China Has Laid Anchor in Israel's Ports

Oded Eran

Chinese Maritime Strategy in the Indian Ocean and the Mediterranean

Much has been written about Chinese maritime strategy, though it is not yet clear to what extent this literature can shed light on the driving forces behind China's current activities in the Mediterranean. While it is easier to interpret China's military naval philosophy off the coast of China and the adjacent seas, it is far from clear whether the same patterns can be automatically applied to the activity in the Mediterranean. The need to protect the long shore of mainland China, conflicting sovereignty claims with neighbors over islands, and a desire to gain control over natural resources explain China's behavior in East and Southeast Asia. Yet while these elements are irrelevant in the Mediterranean, this region has witnessed an accelerated Chinese maritime strategy in recent years, primarily of a civilian nature though with sporadic incidents of military activity.

China's leaders have long envisioned the establishment of state owned tools that enable it to implement a strategy of positioning along sea routes far away from the mainland. China Ocean Shipping Company (COSCO Group Ltd), for example, was founded in 1961[1] and today is among the top three in the world in container carrying capacity. Beyond that capacity, it owns and operates 46 container terminals.[2] China Harbour Engineering Company Ltd (CHEC) was formed in 2008, but the parent company, China Communications Construction, dates back to 1980.[3] The Chinese government highlighted its interest in promoting the development of marine economy in its twelfth Five Year Plan (2011-2015), referring, inter alia, to port and coastal resources and optimizing port layout.[4] Like the situation in other key economic sectors, Chinese state organs control the leading shipping companies.

Dr. Oded Eran is a senior research fellow at INSS.

This is the background to the concerns raised in Israel since Chinese shipping and port construction companies entered operations along the coast of the Indian Ocean. The container terminal in Colombo, Sri Lanka is a case in point. In the eyes of many Indians, Chinese involvement in port renewal is part of a strategic plan to create a "string of Chinese pearls,"[5] a chain of strategically located ports under Chinese control to serve long term purposes. According to this view, the chain could threaten India's security.[6] Under Indian pressure, therefore, the new government in Colombo suspended the deal and the work on the port, begun by the China Communications Construction Company in September 2014 when China's President Xi Jingping visited Sri Lanka.[7] However, in the absence of alternative investment, the government of Sri Lanka will probably renew the deal.[8] Two other Chinese companies are involved in building the Hambantota port in another part of the island, and as of April 2014, a different Chinese company, China Merchant Holdings International, runs Colombo South port. Chinese submarines were able to use deep waters to dock there in 2014, causing concern in New Delhi.[9]

In India's view, China's role in the port of Gwadar, Pakistan, is more threatening because it may emerge as the most significant pearl on the string. On November 12, 2015, Pakistan granted the China Overseas Port Holdings Company Ltd a 43-year lease of 200 acres in Gwadar, where, among nine different projects, the company is expected to run a newly built port and airport. This is a major link in the ambitious 3000-kilometer China-Pakistan Economic Corridor, which will link Kashgar in western China to Gwadar on the Arabian Sea, creating a corridor of roads, railroads, communications systems, and power plants, at a cost to China of $46 billion.[10] The project has aroused concern in Washington and New Delhi, but the government of Pakistan has decided to move forward and start the implementation phase.[11] With strong Chinese support for Pakistan's nuclear development, its supply of ballistic missiles, assistance in building the Shaheen 1 missile, and supply of JF-17 and J-10 jets and other weapons add to troublesome relations from New Delhi's perspective. To be sure, there is a positive side of the Indian strategic balance and there are areas of mutual interest between the two states, such as hopes for a stable Pakistan, fewer initiated and exported terror activities, prevention of unrest among the domestic Muslim communities, and protection of the vital energy supply lines from the Arabian peninsula. Furthermore, there is bilateral trade and – a major asset to Beijing – the export of more than $40 billion worth of goods to India. These are of course important issues, but they do not eclipse the concerns in New Delhi.[12]

Is the Chinese modus operandi in the Indian Ocean, its underlying logic, and the concerns it raises relevant to the Mediterranean region? In 2014, Chinese exports to the world totaled $2.35 trillion, of which almost 20 percent reached Europe and 80 percent were transported by sea.[13] These staggering figures are sufficient reason for China to seek a presence along the sea routes from its ports to the major European ports and ascertain that transportation is safe, efficient, and cheap.[14]

