



The Maritime Silk Road: Where does it lead?

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Questions

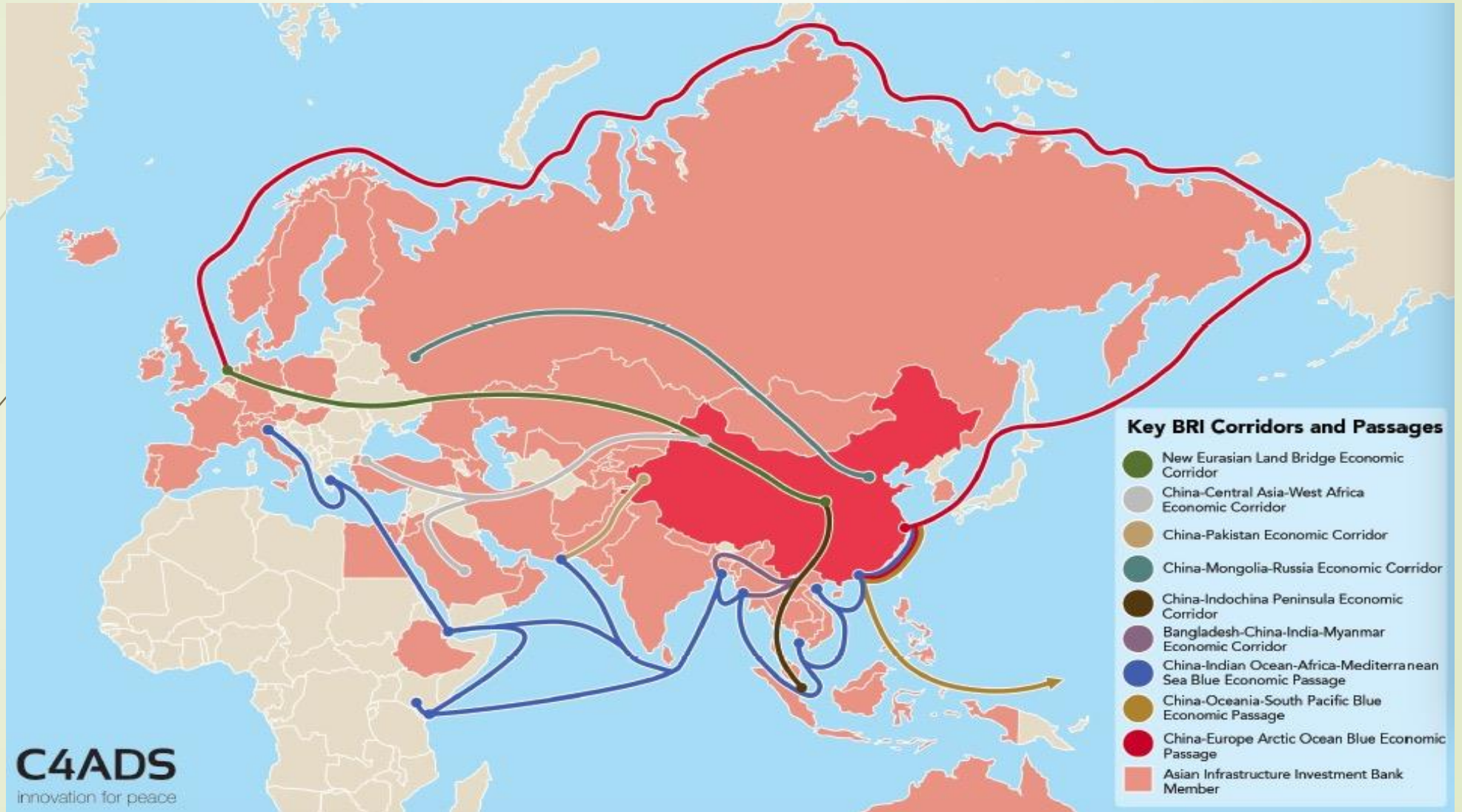
- ▶ How do China's commercial and security interests along the Maritime Silk Road (MSR) component of the Belt and Road align?
- ▶ What does this mean for other navies that operate along the BRI?
- ▶ What does MSR mean for the global maritime commons?

