Chinese leader Xi Jinping clearly aspires to establish a new global economic order centered around Beijing, not Washington. However, a new global economic order cannot be built in a day. The immensity of this challenge has forced Xi to set his sights on a set of interim goals. These include cementing the Communist Party’s control of the Chinese economy and shielding supply chains, capital flows, and strategic bilateral and multilateral relationships from hostile American policies.

These goals equate to the creation of a Sinocentric global economic subsystem. This would be partially integrated into the current Western-led system but would be sufficiently decoupled from the West to protect the pillars of the Chinese Communist Party’s political economy.

Yet when United States National Security Advisor Jake Sullivan recently discussed American leadership of the global economy, he focused on Europe and the Indo-Pacific and mentioned Africa and Latin America. He did not mention the Middle East once.¹

Washington’s persistent blind spot in the Middle East has obscured its view of Beijing’s global ambitions. If the US does not rectify this mistake, it risks losing more influence in the region and aiding China’s effort to supplant the US atop the global economic order.

The Appeal of the Middle East
Xi faces multiple hard facts as he endeavors to construct a Beijing-led economic bloc. The US and its allies continue to dominate key sectors of the global economy, from finance to high-tech industries like robotics, aeronautics, semiconductors, and closed-circuit chips. Additionally, the US dollar remains the international reserve currency.

Moreover, China lacks domestic reserves of oil. This disadvantage puts a hard ceiling on the potential of Chinese
manufacturing. Beijing currently relies on Iranian and Russian oil, which are discounted due to American economic sanctions. By maintaining strong strategic ties with Middle Eastern oil producers, the West can retain leverage over any prospective Sinocentric bloc in the region.

Yet Xi wants China to be more than a manufacturing hub. He seeks to take the lead in high-tech sectors that will help Beijing to establish new international standards, create an alternative global financial system, and achieve self-sufficiency in strategic industries. As Hudson’s John Lee has demonstrated, China’s dependence on Western technology makes it economically vulnerable. Beijing has launched multiple initiatives to mitigate this vulnerability by making the West reliant on Chinese technology and other manufacturing inputs.²

The Middle East holds the potential to facilitate Xi’s hegemonic ambitions. Middle Eastern states possess substantial capital reserves to invest either in China or in other countries through partnerships that China facilitates. China, meanwhile, would benefit from using the Middle East as a market for its high-tech products and will depend on the region as an energy source for decades to come. Gulf countries, which have become disenchanted with the US, have welcomed Beijing’s efforts to tighten relations.

These factors render the region uniquely attractive to Beijing as it seeks to overcome its economic challenges.

Belt and Road Rescue
Launched in 2013, Xi’s ambitious Belt and Road Initiative (BRI) aims to lay the groundwork for a Sinocentric economic bloc through extensive infrastructure projects abroad. The BRI is a wide-ranging initiative, comprising the Silk Road Economic Belt and the Twenty-first Century Maritime Silk Road. With total investments nearing $1 trillion, the BRI seeks to strengthen China’s economic growth, promote Chinese exports, expand the reach of state-owned enterprises (SOEs), and secure Beijing’s control over key commodities.³

Despite its initial promise, many of China’s BRI partners no longer view the initiative favorably. It has even acquired skeptics within the CCP. Persistent corruption and low construction standards have created substandard infrastructure and trapped several BRI participant countries in debt crises.⁴

Sri Lanka is an instructive example. Once the BRI’s crown jewel, China has made significant investments in high-profile infrastructure projects, including a deep-water port at Hambantota. Trapped under an unmanageable debt load, Sri Lanka spiraled into a severe economic crisis. Essential supplies like food, fuel, and medicine became scarce. In 2017, China took over the Hambantota port on a 99-year lease, giving China a valuable position from which to monitor Indian Ocean shipping routes. Sri Lanka sought to restructure its debt to facilitate a $3 billion International Monetary Fund bailout, but China, Sri Lanka’s primary lender, took an uncompromising position that prolonged negotiations.⁵ At the end of 2022, Colombo owed Chinese lenders $7.4 billion, nearly one-fifth of Sri Lanka’s public debt.⁶

