Chinese Investments in Maritime Sectors of Oman and UAE: Transitioning Realities

Muhammad Jawad Akhter*

Abstract

This paper reviews Chinese investments in the maritime sectors of Oman and the United Arab Emirates (UAE), focusing on the potential challenges and opportunities that lie ahead. The study highlights China’s increasing influence in the Middle East (ME) and Africa, with a focus on the Belt and Road Initiative (BRI) and the development of key ports and infrastructure projects at Duqm and Khalifa ports. It looks into the strategic importance of Oman and UAE as the key regional players and their relationship with China in the current global context. China’s expanding naval footprints in the Arabian Seas Region (ASR) pose potential challenges to US interests. China, however, has not pronounced any of its military objectives and has extensively but strategically invested in developing key infrastructure in littoral states to avail significant advantages. In the backdrop of the evolving dynamics of great power competition and maritime security in the Arabian Sea region, this study indicates towards possible ways in which the US, China and the regional states need to take and address the challenges posed to each of them. This may help them strengthen their partnerships and balancing their strategic interests in the region.

Keywords: Maritime Security, Duqm Port, Khalifa Port, Gwadar Port, Strait of Hormuz, Belt and Road Initiative (BRI), Great Power Competition, Arabian Seas Region, Indian Ocean.

Introduction

The Middle East (ME) has long been a crucial source of oil and gas for China. As the world's largest energy consumer, China’s energy needs are only expected to grow in the coming years.¹ Beijing’s push to secure its energy...
interests in the ME is a significant geopolitical development with important implications for global energy security and regional politics. China has been pursuing a robust strategy of building energy infrastructure in the region. In its quest for securing conventional and renewable energy resources, developing partnerships in the ME remains an integral part of it. This has included investment in pipelines, refineries, and other infrastructure, as well as partnerships with energy companies in the region.

This paper discusses the Chinese interest in the maritime sector of Oman and the United Arab Emirates (UAE), its impact, potential challenges, and opportunities that it creates. The development of key ports and infrastructure projects at Duqm (Oman) and Khalifa (UAE) ports is a major move as part of China’s increasing influence in the ME and Africa with a focus on the Belt and Road Initiative (BRI). It will be interesting to note the evolving Chinese involvement in the strategically important region where Oman, UAE, Pakistan and Iran are key regional players, with each of whom, China is strengthening relations to carve out new opportunities. China’s expanding naval presence in the region has its own consequences and potential challenges to the interests of other major powers, particularly the United States (US). In this context, this paper provides insights into the evolving dynamics of great power competition and maritime security in the Arabian Sea Region (ASR). The descriptive analysis in this paper indicates towards the required approach by the major global powers as well as the countries that receive their cooperation and/or attention.

China as a Major Regional Player: Economic & Geopolitical Interests in the ASR

The China-backed truce between Iran and Saudi Arabia marks a significant change in the long-standing rivalry and tensions between these two countries as well as the Chinese role and influence in the region. The involvement of China also marks a paradigm shift because it has traditionally maintained a policy of non-interference in other countries’ internal affairs. China’s partnerships with the resource-rich countries in the Gulf and Middle East region further complicate regional politics and create new challenges for international diplomacy. These initiatives have raised concerns among other countries, particularly the US. China’s efforts towards increasing its influence in the region are seen as a challenge to the traditional dominance of the US and other Western countries as well as the existing world order.
One important focus in the Chinese strategy has been visible in an important and strategically located regional player, Oman. China and Oman have a longstanding relationship that has been growing stronger in recent years. Oman is strategically located on the southeastern coast of the Arabian Peninsula, overlooking the Strait of Hormuz (SoH), like that of Pakistan’s Gwadar Port and Iran’s Chabahar port. Collectively, they could be termed as sentries to world’s crucial chokepoint for global energy flows. Oman is an important supplier of oil and natural gas to China, and China is one of Oman’s largest trading partners. In 2021, China-Oman trade was worth over USD27 billion, with the former importing mainly oil and gas from the latter, and exporting primarily machinery, equipment, and manufactured goods amounting USD 3.13 billion. Oman is the sixth largest crude oil supplier to China, after Saudi Arabia, Russia, Iraq, Angola, and Brazil. While Gwadar and Muscat are not directly linked geographically, their strategic importance to China’s BRI and its broader efforts to expand its influence in the region make them relevant to each other in terms of China’s economic and geopolitical interests in the region.

