FEATURE

Competing or Colluding Commercial Interests?

Ports and Free Zones along China's Maritime Silk Road in Africa

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Abstract

China's "21st Century Maritime Silk Road" (MSR) uses state-owned enterprises to build and operate port infrastructure along the MSR path. Under the broader Belt and Road Initiative, the government of the People's Republic of China is clear about tying its economic and maritime goals together. What is less clear is how China's economic statecraft plays out in practice. While the bulk of MSR port activity in Africa has been focused on port construction, China Merchants now operates at least nine ports in Africa and is involved in multiple port projects in a subset of countries: Djibouti, Morocco, and Tanzania. Using China Merchants Ports' own "Shekou model" as a framework for comparison, this article evaluates the relationship between one commercial actor to describe how these projects are unfolding, assess whether they follow the Shekou model, and build a framework for understanding trends in port ownership in the shipping sector.[1]

Introduction

Maritime port infrastructure has been a crucial part of the People's Republic of China's (PRC) global expansion. Is China building "debt-traps" in Africa, or are Chinese commercial enterprises bringing growth and development to the continent?[2] The short answer is that no *one* answer is correct, nor does it capture the nuance necessary to understand the various development projects being undertaken on the continent (and globally). PRC state-owned enterprises (SOE) have "gone out" in pursuit of their own financial objectives. Many projects preceded the official Belt and Road Initiative (BRI) guidance from the state, but the PRC government has built upon that commercial momentum by linking economic activity and its foreign policy objectives under Xi Jinping's signature effort. China's 13th Five-Year Plan states that the government and its associated actors "will actively advance the construction of strategic maritime hubs along the twenty-first-century Maritime Silk Road [MSR], participate in the building and operation of major ports along the road, and promote the joint development of industrial clusters around these ports to ensure that maritime trade routes are clear and free-flowing."[3] China's overseas port projects have steadily gained increased attention from policymakers, the scholarly community, and the media. Several databases have now been created that seek to examine China's port infrastructure push.[4]

Leaders from China Merchants Port Holdings (CMPH) describe their intent in locations such as Djibouti as an attempt "to replicate the 'Port-Zone-City' model" used in Shekou, China.[5] Shekou is the small enclave that was formed inside the original Shenzhen special economic zone (SEZ) in the late 1970s and 1980s. In 2017, the president of China Merchants Group, Li Xiaopeng, stated that the company was "making full use of Djibouti's geographical advantages . . . making the country the 'Shekou of East Africa'—a hub for regional shipping, logistics, and trade."[6] The "Shekou model" is more than an historic element of China's own development path; it has now become a narrative that is actively used to promote modern projects.[7] CMPH uses the "Port-Park-City" nomenclature in much of its corporate materials, and investigative journalists have taken to describing the success of China Merchants Ports' "flying geese" formation (板块以雁形结构, *bankuai yi yan xing jiegou*).[8]

The main contributions of this article are threefold. First, it refines the theoretic understanding of how commercial actors carry out China's foreign policy by outlining specific elements of China Merchants Port's Shekou model. As David Baldwin reminds us, while nation-states may discuss economic imperatives, it is commercial actors that actually carry out those policies.[9] William Norris disaggregates China's SOEs and provides criteria for evaluating those state-commercial interactions.[10] Identifying explicit criteria used by firms provides us with a clear framework to analyze state-commercial interactions. Second, this research illustrates that BRI projects in Africa are neither achieving "earthshattering effects" nor "significantly stalling or collapsing" as Jean-Marc F. Blanchard notes in his macro- and micro-level analysis of MSR projects.[11] Instead, individual projects vary greatly and, despite clever BRI branding, actual outcomes and economic effects are messy, contingent, and complex. The cases illustrated in this article show how specific projects are contingent on domestic political and economic realities in the host country and shaped by larger trends in the global economy.

In short, no project will look identical to industrial clusters created in China, but understanding the model that SOEs and host-nation governments are attempting to replicate helps us understand those messy and contingent outcomes. In the case of both Djibouti and Tanzania, China Merchants has explicitly argued that the model is the Shekou model, and those specific projects each tout that model, despite distinctly different outcomes than Shekou.[12] In contrast, no such pronouncements have been made in the case of Moroccan ports. One reason for this difference is that the role of China Merchants in Morocco is quite different, and the Moroccan case sheds light on changes in the shipping industry writ large. This is important for understanding China's economic statecraft, because market structure and market concentration matter for how well the PRC can control its SOEs.[13] Third, by holding constant the firm responsible for the project, we make apple-to-apple comparisons among PRC-run port projects. One challenge with blanket analysis of BRI projects is that different firms and a diverse conglomeration of interests in a particular project will affect how the project evolves. In this article, by focusing on one main SOE, we are not conflating distinct outcomes that could be accounted for by firm differences. By doing so, we can characterize elements of legal and regulatory policy in the home country and compare the "model" to the "reality" thereby improving our ability to enhance theory that takes firm differences seriously. Augmenting theories of economic statecraft in this manner establishes a foundation for further empirical testing.

Theory and Approach: The Shekou Model in Africa?

