

CHINA'S PORT INVESTMENT: THE FLAG BEHIND THE TRADE

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INTRODUCTION

MATHIEU DUCHÂTEL

China's corporate giant COSCO Shipping Ports Limited has titled its 2018 annual report "Strengthening Global Footprint". Indeed, China's investment in overseas ports is one of the most tangible incarnations of the country's expanding global footprint.

Because acquisitions of overseas ports happen simultaneously with a naval build-up of historical proportions and a sudden policy reversal on overseas bases, they raise questions regarding China's strategic intentions. Should we think of port investment in terms of political control and influence or normal business relations? Does China intend to use military power to "securitize" the maritime trade that has ensured rapid growth and prosperity for the country's coastal provinces since the launch of economic reforms at the end of the 1970s?

The two largest companies that dominate Chinese overseas port acquisitions, COSCO and China Merchants Group, are driven by a logic of profit-making. In 2018, COSCO handled 118.8 million TEU at 36 ports worldwide, the equivalent of the combined contained throughput of Shanghai, Singapore, Shenzhen and Ningbo, the world's four largest ports. 31.7% of this total was managed in overseas ports, the equivalent of Singapore's annual container traffic. The same year, China Merchants Group handled 20.66 million TEU in its overseas terminals, 18.9% of its total capacity. Because the revenues of terminal business fluctuate less than shipping, COSCO and China Merchants Group should be expected to continue their rapid international expansion.

In fact, the largest share of Chinese overseas investment in ports has taken the form of minority stakes. This comes with very little influence, if any, on the governance of ports. COSCO holds majority stakes in terminals in four ports only: Piraeus (100%), Abu Dhabi (90%), Zeebrugge (85%) and Valencia (51%). And for COSCO, Khalifa container terminals in Abu Dhabi represent the only greenfield investment in overseas ports. Similarly, the acquisition of a footprint in Europe and in the United States (Houston and Miami) by China Merchants Group was the result of the minority acquisition of 49% of Terminal Link from CMA-CGM. China Merchants Group holds only 33% of Djibouti's Doraleh Container Terminal. China Merchants Group's construction of a port in Hambantota (Sri Lanka), one of China's most controversial overseas investment because of the debt-for-equity scheme that resulted in the takeover of the port operations for 99 years, is an exception rather than a rule.

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This issue of *China Trends* explores some of China's debates regarding the business of port operations inside and outside China, crossing business interests and geopolitical logic. **The distinction between actions serving China's strategic ambition to become a leading military power by 2050 and normal profit-oriented business activities is not always simple and straightforward.**

Chinese analysts take a very geopolitical view of port investment in the Indian Ocean, stressing the resistance China encounters from India and the United States, detecting a "change of attitude" in potential recipient states when considering Chinese acquisitions, arguing that China now faces "geopolitical risk". **As a response, rather than specific policy recommendations, they advocate incremental and multi-layered engagement with the coastal states in the Indian Ocean:** more trade, more naval presence, more involvement in security and governance affairs, more engagement with regional institutions.

This logic of incremental engagement as a strategic principle also guides China's reflections on overseas military bases. Chinese President Xi Jinping took the bold decision to put an end to years of debate regarding whether China should build bases to protect its "overseas interests". **The articles translated for this issue of China Trends show how Xi's decision has radically changed the tone and the direction of the discussion in China.** Before Djibouti, the debate focused on the pros and cons of building military bases overseas, in particular from the perspective of the non-interference principle. Since Djibouti, the Chinese strategic community takes for granted that the People's Liberation Army (PLA) – and especially the navy – is building a logistical support network to ensure the success of future operations to protect Chinese overseas interests. The discussion focuses on the practical difficulties of running overseas bases. And several authors ask the same question: how to ensure that the international community will accept China's construction of overseas bases?

But there is also a domestic discussion about ports. Their contribution to China's prosperity as the world's largest trading nation is colossal. The State Oceanic Administration estimates that China's "blue GDP" (encompassing all sectors of the maritime economy) represents 10% of the country's GDP, and seven Chinese ports are in the world's top ten. The growth of these ports has transformed urban life in coastal China. Shanghai, today the largest container port in the world with a container traffic of 40 million TEUs, managed only 2 million TEUs in 1996.

The discussion in China focuses on how to optimize the efficiency of domestic port operations. The obsession of the commentators is that Chinese domestic ports are "large but not strong", plagued by overcapacity and disorderly competition. **China needs to manage the balance between cooperation and competition between ports that operate in the regional vicinity of each other**, such as Shanghai and Ningbo-Zhoushan, or Guangzhou and Shenzhen. This is largely a question of administrative arrangements and bureaucratic efficiency. Chinese analysts discuss how to better think the relationship between state ownership and market forces, with the additional difficulty that the provincial governments and the municipalities rather than the central government are the key political authorities when it comes to port management in China. The key question is to move away from a growth model centered on throughput to a next phase of growth driven by quality upgrading of port operations.

