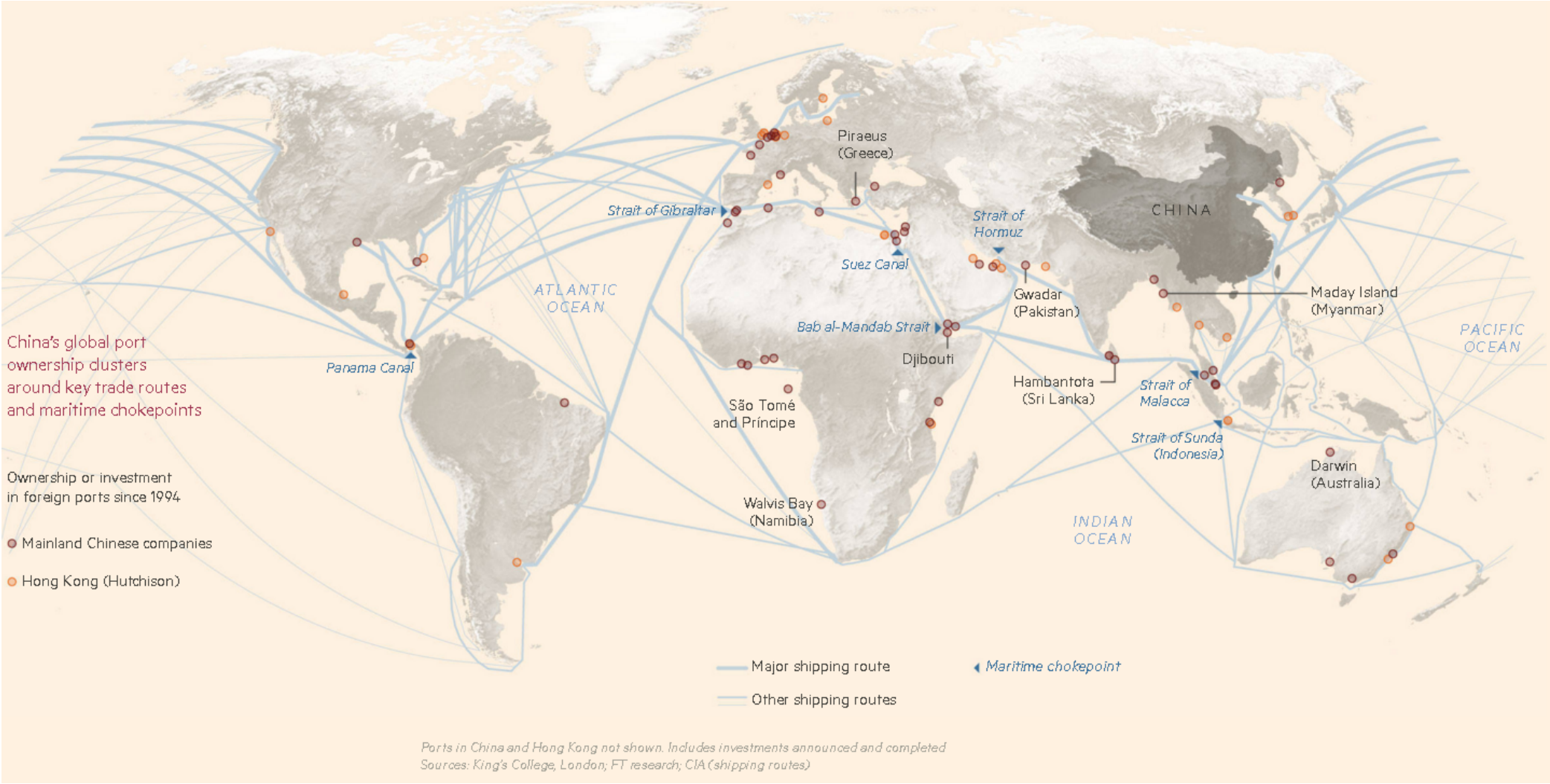


Beijing's global power play

# How China rules the waves

FT investigation: Beijing has spent billions expanding its ports network to secure sea lanes and establish itself as a maritime power



Pakistan’s Arabian Sea port of Gwadar is perched on the world’s energy jugular. Sea lanes nearby carry most of China’s oil imports; any disruption could choke the world’s second-largest economy.