Economic statecraft is defined as "the use of economic resources by political leaders to exert influence in pursuit of foreign policy objectives."[14] Under the BRI, many of the commercial actors carrying out those foreign policy objectives are state-owned enterprises (SOE). There is both explicit guidance and implicit assumptions that SOEs will carry out the goals of the PRC government. In practice though, Norris and Shu Guang Zhang have both shown that China's economic statecraft is much more contingent.[15] Norris shows several instances in which particular SOEs and their business practices generated problems for PRC foreign policy objectives, such as in Sudan, and describes the range of interactions that can occur between PRC firms and the state.[16] In the case of the MSR, the main shipping and port operation firms are SOEs, and in practice those SOEs have become an extension of the PRC government. However, even among SOEs, firms operate in distinct ways based on general business practices, organizational characteristics, and the "governance characteristics of the SOE groups" themselves.[17] Thus, we must understand the frames, models, and references that those firms use to guide their own behavior and activities.

In China, the use of models has been a key component of the original Communist guidance. Even as China's economic systems has evolved, the use of models persists. According to Mary Ann O'Donnell, Winnie Wong, and Jonathan Bach, "The production of policy through the production of 'models'–model people, model factories, model villages–is a classic feature of socialist governance."[18] However, the strength of the so-called "China model" is that there is not simply one model but many potential models to follow. Tang Xiaoyang describes how China operates abroad as "co-evolutionary pragmatism," noting that while China's firms have embraced unwavering support for "productivity growth," the corporate actors responsible for carrying out China's economic policies have been quite willing to employ flexible approaches.[19] Co-evolutionary pragmatism abroad builds on Yuen Yuen Ang's description of adaption, which she labels "directed improvisation."[20] In essence, the central government provides guidance and sets boundaries, and then "local authorities improvise a variety of solutions to locally specific and ever-changing problems."[21] In the case of the PRC, the central government has provided the general BRI and MSR guidance through Five-Year Plans and various strategic-level documents,[22] but there are at least two sets of local actors. The first set of actors for MSR projects is the PRC firms undertaking the project or activity. The second set of actors is the local officials from the host government, whether it be national-level officials or lower-level authorities.

We begin from the perspective that China's SOEs are shaped by their own domestic experience. While SOEs and other firms may (and likely do) learn and grow from their overseas experience, they still begin with a particular way of doing business that shapes how they undertake projects abroad. Sociological research describes national-level SOEs as a "networked hierarchy" because of the way that firms are "vertically integrated" under the State-owned Assets Supervision and Administration Commission (SASAC).[23] While not all-powerful, SASAC's purpose is to represent the party-state in its role as the controlling shareholder in national-level SOEs, and thus, there is an assumption that those SOEs will ensure the interests of the PRC government are represented.[24] China Merchants Group, Ltd. is one of SASAC's 96 national-level SOEs.[25] As one of China's national champions, China Merchants Group is a key actor in the BRI, but the company's unique experiences in the early stage of reform and opening offer insights into how it does business. In China, there was not one model of development, and not even one model of SEZs. From 1984 to 2006, there were at least six different types of SEZs with different regulations governing their operation.[26] China Merchants was able to follow a unique path in its activities in Shekou, and that path evolved alongside the larger changes in the Shenzhen SEZ.

The MSR development agenda, and analysis of the firms that undertake those projects, raises several questions. First, what are the characteristics of China's overseas ports and SEZs? Blanchard notes that while the infrastructure project themselves tend to garner the most public and media attention, "Less well known, but warranting attention, are special economic zones (SEZ), industrial parks, and power distribution and generation facilities."[27] I argue that those adjacent elements are in fact the core of China Merchants Port's Shekou model. A port may be a necessary condition for the larger industrial enclave to be successful, but the presence of a port is not sufficient for replication of the Shekou model. Industrial enclaves and the regulatory environment for those zones guide how those distinct elements of the zone interact. Similarly, David Styan notes in his analysis of Djibouti's ports that "there is relatively little literature which seeks to disaggregate disparate Chinese commercial and political interests within the overarching MSRI framework."[28] This article contributes to closing that gap by focusing on the internationalization strategy of one SOE, acknowledging that some of the projects predate the official BRI strategy. The BRI is clever branding but not necessarily a causal factor; instead, PRC SOEs were undertaking projects for a variety of reasons but found labeling their projects under this purview to be a useful commercial strategy.

Second, how does the host nation's legal and regulatory environment influence project evolution? As Deborah Brautigam and Meg Rithmire explain, while Sri Lanka's Hambantota port is often held up as the example of "debt-trap diplomacy," the role of the Rajapaksa family is equally important in understanding how that project progressed, as is the activity of PRC diplomats and SOEs. Similarly, in Djibouti, the country began a series of industrial zone policies before China Merchants was decisively engaged in the country. However, Djibouti needed loans and financing to achieve those development goals. PRC actors, such as the China Export-Import (EXIM) Bank, proved to be willing and useful partners. Examining both sides of these infrastructure projects is thus necessary when evaluating outcomes.

