



Committee on Transportation and Infrastructure  
U.S. House of Representatives  
Washington DC 20515

Peter A. DeFazio  
Chairman  
Katherine W. Dedrick  
Staff Director

Sam Graves  
Ranking Member  
Paul J. Sass  
Republican Staff Director

October 11, 2019

**SUMMARY OF SUBJECT MATTER**

**TO:** Members, Subcommittee on Coast Guard and Maritime Transportation  
**FROM:** Staff, Subcommittee on Coast Guard and Maritime Transportation  
**RE:** Hearing on “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain”

---

**PURPOSE**

The Subcommittee on Coast Guard and Maritime Transportation will meet on Thursday, October 17, 2019, at 2:00 p.m. in 2167 Rayburn House Office Building to examine the 21<sup>st</sup> Century Maritime Silk Road Initiative, one component of a formal global development strategy promoted by the Chinese government to enhance their trade networks. The Subcommittee will hear from the Office of the Secretary of Defense, United States-China Economic and Security Review Commission, Center for Security and International Studies, Naval War College, and Center for Naval Analysis about the impacts of this policy and strategic implication for American maritime commerce.

**BACKGROUND**

In 2013, China unveiled the concept for the 21<sup>st</sup> Century Maritime Silk Road Initiative (MSRI), the maritime component of the Belt and Road Initiative (BRI) published in both Chinese and English.<sup>1</sup> The BRI is widely regarded as Chinese President Xi Jinping’s flagship project, and the MSRI is designed to expand the nation’s blue economy and enhance infrastructure connectivity throughout Southeast Asia, Oceania, the Indian Ocean, and East Africa with Chinese-financed port, road, and energy infrastructure.<sup>2</sup> The MSRI’s three “blue economic passages” (BEPs) include the

---

<sup>1</sup> The Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road became “One Belt, One Road” for short. In late 2015, the central government issued guidelines on standardizing the English translation, specifically demanding that “initiative” should now be used in association with Belt and Road, whereas “strategy,” “project,” “program,” and “agenda” should not be used. One Belt, One Road became Belt and Road Initiative in English, but its Chinese name remained “Yidai Yilu.”

<sup>2</sup> Mathieu Duchâtel and Alexandre Sheldon Duplaix, “Blue China: Navigating the Maritime Silk Road to Europe,” European Council of Foreign Relations, April 23, 2018.

China–Indian Ocean–Africa–Mediterranean Sea BEP, China–Oceania–South Pacific BEP, and China–Arctic Ocean–Europe BEP. As of April 2019, 126 countries have signed on to the BRI.<sup>3</sup>



*Figure 1- The MSRI will begin in Quanzhou in Fujian province, and visit Guangzhou (Guangdong province), Beihai (Guangxi), and Haikou (Hainan) before heading to the Malacca Strait. From Kuala Lumpur, the MSRI heads to Kolkata, India then crosses the rest of the Indian Ocean to Nairobi, Kenya (the Xinhua map does not include a stop in Sri Lanka, despite indications in February that the island country would be a part of the Maritime Silk Road). From Nairobi, the MSRI goes north around the Horn of Africa and through the Red Sea into the Mediterranean, stopping in Athens before meeting the land-based Silk Road in Venice. Reconnecting Asia, CSIS, June 20, 2019.*

Command of the maritime transportation system has long acted as the stage on which great powers compete. Globally, over 90% of commercial goods travel by sea. The infrastructure facilitating their transport — ocean-going vessels, deep-water ports, high-speed railways, and fiber optic cables — descend from technologies that Western powers leveraged from the mid-19th century through World War I to expand their access to foreign markets. In some places along the BRI, China is literally replacing and retracing colonial projects, building railways in Africa and laying data cables under the sea.

The U.S. high seas presence (the Navy, Coast Guard, and international commercial fleet) has for decades secured American sea-power and access to materials and markets through existing trade lanes and strategic straits. This hearing will shed light on the degree to which the MSRI might co-opt the global maritime transportation system for Chinese industrial, commercial, and security gains, disable the remnant U.S. international trading fleet by monopolizing the transport of U.S. commerce, and destabilize both the U.S. Merchant Marine and maritime supply chain.

<sup>3</sup> The Second Belt and Road Forum for International Cooperation, [“List of Deliverables of the Second Belt and Road Forum for International Cooperation.”](#) April 27, 2019.