The best example is Chinese involvement in the Greek port of Piraeus. On January 20, 2016, the Hellenic Republic Asset Development Fund announced approval of the offer by COSCO Group Ltd to acquire 67 percent of the shares of the Piraeus Port Authority in a deal valued by the Fund at 1.5 billion euros (the price of the shares bought, investments, and revenues in the future). The new COSCO-Piraeus Port Authority agreement, which will expire in 2052,[15] culminated years of involvement in the port by COSCO Pacific, a subsidiary of COSCO Group. It began with an agreement on November 25, 2008 signed in the presence of Chinese President Hu Jintao and Greek Prime Minister Kostas Karamanlis. The major purpose was to develop Pier III of the Piraeus port for a capacity of the new container vessels generation carrying 18,000 TEU and increasing the capacity first from 1.05 to 3.7 and then to 6.2 million TUC annually.[16] The new agreement gives COSCO Group full control of the three container piers and almost full control of all Greek container activity. China's Prime Minister Li Keqiang visited Greece in June 2014 and said,

> The port of Piraeus can become Chine's gateway to Europe. It is the pearl of the Mediterranean. China and Europe are large trading partners. Now 80% of Chinese imports and exports to and from Europe are transported through sea lanes. And now this route through Piraeus via the Suez canal has reduced this journey between seven and 11 days, and it will reduce the cost of transport for business.[17]

While Piraeus is the most significant flagship of the Chinese maritime investments in the Mediterranean, there are at least four more in the eastern part of this basin. In the Suez Canal Container Terminal in Port Said, Egypt, the biggest trans-shipment terminal in this part of the Mediterranean, COSCO Pacific owns 20 percent of the port's shares, and another Chinese shipping giant, Hutchinson Port Holding, is involved in operating Alexandria's two ports. In February 2016, COSCO, China Investment Corporation, and China Merchants Group brought 65 percent of the ownership of Kumport Terminal, part of the Istanbul Ambarli Port on the Marmara Sea.[18] Two more new Chinese port activities, in Ashdod and Haifa – both in Israel – will be discussed below.

To complement implementation of the strategy, China proposed railway projects to East and Central European countries. Such projects add up to an infrastructure that links Serbia, Croatia, Hungary, Bulgaria, Romania, and Macedonia. Using soft loans provided by big Chinese banks, China finds these countries ready to enter mega-contracts with the hope of keeping their economies afloat.[19]

Greece's economic plight, and the pressure imposed by its creditors to accelerate the process of privatization, put the Greek government under pressure to sell state owned assets. Greek governments have therefore appreciated Chinese interest in ports and other infrastructure projects, with the only opposition expressed by labor unions. Very little debate ensued about geo-economic or geo-strategic aspects, and overall, Chinese investments in Europe have generated scattered and very little debate about these issues. Most of the public debate is centered on the financial aspects of the Chinese procurement spree expressed in a rapid rise of Chinese foreign direct investment (FDI) in Europe.[20] Greece, like most other European countries, is a member of NATO, which could find itself in an awkward situation if China-US tensions in East Asia rise.

Currently the pattern of Chinese activity can be defined entirely as economic. To be sure, Chinese naval units visited the Mediterranean a few times. In 2011, they rescued 30,000 Chinese workers stranded in Libya. In 2014, a Chinese frigate assisted in the removal of chemical weapons from Syria, and in May 2015, two Chinese frigates participated in a joint exercise with Russian boats.[21] This is not sufficient evidence, however, to indicate a strategic determination by China to maintain a solid and permanent military presence in the East Mediterranean. At the same time, Greece, like other European countries, could face serious dilemmas if China made a strategic decision to increase its military presence in the Mediterranean as part of its global strategy and rivalry with the US.[22] And yet, it seems that no serious discussion took place between NATO members, the US, and Greece (or in Greece itself) about the possible strategic implications of granting the Piraeus port concessions to a Chinese shipping giant under government control.[23]

