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China's 21st Century Maritime Silk Road

Implications for the UK

Veerle Nouwens



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Executive Summary

THIS PAPER EXAMINES China's Maritime Silk Road (MSR) initiative, with a focus on ports, and considers its implications for the UK, particularly as it prepares to leave the EU. The paper finds that the MSR consists of several unofficial routes, and has a flexible approach to determining port locations. The routes start from China's eastern coastal provinces and move through the following target corridors: southeast across Southeast Asia and the Pacific (including Central and South America); towards East Africa (connecting to West Africa via rail and road routes, but potentially also connecting to West African ports); through the Gulf of Aden and the Red Sea and into the Mediterranean via the Suez Canal; and across the Arctic Ocean to Russia (the so-called Polar or Ice Silk Road). While the MSR does not yet include the UK, this should not be excluded as a future possibility.

Port locations are chosen as part of China's wider strategic effort to redirect shipping routes and play a stronger role in international shipping, and to increase trade via Chinese-built and operated container ports. This is guaranteed through Chinese port ownership, leasing, construction and long-term management. Chinese-built and/or managed ports are promoted in Chinese media reports as offering a boost to the economies of recipient countries by encouraging trade and by creating supporting infrastructure to attract further investment (free trade zones, industrial parks, energy-processing plants, road and rail connectivity, and domestic employment). However, China's increased port ownership has led to questions over its potential dominance in the international shipping industry over the longer term. These port projects, like other Chinese infrastructure projects, carry the potential for political influence.

The potential to influence decision-making, directly or indirectly, has been witnessed in countries where China has invested heavily, and may indicate a future risk for the UK as it seeks closer economic ties with Beijing post-Brexit. While the UK in principle is not opposed to participating in the Belt and Road Initiative (BRI), the current opacity around MSR port projects makes third-country engagement difficult. The potential negative environmental and socioeconomic impacts of BRI projects pose a risk: that these projects, as they are currently being implemented, could be counterproductive in many of the UK's development efforts abroad. This is not to say that there are no opportunities for the UK. Indeed, engaging with China in the Blue Economy in a sustainable manner, and continuing to engage with the People's Liberation Army (PLA) on areas of common interest – such as humanitarian assistance and disaster relief, anti-piracy and peacekeeping – could benefit London, Beijing, and third-country states.

MSR commercial ports have the potential for dual civil/military use and may be a precursor to more Chinese military and logistics bases in the future. This could include a combination of host-sovereign bases, flexible and smaller 'lily pads', as well as the use of commercial ports for surveillance purposes. There is growing concern over the potential securitisation of global port infrastructure by the People's Liberation Army Navy, particularly given the strategic value

of ports and the access they offer the Chinese armed forces in times of political tension. The deployment of the PLA to all corners of the globe may be seen as a force for common goods, possibly improving international peacekeeping operations or non-combatant evacuations, but could equally create a network to support an enhanced Chinese military presence in regions that are strategically important to the UK and its allies.

Introduction

CHINESE PRESIDENT XI Jinping launched the concept of the 21st Century Maritime Silk Road (MSR) in October 2013 during a visit to Indonesia,¹ following his visit to Kazakhstan a month earlier, where he introduced the Silk Road Economic Belt concept.² The maritime ‘road’ was the second prong of Xi’s grand vision, which together with a Eurasian ‘belt’ forms the Belt and Road Initiative (BRI), also known as One Belt, One Road. The BRI was written into the Constitution of the Communist Party of China at the 19th National Congress of the Communist Party of China in October 2017.³ The initiative couples the export of domestic overcapacity in industrial sectors with a grand vision of reforming the economy, ultimately repositioning China at the centre of new global supply chains and boosting its position as a leader on the global stage.⁴

The MSR has been researched less than its overland counterpart, the Eurasian Belt. There is a lack of detail on where the MSR flows, despite the publication of several maps in the Chinese press. The inconsistency of points along the MSR indicates a degree of flexibility in deciding where key projects will be located. The overarching theme of ‘maritime cooperation’ across a variety of sectors, offered in the Chinese government’s ‘Vision for Maritime Cooperation Under the Belt and Road Initiative’,⁵ provides guidance, but suggests that a multitude of projects could be included. This paper will seek to answer four questions: (i) what is the MSR in economic and political terms?; (ii) where are its maritime routes?; (iii) what are the key destinations and example projects?; and (iv) what are some of the potential strategic implications for the UK?

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1. ASEAN-China Center, ‘Speech by Chinese President Xi Jinping to Indonesian Parliament’, 3 October 2013, <http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm>, accessed 1 September 2017; The State Council of the People’s Republic of China, ‘Chronology of China’s Belt and Road Initiative’, 28 March 2015, <http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm>, accessed 1 September 2017.
 2. The Ministry of Foreign Affairs of the People’s Republic of China, ‘President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries’, 7 September 2013, <https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtffhshzzfh_665686/t1076334.shtml>, accessed 1 September 2017.
 3. Chinese Government Belt and Road Portal, ‘Belt and Road Incorporated into CPC Constitution’, 25 October 2017, <<https://eng.yidaiyilu.gov.cn/qwyw/rdxw/31395.htm>>, accessed 20 January 2018.
 4. National Development and Reform Commission of the People’s Republic of China, ‘Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road’, 28 March 2015, <http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html>, accessed 1 September 2017.
 5. State Council of the People’s Republic of China, ‘Full Text of the Vision for Maritime Cooperation Under the Belt and Road Initiative’, 20 June 2017, <http://english.gov.cn/archive/publications/2017/06/20/content_281475691873460.htm>, accessed 1 September 2017.

I. The Belt and Road Initiative in Economic and Political Terms

THE BRI'S ECONOMIC and political dimensions are reflected in the first instance in the governing bodies that oversee its projects. The BRI is official government policy and is overseen by a Leading Small Group,⁶ the National Development and Reform Commission (NDRC), the State Oceanic Administration (SOA), the Ministry of Foreign Affairs, and the Ministry of Commerce, as mandated by the government's top administrative body, the State Council.⁷

The underlying logic for the BRI lies in China's uneven economic development and its recent slowdown in economic growth. If China is to meet its two centenary goals,⁸ it will need to reform the economy and accelerate growth. Ultimately, Beijing seeks to create a new regional (if not ultimately global) value chain, positioning itself at its very heart as a leader in advanced manufacturing and innovation in high-end industrial goods.⁹

In 2016, China's pace of economic growth was at its slowest in 25 years,¹⁰ indicating to some observers that it had 'hit the end of the road when it comes to its export- and investment-led growth model'.¹¹ The policy response has been two-fold.

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6. *Ifeng News*, '一带一路领导班子“一正四副”名单首曝光' ['One Belt One Road Leading Group "One Principal and Four Deputies" Name List First Exposure'], 5 April 2015. All translations supplied by the author.
 7. Pinsent Masons, 'One Belt, One Road: Mapping China's Main Outbound Route', August 2016, <<https://www.pinsentmasons.com/PDF/2016/obor/Pinsent-Masons-OBOR-Africa-report.pdf>>, accessed 1 September 2017.
 8. The first centenary goal (2021) is the anniversary of the founding of the Chinese Communist Party in 1921, when the People's Republic of China (PRC) will be 'a moderately prosperous society with a doubling of China's 2010 GDP and GDP per capita that year'. The second centenary goal (2049) marks the 100-year anniversary of the founding of the PRC. In 2049, China should be 'a prosperous, strong, democratic, culturally advanced, harmonious and modern socialist country'. See *China Daily*, 'China to Move Closer to Centenary Goals in 2017', 3 January 2017.
 9. Dan Breznitz and Michael Murphree, 'The Rise of China in Technology Standards: New Norms in Old Institutions', report prepared on behalf of the US-China Economic and Security Review Commission, 16 January 2013, <<https://www.uscc.gov/sites/default/files/Research/RiseofChinainTechnologyStandards.pdf>>, accessed 1 September 2017.
 10. Neil Gough, 'As China's Economy Slows, a Look at What Could Happen', *New York Times*, 18 October 2016.
 11. *Ibid.*

First, there will be an outward push to enhance global connectivity to access new markets, and an emphasis on infrastructure to export industrial overcapacity, particularly steel.¹² This will not only help to develop China's poorer western provinces, as the BRI land routes pass through them, but also to push Chinese companies outward into new foreign markets.

Second, the BRI carries important political messages to domestic and foreign audiences. Domestically, the BRI depicts a China that is economically strong and a global leader. To foreign audiences, wary of China's rise and assertive behaviour in the Asia-Pacific, Beijing seeks to promote the image of a responsible, international leader by offering win-win solutions and spearheading global prosperity and growth.¹³

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12. Matthew Fulco, 'Solving the Prickly Issue of Overcapacity in China', *CKGSB Knowledge*, 14 June 2016, <<http://knowledge.ckgsb.edu.cn/2016/06/14/chinese-economy/solving-the-prickly-issue-of-overcapacity-in-china/>>, accessed 1 September 2017.
 13. *China Daily*, 'From G20 Hangzhou Summit to Belt and Road Forum, Xi's Global Prominence on the Rise', 18 May 2017.

II. The Role of the Maritime Silk Road

SIGNIFICANT MEDIA ATTENTION has given visibility to ‘early harvest’ projects in friendly neighbouring states. While these projects are often the product of decades of cooperation, with the BRI brand being applied only recently, they have been promoted widely as BRI projects by the governments and companies involved. A case in point is Gwadar Port,¹⁴ which is a key part of the China–Pakistan Economic Corridor (CPEC),¹⁵ a series of projects that are hailed as the BRI’s keynote endeavour and a game-changer in Pakistan’s development.¹⁶

The MSR has been viewed in the West with scepticism, regarded as an unrealistic and intangible project.¹⁷ However, China has been actively implementing the MSR port by port, with no lack of domestic reporting on it. In 2014, it was reported to be focusing on port construction and free-trade zones across South Asia, where it would also coordinate customs, quality supervision, e-commerce and other agencies to facilitate the scheme.¹⁸

Beijing has continued to develop the concept of and opportunities provided by the MSR through the inclusion of the strategy in government documents.¹⁹ In June 2017, the NDRC and the SOA published the ‘Vision for the MSR’, clarifying the underlying vision rather than giving details, an approach favoured by the Chinese Communist Party (CCP). The Vision noted that the MSR would build a ‘mutually-beneficial Blue Partnership’ in which countries along the MSR would embark on ‘a path of green development, ocean-based prosperity, maritime security, innovative growth and collaborative governance’.²⁰

14. Frédéric Grare, *Along the Road: Gwadar and China’s Power Projection* (Paris: European Union Institute for Security Studies, July 2018).

15. Thomas S Eder and Jacob Mardell, ‘The BRI in Pakistan: China’s Flagship Economic Corridor’, Merics Mercator Institute for China Studies, 18 September 2018.

16. *Associated Press of Pakistan*, ‘CPEC a Game Changer for Pakistan, Entire Region: PM’, 15 August 2017.

17. Wade Shepard, ‘China’s Seaport Shopping Spree: What China is Winning by Buying Up the World’s Ports’, *Forbes*, 6 September 2017.

18. *Global Times*, ‘China Accelerates Planning to Re-Connect Maritime Silk Road’, 16 April 2014.

19. This was reflected in, for example, the annual China Guangdong 21st Century Maritime Silk Road International Expo, which by its fourth iteration (2017) had attracted guests from 79 countries and regions, with 758 cooperation projects signed that amounted to a total contract value of RMB 219 billion (roughly \$31.75 million). Earlier versions include the 2015 ‘Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road’, published by the NDRC. See *Xinhuanet News*, ‘China Exclusive: Xi Urges Promoting 21st Century Maritime Silk Road’, 20 April 2017.

