

MARITIME STRATEGIC EVALUATION FOR ISRAEL 2017/18

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China's Maritime Silk Road Initiative

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In 2013, the government of China announced an ambitious project called "One Belt One Road" (OBOR), whose name was changed in 2017 to the "Belt and Road Initiative" (BRI). The initiative includes a large number of massive infrastructure and transportation projects along two routes between Europe and China. The land route (One Road) traverses the countries of Central Asia and is based on the historic Silk Road which includes six logistic corridors. The maritime route (the maritime belt – the maritime Silk Road) runs through China, Southeast Asia, Indian Ocean ports, East Africa, the Red Sea and the Mediterranean. At this point, the BRI framework includes about 200 joint projects (along both the land route and the sea route) and the initiative is intended to include about 64 countries.

The roots of the initiative lie in the economic openness policy adopted by China in 1978. As part of this openness, the limitations on taking capital out of China were removed in 2003 and this marked the beginning of a huge wave of Chinese investment around the world (a wave that is targeted at diverse economic sectors and a large number of countries). As part of these investments, China is buying influence in seaports around the world¹ and particularly in the Indian Ocean region and the Mediterranean. This is achieved through direct investment (FDI) by Chinese government companies in seaports, through the leasing of foreign ports and by means of agreements between governments (G2G agreements) that give Chinese ships use of ports. This phenomenon already became the focus of attention among Western researchers and diplomats in 2005 and became known as the "String of Pearls", although this name never came into official use in China. It should be mentioned that about one-third of world trade passes through the regions of the Indian Ocean and the Mediterranean (and the Suez Canal that joins them) and almost one-half of the global trade in crude oil and therefore this phenomenon has significant economic and political implications.

The main maritime initiative is in the acquisition of influence by China in the chain of ports between China, Europe, the Middle East and Africa. China emphasizes in its official publications that this does not involve control or some new form of colonialism and that the goal of the initiative is to secure the route for China's maritime trade in both directions: imports of energy products and raw materials to China (primarily from the Persian Gulf

1 During the ten years from 2006 to 2016, the level of Chinese investment in other countries is estimated by the United Nations Conference on Trade and Development (UNCTAD, 2016) to be over half a trillion dollars (\$500 billion). It should be mentioned that even if the actual amount is somewhat smaller due to the roundabout route taken by investment by way of tax havens or double counting as a result of counting investment both from China and from Hong Kong, there is still a massive amount of investment coming out of China.

states and the northern and eastern coasts of Africa) and the export of Chinese goods to Europe (China's main export market).

In order to facilitate this initiative, China established the Asian Infrastructure Investment Bank (AIIB) in 2013, which lends to Asian countries for the construction of infrastructure projects. In addition, in 2014 China declared its intention of setting aside \$40 billion from the bank's money in order to create a fund for investment in projects and businesses. Called the "Silk Road Fund", it invests in businesses in exchange for assets (such as shares) in those businesses, which is in addition to the money lent by AIIB to the countries that are its members.² China has allocated an additional sum in the amount of \$1 billion to the China-ASEAN Investment Cooperation Fund to finance investment in joint projects.

When examining China's international activity in infrastructure, it is important to differentiate between investment and the implementation of projects. The latter is carried out by Chinese companies as subcontractors and is essentially the export of building services from China to the world; however, this export does not involve Chinese investment or the acquisition of economic influence over the activity of the project after it is completed. Investment in projects in which Chinese companies purchase an asset or a project abroad and manage it for an extended period constitutes foreign investment by China.

The regional business model for investment in sea ports

It is worth mentioning that most of the countries along the routes of the initiative are developing countries. A large proportion of those along the maritime Silk Road have a very low economic rating according to the indexes of international organizations, including many of the countries in East Africa or South Asia. The limited level of economic development (which is accompanied by inferior national infrastructures) alongside authoritarian political systems create a high level of business risk for foreign investors. These parameters have led to a situation in which investments from the developed countries (the West, Japan, Korea and others) have traditionally been small in scope.