After surveying the current BRI literature, this article examines firm behavior in a subset of port projects, focusing only on CMPH for two reasons. First, by narrowing the focus to one SOE we can articulate the patterns specific to that firm. China Merchants explicitly notes that its activities abroad are modeled on its domestic experience. The Shekou Port near Shenzhen and its associated business operations remain a key component of China Merchants Group operations. However, Shekou has also become much more. Shekou has become *the* "story" of China Merchants and, thus, has its own narrative associated with it. To reconstruct that narrative, this article collects annual reports, corporate filings, and other primary source materials for CMPH for the country case studies presented.[29] Second, by sharpening our analysis of the patterns that occur when PRC firms undertake particular projects, we are able to compare our findings and assess whether there are consistent patterns across projects. After outlining the original Shekou model, this article examines China Merchants Port's plans for industrial clusters in three countries in Africa that have more than one PRC-led port project. The set of cases involves Djibouti, Morocco, and Tanzania.

China Merchants Port's Shekou Model

The Shekou Port and its adjacent industrial zone have been the flagship for CMPH since the zone's inception in 1979. Early on, prospects for success were uncertain, with development occurring in fits and starts throughout the 1980s.[30] Shekou was a "first mover" within China's political economy, but the Shekou model has now become a narrative used by the company itself to promote its global operations. From 2001 onward, every CMPH annual report references Shekou.[31] Discussions throughout the 2000s centered primarily around the basic facts associated with the Shekou port. For example, the 2001 annual report simply noted that the mainland-listed subsidiary, China Merchants Shekou, was involved in ports, utilities, real-estate, petrochemicals, and various other business operations.[32] As Shekou Container Terminals, another subsidiary of the larger corporate group, continued expanding in the 1990s, the company's growth allowed for further development elsewhere in China. By the mid-2000s, the legend of Shekou had begun to expand and, during this period, national guidance eventually culminated in the "Going Out" policy, begun under Jiang Zemin.[33]

The Shekou trajectory tells us how weak institutions were used to build markets and how those initially weak institutions were able to stimulate follow-on policies that generated more mature market development. Ang terms this general pattern as variation, selection, and niche creation. Variation occurs because no markets exist or the institutions responsible for managing those markets are weak (or both).[34] In China during the early 1980s, central reformers provided some guidance but allowed considerable flexibility at the local level, and this stage captures the activities of the early Shekou industrial zone. Selection refers to how the PRC government rewarded officials for successful outcomes.[35] In our example, selection can be applied to how China Merchants Group, a national-level SOE, used its initial development experiences to expand to other markets in China. In the early 2000s, that growth meant that the port and container sector was set for expansion, and the company pursued investment "in the development of container terminal projects in Ningbo, Tianjin, and Qingdao."[36] China Merchants grew, in part, because of its expanded container terminal operations elsewhere in the country, and those projects preceded the company's larger global expansion. This latest phase coincides with what Ang refers to as "niche creation" and describes how particular actors, once established, use their influence to "preserve markets."[37] This is the phase that best accounts for China Merchants status within the PRC political economy.

For later comparisons, here I briefly sketch key aspects of the original Shekou model. The Shenzhen special economic zone is easily China's most famous SEZ, and while Shekou and Shenzhen are closely related, they are not identical.[38] Several questions guide our analysis for the case studies comparisons addressed in the next section:

- What were the rules for the port, port authority, and adjacent industrial areas?
- Who runs the port and SEZ, and how does that affect its operations?
- When and how was the project initiated? How does the state of international trade, domestic competition, or other factors affect the project's development?

According to the Shenzhen Museum, Shekou was the "reform and opening's initial blast."[39] Shekou began as its own separate enclave; during its earliest period, China Merchants Port managed the enclave separately. Writing in 1984, one legal scholar argued that a key facet of initial implementation of SEZs in China was the "vagueness of the SEZ legislation and the reactive, piecemeal nature of its evolution."[40] The vague legal framework at the outset shaped how the smaller industrial enclave of Shekou developed. The original idea for Shekou preceded formal approvals for the Shenzhen SEZ because China Merchants Steamship Navigation (CMSN), then under the direction of Yuan Geng, had been able secure land for the project.[41] CMSN, at the time, was under the PRC's Ministry of Communications, and the company was looking to expand its operations.[42] Specifically, CMSN planned to create a salvage operation to "scrap old ships" and provide steel for the Hong Kong construction industry.[43] Land was too expensive in Hong Kong for the project; so, China Merchants sought land in Shekou, and in January 1980, CMSN issued regulations for the "Shekou Special Investment Zone.."[44]

The modern Shekou narrative ignores these early concerns about land use and the lack of clear regulations for zone operations. Initial guidelines, though, were clear on issues related to sovereignty. Because of the strong negative perception within China related to treaty ports, the initial Shenzhen regulations made it clear that the administrative authority was the Guangdong Provincial government and that "land rights are confined to rights of usage with China retaining ownership at all times."[45] For Shekou, the land use rules were distinct from Shenzhen and even more restrictive; in essence, the land in Shekou was controlled administratively by China Merchants, and the industrial zone operated under the purview of the Ministry of Transportation.[46]