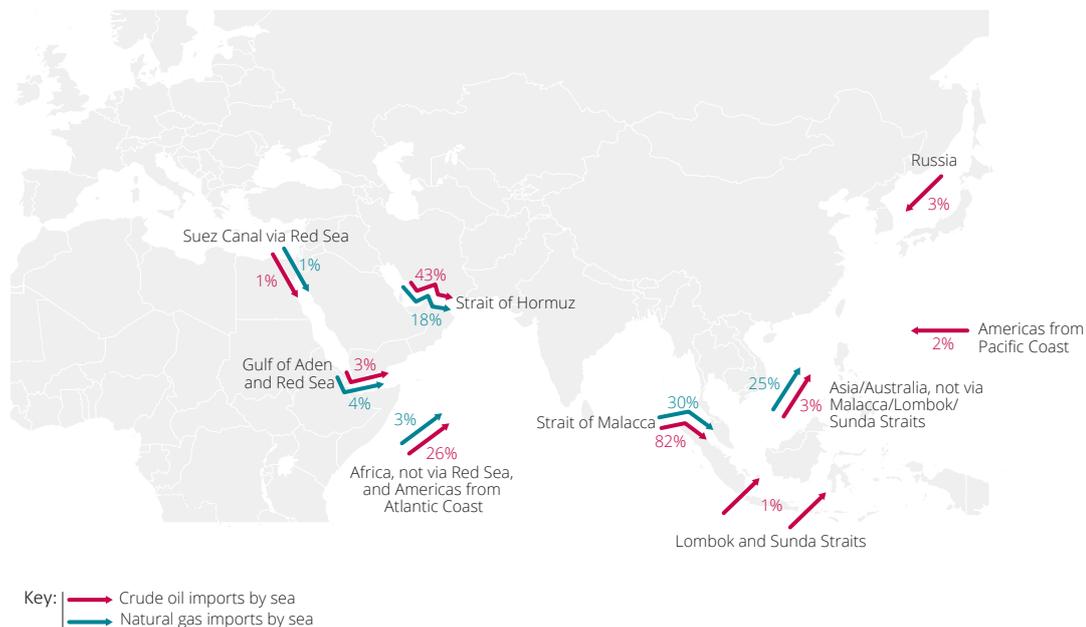
20. State Council of the People’s Republic of China, ‘Full Text of the Vision for Maritime Cooperation Under the Belt and Road Initiative’.

This description allows for a broad interpretation of what constitutes an MSR project. This paper will focus on port building as a key facet of the MSR. As Xi stated in 2017, '[w]e often say you'd better build roads first to become rich, but in the coastal areas you have to build ports first'.²¹

Overseas port building is not new to China, but it has been given renewed relevance by the MSR.²² Observers have noted that Chinese maritime companies, state-owned construction conglomerates like China COSCO Shipping Corporation (COSCO) and China Merchants Group (CMG), operate on the basis of both commercial logic and an alignment with state policies, such as the BRI, that have a 'glaring political dimension'.²³

These ports are likely being identified for economic, strategic and geopolitical reasons. Political dimensions can be seen in the fact that many port projects are being undertaken in strategic locations along vital energy import routes, and include deep-sea ports that could help facilitate the manoeuvrability of Chinese ships, be they commercial or otherwise.

Figure 1: China's Crude Oil and Natural Gas Imports by Sea: Transit Routes and Critical Chokepoints



Source: US Department of Defense

The economic logic behind the port projects is at times difficult to ascertain. The majority of port constructions – including the connection of ports with resources and markets further inland through road, pipeline, railway and airport construction – are promoted as helping local

21. *Xinhuanet News*, 'China Exclusive: Xi Urges Promoting 21st Century Maritime Silk Road'.

22. Shepard, 'China's Seaport Shopping Spree'.

23. *Ibid.*

economies by building larger transshipment capacity and establishing free-trade zones and industrial parks to kick-start innovation and industry. However, the long-term viability of these projects is not guaranteed.

The Melaka Gateway project, for instance, will have to compete with other Malaysian MSR ports, such as Kuantan, as well as Singapore, which is currently the world's busiest transshipment hub.²⁴ Moreover, media reports highlight that there have been renewed discussions over the Kra Canal project in Thailand, which, if constructed, would create a new shipping lane between the Andaman Sea and the Gulf of Thailand.²⁵ Questions have been raised over whether this diminishes the need for shipping lanes to proceed through the Malacca Strait at all. If a diversion of shipping through new lanes is the objective of the Kra Canal, then the role of the various Chinese-built ports in Malaysia and the region is somewhat unclear.

Another example of the questionable economic viability of some MSR projects is the Port of Naples in Italy. In 2016, COSCO sold its 50% share in Conateco, the largest terminal operator in the port. One of the reasons for this may be that Conateco recorded a loss of €12 million that year, and a decision was made to redirect Chinese investments to Piraeus Port in Greece.²⁶ Indeed, the decision followed the privatisation of Piraeus Port in an effort to draw in further investment.²⁷ This example shows that investments made under the MSR are not all carefully thought through, and occasionally lack significant confidence of economic returns. It also suggests that decisions may be made to redirect investments to more profitable projects. This begs the question of whether the MSR made an initial flurry of outward investments based on little more than the simple logic of opportunity.

24. Gavin van Marle, 'Singapore Secures its Position as Top Hub', *Container Shipping & Trade*, 16 February 2018.

25. Assawin Pakkawan, 'PM Mulls Canal Plan but Army Brooks No Delay', *Bangkok Post*, 30 October 2018.

26. *Ship2shore*, 'Cosco Leaves Naples and Bets on the Piraeus', 11 July 2016.

27. Evangelos Grapsas, 'China's OBOR & the Piraeus Port Privatization by COSCO', Center for International Strategic Analyses, 19 June 2017, <<https://kedisa.gr/en/chinas-obor-the-piraeus-port-privatization-by-cosco/>>, accessed 1 September 2017.

III. Maritime Silk Road Routes and Possible Key Port Destinations

THE MSR SHOULD not be seen as a predetermined route dotted with fixed destinations. Indeed, the Chinese press has acknowledged that ‘there is no clear plan for China’s “Belt and Road”’.²⁸ The 2015 and 2017 MSR documents both note that the MSR starts from China’s eastern coast, with Fujian province identified as ‘a core area of the 21st Century Maritime Silk Road’, and the southeast province of Zhejiang²⁹ and the Beibu Gulf³⁰ (Hainan,³¹ Guangxi³² and Guangdong³³) being promoted by provincial authorities as key strategic areas.

China has outlined three official MSR ‘blue economic passages’.³⁴ The first is the China–Indian Ocean–Africa–Mediterranean Sea Blue Economic Passage. This is said to include the South China Sea, the CPEC, the China–Indochina Peninsula Economic Corridor, and the Bangladesh–China–India–Myanmar economic corridor. The second is the China–Oceania–South Pacific passage. The third, the Europe–Arctic Ocean passage, will connect China to Europe via the Arctic, also known as the Polar or Ice Silk Road.

Overall, the MSR flows in four directions from China’s eastern port cities. While the China–Indian Ocean–Africa–Mediterranean Sea Blue Economic Passage covers a vast area in name, there are few details about how these regions are linked. It would appear, however, that the MSR first heads toward Southeast and South Asia via the Malacca Strait into the Indian Ocean and across to Africa’s east coast. The route also extends to Europe through the Suez Canal and the Mediterranean.³⁵ Another general direction is east through the first island

28. 程露, 张钟凯, 夏晨, ‘21世纪海上丝绸之路助力非洲发展’ [‘The 21st Century Maritime Silk Road Helps Africa’s Development’], *Xinhuanet News*, 13 February 2015.

29. State Council of the People’s Republic of China, ‘Full Text of the Vision for Maritime Cooperation Under the Belt and Road Initiative’.

30. Hu Yongqi, ‘More Development in City Cluster Around Beibu Gulf Approved’, *China Daily*, 4 February 2017.

31. Huang Yiming, ‘Visitor Routes Showcase the Best of Hainan’, *China Daily*, 10 September 2015.

32. *Xinhuanet News*, ‘China Exclusive: Xi Urges Promoting 21st Century Maritime Silk Road’.

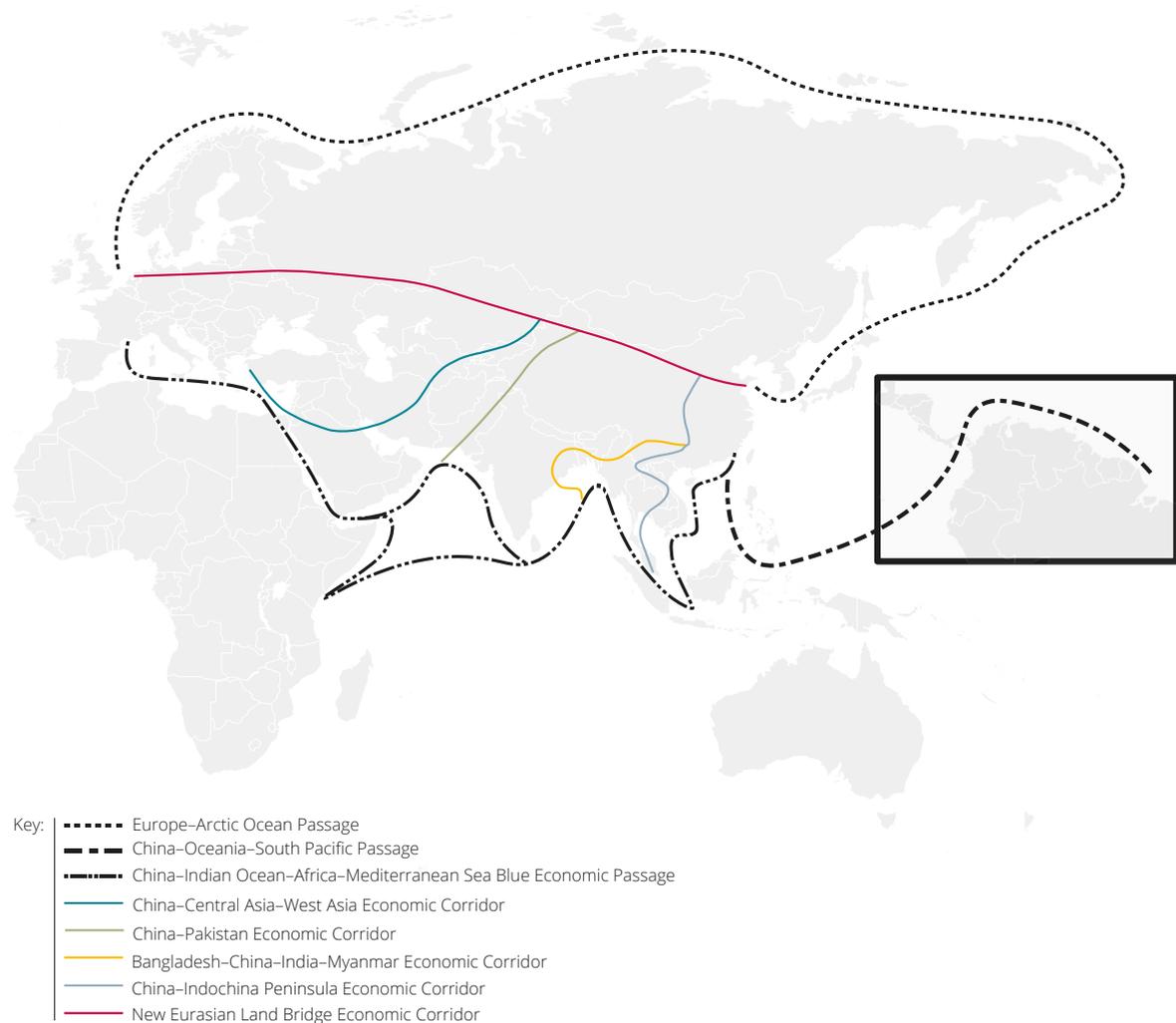
33. *China Daily*, ‘Belt and Road Initiative Injects New Impetus into Guangdong’, 26 May 2017.

34. State Council of the People’s Republic of China, ‘Full Text of the Vision for Maritime Cooperation Under the Belt and Road Initiative’.