Owned, financed and built by China, Gwadar occupies a strategic location. Yet Islamabad and Beijing for years denied any military plans for the harbour, insisting it was a purely commercial project to boost trade. Now the mask is slipping.

“As Gwadar becomes more active as a port, Chinese traffic both commercial and naval will grow to this region,” says a senior foreign ministry official in Islamabad. “There are no plans for a permanent Chinese naval base. But the relationship is stretching out to the sea.”

Gwadar is part of a much bigger ambition, driven by [President Xi Jinping](#), for China to become a maritime superpower. An FT investigation reveals how far Beijing has already come in achieving that objective over the past six years.



A Pakistani naval guard at Gwadar port which was financed, built and is now owned by China © Aamir Qureshi/AFP/Getty Images

Investments into a vast network of harbours across the globe have made Chinese port operators the world leaders. Its shipping companies carry more cargo than those of any other nation — five of the top 10 container ports in the world are in mainland China with another in Hong Kong. Its coastguard has the globe’s largest maritime law enforcement fleet, its navy is the world’s fastest growing among major powers and its fishing armada numbers some 200,000 seagoing vessels.

The emergence of China as a maritime superpower is set to challenge a US command of the seas that has underwritten a crucial element of [Pax Americana](#), the relative period of peace enjoyed in the west since the second world war. As US President-elect Donald Trump prepares to take power, strategic tensions between China and the US are already evident in the [South China Sea](#), where Beijing has pledged to enforce its claim to disputed islands and atolls. Rex Tillerson, the Trump nominee for US secretary of state, said on Wednesday that Washington should block Beijing’s access to the islands. Relations were also dented over Mr Trump’s warm overtures toward [Taiwan](#), which China regards as a breakaway province.

China understands maritime influence in the same way as Alfred Thayer Mahan, the 19th century American strategist. “Control of the sea,” Mr Mahan wrote, “by maritime commerce and naval supremacy, means predominant influence in the world; because, however great the wealth of the land, nothing facilitates the necessary exchanges as does the sea.”

## Drummed into military service

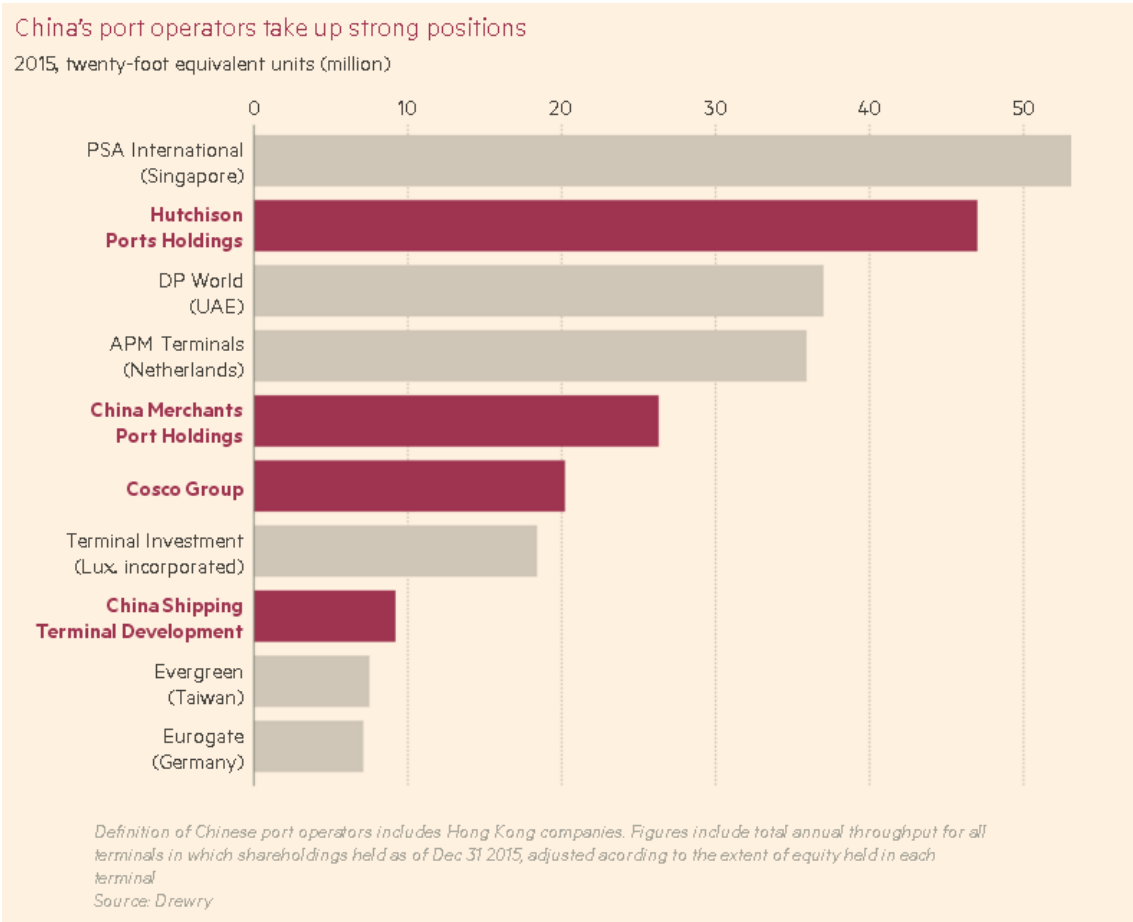
The Gwadar template, where Beijing used its commercial know-how and financial muscle to secure ownership over a strategic trading base, only to enlist it later into military service, has been replicated in other key locations.