Overall, this issue of China Trends illustrates the strategic importance of global maritime affairs for China, both from an economic and a security perspective. Military power will serve as a guarantee to protect China's expanding global footprint and will need a support network to operate efficiently. However, China should be expected to only build new military facilities when there are concrete non-traditional threats against the country's overseas interests – opportunities created by crises will be seized to continue the transformation of China's security posture from a regional to a global one.

ABOUT

China Trends seeks understanding of China from Chinese language sources. In an era where the international news cycle is often about China, having a reality check on Chinese expressions often provides for more in-depth analysis of the logic at work in policies, and needed information about policy debates where they exist. China Trends is a quarterly publication by Institut Montaigne's Asia program, with each issue focusing on a single theme.



CHINA'S STRING OF PORTS IN THE INDIAN OCEAN

Chittagong in Bangladesh, Gwadar in Pakistan, Hambantota in Sri Lanka, Kyaupkyu in Myanmar, Malacca in Malaysia, Mombasa in Kenya. The Indian Ocean region is a key recipient of China's investment in foreign commercial ports. Chinese scholars recognize the far-reaching strategic significance of these projects for the success of the maritime Silk Road. As of 2018, Chinese companies have participated in the construction and operation of a total of 42 ports in 34 countries under the Silk Road scheme, according to the Chinese Ministry of Transportation.¹ According to a 2017 study by Grisons Peak, Chinese firms announced around US\$20 billion-worth of investment in nine overseas ports between 2016 and 2017. Do China's leaders, however, have a strategic view on port construction in the Indian Ocean region? How does port investment relate to China's relations with India and the United States?

According to Sun Degang, Associate Research Fellow at the Shanghai Institute of International Studies, **China's port projects along the Indian Ocean will be a comprehensive test of China's economic capabilities, risk prevention and the ability to set the international agenda.**² The Chinese perspective on the Indian Ocean, according to Sun, is threefold: from the perspective of maritime security, the Indian Ocean is a fragile region; from the perspective of economic interests, the Indian Ocean is a key region; from a strategic perspective, the Indian Ocean enables China to implement the opening towards the West.

In his view, **Chinese enterprises have gained already sufficient port construction capacities and established a strong foothold in the Indian Ocean port system:** Chinese companies are increasingly accumulating experience operating Indian Ocean ports; not only shipping companies, since port investment in Gwadar or Colombo include the construction of

The Indian Ocean region is a key recipient of China's investment in foreign commercial ports.

free trade zones and industrial parks. The China Merchants Group is using Shenzhen's Shekou Industrial Zone (前海—中区—后城) as a template for such port development BRI locations, Sun Degang writes, linking the construction of basic

infrastructure to the development of modern trade hubs. Port City Colombo is such an example. While Gwadar is an example of greenfield investment, Chinese companies have also shares acquired in port operations. For example, COSCO Shipping Ports Abu Dhabi Company (a subsidiary of COSCO) entered into a concession agreement with Abu Dhabi Ports in 2016, to operate 90% of the second phase container terminal of Khalifa port. Thirdly, there is investment that comes with management rights, as is the case with the port of Hambantota, which is handled by CMG.

The challenge for China is to address the strong international concern caused by these activities in many countries, and especially in India. Sun Degang perceives India as a disruptive factor China must face. At the same time, China also faces varying degrees of interference created by the U.S. Sun Degang therefore foresees that **China will be increasingly competing to invest in and operate**



ANGELA STANZEL

Dr. Angela Stanzel is a Senior Policy Fellow in the Asia Program and the representative in Germany of Institut Montaigne. She is also the editor of the institute's quarterly publication, China Trends. Before joining Institut Montaigne, Stanzel worked as Senior Policy Fellow and editor of China Analysis in the Asia Program at the European Council on Foreign Relations. Prior to that, she worked for the Koerber Foundation (Berlin), GMF (Asia Program, Brussels), and for the German Embassy (cultural section, Beijing).

1. Ministry of Transport of the People's Republic of China, Press Conference, 26.7.2018, <http://www.mot.gov.cn/2018wangshangzhibo/2018seventh/index.html>.

2. Sun Degang, "The situation of China's participation in Indian Ocean port projects and risk analysis" (中国参与印度洋港口项目的形势与风险分析), Contemporary International Relations (现代国际关系 Xiandai Guojì Guanxi) Vol.7 2017.

port projects in the Indian Ocean region. This is indeed the case. Currently, Sri Lanka is about to sign an agreement with India and Japan to develop a deep-sea container terminal at the port of Colombo, next to a Chinese terminal.