35. Ministry of Commerce of the People’s Republic of China, ‘推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动’ [‘Vision and Action to Promote and Jointly Construct the Silk Road

chain to the South Pacific and Oceania, which is not included in Figure 2.³⁶ There are recent indications of another eastern route towards the western coast of the Americas.³⁷ A final route flows towards Europe via the Arctic Ocean and the Norwegian Sea through to the North Sea and the Baltic Sea.³⁸

Figure 2: The Global Reach of China's 21st Century Maritime Silk Road



Source: Mia Bennett, 'China's Belt and Road Initiative Moves into the Arctic', *Arctic Now*, 28 June 2017

Economic Belt and the 21st Century Maritime Silk Road'], March 2015, <<http://www.mofcom.gov.cn/article/j/dx/wjlyd/201601/20160101243342.shtml>>, accessed 1 September 2017.

36. *Ibid.*

37. Chris Devonshire-Ellis, 'China's Maritime Arctic Silk Road on Ice', *Silk Road Briefing*, 10 July 2017.

38. *Ibid.*

The utility of maps depicting these routes is limited, as they are unlikely to be set in stone and will change depending on the viability and success of specific port projects. However, an overview of the port projects in which Chinese companies are investing points to key areas that could be seen as directional flows for future trade, as well as strategic relations.

An amalgamation of existing maps, official statements and media references offers some insights into current Chinese port building along these routes.

Nevertheless, as indicated in Figure 3, mapping the port projects that China has constructed, manages or has a stake in (in red), Chinese expressions of interest in potential port projects (yellow) and bases (blue) shows that Chinese MSR ambitions are truly global. Given the pace and varied nature of Chinese involvement in overseas port activities, the following map and regional overviews may not account for all Chinese port activity.

Southeast Asia and the South Pacific have been identified as key strategic regions for the MSR,³⁹ and protecting the maritime channels in these regions⁴⁰ is an important part of China's strategic interests.⁴¹ A recent report by Ma Feng, a researcher at the Chinese National Defence University Institute for Strategic Studies, noted that 90% of China's foreign trade is conducted via sea transport.⁴²

39. The State Council of the People's Republic of China, 'Southeast Asia an Important Base for "Belt and Road": HK Scholar', 3 August 2017, <http://english.gov.cn/policies/policy_watch/2015/08/03/content_281475160034166.htm>, accessed 1 September 2017.

40. According to the Lowy Institute, 218 projects were funded between 2006 and 2016 across eight countries in the South Pacific alone, covering agriculture, communications, education, energy, health, infrastructure, sanitation, and humanitarian assistance. The national totals included \$632.46 million to Papua New Guinea, \$359.80 million to Fiji, \$243.48 million to Vanuatu, \$230.12 million to Samoa, \$172.06 million to Tonga, and \$49.86 million to the Cook Islands. See Lowy Institute, 'Chinese Aid in the Pacific', <<https://chineseaidmap.lowyinstitute.org/>>, accessed 1 September 2017.

41. *Ibid.*

42. Ma Feng, '南太平洋与21世纪海上丝绸之路' ['South Pacific and 21st Century Maritime Silk Road'], 中国国际经济合作学会, [China International Association for Economic Cooperation], 25 May 2017, <http://econ.cssn.cn/jjx/jjx_gzf/201705/t20170523_3528652.shtml>, accessed 1 September 2017.

Figure 3: China's Global Port Ambitions: Chinese Company Construction and Investments



● Chinese Maritime Silk Road Port Projects

- 1. Gwadar Port Free Zone, Pakistan
- 2. Colombo International Container Terminals and Colombo Port City, Sri Lanka
- 3. Hambantota Port, Sri Lanka
- 4. Payra Deep-Sea Port, Bangladesh
- 5. Kyauk Pyu Port, Myanmar
- 6. Melaka Gateway Project, Malaysia
- 7. Kuantan Port, Malaysia
- 8. Muara Port, Darussalam
- 9. Unnamed Deep-Water Port, Cambodia
- 10. Lae Port, Papua New Guinea
- 11. Port of Darwin, Australia
- 12. Port of Newcastle, Australia
- 13. Port of Melbourne, Australia
- 14. Khalifa Ports, UAE
- 15. Suez Canal Economic Zone and Development Project, Egypt
- 16. Port of Alexandria, Egypt
- 17. Ain Sokhna Port, Egypt
- 18. Haifa Port, Israel
- 19. Port of Ashdod, Israel
- 20. Aden Container Port, Yemen
- 21. Mokha Container Port, Yemen
- 22. Cherchell Port, Algeria
- 23. Oran Port, Algeria
- 24. Somaport, Morocco
- 25. Eurogate Tangier, Morocco
- 26. Dolareh Port, Djibouti
- 27. Abidjan Port, Ivory Coast
- 28. Port of Conakry, Guinea
- 29. Nouakchott Port, Mauritania
- 30. Mombassa Port, Kenya
- 31. Lamu Port, Kenya
- 32. Dar-es-Salaam Port, Tanzania
- 33. Bagamoyo Port, Tanzania
- 34. Atuabo Free Port, Ghana
- 35. Tema Port, Ghana
- 36. Lobito Port, Angola
- 37. Caio Port, Angola
- 38. Walvis Bay Port, Namibia
- 39. Kribi Port, Cameroon
- 40. Beira Fishing Port, Mozambique
- 41. Lomé Port, Togo
- 42. Tin Can Island Container Terminal, Nigeria
- 43. Benin River Port, Nigeria
- 44. Lekki Deep-Sea Port, Nigeria
- 45. Narinda Bay Deep-Water Port, Madagascar
- 46. Techobanine Deep-Water Port, Mozambique
- 47. Paranagua Port, Brazil
- 48. Port of Sao Luis, Brazil
- 49. Porto Sul Deep-Water Port, Brazil
- 50. Port de Montevideo, Uruguay
- 51. Panama Colon Container Port, Panama
- 52. Manzanillo Port, Mexico
- 53. Chancay Port, Peru
- 54. Port of Santiago de Cuba, Cuba
- 55. Houston Terminal Link, US
- 56. Miami Terminal Link, US
- 57. Long Beach Port, US
- 58. Los Angeles Port, US
- 59. Seattle Port, US
- 60. North Abaco Port, The Bahamas
- 61. Port of Sydney, Canada
- 62. Terminal Du Grand Ouest, France
- 63. Malta Freeport Terminal, Malta
- 64. Port of Zeebrugge, Belgium
- 65. Port of Antwerp, Belgium
- 66. Port of Rotterdam, Netherlands
- 67. Terminal des Flandres, France
- 68. Terminal de France and Terminal Nord at Port de Havre
- 69. Eurofos, France
- 70. Vado Port, Reefer Terminal and Container Port Terminal
- 71. Venice Port System, Italy
- 72. Port of Genoa, Italy
- 73. Port of Trieste, Italy
- 74. Piraeus Port, Greece
- 75. Noatum Port Holdings, Spain
- 76. Port of Bilbao, Spain
- 77. Port of Valencia, Spain
- 78. Kumpport Terminal – Port of Ambarli, Spain
- 79. Lysekil Port, Sweden
- 80. Farosund Port, Sweden
- 81. Northern Dvina River Deep-Water Port, Russia
- 82. Busan New Container Terminal, South Korea
- 83. Haicang Xinhaida Container Terminal, China

● Chinese Maritime Silk Road Interest Port Projects

- 1. Chittagong Port, Bangladesh
- 2. Gaadhoo Port, Maldives
- 3. Kra Isthmus Canal, Southern Thailand
- 4. Sihanoukville Port, Cambodia
- 5. Unamed Deep-Water Port, São Tomé and Príncipe
- 6. Ilo Port, Peru
- 7. La Union Port, El Salvador
- 8. Great Goat Island Port, Jamaica
- 9. Elefsina Port, Greece

● PLA Support Bases

- 1. Djibouti

Source: Author's research.

In this region, the port projects in Pakistan and the Malacca Strait are also important transit points for China's energy import routes. In 2015, the US Department of Defense reported that in 2013, China imported 60% of its oil supply and 32% of its natural gas supply.⁴³ Moreover, 82% of all Chinese maritime oil imports pass through the Malacca Strait chokepoint, as can be seen in Figure 1.⁴⁴ Other investments in port construction and management projects have been made in Myanmar, Bangladesh, Thailand, Brunei, and Cambodia. Some of these port investments and expressions of interest in ports – for example, in Papua New Guinea, Australia, the Seychelles, the Maldives, Pakistan, and Sri Lanka – have raised concerns over potential military dual-use, given their strategic locations and/or favourable diplomatic ties.

Latin America and the Caribbean have recently come into greater focus as part of the MSR. President Xi has set targets of \$500 billion in trade and \$250 billion in direct investment between 2015 and 2019.⁴⁵ As of 2017, Brazil had received the lion's share of projects,⁴⁶ with nine of the ten largest infrastructure deals in the region since 2013.⁴⁷ Although many projects are run by Chinese state-owned enterprises (SOEs), one key project in the region – the Panama Colón Container Port at the Caribbean entrance of the Panama Canal⁴⁸ – is in the hands of the Landbridge Group, a private Chinese company. According to one Chinese news report, the canal will 'play an active role in coordinated development between the harbours along the One Belt, One Road path'⁴⁹ and help facilitate greater trade and transport between China and the eastern US. In addition to port projects in Cuba and the Bahamas, China has also expressed interest in building a project in Jamaica – although this has not yet come to fruition due to environmental concerns.

The further reaches of the MSR's western route grants China access to Africa, the Middle East and the Mediterranean. Ports on the eastern coast of Africa, such as Djibouti, Kenya, Tanzania and Mozambique, will link to rail networks being set up in North and East Africa. Some of these networks may potentially link to the west coast, where China is building the same networked ports and railways in Cameroon, Angola, Namibia and Ghana. Chinese defence cooperation has also been growing in some of these countries, including Cameroon and Ghana.⁵⁰

43. Jeremy Bender and Armin Rosen, 'This Pentagon Map Shows What's Really Driving China's Military and Diplomatic Strategy', *Business Insider*, 13 May 2015.

44. *Ibid.*

45. According to other sources, since the start of 2017 Chinese companies have invested \$7.9 billion in Latin American infrastructure deals and are set to surpass the 2016 deal volume of \$9.9 billion. See *Financial Times*, 'China Deepens Overseas Port Holdings', 4 September 2017; David Dollar, 'China's Investment in Latin America', *Brookings Report*, January 2017.

46. These ports and linked railway systems are aimed at expanding Brazil's exports of iron ore and soybeans to China. See *Reuters*, 'China Ramps Up Role in Brazilian Transport Infrastructure', 1 September 2017.

47. *Financial Times*, 'China Deepens Overseas Port Holdings'.

48. *Global Construction Review*, 'Chinese Firm Starts Work on \$1bn Panamanian Megaport', 12 June 2017.

49. *People's Daily Online*, 'China's Landbridge Group Acquires Panama's Largest Port', 25 May 2016.

50. Michael Kovrig, 'China's Expanding Military Footprint in Africa', *Mail & Guardian*, 24 October 2018.

The MSR also flows to the Middle East and North Africa. In the Gulf, the UAE is the most recent location for a key port, with an investment of around \$300 million. Beyond the Gulf, the MSR docks at Djibouti, Yemen, Egypt, Israel and Algeria. These ports are chiefly promoted as extending container volumes and expanding bilateral trade through accompanying industrial zones. Djibouti has the unique added feature of hosting the first Chinese overseas logistics base.

In Europe, key MSR port projects are located in Italy and Greece. However, COSCO has also purchased stakes in ports in Turkey and the Netherlands. COSCO has purchased a significant stake in Spain's container terminal operator, Noatum, while China Merchant Holdings International Limited acquired part ownership of foreign port terminals, including European ones, through its 49% equity stake in France's Terminal Link. It is unclear whether these ports are conceptually part of the maritime route or act as end-points of the overland railroads that form part of the cross-Eurasian overland belt.⁵¹ The difference between the two may lie in the distinction between existing and generally well-developed ports used as end-points for the overland routes, whereas the MSR ports overwhelmingly seem to focus on building new port infrastructure and connecting to new markets. In the end, the differentiation between the two will likely become a matter of Belt and Road advertising and seek to weave all port nodes into a wider Chinese network. Unfortunately, this paper's analysis is unable to delve into the detailed distinctions between the two, however, there have been various studies⁵² of China's port building and investment projects in Europe, and the specific implications for the EU and its member states.

