

MEMORANDUM

TO: State Councilor and Foreign Minister Wang Yi

FROM: The Department of West Asian and North African Affairs at the Ministry of Foreign Affairs of the People's Republic of China

SUBJECT: Proposal to Finance Gaza's Central Desalination Plant Expansion

I. Executive Summary

This memorandum outlines the comprehensive benefits generated to the People's Republic of China upon financing the expansion of Gaza's largest seawater desalination plant. The Ministry of Foreign Affairs should strongly consider providing concessional Overseas Investment Loans through China's Eximbank (CEXIM) to the Palestinian Water Authority and the Union for the Mediterranean (UfM) as they are currently seeking project developers and funders. Although the projected revenues and user fees are minimal, the numerous benefits attached to this project outweigh the financial losses. First, China will redefine its international reputation toward Islamic cultures and communities, given the current scrutiny it faces surrounding the Uighur situation. Second, China will hinder the European Investment Bank's ability to also bid to fund the expansion project. Lastly, China's multilateral relationships with Arab Gulf countries will improve given their pledge to fund the other 50% of the expansion project. Investments in this region impose both security concerns for Chinese contractors, and are at high risk of being targeted by Israeli military operations. However, I recommend the approval of the infrastructure financing due to its adherence to the goals outlined in the 8th Ministerial Meeting of the China-Arab States Cooperation Forum (CASCF).

II. Background

The Gaza Strip is a Palestinian-majority territory located south of Tel Aviv, Israel, and north of the Sinai Peninsula in Egypt. Hamas, an Islamic militant, and political party have been the de-facto ruler in the Gaza Strip after defeating Fatah (a Palestinian Liberation Organization - PLO political party) in the parliamentary elections of 2007. Hamas officially considers the Palestinian state to exist through the 1967 borders drafted by United Nations General Assembly Resolution 3236 and the U.N. Security Council Resolution 242 - in which China voted in favor of both resolutions. Although Hamas forcefully accepts the 1967 border arrangement, they do not believe in Israel's legal right to exist and lean towards armed resistance to restore pre-1948 sovereignty and the right of return for Palestinian refugees in Jordan, Lebanon, and Egypt. This is opposed to the secular and diplomatic natures embodying Fatah and the Palestinian Authority, created under PLO's Oslo Accords peace agreement which removes the right of return, the ability to create a national army, and divides the West Bank using settlements and checkpoints. Hamas' refusal to accept the Oslo Accords and its use of violent means, has coerced Israel to launch three wars against Hamas and impose a strict air, land, and sea blockade to block all weapons and materials supplied from Iran and Hezbollah.

III. Infrastructure Crisis

The inability to import goods into Gaza since 2007, along with the yearly conflicts and bombardments - has created an infrastructure deficit that requires \$7.8 billion to rebuild and repair (according to the most comprehensive needs assessment conducted by the Palestinian Authority in 2014). It is important to note that while Gaza and the West Bank operate under two different political parties, the PA is mostly responsible for paying Israel to provide Gazans with public utilities like electricity and water. Yet, due to varying tensions between the two entities, the PA periodically cuts Gazan payments to Israel whenever foreign aid funds are low or when the PA retaliates against Hamas' decisions or actions that they oppose. These conditions demand that Gaza and its residents diversify their public utilities sourcing to ensure that residents have a constant and regular supply of water and electricity.

Focusing primarily on Gaza's water supply, it is estimated that more than 85 percent of the total drinking water is extracted from the Coastal Aquifer which underlies the Gaza Strip. However, 95 percent of that water is unfit for human consumption due to long-standing over-extraction and over-pumping that has led to land subsidence/ compression of soil. The collapsing underground and the destruction of ground pipes during the various conflicts have allowed the intrusion of raw sewage and seawater into the Aquifer's drinking water. Chloride, nitrate, and groundwater salinity levels in Gaza's water supply exceed the levels recommended by the World Health Organization (WHO) by up to eight times. Given that Gaza is the 3rd most densely populated place in the international community, with a growing population equal to 2.04 million - a 2012 UN report predicts that water demand in Gaza would increase by 60 percent by 2020, while freshwater availability is likely to decrease by more than 15% by 2030. In total, only 5-10 percent of the aquifer is now yielding drinking quality water as reported by the World Bank in 2009.

