

**CNA Workshop on Regional Issues:
Russia, China and India:
Strategic Interests in the Middle East**

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This is a report of a workshop on “Russia, China, and India: Strategic Interests in the Middle East” held on 24 July 2008 in Tampa, Florida, for the benefit of U.S. CENTCOM. The all-day session was conducted under the non-attribution rule. Current and former high-level U.S. government officials and regional experts offered their views on the three countries’ strategic interests in the region and on Russian and Chinese competition for influence and access to resources in Central Asia.

Context: Russia, China, and India are emerging, or rather re-emerging, as world powers. Cognizant of their past eminence, fueled by economic growth, and imbued with new confidence and national pride, these nations assert their intent to play a greater role in the global geopolitical order. All three have interests in the Middle East. Some of these interests converge with, and others diverge from, those of the United States.

Russia’s Interests

(Note: A comment on the implications of Russia’s invasion of Georgia appears at the end of this report.)

Russia has changed dramatically during the past eight years of the George W. Bush administration. In 2000, Russia was still emerging from the Soviet collapse: its economy was 40 percent smaller than during the Soviet period, and internal separatist movements constituted a potential threat to state security. The Russian people were deeply aware of their loss of status. When Vladimir Putin assumed the presidency in 2000, his main objective was to rebuild Russia and reassert its status as a world power. Today, it is clear that Russia has made a remarkable comeback. Thanks to oil and gas

exports, the Russian economy is booming. Russian hard currency reserves are the world's third largest, after those of Japan and China. Russia feels more confident today than it has in decades. A new foreign policy concept was recently released, asserting increased Russian responsibility in world affairs. Russia is back and it intends to play.

Problems remain, however. Russia's infrastructure is crumbling, its national health and education systems are failing, and a potential sharp decline in population looms. In spite of the country's improved economic situation, the Russian military is still deficient after years of inadequate funding. The Russian manufacturing sector currently produces and exports few notable commercial products. After a period during the Yeltsin years of unfettered and corrupt privatization which saw state assets acquired by the well-connected few, the Kremlin is now re-centralizing state control in strategically important sectors, such as natural resource extraction and defense. Foreign companies are being pushed out of the energy sector due to the Kremlin's conviction that they would not develop assets in accordance with Russian state interests. "National champions" such as the energy giant Gazprom, are being created to pursue Russia's interests at home and abroad. Indeed, Russia's energy exports are now the Kremlin's primary method for projecting power beyond its borders.

The Middle East Viewed From Moscow

The top priority for Russia remains the former Soviet space. Relations with the U.S. (a competitor), Europe (a neighbor and major trading partner) and China (a neighbor and potential competitor) are foreign policy priorities. But as Moscow looks toward the Middle East, it is preoccupied with two major issues: instability in the region, and energy. Russia does not want destabilization in the Middle East spilling over into the Caucasus, Central Asia, and Central Russia, where there is a confluence of strong Russian interests and Islam. The Middle East's role as an energy exporter directly affects Russia's economic interests. Oil and gas exports now provide 40 percent of Russia's federal budget, account for 20 percent of its GDP, and constitute 60 percent of its exports. Iran and Qatar are the only potential competitors to Russia as a supplier of natural gas to Europe. Gazprom's current share of the European natural gas market is 25 percent and that is likely to increase. This provides Russia significant political leverage.

Russia perceives America's successes and failures in the Middle East as challenges. According to Moscow's calculation, if the United States succeeds in Iraq and transforms the region, American domination of the Middle East will ensue and oil prices will fall. (Many in Russia's current leadership are convinced that the United States and Saudi Arabia manipulated oil prices during the 1980s specifically with the intent of crippling the Soviet economy.) Yet, if the United States fails in Iraq, there

will be greater instability and this too would threaten Russia's interests. The present status quo – neither complete U.S. success nor U.S. failure – puts Russia in a position of relative strength. Russia has been able to reinsert itself as an essential partner – working with the EU, China, and the United States on Iran, for example. The Russian veto on the U.N. National Security Council enables it to undermine Washington's initiatives in the region and ensures that Russian views must be taken into account. The Kremlin wants to influence how the Americans operate and to channel U.S. power in ways beneficial to Russia. Above all, it wants to keep energy prices high.