In Sri Lanka, Greece and [Djibouti](#) in the Horn of Africa, Chinese investment in civilian ports has been followed by deployments or visits of People’s Liberation Army Navy vessels and in some cases announcements of longer term [military contingencies](#).



“There is an inherent duality in the facilities that China is establishing in foreign ports, which are ostensibly commercial but quickly upgradeable to carry out essential military missions,” says Abhijit Singh, senior fellow at the Observer Research Foundation in New Delhi. “They are great for the soft projection of hard power.”

Data compiled or commissioned by the Financial Times from third-party sources show the extent of China’s dominance in most maritime domains.

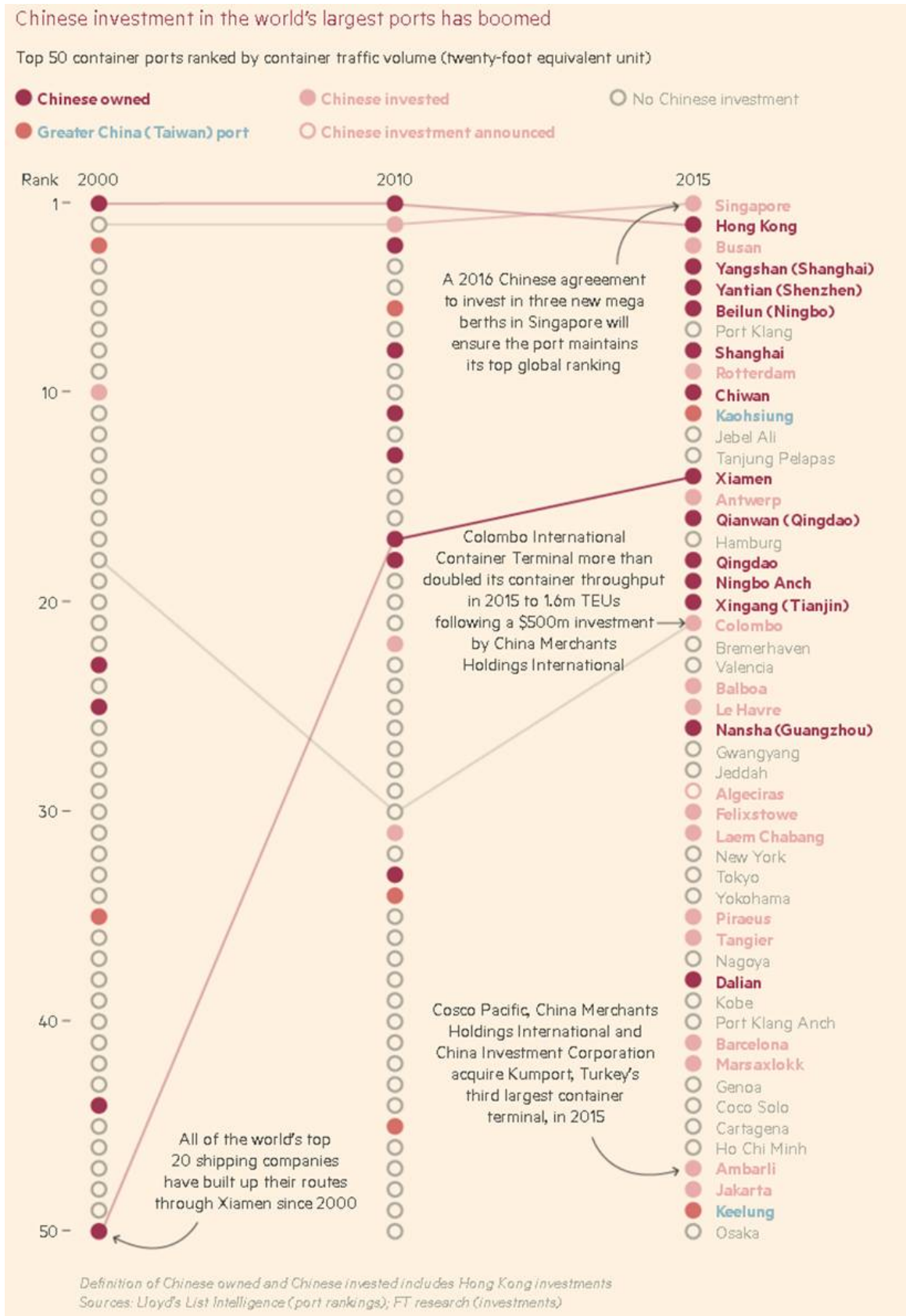


Beijing’s shipping lines deliver more containers than those from any other country, according to data from Drewry, the shipping consultancy. The five big Chinese carriers together controlled 18 per cent of all container shipping handled by the world’s top 20 companies in 2015, higher than the next country, Denmark, the home nation of Maersk Line, the world’s biggest container shipping group.





In terms of container ports, China already rules the waves. Nearly two-thirds of the world's top 50 had some degree of Chinese investment by 2015, up from about one-fifth in 2010, according to FT research.