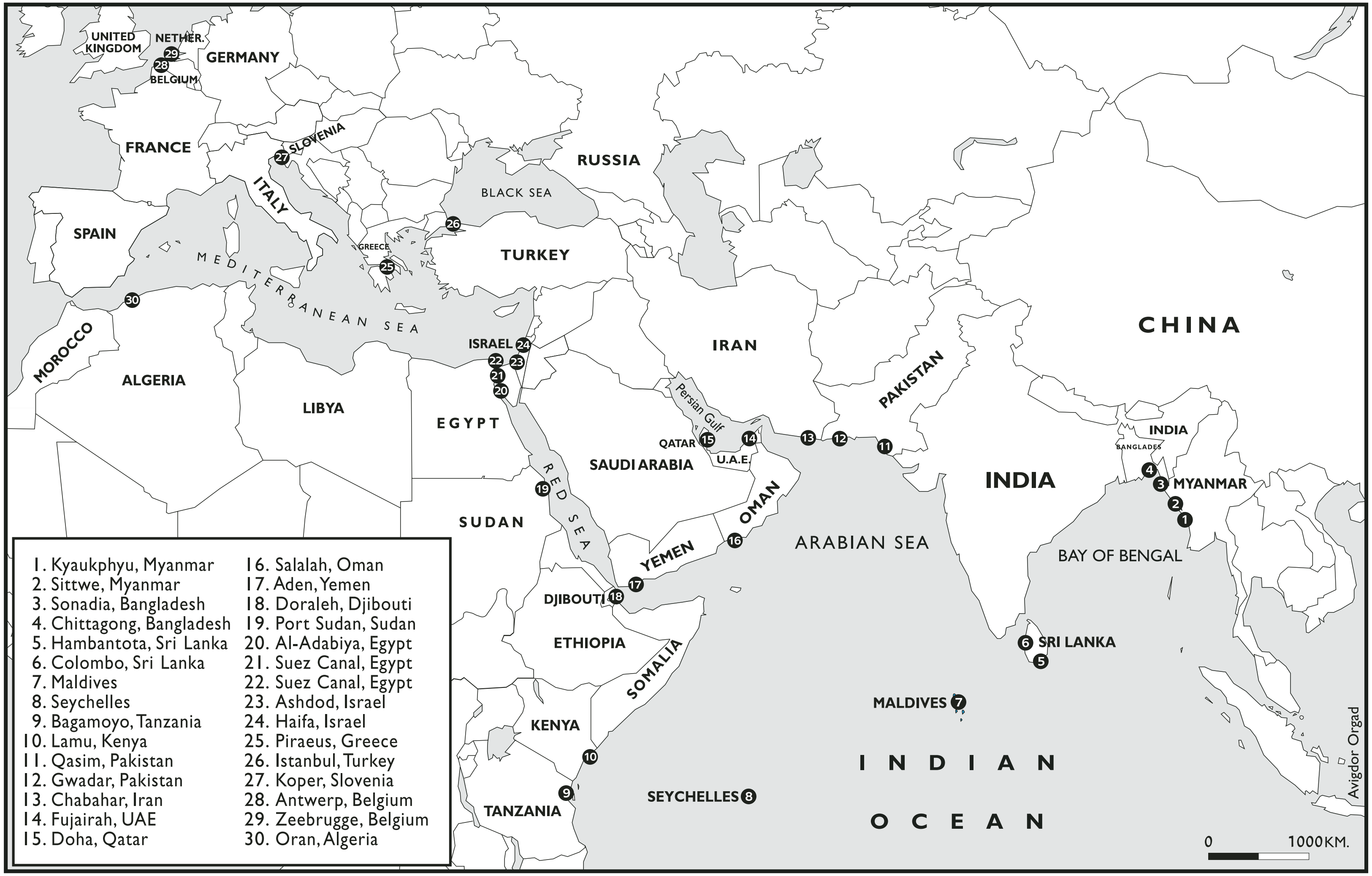

Figure 1. China's "String of Pearls," from the Indian Ocean to the Mediterranean

There could of course be two different Chinese models, one applied in the Pacific, South China Sea, and Indian Ocean, and one in the Mediterranean Sea. While the former model reflects the strategic-military aspects and plans, the model in the Mediterranean is, for the time being, purely an economic venture aimed at increasing China's competitive edge against other maritime companies in the context of Chinese trade with Europe.