The US and Canada do not seem to feature extensively in port construction, although there have been some investments in US ports. In 2013, reports emerged that CMG had acquired a 49% stake in French shipping line Terminal Link, which owns 15 container terminals in eight countries including Zeebrugge and Antwerp (Belgium), as well as Terminal Link Texas in Houston and South Florida Container Terminal in Miami.⁵³ The limited Chinese investment in North American, particularly US, ports is likely to be due to strategic concerns over foreign investments in US ports and a high level of government scrutiny.⁵⁴

This can be seen in the debate in the US over COSCO's acquisition of Orient Overseas (International) Limited, announced in 2017, and its Orient Overseas Container Line (OOCL)

51. *Straits Times*, 'The Trains and Sea Ports of One Belt, One Road, China's New Silk Road', 14 May 2017.

52. See Shivali Pandya and Simone Tagliapietra, 'China's Strategic Investments in Europe: The Case of Maritime Ports', Bruegel Institute, 27 June 2018, <<http://bruegel.org/2018/06/chinas-strategic-investments-in-europe-the-case-of-maritime-ports/>>, accessed 15 July 2018; Mathieu Duchâtel and Alexandre Sheldon Duplaix, 'Blue China: Navigating the Maritime Silk Road to Europe', European Council on Foreign Relations, 23 April 2018, <https://www.ecfr.eu/publications/summary/blue_china_navigating_the_maritime_silk_road_to_europe>, accessed 15 July 2018.

53. Rick Eyerdam, 'China-Based Terminal Operator Buys into PortaMiami and Houston', *South East Shipping News*, 26 June 2013.

54. Chris Dupin, 'Foreign Investments in US Ports Face Government Scrutiny', *American Shipper*, 23 April 2018.

subsidiary container terminal at Long Beach, California.⁵⁵ COSCO noted that its acquisition of OOCL aimed to seize 'historic opportunities presented by China's "Belt and Road Initiative" and increase the carrier's international competitiveness'.⁵⁶ To ease concerns over Chinese ownership, COSCO has offered to put the Long Beach Container Terminal in a US-run third-party trust for a year⁵⁷ and has reportedly promised to sell it within that timeframe.⁵⁸ According to *The Wall Street Journal*, COSCO also has minor investments in another pier at Long Beach, and the ports of Los Angeles and Seattle.⁵⁹

Likewise, while there has been interest in China investing in ports in remote parts of Canada,⁶⁰ China's ambassador in Ottawa noted that Chinese investors were unlikely to invest in Canadian infrastructure due to the 'lengthy regulatory process'.⁶¹

Finally, speculation over whether the MSR traverses the Arctic have been confirmed in Chinese policy documents. Since 2013, COSCO has actively explored shipping routes along Russia's northern border and in 2017 sent six ships across the Arctic route.⁶² The so-called Polar or Ice Silk Road was incorporated into the BRI and included in the MSR Vision document, forming the third blue economic passage, which will run from China's east coast to Europe via the Arctic Ocean, North Sea and the Baltic Sea.⁶³ The Polar or Ice Silk Road was noted as a key feature of Arctic policy in China's 2018 Arctic white paper.⁶⁴ Construction of the deep-sea port at Arkhangelsk in Russia has started. It will seek to hold 30 million tons of cargo by 2030 and will act as a central Russian hub for export and import trade with Europe, the Asia-Pacific and North America.⁶⁵

55. *Ibid.*

56. *Ibid.*

57. Costas Paris, 'To Ease US Concerns, Chinese Shipper COSCO Offers to Put California Terminal in a Trust', *Wall Street Journal*, 20 June 2018.

58. Inframation, 'APAC: COSCO to Sell Major California Terminal', 9 July 2018, <<https://inframationgroup.com/apac-cosco-sell-major-california-terminal%C2%A0%C2%A0>>, accessed 15 July 2018.

59. *Ibid.*

60. Sima Sahar Zerehi, 'Nunavut Hamlet Seeks Chinese Investors to Build Dream Port', *CBC News*, 30 August 2016.

61. Andy Blatchford and Mike Blanchfield, 'Canada's Regulatory Process Will Deter Chinese Infrastructure Investment, Says Envoy', *Macleans*, 7 July 2017.

62. Atle Staalesen, 'Chinese Company COSCO Confirms Interest in Trans-Arctic Shipping to Arkhangelsk', *Barents Observer*, 26 September 2017.

63. Chris Devonshire-Ellis, 'China's Maritime Arctic Silk Road on Ice'.

64. The State Council of the People's Republic of China, 'Full Text: China's Arctic Policy', 26 January 2018, <http://english.gov.cn/archive/white_paper/2018/01/26/content_281476026660336.htm>, accessed 14 November 2018.

65. Thomas Nilsen, 'New Mega-Port in Arkhangelsk with Chinese Investments', *Barents Observer*, 21 October 2016.

IV. Possible Strategic Implications of the Maritime Silk Road

Economic Impact of MSR Port Projects

PORT CONSTRUCTION WILL seek primarily to advance the business interests of Chinese companies, not those of third countries like the UK. According to *The Economist*, 86% of BRI projects have Chinese contractors, 27% have local contractors and only 18% have third-country contractors.⁶⁶ The exact level of involvement by foreign firms in design and feasibility work on these projects is unclear. However, there have been reports of foreign companies offering investment assessments and feasibility studies, as well as legal advice and services to Chinese companies involved in BRI projects. Examples include Jardine Lloyd Thompson Group and PwC, as well as the BMT Group Limited and Pinsent Masons, of which the latter two have advised on maritime services (it is worth noting that international maritime issues and processes use English law).⁶⁷

This is not to exclude the potential for recipient countries to benefit from Chinese-constructed or managed ports. Countries stand to benefit from economically viable trade-promoting facilities – whether they own them immediately or not. In particular, as the Economist Intelligence Unit points out,⁶⁸ developing countries stand to benefit from China’s ‘Shekou Model’, of building ports with supporting development plans and infrastructure around ports,⁶⁹ otherwise known as the ‘ports-park-city’ model.⁷⁰ Deputy General Manager of China Merchants Shekou Industrial Zone Holdings, Zhang Lin, explains in one Chinese media report that the model pairs ports with ‘the development of an industrial park and city, [forming ...] an ecosystem concept, producing a hub to boost communications, logistics, business, information and capital’.⁷¹ What started in 1979

66. *The Economist*, ‘Western Firms are Coining it Along China’s One Belt, One Road’, 3 August 2017.

67. LehmanBrown International Accountants, ‘The Belt and Road Initiative’, China Trade Research HKTDC, 18 January 2018, <<http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0ACSRX.htm>>, accessed 20 January 2018.

68. The Economist Intelligence Unit, ‘China’s Expanding Investment in Global Ports’, 11 October 2017, <<http://country.eiu.com/article.aspx?articleid=1005980484&Country=Lithuania&topic=Economy&subtopic=Regional+developments&subsubtopic=Investment>>, accessed 20 January 2018.

69. Zhong Nan, ‘CMG Plans Network of Ports, Terminals’, *China Daily Asia*, 2 June 2016.

70. Zhou Mo, ‘CMG Eyes More B&R Projects’, *China Daily*, 21 September 2017.

71. Luo Wangshu, ‘China Merchants Group Looks to Promote “Shekou Model”’, *China Daily*, 16 June 2017.

as an experiment that resulted in creating the first Special Economic Zone,⁷² Zhang states, can now be replicated within five years in foreign ports.⁷³ Once operational, these facilities should speed up the global movement of goods, which would benefit UK business and consumers. However, these are second-order potential impacts contingent on MSR port projects succeeding over the long term and facilitating new trade routes and flows.

The MSR will also, as in the CMG Port of Djibouti project, aim to enhance 'the Renminbi's (RMB) status in international currency settlement',⁷⁴ which forms part of what one Central Bank of China adviser has noted to be China's long-term strategic objective of RMB internationalisation.⁷⁵ This can also be seen in the case of Pakistan, where investments related to CPEC can be paid for in RMB rather than US dollars. A local RMB settlement and clearance arrangement has been initiated by the Industrial and Commercial Bank of China, one of China's top four state-owned commercial banks.⁷⁶ HSBC reported that, as of 2018, the People's Bank of China would 'support corporates who used RMB for trade settlement and help them repatriate funds raised offshore',⁷⁷ which would help facilitate the RMB's use in foreign direct investments, and an expanded Cross-Border Interbank Payment System for RMB that 'now covers business hours in all continents and invited a handful of international banks, including HSBC'. According to HSBC, as a result of the push to internationalise the RMB, the number of central banks investing in it has increased from three in 2013 to 45 in 2017, and HSBC anticipates that the currency will be among the top five most traded by 2020.⁷⁸

By employing international technological and industrial standards, BRI projects promote Chinese companies as leaders in foreign markets and enhance their image as global players. The chief executive of China Communications Construction Company (CCCC), one of China's largest construction conglomerates, noted that 'the more Chinese standards go global, the more it will help related industries on the chain in expanding overseas'.⁷⁹ However, observers note that infrastructure construction will also promote Chinese standards overseas. Indeed, the Chinese Ministry of Transport noted at a press conference in July 2018 that it would work to accelerate its implementation of the BRI, including by expanding 'the consensus on international cooperation

72. Mo, 'CMG Eyes More B&R Projects'.

73. Wangshu, 'China Merchants Group Looks to Promote "Shekou Model"'.
 74. Nilsen, 'New Mega-Port in Arkhangelsk with Chinese Investments'.

75. Cai Xiao, 'RMB Closer to International Currency Status', *China Daily*, 21 September 2018.

76. *China Daily*, 'Chinese Yuan to Facilitate Pakistan in Trade, Investment Activities: Experts', 14 January 2018.

77. HSBC, 'New Trade Routes Along the Belt and Road Lead to Opportunity', 31 July 2018, <<https://www.business.hsbc.com/belt-and-road/new-trade-routes-along-belt-and-road-lead-to-opportunity?cid=HBUK:JG:788:S2:CMB:L14:TW:HPP:0:XEG:18:0818:002:ChinaIntl>>, accessed 8 September 2018.

78. *Ibid.*

79. Li Wenfang, 'Port and Waterway Standards to Help Chinese Industries Go Global', *China Daily*, 22 November 2011.

and promote the standardization of transportation policy rules and standards'.⁸⁰ According to a *China Daily* article published in 2016, Sun Ziyu, Vice-President of the CCCC was quoted as stating that Chinese overseas infrastructure projects needed to incorporate Chinese standards in order to ensure sustainable development.⁸¹ While this currently seems particularly relevant to railway construction,⁸² it may in future be applicable to port infrastructure.