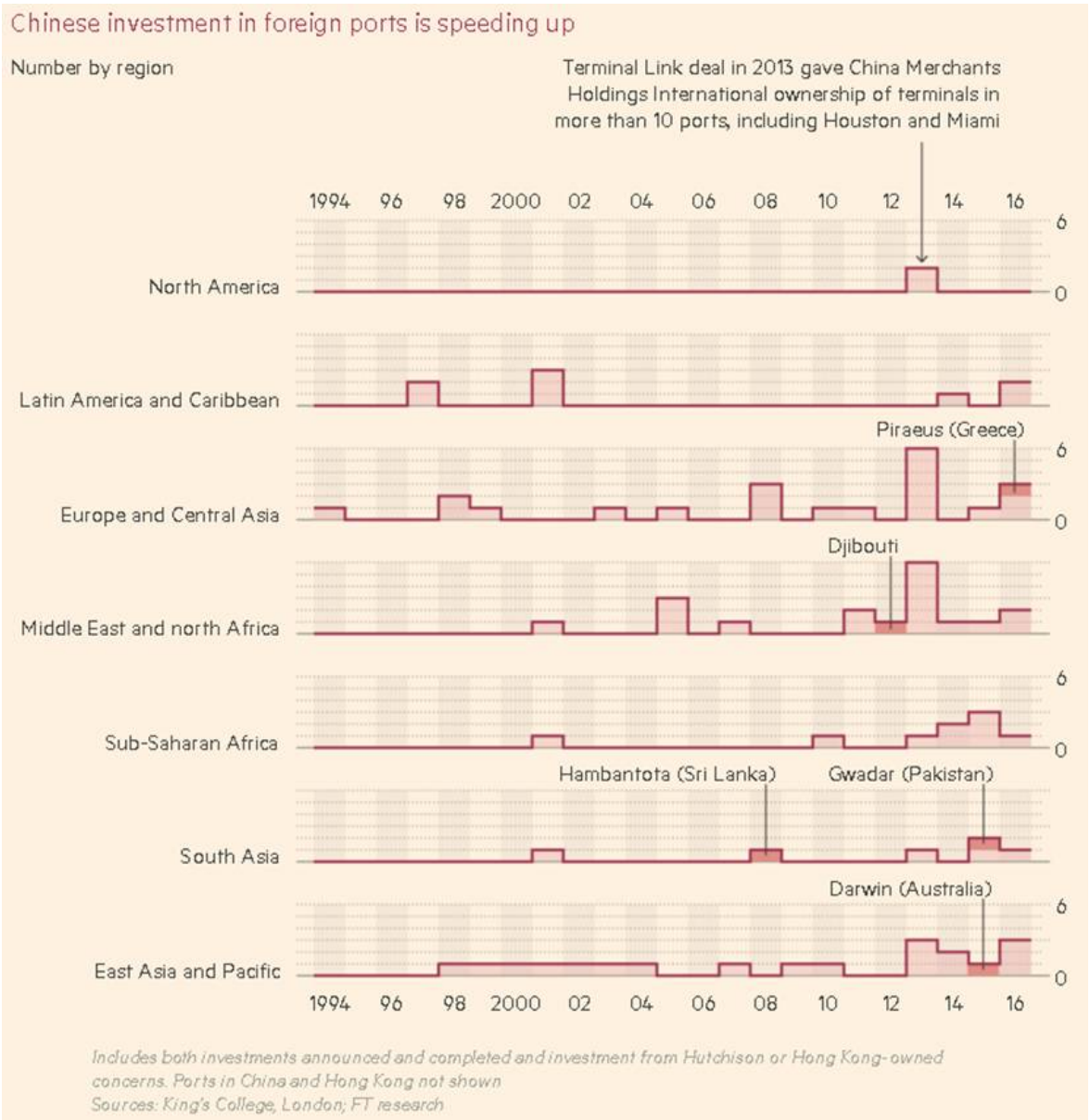


And those ports handled 67 per cent of global container volumes, up from 42 per cent in 2010, according to Lloyd's List Intelligence, the maritime and trade data specialists. If only containers directly handled by Chinese port operators are measured, the level of dominance is reduced but still emphatic. Of the top 10 port operators worldwide, Chinese companies handled 39 per cent of all volumes, almost double the second largest nation group, according to data from Drewry.



It is not only the world’s biggest ports that have attracted Chinese investments. Dozens of smaller harbours — including some in key strategic locations such as Djibouti, Hambantota in Sri Lanka, Darwin in Australia, Maday Island in Myanmar and proposed ports on the Atlantic Ocean islands of São Tomé and Príncipe and in Walvis Bay in Namibia — have also drawn investments or promises of Chinese port construction.

The total size of these investments is difficult to calculate because of sketchy disclosure. But since 2010, Chinese and Hong Kong companies have completed or announced deals involving at least 40 port projects worth a total of about \$45.6bn, according to a study by Sam Beatson and Jim Coke at the Lau China Institute, King’s College London, in co-operation with the Financial Times. A dozen other deals — from Carey Island, Malaysia, to Chongjin in North Korea — have been reported without any financial details.



Rounding out a picture of China’s merchant fleet dominance is the country’s fishing fleet, which is by far the largest in the world, according to a recent paper by Michael McDevitt, a former rear admiral in the US navy and now a senior fellow at CNA Strategic Studies, a US think-tank.

“In the Chinese context, maritime power encompasses more than naval power,” wrote Mr McDevitt. “The maritime power equation includes a large and effective coastguard, a world-class merchant marine and fishing fleet, a globally recognised shipbuilding capacity and an ability to harvest or extract economically important maritime resources, especially fish.”