Maritime Silk Road in the Belt and Road



Source: Xinhua Agency

Map of China's BRI routes





Economic and security nexus for MSR

- ▶ From 2012 to 2016, China's maritime economy witnessed an average annual growth of 7.5 percent; 0.2 percent higher than the national economic growth over the same period. In 2016, the value of marine-related products reached 7.05 trillion yuan (USD \$1.08 trillion), accounting for 9.5 percent of the national economy (State Oceanic Administration, China)
- ▶ Chinese national security and economic development relies heavily on maritime trade routes. Almost 80 percent of China's imported oil passed through the Indian Ocean and Malacca Strait in 2016 (ChinaPower, CSIS 2016).
- ▶ Political doctrine of turning China into a strong maritime power since the 18th Party Congress to safeguard China's maritime interests and rights such as preserving China's access to vital SLOCs, protecting Chinese nationals and assets abroad and other non-traditional security threats (Hu Jintao's 18th Party Congress full report; Xi Jinping's full report in the 19th Party Congress).

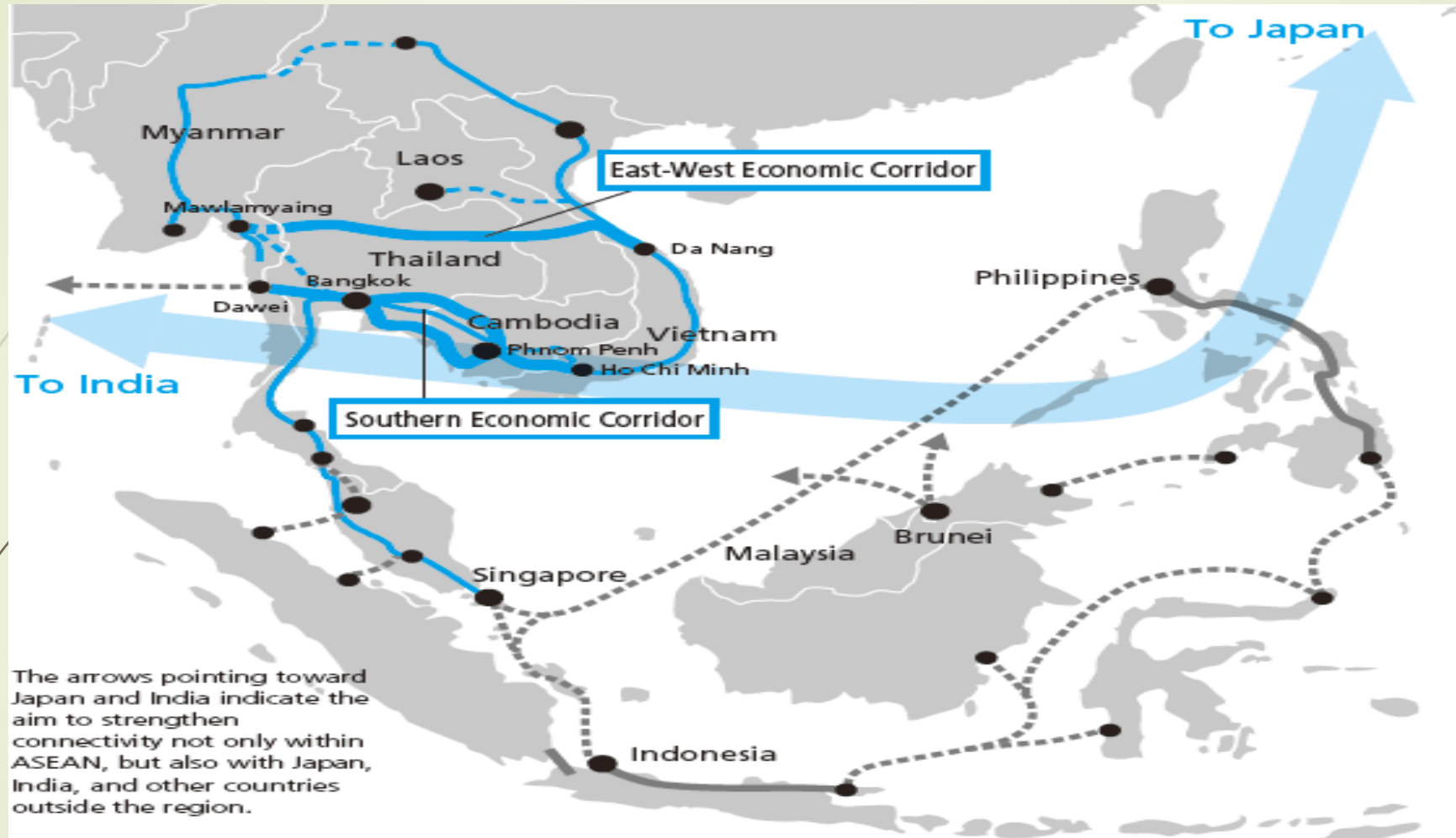
Regional responses (ASEAN and its member states)