The Israeli Case

The Israeli government began the process of privatizing its three commercial ports in Ashdod, Eliat, and Haifa in 2004, and replaced the Port Authority by four government companies. The companies aimed at a separation between the ports' operations, their management, and future development, and the day-to-day activities. The government chose the landlord model, whereby a public entity provides the infrastructure and is responsible for its development, while private companies provide the services of transporting cargos using their installations and equipment.[24]

In mid-2014, China Harbour Engineering Co. Ltd, the second largest dredging company in the world, won the contract for building two new port/container terminals in Haifa and Ashdod. According to rules set up in advance, the company had to choose one, and it decided to build the new port in Ashdod.[25] The cots of the project will be close to $1 billion and will take 6-8 years to complete. The agreement with the Chinese company was signed on September 23, 2014. On May 28, 2015, the Israel Ports Development and Assets Company signed two contracts for the operation of the Ashdod and Haifa ports. The Chinese Shanghai International Port Group won the concession for operating the Haifa port for 25 years. Chinese companies have thus gained a foothold in two out of the three of Israel's most important gateways to the West, where two navy bases are located.

What presents as neutral economic activity by companies is frequently painted as hostile when carried out by China. Yet it is not clear whether Israel's relevant departments and government agencies were consulted at any stage of the process, and based on public knowledge, it seems that the Israeli decision making process was not more focused on strategic considerations and implications than in countries in which large Chinese companies targeted their efforts in order to gain a foothold. There has certainly not been much public debate in Israel over this issue, unlike, for example, the discussion related to the procurement of the dairy company

Tnuva by a Chinese company or the aborted attempt to buy a large Israeli insurance company.

Those who have expressed concerns[26] claim that a debate is necessary because the government of China is behind the various companies and their subsidiaries. This point is important, as China is heavily invested in Arab countries and in Iran, and also because China is a major supplier of sophisticated weapons to Iran. According to those concerned, China sees Israel as part of a string of pearls and the Israeli government ought to consider whether it wishes to be one of these pearls. In other words, are the economic gains outweighed by strategic risks and matched by political gains expressed in a more balanced Chinese political view of the Israeli-Palestinian conflict – assuming the government of Israel decides to pursue such linkage. Chinese-made weapons are indeed supplied to Iran, and some find their way to Hezbollah in Lebanon. China greatly depends on oil imported from Arab producers and Iran. China's official position on Iran and the Arab-Israeli conflict resembles that of the Arab League initiative of 2003.[27] Yet there is no Israeli government directive to link these Chinese activities to the granting of economic concessions to Chinese firms.

More generally, the entry of foreign companies into the infrastructure field in Israel points to the need for a process that will look into Israel's security and foreign relations aspects, and not just the financial or legal ones. This is the case especially with dual use hardware and software. Israel recently started a process that will look into the potential problems in exporting know-how and products in this field similar to the process that was established regarding the exports of weapons. The involvement of any foreign – not only Chinese – entities, in construction and development, certainly of state owned strategic assets and even in privately owned ones, ought to go through a test that establishes that no damage is sustained by national security interests when granting concessions to foreign entities. This test ought also to include the question of whether there is a risk created by granting several concessions to companies established in one country, and especially if these concessions are concentrated in key sectors.

Such a test might have nonetheless cleared the two Chinese projects in Israeli ports. China is indeed an aggressive economic power. It has launched two major economic projects, One Belt One Road and Asian Investment and Infrastructure Bank, which, if implemented, will increase China's dominant role in world economics and world politics. Israel was invited by China to participate in these huge undertakings, notwithstanding the participation of Muslim countries in Asia, which otherwise do not recognize Israel and refuse to cooperate with it. Israel is not alone in dealing with the dilemma of how to reconcile between present needs for FDIs and the Chinese search for opportunities in this field. There is also the need to avoid the possibility that China's acquisitions of ports, railways, and power plants are parts of an imperialistic grand design. Since other countries have faced similar dilemmas it will be useful to share ideas over the ways of solving them.

Even if the Chinese maritime activity in the Mediterranean, and especially in Israel, is devoid of any long term strategic purposes, it is still necessary to prevent a situation in which China accumulates assets in strategic economic assets and infrastructure, which could reduce Israel's strategic decision making space. This issue should be taken into consideration when deciding on the firm to construct the railway link between the ports of Ashdod and Eilat. A related question is whether, in the distant future, Chinese involvement in the two major ports in Israel could somehow be in conflict with a US and NATO naval presence even if this presence is of limited frequency and volume.