## *The Belt and Road Initiative*

“Hard” infrastructure projects occur mostly in the following sectors: transportation (ports, roads, railways), energy (pipelines, power grids, hydropower dams), and information technologies and communications (fiber-optic networks, data centers, satellite constellations). Rapidly emerging as the third major element is a “New Digital Silk Road” that will provide telecommunications and information connectivity for both maritime and land routes. According to official sources from within China’s State-owned Assets Supervision and Administration Commission, 80 Chinese state-owned enterprises (SOEs) have undertaken over 3,100 BRI projects since 2013.<sup>4</sup> Of these, 288 projects are seaports and another 136 are dry ports connected to the MSRI.<sup>5</sup> Rapidly developing Asian economies alone will require \$26 trillion in additional infrastructure investment by 2030 to maintain growth momentum.<sup>6</sup> Consequently, infrastructure investments, and the strategic implications they carry, are likely to intensify in the coming years.

The Chinese People’s Liberation Army Navy (PLAN) is already active in the Middle East and Western Indian Ocean and conducts a wide range of peacetime operations to protect Chinese maritime trade, assets, and personnel established, in part, under the auspices of the MSRI.<sup>7</sup> The development of BRI infrastructure near key strategic straits for the U.S. and other maritime trading states (e.g., the Strait of Hormuz, Bab el-Mandeb Strait, and Suez Canal) has enabled the Chinese commercial fleet to support PLAN operations in international waters outside Chinese jurisdiction while development is underway.<sup>8</sup>

The BRI also includes “soft” infrastructure, such as the creation of special economic zones and the negotiation of free trade agreements, currency swap agreements, and reduced tariffs. China’s early plans for the BRI envision the Silk Road as a region of “more capital convergence and currency integration;” a region where currency exchanges are fluid and easy.<sup>9</sup> China’s currency, the renminbi, is becoming more widely used in Mongolia, Kazakhstan, Uzbekistan, Vietnam, and Thailand.<sup>10</sup>

Skeptical scholars worry this may ensnare strategically located developing countries “in a debt trap that leaves them vulnerable to China’s influence.”<sup>11</sup> Echoing the same criticism, former U.S. Secretary of State Rex Tillerson in October 2017 described China’s model of financing infrastructure projects as “predatory economics” resulting in “financing default and conversion of debt into equity.”<sup>12</sup> For example, Pakistan, a key BRI partner, asked the International Monetary Fund earlier this year to help the country out of a balance of payments crisis.<sup>13</sup> In addition, Malaysia in August 2018 abandoned more than US\$20 billion worth of Chinese-funded infrastructure projects, saying it could no longer afford them.<sup>14</sup>

---

<sup>4</sup> Nadège Rolland, [A Concise Guide to the Belt and Road Initiative](#), National Bureau of Asian Research, April 11, 2019.

<sup>5</sup> Reconnecting Asia Project, [Mapping Continental Ambitions](#), Center for Strategic and International Studies.

<sup>6</sup> Asian Development Bank, [Meeting Asia’s Infrastructure Needs](#), February 2017.

<sup>7</sup> Jeffrey Becker et al., [China’s Presence in the Middle East and Western Indian Ocean: Beyond the Belt and Road](#), CNAS, February 2019.

<sup>8</sup> Ibid.

<sup>9</sup> Shannon Tiezzi, [“China’s ‘New Silk Road’ Vision Revealed,”](#) The Diplomat, May 9, 2014.

<sup>10</sup> Ibid.

<sup>11</sup> Brahma Chellaney, [China’s Debt Trap Diplomacy](#), Project Syndicate, January 23, 2017.

<sup>12</sup> Rex Tillerson, [Defining Our Relationship with India for the Next Century: An Address by U.S. Secretary of State Rex Tillerson](#), Center for Strategic and International Studies, October 18, 2017.

<sup>13</sup> James Mackenzie, [IMF board approves \\$6 billion loan package for Pakistan](#), Reuters, July 3, 2019.

<sup>14</sup> James Suokas, [“Chinese state enterprises undertake over 3,100 Belt & Road projects,”](#) GBTimes, October 31 2018.

## Dual-Use Infrastructure

Dual-use infrastructure projects are developments that serve both commercial and military purposes. Through project financing tools (i.e., guarantees and conditions, controlling source funds, debt, etc.), design and construction standards, technology transfer, and intelligence acquisition through ownership and operation of infrastructure, states can advance both economic and non-economic objectives.<sup>15</sup> While the MSRI to date is mostly an economic and political program with military implications, dual-use facilities constructed under the banner of the BRI could enable the PLAN to incrementally expand operations regionally and globally to create potential new risks for militaries operating in the Indian Ocean basin and beyond.<sup>16</sup> Securing MSRI routes would require the PLAN to more regularly patrol the sea lanes that link China's far-flung port investments.