The narrative has also been transformed to overlook these early challenges and focus on the later success. For example, in a tribute to China Merchants Port's head at the time, Yuan Geng, *Global Times*, credited Shekou's architect with "implant[ing] market-oriented DNA into the Shekou zone," noting that "Yuan was able to overcome a wide variety of difficulties to make Shekou a leading light of China's decades of reform."[47] Simultaneously, business-oriented publications have acknowledged the phases of Shekou's development, now referring to China Merchants Port's projects outside of China as the "Shekou Model 4.0" (蛇口模式 4.0, *Shekou moshi*).[48] This current stage of development is now deeply-rooted within China Merchants own narrative; in the company's 2018 annual report, CMPH states that it will "establish quality development models" by establishing itself as the "world's leading comprehensive port service provider.[49]

Africa's Shekou? Analysis in Three Cases

What does this the Port-Zone-City model look like in Africa? To evaluate how CMPH is applying this model in practice, this study analyzes three case studies: Djibouti, Morocco, and Tanzania. Djibouti is the iconic case of China's development in Africa, in part, because it has matured from a primarily economic relationship to one that now includes important security dimensions.[50] Tanzania's projects are less well-known but built upon a long-standing relationship between the two countries. In contrast to Djibouti and Tanzania, Morocco's port projects do not follow the Shekou model but may provide a useful framework for how China Merchants Port's activities may evolve in the future.

Djibouti and Doraleh

Djibouti sets the foundation for the types of activities occurring along China's MSR in Africa and the most clear-cut case of the "security-development nexus" in modern China–Africa relations.[51] From the development perspective, China Merchants has now undertaken several interrelated projects in Djibouti.[52] Djibouti did not formally sign onto the MSR until September 2018, but the highest profile joint projects precede that date. During the Forum on China-Africa Cooperation (FOCAC), in 2018, Pres. Ismael Omar Guelleh stated that Djibouti has "greatly benefited from Chinese investments in our ports, railways, and roads" and then officially signed onto the BRI.[53]

Djibouti's SEZ program was launched in the 1980s, and originally it was Dubai Ports World (DPW) that saw the potential of its "geographic location and deepwater port."[54] The Djibouti Free Zone (DFZ), which began in 2004, offers office space and warehouses to foreign firms and exempts businesses from corporate taxes if they setup in the zone.[55] The DFZ predates significant investment from China and is separate from the Djibouti International Free Trade Zone (DIFTZ), which is under the purview of China Merchants Group.[56] In the 2000s, the country's leaders cited Dubai and Singapore as potential models of development before taking up the mantle of the Shekou model, in 2017, with the opening of the Doraleh Multipurpose Port (DMP).[57] Essentially, Djibouti had decided to pursue the enclave model of development long before signing on to China's BRI, but financing and loans from China, along with the expertise from key PRC SOEs allowed the Djiboutian government to finally fulfill its goals as laid out in its Vision 2035.[58] In that long-term guidance, the Djiboutian government cited China as one of the "new growth poles of the South," but the two country's economic cooperation had only just begun to expand.[59]

The Djibouti Ports and Free Zones Authority (DPFZA) manages all zones in Djibouti. In 2013, the DPFZA formed a joint venture with China Merchants to create the Port de Djibouti Societe Anonyme; through that joint venture, China EXIM Bank provided a $340-million loan, which would finance construction of the DMP.[60] The Doraleh Multipurpose Port Phase 1 opened in 2017 and included "container, general and bulk cargo facilities."[61] In July 2018, the next major phase of the project began and the DIFTZ began its initial operations.[62] Despite the focus for China Merchants on the port complex and the adjacent free zone, in official BRI publications, the railway projects connecting Djibouti to Ethiopia, rather than the port itself, are emphasized as the necessary component for the project's long-term success.[63]

China Merchants' internationalization strategy highlights two trends relevant to Djibouti. First, China Merchants signed a long concession term contract (99 years) to ensure viability of the project and ample time to achieve the broader development objectives. Long concession term contracts have been cited as an indication of China's "debt-trap diplomacy."[64] Of the more than 50 ports operated by PRC firms abroad (as of mid-2020), eight have longer than average concession terms as compared to industry norms, and half these ports are operated by or have involvement from China Merchants.[65] Both ports with China Merchants involvement, including the Port of Djibouti and the DMP, have 99-year concession terms. Thus, long concession terms may be a unique facet of China Merchants business operations ensuring that port-adjacent industrial areas have sufficient time for development in the long term.