Russia and Iran

Moscow views Iran as the dominant regional power. Russian leaders value the fact that Tehran has not meddled in Central Asia. On the nuclear issue, the Russians don't want Iran to develop nuclear weapons, as that would constitute a threat to Russia's own security. But, there is a difference between U.S. and Russian assessments of Iran's current capability. The Russians believe that Iranian nuclear weapons development is some ways off, and they would like to wait until the last possible moment to take action. Moscow seeks to maintain international monitoring of Iranian facilities and to continue Russia's involvement in the Iranian nuclear energy sector – thus obtaining insight into Iranian progress. In the Russian calculus, there is a lower probability that Iran will develop a functional nuclear weapon in the near term and a higher probability that the United States or Israel will carry out an attack. Moscow is convinced that any military action against the Iranian nuclear facilities would be unsuccessful and destabilizing. Thus, Russia sells Iran conventional arms, including advanced anti-aircraft weaponry.

Moscow realizes that political changes over the next decade or two will affect the international community's perception of Iran. If 15 years from now Iran is no longer considered a pariah state, Russia's friendly relations with Tehran could give it the inside track for commercial endeavors, including cooperation on energy development. Russia and China would both like to assist Iran in developing its hydrocarbon reserves and thus be in a strengthened position to influence how and where these resources are directed to international markets. Russia wishes to ensure to the greatest extent possible that oil and gas from the Caspian region, including Iran, flow through pipelines on Russian territory, not via the BTC pipeline or the proposed Nabucco pipeline.

Afghanistan and Central Asia

On Afghanistan, Russia wanted to play a more active role. In late 2000 Russia proposed a joint U.S./Russian strike against the Taliban, but the United States turned it down; however, the two countries did collaborate during the initial phases of

Operation Enduring Freedom, launched against the Taliban and al-Qaeda after the 9/11 attack. Moscow's attitude toward cooperation with the United States changed during the 2004–2005 period, when Chechen separatists seized the school in Beslan and the “color” revolutions took place - Rose in Georgia, Orange in Ukraine, and Tulip in Kyrgyzstan. Russian leaders were convinced that the United States was using democracy promotion and anti-terrorism efforts in the region to threaten Russian pre-eminence in the former Soviet space. Russia lobbied the Shanghai Cooperation Organization, of which it is a member, to call for the U.S. to leave military bases in Central Asia. But in 2008, the 'color' revolutions have stalled and Russia is concerned about the growing power of the Taliban and continuing turmoil in Pakistan. It is now willing to allow the United States to transit its territory with military equipment and supplies going to the American troops in Afghanistan.

Russia's relationship with the states of Central Asia is increasingly impacted by China's growing interests in the region. China's “Go West” policy is directing billions of dollars into the development of China's far western provinces bordering Central Asia. Exploitation of the natural resources of Xinjiang Province, particularly oil and gas ,is bringing a population influx from areas to the east. Newly constructed rail and highway links tie the region to the rest of China, while major urban infrastructure development is transforming the landscape. A \$19 billion project funded by the Asian Development Bank, China, and the Central Asia countries themselves, is planned to create six road-rail corridors linking China to Europe via Central Asia. Russia has been invited to join the project but has not done so. Chinese-built and funded oil and gas pipelines, already operational or under construction, will send Central Asian energy supplies eastward, connecting with the Chinese national grid in Xinjiang.

With China's commercial penetration of Central Asia, its political influence in the former Soviet space will increase. The Shanghai Cooperation Organization, of which both China and Russia are members, allows the two countries to monitor each other's activities in the region. Russia is concerned about China's growing military capability. At the time of the dissolution of the Soviet Union, China bought quantities of Russian weapons and equipment and absorbed that technology. In the decades after the founding of the PRC, China was the junior partner in the Russia/China relationship; now China considers itself the senior partner. There is profound distrust between the two countries. In the 1980s the United States had better relations with Russia and with China than they had with each other. Now the Russians never come to Washington and we never go to Moscow to discuss China, and China is in a better position to manipulate both of us.

The world is globalizing. Economic cooperation is not Russia's strong suit. Moscow needs to diversify the Russian economy, to develop. In the years to come, Russia will be a smaller economy: probably one sixth that of the U.S. or the E.U. The challenge

for Russia is how to maneuver in a world where other powers will have much greater resources. Strategically, the Russians need to forge a relationship with another power. It would be advantageous for them to align with the United States but to do so they would have to overcome the impediments of history and Cold War stereotypes.

India's Interests

India has an extremely complex relationship with the countries of “West Asia” as it is called in India. Invasions of the Sub-Continent traditionally began in the Middle East – Alexander the Great was but the first. An essential element of India's complex relationship with the Middle East is its relationship with Islam. India's Mogul Empire (1523-1857), was a melting pot of Arab, Persian, and Indian cultures headed by Muslim rulers descended from Genghis Khan and Timur the Lame. When the British withdrew from the Sub-Continent in 1947, the modern Indian state was carved from the Raj as a ‘non-Muslim’ entity, in opposition to Muslim Pakistan and modern day Bangladesh. Ever since Partition, India has been trying to effectively manage its relationship with the Islamic world. India is actually one of the world's largest Muslim countries – the third largest after Indonesia and Pakistan. India is also the nation with the second largest Shi'a community after Iran. India's 154 million Muslims constitute an important political constituency that traditionally supports the Congress (Ghandi) party. In recent elections, this support has helped Congress gain significant advantage over the Hindu BJP party.