Observers of the BRI are skeptical that its partnerships are anything more than market development for its cadre of SOEs.<sup>17</sup> As home to seven of the world's ten largest construction companies, China used more cement between 2011 and 2013 than the United States did during the entire 20th century. As such, China is motivated to invest in infrastructure projects regardless of military application.<sup>18</sup> Nonetheless, the potential for MSRI infrastructure to obstruct strategic U.S. overseas operations and create pinch-points in the maritime supply chain remain a concern for some security analysts.<sup>19</sup>

| Stage                | Finance                   | Design & Construction | Ownership & Operation            |
|----------------------|---------------------------|-----------------------|----------------------------------|
| Strategic Objectives | Win political concessions | Set standards         | Collect intelligence             |
|                      | Reward supporters         | Transfer technology   | Restrict access                  |
|                      | Set standards             | Collect intelligence  | Adapt to disruptions             |
|                      | Access resources          |                       | Monopolize skills & technologies |
|                      | Control operations        |                       |                                  |

Figure 2 - SOE Infrastructure Cycle that treats infrastructure investment as statecraft. Jonathan Hillman, "Infrastructure and Influence: the Strategic Stakes of Foreign Projects," CSIS Reconnecting Asia Project, January 2019.

### Case Study in the Western Hemisphere

On the Pacific and Atlantic sides of the Panama Canal, Hutchinson Whampoa, a Chinese marine terminal operator, controls transshipment cargo bound for the United States and other countries. Another Chinese entity, the Landbridge Group, recently acquired the Margarita Island Port on the Atlantic end of the canal, a move that will give the Chinese additional influence on the movement of international trade through the canal. A special declaration at the Community of Latin American and Caribbean States (CELAC) Forum on the BRI identified that "Latin American and Caribbean countries are part of the natural extension of the Maritime Silk Route and are

<sup>15</sup> Jonathan Hillman, [Infrastructure and Influence: the Strategic Stakes of Foreign Projects](#), Center for Strategic and International Studies Reconnecting Asia Project, January 2019.

<sup>16</sup> Daniel Kilman and Abigail Grace, [Power Play: Addressing China's Belt and Road Strategy](#), Center for a New American Security, September 2018.

<sup>17</sup> Thomas Eder, "[Chinese companies are clearly the main beneficiaries of BRI projects.](#)" Belt and Road Forum, Mercator Institute for China Studies, April 24, 2019; China Power Team. "[How will the Belt and Road Initiative advance China's interests?](#)" China Power, May 8, 2017, Updated May 29, 2019.

<sup>18</sup> Jonathan Hillman, "[Five myths about China's Belt and Road Initiative.](#)" Washington Post, May 31, 2019.

<sup>19</sup> Kilman and Grace, Power Play, CNAS 2018.

indispensable participants in international cooperation of the Belt and Road.”<sup>20</sup> Ye Cheng, the President of Landbridge Group, noted, “Landbridge’s ports in Asia and Oceania together with the Panama Colón Container Port (PCCP) on Margarita Island will be efficiently connected to exploit maritime cooperation, contributing to the economic development of all countries.” The acquisition of these properties occur at the same time as Panama shifts its stance toward China, expediting the Margarita Port project award after signing a bilateral agreement.<sup>21</sup>

In line with China’s BRI strategy, the plan for Margarita Port is to capitalize on the doubling of the capacity of the canal, which can now handle the New Panamax container ships that can transport up to 14,500 TEU (twenty-foot equivalent units). That work was completed in June 2016.<sup>22</sup> The Margarita Island Port is expanding its handling capacity to 11 million TEU, adding a Liquid Natural Gas terminal and control center, and deeper berths.<sup>23</sup> This integrated development approach has the potential to disadvantage other marine terminal operators on either end of the canal and undermine competition from other international carriers.