The notion that the deepening U.S.-India relationship poses a major challenge to China's port construction plans in the Indian Ocean is strongly shared by other Chinese scholars. In their analysis, Xi Dugang and Han Zhijun, both at the Information Engineering University in Zhengzhou, Liu Jianzhong, at the Research Institute for Smart Cities at Zhengzhou University, and Zhou Qiao, scholar at a unit of the People's Liberation Army, highlight how U.S.-India-China strategic competition and cooperation and in particular the "Indo-Pacific Strategy" (印太战略) have increased geopolitical risk on the construction of the "Belt and Road Initiative" (BRI).³ The authors foresee that the U.S. and India will establish closer partnerships and strengthen military cooperation in order to curb China's influence.

Furthermore, the authors note, the U.S. and India will also compete with China in Pakistan, Myanmar, and Sri Lanka, three countries that are large recipients of BRI projects. These countries are regarded as geographical pivotal countries (地缘支点国家) to the BRI and are courted by the U.S., India and Japan to reject cooperation with China. The authors find that the change of attitude towards receiving Chinese port investment is therefore also an important geopolitical risk to the BRI. They conclude that China should invest more in the relationship with the BRI countries, in particular Pakistan and Sri Lanka, as these are strategic key countries for Chinese investment operations.

In addition, the authors believe that China should explore land entry points into the Indian Ocean. **The BRI offers an opportunity to build large-scale transportation and trading routes to enter the Indian Ocean via land.**

For instance, the China-Pakistan Economic Corridor from Xinjiang to Gwadar should be used to build a strategic channel of railways, highways and pipelines, bypassing the Straits of Malacca. Another route enters the Indian Ocean from Yunnan via Myanmar. At present, the China-Myanmar oil pipeline from Myanmar to Kunming has been opened, and there are further connectivity plans, such as the "Pan-Asia Railway (泛亚铁路)" from Myanmar to Singapore.

China's port projects along the Indian Ocean will be a comprehensive test of China's economic capabilities, risk prevention and the ability to set the international agenda

The authors also recommend that China should accelerate the construction of multi-level shipping supply bases along the Indian Ocean coast. They argue that shipping supply in the Indian Ocean is becoming an important issue for a shipping power such as China. Because China needs a peaceful environment to advance its commercial interests it is bound to increase its military activities overseas, for instance, to join peacekeeping missions or to combat piracy. In this context, **China is faced with the challenge to supply its military missions overseas via naval bases that should include, for instance, oil material supplies, personnel relocation ports, and locations with ship equipment repair capabilities.** In their view, it is not enough to rely solely on a Djibouti overseas security base. In addition to Djibouti, China should establish a comprehensive system of supply bases in the Indian Ocean. Potential ports in Pakistan, Sri Lanka and Kenya could be used as offshore supply bases.

At the same time Xi Dugang et al warn that China needs to avoid causing concern, as with the advancement of the BRI, China's influence in the Indian Ocean region is bound to increase. Therefore, China should actively participate

3. Xi Dugang, Liu Jianzhong, Zhou Qiao, Han Zhijun, "Geopolitical risks for the "One Belt One Road" construction in the Indian Ocean" ("一带一路" 建设在印度洋地区面临的地缘风险分析), World Regional Studies (世界地理研究 Shijie Dili Yanjiu), Vol. 27 No.6 Dec. 2018.

in existing cooperation and dialogue mechanisms in the Indian Ocean region while also strengthening cooperation with the U.S. and India, for instance, in the fields of counter-terrorism, anti-piracy, or disaster relief.

Sun Xianpu, Associate Research Fellow at the Institute of International Strategy at the Central Party School, draws another conclusion from the U.S.-India cooperation.⁴ While he finds that the maritime cooperation between India and the U.S. has developed since the Modi government took office, it is also faced with restraining factors. This offers room for China to develop its Indian Ocean policy. Sun Xianpu explains that even though New Delhi has reached a strategic agreement with the U.S. on maritime cooperation, it is possible to delay the progress of the cooperation between the two countries, which gives China abundant time to plan its own Indian Ocean policy. In response to the growing U.S.-India cooperation, China needs to accelerate its strategic deployment, Sun Xianpu recommends. This can be achieved in three ways: power competition, interest integration, and mechanism coordination. However, power competition is not in line with China's international strategy and does not match its own national strength. Therefore, according to Sun Xianpu, **China should focus on establishing influence in the Indian Ocean countries, for instance, by helping regional countries to develop macro-oriented growth.** No matter how much resistance competing countries—such as India and Japan—may exert, China should increase its efforts to develop economic and trade ties with the countries of the Indian Ocean.

4. Sun Xianpu, "The process and limits of India-U.S. maritime cooperation - And China's choices to frame an Indian Ocean Policy" (印美海洋合作的进程及限制性因素—兼论中国印度洋政策的路径选择), *South Asian Research Quarterly* (南亚研究季刊) Nanya Yanji Jikan No. 1 2018.

Sun Degang believes the trend of tightening U.S.-India relations indicates the necessity and urgency for China to further participate in port projects in the region. He argues that China should therefore improve its investment strategies and expand investment cooperation models. In addition, China should optimize its bilateral relations with countries that receive Chinese investment for port development, for instance, by improving policy communication, trade and investment facilitation.

