was that the AIIB serves as a means to undermine the US leadership role in global finance<sup>18</sup>. As a result, the US (and Japan) declined China's "invitation" to join the AIIB. Although Beijing has expressed that the bank's lending "will not be dictated by Beijing's foreign policy priorities", its position as the largest shareholder (30.34%) will nevertheless result in Chinese interests creeping in to the lending structure and how the Initiative takes shape<sup>19</sup>. Similarly, the initial position of the US and allied countries regarding the AIIB will likely inform their views of the Initiative itself as a tool of Chinese foreign policy.

### **Objectives of the Belt and Road Initiative**

Looking at the placement of these individual Corridors, the statements of the Chinese Government and its affiliated academia, as well as other observers, it is possible to pinpoint a number of specific goals and desired outcomes China has in mind for the Belt and Road Initiative. These objectives are mostly economic in nature. However, a number of political and security implications have also been identified.

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17. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). *China's Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, New York: Routledge, 2017, p. 41

18. Zarroli, Jim. *New Asian Development Bank Seen As Sign Of China's Growing Influence*, NPR, 16-April-2015, <<https://www.npr.org/2015/04/16/400178364/finance-officials-to-discuss-asian-development-bank-at-spring-meetings>>, [Accessed 04-January-2018]

19. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). *China's Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, New York: Routledge, 2017, p. 41

### *Economic Objectives*

Increased connectivity and economic development along the Corridors through the movement of goods, services, information and people and the exchange of culture<sup>20</sup> is the most clear and openly-stated objective of the Belt and Road Initiative for Beijing. In numerous publications including the policy sheet that first outlined China's vision for the Belt and Road Initiative, the Chinese Government noted the importance of upholding and facilitating free trade and fostering an open, more connected and globalised world. The Belt and Road Initiative, according to Beijing, is intended not only to facilitate this process but also enable the more efficient allocation of resources to ensure a more balanced development of the world economy<sup>21</sup>.

The Chinese Government hopes that a more balanced and distributed economic development will primarily benefit its own provinces that have not reaped the full fruits of its economic development process. Although China's economic rise since the 1980s has lifted millions from poverty and allowed the country to develop at a rapid pace, it is well known that the pace and scale of development has been highly uneven. With easy access to maritime ports and already-available infrastructure that served as a foundation for further industrialisation, the provinces along China's east coast such as Hebei<sup>22</sup>, Shandong, Jiangsu<sup>23</sup>, Zhejiang,

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20. One Belt One Road: A Role for UK Companies In Developing China's New Initiative, China-Britain Business Council; Foreign and Commonwealth Office, 2015, p. 7

21. Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, National Development and Reform Commission, 28-March-2015, <[en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)>, [Accessed 03-January-2018]

22. China's capital city of Beijing is located here.

23. China's largest city and economic heart, Beijing, is located here.

Fujian, and Guangdong<sup>24</sup> have always been viewed as a more favourable destination for economic and social capital. By 2017, much of the country's population, economic capital and industrial, technological and commercial capacity is located in these regions.

This course of development had two major outcomes. First, the disproportionately high level of population has led to overstretch of resources, very high pressure on transport networks and near-toxic levels of air and water pollution. Furthermore, the development has come at the expense of other provinces, resulting in rising levels of inequality and marginalisation.

It would appear that by encouraging the building of infrastructure in more marginalised provinces along the country's north (such as Inner Mongolia) and east (such as Xinjiang) and tying them to global economic trends, the Chinese Government is looking to distribute the development levels more evenly.

The construction of transport links along the country's west, through Central Asia and West Asia into Europe, also serves as opening a more direct trade route between China's industrial heartlands and its markets. At present, nearly all of Chinese exports to its markets in the West are shipped with container ships that travel through the Straits of Malacca. The significance of the waterway (which doubles as China's entry point for 80% of Chinese oil imports) is so big that it has been referred to as "China's lifeline of economic development"<sup>25</sup>. The reliance on the Straits of Malacca as a single point of entry and exit for imports and

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24. Hong Kong and Macau, both major economic centres and of great political importance, are located here. The country's first Special Economic Zone that served as model for subsequent economic growth, Shenzhen, is also here.

25. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). *China's Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, New York: Routledge, 2017, p. 69

exports leaves China uniquely vulnerable to international pressures, with the threat of a US-imposed blockade capable of crippling its economy always looming close. Furthermore, the Strait is, at present, nearing overcapacity, limiting China's future economic connectivity absent of any international hostility. It has been suggested that by opening a land bridge through Central Asia, as well as accessing the Pakistani port of Gwadar via Kashmir, China is looking to reduce its reliance on the Straits of Malacca. This also meshes well with Beijing's goals for rendering its economy more efficient. Although a single train travelling between China and Western Europe would only be able to carry 200 cargo containers, as opposed to the 20,000 carried by a single cargo ship, the cost and duration of each trip would be significantly reduced, allowing for a steadier stream of products to enter and exit China<sup>26</sup>.

Another economic objective of the Belt and Road Initiative relates to the current state of China's own economy. The Chinese economy currently suffers from overcapacity in several sectors, particularly steel, cement and heavy machinery. This is linked to the economic drive and building boom of the recent decades that was often shored up by the Chinese state to increase the Gross Domestic Production (GDP) figures, encouraging continued production even when market has reached saturation<sup>27</sup>. These distortions, resembling those seen in Japan during its own economic boom in the 1980s, can end up causing the real GDP to lag behind the official GDP while reducing demand (and therefore prices) for Chinese commodities until the industries in question can no

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26. Gramer, Robbie. All Aboard China's 'New Silk Road' Express, *Foreign Policy Magazine*, 04-January-2017, <[foreignpolicy.com/2017/01/04/all-aboard-chinas-new-silk-road-express-yiwu-to-london-train-geopolitics-one-belt-one-road/](http://foreignpolicy.com/2017/01/04/all-aboard-chinas-new-silk-road-express-yiwu-to-london-train-geopolitics-one-belt-one-road/)>, [Accessed 03-January-2018]

27. *One Belt One Road: A Role for UK Companies In Developing China's New Initiative*, China-Britain Business Council; Foreign and Commonwealth Office, 2015, p. 7

longer support themselves. This, in turn, can lead to the ballooning of bad debt, stagnation (as ended up being the case in Japan) or outright economic meltdown<sup>28</sup>. Analysts speculate that by driving demand for the aforementioned commodities through infrastructure-development projects such as the Belt and Road Initiative, the Chinese Government is buying time for its own failing industries<sup>29</sup>. Infrastructure-led development projects such as these also have the added bonus of improving local economic conditions, allowing people living in these regions to then buy Chinese-produced consumer goods. Indeed, building up internal consumption has been one of the lynchpins of Chinese economic policy under former President Hu Jintao and it would appear that President Xi is continuing this trend.