Detractors claim cases like Sri Lanka’s are the inevitable consequence of the Chinese approach to international development projects. Unlike the American model, which uses official government aid, China has relied heavily on capital sourced from both development banks and state-run commercial lenders.⁷ At Beijing’s behest, these institutions sometimes offer below-market interest rates to borrowers who would otherwise struggle to secure funding. As a result, these Chinese institutions have underperformed compared to their global peers.⁸

While this model has delivered Beijing some strategic benefits, it has also become a headache. Beijing now faces a scarcity
of investment capital, and China’s rapid economic growth and extensive borrowing in recent decades have put it at risk of a potential debt crisis. This is reflected in China’s high debt-to-gross domestic product (GDP) ratio, which reached a record 279.7 percent in the first quarter of this year. Local governments’ hidden debt poses a further challenge for Xi. Years of debt accumulated for infrastructure projects and other expenses, the costs of Xi’s zero-COVID campaign, and the government’s crackdown on property market leverage have strained local government finances. The CCP claims local governments officially owe around $5.1 trillion. But the actual amount is likely much higher.

The Chinese property market has been a major driver of the country’s GDP growth. But it has suffered since the government implemented measures to curb excessive borrowing and speculative activity in 2021. Private developers now face overwhelming debts they cannot repay. China’s second-largest property developer, Evergrande, defaulted in late 2021. Chinese banks’ balance sheets now bear the combined burden of the debt obligations of local governments and the decreased value of property market loans.

While some analysts believe that the Chinese financial system is unlikely to melt down, the debt crisis remains a significant drag on economic growth. It has led to job losses, spending cuts at the local government level, and reduced investments in both domestic and international infrastructure. As the Chinese government works to determine the country’s long-term economic trajectory, it has to manage debt levels and deleverage investments to ensure financial stability.

Such an onerous economic environment explains why Beijing has taken an interest in the Middle East. Affluent Gulf countries possess the necessary financial resources to support China’s ambitious goals, and Beijing sees significant strategic value in strengthening economic ties with the region. For this reason, China focused a substantial portion of its BRI activities in the Middle East in 2022. So American policymakers should understand that the Middle East is a locus of increased competition against China.

**High-Tech Ambitions**

Technology leadership is another developing front in the rivalry between the US and China. In 2015, the Chinese government introduced its Made in China 2025 initiative to accelerate its technological advances and establish Chinese dominance in key tech sectors. Although a global backlash forced the CCP to officially disavow the program, MIC 2025 remains an important pillar of Xi’s economic strategy.

The initiative targets ten important sectors, including electric vehicles, telecommunications, advanced robotics, and artificial intelligence. To enhance its manufacturing capabilities in these sectors, China subsidizes investment and mobilizes SOEs. According to some allegations, China even employs tactics like intellectual property theft and cyber espionage.

In 2015, China also launched the Digital Silk Road (DSR) to enhance digital connectivity in BRI countries. The DSR aims to build the necessary infrastructure for a new digital economy centered around China. Investments in wireless networks, surveillance cameras, subsea cables, satellites, and other digital technologies are key components of the DSR. Chinese companies such as Huawei expand their reach abroad by helping developing countries adopt 5G networks while China advances its critical tech sectors at home. This strategy includes cloud services and major applications like smart cities, mobile payment systems, and surveillance technology. China’s expanding sphere of influence in technology development serves Xi’s ambition to change China from a standard-taker, such as in wireless technology, to a standard-maker.

Despite its advantage in 5G networks, China faces significant challenges in capturing high-tech and high-value supply chains. American, European, and Japanese firms still dominate
crucial sectors like robotics, aeronautics, semiconductors, closed-circuit chips, high-performance machine tools, airplane tires, and precision ball bearings.

China has used generous state subsidies to help both SOEs and private firms in the tech sector achieve scale and market share. But this approach has come at the expense of the Chinese private sector. Such intervention has stifled innovation and complicated business partnerships with Western companies, which have been instrumental to China’s rise so far.

Furthermore, if China aims to dominate the global trade of high-tech goods and services, it needs continued access to American and European markets. Yet competition with the US has only intensified. For example, the US and its allies have raised trade restrictions and non-tariff trade barriers, making it more difficult for Chinese companies to access Western markets.