- At the national level, individual ASEAN member states welcome BRI despite variations
 1. Most positive: Cambodia, Laos, Malaysia (under former PM Najib)
 2. Positive with concerns: Brunei, Indonesia, the Philippines (under Duterte), Singapore, Thailand
 3. Cautious: Vietnam, Myanmar, Malaysia (under Mahathir)
- ASEAN as a group welcomes synergy with BRI but is cautious towards China's MSR
- The bilateral nature of MSR concerns the region that it is 'dividing-and-conquering', lending structural advantage to China by setting the terms and shaping the economic and political future of Southeast Asia

Regional response: Geo-economic competition from other major powers' initiatives

- ▶ European Union: Asian Connectivity Strategy
- ▶ Japan: East-West and Southern Economic Corridor that connect Southeast Asia with Indian Sub-continent; Japan Mekong Connectivity Initiative Projects; Maritime and Air ASEAN Corridor; Develop ASEAN Roll-on and Roll-off Network (ARN); and Short-sea shipping prioritized in Master Plan of ASEAN Community
- ▶ India: promoting regional connectivity, energy, free trade and combating terrorism under the framework of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC); Mekong-India economic corridor; India-backed Kaladan multi-modal transit transport project that envisages connectivity between Indian ports and the Sittwe port in Myanmar; Road and inland waterway links from Sittwe to Northeastern India
- ▶ United States: US-led infrastructure in the Indo-Pacific; USD \$113 million in direct government investment, and USD \$60 billion to provide private companies with loans for projects overseas.

Overall image of Japan's support for ASEAN Connectivity



Land corridors

Land corridors

Under construction

East-West Economic Corridor Connects Da Nang and Mawlamyaing.
 Southern Economic Corridor Connects Ho Chi Minh and Dawei.
 Improvement of highways, international bridges, motorways, ports, etc.