### *Strategic and Security Objectives*

Beyond economic goals, it has been suggested that part of China's motivation for creating the Belt and Road Initiative is security, particularly where the Xinjiang Autonomous Region of western China is involved. In recent years, Beijing has been increasingly concerned over the manifestations of resistance among the Uighurs, a Turkic ethnic group<sup>30</sup>. The Uighur insurgency, prone to periods of violent resistance, has shown increasing signs of becoming radicalised. Uighurs militants have occasionally appeared among the ranks of the Islamic

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28. Pettish, Michael. China's Growth Miracle Has Run Out of Steam, Carnegie Endowment for International Peace, 19-November-2017, <[carnegieendowment.org/2017/11/19/china-s-growth-miracle-has-run-out-of-steam-pub-74806](http://carnegieendowment.org/2017/11/19/china-s-growth-miracle-has-run-out-of-steam-pub-74806)>, [Accessed 04-January-2018]

29. Mayer, Maximilian (ed.). Rethinking the Silk Road: China's Belt and Road Initiative and Emerging European Relations, Singapore: Palgrave-Macmillan, 2017, p. 137

30. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). China's Presence in the Middle East: The Implications of the One Belt, One Road Initiative, New York: Routledge, 2017, p. 16



State (IS, also known as ISIS, ISIL, Daesh)<sup>31</sup>. Beijing has also expressed concern regarding the Turkistan Islamic Party (TIP), an Uighur jihadist group that has formed a significant diaspora in Syria and allied itself with Hayy'at Tahrir al-Sham (HTS), a former affiliate of al-Qaeda. By improving the economic conditions in Xinjiang, as well as the neighbouring Kazakhstan Kyrgyzstan and Tajikistan (where Uighurs have been active), the Chinese Government likely hopes to limit the movement of Uighur separatists and inoculate itself against what it refers to as “the three threats of terrorism, separatism and extremism”<sup>32</sup>. The increased importance of Western China in Chinese thinking is evident in the 2010 statement of Liu Yazhou, a General within the People's Liberation Army (PLA):

Western China is a vast, empty expanse. Moreover, our strategic direction should be westward... With an excellent geographic location (close to the centre of the world [Meaning Eastern China], the western region can provide us with the driving force to build our strength. We should regard western China as our hinterland rather than as our frontier<sup>33</sup>.

Although Liu's statements are not within the context of the Belt and Road Initiative, it does highlight growing Chinese interest with its western provinces and the neighbouring countries. The region that was once of low priority to Beijing is now actively viewed as within China's periphery. Middle East/West Asia increasingly fits into Beijing's calculus as an extension of this region, referred to under the term “Greater Middle East” (Da Zhong Dong). Although very few Middle Eastern states are active participants of the Belt and Road Initiative in the region, China has nevertheless shown an interest in building

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31. Ibid, pp. 16-17

32. Ibid, p. 17

33. Ibid, p. 19

relations with non-Initiative states. In Syria, for instance, China has shown increasing interest in reconstruction efforts while Chinese officials have increased cooperation with Syrian officials to counter and contain the TIP and similar groups that Beijing views as a threat<sup>34</sup>. China's movements in countries such as Syria, in conjunction with the flexible and open-ended nature of the Initiative suggests that even countries not formally under the Initiative's spectrum may nevertheless gain dividends from China's growing regional engagement.

One particular interpretation of the Initiative, more often posited by outside observers than first-hand Chinese sources, views it less as a means of mutual economic development and more as a means of achieving Chinese foreign policy goals. This interpretation, which taken on a fairly conventional Realist view of foreign policy analysis, posits that by engaging in foreign infrastructure development and investment projects, China is securing its access to raw materials and building up hard and soft influence along its peripheries with the goal of becoming a great power in its own right, able to compete with other great powers such as the US for regional and global influence. Such interpretations of the Initiative link to China's overall behaviour of engaging in infrastructure-led investment and development projects on resource-rich countries with little to no conditions. This model, which was dubbed the Beijing Consensus, was viewed in direct contradiction to the Western-led development model (Washington Consensus) that tied investment to conditions such as democratisation, improved human rights, abiding by environmental standards or combating corruption.

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34. Chinese FM: Fighting terrorism, dialogue, and reconstruction form pillars of ending crisis in Syria ,SANA, 24-November-2017, <<https://sana.sy/en/?p=119197>>, [Accessed 08-January-2018]

*The Beijing Consensus, the Infrastructure-Led Development Model and Ideological Objectives*

Although the term Beijing Consensus itself is quite recent, China's infrastructure-led development model has quite a long history behind it. Originating from its Cold War-era aid programmes to support less-developed countries against what it viewed as exploitation from "hegemonic" and "imperialist" powers (referring to the Soviet Union and the US respectively), labelling such projects as "development cooperation" for "mutual benefit" allowed China to frame its projects as part of its "Five Principles of Peaceful Coexistence"<sup>35</sup> that espoused equity in bilateral relations. Such projects entailed macro-infrastructure construction projects in the communication, housing, transport sectors. In more recent times (since the 1980s), such projects also involved the creation of Special Economic Zones (SEZ) in host countries where business and trade laws are different from rest of the country, allowing foreign investment to focus in a specific region without impacting laws (such as environmental or labour) in the rest of the country. Through these projects host country would gain vital infrastructure while China would gain resources, bolster diplomatic relations and expend its overcapacity<sup>36</sup>.

There are certainly grounds to suggest that the Belt and Road Initiative is the continuation of the counter-hegemonic foreign policy that subsequently morphed into the Beijing Consensus and built itself on a foundation of infrastructure-led development projects. The official documents published by the Chinese Government refer to

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35. Panda, Ankit. Reflecting on China's Five Principles, 60 Years Later, The Diplomat, 26-June-2014, <<https://thediplomat.com/2014/06/reflecting-on-chinas-five-principles-60-years-later/>>, [Accessed 08-January-2018]

36. Mayer, Maximilian (ed.). Rethinking the Silk Road: China's Belt and Road Initiative and Emerging European Relations, Singapore: Palgrave-Macmillan, 2017, p. 137

the Initiative as a means of “embracing the trend towards a multipolar world, economic globalization, cultural diversity and greater IT application”<sup>37</sup>. The reference to multipolarity is particularly significant, as the creation of a multipolar world order has been the lynchpin of Chinese foreign policy objectives since the founding of the People’s Republic of China. Beijing has consistently been opposed to both the bipolar world order of the Soviet Union and the US during the Cold War, as well as the “unipolar era” that followed the 1990s. This is also consistent with China’s view as a central power – as highlighted by General Liu’s comment above referring to China as the “centre of the world” or even the Mandarin word for China, “Zhongguo” meaning the “Middle/Central Kingdom”. In Beijing’s view, China is not a regional power but a global power that suffered a temporary setback during the “Century of Humiliation” between the late 19<sup>th</sup> and late 20<sup>th</sup> centuries.

For better or worse, China has tried to counter the perspective of its rise as a disruptive development in world politics, painting itself as a “participant and contributor to the existing order” instead<sup>38</sup>. Although it wholeheartedly encourages the world to view it as a great power, it nevertheless simultaneously maintains an image of a “developing power” to appeal to other developing, often anti-imperialist countries that it allies itself with. Furthermore, in key instances, Beijing has avoided using its diplomatic, political and economic heft against the US. This has been a case in the Middle East where Beijing expressively declared its intent to “minimise competition with its main strategic rival

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37. Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, National Development and Reform Commission, 28-March-2015, <[en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)>, [Accessed 03-January-2018]

38. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). *China’s Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, New York: Routledge, 2017, p. 33

[the US]”<sup>39</sup>. Similarly, despite long-standing economic relations with Iran (one of its primary oil suppliers in the Middle East), Beijing has consistently avoided pulling its weight in the diplomatic arena when Washington imposed pressure or sanctions on Tehran<sup>40</sup>. For the short-to-medium term, China seems less interested in dramatically altering the political balance of the world (such as supplanting the US as the unipole) but rather operating within the institutional status quo, flexing it just enough to provide it with room to operate.