All authors highlight another increasing risk to China's port development in the Indian Ocean: security. **They all note that China will face increasingly complex non-traditional security risks, such as piracy, terrorism and, in particular, the emergence of the Islamic State in the region.** Sun Degang, for instance, names Gwadar port in Pakistan's province Balochistan as a prime example of where Chinese investments and citizens are ever more vulnerable as they increasingly face terrorist attacks. Sun recommends that at the regional level, China should strengthen the creation of new regional mechanisms and its participation in some of the existing regional mechanisms, such as the Indian Ocean Rim Association (IORA), to enhance China's participation in the Indian Ocean's security governance. As a dialogue partner in the IORA, Sun believes, China can explore strengthening cooperation with the member countries. In addition, Sun suggests, China should strengthen cooperation with international organizations, such as the International Maritime Organization, and become an active voice on the non-traditional security governance in the Indian Ocean.

Sun Xianpu takes a similar approach, arguing that, in light of increasing security problems in the Indian Ocean region, China should promote the construction of security mechanisms. **Non-traditional security issues in the Indian Ocean region and the lack of effectiveness of regional governance mechanisms have become more prominent, providing a huge space for China to fill the void.** Sun too believes that China should participate in the security governance mechanism of the Indian Ocean region more proactively, represented by formats such as IORA or the Indian Ocean Naval Symposium. More concretely, China should try to shape with other large countries the basic framework of multilateral governance to tackle non-traditional security issues within these

formats. After the formation of a regional security governance structure, the Indian Ocean countries should be encouraged to actively participate in regional security governance. Later, according to the regional situation, new members will be recruited in stages.

These articles suggest that rather than a strategy, Chinese experts have a general idea of incremental engagement in Indian Ocean affairs, following the increase of China's economic and human presence along the maritime trade routes and around the stakes it owns in overseas ports. The focus of their attention is very much on the U.S.-India response that Chinese activities encounter and that partly constrain their expansion.



NAVAL BASES: FROM DJIBOUTI TO A GLOBAL NETWORK?

The Chinese discussion on overseas military bases has radically changed under Chinese President Xi Jinping, reflecting the policy change around the decision to build China's first overseas naval facility in Djibouti. The absence of bases has long been a marker of the PRC's strategic identity, differentiating the country's security posture from the United States and other military powers. This was the result of an anti-hegemony ideological posture, but also serious limitations to the People's Liberation Army's power projection capabilities. **But under Xi, the Chinese strategic community has turned its attention to the question of how to build an international network of overseas facilities that will best protect the country's "overseas interests" (海外利益).**

China's thinking on bases and their link to overseas interests is well captured by Xue Guifang and Zheng Hao, two academics from the Law Department of Shanghai Jiaotong University.⁵ In Libya in 2011, the rushed evacuation of 36000 Chinese nationals also resulted in major economic losses given that projects valued at 20 billion USD were abandoned. This is a lesson in geopolitical risk learned in Beijing, especially as by 2030, China could have 10 million PRC nationals overseas (from around 5.5 million today), and 1000 billion USD in investment abroad.

Today, specialized publications in China discuss the practicalities of running networks of overseas bases. Wang Tianze, Qi Wenzhe, and Hai Jun, all analysts at the Institute of Military Transportation of the People's Liberation Army (PLA) Ground Forces (陆军军事交通学院), argue that: "to protect our ever-growing overseas interests, we will progressively establish in Pakistan, United Arab Emirates, Sri Lanka, Myanmar, Singapore, Indonesia, Kenya and other countries a logistical network (后勤保障的网络体系) based on various means, buying, renting, cooperating, to construct our overseas bases or overseas protection hubs (海外保障支撑点)".⁶

In their view, military facilities overseas have five functions: war, diplomatic signal, political change, building relationships and providing facilities for training. China's facilities enable the conduct of several types of missions: logistical support for anti-piracy, peacekeeping troops deployment and humanitarian assistance/disaster relief (these are the three official missions of Djibouti); conducting military operations other than war (MOOTW) such as international cooperation, non-combatant evacuation operations and emergency rescue; guarantee the security of sea lanes of communication and the Chinese supply chain.

But running bases represents a logistical challenge. The PLA transportation specialists note that maintaining and running the basic infrastructure (piers, airstrips, warehouses, oil depots), the military equipment and the life of the personnel implies coordinating the work of multiple administrations in China - ministries of Foreign Affairs and of Transportation, Customs, authorities in charge of safety inspection, banks - with different entities of the PLA: units in charge of overseas operations, the Central Military Commission and its Logistics Support Department (后勤保障部) and Joint Staff Department (联合参谋部), the headquarters of the PLA Navy and the PLA Air Force. **The**



**MATHIEU
DUCHÂTEL**

Dr. Mathieu Duchâtel is Director of the Asia Program at Institut Montaigne since January 2019. Before joining the Institute he was Senior Policy Fellow and Deputy Director of the Asia and China Program at the European Council of Foreign Relations (2015-2018), Senior Researcher and the Representative in Beijing of the Stockholm International Peace Research Institute (2011-2015), Research Fellow with Asia Centre in Paris (2007-2011) and Associate Researcher based in Taipei with Asia Centre (2004-2007).