Currently India enjoys its best-ever relationship with the Middle East. After King Abdullah of Saudi Arabia ascended the throne, his first trip abroad was to India and China. Indeed, Abdullah was the first Saudi ruler to visit India. Other Gulf leaders have followed his example and these visits have been reciprocated by a parade of Indian leaders traveling to the Gulf. With the Indian economy growing at 9.5 percent per annum, India is becoming a big market for Middle Eastern energy. India has discovered exploitable quantities of oil, but it is a net importer and 67 percent of its imports come from the Gulf. India's domestic consumption is expected to rise further as hundreds of millions of middle-class Indians become vehicle owners (Tata Motors will soon introduce a \$2,000 car.).

India is also growing in importance as a refining and petro-chemical center. Reliance Industries currently operates the world's second largest oil refinery in Jamnagar, Gujarat on India's west coast sea lane, between oil producers in the Gulf and their customers in East Asia. Reliance recently announced a partnership with Chevron to build a second giant refinery alongside the first, making Jamnagar the world's largest petroleum refining hub, able to process 1.3 billion barrels of crude per day. Jamnagar will handle every type of oil in the world, making it “the place” for refining capacity

and positioning India as a global player in the energy market.

India's relationship with the Gulf States could be further enhanced by expanded two-way trade and investment opportunities if negotiations to reduce regulatory and tariff barriers are successfully concluded. India is Saudi Arabia's seventh largest trading partner and India's private sector is currently the fifth largest investor in the Kingdom. Gulf institutional and individual investors including Emaar Properties, Dubai Holding, and Dubai Ports World, have major projects underway in India. Five million Indian expatriate workers are employed in the Gulf States and they remit home more than \$20 billion per year. India is thus a key stakeholder in supporting the continued internal stability of the Gulf States.

Regional Military/Security Relationships

Israel: The 2000 Camp David Summit set the stage for India/Israel rapprochement. The United States put pressure on Israel to reduce its sale of arms to China and go to the India market instead. India is now Israel's largest market for arms (\$1.5 billion) and Israel has become India's door to high technology and space. India is the launch site for Israel's satellite reconnaissance system. Within India there is bi-partisan agreement on developing the relationship with Israel; only the extreme left is opposed. The relationship is kept "off side" and is counter-balanced by a strong India-Saudi Arabia relationship.

Iran: India maintains a low-level military relationship with Iran – mostly port visits. India has ancient cultural and historic ties with Iran, and it needs Iranian hydrocarbons. It is unsurprising then that India wishes to maintain a relationship with the regional power. India does not want Iran to develop nuclear weapons, creating a second Muslim nuclear power and a "market" in the Gulf for a Pakistani nuclear umbrella. In the IAEA, India has supported the United States on every vote on Iran but it would oppose a military strike on Iranian facilities. Such an action would enflame India's large Sunni and Shiite populations.

Afghanistan: Afghanistan has been one of the most recent battlegrounds for India/Pakistan rivalry. Pakistan considers Afghanistan necessary for its "strategic depth." Pakistan's military intelligence organization, the ISI, has long been active in Afghanistan, with particularly strong ties to the Pashtuns. To counter Pakistan's influence, India has been involved in the Afghanistan reconstruction effort, pledging \$750 million for rebuilding, including \$80 million for strategic roads, training for Afghan soldiers and officials, and constructing key government buildings. India is assisting in the development of Afghanistan's civil aviation sector. Its "soft power" – transmitted via music, Bollywood videos, and the like – is considerable. India has blamed Pakistan's ISI for the recent attack on the Indian Embassy in Kabul, and it

believes that the ISI is assisting the Taliban to reconstitute and flourish.