IV. Expansion of Gaza's Largest Seawater Desalination Plant

To address the shortage of drinking water, the Palestinian Water Authority submitted the Central Gaza Desalination Project to the Environment & Water Division (EWD) of the UfM Secretariat in June 2011. Senior officials representing the 43-member countries of the UfM unanimously "labeled" the Gaza Desalination Project as the first UfM project and requested the Secretariat to support the Palestinian Water Authority in finding the funds for the Project.

The Desalination Facility for the Gaza Strip consists of three integrated projects near Dar El Balah: 1) The construction of a 55 million cubic meter desalination Sea Water Reverse Osmosis (SWRO) plant, to be increased to 100 million cubic meter capacity later; 2) North-South conveyance system; 3) A Non-Revenue Water reduction project. The total costs are approximately \$603 million and are estimated to be completed by the end of 2023.

As of today, the initial 55 million cubic meter desalination plant has been fully funded by Kuwait (Kuwait Development Fund) and Saudi Arabia (Saudi Development Fund) in collaboration with

the Islamic Development Bank in the total amount of \$302 million. Additionally, the North-South conveyance system and initial preparatory and feasibility studies have been funded by the European Commission's European Investment Bank for \$75 million. Turkey had initially pledged to fund the remaining amount to complete the 2nd-phase of the plant which includes the 100 million cubic meter capacity expansion. However, as of 2021, those funds have not been delivered due to Turkey's recent lack of financial stability and Israel's refusal to grant entry visas to seven engineers from Turkey who are supposed to oversee the expansion project.

Thus, I am recommending the Ministry of Foreign Affairs to swiftly approve the expansion funding of \$226 million through concessional Overseas Investment Loans provided by CEXIM. This investment shall follow investment guidelines formulated by the Ministry of Commerce.

V. China's Interests

Developing Gaza's plant expansion provides China not only the opportunity to address the roots of terrorism spreading globally, but also numerous benefits in the media/ international reputation industry, improved relations with oil-exporting countries that China values significantly, and the ability to counter EIB's increasing involvement in the Middle East. Overall, this project aligns with China's core national physical security and economic stability interests. These interests are threatened and advanced as follows:

- **China will redefine its international reputation toward Islamic cultures and communities** by showcasing itself as an ally to Palestine and the broader regional sentiment of Palestinian self-sovereignty. Given the recent attacks on Al-Quds (Jerusalem's Holy Mosque), any form of international solidarity with the Palestinians will gain instant favorability amongst the millions of Muslims globally who have outcried and protested Israel's invasion of the mosque - Islam's 3rd holiest site.
 - Threatened: Israel labels China as a "global terrorist supporter" given Hamas' leadership in Gaza. Which might induce international anti-Semitic condemnation
 - Advanced: China's global negative reputation relating to the Uighur treatment will shift positively because Palestine is a predominately Muslim country and Gaza is a rallying cause that many Muslims sympathize with
- **China will mitigate and advance the anti-terrorism movement** by doubling Gaza's water intake from 100 million cubic meters a year to 200 million cubic meters a year.
 - Threatened: The additional water supply produced will be sold as a private enterprise funding Hamas' military operations and arms purchases from surrounding countries. Imposing an external threat to China and Chinese tourists who visit the Middle East and neighboring locations every year
 - Advanced: Addressing water scarcity provides short-term stability and peace for Gaza. This will increase private-market participation and Chinese purchases made by both Israelis and Palestinians. Also, more Chinese tourists can visit safely.

- **China's multilateral relationships with oil-producing countries will improve.** Given that Saudi Arabia and Kuwait are funding the other 50% of the project, the entity that funds the remaining amount is more likely to work closely with these nations. More Chinese-Arab exposure will improve relationships and break cultural, language, and social stereotypes between the two peoples.
 - Advanced: Saudi Arabia develops a strong relationship with China and gears oil production and prices in the RMB instead of the dollar, which it has already signaled before
 - Chinese firms import more goods to the Gulf region, which is one of the fastest-growing markets in the international community
- **China blocks the European Investment Bank from funding the project's expansion.**
 - Advanced: Given that this expansion is coordinated and planned by the UfM, if China funds the expansion it will have access to UfM's 43-member countries' meetings. This solidifies China's goal of becoming a hegemony in the global standards and decision making process. It also increases its prestige of becoming the primary 3rd-party peace negotiator as opposed to New York and London
- **The Desalination Plant becomes dependent on Chinese labor, standards, and system.**