As Chinese companies become global players, Chinese shipping conglomerates could potentially start taking the lion's share of international shipping management as part of the MSR. *The Financial Times* reports that nearly two-thirds of the world's top 50 container ports had some Chinese investment by 2015, up from around one-fifth in 2010,⁸³ and that these ports handled 67% of global container volumes.⁸⁴ COSCO overtook Europe's leading carrier, Maersk Line, in terms of container traffic volume in the third quarter of 2017,⁸⁵ and European ports with the largest cargo capacity have attracted Chinese interest or deals, including Rotterdam, Antwerp and Hamburg.⁸⁶ This is in addition to China's interest and investment in smaller ports around the world. Furthermore, according to a Clingendael Institute report, an increase in ports located in the Mediterranean will diversify gateways to European markets and cut shipping costs due to closer proximity to East Asia.⁸⁷

The economic benefits of the BRI are reported by the Chinese press to revolve around increasing trade and resolving 'employment problems' in host countries, including, for example, at Piraeus, Greece.⁸⁸ However, local reports tell a different story, with COSCO importing cranes and building materials from China and using 'subcontractors to hire around 1,500 workers mostly on short-term contracts at wages far below what unionized Greek dockworkers are paid'.⁸⁹ If, as

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80. 交通运输部新闻发布厅 [Press Room of the Ministry of Transport of the People's Republic of China], '7月份例行新闻发布会' ['Regular July Press Conference'], 26 July 2018, <<http://www.mot.gov.cn/2018wangshangzhibo/2018seventh/index.html>>, accessed 14 November 2018.
81. Yang Ziman, 'Localization Helps CCC to Build in Africa', *China Daily*, 22 July 2016.
82. Peter Cai, 'Understanding China's Belt and Road Initiative', Lowy Institute for International Policy, March 2017, <https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China's%20Belt%20and%20Road%20Initiative_WEB_1.pdf>, accessed 1 September 2017.
83. James Kyngé et al., 'How China Rules the Waves', *Financial Times*, 12 January 2017.
84. *Ibid.*
85. Bruce Barnard, 'European Unease over Chinese Investments Grows', *JOC*, 13 December 2017.
86. Theo Notteboom, 'Top EU Container Port Regions (2007-2016): The Rise of South Europe', *PortEconomics*, 31 July 2017.
87. Frans-Paul van der Putten, 'Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands', Clingendael Institute of International Relations, 14 February 2014, <<https://www.clingendael.org/sites/default/files/pdfs/2014%20-%20Chinese%20investment%20in%20Piraeus%20-%20Clingendael%20Report.pdf>>, accessed 1 September 2017.
88. Yan Liang, 'Feature: COSCO Shipping – A Name Card of China in Greece on Maritime Silk Road', *Xinhuanet News*, 7 May 2017.
89. Jason Horowitz and Liz Alderman, 'Chastised by EU, a Resentful Greece Embraces China's Cash and Interests', *New York Times*, 26 August 2017.

reported, Chinese companies do not use local labour, the benefits for local workers are not guaranteed. Greece is not alone, as questions grow over the true trickle-down effect of Chinese investments in Sri Lanka,⁹⁰ Indonesia,⁹¹ Papua New Guinea,⁹² and Namibia.⁹³ Of course, the benefits of a port should not solely depend on employing local labour for construction and operation, but should be seen as part of a wider national effort to promote economic growth. It is currently difficult to assess the economic impact of Chinese ports on national economies as a whole, given that many are under construction or have only recently been completed.

There has been discussion of 'debt trap diplomacy' in numerous recipient countries, with some local observers stressing the leverage that this could give Beijing.⁹⁴ Secretary Frances Adamson of Australia's Department of Foreign Affairs and Trade recently stated that 'infrastructure projects can come with very heavy price tags and the repayment of those loans can be absolutely crippling'.⁹⁵ An NGO worker in Tanzania noted that China could in such cases demand 'economic concessions, political agreements, or a combination of both'.⁹⁶

The Asian Development Bank estimates that the Asia-Pacific region will require \$26 trillion in infrastructure investments by 2030 to maintain growth momentum.⁹⁷ China is one of the few countries with the capacity to finance and build infrastructure of this magnitude. This has helped to persuade countries to accept Chinese offers – and potentially unfavourable terms

90. *Al Jazeera*, 'Sri Lanka Signs Hambantota Port Deal with China', 29 July 2017.

91. Zuraidah Ibrahim and Phila Siu, 'Widodo Wants Chinese to Keep Coming – as Investors, not Workers', *South China Morning Post*, 28 April 2017.

92. Peter J Connolly, 'Engaging China's New Foreign Policy in the South Pacific', *Australian Journal of International Affairs* (Vol. 70, No. 5, 2016), pp. 484–505.

93. Christine-Rita Abankwah, 'Chinese Refutes Labour Import Claims', *Windhoek Observer*, 19 September 2014.

94. *Financial Times*, 'One Belt, One Road – and Many Questions', 14 May 2017. For example, the director of the Kenya School of Law, P L O Lumumba, has noted that African governments are 'taking on so much Chinese debt that they will be in economic and political hock to Beijing', see David Pilling, 'Chinese Investment in Africa: Beijing's Testing Ground', *Financial Times*, 13 June 2017.

95. Andrew Greene, 'DFAT Boss Warns International Students to Resist Chinese Communist Party's "Untoward" Influence', *ABC News*, 9 October 2017.

96. Xiaochen Su, 'Why Chinese Infrastructure Loans in Africa Represent a Brand-New Type of Neocolonialism', *The Diplomat*, 9 June 2017.

97. Asian Development Bank, 'Meeting Asia's Infrastructure Needs', February 2017, <<https://www.adb.org/publications/asia-infrastructure-needs>>, accessed 10 September 2017.

and conditions.⁹⁸ Many countries believe they have little choice,⁹⁹ with a Sri Lankan Cabinet spokesperson stating openly that the country's return to Chinese investment was due to economic necessity and a lack of alternatives.¹⁰⁰

The implementation of BRI projects has not always been smooth, with the 2018 US–China Economic and Security Review Commission report citing a RWR Advisory Group estimate that roughly 270 out of 1,814 projects (32%) had faced difficulties.¹⁰¹ Indeed, there has been some level of pushback against BRI projects. While it is not clear what impact this will have on China's overall approach to implementing the BRI, concerns are increasingly being aired publicly, as the following four examples show.

Sri Lanka

Chinese investments have met resistance in the form of violent street protests,¹⁰² particularly over the proposed 99-year lease¹⁰³ and an 80% stake¹⁰⁴ of the Hambantota Port awarded to CMG, as well as, according to the *New York Times*, a reported 6.3% fixed interest rate (while interest rates for similar Japanese loans, by comparison, are below 0.5%).¹⁰⁵ The deal was ultimately revised to include new terms, in which two new joint ventures between Sri Lanka and China were established to manage the port operations and security. First, CMG now has an 85% stake in the Hambantota International Port Group (HIPG),¹⁰⁶ which will run the port and its

98. This may be changing through the steady pushback to Chinese deals, but it remains the case that other infrastructure investment initiatives (for example, by Japan) are viewed less favourably due to lengthy and cumbersome bureaucratic processes. On the author's recent visit to Japan, authorities were quick to point out that Japan's overseas investments were not designed to counterbalance Chinese influence. They also underscored that the Japanese government cannot match Chinese overseas investments.

99. This was recently confirmed in a workshop attended by the author on the security implications of the MSR in Southeast Asia. The workshop was held in Manila in October 2017 and included participants from across Southeast Asia.

100. Shihar Aneez, 'Short of Options, Sri Lanka Turns Back to Beijing's Embrace', *Reuters*, 10 February 2016.

101. US–China Economic and Security Review Commission, '2018 Report to Congress of the US–China Economic and Security Review Commission', November 2018, <https://www.uscc.gov/sites/default/files/annual_reports/2018%20Annual%20Report%20to%20Congress.pdf>, accessed 16 November 2018.

102. Wade Shepard, 'Violent Protests Against Chinese "Colony" in Sri Lanka Rage On', *Forbes*, 8 January 2017.

103. Shihar Aneez, 'Exclusive: Sri Lanka's Cabinet "Clears Port Deal" with China Firm After Concerns Addressed', *Reuters*, 25 July 2017.

104. Turloch Mooney, 'China Buys Majority Stake in Sri Lanka's Hambantota Port', *JOC*, 12 December 2018.

105. Maria Abi-Habib, 'How China Got Sri Lanka to Cough Up a Port', *New York Times*, 25 June 2018.

106. Hambantota International Port Group, 'FAQs', <<http://www.hipg.lk/faqs/>>, accessed 10 January 2019.

terminals, with the remaining stake held by Sri Lanka Ports Authority.¹⁰⁷ Second, according to media reports, Hambantota International Port Services Company will be established to oversee security operations, in which Sri Lanka will hold a 50.7% stake and China 49.3%.¹⁰⁸ CMG has also agreed to reduce its stake in HIPG from 85% to 65% over 10 years.¹⁰⁹ Furthermore, the final agreement does not allow foreign countries to use the port for military purposes without the permission of the Sri Lankan government.¹¹⁰ While the government will still be indebted to China, and may still succumb to direct or indirect pressure to allow the port to be used for military purposes, the decision to change the contract terms is an important indication that countries have begun to consider the potential regional security implications of their port projects.

Myanmar

On 12 November 2018, China agreed to a 70% stake in the deep-water port of Kyaukpyu, less than the 85% it had sought, reportedly due to local concerns over Chinese economic influence in the country.¹¹¹ The initial cost of the project has been scaled back from around \$7.3 billion to \$1.3 billion for the first-phase construction of two deep-water berths.¹¹² The Myanmar government has agreed to the CITIC Group's demand that it finance 30% of the cost¹¹³ (it had preferred to finance 15%),¹¹⁴ of which half will be financed by private local Myanmarese companies (50 firms have so far expressed an interest).¹¹⁵ This case study offers another example of pushback among host countries over the terms and conditions of port projects.

Pakistan

The BRI has also recently faced challenges in Pakistan, which cancelled the \$14-billion Diamer–Bhasha dam in the formal roster of CPEC projects because the 'hyper strict conditions' for funding were 'not doable and against our [Pakistan's] interests'. It has decided to finance the dam itself.¹¹⁶ China's conditions reportedly included Chinese ownership of the project, the

107. Aneez, 'Exclusive: Sri Lanka's Cabinet "Clears Port Deal" with China Firm After Concerns Addressed'.

108. *Ibid.*

109. *Ibid.*

110. Abi-Habib, 'How China Got Sri Lanka to Cough Up a Port'.

111. Yimou Lee and Thu Thu Aung, 'China to Take 70 Per Cent Stake in Strategic Port in Myanmar – Official', *Reuters*, 17 October 2017.

112. Thu Thu Aung and Simon Lewis, 'Myanmar Agrees Smaller Deal for China-Backed Port After "Debt Trap" Concern', *Reuters*, 8 November 2018.

113. Jason Koutsoukis, 'The Fishing Port That May Become a \$10 Billion Chinese Debt Bomb', *Bloomberg*, 10 May 2018.

114. *Ship Technology*, 'China and Myanmar Sign Deal to Develop New Deep-Sea Port', 12 November 2018.

115. Thompson Chau and Htoo Thant, 'Kyaukphyua Port: What Happens Next?', *Myanmar Times*, 9 November 2018.

116. Liu Zhen, 'Pakistan Pulls Plug on Dam Deal over China's "Too Strict" Conditions in Latest Blow to Belt and Road Plans', *South China Morning Post*, 17 November 2017.

operation, and maintenance costs.¹¹⁷ Pakistan reportedly also rejected China's demand that RMB be used in the Gwadar Free Zone, part of the CPEC, due to fears this would compromise its economic sovereignty,¹¹⁸ although this decision was overturned in early 2018.¹¹⁹ More recently, the new Pakistan government under Prime Minister Imran Khan has sought to review its trade and investment deals with China to avoid a debt trap.¹²⁰

Sweden

Towards the end of 2017, reports emerged that the coastal city of Lysekil had accepted an offer from a Chinese consortium to build Scandinavia's largest deep-water port.¹²¹ The consortium would be led by Hong Kong-based Sunbase International and state-owned China Communications Construction Group.¹²² However, the Chinese investors of this proposed project have since withdrawn funding due to negative attention in the media and on social media after a public backlash over the opacity and secrecy of the deal.¹²³

Chinese Political Influence

A second strategic implication is the potential rise of China's political influence and potential impact on recipient states' political sovereignty as a result of China's chequebook diplomacy.¹²⁴ To some this indicates that the MSR is part of a Chinese grand ambition to become the 'undisputed power in Asia'.¹²⁵

117. *Ibid.*

118. Dawood Rehman, 'Economic Sovereignty: Pakistan "Turns Down" China's Demand to Use Yuan in Gwadar Free Zone', *Daily Pakistan*, 21 November 2017.

119. *Straits Times*, 'Pakistan Allows Use of Chinese Yuan for Trade, Investment', 3 January 2018.

120. Ilaria Maria Sala, 'Pakistan's New Government is Trying to Walk Back from Alarming Chinese Debt', *Quartz*, 10 September 2018.

121. Jojje Olsson, 'China's Bid to Build the Largest Port in Scandinavia Raises Security Concerns', *Taiwan Sentinel*, 22 December 2017.

122. *Hellenic Shipping News*, 'Chinese Investors Cancel Plans for Massive Deep-Water Port in Sweden', 2 February 2018.