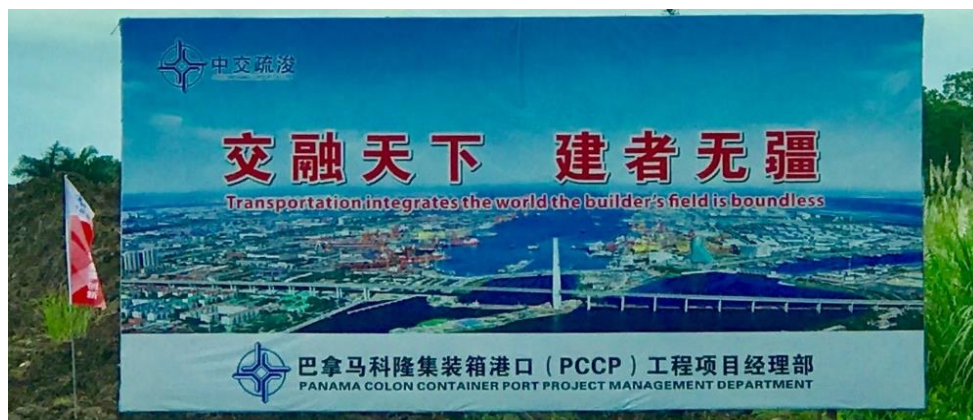


Figure 3 - A poster for the PCCP. Image provided by anonymous source.

While the Margarita Island Port was purchased by a private company, the state-owned China Communications and Construction Corporation (CCCC) and its subsidiary, China Harbor Engineering Company (CHEC), have performed the expansion work.<sup>24</sup> In July 2018, CCCC and CHEC won a contract to build the fourth bridge over the canal.<sup>25</sup> CCCC also has a record of supporting the Chinese military and Beijing’s broader geostrategic interests and is the same company that supplied dredging services for China’s island building efforts in the South China Sea.<sup>26</sup>

While developing nations across the Indo-Pacific have thus far welcomed Chinese infrastructure investment, there are growing questions about the economic viability of MSRI port

<sup>20</sup> See <http://www.itamaraty.gov.br/images/2ForoCelacChina/Special-Declaration-II-CELAC-CHINA-FORUM-FV-22.1.18.pdf>.

<sup>21</sup> Gabriel Alvarado, “Beijing seeks to rapidly solidify its position in Latin America amidst spat with Washington,” *Global Americans*, February 11, 2019.

<sup>22</sup> See <http://www.globalconstructionreview.com/news/chinese-firm-starts-w7rk-1bn-panama7nian-meg7aport/>.

<sup>23</sup> Ibid.

<sup>24</sup> Alvarado, “Beijing seeks to rapidly solidify its position in Latin America amidst spat with Washington,” *Global Americans*.

<sup>25</sup> Ibid.

<sup>26</sup> Greg Torode and Brenda Goh, “China’s state firms cementing lucrative role in South China Sea, new research shows,” *Reuters*, August 9, 2018.

development projects and their potential dual-use as strategic military installations or avenues for foreign policy and leverage.<sup>27</sup> The potential monopolization of the Panama Canal by Chinese-owned entities, one crucial leg of the MSRI, illustrates the additional strategic value of key trade nodes in the Western Hemisphere and the potential for the Chinese to create a choke point for U.S. maritime commerce.

### *The Chinese Maritime Industry and Commercial Fleet*

China continues to rely on international trade as an important component of its economic growth. Roughly 20 percent of China's GDP is derived from the export of goods and services abroad.<sup>28</sup> China now ranks as the world's largest trading nation, with roughly 13 percent of all the world's exports and about 10 percent of the world's imports.<sup>29</sup> Moreover, roughly 90 percent of all world trade is carried by sea; unsurprisingly, most Chinese sources state that a similar percentage of Chinese trade is seaborne as well.<sup>30</sup> The five major Chinese carriers together controlled 18% 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).<sup>31</sup>

China's growing dual-use merchant marine fleet has been developed according to regulations requiring certain civilian vessels, including roll on/roll off (RORO) vessels, tankers, and container ships, to be built to military specifications, and can be requisitioned during wartime, natural disasters, emergencies, or "special circumstances."<sup>32</sup>

The MSRI is a linchpin in China's dominance of international maritime trade and the trained labor to support its operation. The largest global operational shipping alliance, Ocean Alliance, principally comprised of Chinese owned and/or Chinese government-controlled carriers except for France's CMA CGM, is one of the three major carrier alliances formed over the last four years. The number of U.S. flagged vessels sailing in the international trade has dwindled from 183 ships in 1992 to 82 as of December 2017,<sup>33</sup> mostly due to policy changes limiting subsidies to only the vessels and labor necessary to maintain sealift in times of war. Conversely, China's investment in its national fleet has made China the most prolific shipbuilding nation to date and dramatically altered the dynamics of the global maritime trades. The development of China's foreign trade, domestic and distant water fisheries,<sup>34</sup> and oceanographic fleets,<sup>35</sup> which include icebreakers, have enhanced Chinese expertise in vessel construction (e.g., over 37% of global shipbuilding occurred in China

---

<sup>27</sup> Daniel Kilman and Abigail Grace, [Power Play: Addressing China's Belt and Road Strategy](#), Center for a New American Security, September 2018.