### **The Initiative and the Middle East**

The desire to avoid being viewed as a disruptive power, indeed, seems to influence how China approaches the Middle East as a whole. Chinese economic interests, particularly with regards to oil, are increasingly favouring Chinese engagement with Middle Eastern states. Similarly, the increased spill-over of security-related issues such as the aforementioned issue of Uighur groups in Syria) requires Beijing to pay more attention to Middle East affairs. These needs, however, contradict China's avowed desire to avoid entanglement in regional politics, avoid involvement with unstable states or step in the areas-of-influence of other regional powers. Historically, these contradictory needs have manifested themselves in ways that prevented China from building lasting partnerships. China has conducted trade with nearly every regional power but avoided taking strong positions on hot-topic issues such as the status of Palestine, the Gulf Wars, the Saudi-Iranian Rivalry or the Arab Spring.

Such caution is evident in how the Initiative treats the Middle East. The region (referred to as West China) is mentioned only four times in the official documents outlining the Belt and Road Initiative. Where it is mentioned, the context is usually in conjunction with Central

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39. Ibid, p. 47

40. Ibid, pp. 178-179

Asia<sup>41</sup>. The document does contain references to Middle Eastern countries being a “key link”, “hub” or “key partner”. On the macro-level, however, it is evident that Beijing views the region primarily as a bridge to reach the end-users for its products in Western Europe. At present, only five countries truly stand to benefit from the Initiative: Iran and Turkey through the Silk Road Economic Belt; Egypt and Israel through the Maritime Silk Road; and Saudi Arabia which benefits solely on account of its pre-existing oil trade with China and being along the path of the Maritime Silk Road.

It would appear that Beijing has recognised the limitations resulting from these contradictions and has, in recent times, tried to increase its role as an actor, especially as it has an opportunity to present itself as a “neutral” in contrast to deeply-entrenched and polarising actors such as the US or Russia. During the Palestinian-Israeli Peace Symposium in December 2017, for instance, Foreign Minister Wang Yi announced that it intends to “actively participate in the international community’s endeavours” towards a lasting peace settlement involving a two-state solution<sup>42</sup>. It remains to be seen if this announcement is just a slogan or if it results in concrete action. It does highlight, however, the recognition of increased Chinese political involvement in the region.

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41. Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, National Development and Reform Commission, 28-March-2015, <[en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)>, [Accessed 03-January-2018]

42. Gao, Charlotte. China Vows to Play an Active Role in Settling the Palestine-Israel Issue, *The Diplomat*, 28-December-2017, <<https://thediplomat.com/2017/12/china-vows-to-play-an-active-role-in-settling-the-palestine-israel-issue/>>, [Accessed 09-December-2017]

## **Chinese–Iraqi Relations: Present and Future**

When it comes to Iraq, China's focus on economy represents more opportunities than problems. Although Iraq is not part of the Belt and Road Initiative, the two countries have nevertheless notable bilateral relations that have developed steadily from political ties during the Cold War to economic ties after 2003. This is best reflected through the growth of bilateral trade between the two countries which grew from \$2.6 billion in 2008 to \$20.5 billion<sup>43</sup> in 2015<sup>44</sup>. China became Iraq's largest trade partner in 2013. Unsurprisingly, the majority of Iraq's exports to China are oil and gas products, making up some 99% of the export output with an annual value of approximately \$12 billion<sup>45</sup>. Iraq, in turn, imports industrial and electrical machinery with a share of 18% and 14% respectively, amounting to about \$2.5 billion annually<sup>46</sup>. China was also engaged heavily in modernising Iraqi infrastructure between 2003 and 2011, focusing on roads, public buildings and telecom networks in particular<sup>47</sup>.

The two countries have also engaged in military trade, though it has often been paled compared to Iraq's other military trade partners. Iraq was a major recipient of Chinese tanks and armoured vehicles during the Iran–Iraq War which China also sold to Iran during the same period. For the most part, however, Iraq bought its military equipment from the Soviet Union. After 2003, much of the Iraqi Security Forces (ISF) were trained and equipped by the US and its

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43. Bilateral trade in 2013 and 2014 were higher than 2015 but suffered a dip on account of the war against the Islamic State.

44. Eberling, George G. *China's Bilateral Relations With Its Principal Oil Suppliers*, Lanham:Lexington, 2017, p. 75

45. *Ibid*, pp. 75–76

46. *Ibid*, p. 76

47. *Ibid*, pp. 77–78

allies, diminishing the need for Chinese imports. Indeed, no military trade took place between Iraq and China between 2004 and 2015. On December 2015, the two countries signed an agreement for Bilateral Military Cooperation. Shortly after the agreement, the ISF revealed that it was now capable of conducting drone warfare independent of the US, having purchased at least one Chaihong (“Rainbow”) 4B Unmanned Aerial Vehicle (UAV)<sup>48</sup>. This development suggests there is a market in Iraq for China to sell specialised military equipment that is either too heavily regulated in the US markets, or too prohibitively expensive. China’s sale doctrine of “price, privacy, and product” has proven appealing even among a number of US allies including Saudi Arabia, United Arab Emirates and Egypt<sup>49</sup>.

As of early 2018, the open war against Islamic State has virtually come to an end. Although the group maintains an ability to conduct insurgent attacks and assassinations and will therefore continue to be a threat, its ability to wage open war is, for now, at an end. The Iraqi Government, in cooperation with the United Nations, has cited reconstruction and development as its main priorities for Iraq in the post-IS era<sup>50</sup>. In conjunction, Iraqi oil production figures have risen dramatically over the course of 2016, exceeding projections by a significant margin<sup>51</sup>. Oil production is expected to rise further as a result of the Iraqi Government having gained control over the oilfields

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48. Rawnsley, Adam. Meet China’s Killer Drones, *Foreign Policy Magazine*, 14-January-2016, <[foreignpolicy.com/2016/01/14/meet-chinas-killer-drones/](http://foreignpolicy.com/2016/01/14/meet-chinas-killer-drones/)>, [Accessed 08-January-2017]

49. Ibid.

50. The main priorities for Iraq after liberation from ISIS, *Al-Shahid News*, 12-December-2017, <<https://alshahidwitness.com/iraq-liberation-future/>>, [Accessed 08-January-2018]

51. Slav, Irina. Iraq just published rare details on oil production, *Business Insider UK*, 01-ovember-2016, <[uk.businessinsider.com/iraq-published-data-on-crude-oil-output-at-fields-2016-11?r=US&IR=T](http://uk.businessinsider.com/iraq-published-data-on-crude-oil-output-at-fields-2016-11?r=US&IR=T)>, [Accessed 08-January-2018]



in Kirkuk since. Barring any significant shocks, 2018 is likely to leave Iraq more stable than the past three years.

With significant reconstruction work to be undertaken, oil production rising and oil prices remaining relatively low, there is an opportunity for both Iraq and China to engage in further trading. In particular, China's aforementioned infrastructure-led development model has the potential to work in Iraq. Such a model can allow Iraq to realise its goals for post-IS reconstruction, increasing Iraqi GDP through the sale of oil and other resources while allowing China to realise some of its objectives surrounding overcapacity by providing a market for Chinese output. In the medium-to-long term, such investment has the potential to help Iraq reach a number of its development goals such as turning Basra into a world city.

### **How Chinese Infrastructure-Led Development Model Impacted Other Countries**

Although the Chinese infrastructure-led development projects offer great positive benefits, they are also known to have caused a number of significant issues in host countries. The following section will present the experiences of three countries, Angola, Mozambique and Iran, with regards to Chinese investment and infrastructure projects. Each of these countries bears similarity with Iraq for different reasons. Although this paper posits that the Chinese infrastructure-led development model will be ultimately positive for Iraq, it is evident that there are a number of lessons to be learned and precautions to be taken to minimise negative impacts.