In the area close to the SoH – the world’s most important chokepoint for transporting oil, the US, United Kingdom (UK), France, and Australia have stationed their naval forces in the region for various reasons, including maintaining freedom of navigation; conducting counterterrorism and countering piracy operations; and protecting their own national interests. While Chinese naval units are also present in the region in almost the same context, Chinese companies have invested heavily in ports and energy infrastructure. Through its involvement in the development of Oman’s Duqm port city, China is expanding its footprint in the ME to meet its vast energy needs. This ‘port city’ is being developed to serve as a maritime hub, with the port acting as a key intersection between land and sea transport networks. The critical waterway has attracted the attention of the People’s Liberation Army (PLA). Observers suggest that as Chinese leaders aim to enhance their interests in the region, they may adopt the strategy they employed in Djibouti, which involves utilizing commercial opportunities to ‘advance military and intelligence operations’.

It may be recalled that China has a significant economic presence in many littorals of the Indian Ocean (IO); however, it has military presence in Djibouti only. Djibouti is a small country located in the Horn of Africa just across Yemen, approx. 12.4 NM where Bab-el-Mandeb Strait connects the Red Sea to Gulf of Aden—much like Duqm, Gwadar and Chabahar to SoH. Djibouti’s strategic location on the Gulf of Aden, near Suez Canal and at the
intersection of several key shipping lanes, makes it an important location for regional and global powers. In 2017, China established its first overseas military base in Djibouti, which is located next to the country’s main port and close to the international airport. The base is capable of hosting up to 10,000 personnel and is equipped with a variety of facilities, including an airstrip, a harbor, and support facilities. China’s presence in Djibouti is also driven by economic interests, particularly in infrastructure development and trade. Djibouti is a key hub for maritime trade and transportation in the region, with the country’s main port serving as a gateway for goods bound for Ethiopia and other landlocked countries in the region. In recent years, China has invested heavily in infrastructure projects in Djibouti, including the construction of a new port, railway, and airport, which are all part of BRI.

Chinese presence in Djibouti is often considered a manifestation of the ‘first civilian, then military’ model, indicating that its current investment in infrastructure for commercial purposes can potentially be converted to support military needs. The political influence that Beijing has earned through these projects is already obvious. Looking through the same lens, some military scholars consider the Djibouti base as a ‘strategic strongpoint’ for China to look over critical trade routes, and opine that with its growing interests in the region, it may establish another trade strongpoint along the SoH. Nearly one-third of the crude oil is transported through sea transits via this Strait. More significantly, 76 percent of crude oil and condensate was transported through this route in 2018 to Asian nations including China, India, Japan, South Korea, and Singapore. In the same year, the US imported about 1.4 million b/d of crude oil and condensate from Persian Gulf countries through the SoH. This accounted for about 18 percent of total US crude oil and condensate imports and 7 percent of total US petroleum liquids consumption in 2018.

In its year 2020 report to Congress, the US Department of Defense has listed the strait as a ‘known focus area’ for Chinese military planners. The report indicated that beyond its Djibouti base, the Chinese military was already planning for additional military logistic facilities in the region to support naval, air, and ground forces. In fact, it was considering many different sites for its multifaceted commercial and strategic objectives even if all of them may not finally materialize. The negotiations towards such arrangements include infrastructure-related agreements, the status of forces or visiting forces agreements, and/or basing agreements, which might not always succeed.
In 2021, Chinese imports of crude oil stood at a staggering USD 128 billion from countries along the Persian Gulf and SoH. This was three times more than the US and European Union (EU) combined. This huge volume of imports requires China to boost its cooperation with regional partners and ensure the safe passage of its crucial energy resources.

China’s Growing Economic Clout & Connectivity Efforts in ME & IOR

China has invested in a range of infrastructure projects in Oman’s Duqm port, like that of Pakistan’s Gwadar port, including the construction of a new seaport and container terminal, as well as a new railway line linking Duqm to other parts of Oman. In addition to these projects, China has also invested in the development of industrial zones (IZs) and special economic zones (SEZs) in Duqm, with a focus on attracting foreign investment and promoting economic growth in the region. The Chinese investments in Duqm appear to be part of China’s broader efforts to expand its economic and geopolitical influence in the ME and the Indian Ocean Region (IOR), as well as its BRI, which aims to connect China to markets across Asia, Europe, and Africa through a network of infrastructure projects. Oman’s geographical location presents an opportunity to play a significant role in the construction and realization of the BRI. Situated close to East Africa, Iran, Pakistan, Yemen, and the greater IOR, Oman can link Asia with Europe and Africa along the land- and sea-based Silk Road. Due to Oman’s immense strategic value, China is making efforts to revive ancient maritime trade routes. Moreover, Oman’s strategic location on the axis of the IO, the Arabian Gulf, and the Red Sea enables it to act as a regional hub with accessible trade routes and rapid transit times to the world’s most attractive emerging markets.