Ocean corridors

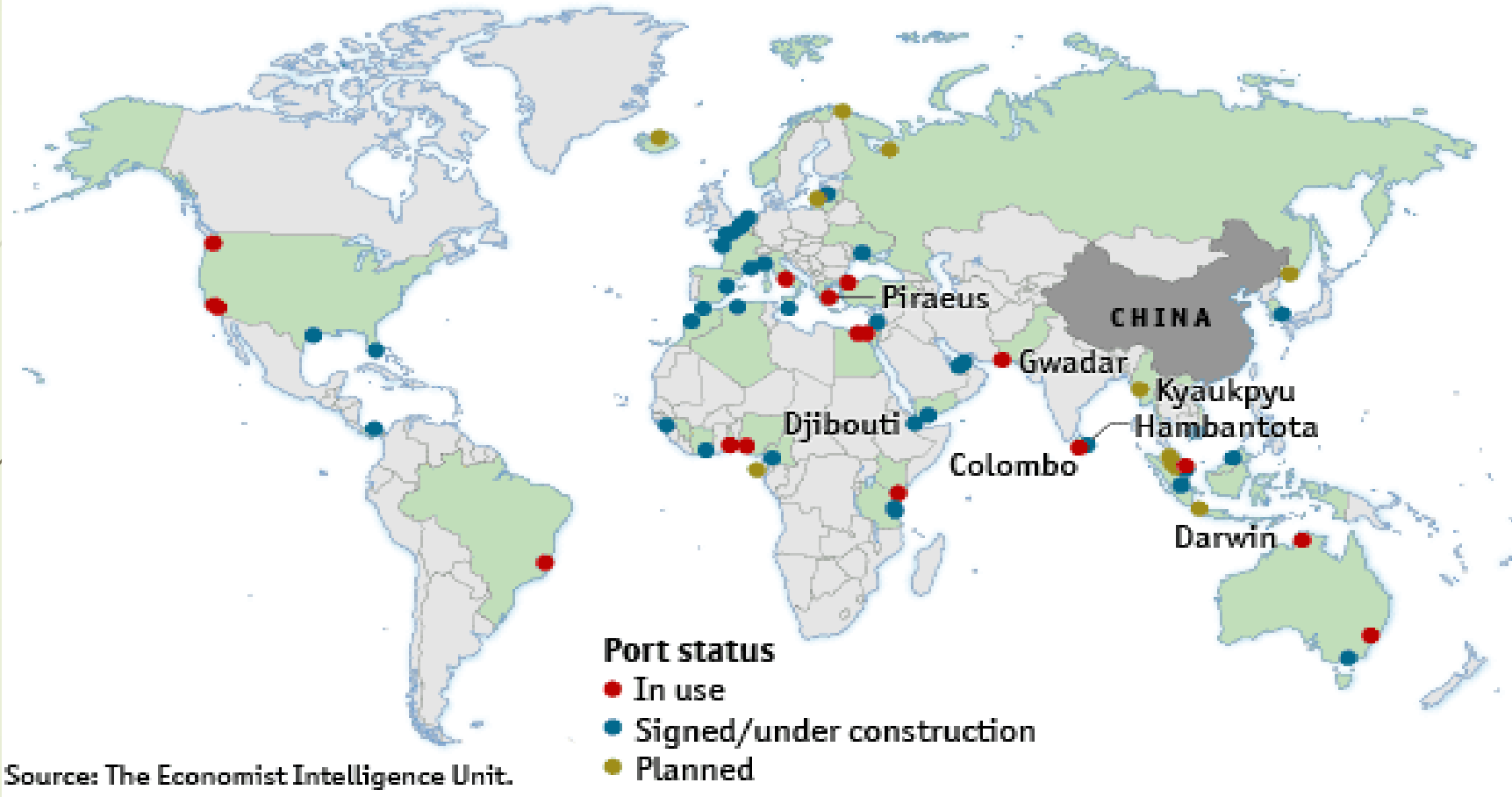
Ocean corridors

Improvement required

Connects the major cities of Malaysia, Singapore, Indonesia, Brunei, and the Philippines.
 Improvement of ports, industrial development around ports, energy, ICT improvement, etc.

MSR and Port investment

China's global port investment



30 port projects are signed or under construction

16 port projects are in use

10 port projects are planned

No	Port	Host country
1	Newcastle	Australia
2	Melbourne	Australia
3	Darwin	Australia
4	Antwerp	Belgium
5	Zeebrugge	Belgium
6	Piraeus	Greece
7	Dunkirk	France
8	Le Havre	France
9	Marseille Fos	France
10	Nantes	France
11	Fjord	Iceland
12	Haifa New Port	Israel
13	Vado Ligure	Italy
14	Klaipeda	Lithuania
15	Marsaxlokk	Malta
16	Rotterdam	Netherlands
17	Kirkenes	Norway
18	Arkhangelsk	Russia
19	Valencia	Spain
20	Bilbao	Spain
21	Ambarli	Turkey
22	Kumport	Turkey
23	Tanger Med	Morocco
24	Casablanca	Morocco
25	Abu Dhabi ports	UAE (Jiangsu Provincial Overseas Cooperation & Investment Company)
26	Khalifa port (Abu Dhabi)	UAE (COSCO)
27	Houston Terminal Link	United States
28	Miami Terminal Link	United States

No.	Port	Host country	Forms of investment
1	Chittagong	Bangladesh	Port and industrial zones (SOE)
2	Payra	Bangladesh	Contractor and developer of Industrial zones (SOE)
3	Colombo	Sri Lanka	New City (SOE)
4	Hambantota	Sri Lanka	Industrial park (SOE)
5	Said	Egypt	Contractor (SOE)
6	Koh Kong new port	Cambodia	City and resort (Tianjin)
7	Sihanoukville	Cambodia	Industrial park (Suzhou)
8	Doraleh port	Djibouti	Free trade zone (SOE)
9	Al Duqm port and drydock	Oman	
10	Gwadar	Pakistan	Free trade zone and industrial park (CMG)
12	Kuantan	Malaysia	Industrial park (Guangxi)
13	Kuala Linggi Port	Malaysia	Joint venture
1	Penang	Malaysia	Joint venture
13	Melaka gateway	Malaysia	Joint venture
14	Kyaukpyu	Myanmar	Joint venture & industrial park (CITIC)
15	Muara	Brunei	Joint venture& industrial park (Guangxi)
16	Kalibaru project to expand Taniun Priok port	Indonesia	Joint venture (Zhoushan)