VI. Important Actors

- Nation States: People's Republic of China, Palestine, Israel, Saudi Arabia, Kuwait, and UfM's 43-member countries
- Intergovernmental Organizations (IGO): Union for the Mediterranean, United Nations
- Multilateral Development Banks (MDBs): European Investment Bank, Islamic Development Bank
- Bilateral Development Finance Institutions (DFIs): Exim Bank of China

VII. Key Obstacles

- Another armed conflict occurs and the desalination plant is destroyed by Israeli rockets or shells. There is a high risk of the plant being targeted due to it providing basic needs to the Palestinians, while Israel has several documented cases of targeting such facilities.
- Chinese contractors and government officials are denied entry visas to Gaza.
- Operations of the plant are invaded by either Hamas or Israeli units and water supply is diverted from the Gazan public. Currently, it is scheduled to be operated by the independent Palestinian Water Authority (PWA). If Hamas gains control, it will operate it as a private business enterprise to fund its military needs. If Israel assumes control, it will divert water resources back to Israeli citizens and surrounding agricultural farms.
- Western states like the U.S. and the E.U. are extremely sensitive and critical of Gazan investments due to the risks of empowering terrorist groups like Hamas.
- Israel's security measures restrict and threaten China's secrecy laws for investment financing. Israel will demand the financing terms for the concessional loans be released.

VIII. Course of Action Proposal

The following actions are recommended to address the challenges and obstacles facing the expansion funding.

1. The Ministry of Foreign Affairs approves a fully concessional loan so that the state of China pays 100 percent of the loan payments to the Exim Bank of China, while intra-state firms like the Beijing Originwater Tech company develops the 2nd phase - 100 million cubic meters of water supply expansion by the end of 2023.
2. China demands that the Israeli government signs an insurance document promising a full repair/ refund of the plant if it is ever targeted or destroyed by missiles or airstrikes.
3. Chinese firms will only teach Palestinian Water Authority officials how to conduct, maintain, and operate the plant to ensure Hamas personnel can not utilize the machinery.
4. All Chinese funds will be diverted to the Trust Fund account that was set up by the Palestinian Authority to ensure transparency and accountability in terms of plant expenditures.

IX. Alternative Courses of Action

The following scenarios are expected without the expansion funding:

- 1) If no other country funds the expansion - more than 2 million people will have restricted water access, there will be an opportunity cost of lost job creation, and the pollution of the Eastern Mediterranean due to inadequate wastewater management pipes.
- 2) If the European Investment Bank funds the expansion, they receive the associated praise.

X. Analysis and Conclusion

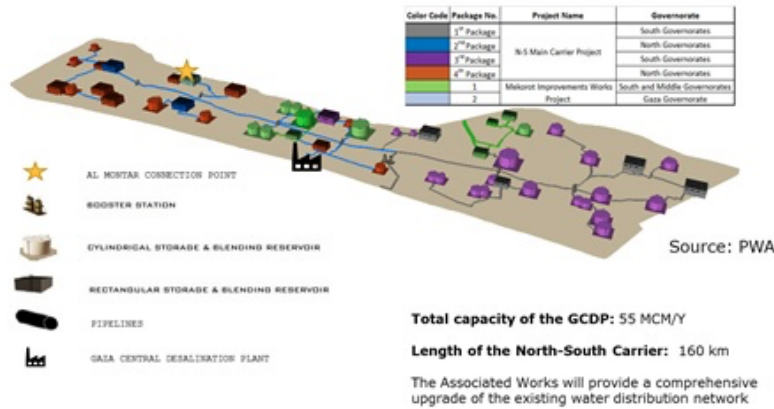
Although this expansion project yields no profits to China and is grant-based, its justification stems from several positive externalities. First, China has no real ally in the Middle East - compared to Pakistan and North Korea. Assisting Gaza with the largest infrastructure project in the region will mobilize public opinions and state actions toward pro-Chinese policies including increased B&R developments throughout pro-Palestine Arab states like Qatar, Turkey, and Kuwait. While increasing support for the One China principle. Second, if China takes a firm supportive role of the Palestinians, it will position the state as the world's leading neutral polarity. This is in contrast to the U.S., which has provided Israel over \$3 billion in annual grants since 1985, all while Israel continues to ethnically cleanse neighborhoods like Sheikh Jarrah and Silwan, passing apartheid laws like the Nation-State law, and continues to expand illegal Israeli-exclusive settlements, roads, and entry points. Lastly, this expansion project is in line with the goals outlined in the China-Arab States Cooperation Forum (CASCF) which aims to establish a future-oriented strategic partnership of comprehensive cooperation and common development. Altogether, this expansion project will increase Gaza's water supply, while benefiting China through better Islamic representation, anti-terrorism in the region, better Gulf-country relations, and a prestige role in ensuring world peace and stability. It is a win-win investment for both Gaza and the People's Republic of China.