On the other hand, it appears that the high economic risk in these countries has less of an influence on Chinese investment. In the academic literature and business research, three main explanations have been offered for the "attraction to risk" among Chinese government companies: (a) a different approach to economic risk; (b) very cheap cost of capital due to the flow of capital from the Chinese government banks, which results in the flow of investment funds even to projects that are considered marginal because of their implicit risk; and (c) Chinese political influence as well as cultural and historical elements

2 IDI. 2016. "Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond." Ashville: Inclusive Development International.

since in most cases the projects involve Asian countries that have a long history with China.

According to China's declarations and in view of the projects that have already been carried out as part of the initiative it can be assumed that this is primarily an economic endeavor (rather than philanthropic), with broad regional (Asian) and global political implications. The economic expansion and Chinese investments in the BRI countries are the result of investments directed according to economic factors related to the economy of the receiving country, such as productive capacity, the existence of natural resources and energy, etc. Part of the investments in sea ports through the BRI is related or connected to other Chinese investments and it can be said that the Chinese investment model emphasizes the creation of a high level of logistical and physical connectivity with other projects. This connectivity can be divided into two general types: connectivity between ports by means of logistic corridors and regional economic development.

Port connectivity

Simultaneous with the investment in sea ports, investments or construction projects are being carried out in parallel in the port cities, including railways, highways and oil and gas pipelines. These investments are carried out by other Chinese companies (not those which invested in the sea ports).

It is especially worth mentioning the Chinese-Pakistani logistic corridor known as C-PEC. This land-based logistic corridor ends at the port of Gwadar on the Pakistani coast, which is located on the northern coast of the Arabian Sea in the Indian Ocean. The combination of a sea port with a land-based logistic corridor creates a maritime exit point from the western half of China which is closer to the sea than the maritime exit points at the eastern China ports (see Map 1 below) and in addition creates an alternative for the transport of goods and energy (by means of an oil pipeline) to the crowded shipping lanes of the Strait of Malacca and the South China Sea, far from Indian-controlled waters. It should be mentioned that Pakistan is a traditional ally of China and there is tight military cooperation between them, including the sale of arms.

A similar detour around the Strait of Malacca is also made possible by the Bangladeshi logistic corridor and in the future also the Kra Canal.³

3 The planned Kra Canal will cut across the southeastern isthmus in central Thailand in the vicinity of Kra. The press is reporting that an agreement for the excavation of the canal and its financing by China has been signed by the governments of China and Thailand: China announces strategically important Kra Isthmus Canal In Thailand <https://chinadailymail.com/2015/05/17/china-announces-strategically-important-kra-isthmus-canal-in-thailand/>



Figure 1 – Import of crude oil to China from the Middle East by way of the Pakistani corridor (C-PEC) compared to import by ocean transport today. (source: The Nation)⁴

Outside of Asia, it is particularly worthwhile mentioning the construction of the railway in Kenya that connects the port of Mombasa with the capital of Nairobi and also the railway to the port city of Dar es Salaam in Tanzania (East Africa). This railway will be built in a western direction and will create a fast connection and convenient access to the sea to the countries of the "Greater Lakes Region" (Rwanda, Burundi and Uganda) which are landlocked.