*Angola:*

A former Portuguese colony located in west coast of Sub-Saharan Africa, Angola gained independence in 1974. Just a year later, the country descended into a 26 year<sup>52</sup> civil war between two of the former independence movements, National Union for the Total Independence for Angola (UNITA) and the People's Movement for the Liberation of Angola (MPLA). By the time the war ended in 2002, much of the country's infrastructure was destroyed, especially in the capital city of Luanda where 21% of the country lived. Housing was a particular issue area in post-war Angola due to a large (and growing) population that remained displaced and forced into slums (mussekas)<sup>53</sup>. At the time, many Western governments were unwilling to invest in Angola due to poor governance record of the MPLA and its Marxist-Leninist ideology. This provided China, whose internal oil consumption had just surpassed its internal production, with an opportunity to invest in a country that not only boasted some of Africa's richest oil fields, but whose crude oil was significantly "sweeter" (easier to refine) than the "sour" crude of Saudi Arabia<sup>54</sup>.

Chinese entry into Angola was followed by massive reconstruction projects across the country. The China Export-Import Bank initially assisted facilitating Chinese companies' investment in Angola in the construction sector and the oil industry. Its loan mechanism increased the prominence of Chinese firms in the Angolan market, allowing them to expand into the rehabilitation of water, energy, health, education,

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52. The war was not constant and continuous but had numerous intervals and periods of extended ceasefire.

53. Benazeraf, David; Alves, Ana. 'Oil for Housing': Chinese-built New Towns in Angola, Global Powers and Africa Programme, April 2014, pp. 1-2

54. Eberling, George G. China's Bilateral Relations With Its Principal Oil Suppliers, Lanham:Lexington, 2017, p. 2

public works, fisheries and telecommunications<sup>55</sup>. In conjunction, companies such as Dongfang–Nissan Motor Company took prominent places in the Viana Industrial Zone outside Luanda<sup>56</sup>.

The greatest impact, however, came as a result of mass–housing projects undertaken by Chinese companies. By 2013, 100,000 hectares of land around Luanda, Benguela, Namibe, Lubango and Malange were reserved for the construction of “new centralities”, resulting in the construction of some 1,500 residential buildings through the cooperation of 50 Chinese state–owned enterprises and 400 small–to–medium enterprises<sup>57</sup>. As a result, the human development levels rose significantly in the post 2002 period as a result of the reconstruction taking place<sup>58</sup>.

However, the rapid changes have also brought with them a number of concerns. One of the main concerns has been linked to the housing projects. Although Chinese architects have worked with their Angolan counterparts during the construction of major housing complexes such as Kilamba Kiaxi, these projects still reflect urban design sensibilities of the new cities in China with little adaptation to an Angolan context. Many communities, particularly of rural origin, who were moved into these new housing complexes found their lifestyles impacted by the move to “vertical” housing that does not account for the organic dynamics of a community<sup>59</sup>. Ensuring that reconstruction in cities such

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55. Ibid, pp. 5–6

56. Ibid, p. 6

57. Benazeraf, David; Alves, Ana. ‘Oil for Housing’: Chinese–built New Towns in Angola, Global Powers and Africa Programme, April 2014, pp. 1–4

58. Human Development Reports: Angola, United Nations Development Programme, 2016, <[hdr.undp.org/en/countries/profiles/AGO](http://hdr.undp.org/en/countries/profiles/AGO)>, [Accessed 08–January 2018]

59. Benazeraf, David; Alves, Ana. ‘Oil for Housing’: Chinese–built New Towns in Angola, Global Powers and Africa Programme, April 2014, p. 3

as Mosul, Ramadi and Fallujah abides (or does not negatively impact) local communities and dynamics will be key to a healthy urban life.

The lack of familiarity with local contexts has also impacted services in newly-built areas. Many newly-built areas continue to lack vital services such as healthcare, transportation networks and a reliable power supply, which is key to ensuring basic amenities such as water and elevators<sup>60</sup>. Given that similar problems have been part of Iraqi urban life as well, mitigating these issues are likely to prove particularly challenging for Baghdad.

Speculation and rising prices have also caused issues. In many of the newly-built areas, convoluted bureaucratic processes have discouraged many people with little money, time or education from making purchases. Furthermore, the system favoured upfront payments over purchases through mortgages, resulting in many low-income buyers finding themselves getting priced out<sup>61</sup>. On a wider scale, development across Angola has been highly uneven. Luanda's rapid growth was not matched by the rest of the country and within Luanda, there exist many mussekas that continue to get neglected<sup>62</sup>. Given that corruption is a major concern in Iraq, it is very likely that Iraqis with money can buy newly-built housing in Mosul or elsewhere while displaced residents of these cities run the risk of remaining homeless.

Lastly, the fact that Angola's GDP is largely reliant on a single commodity (oil) means that the country is particularly vulnerable to oil shocks. The rapid drop in oil prices in 2014 was a stark reminder

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60. Ibid, p. 3

61. Ibid, p.3

62. DeMayda, Matteo. "Life in Luanda: the world's most expensive city, divided by oil – in pictures", *The Guardian*, 07-July-2017, <<https://www.theguardian.com/cities/gallery/2017/jul/07/luanda-angola-expensive-city-divided-oil-in-pictures>>, [Accessed 08-January-2018]

of this problem. Although the country has so far eluded fears of an implosion, three years on its economy remains unbalanced and the Angolan Government is having trouble maintaining many of the macro-projects that were built during the era of cheap oil<sup>63</sup>. With a similar over-reliance on oil, the Iraqi Government will need to ensure that at least some of the infrastructure investment is spent on other revenue-generating mechanisms that can cushion Iraq against another oil shock. Even absent an oil shock, China is actively trying to reduce its oil dependence. Thus, it is in Baghdad's best interests to prepare for the day when Beijing no longer needs Iraqi oil.

*Mozambique:*

Like Angola, Mozambique is a former Portuguese colony that gained independence in 1975. Its independence struggle was supported with China alongside the Soviet Union, giving Beijing a long history in the country. Despite this long history (and its Marxist-Leninist ideology), the Mozambican Government nevertheless took a pragmatic foreign policy, fostering ties not only with Beijing but also Western states and institutions such as the IMF and the World Bank. Consequently, China found itself competing with numerous other countries and corporations. For instance, China has virtually no claim to the gas riches of Mozambique which are, instead, dominated by the Norwegian Statoil and the American ExxonMobil<sup>64</sup>. Instead, Chinese companies in Mozambique have a more diverse set of imports primarily consisting

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63. Paraskova, Tsvetana. Oil Prices Still Too Low To Allow Angola Balance Its Budget, Oil Price, 19-April-2017, <<https://oilprice.com/Latest-Energy-News/World-News/Oil-Prices-Still-Too-Low-To-Allow-Angola-Balance-Its-Budget.html>>, [Accessed 09-January-2018]

64. Berhe, Mulugeta Gebrehiwot (ed.); Hongqu, Liu (ed.). China-Africa Relations: Governance, Peace and Security, Addis Ababa: 2013, p. 116

of agricultural products (such as rice), fisheries and timber<sup>65</sup>. Indeed, the agricultural sector has seen particular interest from China which joined with the Mozambican Government to build an Agricultural Technology Demonstration Centre, a type of agriculture-focused SEZ that experimented with sustainable ways to increase agricultural output<sup>66</sup>.