The Chinese approach of diplomacy across oceans can be seen in the statement of President Xi Jinping, who maintained, ‘The blue planet, we humans live in, is not divided into isolated islands by the ocean, but is connected by the ocean into a community of shared destiny, and people of all countries share weal and woe.’ Strategically, China is making efficient use of the international navigation system and trading rules of the international oil market, to enhance its ability to avoid risks in origin, route, and transportation, and ensure safety of its oil imports. Through a multi-wheel drive energy-supply system, China is promoting energy-supply revolution and diversifying its options. Despite all its efforts to have stronger presence in the Gulf region, China is breaking away from the Gulf and not relying on the existing oil import channels, but also appropriately expanding oil imports from Russia, Africa, Latin America, the US and other places. Among the more important
alternate import routes that China is creating for energy imports include Gwadar Port (China-Pakistan Economic Corridor), Kyaukpyu Port (China-Myanmar Crude Oil Pipeline), Atasu-Alashankou pipeline, Andalusian-Dalian line, Stamford-Dalian line, and the Arctic Route. Under the background of jointly building the ‘Belt and Road’, Xi Jinping further noted that China should make full use of its status as an observer state of the Arctic Council, actively participate in the development of oil and gas in the Arctic, create a ‘Silk Road on Ice’, and gradually improve transportation safety and improve oil transportation capacity. Xi has a clear vision: according to him, it is necessary to build a maritime power; actively manage the ocean; strengthen the construction of relevant overseas ports; enhance the ability to protect overseas interests; move towards the deep blue and stay in the deep blue; and at the same time carry out international mutual trust and exchanges; support multilateral international organizations to play their role; promote global ocean governance; and maintain rules.26

To achieve the above objectives, Chinese state-owned enterprises (SOEs) spent huge amounts on solving the Hormuz challenge. From 2008 to 2012, the China Petroleum Engineering and Construction Corporation constructed the Habshan–Fujairah oil pipeline to bypass Hormuz by stretching some 380 km from the interior of the UAE to the Port of Fujairah. The approximate cost incurred on this project was USD 3.3 billion.27

Figure 1: Oil Exporting Alternatives in the Persian Gulf

Taking advantage of the UAE’s ambition for sustainable development and reducing its carbon footprint through renewable energy, Chinese companies are making visible inroads.\textsuperscript{28} A Chinese SOE, Sinopec, holds a 50 percent share in a major terminal at UAE’s Fujairah port that operates 36 tanks for storing oil, gasoline, and other chemicals.\textsuperscript{29}

**Figure 2: Khalifa Port, UAE**


China has carved out its economic avenues through Abu Dhabi’s Khalifa Port as well. A subsidiary of Chinese shipping SOE COSCO inked a USD 738 million agreement in 2016 to construct a container terminal there. Through this agreement, China acquired a ‘35-year deal’ with ‘exclusive design, construction, and management rights’.\textsuperscript{30}

China’s investments in the Khalifa Port have focused on two key areas: infrastructure and industrial development. In terms of infrastructure, China has invested in the construction of new terminals and facilities at the port, including the development of a new container terminal and a new bulk cargo terminal, which has significantly increased the port’s capacity and efficiency. China has also invested in the development of rail links and other transport infrastructure, which will further enhance the port’s connectivity and efficiency. In terms of industrial development, China has invested in the creation of a SEZ at Khalifa Port, with a focus on attracting Chinese and other foreign investors to set up businesses and industries in the area. The SEZ is designed to facilitate trade and investment between China and the UAE, as
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well as to promote economic growth and creation of job opportunities in the region.

More recently, in October 2022, China Harbour Engineering Company (CHEC) was hired to build a new ‘700,000 square meter container yard and 36 supporting buildings at the Khalifa port’.\textsuperscript{31} Moreover, numerous Chinese companies would be engaged in the construction of national rail network of UAE, ‘Several Chinese companies are also engaged in constructing the UAE’s national Etihad rail network, which will connect several ports including Khalifa port with major trade and industrial hubs throughout the Arabian Peninsula.’\textsuperscript{32}