Second, China Merchants has begun to use the DMP as a platform for expansion of its "Global Port Alliance," which is an e-payment system intended to link ports across the MSR.[66] China Merchants describes the objective as an effort to "enhance the communications with the shipping companies and promote further exploration of strategic alliances between terminals and shipping companies."[67] Integrated payment shipping and advanced communications are good for the financial bottom line of companies, but these objectives are also consistent with larger PRC efforts to expand information technology as part of a "Digital Silk Road" (数字丝绸之路,*shuzi sichou zhilu*).[68] According to the Global Port Alliance's website, the "joint venture company Silk Road E-Merchants . . . has covered 29 ports and 55 wharfs in the world, with annual cargo handling capacity of 80 million standard containers."[69]

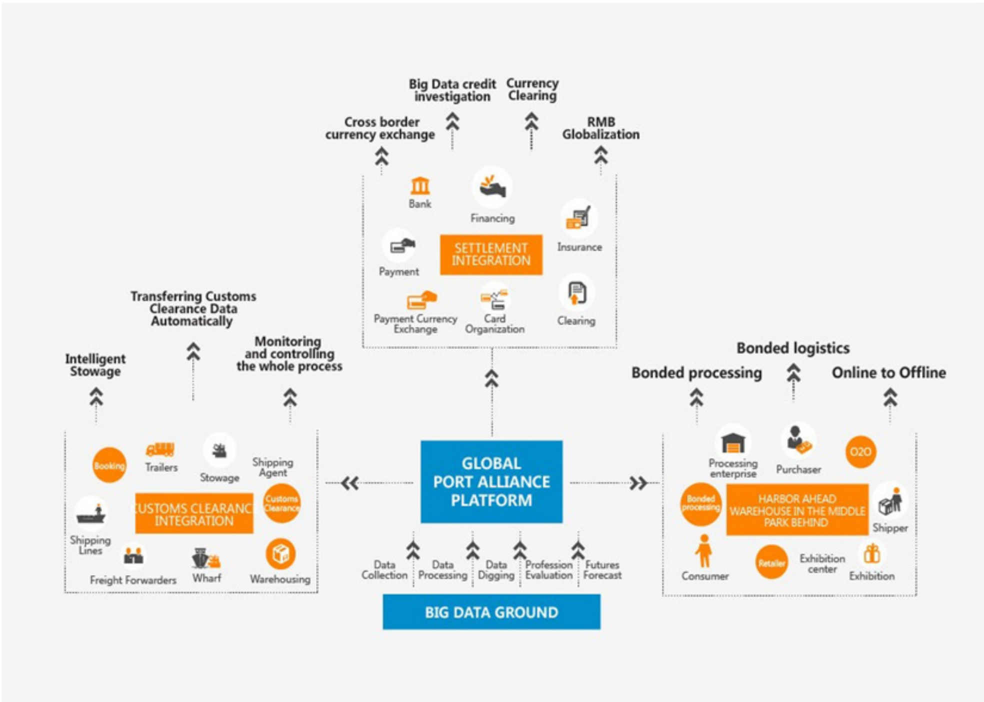

Figure 1. Global Port Alliance Platform. (Global Port Alliance, "About port alliance," n.d., https://www.izptec.com/.)

The security-development nexus is most clear in Djibouti since the country is home to China's first overseas military logistics facility. While not mentioned as the explicit reason for China Merchants pursuing its projects in the country, the two efforts have been complementary. Jean-Pierre Cabestan notes that "one of the six berths of the DMP was for the PLA's exclusive use."[70] One question now is whether the creation of the Port-Park-City enclave and the DMP will see the kind of growth that Shekou saw in its early stages or fall prey to debt-trap diplomacy.[71] While Doraleh may not yet have achieved the economic success of Shekou, this is more likely due to lack of planning and external circumstances. Styan describes the evolution of debts in Djibouti as "debt leverage," which "is not an intentional tool of China's BRI policies but [rather] reflects of lack of foresight and adequate planning by both African and Chinese sides."[72] This debt leverage relates to the ability of Djibouti to pay back the loan and whether loan concession length terms help or hurt the ability of the industrial zones to achieve their long-term financial and development goals. Both topics should be explored further as the Shekou of East Africa continues to evolve.

Tanzania: Land, Controversy, and Stagnation

The Tanzanian case highlights three key issues in the relationship between the PRC and East Africa. First, like Djibouti, economic ties have provided a foundation for stronger security ties. Second, control over land and related regulatory systems have created serious challenges for China Merchants Port's business model. Third, duplicative construction has generated competition among projects in the country, which has altered the timelines for particular ports.

Policy-oriented analysis often fixates on the most recent diplomatic and economic interactions. However, in the case of Tanzania, there is a long-standing relationship that must be understood to evaluate how joint development projects grew out of that relationship. According to Zhang, as African countries began to secure independence in the 1960s, "the PRC selected Tanzania as a primary target of its economic and technical assistance . . . and immediately extended diplomatic recognition to the country" upon its independence.[73] The most famous of these projects was the Tanzania-Zambia Railway, which began in the late 1960s. Throughout the 1970s, "China provided a loan of $286 million and a grant of an additional $28.6 million . . . and dispatched more than 50,000 engineers, technicians, and even laborers to work on-site at different times."[74] Thus, massive infrastructure projects via loans, grants, and imported workers were not necessarily a new phenomenon in the China–Tanzania relationship. This history is important because, far from trapping Tanzania in debt, the PRC government has been willing to forgive that debt when the projects fail.[75]