While trade with the West may be difficult, China sees the Middle East, especially Gulf countries that wish to diversify their economies, as low-hanging fruit ready for picking. Many Gulf countries, along with Turkey and Egypt, are already part of the DSR. China’s construction of 5G networks and investment in data centers in the Gulf states align with development strategies like Mohammed bin Salman’s Vision 2030 framework and provide China access to large export markets. Importantly for China, Gulf export markets have a strong connection to the West.

Self-Sufficiency
To further its technological progress and accelerate the growth of a Sinocentric economic sphere, China is pursuing economic security and self-reliance. The Dual Circulation Policy (DCP), which China incorporated into its Fourteenth Five-Year Plan in May 2020, is crucial to this pursuit. The DCP aims to reduce China’s dependence on international financial and technology markets by enhancing its domestic capabilities. To achieve this, Beijing aims to strengthen the symbiotic relationship between its domestic and international markets and make its domestic market the primary driver of its economic growth. By anchoring its economic development in its domestic market, China seeks to limit its vulnerability to international volatility—particularly growing hostility from Washington.

The DCP is designed to position China as a global manufacturing powerhouse in high-value-added products, achieve higher levels of self-sufficiency in critical sectors, and diversify supply chains to ensure access to essential inputs. For example, China aims to control strategic supply chains in the energy sector. To do so, it builds extensive capabilities in sectors that are midstream and downstream from energy production. Further, by becoming the world’s largest client for the natural resources and manufacturing inputs that it cannot source domestically, China seeks to influence global markets, set prices, and establish standards.

China has already made significant progress in this regard. It refines a large percentage of the world’s nickel, copper, lithium, and cobalt, and it is gaining leverage over the supply chain for products like electric vehicles and batteries. As mentioned above, Beijing has also purchased cheap oil from sanctioned countries like Russia and Iran to increase its share of the refining market and make the Chinese manufacturing sector more competitive. China now boasts significant oil storage facilities and recently surpassed the US as the world leader in refining capacity. China’s strong position within global energy supply chains serves as a strategic shield from potential American sanctions, particularly if China were to invade Taiwan.

China’s infrastructure investments in the Middle East highlight its commitment to strengthening this strategic shield. In the United Arab Emirates, China has constructed facilities at Khalifa Port and a pipeline stretching from the major oil field in Habshban to the Port of Fujairah. China has also invested in the Duqm Port in Oman. These projects demonstrate China’s
focus on bolstering its trade with the Gulf and ensuring the smooth flow of oil from the region. Consequently, it is emerging as a dominant player in renewable energy and a major participant in the fossil fuels market. These endeavors lay the groundwork for a prospective military presence, in accordance with Beijing’s long-articulated principle of “first civilian, then military.” Because the Middle East is vital for China’s energy future, this approach will further solidify China’s long-term energy security and improve its self-sufficiency.20

Yet China’s policy to accelerate of domestic-led growth contradicts its promotion of exports at the expense of household incomes. A number of factors constrain consumption, not least of which is the real estate crash. In addition, privileged SOEs will continue to require state support, often at the expense of small- and medium-sized businesses. But that’s not all. China still has neither the fiscal policy tools to effectively redistribute wealth, nor the welfare system to distribute pension payments and provide medical insurance at scale. China’s underdeveloped social welfare and medical systems require households to build up ready reserves of cash to care for the sick and elderly. These structural problems will persistently dog Xi Jinping’s economic strategy.

An Alternative Global Financial System
Moscow’s full-scale invasion of Ukraine and subsequent Western sanctions have reminded Beijing of its vulnerable position in the dollar-based international financial system. Even prior to the conflict, China was actively promoting several monetary alternatives. These include increasing the use of currency-swap transactions, which eliminate the need to convert currencies through US dollars. Additionally, Xi has been working to establish a Chinese alternative to Western financial transaction systems like SWIFT, and he has explored new technologies such as Central Bank Digital Currency (CBDC). Domestically, China has initiated a digital yuan called the e-CNY, and it used this currency to settle half of the costs of the international project m-Bridge with the UAE and Thailand.21 These initiatives show that China aims to undermine the current US-led global economic order. By weakening or circumventing the US dollar, Beijing seeks to reduce the international appeal of open financial markets and trusted Western institutions. China also wants to limit the network effects of the dollar’s status as the global reserve currency, particularly America’s ability to impose and enforce sanctions.22

But most of China’s economic initiatives have not grown as rapidly as Beijing desires.23 Restrictions on capital flows in China leave many countries hesitant to trade in the renminbi, no matter the platform. The CCP’s restrictions on renminbi trading aim to prevent uncontrolled capital outflows that would enable Chinese firms and individuals to transfer their financial assets out of the country. But these restrictions limit the convertibility of the renminbi and, therefore, its potential as a global currency.