Like Angola, China paid for some of these imports with infrastructure development. Mozambique too was recovering from a post-independence civil war and in 2007 the Chinese Government provided Mozambique with loans with competitive interest rates and aid worth over \$200million, as well as debt cancellation. Through these loans and aid packages, Mozambique was able to construct a number of large public works as well as rehabilitate its roads and, in particular, its hydroelectric dam network that had been damaged<sup>67</sup>.

Although generally viewed in a positive light, Chinese investment nevertheless raised a number of concerns over the years. The experimental agricultural practices and the growing export of Mozambican timber, some of which was illegally sourced, resulted in growing soil acidification, desertification and erosion<sup>68</sup>. Furthermore, there were instances where Chinese companies were accused of building on land that was not acquired through the consent of its inhabitants<sup>69</sup>. Although in many of these instances it was the local governments that

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65. Roque, Paula Cristina. *China in Mozambique: A Cautious Approach*, South African Institute of International Affairs, January 2009, pp. 5-7

66. Brautingam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*, Oxford: Oxford University Press, 2009, pp. 249-251

67. *Ibid*, p. 162

68. Roque, Paula Cristina. *China in Mozambique: A Cautious Approach*, South African Institute of International Affairs, January 2009, p. 7

69. Brautingam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*, Oxford: Oxford University Press, 2009, p. 251

confiscated these lands, such actions nevertheless risk creating an anti-Chinese backlash. Lastly, China was accused of engaging in unsafe or downright inhumane working conditions, a concern that was voiced in other African countries where China invested<sup>70</sup>.

Like many countries in the region, Mozambique suffers from weak governance and limited funding for a number of regulatory departments. The Ministry of Environment, in particular, barely has the resources to keep inventory of the forests or track transgressors<sup>71</sup>. In absence of governmental regulation, Mozambican civil society and press stepped in, launching a very aggressive campaign against Chinese companies, resulting in a number of Chinese companies getting fined and a number of Mozambican officials getting arrested for accepting bribes<sup>72</sup>. Mozambican civil society groups have also raised awareness of instances of Chinese overfishing<sup>73</sup>. Their efforts resulted in the government becoming more responsive to violations. A number of law regulations were passed including one that specifically oversaw the translation of Mozambican law to Chinese in order to prevent industry leaders from feigning ignorance at violations<sup>74</sup>.

Although there is still room for improvement what the Mozambican experience shows that Chinese companies can and have been held into account when they have violated local laws, customs and regulations. Although Chinese companies and investors have a (not entirely undeserved) reputation for taking advantage of weak local governance and corruption, the Chinese Government is also very much concerned

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70. Ibid, p. 300

71. Roque, Paula Cristina. *China in Mozambique: A Cautious Approach*, South African Institute of International Affairs, January 2009, pp. 7-8

72. Ibid, p. 8

73. Ibid, p. 8

74. Brautingam, Deborah. *The Dragon's Gift: The Real Story of China in Africa*, Oxford: Oxford University Press, 2009, p. 300

about its own image abroad and the impact its businesses have around the world in order to build up its soft power. Iraq, which also suffers from weak governance due to the conflicts across the country since 2003, could benefit from the activities of its growing number of civil society activists<sup>75</sup> to keep the excesses of foreign investors in check. This, in conjunction with the existence of a competitive environment can allow Baghdad to have a stronger negotiating position instead of being reliant on – and at the mercy of – a single buyer of Iraqi exports.

*Iran:*

China's ties with Iran are considerably more layered and entrenched compared to its ties with both Angola and Mozambique. Although formal relations between modern-day China and Iran were only established in 1971, Sino-Persian trade and culture links harken back to pre-Islamic times. The two countries fostered a narrative of kinship based on being ancient civilisations that suffered under modern Western colonialism and subsequently built new states atop (admittedly divergent) revolutionary foundations<sup>76</sup>. The sense of kinship did not often translate to actual policy. Indeed, following the earliest days of the Iranian Revolution of 1979, China was considered among the enemies of the Islamic Republic as part of the “Neither West, nor East, only the Islamic Republic” doctrine and due to its prior diplomatic ties with the Shah's government. However, both Tehran and Beijing continued to maintain pragmatic postures, conducting low-level diplomatic exchanges. Although Iran did remain suspicious of China due to its support of both Iran and Iraq during the two countries' war,

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75. Al-Jumaily, Mohammed. Iraq's re-born civic society delivers clear message to terrorists: 'Your ideology is not wanted', Al-Shahid News, 28-September-2017, <<https://alshahidwitness.com/iraq-reviving-civic-society-isis/>>, [Accessed 09-January-2018]

76. Garwer, John W. China and Iran: Ancient Partners in a Post-Imperial World, Seattle: Washington Press, 2006, p. 5



it nevertheless recognised the importance of keeping cordial ties with China<sup>77</sup>.

Bilateral ties have developed steadily since, particularly during the 2000s, when China's search for oil reached its zenith. Just as Angola, China found itself an open playing field in Iran due to sanctions enacted on the country by Western states and further encouraged by the high-quality of Iran's oil supply akin to that of Angola<sup>78</sup>. Bilateral trade in 2015 reached \$33.8 billion from \$27.2 billion in 2008, and showed a fourteen-fold increase since 2000. By 2013, China was Iran's largest trading partner while Iran was China's twenty-third<sup>79</sup>. Oil commodities make up for 69% of China's imports (with an annual trade value of \$11 billion) followed by plastics (13%) and organic chemicals (8%)<sup>80</sup>. In recent years, China has sought to guarantee the security of its access to Iranian oil, exploring the options for land routes even before the Belt and Road Initiative was announced. This was motivated not only out of China's aforementioned limitations surrounding the Straits of Malacca but also fears of rising tensions in the Gulf region that can result in China instantly losing access to Iranian maritime oil. Thus, Iran's inclusion in the Belt and Road Initiative is likely motivated by China's need to secure access into Iran's oil.

Just like in Angola and Mozambique, China conducted extensive infrastructure development projects in Iran. Over 100 Chinese companies operate in Iran, primarily in dam and ship construction, energy and the development of sea and airports. Some of the most notable projects include the construction of the Moshampa Dam with

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77. Eberling, George G. *China's Bilateral Relations With Its Principal Oil Suppliers*, Lanham: Lexington, 2017, pp. 58–59

78. El-Khawas, Mohamed A. *China and the United States: Different Interests and Priorities*, *Mediterranean Quarterly*, vol. 18, no 1, (2007), p. 39

79. *Ibid*, p. 59

80. *Ibid*, p. 60

Sinohydro and of the Tehran Metro with Norinco Inc<sup>81</sup>.

The two countries also have long-standing military relations, with China being Iran's largest supplier of conventional weapons and main ally in the region. China aided the modernisation of much of the Iranian army including the development of Iran's short, medium and long-range missile programs<sup>82</sup>.

China also served as one of Iran's main defenders in the United Nations Security Council, alongside Russia, against the US-imposed sanctions. China declared opposition to unilateral sanctions and Chinese diplomats acted as a bridge between Washington and Tehran, helping break the impasse over the Arak Reactor and "watering down" some of the sanctions. Chinese economic support during this period also increased Iran's resilience against sanctions<sup>83</sup>.