<sup>28</sup> World Bank, ["Exports of Goods and Services \(% of GDP\),"](#) 2017.

<sup>29</sup> World Trade Organization, ["Country Profiles—China,"](#) WTO—Trade Profiles, 2017.

<sup>30</sup> International Chamber of Shipping, ["Shipping and World Trade,"](#) 2017.

<sup>31</sup> Kynge et al., ["Beijing's global power play: How China rules the waves,"](#) Financial Times, January 12, 2017.

<sup>32</sup> Becker et al., ["China's Presence in the Middle East and Western Indian Ocean: Beyond the Belt and Road,"](#) CNAS, February 2019.

<sup>33</sup> ["U.S.-Flag Share of Foreign Trade \(2005-2015\) Based on Cargo Weight."](#) Maritime Administration Analysis based on Census data.

<sup>34</sup> Hongzhou, Zhang, ["China's Fishing Industry: Current Status, Government Policies, and Future Prospects,"](#) CNA China as a Maritime Power Conference, July 2015.

<sup>35</sup> Martinson, Ryan and Peter Dutton, ["China's Distant-Ocean Survey Activities: Implications for U.S. National Security,"](#) *China Maritime Report*, Volume 3 (2018).

alone, the most of any nation, in 2017)<sup>36</sup> and enabled the expansion of a Chinese high seas presence globally.

Powered by the world's largest shipbuilding industry, China's armed forces comprise three major organizations, each with a maritime subcomponent that is already the world's largest such sea force by number of ships.<sup>37</sup> By 2020, China's maritime armed forces ("gray-hulled" Navy units, "white-hulled" Coast Guard, and "blue-hulled" Maritime Militia) are projected to have a total of 1,300 ships to operate near-shore and worldwide.<sup>38</sup>

#### *Implications for U.S. Maritime Industry*

1. **International commercial standards** will come under pressure as China races to execute infrastructure projects and moves to create a new legal architecture associated with BRI.
2. **Restricted access to important maritime chokepoints and supply routes:** China relies heavily on access to seaborne energy imports and maritime trade, the majority of which transit maritime chokepoints located in the Middle East and Southeast Asia.
3. **Restricted access to maritime infrastructure:** A larger Chinese military and civilian presence in the region also means that the U.S. Navy is likely to face greater competition for access to ports, airfields, and other infrastructure.
4. **Competition and risk:** Non-Chinese companies will compete for BRI contracts on an uneven playing field and participate in projects on Beijing's terms. China will attempt to externalize some of the financial risk associated with BRI projects by inviting Western investors.
5. **Increasing militarization of maritime routes:** International straits in the Arctic, South China Sea, and elsewhere might escalate geopolitical tension.

---

<sup>36</sup> United Nations Conference on Trade and Development, "[Ships built by country of building, annual, 2014-2017](#)," UNCTAD, Division on Technology and Logistics, based on data supplied by Clarkson Research Services, Accessed July 15, 2019.

<sup>37</sup> Andrew Erikson, "[Maritime Numbers Game: Understanding and Responding to China's Three Sea Forces](#)," Indo-Pacific Defense Forum, January 28, 2019.

<sup>38</sup> Ibid.

**WITNESS LIST**

**Panel I**

Lieutenant General Giovanni K. Tuck  
*Director for Logistics, J4*  
*Joint Chiefs of Staff*

Mr. Chad Sbragia  
*Deputy Assistant Secretary of Defense for China*  
*Office of the Secretary of Defense*

Ms. Carolyn Bartholomew  
*Chairwoman*  
*United States-China Economic and Security Review Commission*

**Panel II**

Mr. Jonathan E. Hillman  
*Director, Reconnecting Asia Project*  
*Center for Strategic and International Studies*