Here, too, Beijing sees an opportunity in the Middle East. China pushes its energy suppliers in the region to allow purchases in yuan, while also entreats other countries, such as Egypt, to conduct transactions in Chinese currency.24 If China successfully establishes a Sinocentric economic subsystem in the Middle East, it could use this model as a basis for constructing a global system. Already, Saudi Arabia and the UAE are jointly exploring the use of CBDC.25

The Middle East’s Perspective
By increasing its role in the Middle East, China can access foreign capital, reap the benefits of high-tech cooperation, and improve its position in the global energy sector. This gives China a stable supply of energy and minimizes its vulnerability to potential disruptions. China’s diplomatic efforts in the Arab world—especially the China-Arab States Summit and the agreement between Saudi Arabia and Iran that Beijing brokered—highlight its aspirations in the region.

But does the region welcome Chinese involvement? Most Middle Eastern regimes share a vested interest in hedging
risk and maintaining strong diplomatic and trade relations with China. The recent uncertainty surrounding Washington’s security guarantee only throws this interest into greater relief.

In recent years, China has surpassed the US as Saudi Arabia’s largest trading partner. Taking Riyadh’s cue, many regional energy suppliers may also be inclined to conduct at least a portion of their oil trade with China in yuan. Beijing has two proven avenues to accelerate the proliferation of yuan-based trade. It can either promise to create an easier path for other Middle East countries to purchase Chinese goods, or it can offer to increase Chinese investment in the region. China appeals to potential partners by assuring them that cooperation with Beijing is good for business because China respects partners’ internal affairs. It also offers a hedge against potential American sanctions.

While Gulf nations will likely retain their holdings in US dollars, they may invest those dollars in infrastructure projects involving Chinese companies. This gives China access to much-needed foreign capital and a market for its state-owned enterprises. In return, Gulf countries receive support from the CCP. This includes backing from Chinese banks, preferential lending terms, relaxed regulations, and, most important, collaboration with large Chinese companies. This process can further integrate these developing nations into global supply chains as they strive to diversify economically.26

Moreover, China and Middle Eastern nations can mutually benefit from technology cooperation and knowledge transfers. Middle Eastern countries can acquire cutting-edge technology, such as 5G communication infrastructure. In turn, China gains access to a significant and expanding market to promote Chinese standards and provide partial access to Western equipment and know-how. The substantial dollar investments Gulf countries have made in joint projects with China should be seen through this paradigm of bilateral cooperation and knowledge exchange.

**Securing the Middle East amid Great Power Competition**

At the beginning of the petrodollar era, the US gave Saudi Arabia a security guarantee in exchange for cheap and abundant energy. But as the US achieved energy independence, Riyadh felt Washington’s cold shoulder acutely. To counterbalance this slight, Gulf states like Saudi Arabia are turning to Beijing. They recognize that China’s interest is strictly to secure its own energy supply. On the other hand, they fear that America’s security guarantee will be subject to human rights conditions.

To maintain its leadership role in the Middle East, the US needs to demonstrate its commitment to ensuring the security of its allies in the region. To this end, Washington possesses one crucial advantage over Beijing: the ability to back its commitments with military power. This advantage should form the core of any long-term vision the US presents to its regional partners. Washington should explain how it will ensure stability and prosperity, prevent Iran from obtaining nuclear weapons, and stop Tehran’s proxy attacks on US allies. Otherwise, the US risks creating a vacuum that only Beijing can fill.

Beijing’s continued ascendancy is not a foregone conclusion. The US can effectively counter China’s attempts at economic self-assertion while simultaneously addressing its own supply chain vulnerabilities. Xi Jinping is attempting to construct an alternative economic order. If Washington wishes to stop him, it should do so in the Middle East.
Endnotes


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