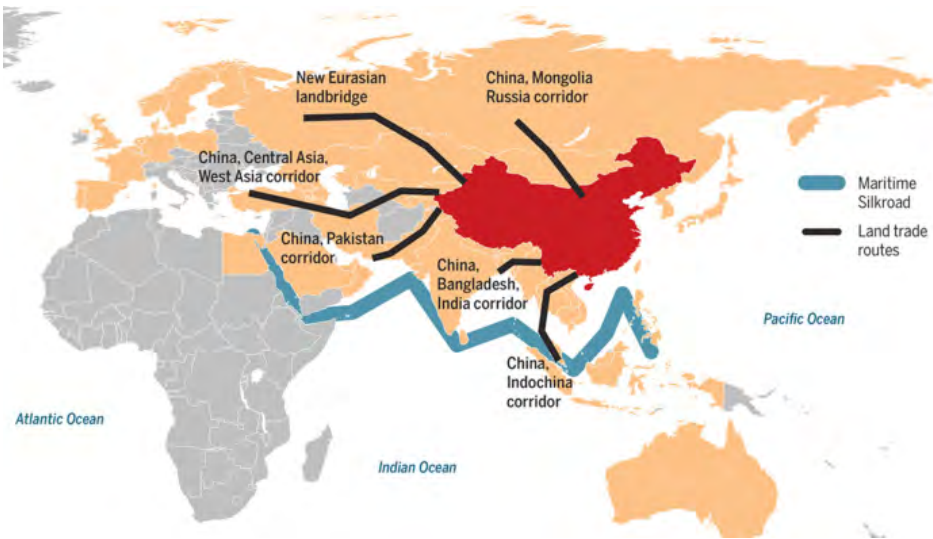


Figure 2 – The main rail lines in East Africa that connect the port of Mombasa in Kenya and the port of Dar es Salaam in Tanzania. Both the rail lines and the ports are being built by (and some of them will be operated by) Chinese companies. (source: BBC)

4 Indian media advises govt to join CPEC. <http://nation.com.pk/29-Dec-2016/indian-media-advises-govt-to-join-cpec>

Regional economic development

In many locations, the construction of a sea port is being combined with the creation of a nearby commercial or industrial park. It is particularly worth mentioning the Chinese industrial parks in the area of the Suez Canal in Egypt and also in Ethiopia, which have become global textile centers. These include the Mekelle Park which is being built by the Communication Construction Company (CCC) and the Kombolcha Park which is being built by the China Civil Engineering Construction Corporation (CCECC).



Map 3: BRI combines six land-based logistic corridors with a sea route for Chinese trade.

Political concerns regarding the Chinese takeover of strategic assets and Chinese "soft power"

In many places throughout the world, there is growing concern regarding the exploitation of Chinese control of strategic assets that has been acquired by means of economic investment, as a tool for applying political pressure. This is manifested in the authoritarian character of the Chinese government and the commonly held view that the economic changes in China are in general characterized by government control which regulates and directs economic activity. The fact that most of China's investment abroad is carried out by Chinese government companies reinforces these concerns. This has even led to the declaration by Jean-Claude Juncker, the President of the European Commission, that Europe should screen Chinese acquisitions in Europe.⁵

⁵ EU preparing to screen Chinese investments. <https://euobserver.com/economic/139015>

It appears that the government in Beijing is well aware of the hesitation of local communities to accept Chinese investments. This hesitation is characterized by several parameters, some of which are specific to the Chinese case while others are more general, such as the growing anti-globalization trend in recent years.

Whether in order to assuage those fears or out of deep-seated cultural norms that are based on China's history and its Confucian outlook, the Chinese government has declared a number of fundamental principles that will underlie the BRI and which must be present in each of its projects: consensus building (with partner countries), openness, inclusion, partnership and civilization.

According to China's official line, the BRI fills needs over the length of the maritime route and according to the Chinese government all of the projects will fulfill the following three criteria:

- Planning and consultation with the receiving countries and communities.
- Joint implementation with the receiving country.
- Sharing of benefit between China and the receiving country.

As part of what appears to be a broader Chinese strategy which includes reliance on international norms and institutions, such as cooperation with the World Bank within the framework of the Silk Road Fund, the economic principles of BRI rest on a foundation that enjoys a wide international consensus. Official Chinese publications rest on ideas no less lofty than the UN Charter:

The Belt and Road Initiative is in line with the purposes and principles of the UN Charter. It upholds the Five Principles of Peaceful Coexistence: mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence. (NDRC March 2015)

The international forum of BRI countries, which met in May 2017 in Beijing and was headed by Chinese President Xi Jinping, was attended by 1500 participants from 160 countries, including 29 heads of state and heads of international organizations, in a show of what appears to be significant international support for the BRI. This support is explained by a number of factors and is characterized by varying levels of agreement – from the "cautious agreement" of the US and India, to partial agreement among the European countries and finally to full agreement and cooperation in largescale projects such in the case of Pakistan.

On the one hand, the Chinese are emphasizing that the BRI is economically consensual – it is a business venture to develop the country and not a hostile takeover. On the other hand and as mentioned above, the countries that are part of the BRI are in general developing countries whose options for economic development and attracting foreign investment are limited. This is combined with corruption and decision-making processes

that are not transparent to the public (both from the Chinese side and from the side of the investment recipient) which increases the concern that some of the cases are in fact takeovers of strategic national assets by the Chinese, except that in the globalization game economic forces and regional banks for infrastructure development have replaced armies.