What all of this means is that in the future there will have to be a greater attention given to the implications of Chinese firms strongly linked to the government, and ensured preservation of the Israeli government's freedom in strategic security decision making. At the same time, rejecting Chinese bids in infrastructure projects and even those with security sensitivities simply because they are submitted by Chinese entities would be a mistake. A process in which national security issues are examined by all state relevant organs and is equally applied to all bidders is the fair and proper approach.

Notes

The author would like to thank Uri Pearl for his help with the data for the map.

1 See China COSCO Shipping Corporation Limited website at www.cosco.com.

2 See Drewry Maritime Research forecasts 2015 at www.drewry.co.uk. In late 2015 the Chinese government decided to merge COSCO and the China Shipping Group.

3 "FACTBOX – The World's Biggest Dredging Companies, " *Reuters*, March 29, 2010.

4 Translation to English in Britishchamber.en/content/china-twelfth-five-year plan, Chapter 14, section 1.

5 "China Builds Up Strategic Sea Lanes," *Washington Times*, January 17, 2005. The term was first used by in 2004 in a paper by the Booz-Allen-Hamilton firm submitted to the US Department of Defense.

6 "The New Masters and Commanders," *The Economist*, August 26, 2013.

7 Shihar Aneez, "Sri Lanka Softens its Position on China Port City Deal," *Reuters,* January 22, 2015.

8 "Sri Lanka Wants China in Port Deal," *Maritime Executive*, February 10, 2016, www.maritime-executive.com.

9 Rajat Pandit. "India Suspicious as Chinese Submarines Dock in Sri Lanka," *Times of India*, September 28, 2014.

10 See "India Irked as China Gets Pakistan's Strategic Gwadar Port," *Economic Times*, February 2, 2013; "All Eyes on Gwadar," *The Economist* – Intelligence Unit, Pakistan, March 31, 2016; and Jeremy Page, "Beijing Agrees to Operate Key Port, Pakistan Says," *Wall Street Journal*, May 23, 2011.

11 James R. Holmes, "Gwadar and the 'String of Pearls,'" *The Diplomat,* February 9, 2013.

12 Daniel S. Markey, "What is the Impact of Growing Pakistan-China Relations on the United States and India?" Council on Foreign Relations, October 15, 2013.

13 *National Bureau of Statistics of China*, 2014 Statistical Yearbook, II-6.

14 On how to measure these costs, see for example, www.freight-calculator.com.

15 "COSCO Pacific's Concession in Piers II and III Will Expire in 2044," Hellenic Republic Assets Fund, February 17, 18, 2016, www.hradf.com.

16 One TEU equals a 20 foot container.

17 "Chinese PM Says Greek Port 'Pearl of the Mediterranean,'" *Financial Times*, June 23, 2014.

18 The agreement was signed in the presence of Presidents Erdogan and Xi Jinoing. See Office of the Prime Minister of the Republic of Turkey, Directorate General of Press and Information (no date).

19 For detailed discussion see Dragan Pavlicevic, "China's Railway Diplomacy in the Balkans," *China Brief* 14, no. 20, October 23, 2014.

20 "Chinese Investment into Europe Hits Record High in 2014." According to Baker & McKenzie "FDI transactions worth $18bn in past year, $55bn since 2009." See *Firm News, Insight*, February 11, 2015, http://goo.gl/39YY4s.

21 "Russian –Chinese Naval Exercise in Mediterranean Ends," Tass-Russian News Agency, May 21, 2015, http://tass.ru/en/russia/796096.

22 Thanos Dokos, "The Geopolitical Implications of Sino-Greek Relations," Clingendael Asia Forum, July 10, 2013.

23 My private conversation with high ranking Greek officials.

24 A report by Israel's State Comprtoller 59b, pp. 1095-1122, www.mevaker.gov.il, and Israel government Resolution 4002, 24.8.2008, www.pmo.gov.il.

25 Formally, Pan Mediterranean Engineering Co., registered in Israel, won.

26 See interview with Efriam Halevy, former director of the Mossad and former head of the National Security Council, in *Calcalist*, March 3, 2015.

27 "China's Arab Policy Paper," January 2016, www.China.org.cn.