China-invested economic and trade cooperation zones in Southeast Asia

Project Name	Starting Year (as of signing of MOUs)
Sino-Malaysian Kuantan Industrial Park	December 2012
Sihanoukville Special Economic Zone (SSEZ)	December 2010
Sino-Thai Rayong Industrial Park	March 2006
Longjiang Industrial Park (Vietnam)	2007
Sino-Vietnamese (Shenzhen-Haiphong) Economic and Trade Cooperation Zone	December 2008 (began operations in 2016)
Sino-Indonesian Julong Agriculture Cooperation Zone	2011
Sino-Indonesian Morowali Industrial Park	2009
Sino-Indonesian Economic and Trade Cooperation Zone	November 2007
Vientiane Saysettha Comprehensive Development Zone	June 2010
Mohan/Boten Economic Cooperation Zone	Protocol was signed in 2010 but MOU was signed in June 2014.

China Going Global Index Ranking 2017 (Top 59 countries)

Country	Rank 2017	2015	2013	2017-2015 change
Singapore	1	2	2	Up
Malaysia	4	20	18	Up
Israel	11	17	31	Up
Kazakhstan	12	51	38	Up
Thailand	18	38	35	Up
Indonesia	26	44	44	Up
Philippines	28	39	39	Up
Vietnam	30	40	41	Up
Sri Lanka	32	41	46	Up
Pakistan	41	58	47	Up

Source: The Economist Unit

Accumulated Chinese investments in major sectors in Southeast Asia in USD million

Source: CEIC database

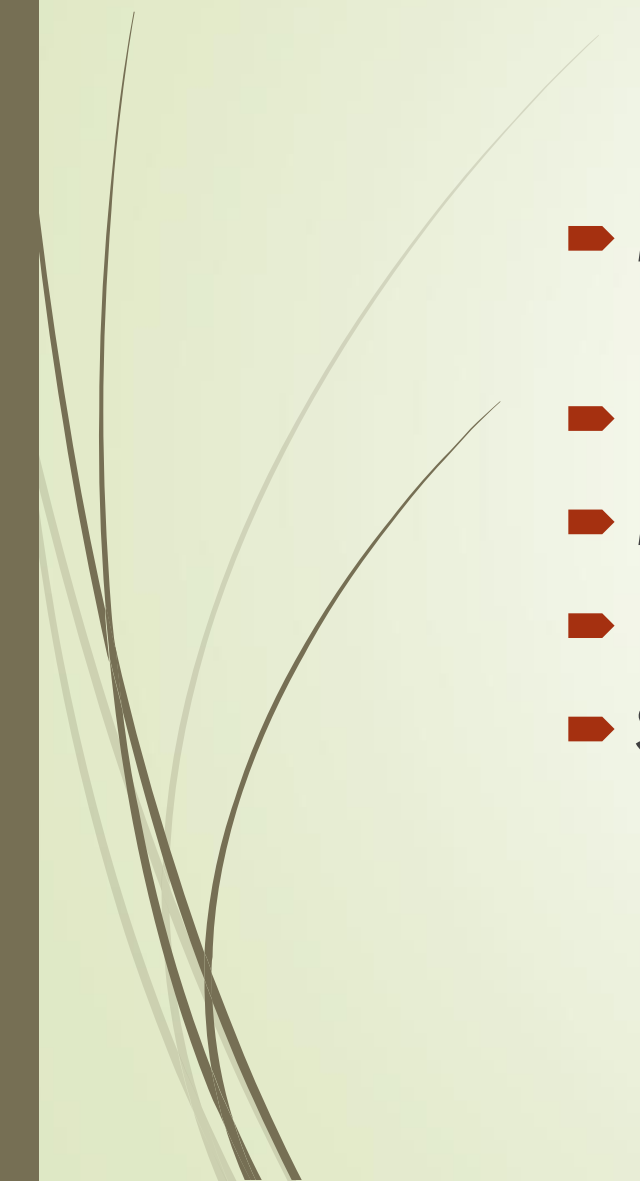
Industry/Year	2009	2010	2011	2012	2013	2014	2015	2016
Manufacturing	1486.51	1901.76	2565.97	3347.56	4672.52	6132.66	9358.71	13149.69
Energy	1858.49	2776.68	3802.21	5119.96	6039.15	7225.91	7865.7	9 121.35
Construction	675.52	1160.28	1624.36	2216.39	2934.3	3362.13	3861.74	4 506.78
Mining	915.31	1843.06	2384.61	4033.28	5280.78	6052.97	6247.43	10169.25
Wholesale and Retail	1634.06	1875.45	2699.32	3558.3	4763.15	5899.8	7537.21	9689.75
Logistics	669.16	841.9	1940.11	2098.15	1385.54	1468.34	1782.6	1823.06
Agriculture and Husbandry	340.54	5298.38	709.36	996.67	1597.08	2444.19	2314.28	3138.45
Leasing and Commercial Service	1051.17	1173.37	2758.87	3387.69	3919.75	6842.83	16088.52	11222.5
Financial Intermediation	666.35	1761.83	2280.86	2577.48	2810.26	5879.37	4356.19	4573.19
Real Estate	59.71	120.17	145.13	182.06	1332.57	1168.12	1161.63	1987.93