In addition to the above principles of operation in the building of port, transportation and energy infrastructure that is part of the BRI, China has adopted a strategy of "soft power"⁶ in the Indian Ocean region that involves a massive amount of resources.

Starting in 2008, China has been independently participating in the international task force in the Indian Ocean, which also includes a designated force to fight piracy (Combined Maritime Forces – CMF). In this effort, it has demonstrated the ability to project power thousands of miles from Chinese ports, including refueling, supplies and switching crews at sea. The Chinese activity against pirates in the Gulf of Aden is part of its demonstration of Chinese soft power and an opportunity to test the reaction of other countries to Chinese presence in the region.

China is one of the only countries in the world with a fully operating hospital ship called the "Peach Ark" whose first tour in 2010 in the region of the Gulf of Aden and the West African coast was named "Harmonious Mission 2010". The ship treated patients in Tanzania, Djibouti, Kenya, the Seychelles Islands and Bangladesh. In 2011, the ship made a similar tour in the Caribbean and in 2013 assisted victims of the Haiyan typhoon that struck the Philippines. The hospital ship did another tour during 2017 in the Indian Ocean, the Mediterranean and West Africa during which it offered free medical treatment in the ports that it visited. As part of its tour last year, called "Harmonious Mission 2017", the ship visited a Chinese base in Djibouti, crossed the Suez Canal on its way to Spain and continued on to the countries of West Africa.

Both the activities of the hospital ship and the military force sent to fight piracy are a military reaction to a threat that is not primarily military and which belongs to the category of non-military threats that includes terror, piracy, natural disasters, smuggling of various types (weapons, people and drugs), financial crimes, etc. In this way, China is positioning itself in support of the freedom of passage in international shipping routes, one of the cornerstones of global trade and globalization, and as a supplier of public goods (defense).

Another example of equilibrium between the (hard) military nature of the Chinese military presence and its soft characteristics is the establishment of logistic bases in Djibouti. An

6 Soft power: A situation in which a country influences another without the use of force and in this way achieves various foreign policy objectives. Soft power is based primarily on the "attractiveness" of the country, or in other words its ability to project attractiveness that can be the result of legitimacy (in the eyes of others), culture, morality, values, ethics, etc.

agreement to operate a military support base in the port of Djibouti was signed between China and the local government in 2015 for a period of 10 years. It appears that this is primarily a military base, but the marketing positioning of the port as a civilian logistic base is a soft façade for the hard military presence in the port.

Researchers point to the fact that in the region of the Indian Ocean China is trying to renew the romantic narrative of Zheng He's maritime voyages. Zheng He was a Chinese admiral who made 7 voyages during the 15th century, from China westward to southeast Asia and toward the Indian Ocean and finally reaching the coast of East Africa. He was accompanied by about 250 ships and about 17,000 sailors, soldiers and merchants. It is worth mentioning that China's National Maritime Day, which was first celebrated in 2005, takes place on July 11th, the day that Zheng set forth on his first voyage.

Zheng He's voyage was primarily commercial and diplomatic in character. He traded goods and presents with countries and communities along the route of his voyage and made sure to present himself as a trader rather than a conqueror. Nonetheless, it is reasonable to assume that those kingdoms and communities along the coasts of the Indian Ocean were highly impressed by the size of Zheng's military force, which he made use in defeating a fleet of pirates in the Strait of Malacca and in a show of military force in the area of the Arabian Peninsula (near what is today Yemen).

The revival of the narrative of Zheng's voyages, according to which he led an armada of "treasure ships" rather than warships—which in a certain way parallels the Chinese commercial fleet of today—is another Chinese attempt to brand the Chinese presence in the Indian Ocean as an economic force (trade) rather than an occupying force.

The implications for Israel in the maritime domain of increasing Chinese involvement in maritime infrastructure

Israel's dependence on international sea trade means that Israel's main ports (Haifa and Ashdod) are undoubtedly national strategic infrastructures. The fact that the port in Haifa Bay will be operated by a Chinese company (SIPG) for 25 years starting in 2021 has major importance for decision makers in Israel, in terms of both foreign policy and maritime transportation and shipping, with respect to understanding China's policy and considerations and those of Chinese companies involved in port operation and construction.