Appendix

Graph 1:

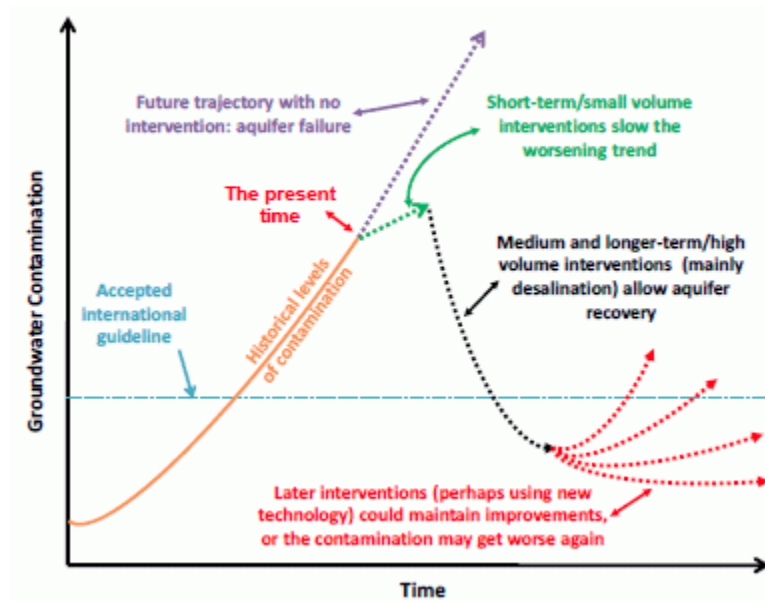
Overview of the GCDP & AW Program

The figure below is a schematic design of the Program, including the Gaza Central Desalination Plant (GCDP) and the Associated Works (AW).



1

Graph 2:



Graph 3:



Resources

Browning, N. (2014, September 4). *Palestinians put Gaza reconstruction cost at \$7.8 billion*. Reuters. Retrieved May 28, 2022, from <https://www.reuters.com/article/us-mideast-gaza-reconstruction/palestinians-put-gaza-reconstruction-cost-at-7-8-billion-idUSKBN0GZ1N720140904>

Hass, A. (2021, July 14). *Israeli restrictions are preventing Gaza's water system from being repaired*. Haaretz.com. Retrieved May 28, 2022, from <https://www.haaretz.com/middle-east-news/palestinians/2021-07-14/ty-article/.premium/israeli-restrictions-are-preventing-gazas-water-system-from-being-repaired/0000017f-db71-d3a5-af7f-fb75030000>

Tahhan, Z. A. (2017, October 12). *Hamas vs Fatah: Same goal, different approaches*. Hamas | Al Jazeera. Retrieved May 28, 2022, from <https://www.aljazeera.com/features/2017/10/12/hamas-and-fatah-how-are-the-two-groups-different>

<https://documents-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/738/38/IMG/NR073838.pdf?OpenElement>

[General Assembly Adopts Five Resolutions on Middle East - Press Release \(GA/12220\) - Question of Palestine](#)

[Largest seawater desalination plant opened in Gaza | United Nations Office for the Coordination of Humanitarian Affairs - occupied Palestinian territory](#)

[Gaza Desalination Project - Project background - Factsheet prepared by the Secretariat of the Union for the Mediterranean - Question of Palestine](#)

[Desalination Facility for the Gaza Strip: providing water for Gaza](#)

[Scope of Services](#)

<http://english.mofcom.gov.cn/column/mission.shtml>

[Wang Yi: President Xi Jinping Announces to Establish China-Arab States Strategic Partnership to Open a New Chapter for China-Arab States Relations](#)

[The Department of West Asian and North African Affairs](#)