The second major issue as it relates to the creation of ports in Tanzania centers around land policy. PRC SOEs operate two major port complexes in Tanzania. The main port is located is in Dar es Salaam, and the second major project is the port in Bagamoyo. China Harbour Engineering Company (CHEC) is currently upgrading the Dar es Salaam Port. China Harbour stated that the goal of the port upgrades is so that it can handle "26 percent more cargo per year."[76] The country's main port in Dar es Salaam handles "about 95 percent of Tanzania international trade."[77] Separately, the Bagamoyo Port is also being developed and was officially agreed to as an idea during Xi Jinping's state visit to Tanzania in 2013. On 14 January 2013, China Merchants and the Tanzania government signed "an agreement on the implementation for Bagamoyo Project . . . laying a platform for CMHI [China Merchants Holdings International] to work towards developing a port zone."[78] The overall project is a being managed by China Merchants but has also received funding from Oman's sovereign wealth fund, the State General Reserve Fund.[79] According to a promotional video, the Bagamoyo Port would connect to landlocked countries in Central Africa via road and railway connections with the road and rail links provided by the Tanzanian government.[80] Like the China Merchants projects in Djibouti, Tanzania has been added to the list of countries following the Shekou Model 4.0 and the Port-Park-City framework.[81] Planning documents show space allocated for the port, logistics zones, and various other adjacent industrial zones; this type of integrated whole has become the hallmark of the China Merchants Shekou model.[82]

However, in 2018 and 2019, the project ran into serious challenges, and CSIS reported that the project had "stalled indefinitely."[83] The Tanzanian government expressed concerns about expanding ports elsewhere in the country and decided to "focus on the 'expansion and modernization of its [overloaded] Dar es Salaam port'."[84] Rumors abounded that China Merchants requested no other ports be built between in the vicinity of the Bagamoyo Project.[85] Concerns over land use near the SEZ also arose, and the director of the Tanzania Ports Authority noted that "land is for Tanzanians" and that he wanted to ensure that any development that occurred at Bagamoyo would be favorable to the local population.[86] Concerns about sovereignty, along with the desire to shape the development outcomes associated with port expansion, have repeatedly arisen in the Tanzania case. In this way, Bagamoyo is reminiscent of the early debates and controversies in Shekou itself. In both cases, local leaders wanted to expand development but not at the expense of control over the land. Yet, the story of Bagamoyo is not yet over. In June 2021, Tanzania's president, Samia Suluhu Hassan, said "the country will look to revive the port project."[87]

Morocco's MSR?

In terms of following the Shekou model, China Merchants Port's basic strategy has the least explanatory power in the case of Morocco. In Morocco, CMPH operates two ports: Somaport in Casablanca and Eurogate Tanger in Tangiers.[88] Both ports are operated through the Terminal Link alliance, of which CMPH holds a 49-percent stake.[89] For Somaport in Casablanca, the 30-year concession was agreed upon in November 2006, prior to the involvement of China Merchants.[90] The legal economic framework for export processing zones has existed in Morocco since 1995[91] but has not been a selling point in terms of the larger China Merchants strategy. For example, China Merchants Port's most recent annual reports simply list the two Moroccan ports by name with no fanfare about adjacent industrial areas or other related projects.[92]

Despite little association with the Shekou model, the projects in Morocco highlight several other trends in the shipping industry. The use of equity joint ventures in the shipping industry has increased, and the Terminal Link joint venture typifies this sort of consolidation. In June 2013, CMHI "completed the acquisition . . . of a 49 percent stake in Terminal Link, SAS."[93] CMA CGM, a French container and shipping firm, owns controlling shares of Terminal Link (51 percent).[94] Terminal Link is an important joint venture to monitor to understand whether China is operating ports in a way that makes them "susceptible to Chinese influence"[95] or whether international business practices are constraining the way in which China's SOEs operate while abroad.

The Eurogate Tanger port is also a 30-year concession, but this project is a joint venture with several other firms. The Eurogate Tanger project is the second container terminal in the port and began operations in 2008.[96] While China Merchants lists the Eurogate Tanger project in its corporate materials, the company's annual reports do not provide any amplifying details. In terms of timing, the overall project precedes both China's BRI and China Merchants Port's involvement in the Terminal Link joint venture. Eurogate Tanger is a large consortium project primarily controlled by European-based corporations, including Contship Italia, Mediterranean Shipping Company, and the Terminal Link consortium.[97] One shipping industry expert noted, "I don't think European countries feel threatened because in almost all cases the landlord function remains in the hands of the local countries."[98]

Key to understanding the operations of China Merchants in Morocco are trends in the shipping industry toward consolidation and increased linkages between firms. Francesco Parola, Giovanni Satta, and Simone Caschili examined more than 400 terminals and more than 200 container port operators using network analysis to show that "international terminal operators (ITOs) . . . have growingly resorted to equity joint-ventures (EJVs) to develop new infrastructures and share project risks."[99] Large ITOs consolidate their operations and partner with other terminal operators to reduce the risks associated with any one project. Parola, Satta, and Caschili also found that, on average, major terminal operators "held stakes in 15 container terminals."[100] Shipping operators—such as PSA, DPW, and Hutchison Ports—have been very active in the creation of EJVs, and "co-operation is a key strategic option" for firms in this sector to remain financially viable.[101]