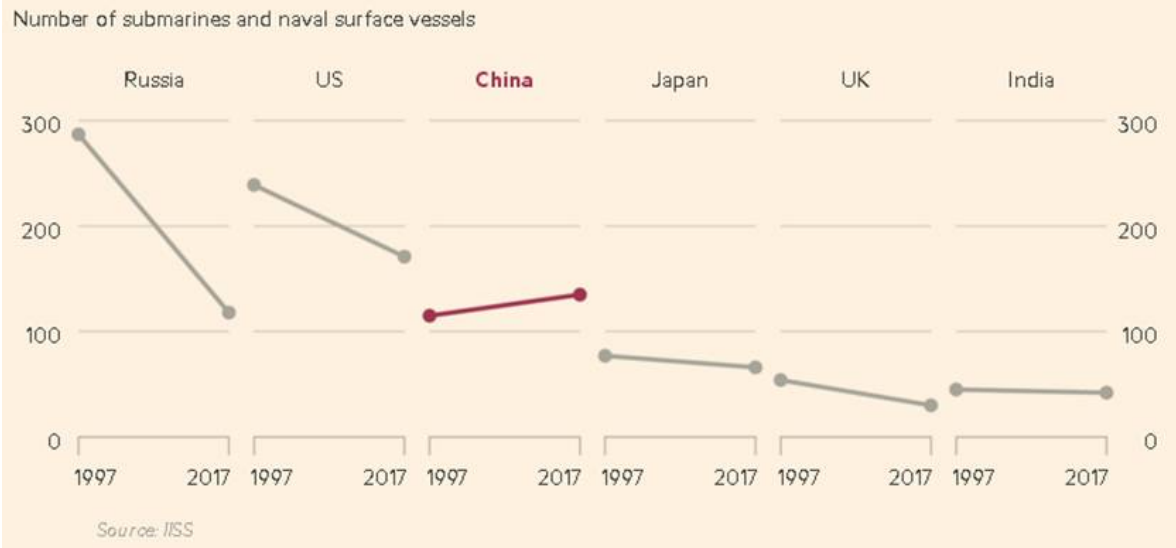
## Journey from land to sea

For thousands of years, Chinese emperors focused on defending the middle kingdom against land-based invasions, usually from the north and west. But in 2015 an official white paper on military strategy decreed a big shift that offers a glimpse of the country’s changing maritime objectives.

“The traditional mentality that land outweighs sea must be abandoned, and great importance has to be attached to managing the seas and oceans and protecting maritime rights and interests,” the document said. It added that the Chinese navy should protect “the security of sea lanes of communication and overseas interests”.



China has the world's fastest-growing navy among major powers



Analysts say that China’s naval strategy is aimed primarily at denying US aircraft carrier battle groups access to a string of archipelagos from Russia’s peninsula of Kamchatka to the Malay Peninsula in the south, a natural maritime barrier called the “first island chain” within which China identifies its strategic sphere of influence.

Another focus is the string of artificial islands that Beijing has dredged out of coral reefs and rocks to help reinforce China’s claim to most of the South China Sea, putting it on a collision course with neighbours from Vietnam to the Philippines, as well as the US. The artificial islands have been equipped with landing strips and a [US think-tank recently said](#), after analysis of satellite images, that Beijing appeared to have installed anti-aircraft guns, anti-missile systems and radar facilities on them.



Although Beijing plays down such sweeping strategic objectives, the imperative to step up naval security is regularly emphasised in Chinese circles. A 2015 paper in a semi-official journal under the powerful Chinese Academy of Sciences went one step further, calling for China to “make full use of diplomatic and economic methods to establish at strategic maritime locations points for resupply and military bases so as to protect strategic maritime passages”.



Chinese navy submarine off Qingdao in Shandong Province © Guang Niu/AFP/Getty Images

Reality is unfolding in line with the academics’ recommendations. The political justification often used for port investments is “[One Belt One Road](#)”, a grand design advocated by Mr Xi to revive the ancient Silk Road trading routes and boost investment and commerce in more than 60 countries in Asia, the Middle East, Africa and Europe.

Gwadar port, for example, is described as the core element in a \$54bn China-Pakistan Economic Corridor. At its inception, Chinese involvement in the port was limited to financing and construction, but in 2015 Islamabad handed over ownership to the state-owned China Overseas Port Holding Company on a lease until 2059.