Indian Ocean Littoral: Maritime trade along the Indian Ocean littoral has existed for thousands of years. Seasonal monsoon winds propelled sailing dhows from the Gulf to India and East Africa, and back again when the winds changed. Today more than 100,000 ships per year transit the Indian Ocean. This maritime traffic includes half of the world's containerized cargo, one third of its bulk cargo and two thirds of its oil shipments. India's 2007 Maritime Military Strategy emphasizes the importance of maritime trade, the security of energy, maritime domain awareness, and deterrence. The Vice President of India, addressing an Indian Ocean Navy Seminar in 2008, stated India's intent to play a major role in ensuring the security of the Indian Ocean. India's ability to project power will be enhanced on completion of an ambitious warship construction program. Chinese naval presence and activities in the Indian Ocean, including the development of the Chinese-built port in Gwadar on Pakistan's Makran coast, are clearly a concern. From a U.S. military perspective, responsibility for the Indian Ocean is divided among three commands (CENTCOM, PACOM, and AFRICOM), which may constitute an impediment to engaging India in "cross-COCOM" U.S. objectives. The possibility of U.S./Indian regional military collaboration is greatest in the area of maritime security. India declined to participate in OIF, although it is a large contributor to U.N. peacekeeping operations elsewhere in the world.

China's Interests

China's engagement with the Middle East is relatively new, although it has ancient roots. From the first century AD, merchants from Aden and Muscat sailed down the Malabar coast to trade with India and then on to Ceylon to meet Chinese merchant ships. By 750 AD there was a notable Arab colony in southern China, particularly in the port of Canton. Arab traders exploited the "maritime silk road" to China via the Straits of Malacca. During the 15th century, Zheng He, a Chinese Admiral and a Muslim, famously sailed ships as far as East Africa. These historic ties were severed in the period of Chinese weakness in the 1800s, followed by war and political upheaval in the 1900s. In the decades after the establishment of the People's Republic of China in 1949, there was little interaction between Arab states and China. Syria, Iraq, and South Yemen were loyal to the Soviets. The conservative states of the Arabian Peninsula did not approve of the militant atheism and communism espoused by the PRC leadership. That began to change in the 1980s as Deng Xiaoping propelled China on a path toward astonishing economic development and increased energy needs. In 2008, China is the second largest energy consumer, after the United States, and 45 percent of its oil is imported from the Middle East. China is Saudi Arabia's and Iran's largest oil customer.

China's Engagement with the Middle East

China has no client states in the Middle East and is on good terms with all. Chinese/Arab relations are at an early stage but developing rapidly. About 200,000 Chinese citizens live and work in the Middle East. Recent years have seen a marked growth in cultural and educational exchange. Arabic studies in China are growing. About 4,000 Arab students are studying in China.

A flourishing commercial and investment relationship now exists between the Middle East and China. In 2004, when Chinese President Hu Jintao visited Egypt, Algeria, and the Arab League, he launched the China-Arab Cooperation Forum. Beijing hosted the second forum in 2006, and a third was held in Bahrain in May 2008. Also under the auspices of the China-Arab Cooperation Forum, a meeting of Arab and Chinese business leaders has taken place in the alternate years: Beijing in 2005 and Cairo in 2007. The Arabs have significant funds to invest and see China as a completely secure investment location – unlike the United States which they perceive as having political risk. China is absorbing \$75-\$80 billion in foreign direct investment from the Middle East. Arab investors are backing Chinese companies as they buy up inputs such as iron and copper ore and timber. Money is also flowing in the opposite direction, as Chinese petrochemical companies are moving to the Persian Gulf to take advantage of cheap energy. The Chinese are investing in the \$20 billion plus Ras Tanura refinery upgrade and petro-chemical plant which Dow Chemical will develop with Saudi Aramco. Cheap energy increases profit margins in the production of steel, copper, and aluminum, and that capacity is also moving to the Gulf, again with Chinese and international investment.

Regional Military/Security Relationships

China has no power projection capability in the Middle East. So far China does not need and has not sought military transit rights. It does not undertake military exercises in the region nor does it conduct training there. Currently, China's strongest military relationship in the Middle East comes through its military sales relationship with Israel.

Iran: Initially China's military partnership with Iran was encouraged by the Nixon administration at a time when China, Iran, and the United States shared the strategic aim of countering the Soviet Union in the Middle East. After the Iranian Revolution, a combination of Iranian pragmatism and Chinese opportunism kept the relationship expanding via the sale of Chinese conventional arms, cruise and ballistic missiles, and technical assistance for Iran's indigenous missile programs. Energy cooperation has now become the top priority in the China/Iran relationship. China seeks priority

access to Iran's hydrocarbon reserves and proposes in exchange to help Iran modernize its petroleum industry – as well as the wider Iranian economy – with industrial technology, capital, engineering services, and nuclear technology. China has repeatedly evinced reluctance to approve proposed UN Security Council sanctions on Iran for proceeding with uranium enrichment.