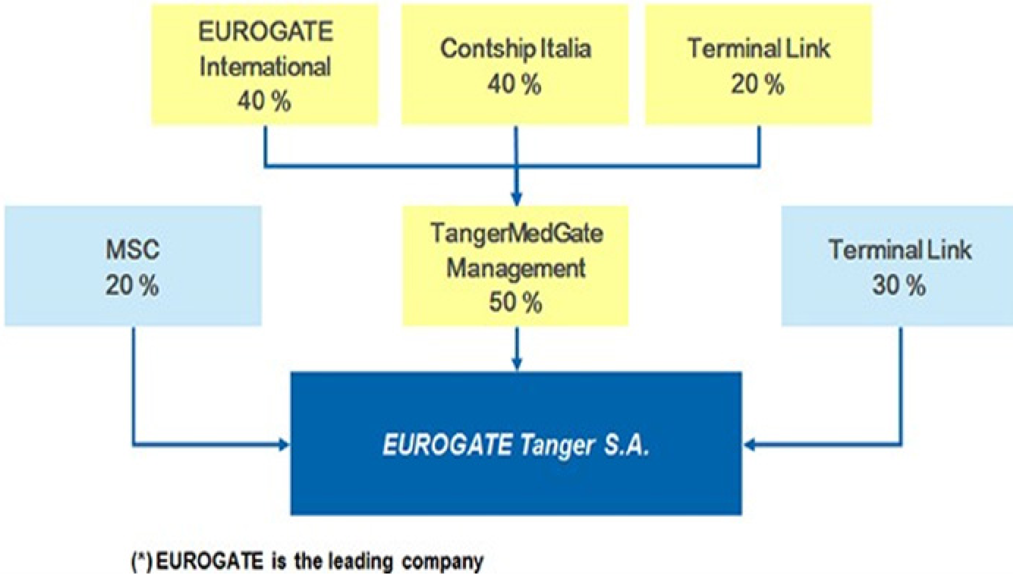

Figure 2. Eurogate Tanger corporate structure. (Tanger Med Port Authority, "Eurogate Tanger," n.d., http://www.tmpa.ma/.)

Terminal Link is an excellent example of the kind of equity joint ventures that have become more common in the shipping industry. Terminal Link began in 2001 as a joint venture headquartered in Marseille, France.[102] CMA CGM owns the controlling shares of Terminal Link and joined forces with CMPH in 2012.[103] Similarly, the Eurogate Tanger is also an EJV, and one that includes the Terminal Link consortium. Given the complicated corporate structure of this project (*see* fig. 2), there are at least five separate shipping firms with a role in the project. Eurogate International, Contship Italia, and Terminal Link jointly own the Tanger Mediterranean Gate Management company.[104] Tanger Mediterranean is owned by Terminal Link (30 percent) and Mediterranean Shipping Corporation, which holds 20 percent shares.[105] As such, CMPH is only one firm with an interest in the port operations in Tangiers and, thus, has very little control over the port's day-to-day operations. Eurogate has four total projects with Mediterranean Shipping Corporation and operates 11 terminals.[106] Morocco may not be the Shekou of North Africa, but it does illustrate the complexity of corporate ownership arrangements in the shipping industry.

Implications and Conclusion

The maritime goals laid out by the PRC in the 13th Five-Year Plan have now been expanded and intertwined with Xi Jinping's commentary on "building a strong maritime nation."[107] Inherent in this updated guidance is the focus on "deepening the study of Xi Jinping's teachings."[108] That guidance highlights the necessity of SOEs to abide by the guidance of the Chinese Communist Party leadership. Instead of simply "Going Out," Chinese firms must go out and build a strong maritime economy and ensure the protection of China's maritime rights.

There are three main implications of this research. First, countries may find the rhetoric of the China model or Shekou model convenient, but the ability of host nations to replicate these models is far more contingent in practice. In each of these cases, there are opportunities for integrated development projects for the host nation, but the ability of those countries to take advantage of those opportunities relies on how local authorities implement the projects. Simultaneously, there are opportunities for collusion among Chinese firms. For Djibouti, the host-nation government and port authority have been able to leverage the country's unique locational advantages despite its "small state" status.[109] In Tanzania, the fact that there were multiple projects in the country detracted from the ability to enact those projects.