However, as mentioned above, China's willingness to offer diplomatic support for Iran was tempered by its desire to avoid antagonising the US. Despite voicing solidarity with Tehran during this period, Beijing suspended or reduced some of its investments such as the North Pars gas fields in 2011. The sanctions, which trapped much of Iran's oil revenues in Chinese accounts, also allowed Beijing to negotiate deals that were far less equitable, drawing the ire of Iranian officials<sup>84</sup>. Time and time again, Beijing avoided bringing its diplomatic broadsides to bear against the US, pushing only as far enough to gather significant political and economic concessions from Washington. This is in stark contrast with China's protection of more strategically-important allies such as Pakistan, which received the full extent of China's

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81. Ibid, pp. 59-80

82. Ibid, p. 61

83. Ehteshami, Anoushiravan (ed.); Horesh, Niv (ed.). *China's Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, New York: Routledge, 2017, pp. 178-179

84. Ibid, p. 179

diplomatic protections even when it put Beijing in direct conflict path Washington<sup>85</sup>.

Iran's experiences with China are instrumental for Iraq in understanding the limits of Beijing's cooperation. Despite China's "Strategic Partnership" doctrine espousing cooperation in all (economic, political, security and cultural) sectors, in reality China is often unwilling to let economic and political concerns impact one another. Furthermore, although Beijing will go towards certain lengths to protect its partners from economic pressure, there is a limit to such protection. This scope of this limit grows ever smaller the further one goes from China, hence why China afforded Pakistan protections that it did not to Iran despite the latter being arguably of far greater economic significance. China's risk-averse behaviour is further amplified when it operates in what it views as the area of influence of another great power.

Thus, although there is a lot of space for Sino-Iraqi economic relations to develop, in the short-to-medium term, these relations will not confer political or diplomatic protections. Although Iraq and the US are, at present, allies and on the same page regarding a number of issues such as counterterrorism and the need for Iraqi reconstruction, there are disagreements between Washington and Baghdad over a number of issues such as its deteriorating relations with the Kurdistan Regional Government (KRG), the perceived influence of Tehran over Baghdad and the status of irregular Iraqi military forces such as the Popular Mobilisation Units (PMU). Should these tensions result in a deterioration of diplomatic ties between Iraq and the US, there is no guarantee that Beijing will be a reliable ally. Thus, the Iraqi Government should be aware that although deepened economic relations with

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85. Garwer, John W. *China and Iran: Ancient Partners in a Post-Imperial World*, Seattle: Washington Press, 2006, pp. 153-156

China promises to confer great dividends, Baghdad should nevertheless maintain a realistic composure of what it can expect from Beijing.

### **The Iraqi Government, Chinese Investment and Energy-Backed Infrastructure Loans**

The experiences Angola, Mozambique and Iran had with China's infrastructure-led development model, in conjunction with China's wider goals and models for the Belt and Road Initiative suggests that Iraq certainly stands to benefit from Chinese investment. However, such benefits are not guaranteed but are highly conditional on the Iraqi Government both knowing what to expect from China and taking a strong, consistent and realistic negotiating position on the matter. In particular, Baghdad needs to be aware of Beijing's risk-averse behaviour, its strategic, political and diplomatic limitations and its economic self-interest.

#### *Energy-Based Chinese Development Loans*

At present, all signs indicate that Chinese investment in Iraq will take the form of loans and investments that will be backed by oil sales. After all, energy-backed-loans have been the lynchpin of Chinese investment models in many countries, including Angola which was a significant beneficiary. Such loans are usually provided by a number of Chinese banking institutions including China Export-Import Bank (Eximbank), China Export and Credit Insurance Corporation, China Agricultural Development Bank and China Development Bank. Among these banks, the China Development Bank is the most active in providing these loans to developing countries.

The provision of such Chinese upstream investments and loans for oil combined was not part of a set government policy but were nevertheless encouraged by Beijing over the course of the 2000s, accounting for just under half of the country's total import flows by December 2016 even

if actual production in host countries fluctuated owing to different factors (most commonly due to economic and political instability)<sup>86</sup>.

Barring context-specific variations, all the loans provided take a similar structure in an attempt to insulate the banks from risk by having each oil-backed loan secured by revenue earned from deliveries of oil or natural gas to a Chinese oil and gas company. Chinese oil companies then buy the oil at the pricing formula (often indexed to market prices, with discounted rates at times) and deposit their payments into the host country's account at the bank responsible for the loan. This way, the bank is able to withdraw the loan repayment as well as the interest and associated fees directly<sup>87</sup>.

So far, much of China's oil trade with Iraq has been conducted through direct sales rather than oil-backed infrastructure-development loans, although a number of agreements have blurred the lines between the two. The China National Petroleum Corporation (CNPC) has been the main actor in such dealings, having signed a 22-year production-sharing contract worth \$1.3 billion to develop the Ahdab Oil Field in 2004<sup>88</sup>. Another deal with CNPC, one that can be more closely characterised as oil-backed development assistance, in 2007 reconfirmed the 1997 deal to develop the Ahdab Oil Field while cancelling large portions of Iraqi debt to China<sup>89</sup>. Another oil company, Sinopec, has been heavily involved in the development of the Taq Oil Field where it acquired a 45% working interest and the Sanagaw North PSC Oil Field in Kurdistan where it acquired a 26%

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86. Meidan, Michael. China's loans for oil: asset or liability?, The Oxford Institute for Energy Studies, December 2016, pp. 9-10

87. Ibid, p. 10

88. Eberling, George G. China's Bilateral Relations With Its Principal Oil Suppliers, Lanham:Lexington, 2017, p. 81

89. Ibid, p. 81

working interest<sup>90</sup>. Other companies such as China National Offshore Oil Corporation (CNOOC), China Petroleum Pipeline Engineering Corporation (CPPE), a subsidiary of the CNPC and Zhenhua Oil Corporation were also involved in purchasing Iraqi oil and investing in its fields.

Although the war against the IS has caused the Iraqi economy to contract and caused significant damage to a number of oil fields and refineries, with the Baiji Refinery having been completely destroyed, it has not mitigated China's interest in Iraqi oil. In December 2017, the CNPC expressed that it was interested in developing the Majnoon Oil Field in southern Iraq. The field was under the management of Royal Dutch Shell but the company had been looking for a way out, handing its operations to Basra Oil Corporation<sup>91</sup>. Around the same time, the Iraqi Government reached a deal with the Zhenhua Oil Corporation to develop the southern portion of the East Baghdad Oilfield<sup>92</sup>. Furthermore, in January 2018, the Iraqi Oil Ministry announced that it will build an oil refinery at the port of al-Faw in the Gulf with two Chinese companies, with two other refineries planned in Nasiriya and Anbar<sup>93</sup>. The location of al-Faw refinery near a major

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90. Ibid, p. 81

91. China's CNPC interested in Iraq's Majnoon oilfield -oil officials, Reuters, 27-December-2017, <<https://www.reuters.com/article/us-iraq-oil-majnoon/chinas-cnpc-interested-in-iraqs-majnoon-oilfield-oil-officials-idUSKBN1DR186>>, [Accessed 30-January-2018]

92. Iraq reaches initial deal with China's Zhenhua to develop East Baghdad oilfield, Reuters, 24-December-2017, <<https://www.reuters.com/article/us-iraq-oil/iraq-reaches-initial-deal-with-chinas-zhenhua-to-develop-east-baghdad-oilfield-idUSKBN1EI07F>>, [Accessed 30-January-2018]

93. Iraq to build oil refinery in Fao with Chinese firms, plans 3 others, Reuters, 29-January-2018, <<https://uk.reuters.com/article/uk-iraq-oil-refining/iraq-to-build-oil-refinery-in-fao-with-chinese-firms-plans-3-others-idUKKBN1FI0JO>>, [Accessed 30-January-2018]

port highlights the export-oriented motives behind the construction and China's desire to shorten the paths between extraction, refinement and shipment. The Chinese Government also pledged in 2017 that it wishes to take an active role in the economic reconstruction of Iraq post IS; with Chinese Foreign Minister Wang Yi suggesting that Iraq could become a component of the Belt and Road Initiative<sup>94</sup>.