5. Xue Guifang, Zheng Hao, "Risk management and realistic needs for China's construction of overseas bases in the 21st Century" (中国21世纪海外基地建设的现实需求与风险应对), *Guoji Zhanwang*, no. 4, 2017, pp. 104-121.

6. Wang Tianze, Qi Wenzhe, Hai Jun, "An Exploration Into Logistical Support of Transportation and Projection for Military Bases Abroad" (海外军事基地运输投送保障探讨), *Guofang Jiaotong Gongcheng yu Jishu* (Defense Transportation Engineering and Techniques), no. 1, 2018, pp. 32-36.

international part of the logistical support implies managing customs, border controls and safety inspections in several jurisdictions.

In terms of military equipment, the logistical challenge is best addressed by a number of naval systems enabling long-range power projection: the large amphibious transport docks (the authors do not name the 25,000 tons displacement 071-class, with currently 7 in service in the PLA Navy and with an amphibious assault capacity); multi-purpose supply ships (多功能综合补给舰) and fast combat support ships (快速战斗支援舰), for which the newest generation in service is the 901-class; with a displacement of 45,000 tons, it is primarily designed to supply fuel, ammunition, dry goods and other supplies to future aircraft carrier formations but can play a logistical role in China's future network of overseas bases. What the PLAN misses yet is a dry cargo ship such as the 14 Lewis and Clark-class in service in the U.S. Navy, which can displace 41,000 tons.

China plans for more overseas bases, the country will not "walk the old road of Western great powers"

The Navy currently plays a key role but according to the authors, China needs to work simultaneously in three areas in particular. First, continue to rely on the Navy and emphasize multi-purpose supply ships, fast combat support ships, large oil replenishment ships and dual-use semi-submersible ships, which can carry over 100,000 tons of cargo. Second, rely on the PLA Air Force and in particular the Y-20 heavy transport aircraft, which has already entered service but has yet to reach mass-production stage. The authors recommend accelerating their rate of delivery to the PLAAF. Third, there needs to be an effort of a mutual process of harmonization of military and civilian norms and standards, so that civilian ships can contribute to the supply effort.

Liu Dalei, Hu Yongmin, and Zhang Hao, military analysts from the Beijing Military Equipment Academy (武装学院), address the question of bases under the larger analytical framework of overseas operations in the "context of the go global military strategy" (军事力量走出去的战略背景).⁷ **Bases are "designated protection places" (定点保障) that support overseas operations, and as such they have to "radiate" (辐射) over an area where military operations are conducted.** The key element from the perspective of overseas operations is the capability of the bases in terms of repair and maintenance so that they can fully play their support role. The political dimension – the relationship with the host country – is obviously essential according to the authors. This is a point also made by Xue Guifang and Zheng Hao, who argue that efforts are needed to "build an international environment that will accept China's construction of overseas bases" (营造接受中国建设海外基地的国际环境).

China has learned from history that the "insufficiency of military power projection capability" (军事投送能力不足) results in the incapacity to protect overseas citizens and interests.

To Li Qingsi and Chen Chunyu, international relations academics at China's Renmin University in Beijing, "building bases on the key maritime transport hubs has already become a strategic choice that increasingly requires urgent action" (日益迫切的战略选择).⁸ Their piece tries to contrast Chinese and U.S. approaches to military bases, starting from the judgment that U.S. bases "serve hegemonic policies", while China's bases need to be build to "develop

7. Liu Dalei, Hu Yongmin, Zhang Hao, "Equipment Support in Overseas Military Actions" (我军海外军事行动装备保障问题研究), Junshi Jiaotong Xueyuan Xuebao - Journal of Military Transportation Academy, vol. 19, no. 9, September 2017.

8. Li Qingsi, Chen Chunyu, "Analysis of Chinese Overseas Port String Bases Strategy" (试析中国的海外港链基地战略), Quyu yu Quanguo Fazhan - Regional and Global Development, no. 2, 2019, pp. 123-137.

trade and realize the goal of win-win mutual benefits" (发展贸易实现互利共赢目标). They add, "defense capacities are needed at overseas bases to prevent terrorist attacks." But as **China plans for more overseas bases, the country will not "walk the old road of Western great powers"** (西方大国的老路).