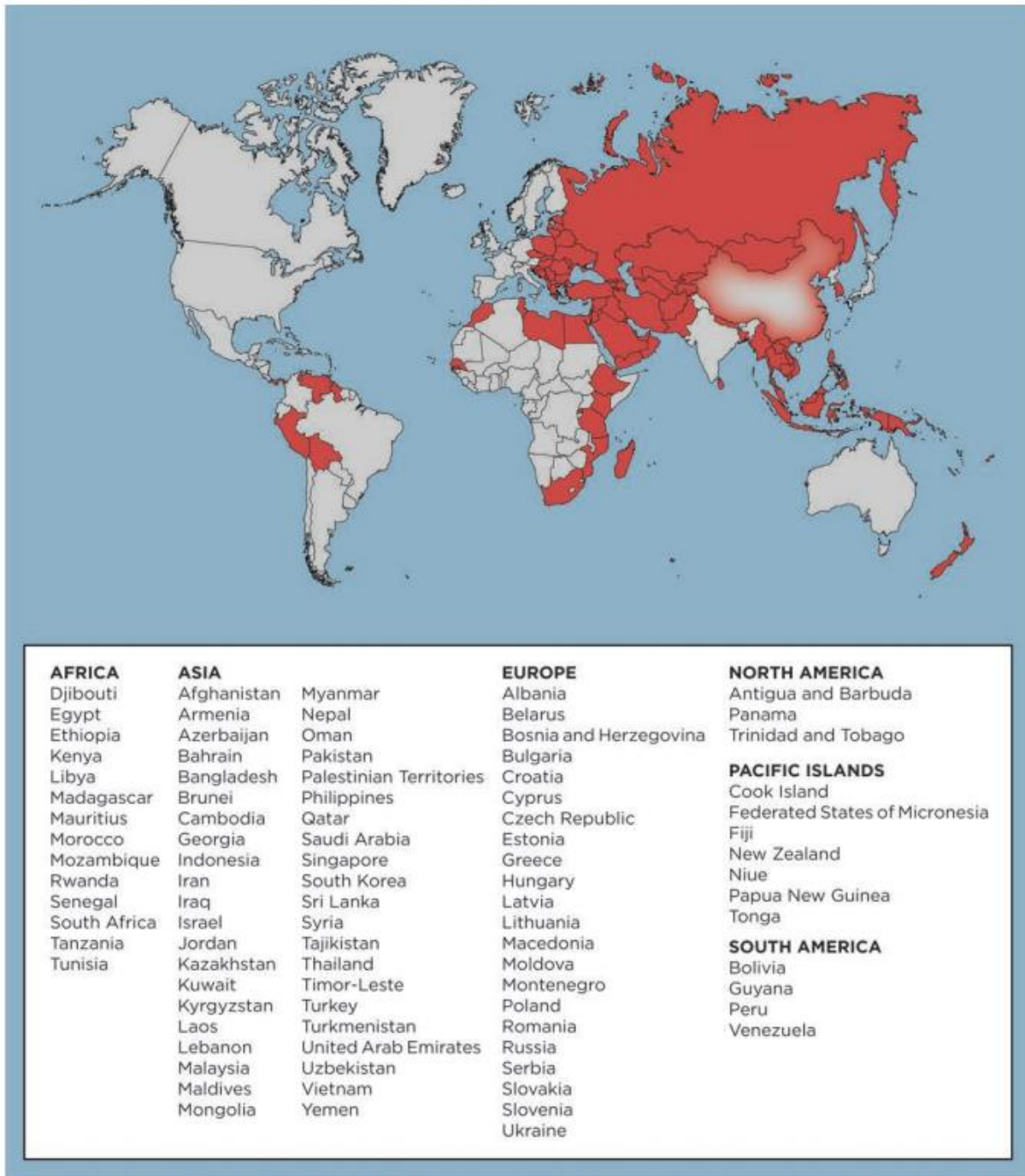
Dr. Jeffrey Becker  
*Research Program Director*  
*Center for Naval Analysis*

Ms. Kathleen Walsh  
*Associate Professor of National Security Affairs*  
*Naval War College*



Appendix A: Map of Countries Formally Endorsing the BRI (CNAS, 2019).

**92 Countries Formally Endorse China's Belt and Road**



*These endorsements generally indicate a country's political support for the Belt and Road but do not necessarily correlate with participation in actual projects. Source: YiDaiYiLuWang, One Belt, One Road Portal, <http://yidaiyilu.gov.cn>; and a comprehensive survey of a large number of official statements.*