All these examples provide a precedent for prior Chinese-Iraqi economic ties that have continued over the decades, as well as signs for increased future cooperation. Chinese interest in a stable and steadily-developing Iraq, ostensibly out of its own self-interest of ensuring continued access to oil and preventing the country being a hub for insurgent groups hostile to Chinese interests. Certainly, the likelihood of obtaining oil-backed development loans is a viable option for Baghdad. However, Chinese loans and investments come with a number of risks that Baghdad will need to be aware of.

### *Risks Associated With Energy-Based Chinese Development Loans and Wider Chinese Investment*

As mentioned above, the provision of loans that are pegged against energy resources such as oil has been heavily encouraged by Beijing, becoming more and more frequent over the 2000s and early 2010s. The oil crash in 2014, however, exposed a fundamental risk with such loans. In particular, falling oil prices have strained the finances of oil producers, increasing the risk of delays to loan repayments or even a default. In addition to Angola, whose experiences with the oil price crash has been highlighted above, oil producing countries such as Venezuela have experienced significant problems. Although Chinese companies have shown willingness to readjust their loan arrangement,

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94. China vows active role in Iraqi post-war reconstruction, Xinhua, 24-April-2017, <[www.xinhuanet.com/english/2017-04/24/c\\_136232659.htm](http://www.xinhuanet.com/english/2017-04/24/c_136232659.htm)>, [Accessed 30-January-2018]

they have been just as willing to exploit the situation by buying more oil for less money<sup>95</sup>. The fact that the funds for the nearby-backed loans are deposited into the accounts of Chinese-controlled banks leaves Beijing in control of all the purse strings. Although caused by sanctions rather than falling oil prices, Iran's aforementioned experiences of being locked out of Chinese-controlled bank accounts is instructive of the risks associated with energy-backed loans.

Furthermore, China's cavalier attitude of giving energy-backed loans with very good rates is slowly changing. In part, this is because the country is no longer as isolated as it was in the early 2000s and has the luxury of picking-and-choosing. However, a number of failed projects have also resulted in more cautious behaviour. For instance, the much-lauded construction of a refinery in Kara-Balta, Kyrgyzstan, by Zhongda China Petrol ended in disappointment when it was revealed that the facility had access to only 6% of the oil it was capable of refining<sup>96</sup>. Indeed, many Chinese companies, particularly state-owned ones, are coming under the spotlight for their lack of efficiency and profits, surviving only due to state subsidies as "zombie corporations". While the oil industry has remained relatively secure from such developments so far, signs of the Chinese Governments attempting to reduce the monopoly of major, state-owned oil companies points to that the sector will experience a similar reduction of state backing.

Increased risk aversion has also come as a result of China's increased global profile and its avowed desire to appear as a responsible actor. At a time when concerns regarding environmental degradation and

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95. Meidan, Michael. China's loans for oil: asset or liability?, The Oxford Institute For Energy Studies, December 2016, pp. 9-10

96. China faces resistance to a cherished theme of its foreign policy, The Economist, 04-May-2017, <[www.economist.com.https.sci-hub.hk/news/china/21721678-silk-routes-are-not-always-appealing-they-sound-china-faces-resistance-cherished-theme](http://www.economist.com.https.sci-hub.hk/news/china/21721678-silk-routes-are-not-always-appealing-they-sound-china-faces-resistance-cherished-theme)>, [Accessed 30-January-2018]



global climate change are increasingly at the forefront, the Chinese Government has realised that its reputation as an actor that invests in high-pollution industries in countries with low environmental standards has become increasingly untenable. In conjunction with its push to move the world away from fossil fuels towards renewable energy, China has signalled that it will be less inclined to invest in energy industries with the same sanguinity that it did over the course of the 2000s<sup>97</sup>. Although the reality of Chinese economy will likely prevent the country from completely weaning itself off oil, this is nevertheless another trend that can limit Chinese desire to provide loans in exchange for Iraqi oil in the medium-to-long term.

Even in relatively stable conditions, the prevalence of Chinese loans and investments are carrying with them an increased risk of backlash. Part of the backlash comes as a result of Chinese investment being viewed as a double-edged sword. Chinese loans and investments to Kyrgyzstan were lauded when they began. But the aforementioned failure of the Kara-Balta Refinery and the fact that one third of the country's foreign debt is now owed to Eximbank has caused veritable anti-Chinese sentiments. Similarly, Chinese investment in Myanmar ended up benefiting the neighbouring Chinese province of Yunnan more than the more-populous Myanmar itself<sup>98</sup>.

Even in Pakistan, one of China's closest allies and one of the major beneficiaries of the Belt and Road Initiative, have seen anti-Chinese statements by politicians who are worried about the Pakistani

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97. Francis, David. Even China-Backed Development Bank Won't Touch Coal Projects, *Foreign Policy Magazine*, 14-June-2017, <[foreignpolicy.com/2017/06/14/even-china-backed-development-bank-wont-touch-coal-projects/](http://foreignpolicy.com/2017/06/14/even-china-backed-development-bank-wont-touch-coal-projects/)>, [Accessed 30-January-2018]

98. China faces resistance to a cherished theme of its foreign policy, *The Economist*, 04-May-2017, <[www.economist.com.https.sci-hub.hk/news/china/21721678-silk-routes-are-not-always-appealing-they-sound-china-faces-resistance-cherished-theme](http://www.economist.com.https.sci-hub.hk/news/china/21721678-silk-routes-are-not-always-appealing-they-sound-china-faces-resistance-cherished-theme)>, [Accessed 30-January-2018]

economy being overwhelmed by China and increased militancy due to China's activities on nominally-disputed trade routes. Rather than abiding by these concerns, the Chinese Government departed from its long-standing policy of non-interference and appealed to Pakistan's opposition politicians to stop their protestations<sup>99</sup>.

All of these experiences highlight a number of risks inherent with Chinese loans and investments. Rather than being a silver bullet that can cure all economic ills in a country and account for massive levels of development, the loans and investments have the potential to upend existing socio-political balances, exacerbating the stability of a country.

### *Recommendations on the Belt and Road Initiative*

At present, Iraq is not part of the Belt and Road Initiative, nor are there any plans to make it part of the Initiative. Although Iraq can apply to be part of the Initiative and appeal to the AIIB for loans to that end, the author believes that this represents an unnecessary effort. In its current shape, the primary purpose of the Initiative is to connect China to its primary suppliers and buyers around the world. Including Iraq, which is an important but not primary oil supplier and not an access point to Western Europe, would represent an unnecessary detour within the context of the Initiative.

However, Iraq stands at an ideal position, being neighboured by three participants in the Initiative in the form of Turkey, Iran and Saudi Arabia. The Iraqi Government would stand to benefit more from engaging in bilateral projects with these countries to connect its infrastructure to theirs in order to gain access to the Belt and Road without being an official part of the Initiative. The fact that Chinese officials themselves built the Initiative with the goal of being flexible and a number of non-Initiative countries were nevertheless considered

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99. Ibid.