123. Janne Suokas, 'Chinese Investors Cancel Plans for Massive Deep-Water Port in Sweden', *GB Times*, 31 January 2018.

124. In Malaysia, speculation over whether Chinese investments impact Malaysian domestic politics is increasing. While relations between President Xi and Malaysian Prime Minister Najib Razak have strengthened, this has raised concerns by the opposition over foreign land ownership, the economic viability of projects, and the loss of political sovereignty, see Melissa Goh, 'Mahathir Warns of Malaysia's Over-Reliance on Foreign Borrowing from China', *Channel News Asia*, 13 June 2017.

125. Tom Phillips, 'World's Biggest Building Project Aims to Make China Great Again', *The Guardian*, 12 May 2017.

The political influence generated by Chinese infrastructure investment has been explicitly noted in a China Association for International Economic Cooperation (CAFIEC)¹²⁶ paper for the Chinese Ministry of Commerce, which outlined the strategic value of infrastructure investment in countries in the South Pacific, noting that 'South Pacific countries are small, but in the United Nations they carry a vote and together with other countries often have a collective voice which in international politics is an important force and has certain influence on international affairs'.¹²⁷ This logic can be seen elsewhere in the world.

Two countries where some political influence seems to be at play are Cambodia and Greece, inserting Chinese supporting powers within ASEAN and the EU.¹²⁸ Cambodia's blocking of any mention of the Permanent Court of Arbitration ruling on the South China Sea in the 2016 ASEAN foreign ministers' statement is a case in point.¹²⁹ And Greece recently blocked an EU statement on human rights in China during a 2017 UN Human Rights Council meeting in Geneva, citing 'unconstructive criticism of China'¹³⁰ – a first in EU history.

It is unclear whether such political decisions are the direct result of Chinese pressure, in anticipation of Chinese displeasure and protest, or an opportunistic attempt to attract more favourable relations with Beijing. However, reports have emerged of Chinese diplomatic activity ahead of an ASEAN summit¹³¹ and EU Council statements.¹³² More recently, media reports described Chinese officials as having 'barged into' the office of Papua New Guinea's foreign minister, reportedly after being denied a meeting to negotiate the wording of the draft Asia-Pacific Economic Cooperation (APEC) final communiqué, although both the Papua New Guinea and Chinese foreign ministries deny the incident.¹³³

According to Matthias Machnig, German State Secretary for Economic Affairs, Chinese pressure on specific European countries helped water down the wording of an EU initiative on inward investment screening from text that appeared to target Chinese investments ('ways to screen investments from third countries') to 'analyse investments from third countries in strategic sectors'.¹³⁴ However, it is worth noting that the investment screening initiative has not been

126. CAFIEC is a research institute associated with China's Ministry of Commerce.

127. Feng, '南太平洋与21世纪海上丝绸之路' ['South Pacific and 21st Century Maritime Silk Road'].

128. *The Economist*, 'Why Cambodia Has Cosied up to China', 21 January 2017.

129. Manuel Mogato, Michael Martina and Ben Blanchard, 'ASEAN Deadlocked on South China Sea, Cambodia Blocks Statement', *Reuters*, 25 July 2016.

130. Robin Emmott and Angeliki Koutantou, 'Greece Blocks EU Statement on China Human Rights at UN', *Reuters*, 18 June 2017.

131. Paterno Esmaguél, 'China Lobbying? How the ASEAN Statement Evolved', *Rappler*, 30 April 2017.

132. Laurens Cerulus and Jakob Hanke, 'Enter the Dragon', *Politico*, 10 April 2018; Robin Emmott and Noah Barkin, 'China Presses Europe for Anti-US Alliance on Trade', *Reuters*, 3 July 2018.

133. Lee Jeong-Ho, "'Simply Not True": China Rejects Claims APEC Diplomats Tried to "Barge" in on PNG Minister's Office to Influence', *South China Morning Post*, 18 November 2018.

134. Cerulus and Hanke, 'Enter the Dragon'.

welcomed warmly by all EU member states, with some wary of adding bureaucracy to a tradition of free trade and others seeking to remain attractive to the foreign investors on which they rely.¹³⁵

The recent cases of Panama and El Salvador indicate the use of economic diplomacy to lure diplomatic allies away from Taiwan and further enforce the One China policy globally. In these cases, the trend has been for diplomatic ties with Taiwan to be cut in exchange for diplomatic ties with China, followed by significant investment and trade deals. Media reports on Panama¹³⁶ and El Salvador¹³⁷ point to port investment deals by Beijing after a change of diplomatic alliance, demonstrating Beijing's use of chequebook diplomacy to lure away Taiwan's remaining diplomatic allies. Indeed, in the case of El Salvador, the port project seems to have played a crucial role. *Reuters* quotes the Taiwanese foreign minister as stating that 'Taiwan will not engage in "money competition" and did not give El Salvador funds for a port development after deeming the project "unsuitable"'.¹³⁸

While there is no indication that China is planning MSR projects in the UK, the UK does form part of the overland Belt and is thus part of the wider BRI. There is likely to be an expectation in Beijing that there will be more opportunities, on Chinese terms, to engage with the UK post-Brexit, including through its inclusion in the BRI. The view that the UK will actively seek trade and investment agreements with China is strengthened by the interest shown by the UK in China since declaring a 'golden era' in bilateral relations,¹³⁹ by being the first major European country to join the Asian Infrastructure Investment Bank, and through declarations by the Lord Mayor Charles Bowman that the City of London could become a 'natural Western hub' for the BRI, particularly as an international financial centre.¹⁴⁰

Prospects for Dual-Use Port Facilities and Overseas PLA-N Support Hubs

Questions over the dual use of port facilities and implementation of the 'string of pearls' theory have resurfaced.¹⁴¹ Long before the BRI was conceptualised, this theory posited 'the rising geopolitical influence from the South China Sea through the Strait of Malacca, across the

135. Eric Maurice, 'EU Preparing to Screen Chinese Investments', *EU Observer*, 14 September 2017.

136. *Reuters*, 'Group Including Chinese Firm Begins Panama Port Project', 19 October 2017.

137. Nelson Renteria, 'El Salvador Says Economy Prompted Diplomatic Switch to China from Taiwan', *Reuters*, 21 August 2018.

138. *Ibid.*

139. *Reuters*, 'China, Britain to Benefit from "Golden Era" in Ties – Cameron', 18 October 2015.

140. Angus McNeice, 'London "Natural Western Hub for Belt and Road"', *China Daily*, 20 March 2018.

141. The 'string of pearls' theory was coined by the US consultancy firm Booz-Allen & Hamilton in a report for the Department of Defense in 2005. See Juli A MacDonald, Amy Donahue and Bethany Danyluk, *Energy Futures in Asia: Final Report* (McLean, VA: Booz-Allen & Hamilton, 2004).

Indian Ocean and the Arabian Gulf' through specific port projects (or pearls) and substantial Chinese investment.¹⁴²

In 2011, the Washington Institute noted three military dimensions to China's port building: obtaining access to airfields and ports by gaining access to or building new facilities globally with the understanding that they will be available when needed; increasing diplomatic relations to ensure that shipping lanes remain clear and trade agreements are in place; and modernising China's military to hold individual pearls when necessary.¹⁴³

China's 2015 defence white paper noted its ambition to become a naval power, stating that China's armed forces would be used to 'safeguard the security of China's overseas interests', which include 'energy and resources, strategic sea lines of communication (SLOCs), as well as institutions, personnel and assets abroad'.¹⁴⁴ Doubts over China's 'peaceful use' of its armed forces have grown in recent years due to its increased maritime assertiveness in the Asia-Pacific, as part of what is potentially a strategy of anti-access aerial denial to foreign powers in the region, as well as the growing reach of the PLA-N.

Djibouti, the first PLA overseas base, has come sharply into focus for this reason. Chinese officials say the logistics support base will chiefly be used to help peacekeeping and humanitarian missions in Africa and West Asia, as well as emergency evacuations.¹⁴⁵ The presence of other foreign bases in Djibouti strengthens Beijing's narrative that its base is similar to those of Western states.

But analysts point to the geographic and strategic significance of Djibouti as a stable, friendly country to China that provides easy maritime access to a strategic chokepoint.¹⁴⁶ Satellite imagery shows military infrastructure and numerous docking facilities,¹⁴⁷ and recent live-fire tank exercises and ammunition drills have raised questions over China's ultimate ambitions.¹⁴⁸

Establishing PLA logistics hubs abroad is a logical step for a growing major power with global interests, but with it comes increased attention and questions over military expansion. A

142. Fernando Daniel Sousa, 'China's Investment in Ports: What is Behind the "String of Pearls" Theory?', European Parliamentary Research Service Blog, 26 June 2013.

143. Christina Lin, 'The New Silk Road: China's Energy Strategy in the Greater Middle East', Washington Institute for Near East Policy, April 2011, <<http://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus109.pdf>>, accessed 10 September 2017.

144. *Xinhuanet News*, 'Full Text: China's Military Strategy', 26 May 2015.

145. *South China Morning Post*, 'US Intelligence Expects China to Expand Network of Military Bases Around the Globe', 6 October 2017.

146. Anthony Kleven, 'Is China's Maritime Silk Road a Military Strategy?', *The Diplomat*, 8 December 2015.

147. Sarah Zheng, 'China's Djibouti Military Base: "Logistics Facility", or Platform for Geopolitical Ambitions Overseas?', *South China Morning Post*, 17 October 2017.

148. Kinling Lo, 'Chinese Troops Head Back into the Djibouti Desert for Live-Fire Drills', *South China Morning Post*, 25 November 2017.

2015 report by *Xinhuanet News* noted that ‘the necessity of China’s overseas cooperation in building ports and terminals is obvious’ given China’s growing presence through the MSR and participation in global non-traditional security challenges (citizen evacuation, anti-piracy and counterterrorism, for example). It noted that ports could provide the Chinese navy and air force with replenishment services to ensure smoother operations abroad, and that rumours in foreign media outlets of potential Chinese bases abroad had already raised concerns over Chinese military expansion.¹⁴⁹ The article does note that it is in China’s interests to establish military bases abroad to complement its ‘going out’ strategy.¹⁵⁰

A 2014 US National Defense University report noted that Beijing is more likely to implement the dual-use port option than create multiple overseas bases.¹⁵¹ These foreign port facilities could be militarised in times of conflict.¹⁵²

According to a 2016 US Department of Defense report:

China has [so far] not constructed US-style overseas military bases in the Indian Ocean. China’s leaders may judge instead that a mixture of preferred access to overseas commercial ports and a limited number of exclusive PLA-N logistic facilities – probably co-located with commercial ports – most closely aligns with China’s future overseas logistics needs to support its evolving naval requirements.¹⁵³

Foreign ports have already seen a link between Chinese companies and the PLA. A 2014 Clingendael Institute report noted that COSCO is the Chinese Navy’s main provider of logistical support in commercial ports in the Indian Ocean region.¹⁵⁴

An example of the dual use of Chinese-constructed ports is in Colombo, Sri Lanka, where, in 2014, a Chinese submarine did not dock at the Sri Lanka Port Authority berths mandated to accommodate military vessels, but instead went to the Colombo South Container Terminal

149. *Xinhuanet News*, ‘中国海外基地的梦想与现实’ [‘The Dreams and Reality of China’s Overseas Bases’], 8 July 2018.

150. *Ibid.*

151. Christopher D Yung and Ross Rustici, ‘“Not an Idea we Have to Shun”: Chinese Overseas Basing Requirements in the 21st Century’, Institute for National Strategic Studies, 1 October 2014, <<http://inss.ndu.edu/Media/News/Article/652894/not-an-idea-we-have-to-shun-chinese-overseas-basing-requirements-in-the-21st-ce/>>, accessed 10 September 2017.

152. *Ibid.*

153. Office of the Secretary of Defense, ‘Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2016’, 26 April 2016, <<https://dod.defense.gov/Portals/1/Documents/pubs/2016%20China%20Military%20Power%20Report.pdf>>, accessed 10 September 2017.