**Chinese Engagement in Strait of Hormuz and the Red Sea Region (RSR)**

Simultaneously, with its increased engagement in the Hormuz Strait region, China is actively pursuing options around the Strait of Hormuz and Read Sea to open multiple options and ensure uninterrupted energy supply to its mainland for the Gulf and ME. Among the major engagements of China in the South Asian Region (SAR) are the construction of Colombo International Container Terminal (CICT) and Hambantota International in Sri Lanka; Chittagong Port development project in Bangladesh; Port Qasim Coal Power Plant; New Islamabad International Airport; and Gwadar Port in Pakistan.\textsuperscript{33} Among its major projects in the Gulf region, Khalifa Port Container Terminal 2, and Dubai Water Canal Project in UAE; Doha New Port Project in Qatar; Jubail Industrial City and King Abdul Aziz International Airport Expansion in Saudi Arabia are prominent. Chinese involvement in Africa is also pronounced and indicative of its strategic interests. The Port of Djibouti expansion project, Bagamoyo Port Project in Tanzania, Mombasa-Nairobi Standard Gauge Railway in Kenya, Port of Lomé expansion project in Togo, and Pointe Noire Port Multipurpose Terminal in Congo are among the significant projects.

China is making similar strategic investments at Duqm, Oman. The Duqm SEZ, which is set up in the southeastern desert of Al Wusta Governorate, is spread over 2,000 square km with an 80-km coastline, making it the biggest in the Middle East and North Africa (MENA) region.\textsuperscript{34} In May 2016, a consortium of private Chinese companies, Oman Wanfang, ‘signed a 50-year lease with the Special Economic Zone Authority Duqm’ in a bid to ‘co-develop the China-Oman (Duqm) Industrial Park,’ a project under the Belt and Road Initiative (BRI).\textsuperscript{35} Under this initiative, China has invested in various port development projects, such as the construction of new ports and
upgrades to existing ones, aimed at improving their logistics and transportation capabilities.\textsuperscript{36}

The group is investing ‘some USD10.7 billion for the development of a nearly 13 square km industrial ‘city’ within the Duqm Special Economic Zone.’\textsuperscript{37} The park is still developing, but offers promising future prospects to Oman as well as to China. An oil refinery, solar power equipment/production facility, multibillion-dollar methanol plant, oil and gas equipment/production site, and other industries are part of the master plan. Further plans include building housing zones and promoting tourism.\textsuperscript{38} According to the park’s director, Sha Yanju, ‘ten Chinese enterprises from China’s provincial-level regions such as Ningxia, Hebei and Liaoning signed agreements to operate in the park’.\textsuperscript{39}

\textbf{Figure 3: Planned Special Economic Zone at Duqm}

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While China’s investments at Duqm are commercial in nature, according to some observers, they are ‘reminiscent’ of the ‘Port-Park City Model’ (or Shekou Model), ‘which China has utilized to gain significant political and economic leverage within host countries’.\textsuperscript{40} After continuous exploration and practice, combined with the development experience of China Merchants
Group in Shekou, China Merchants proposed to replicate the ‘PPC’ (i.e., Port-Park-City, port-industrial park-city) as core business model along the ‘Belt and Road’. The ‘PPC model’ is also known as ‘front port-central area-back city’. "Front port" refers to the construction of new ports or the upgrading of existing ports, including seaports, airports, and land ports, which are the concept of a transportation hub. ‘Central zone’ refers to industrial parks that rely on port development or are closely related to port and shipping logistics, such as port industrial zones, export processing zones, free trade zones, and bonded port areas. The link and the main carrier of the ‘city’. ‘Back city’ mainly refers to the supporting residence and commerce that support and serve ports and industrial parks. The core of the ‘PPC model' lies in the port first, the industrial park follow-up, and the development of supporting urban functions, so as to realize the regional linkage development. In the past few years, China Merchants have successively copied the ‘Shekou Model’ in Belarus, Djibouti, Togo and other countries.

Duqm is already a focal point for several militaries. The Royal Navy of the UK established UK Joint Logistics Support Base (UKJLSB) at Duqm in 2017. The UKJLSB was used ‘to support Exercise ‘Saif Sareea 3’ in October-November 2018, which involved British and Omani air, land, and naval forces’. The US Navy has used Duqm Naval Base to support its operations in the region. In 2020, the USS Hershel ‘Woody’ Williams visited the port, marking the first time a US Navy ship had visited the base. The French Navy has also used Duqm Naval Base, with the amphibious assault ship FS Tonnerre visiting the port in 2020. The Indian Navy has expressed interest in using Duqm Naval Base as a base of operations and has reportedly conducted joint exercises with the Omani Navy in the area. While the Chinese Navy has not officially used Duqm Naval Base, it has shown increasing interest in the port and the surrounding area as part of its broader BRI and its efforts to expand its strategic presence in the region. This gives strength to the view that China’s investments in Duqm could aid China in establishing a fixed military facility there.