At the time, China claimed the project was purely commercial. Hong Lei, a spokesman for Beijing’s foreign ministry, described the transfer as a “business practice” aimed at boosting “friendly co-operation between the two countries”. The Pakistan side reinforced this line, with Ahsan Iqbal, Pakistan’s minister for planning, development and reform, telling the Financial Times in November last year that there would be “no Chinese military presence” at the port.

Beijing calls in a debt

To the west of Gwadar at Djibouti — on the Horn of Africa’s maritime chokepoint — a similar story has unfolded. China’s initial embrace seemed purely commercial, with the state-owned China Merchants Group taking a stake in the Port of Djibouti’s container terminal in 2012 and paving the way for a \$9bn investment including the construction of a liquefied natural gas terminal, a wharf for livestock and a trade logistics park.

But in 2016, Beijing acknowledged that its plans for Djibouti had an additional dimension — the construction of the [country’s first overseas naval base](#), ensuring that China’s military will remain in the region until at least 2026 with a contingent of up to 10,000 personnel. Even now, though, Beijing’s official media calls the base a “logistics centre”.

The financial firepower at China’s disposal can make its entreaties irresistible. In Sri Lanka, President Maithripala Sirisena suspended a \$1.4bn “port city” project being built by Chinese

companies at Colombo shortly after he took power in 2015. Mr Sirisena was wary over China's growing influence, as dramatised by two unannounced visits from a PLAN submarine and warship to a Colombo container terminal owned by a Chinese state company in late 2014.



Xi Jinping, China's president, and former Sri Lankan leader Mahinda Rajapaksa at the Chinese-funded Colombo "port city" project in 2014 © Lakruwan Wanniarachchi/AFP/Getty Images

"That was clear testimony as to how an economic project acquires a military dimension for China," says Brahma Chellaney, professor of Strategic Studies at New Delhi's Centre for Policy Research. "The progression is quite rapid."

Following Mr Sirisena's intervention, Beijing piled diplomatic pressure on Sri Lanka, using as leverage the huge debts that Colombo had built up with Chinese state banks. Last July, China's foreign minister, Wang Yi, arrived with an uncompromising message, according to a Sri Lankan government official who declined to be identified.

"He was reading the riot act," says the Sri Lankan official. "Unless the government pulled all their fingers out, and got the project back on stream, China would abandon Sri Lanka altogether."

Sri Lanka, which has debts of around \$8bn with Beijing, duly complied. A month later, the government signed an agreement with the China Harbour Engineering Company, [paving the way for the resumption of work](#) on the project after a break of nearly 18 months.

In a related deal a Chinese company agreed to pay \$1bn for a controlling stake in the new port at Hambantota on the country's south coast, giving Beijing another modern harbour on the Indian Ocean. Hambantota had been built by a Chinese construction company with Chinese loans.

Other parts of the Indian Ocean also loom large in Beijing's ambition to rule the seas. Under a bilateral military agreement, Chinese naval vessels use ports in the Seychelles as hubs from which they conduct anti-piracy patrols. In the Maldives, a visit by Mr Xi in 2014 officially inducted the tiny string of atolls with a population of 350,000 people into the One Belt programme, with promises of infrastructure investments.

In Greece too, China's acquisition of a controlling stake in Piraeus, one of Europe's largest ports, signalled a merging of commercial and strategic agendas. When Alexis Tsipras, the country's prime minister, hosted a Chinese warship and naval top brass in Piraeus in early 2015, Chinese state media quoted him as saying he supported its sale to Chinese interests. Less than a year later, it was sold for \$420m.

Chinese officials relished the moment. They recalled how Beijing was embarrassed in 2011 when it needed to evacuate 36,000 Chinese workers from Libya as violence broke out, forcing it at short notice to enlist the help of Greek merchant ships to make the first few rescue missions.

"If that was to happen again," says a Chinese official who declines to be identified. "We would be much better prepared. We could use the Chinese navy and take the evacuees to our own port at Piraeus."

*Additional reporting by Charles Clover in Beijing*

[Copyright](#) The Financial Times Limited 2016. All rights reserved. You may share using our article tools. Please don't cut articles from FT.com and redistribute by email or post to the web.