154. Van der Putten, ‘Chinese Investment in the Port of Piraeus, Greece’.

(CSCT), thereby violating port protocol.¹⁵⁵ That same year, a PLA-N warship did the same thing.¹⁵⁶ The CSCT is the Chinese-built and operated deep-water facility that has been described as a 'Chinese enclave with a Sri Lankan administered harbour'.¹⁵⁷ Concerns raised by India and local communities seem to have had an effect; in 2017, China's request to dock another submarine was rejected.¹⁵⁸

Beyond the ties these port projects have to the CCP through Chinese SOEs (such as COSCO and CMG), there are concerns over possible connections between privately owned Chinese or Hong Kong-based companies and the CCP and PLA. The purchase of the Port of Darwin by the Landbridge Group¹⁵⁹ and the withdrawn port deal in Lysekil, Sweden, by Sunbase International¹⁶⁰ are two examples.

A 2014 article in Namibia's largest daily newspaper, *The Namibian*, referring to a commentary piece in Chinese news media has fuelled suspicions over ongoing Chinese port construction. According to *The Namibian*, the alleged piece set out a plan for naval bases in the Indo-Pacific region and West Africa.¹⁶¹ It is said to have offered a foreign basing strategy for the PLA with three specific categories of facilities: fuelling and material supply bases for peacetime use; supply bases for warship berthing, fixed-wing reconnaissance aircraft and the naval ashore rest; and fully functional centres for replenishment, rest and large warship weapons maintenance.¹⁶² In total, 18 overseas strategic support bases were recommended. The commentary piece noted locations in the northern Indian Ocean (Pakistan, Sri Lanka and Myanmar); western Indian Ocean (Djibouti, Yemen, Oman, Kenya, Tanzania, and Mozambique); and the central south Indian Ocean (the Seychelles and Madagascar).¹⁶³ Southern and West African states, including Angola, Namibia and Nigeria, were reportedly also mentioned. The Chinese government and Namibian Ministry of Defence have refuted the claims, noting that the reports were unfounded, and further information on this commentary piece is scarce. However, rumours of a future Chinese naval base in Namibia have subsisted, with China's port expansion in Walvis Bay entailing the construction of an 'artificial peninsula the size of 40 baseball fields'.¹⁶⁴ However, further information on this reported commentary piece is scarce.

155. Abhijit Singh, 'PacNet #7 – A "PLA-N" for Chinese Maritime Bases in the Indian Ocean', CSIS Newsletter, 26 January 2015, <<https://www.pacforum.org/analysis/pacnet-7-‘pla-n’-chinese-maritime-bases-indian-ocean>>, 12 September 2017.

156. Kynge et al., 'How China Rules the Waves'.

157. Singh, 'PacNet #7 – A "PLA-N" for Chinese Maritime Bases in the Indian Ocean'.

158. Shihar Aneez and Ranga Sirilal, 'Sri Lanka Rejects Chinese Request for Submarine Visit: Sources', *Reuters*, 11 May 2017.

159. Jane Perlez, 'US Casts Wary Eye on Australian Port Leased by Chinese', *New York Times*, 20 March 2016.

160. Olsson, 'China's Bid to Build the Largest Port in Scandinavia Raises Security Concerns'.

161. Adam Hartman, 'Chinese Naval Base for Walvis Bay', *The Namibian*, 19 November 2014; Adam Hartman, 'Chinese Naval Base for Walvis', *The Namibian*, 20 January 2015.

162. Singh, 'PacNet #7 – A "PLA-N" for Chinese Maritime Bases in the Indian Ocean'.

163. Hartman, 'Chinese Naval Base for Walvis Bay'.

164. Brook Larmer, 'Is China the World's New Colonial Power?', *New York Times Magazine*, 2 May 2017.

US intelligence sources have forecast more ports with strategic implications.¹⁶⁵ According to the US Defence Intelligence Agency's 2019 China Military Power Report:

'The PLA's efforts to obtain access to commercial ports in Africa, the Middle East, and South Asia would align with its future overseas logistic needs and meet its evolving naval requirements. The PLAN is likely to use commercial ports and civilian ships to support its international and domestic logistic operations, resupply, replenishment, and maintenance.'¹⁶⁶

It would not be unreasonable to assume that Beijing's plan to increase rapid-deployment marines by 400%, for example, may be geared towards their future deployment to Chinese port facilities abroad.¹⁶⁷ Indeed, US marines have long been based at ports as a strategic tool, for example, at the Port of Darwin.¹⁶⁸

While it is strongly denied by China, a future naval logistics hub (that is, base) in Gwadar, Pakistan, is precisely what the Pentagon anticipates.¹⁶⁹ It is also not a new idea, having been floated by Pakistan's defence minister in 2011.¹⁷⁰ The possibility of using Chinese-built ports in Pakistan for military purposes has resurfaced once more, with reports that China has 'begun expanding the port facility ... to handle large naval vessels ... [and that] scores of additional military personnel arrived in the port'.¹⁷¹ Gwadar, however, is not alone – multiple other locations along Pakistan's coast have been flagged as potential base locations. More recent reports have pointed to the likelihood of a Chinese naval base on the Jiwani peninsula near Gwadar, which according to media reports could potentially also include the expansion of the existing airport and the creation of a security zone.¹⁷² There are also indications of Chinese interest in building a port in Sonmiani Bay, near Karachi, known for its space research and advanced computing centres.¹⁷³ Karachi is already the site for the construction of four submarines that China has sold to Pakistan.¹⁷⁴

165. *South China Morning Post*, 'US Intelligence Expects China to Expand Network of Military Bases Around the Globe'.

166. Defense Intelligence Agency, 'China Military Power: Modernizing a Force to Fight and Win', 2019, <www.dia.mil/Portals/27/Documents/News/Military%20Power%20Publications/China_Military_Power_FINAL_5MB_20190103.pdf>, accessed 12 February 2019.

167. Jamie Seldel, 'China to Boost Marine Corps by 400pc to Enforce Growing World Influence', *News Corp Australia Network*, 15 March 2017.

168. Perlez, 'US Casts Wary Eye on Australian Port Leased by Chinese'.

169. *South China Morning Post*, 'US Intelligence Expects China to Expand Network of Military Bases Around the Globe'.

170. Richard Weitz, 'Global Insights: China Ponders Pakistan's Naval Base Offer', *World Politics Review*, 24 May 2011.

171. Bill Gertz, 'China Eyes Pakistan Port', *Washington Times*, 18 October 2017.

172. Minnie Chan, 'First Djibouti... Now Pakistan Port Earmarked for a Chinese Overseas Naval Base, Sources Say', *South China Morning Post*, 5 January 2018.

173. Gertz, 'China Eyes Pakistan Port'.

174. Baqir Sajjad Syed, 'China to Build Four Submarines in Karachi', *Dawn*, 7 October 2015.

The strategic opportunity for Beijing lies also in the opportunity to conduct surveillance and intelligence gathering with host countries or unilaterally. Cables from the US embassy to Kenya that were leaked in 2010 noted China's multi-pronged approach of offering infrastructure development along with intelligence-gathering support.¹⁷⁵ More recently, the sale of the Port of Darwin, a geostrategic asset in the only location in northern Australia for major naval use, was, according to Australia's defence community, not only an incredible oversight by the government,¹⁷⁶ but now offers Beijing a 'front-row seat to spy on American and Australian naval operations'.¹⁷⁷

This concern has also been raised over the Chinese expansion and management of Haifa Port in Israel by the Shanghai International Port Group in a 25-year contract starting in 2021.¹⁷⁸ This project has been a particularly sensitive development given the port's proximity to the hub of the Israeli navy's nuclear-capable submarine force that is also frequented by the US Navy.¹⁷⁹ According to *Newsweek*, retired admiral Gary Roughhead, former chief of US naval operations, is said to have remarked at a workshop on future maritime security in the Eastern Mediterranean that 'homeporting and other protracted projects and initiatives' by the US Navy at Israeli facilities near the Chinese-operated port could be precluded,¹⁸⁰ particularly since 'the information systems and new infrastructure integral to the ports and the likelihood of information and electronic surveillance systems jeopardize US information and cybersecurity'.¹⁸¹ The UK's Sovereign Base Areas in Europe, Akrotiri and Dhekelia in Cyprus may also be concerned over the increasing number of Chinese-built and managed ports in the Mediterranean and the opportunity for Beijing to survey Royal Navy activities in the region.

Beijing's evolving strategy of how to use ports strategically is not a new concept and should not be surprising. Commentators have recognised that colonisation by European powers revolved around accessing resources, tapping into new markets, and building bases to protect both.¹⁸² Furthermore, the variety of US defence assets abroad has paved the way for Beijing to pursue a similar path that works with its strategic context and objectives. The US has a mixture of

175. *The Guardian*, 'US Embassy Cables: China Providing Military and Intelligence Gathering Support to Kenya', 17 February 2010.

176. Australia Defence Association, 'The Botched 99-Year Lease of Darwin's Commercial Port Shows Grand-Strategic Failures in Decision-Making', <<https://www.ada.asn.au/commentary/formal-comment/2014-15/botched-99-year-lease-of-darwin-port-compounded-by-largely-irrelevant-public-debate.html>>, 1 September 2017.

177. Perlez, 'US Casts Wary Eye on Australian Port Leased by Chinese'.

178. Tyler Durden, 'China to Take Over Israel's Largest Port, Could Threaten US Naval Operations', *ZeroHedge*, 15 September 2018.

179. David Brennan, 'Chinese Deal to Take Over Key Israeli Port May Threaten US Naval Operations, Critics Say', *Newsweek*, 14 September 2018.

180. *Ibid.*

181. *Ibid.*

182. J Mohan Malik, 'Myanmar's Role in China's Maritime Silk Road Initiative', *Journal of Contemporary China* (Vol. 27, No. 111, 2018), pp. 362–78.

full-scale military bases (host-sovereign bases), smaller, more flexible temporary bases (such as ‘lily pads’), cooperative security locations (through the stationing of radar facilities, for example), as well as suspected but unconfirmed sites.¹⁸³ These have totalled nearly 800 locations across 70 countries, according to an assessment by David Vine, a professor at American University in Washington, DC.¹⁸⁴

While there is overlap in the location of US facilities and Chinese ports (Djibouti, Australia, Kenya, Mozambique, Panama, Italy, and others), it may be a step too far to conclude that this is due to Beijing’s overarching objective to be where Washington is. Although there is ongoing debate over whether Beijing’s ultimate strategic goal is to replace US hegemony, co-location in certain countries is likely explained by both powers having similar priorities in their security assessments, such as controlling vital SLOC and shipping routes and securing access to energy.

Nevertheless, the US’s extensive global network of bases abroad, access arrangements, and other forms of military cooperation is a blueprint that China may choose to emulate in a longer-term strategy as a rising power. Indeed, an article published in the newspaper of the CCP’s Party School,¹⁸⁵ *The Study Times*, discussed the basing strategy of the US and concluded that ‘the overseas military base is the most important strategic asset for the United States to maintain global hegemony and [is] a symbol of its superpower status’.¹⁸⁶ It also notes that the US has shifted its basing strategy towards a mixture of ‘large backbone bases’, ‘front battle bases’, ‘temporary operational bases’ or ‘lily pads’, and ‘floating bases at sea’ to address new security challenges around the world with greater flexibility. While using ports is therefore an important stepping stone and useful tool to assist Chinese military operations abroad, a future with more Chinese bases should not be excluded.

The importance of basing strategy in Chinese thinking is illustrated by East China Normal University professor Shen Dingli, who was quoted in the US National Defense University report as saying that, ‘setting up overseas military bases is not an idea we have to shun; on the contrary, it is our right’.¹⁸⁷ This is also not simply a mantra repeated by individual academics in US sources, but a policy objective connected to President Xi. Indeed, Admiral Sun Jianguo, Deputy Chief of the Joint Staff, wrote in a Communist Party magazine that ‘steadily advancing overseas base construction’ is part of a ‘formulation of a military strategic policy’ and ‘grand blueprint ... for reforming the armed forces ... commensurate with China’s international status’, efforts he notes

183. David Vine, ‘Where in the World is the US Military?’, *Politico Magazine*, July/August 2015.

184. *Ibid.* For Vine’s complete dataset, see American University Digital Research Archive, ‘List of U.S. Military Bases Abroad, 2017 (Version of 2017-05-14)’, <<https://dra.american.edu/islandora/object/auislandora%3A55685>>, accessed 14 September 2018.