Potential US Approach to Address the Challenge of Chinese Investments in ASR

Officials in Washington have a fair understanding of the increasing challenges posed by China in the region. In 2019, the then-director of logistics for the Joint Chiefs of Staff, Lieutenant General Giovanni K. Tuck, informed the House Committee on Transportation and Infrastructure that China’s growing influence in the region may ‘expose data’ and impinge on ‘our ability to use
ports [and] access ships’. He added that China’s influence could ‘strain or change our relationships with partners and allies’. There are indications that China’s growing presence has already impacted US’ partnerships in the region. ‘US concerns about China’s potential construction of a military base at Khalifa Port, and the UAE’s selection of Huawei as its 5G partner of choice in 2019, contributed to the US freezing the planned sale of F-35 stealth fighters and other equipment to the UAE during the final year of the Trump administration.’ Although the Chinese brokered Iran-Saudi Arabia deal signals a ‘desire to pivot the United States away from the Middle East, the UAE and Oman remain important regional partners for the United States.’ Kardon and Leutert offer significant insights into the US concern of growing Chinese influence on key littoral locations.

It is difficult to predict the exact approach that the US will take in addressing the challenges posed by the Chinese investments in the maritime sectors of AS littorals as it will likely depend on several factors. However, there are certain obvious distinctions between the strategies that China and the US pursue in their engagement with other countries and regions. The Chinese model of international engagement is development-oriented and much more inclusive. Some possible approaches that the US might take include: increasing diplomatic engagement with the Arabian Sea littoral states to highlight the potential risks of over-reliance on Chinese investments, offering alternative investment options to these countries, increasing military presence and cooperation in the region to counterbalance China's growing influence, and working with other countries in the region to form a united front against China's activities. Additionally, the US could also use economic tools such as sanctions and trade restrictions to target Chinese companies involved in these projects and limit their ability to expand their influence in the region.

Ultimately, the US is likely to employ a multifaceted approach that includes both diplomatic and economic tools to address the challenges being posed by the Chinese investments in the maritime sectors of Arabian Sea littorals. Whatever the counter strategy, it is very clear that China’s stride towards an energy-rich future has been impressive. Development of green energy at home, engagement with the resource-rich states in the ME and Africa, and still carving new routes to avoid strategic chokepoints constitute a comprehensive Chinese strategy that is paying off in more than one way. Developing nations find it much easier to deal with China in an environment of mutual respect, predictable and rule-based engagement, and with no plausible apprehensions for violence and arm-twisting.
Since the opposition to Chinese advancement is strongly in place, the likelihood of great power contestation over natural resources is very much there. While the host states of Chinese investment, like Oman and UAE, are keen to take advantage of the Chinese progress, they should remain mindful of the bigger picture. A disastrous future and the great power clash over energy resources and corridors can only be avoided by ensuring a prudent approach.

**Conclusion**

The states in the Gulf and MENA region have a vital role in ensuring a balance between the major powers. They need to engage the US, China, and other global and regional players concurrently, timely, and effectively. The examples like Iran-Saudi Arabia Rapprochement should encourage the developed nations to contribute towards peace and mutual development. The Chinese approach of collaboration and investment for ‘shared growth’ provides a blueprint for sustainable development and peace. The Chinese investments in the maritime sectors —while increasing China’s clout in the Middle East and Africa, primarily through initiatives like the BRI and the development of key ports and infrastructure projects especially at Duqm and Khalifa ports—have contributed greatly towards creating investment climate and prosperity of the region. The paper underscores the evolving strategic importance of Oman, UAE, Pakistan, and Iran as key regional players. Over time, these countries have developed closer relationships with China, forming robust economic and investment partnerships. The paper also analyzes great power competition and race for influence particularly in the maritime security domain. In light of the above discussion, the following recommendations are proffered. Firstly, it is crucial to strengthen partnerships through active engagement between the major powers and Arabian Sea littorals, fostering robust alliances and enhancing cooperation through sustained diplomatic dialogue, joint military exercises, and the facilitation of economic collaborations. Secondly, promoting regional stability necessitates collaborative efforts between the US and China, focusing on non-traditional security threats (NTS) especially for countering piracy, preventing human trafficking, enhancing maritime domain awareness, and safeguarding freedom of navigation, among others. Lastly, encouraging multilateral cooperation among regional and international stakeholders, including the US, China, and other key actors, can effectively address shared challenges such as maritime security, infrastructure development, and economic integration. Existing platforms such as the Indian Ocean Naval Symposium and the Gulf Cooperation Council can serve as instrumental avenues for facilitating dialogue and fostering collaboration for common growth.
Notes


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