Equity samples of China's overseas port investment

Port	Current equity in percent
Colombo	85
Koh Kong New Port	100
Darwin	80
Doraleh Multipurpose	23.5
Hambantota	70
Kuantan	40
Kyaukpyu	70
Melaka gateway	49
Muara port	51
Zeebrugge	85
Piraeus	100
Valencia	51
Casablanca	49



Suspended projects in countries

- Malaysia: East Coast Railway Link; Multi-Product Pipeline (MPP); and Trans-Sabah Gas Pipeline (TSGP) projects
 - Nepal
 - Myanmar
 - Pakistan
 - Sri Lanka (resumed)
- 

Findings

- First, it finds that these Chinese projects, with its expanding nature in the Chinese propaganda and a lack of transparency, have led many observers to exaggerate its influence and implications internationally and domestically. Leaders of various Chinese agencies, in their attempts to show political loyalty to the top leadership, have intentionally or unintentionally, helped produce hype that MSR could bring the strategic benefits to China's maritime security.
- Second, much of the MSR activities are opportunistic and scattered. This is because Chinese business actors, SOEs or private ones are incentivized to support the MSR to pursue business interests without a coordinated grand plan. Because of this, the data suggest that the MSR has not generated big-bang effect in connectivity but has resulted in overinvestment in some of the projects.
- Third, If we evaluate through the “five-pronged” cooperation of the BRI, it has encountered tremendous challenges in four areas: policy coordination; infrastructure connectivity; financial integration; and people-to-people ties. The only area that can be said of having made much progress is trade. The limited progress of the BRI has been a result of several practical challenges for the initiative.

Findings

- Fourth, despite the effort made by the Chinese government and Chinese companies' attempts to improve its overseas project governance, the maritime investments do not help the growth of Chinese influence.
- Fifth, evidence of correlation between infrastructure investment and geopolitics is mixed; there is limited evidence to show effectiveness of infrastructure as geopolitical leverage for China and weak evidence of China's military base building based on the port investments.
- Sixth, Chinese maritime investment in its current forms has generated more concerns than assurances for the stakeholders, particularly towards international norms of development. The hosting countries are also increasingly aware of the potential financial controls over the maritime investments by China.
- Last but not least, in light of the above observations, it perhaps makes sense to argue that Beijing may have made a strategic mistake in rolling out the BRI and promoting MSR as an all-powerful policy tool. Having the MSR as a policy interface and promoting it in a high-profile manner have actually heightened some regional states' political and strategic wariness towards China and further fuelled strategic counterbalancing from other major powers against China in the region.

What does MSR mean for the global maritime commons?

- Ideally, MSR could play an important role in these maritime commons by fixing the connectivity gaps in developing economies through creating networks of ports and developing industrial parks or special economic zones along the portside.
- To maximize the objectives of MSR, it requires stakeholders to understand China's MSR through different perspectives. They should pursue opportunities to limit challenges that China's MSR could bring to the global maritime commons.
- This requires hosting countries to encourage more investors or participate in multilateral financing avenues. Regional stakeholders should make efforts to fulfil the regional states' desire to diversify their external economic and financial relations, offsetting the attraction of the Chinese investments and helping these states to maximize their autonomy in their relations with China.
- Furthermore, because of alternative initiatives, Chinese major infrastructure or industrial investment will be more closely scrutinized for financial feasibility, as well as environmental impact and labour standards. It in turn, helps China improve its practices and contribute to global governance.