185. Party School of the Central Committee of the CPC, ‘Introduction to the Party School of the Central Committee of the CPC’, 3 May 2012, <http://www.ccps.gov.cn/ccps_overview/201207/t20120720_18914_1.html>, accessed 14 September 2018.

186. Wang Baofu, ‘美军新一轮基地调整的战略意图及其影响’ [‘The Strategic Intent of the Latest Round of US Base Realignments and its Impact’], *Study Times*, 17 November 2005.

187. Yung and Rustici, “‘Not an Idea We Have to Shun’”.

Xi has presided over since the 18th National Congress of the Communist Party of China.¹⁸⁸ While the use of China's armed forces are noted in relation to helping contribute to international shared challenges (anti-piracy, peacekeeping operations, major epidemics, and humanitarian and disaster relief, for example), it is possible that the base in Djibouti and other future Chinese bases abroad will not be limited to these activities. Indeed, Chinese armed forces abroad will likely be deployed further afield over the coming years to help protect both international and Chinese interests.

Indeed, Chinese investment and bilateral cooperation are not limited to infrastructure projects, but also include military-to-military cooperation. An example of this can be seen in Bagamoyo, Tanzania, where China is not only constructing a port,¹⁸⁹ but has also built a training facility for the Tanzanian armed forces. In February 2018, the Chinese-funded Comprehensive Training Centre for the Tanzanian People's Defence Force was officially opened by Tanzanian President John Magufuli and Chinese ambassador Wang Ke.¹⁹⁰ According to media reports, the \$30-million centre was built with the assistance of the PLA, and will 'provide training to counter current and future threats'. Construction of the centre is part of a long history of close defence cooperation between China and Tanzania, which has included 'naval exercises, construction projects, and the supply of military equipment'.¹⁹¹

Another example is Ghana, where China is constructing a fishing port at Jamestown in Accra and a free port at Atuabo.¹⁹² On his latest visit to the country in September 2018, President Xi and Ghana's President Nana Addo Dankwa Akufo-Addo signed multiple agreements on topics including defence cooperation, which China committed to providing a \$7.3-million grant for military assistance and the construction of the headquarters of Ghana's armed forces.¹⁹³ China will also contribute to maritime security capacity building to help secure the Gulf of Guinea, train peacekeepers and strengthen Ghana's police service, as well as establish a legal assistance and extradition treaty between the two countries.¹⁹⁴

The cases of Tanzania and Ghana, and the base in Djibouti and potential base in Gwadar, do not prove that every Chinese port investment will necessarily be followed by a PLA base or be paired

188. Sun Jianguo, '为引领世界和平发展合作共赢贡献中国智慧' ['Contribute Chinese Wisdom to Lead the World in Peace and Development'], 求是 [Qiúshì], 15 April 2016.

189. Dorcas Kang'ereha, 'Construction of US \$10bn Bagamoyo Port in Good Progress', *Construction Review*, 18 September 2018.

190. Jeremy Binnie, 'Tanzania Opens Chinese-Built Military Training Centre', *Jane's Defence Weekly*, 7 February 2018.

191. *Defence World.Net*, 'Tanzania's Defence Forces Get Chinese-Built Training Centre', 15 February 2018.

192. Government of Ghana, 'China Supports Two New Projects in Ghana Worth US \$66 Million', <<http://www.ghana.gov.gh/index.php/media-center/news/4546-china-supports-two-new-projects-in-ghana-worth-us-66-million>>, accessed 12 November 2018.

193. Ivy Setordjie, "'China-Ghana Relations Must Take the Lead in Africa' – Xi Jinping to Akufo-Addo', *JoyOnline*, 2 September 2018.

194. *Ibid.*

with investments in the recipient country's armed forces. However, they do point to expanded Chinese thinking on defence cooperation relations, a potential scope, geography and roles for the PLA, and how those might be aligned with Chinese strategic interests (for example, access to natural and energy resources and the protection of Chinese citizens and investments abroad) and paired with overseas port access and defence cooperation arrangements. Helping build the armed forces of another country is, after all, an investment in a country that is considered friendly to the interests of the investing state.

While the combined impact of port investments and military aid warrant further research, it is worth noting that Tanzania and Ghana are member states of the Commonwealth. As the UK develops and implements its 'Global Britain' strategy, it will undoubtedly be looking to maximise its contribution to the Commonwealth, and this will include a defence cooperation and maritime security component. For an effective strategy, Whitehall should seek to better understand the potential local and regional impacts of Chinese MSR investments and consider whether they stand to alter the strategic nature of the UK's bilateral relationship with recipient countries.

Conclusion: Implications for the UK

- **The Maritime Silk Road (MSR) is a global initiative, with no concrete routes and a flexible approach to determining key port locations.**

Although there are many types of projects included in the MSR, this paper has focused on the nexus between land and sea routes – namely, port building, management, and investment. Discussion of key MSR destinations is difficult due to the lack of clarity over how port destinations are chosen, the speed at which port projects with Chinese contractors are signed, the lack of transparency of such contracts, and the difference between ports that act as end-points for the overland Eurasian Belt and MSR ports. However, this paper finds that the reach of the MSR continues to grow, with the inclusion of Central and South America and the Caribbean, as well as the Arctic as a route to Europe.

- **Port destinations are geared towards redirecting and controlling shipping routes, as well as increasing Chinese trade via Chinese-built and operated container ports.**

The broad economic objectives of the Belt and Road Initiative (BRI) are to make the Chinese economy more balanced across the country, to address overcapacity in some Chinese industries, and to place China at the strategic centre of a new global value chain. Part of this drive to keep the engine of China's economic growth running is to find new resources, tap into new markets, and defend lines of vital energy supplies.

With regard to the MSR, part of the logic of where to build strategic ports lies in the desire to redirect and control shipping lanes to protect vital energy sources, including those in the Gulf and South and Southeast Asia, where China seeks to circumvent strategic maritime chokepoints.

Building and operating ports has the added benefit of helping Chinese firms meet the international standards necessary for operating overseas. However, Chinese technological standards are also being promoted, whether in the railway systems that are set to link ports or the Chinese business and trade standards that are being set through the promotion of the 'Shekou Model' of ports and associated free-trade zones. While the MSR carries opportunities for the Chinese economy and companies, it does not yet meet its stated objectives of benefiting host countries' economies, as MSR projects rely largely on Chinese labour and equipment. The long-term economic benefits of ports, and their supporting infrastructure, cannot be fully appreciated until these projects are operational.

Although the UK does not feature in the MSR in any informal maps, documents or other commentary (it does in the overland Belt), China's growing role in the European port and

shipping industry could pose significant challenges to British business. A mitigating factor in continental Europe, in future, may be the EU Investment Screening Initiative as it will include port projects.¹⁹⁵ Competition from China will likely continue to grow in this sector. However, British entities associated to the shipping industry, such as in the field of maritime law, will continue to play an important role in the sector and fill a niche that Chinese companies may not yet be able to meet. However, while British business should continue to seek opportunities in MSR projects, it is unlikely that these will be plentiful.

While China has expressed interest in allowing third-country investment and involvement in the BRI, and the UK has expressed interest in doing so, there is limited scope for this kind of collaboration. According to current analyses, an overwhelming 86% of contractors in BRI projects are Chinese, while only 16% are from third countries and 27% from recipient countries. This reinforces the perception that the BRI is geared to advance and support Chinese businesses first and foremost. Even if there were a genuine desire for third-country investment and involvement in the BRI, the lack of clarity on potential projects is a real obstacle.

MSR port projects are located globally, from the Mediterranean to UK partner countries, some of which are Commonwealth member states. The impact of these projects on recipient countries could also ultimately affect several of the UK's bilateral relationships, although whether they do so negatively or positively, and to what extent, remains to be seen. Similarly, the impact of redirecting trading routes could carry significant economic costs for partner countries such as Singapore.

MSR projects lack transparency over the financial arrangements of contracts, the stakeholders involved and their shares, and the decision-making process leading up to the start of projects. This makes it difficult to understand the MSR and the economic opportunities and costs of port projects, ultimately leaving developing countries, many of which are UK partners, unable to assess the opportunity cost of specific projects.

Finally, given the reported negative social and environmental impact of some MSR projects in various countries, the UK's efforts through overseas development aid could potentially be undermined. Bilateral cooperation in third countries on infrastructure projects that are in line with the UK's overall sustainable development and good governance efforts would help mitigate this.

- **Port projects, like other Chinese investments, carry with them the potential for political influence.**

Chinese investments, including in infrastructure, seem to have, on occasion, generated a level of political influence that has helped block statements critical of China from being issued by ASEAN and the EU. Although the countries in question have received significant investments from

195. *Reuters*, 'EU Countries Back Investment Screening Plan with China in Mind', 5 December 2018.

China, including in port projects, it is not clear whether they are adjusting their policy positions in an attempt to avoid upsetting China or whether China has successfully put pressure on them.

Although China continues to face challenges with the MSR through the questionable economic viability of some port projects and pushback from host communities, many governments perceive few alternatives to Chinese investments. Indeed, despite local discontent in Sri Lanka and Myanmar, and project scales were altered so that Chinese port investments could proceed. While Chinese investment need not be discouraged outright, the UK can work with recipient countries to ensure that these projects are sustainable and affordable.

However, it is not only recipient countries in need of infrastructure that could feel political pressure from China. Indeed, the potential for growing economic ties between the UK and China to translate into political influence should also not be underestimated. These ties may be viewed in Beijing as an opportunity to exert political pressure on various facets of British foreign policy, particularly post-Brexit, when the UK will be seeking to sign trade agreements with third parties.

The impact of Chinese political influence in third countries may also present the UK with a new political landscape in which it will need to understand more fully the drivers of third-country economics and politics, particularly in Asia, where it is seeking to play a larger role in defence and security.

- **MSR commercial ports have the potential for dual-use by the PLA-N and may be a precursor to Chinese bases in the future.**

The dual use of these ports is particularly evident in Sri Lanka, while the model of building a commercial port followed by a logistics base can be seen in Djibouti. Reports of future overseas PLA-N logistics support facilities within Chinese-built ports are not new.

The PLA-N's global reach is growing. This is particularly the case in peacetime, as the PLA undergoes its modernisation efforts and maintains a low-risk appetite given a lack of combat experience. However, in future, Beijing could seek to use ports for military purposes in times of tension, while in peacetime they could be used for intelligence gathering and expanding the PLA-N's global reach. This is also the case in the Mediterranean, particularly in Haifa, where Chinese operators and the technology that is implemented and used in civilian ports could be used to conduct surveillance on US Navy port calls nearby, or the UK's activities in the Mediterranean from its Sovereign Base Areas of Akrotiri and Dhekelia.

It is difficult to estimate the likelihood of this through open-source information. Nevertheless, China, as a rising power, may be eyeing the range and various formats of US security assets around the world as a long-term blueprint for its own military deployment.

Given the increasing wariness over a rising China, and heightened vigilance over Chinese investments and military deployment, it is unlikely that China will seek to establish bases in the

UK or on the European continent. The expectation of intense political resistance is likely to be a dissuading factor. Moreover, port access denial to UK naval ships seems unlikely in European ports in the near future, given China's drive to be seen as a non-threatening rising global power and continued need to access European markets.

However, the same does not hold for Asia. The UK's desire for greater defence and security partnerships in the Asia-Pacific post-Brexit could be complicated should Chinese-controlled port access be required. Given that the UK's 2017 Maritime Doctrine underscores the benefit of freedom of navigation operations, including recent statements by the First Sea Lord on British freedom of navigation operations in the South China Sea,¹⁹⁶ port access could be denied by Beijing in times of tension.

Likewise, as the PLA-N expands its global operational reach, Southeast Asia may be faced with Beijing's encroaching maritime dominance. This could affect UK defence interests in the region by potentially denying or threatening to deny access during times of tension.

196. David Bond, 'Royal Navy Chief Vows to Send Ships Through South China Sea', *Financial Times*, 22 October 2018.

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