Currently, nine countries have overseas bases (by their number, the U.S., the UK, France, India, Italy, Russia, Germany and Japan). China has learned from history that the "insufficiency of military power projection capability" (军事投送能力不足) results in the incapacity to protect overseas citizens and interests. This explains in the view of the authors why military power is important to protect Chinese interests along the maritime trade routes to the Persian Gulf and the Gulf of Aden. Since the 2016 reform, the Central Military Commission has established an "office for overseas operations" (海外行动处) which provides guidance and coordination and plays an important role in the development of overseas bases.

The Chinese strategic community is already thinking in tactical terms with regard to the future bases to protect the country's overseas interests.

The authors argue that China's ports/bases strategy needs to progress on the basis of the "cultivation of the military by the civilian" (以民养军). **On a strategic level, China must never depart from the political priority attached to bases, which is not military domination but protection of trade interests.**

During the phase of expansion, **China needs to "reduce the sensitivity" (减少敏感度) of its actions, and "stop before going too far" (适可而止) to avoid the "tragedy of great powers" (大国悲剧).** In other words, the construction of bases needs to be linked to the exercise of international responsibilities. But beyond such operations, China has no choice since it faces international pressures constraining its rise, "bases are a necessity", and developing the capacity to exercise "sea control" (制海权) in the Western Pacific is essential to the growth of the country's interests.

In conclusion, it appears that the Chinese strategic community is already thinking in tactical terms with regard to the future bases to protect the country's overseas interests. **Djibouti provides a lesson: future bases will have to be justified in terms of the international responsibilities that they help China shoulder.** No author advocates building bases to compete with the United States militarily and one author even warns against the risk of overstretch. At the same time, strategic competition with the U.S. is the central element of China's military thinking. In sum, extra attention will be paid to avoid projecting the image of confrontation with the United States when making decisions on the location of China's future bases.



LARGE BUT NOT STRONG: THE CHALLENGES FOR CHINA'S DOMESTIC PORTS

In the past few decades, we have witnessed a very rapid rise of Chinese domestic ports. This is reflected in the number, size, and capacity of ports. However, the overall development of Chinese ports has focused on quantity rather than quality. Attempts to improve the competitiveness of them have never stopped but the expectations set by the local and national governments have not been met. Along with the issue of unfettered competition among local authorities that is classic in China, there are also issues with management. This leads some to suggest more regional coordination and specialization, and a separation between public port authorities and private management of the terminals.

The development of domestic ports has not only made possible the development of China's maritime economy, but also serves as a tool for China's goal to build a globally strong transportation network (交通强国). According to the World Shipping Council, among the top ten world container ports (ranked by the volume handled), seven are Chinese (Shanghai, Shenzhen, Ningbo-Zhoushan, Hong Kong, Guangzhou, Qingdao and Tianjin).⁹ Overall, from 1949 to 2018, cargo throughput of Chinese ports has increased by 1434 times.¹⁰ The port blooming phase started from 2001. Official documents¹¹ issued in 2001 and 2002 ended the involvement of the Ministry of Transport in port planning and decentralization of port approval and management power.¹² Since then, the provincial government and government departments where the ports are located have taken over the port development planning. The decentralization of planning power, as well as the consequences from China's WTO accession, have boosted port construction and upgrade in the new century. In 1996, the container throughput of the port of Shanghai was still under 2 million TEUs, but it reached 21.72 million TEUs in 2006, and then 42.01 million TEUs in 2018.¹³

Some problems from this large-scale port construction have gradually become apparent. Chinese ports face the issue of being, as Chinese media reported, "large but not strong" (大而不强).¹⁴

China's domestic port competition is, at the low-end, based on merciless resource competition to obtain cargo, supply, and distribution channels

so on.¹⁶ The concentration of similar ports in the same region reveals a poor allocation of public resources, and a gap in the development of modern port logistics and shipping services.

Due to the lack of coordination and shared-interests among different posts, Chinese ports were not given the opportunity to take advantage of their full



VIVIANA
ZHU

Viviana Zhu is the Policy Officer for Institut Maigne's Asia Program since January 2019. Before joining Institut Maigne, Ms. Zhu worked as Coordinator of the Asia Program of the European Council on Foreign Relations (ECFR). She was responsible for event coordination, reporting, and research support. She holds a Master's degree in International Politics and a Bachelor's degree in Politics and Economics from the School of Oriental and African Studies (SOAS), University of London, where her primary focus was China and international politics.