Pakistan: China has a very close strategic partnership with Pakistan but no defense agreement. Rather, the China/Pakistan relationship is pragmatic and based on the supply of military hardware: 80-85 percent of Pakistan's main battle tanks are Chinese, approximately 50 percent of its major artillery pieces are Chinese and 50-60 percent of its combat aircraft are Chinese. Other key Chinese-supplied arms include anti-tank guided missiles and surface-to-air missiles. Pakistan's naval vessels are primarily British or French in origin although Pakistan has on order four Chinese F-22 frigates. China has played a major role in development of Pakistani ballistic and cruise missile programs and its nuclear weapons technology including alleged warhead design. Pakistani military doctrine and training is largely American and British. The Pakistan Army is imbued with deep regimental ethos: its regulations, structure, and staffing have changed little from the time of the Raj.

Although China has considerable influence in Islamabad, it has exercised its leverage sparingly. China has not challenged the U.S./Pakistan relationship. Over the decades China has used its partnership with Pakistan as a low-cost secondary deterrent to India, with which China fought a bloody border war in 1962. Large areas of the mountainous border area between China and India remain in dispute.

Convergence/Divergence of Interests

The workshop's speakers argued that U.S., Indian, and Chinese interests in the Middle East largely *converge*. All three nations seek:

- Political and economic cooperation with countries in the region
- Access to Middle Eastern oil and gas, and assurance of the unimpeded shipment of those resources via maritime transport and pipelines (existing or proposed)
- Continued stability of the regimes of the Arabian Peninsula
- To fight terrorism inspired by Islamic extremism emanating from the region.

U.S., Indian and Chinese interests *diverge* in respect to:

- Relations with Pakistan (China is Pakistan's strategic ally, whereas India and

- Pakistan are frozen in a state of armed confrontation.)
- Relations with Iran (China has well-established commercial and military ties with Iran. India's, while much less extensive, are growing. Both India and China seek access to Iranian oil and gas.)
 - The degree to which the international community should act to counter Iranian nuclear ambitions and the means by which to effect that policy. (China is opposed to sanctions. India has consistently supported the U.S. within the IAEA process.)

U.S. and Russian interests in the Middle East *align* with respect to:

- Interest in the continued stability of the Middle East (Russia, however, desires status quo rather than an evolution toward more democratic systems.)
- Seeking political cooperation with countries in the region and access to markets. (Weapons are Russia's primary export to the Middle East.)
- Fighting terrorism inspired by Islamic extremism emanating from the region.

Russia's interests *diverge* from those of the United States in the following ways:

- Russia "cannot accept a world order in which all decisions are taken by one country—the United States." To ensure that Russia has a place at the negotiating table and that its national interests are taken into account, Russia may act to delay or thwart achievement of U.S. objectives in the Middle East. The Russian veto in the U.N. Security Council is a powerful tool.
- Russia wants to keep the world price of oil and gas high. To the extent possible, Russia seeks to lock in contracts for Caspian/Central Asian hydrocarbons and to ensure that these are exported via Russian-controlled shipping routes to Europe and beyond.
- Russia seeks to enhance its political leverage and preserve Middle Eastern markets for sales of Russian arms and nuclear technology. Russia's actions have the potential to fuel regional conflict.
- In its recently announced five foreign policy principles, the Kremlin asserts that Russia has regional spheres of influence. Unknown as yet is whether Russia considers all or part of the Middle East to be within its sphere of influence and what it might do to assert/maintain that influence.

Concluding Observations

The Bush administration, like the Clinton administration before it, has worked to develop cooperative strategies with Russia, China, and India to respond to global challenges, including those in the Middle East. Experts participating in the July workshop argued that while China and India will seek to expand friendly bi-lateral cooperation with countries in the Middle East, – including those such as Iran, which are targets of U.S. pressure or sanctions – they have no wish to confront the United States. Both presently benefit from the U.S. security role in the region. India would like to deepen its collaborative relationship with U.S. and allied navies in securing the maritime space.

Russia's recent attack on Georgia has brought a halt to the many patiently elaborated efforts to involve Russia in a strategic partnership with the West. As recently as April 2008, the United States and Russia signed in Sochi a strategic framework declaration committing the two nations to work toward a broad range of strategic arms reduction and nuclear cooperation measures, as well as efforts to counter the spread of WMD, to combat the spread of terrorism, and climate change. The Bush administration agreed to support Russia's entry into the WTO and to work with Congress to achieve legislation on the Jackson-Vanik, Permanent Normal Trade Relations with Russia, and on a 1-2-3 framework agreement with Russia on civilian nuclear cooperation. Washington is debating how much, if any, of this agenda can realistically be considered in the near term. American and allied experts are analyzing the implications of Russia's new five foreign policy principles. In brief, Russia is back and it intends to be heard.