“natural extensions” of the Initiative suggests that this is a feasible option.

### *Recommendations on Chinese Investment in Iraq*

Instead, the Iraqi Government likely stands to gain more if it conducts its negotiations bilaterally with the Chinese Government, focusing on a traditional, infrastructure-led development model that pegs the increasing sale of Iraqi oil to the reconstruction of cities post-IS and the rehabilitation of Iraqi infrastructure. Chinese companies not only have great capacity and resources towards macro-construction projects, but Beijing is actively interested in promoting itself as a constructive and positive great power. Taking an active role in Iraqi reconstruction would allow Beijing to promote its soft power in the Middle East, improving its image and allowing it to present itself as a counterpoint to the more polarised views of other great powers such as the US and Russia.

Furthermore, China can help revitalise a number of major cities which have not suffered from war but have nevertheless stagnated or decayed. Basra is a prime example of this. The oil fields around Basra are some of the richest in Iraq. Despite this, however, Basra has not reaped the dividends even during the years of oil boom prior to 2014. Above-average poverty, urban decay and infrastructural deterioration continue to plague the region. Baghdad should explore the options of soliciting Chinese support to help rehabilitate the port to increase export capacity. This could be achieved by declaring Basra a SEZ and could ultimately allow the Iraqi Government to realise its goals of turning Basra into a world city.

Iraq is also well-positioned to assist Chinese interests in another country: Syria. The Chinese Government has a number of major security concerns in the country in the form of the aforementioned

Uighurs of the TIP (as well as the wider IS, an interest that is shared with Iraq). Beijing has pledged to invest in the reconstruction of the Syrian infrastructure as the war in the country continues to wind down. Baghdad can lobby to serve as a land bridge and staging point for the transfer of materials and equipment. Both the port of Basra and the land routes from Iran would be well situated to serve this goal. Given that the conflict in Iraq began as a result of the spill over from the conflict in Syria, assisting Syrian stabilisation and reconstruction is also in Iraq's interests.

Whether Iraq opts to partake in the Belt and Road Initiative or simply develops its bilateral ties, the Iraqi Government should be prepared to face a number of issues in dealing with China.

First and foremost, China should learn from the lessons in Angola and Iran with regards to relying solely on China as a buyer and relying on a single commodity (oil) as a source of income. Chinese foreign policy and economic projects are deeply self-interested and pragmatic. Although the country's leaders may tread carefully to avoid burning bridges, they will nevertheless take advantage of economic fluctuations and changing trends to expedite Chinese economic growth. By diversifying its buyers and taking efforts to diversify its economy, Baghdad can make itself more resilient against such fluctuations. Furthermore, the experiences with Mozambique show that Chinese companies will restrain some of their excesses when faced with competition to present a more appealing option.

In conjunction, the Iraqi Government should know that not all its infrastructure needs will be suited to serve China. Although the Chinese industry is very well suited for large-scale projects, the country continues to lag behind its rivals when it comes to high-tech, high-

precision projects. Where Baghdad believes Iraqi interests are served better by China's rivals, it should explore such options. Japan, for instance, presents a feasible alternative for a number of infrastructure projects. Indeed, the country is well-versed in infrastructure-led development projects itself, having practiced it extensively during the height of its growth. The country has shown signs of returning to such an investment model in recent years<sup>100</sup>. Furthermore, the Japanese Ambassador to Iraq, Fumio Iwai, is very popular in Iraq due to his efforts to personally involve himself within Iraqi society. Such linkages should be utilised for the good of Iraq as a whole. Furthermore, despite its initial negative reaction to the Belt and Road Initiative, the Japanese Government has since shown interest in participating in it<sup>101</sup>. Iraq could increase its own diplomatic profile by bridging the differences between two, long-time regional rivals.

The Iraqi Government should also take efforts to ensure that the infrastructure projects built by China (and potentially others) serve Iraq's needs and do not burden the country down the line. Although infrastructure-led development has been a boon for many countries, there have been a number of instances where the infrastructure built did not generate the demand required, generating debts instead. Such was the case in Sri Lanka where the Hambantota Port, built as part of the Belt and Road Initiative, went bust as it failed to generate the revenues predicted, forcing the Sri Lankan Government to hand over

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100. Mayer, Maximilian (ed.). *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging European Relations*, Singapore: Palgrave-Macmillan, 2017, pp. 131-135

101. Gao, Charlotte. 'Aimai': Japan's Ambiguous Approach to China's 'Belt And Road', *The Diplomat*, 22-November-2017, <<https://thediplomat.com/2017/11/aimai-japans-ambiguous-approach-to-chinas-belt-and-road>>, [Accessed 10-January-2017]

the ownership of the port to China<sup>102</sup>. As mentioned above, Angola too experienced something similar, building infrastructure during boom times but failing to maintain them when revenues dried up.

In a similar vein, Iraqi technocrats should work closely with their Chinese counterparts to ensure that Chinese-built infrastructure suits an Iraqi context. The reconstruction of cities such as Mosul, Fallujah and Ramadi or the rehabilitation of Basra and Baghdad cannot take place via an isolated, one-size-fits-all approach. Rapid reconstruction risks putting pressure on electricity and water sources while potentially disrupting communities that have formed organically in their hometowns. Synergising Iraqi needs and experiences with Chinese knowledge and capacity is key to achieving a favourable outcome.

## **Conclusion**

The world is going through a period of significant economic and geopolitical shifts. Around the world, major powers are reevaluating their positions and readjusting their realities. Nowhere else is this more apparent than the Belt and Road Initiative which not only recognises such shifts taking place but is led by China which actively recognises and even encourages such shifts.

Iraq too experienced its own upheavals, having fought and eventually won a brutal war against the IS. In many ways, the challenge of reconstruction, redevelopment and governance that comes as part of the post-IS era will represent newer and more complex challenges.

In this context, China's infrastructure-led development model and its Belt and Road Initiative presents major opportunities for Iraq.

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102. Prasad, Ravi. Roads to Nowhere: Asia's Risky Obsession With Infrastructure, *The Diplomat*, 09-January-2017, <<https://thediplomat.com/2018/01/roads-to-nowhere-asias-risky-obsession-with-infrastructure/>>, [Accessed 10-January-2017]

Although Iraq is not part of the Initiative, it is surrounded by countries that are part of it, and can therefore serve as a “natural extension” of the Initiative, as well as serving as a support base for the pursuance of a number of Chinese interests in the region, such as Syrian reconstruction.

Chinese investment, however, is often a mixed blessing. The Chinese Government and China's state-led corporations are deeply pragmatic entities and will view their own self-interest as paramount. The Iraqi Government has the responsibility to do the same.

Angola, Mozambique and Iran all offer lessons on the positive and negative aspects of Chinese investment. Angola's story of rapid reconstruction, Mozambique's competitive environment where civil society groups took an active role, and Iran's place in great power struggles are all instructive on China's approach to infrastructure-led development model, its benefits, failings and limitations within a wider context.

The Iraqi Government should learn from these examples. Rather than writing a blank cheque to Chinese firms with an ill-defined notion of reconstruction and development that might end up exacerbating the social divisions in the country, Iraqi technocrats should identify how Iraqi interests are best served by Chinese investments, how the two countries' needs and demands can be synergised and know when Iraqi interests are better served by a competitor.

Ultimately, the key to achieving the best outcome from Chinese investment is to know what Iraq and Iraqis need as well as understand the goals and limits of the Initiative and China as a whole. With a clear vision based on such considerations, the future of Iraq will be a lot brighter.