9. "Top 50 World Container Ports", World Shipping Council, <http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports>

10. "China Hits World's Port Industry (世界港口业迎来中国冲击波)" 经济参考报 (Economic Information Daily), 20 November 2019, http://www.xinhuanet.com/energy/2019-05/20/c_1124516718.htm

11. 2001年下发的《关于深化中央直属和双重领导港口管理体制改革的意见》和2002年下发的《关于贯彻实施港口管理体制深化改革工作意见和建设的函》

12. "The Ports Integration is Speeding Up, the Big Port Strategy is becoming evident (港口整合现燎原之势 "大港口" 战略浮现!)" Zhengquan Shibao (Securities Times), 19 June 2017, <http://stock.jrj.com.cn/hotstock/2017/06/19131922625979.shtml>

13. "Shanghai International Shipping Center Container Throughput Rank as the First for Seven Consecutive Years (上海国际航运中心集装箱吞吐量连续7年世界第一)", Guoji Haiyun, 01 July 2017, http://www.sofreight.com/news_16040.html
"Top 20 World Container Ports in 2018 (2018年全球前20大集装箱港口排名)", Guoji Haiyun, 11 March 2019, http://www.sofreight.com/news_32194.html

potential. **The opinions of a large number of Chinese experts converge on the need for integrated planning at the regional level seen as a way out from the issue of “large but not strong”.** According to the regional integration, a main port should be chosen and receive more financial and management support, to ensure the creation of a big and strong core port in each region. This integration is supposed to allow each port to “take advantage of each other’s strength” (优势互补) and to “harmoniously develop” (错位发展).¹⁷ Creation of a port chain with a better division of labor will allow the small and less advantaged ports to be included in the whole picture. This also means that some resources, which the stronger ports would have obtained through their advantageous means, will be diverted to the smaller ports. This creates discontent and obstructs the integration process.

The idea of integration is far from new. On 16th January 1996, Premier Minister Li Peng approved the establishment of a port administration committee in charge of integrating the ports of Shanghai, Zhejiang and Jiangsu. This officially marked the beginning of China’s port integration process. However, the best tool to achieve the goal is yet to be found. There are two major tools for achieving integration: market and state.¹⁸ The two function differently and serve different goals. State oversight involves a more complex process, requiring changes in administration, but it has a stronger impact on the regional economy promotion by serving the national strategy. The market is more flexible, as an investment guide that serves the interest of the enterprise. Mao Yanhua, a regional economy expert at the Guangzhou’s Sun Yat-sen University, remarked, **“Ports are national strategic resources, the development of each port must be in accordance with national interest”.**¹⁹ Hence, by no surprise, the Chinese case has predominantly used the state means to foster integration. However, state oversight is essential but not enough.

In the case of China, the government has played a significant role in fostering port integration, yet it is the market that brings in various interest groups.

On the administrative level, the management of ports has followed the principle of “one city, one port, one policy” (一城一港一政),²⁰ meaning that the local government in charge of port management has the liberty to follow its own bylaws and regulations.²¹ Each local authority freely makes its decision (各自为政) and uses the port to serve its own interests. Differences in management model, capacity, development level, as well as competition among local governments, have delayed integration and made regional planning hard to achieve. **The port reform has also separated government domain from enterprise management. In practice, this division remains unclear.** Port operation is often run by local state-owned enterprises and, therefore, under the influence of local government thereby serving the interest of the local government.²² Rare cases of successful integration, such as the case of Xiamen Container Ports Integration, have happened because the ports to be integrated are under the authority of the same local government, thus there was less conflict of interest.

According to Tang Qiangrong, Director of the Guangzhou Maritime Institute, integration must take into consideration the interest of all parties and seek a balance among them.²³ He adds that a hardline policy pushed by the government and forced acquisitions are not the ideal solution. **In the case of China, the government has played a significant role in fostering port integration, yet it is the market that brings in various interest groups.** A balance between the state and market is required.

Some initial benefits of integration can be seen. **There is a trend of moving away from fragmented competition (分散竞争), and increasing orderly**

14. Zhang Bin, “Introduction of Port Integration Timeline in Multiple Places, Further Acceleration of Regional Port Reorganisation and Integration” (多地出台港口整合时间表 区域港口重组整合再提速) Jingji Cankao (Economic Information Daily), 06 November 2017, http://dz.jjckb.cn/www/pages/webpage2009/html/2017-11/06/content_37659.htm

15. *ibid.*

16. “The Trend of Port Integration Moving Towards North, Liao Ning, Shan Dong and others speeding up the integration (港口整合大风向北吹, 辽宁、山东等地整合加速)”, DiYi Caijing (China Business Network), 02 November 2018 http://www.sohu.com/a/273053159_114986

17. “Avoiding Large but Not Strong, Acceleration of Ports Integration of Bay Area (避免大而不强 湾区港口竞争升温)” Nanfang Dushi Bao (Southern Metropolis Daily), 08 May 2019, http://epaper.oeeee.com/epaper/A/html/2019-05/08/content_15140.htm

18. Tong MengDa, “China’s Ports integration Shifts to Economic Integration(中国港口整合向以经济手段整合转变)”, China Ports, No. 1, 2019.

19. “Avoiding Large but Not Strong, Acceleration of Ports Integration of Bay Area (避免大而不强 湾区港口竞争升温)” Nanfang Dushi Bao (Southern Metropolis Daily), 08 May 2019, http://epaper.oeeee.com/epaper/A/html/2019-05/08/content_15140.htm