The rivalry between China and the US, which is Israel's closest ally, is significant in this context. It will be problematic for the port of Haifa to serve as the home port of the US Sixth Fleet if part of it is operated by a Chinese company.⁷

⁷ The US Sixth Fleet is stationed in Europe and the Mediterranean Sea.

As mentioned, a differentiation should be made between the implementation of a project by a Chinese company and Chinese investment in a national infrastructure. To illustrate, the Southern Port (in Ashdod) was built by PMEC, a Chinese company in the China Harbor group, but will be operated by the TIL company for the MSC group. This case does not involve Chinese investment in Israel but rather the implementation of a project. The Chinese company does not acquire any influence or an asset in the new port and it will not have a presence once the construction work is completed.⁸

In contrast, on the completion of construction of the port in Haifa Bay which is being carried out by a joint venture of the Ashtrom and Shafir Engineering companies, the port will be operated by SIPG. It will invest significant amounts in the port's various systems (cranes, communication systems, etc.) and will operate the port for 25 years. This activity is a Chinese investment in an Israeli port and reflects the acquisition of an asset and of long-term influence over this national infrastructure.

Nonetheless, it is worth mentioning that the Haifa Bay port, which will be operated by SIPG, will be one of four container terminals in Israel: the Haifa port which is currently operated by the Haifa Port company is owned by the government of Israel; the Haifa Bay Port which will be operated by SIPG; the port of Ashdod which is operated by the Ashdod Port company and is owned by the government of Israel; and the Southern Port which will be operated by TIL, a Swiss company. There is also the Kishon terminals, the Israel Shipyards Port (a private port owned by an Israeli company) and the port of Eilat, all of which are active ports in Israel. Thus, there is a certain degree of diversification of the operating, economic and political risk in the future operation of Israel's ports.

At this point, it is worth mentioning the theory that the Chinese preference for investment in the port of Haifa (rather than Ashdod which is closer to Tel Aviv, the business center of Israel) is intended to create a future land-based corridor between the Persian Gulf countries and the countries of the Eastern Mediterranean, which will be based on a rail line between Haifa and Beit Shean.⁹ Already today there are hundreds of containers conveyed by the Israeli railway to trucks on the Jordanian side and from there to northern Jordan and western Iraq. Jordan's only access to the Sea is the Port of Aqaba on the Red Sea and therefore the port of Haifa is used by Jordan as the port of exit to the Mediterranean for trade with Europe (primarily trade that is not containerized, such as agricultural produce). Future regional policy may connect the rail line to Haifa with other regional rail lines and thus create a new land-based corridor between the Gulf countries and the Mediterranean (known as MEGIC: Mediterranean-Gulf International Corridor).

8 Further details about the construction and management of the new terminals in Israel can be found on the website of the Israel Ports company. <http://www.israports.org.il/he/PortsDevelop/Pages/default.aspx>

9 Yigal Maor, the Director of the Shipping and Ports Authority in Israel.

It is worth mentioning that the names of various Chinese companies are also mentioned as possible candidates for the construction of a rail line to Eilat. This is a "classic" project for BRI involving connectivity with the port of Haifa, which as mentioned will be operated by SIPG, a Chinese company, as well as a possible increase in the diversification and volume of trade flow through what is currently the bottleneck of the Suez Canal.

Chinese foreign policy is in general characterized by a combination of different interests, such as trade, energy, logistics, military and others, into a single policy tapestry. In addition, Chinese policy is characterized by a mixture of civilian and military domains, which implies that in the maritime domain the distinction between the commercial fleet and the military fleet is not unambiguous, as it is in the West. Thus, Chinese military doctrine relates explicitly to the use of civilian resources for military purposes. It appears that Chinese policy towards Israel is no different.

Traditionally, the Chinese position toward the Middle East conflict can be classified as pro-Arab. The policy is based on defense and energy considerations (China imports huge amounts of crude oil from the Middle East), as well as its traditional, fixed and almost built-in anti-American position. Nonetheless, China is interested in Israeli technology and Chinese companies have been among leading investors in Israeli technology in recent years.