20. Outlined in “China’s Tenth Five Year Plan: Special Plans of Transportation Development (我国“十五”交通发展重点专项规划)”, 2001, <http://www.people.com.cn/GB/jinji/31/179/20010813/533874.html>

21. Ke Yongjun, Hao Yingjun, Cao Gengyong, “Measures and Analysis of the Deep Integration and Development of Ports in the Post Port Integration Era(后港口资源整合时代港口深度融合发展的对策与措施探析)”, China Water Transport, 15 December 2017 <http://www.cnki.com.cn/Article/CJFDTotal-ZSUX201712023.htm>

22. Understanding 30 Years of Chinese Port Development Through Container Transportation (从集装箱运输 看中国港口30年)”, Zhongguo Gangkou Jizhuangxiang (China Port Container), 18 November 2016, <http://www.portcontainer.cn/newsAction>

23. “Guangdong Speeds Up Port Integration, Aiming to Gather all Shipping Resources (广东港口整合提速 集聚航运资源是最终目标)”, 21st Century Business Herald, 15 August 2018, https://www.cnss.com.cn/html/2018/gngkxw_0815/315626_3.html

24. “Cross-Region Integration will increase, the three key trends of Port Resources Integration in 2018 (跨区域整合将增多 2018港口资源整合将有三大趋势)”, DiYi Caijing (China Business Network), 11 February 2018, <https://www.yicai.com/news/5399899.html>

cooperation (有序协同).²⁴ In recent years, the relationship between supply and demand has reached a more proportional level, and construction investment has experienced six consecutive years of negative growth.²⁵ To further improve the potential of port development, one possible solution suggested by Xu Jianhua, a professor, and Lu Mengzhou, a postgraduate student from Shanghai Maritime University, is to learn from the Landlord Port Model and form its own landlord port model with Chinese characteristics to draw a clear line between the government and enterprise functions.²⁶ This means that a local authority would authorize a public entity to plan, develop and build the port, and then the terminals to be leased to operators. This way, state influence would stay only at the planning level, while the market environment would lead the operation.

In addition to port competition and management issues, the relation between port and port city is also a question debated by Chinese experts. Port cities

enjoy a natural geographical advantage, and cooperation between the port and the port city is in the interest of both.

Port and port city should be developed simultaneously, with the ultimate goal to fuse the port and the port city (港

A port should foster production, production should enrich the city, hence both should prosper together

城融合). Shi Ting, Chief Engineer of Guangzhou Port Group, summarized the typical characteristic of successful international ports as following: A port should foster production, production should enrich the city, hence both should prosper together (以港促产、以产兴城、港以城兴、港城共荣).²⁷ That is not always the case in practice. Hebei province has been criticized to have failed to build cities and have social development hand in hand, leading to the problem of "Big Port and Small City" (港大城小), and in an extreme case, this is called "Big Port and No City" (港大无城).²⁸ The port of Tangshan in Hebei province is a good example. The third Chinese port in terms of cargo throughput in 2018, it connects to the sea a city that still lags behind in terms of economic development.

In conclusion, Chinese ports now need to move from large-scale development to high-quality development, and the key lies in integration. The main challenge is to effectively bind together different interests (利益捆绑). This applies to port authorities and companies, but also to port and port city. **Government incentives and involvement will not disappear completely, but at least a re-consideration of the level and method of involvement are required.** Successful integration is only the first stage of this process of "becoming stronger".

25. "Opportunities and Challenges of Coastal Port Development in 2019 (2019沿海港口发展机遇与挑战并存)", China Water Transport, 20 January 2019, <http://www.chinaports.com/portspnews/82bbb55-212d-4753-acce-d073614bb3c0>

26. Understanding 30 Years of Chinese Port Development Through Container Transportation (从集装箱运输 看中国港口30年)", Zhongguo Gangkou Jizhuangxiang (China Port Container), 18 November 2016, <http://www.portcontainer.cn/newsAction>.

27. "The Integration of the Bay Area and City, Sub-Forum Held on May 9th (湾区港口与城市的融合与发展分论坛5月9日举办)", China Daily, 10 May 2019, <http://gd.chinadaily.com.cn/a/201905/10/WS5cd4e914a310e7f8b157be0f.html>

28. Li Huixia, "Vigorously Develop Port Economy, Accelerate the Construction of Coastal Economic Belt" (大力发展港口经济 加快沿海经济带建设), Hebei Ribao, 20 June 2018, http://www.cssn.cn/jjx/gd/201806/t20180620_4372809.shtml

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MEMBERS

FRANÇOIS GODEMENT

Senior Advisor for Asia
fgodement@institutmontaigne.org

MATHIEU DUCHÂTEL

Director of the Asia Program
mduchatel@institutmontaigne.org

ANGELA STANZEL

Senior Policy Fellow
astanzel@institutmontaigne.org

VIVIANA ZHU

Policy Officer - Asia
vzhu@institutmontaigne.org

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