The gradual increase in Chinese presence in proximity to Israel has occurred on all levels. Its economic presence is growing as a result of the increasing Chinese investment in strategic infrastructures, such as sea ports, industrial parks and railways in African countries and other countries in the Eastern Mediterranean, as well as direct investment in Israel (such as the acquisition of Tenuva by the Bright Food company and an attempt to acquire Israel's largest insurance company and perhaps the future construction of a rail line to Eilat). At the same time, the presence of the Chinese navy in the Red Sea, in the form of the task force against piracy and the leasing of the Chinese logistics base in Djibouti.

It can be assumed that the trend of growing Chinese investment in infrastructure in the region—long-term investments in strategic sectors—will continue, along with the growing presence of the Chinese navy. Furthermore, it is reasonable to assume that growing Chinese diplomatic involvement will be felt in some of the regional issues that affect Chinese investments in the region.

In June 2017, China published the principles for peace in the Middle East between Israel and the Palestinians. It should be mentioned that every few years China publishes a peace initiative or a diplomatic compromise initiative for the Middle East. This was the case in the Chinese initiative in 2014 to end the fighting in Gaza and in 2012 to end the war in Syria. These are usually general initiatives that do not fulfill any major role in regional negotiations and are apparently meant to keep China "in the picture" and to

signal other players that China is an international diplomatic force. Nonetheless, in the most recent declaration in 2017, China mentioned the BRI as a way of achieving peace.¹⁰

Last June, the Chinese and Iranian navies carried out a joint naval exercise in the Persian Gulf,¹¹ and in recent months there have been additional declarations by the Chinese foreign ministry. Thus, on November 30th 2017, it announced increased Chinese efforts to achieve peace in the Middle East¹² and the Chinese president announced on December 1st 2017 that China will increase its involvement in solving global problems.¹³

The Chinese line has a long history of pragmatism and signals of "economic peace" which China is promoting by means of BRI all over Asia.

Considering the huge amount being invested by China in BRI, some of it in the Middle East, it is possible that the recent declaration constitutes the signaling of a future increase in Chinese involvement in future negotiations to achieve Middle East political agreements, which will secure the huge Chinese investments in our region.

Policy makers in Israel need to take into account Chinese interests in the region as part of the BRI, also in the case of local Israeli projects (such as the Eilat rail line) and also should adopt a policy toward China that balances among the array of economic and security interests, in view of the rivalry between China and the US, Israel's most important ally.

10 China Has a New Middle East Peace Plan; Yoram Evron <https://thediomat.com/2017/08/china-has-a-new-middle-east-peace-plan>

11 Iran and China conduct naval drill in Gulf <https://www.reuters.com/article/us-iran-china-military-drill/iran-and-china-conduct-naval-drill-in-gulf-idUSKBN1990EF>

12 China to help restore peace in the Middle East. <http://en.people.cn/n3/2017/1130/c90000-9298663.html>

13 China will take a more active role in world problems, Xi Jinping says <http://www.scmp.com/news/china/policies-politics/article/2122536/china-will-take-more-active-role-world-problems>

The city of Guangzhou in southeastern China and the complex of sea ports in the area, the ports in the Pearl River delta and even the Hong Kong ports are considered to be the beginning of the "Maritime Silk Road" and that is why the city was chosen to take the lead in academic research to be carried out by an international consortium of academic research institutes, which is part of the government of China's Belt and Road Initiative. This initiative includes hundreds of massive projects in transportation (ports, railways and roads) and is meant to connect China to Europe by a land route (the land-based Silk Road of Central Asia) and also by a sea route (the series of ports from China to Europe known as the Maritime Silk Road).

In September 2017, the second conference of the consortium of academic institutes was held in the city of Guangzhou and the Haifa Research Center for Maritime Policy & Strategy was proud to participate together with about 150 researchers from 21 countries along the maritime Silk Road. The writer of these lines represented Haifa University and the Haifa Research Center for Maritime Strategy and presented the role of the sea in the economic and geopolitical strength of Israel.

The conference was organized by the Guangdong Institute for International Strategies (GIIS) which is part of the Guangdong University of Foreign Studies (GDUFS).

In the photo are the conference participants from 21 countries on the coasts of the Indian Ocean and the Mediterranean.