Second, China Merchants Port's Shekou model is simple in theory but quite difficult to implement outside of the Chinese context. In the PRC in the 1980s, while there was considerable room for experimentation, the issue of sovereignty over land was never in question. As the Tanzania case illustrates, negotiations over land use and who benefits from the port project have been under debate for more than eight years, and those disagreements over control of land are likely to continue. Controversies over land and sovereignty in Tanzania highlight the fact that countries have agency and can shape how PRC-funded BRI projects come to fruition. Yet, controversies around sovereignty are not unique and should be expected as they too were a crucial aspect of the development of China's original Shekou zone. These types of controversies—and the risks associated with them—may be one reason China Merchants has sought long concession terms for a handful of its flagship projects abroad. Longer time horizons allow additional time to sort out these controversies while also allowing sufficient time for the SEZs to become operational.[110]

Third, the Moroccan case provides a different lens on the global reach of PRC SOEs. Terminal Link was part of China Merchants globalization strategy in an increasingly consolidated port and shipping industry.[111] Firm takeovers have implications for the long-term structuring of shipping that supports global trade, the oligopolistic nature of the shipping industry, and how state-owned firms may be able to undertake unique forms of collusion. This article contributes to our understanding of state-firm behavior and raises important questions for future research.

First, how do Chinese firms balance the need to achieve their commercial goals while also ensuring that they are acting in a manner consistent with PRC goals? While the two goals are often compatible, they are not the same thing. For SOEs, they must do more than simply go out and build ports under the mantle of the BRI but must also contribute to China's maritime strategy in other ways. Djibouti is an excellent example of the development-security nexus and shows how commercial relations can support expansion of military ties. Simultaneously, Djibouti shows that developing those ties is a slow process. Second, how will the evolving nature of the shipping industry influence PRC port projects in Africa? The oligopolistic nature of the shipping industry and the ability of state firms to undertake unique forms of collusion may mean that new development patterns are emerging. As referenced at the outset, the maritime goals laid out in the 13th Five-Year Plan were relatively straightforward, but now those goals have been expanded and intertwined with Xi Jinping's commentary on the "building a strong maritime nation" (建设海洋强国, *jianshe haiyang qiangguo*). Yet, port projects in Africa are not all identical as illustrated with the differences in projects and outcomes in Djibouti, Tanzania, and Morocco.

At its core, one key question for future research is who is benefiting from this model of development.[112] Is the mode of integrated port development truly "win-win" as China asserts, or is it primarily benefiting the SOEs that undertake these projects? Additionally, non-economic outcomes of zone-based development remain underexamined. Industrial plans, land use, and concession terms all have implications for how successful port projects will be and whether they contribute to the domestic economy. Parola, Satta, and Caschili note that "cooperative ventures in the container port industry" are increasingly common, but cooperative commercial ventures do not fully capture the ways in which collusion could be occurring among Chinese firms. Contract terms have influence over land use in a particular jurisdiction, the rules and regulations for the port and SEZ, and which companies operate within that zone. Each of these factors has implications for national sovereignty, corruption, local politics, debt, and the success or failure of these port projects. Much more work needs to be done, and that analysis must be conducted with an appreciation of Chinese plans and intentions, PRC SOE behavior, and the role of local and national authorities in those projects. ✪

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Notes

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2. Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push." *The American Interest*, 4 April 2019, https://www.the-american-interest.com/; Deborah Brautigam, "A critical look at Chinese 'debt-trap diplomacy': the rise of a meme," *Area Development and Policy,* 5, no. 1 (2020), https://doi.org/; and Deborah Brautigam and Meg Rithmire, "The Chinese 'Debt Trap' Is a Myth: The narrative wrongfully portrays both Beijing and the developing countries it deals with," *The Atlantic*, 6 February 2021, https://www.theatlantic.com/international/.

3. National Development Reform Commission, "The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China, 2016-2020," Translated by the Compilation and Translation Bureau, Central Committee of the Communist Party of China, 2016, https://www.greengrowthknowledge.org/.

4. The Center for Strategic and International Studies (CSIS) catalogs ports in Sub-Saharan Africa; *see*: Judd Devermont, Amelia Cheatham, and Catherine Chiang, "Assessing the Risks of Chinese Investments in Sub-Saharan African Ports," 2019, CSIS, https://csis-ilab.github.io/. Kardon (2020) provides a list of port projects in his testimony appendix; see: Isaac B. Kardon, "China's Development of Expeditionary Capabilities: 'Bases and Access Points'," 2020, https://www.uscc.gov/. Pekkanen and Pearson (2018) provide a set of case studies related to controversial port projects; *see*: Saadia M. Pekkanen and Margaret M. Pearson, "Limits to Maritime Power: The Politics of Controversy over Chinese Infrastructure Investment," Working Paper, 2018.

5. Deng Yanzi, "CMG wants to make African port of Djibouti 'new Shekou'," 2017, *China Daily*, 7 March 2017, https://www.chinadaily.com.cn/; Erica Downs, Jeffrey Becker, and Patrick deGategno, "China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base," 2017, https://www.cna.org/.

6. Deng, "CMG wants to make African port of Djibouti 'new Shekou'."

7. Deng, "CMG wants to make African port of Djibouti 'new Shekou'"; and Gao Jianghong, "'Shekou 4.0' Lands in Djibouti, China Merchants Goes to Sea," *21st Century Business Herald*, 5 July 2017, http://epaper.21jingji.com/.

8. Gao, "Shekou 4.0 Lands in Djibouti." Gao does not define the "flying geese" concept, but the name is likely drawn from Japan's rhetoric of development in the 1970s and 1980s. During that period, Japan's business conglomerates were described as the "lead" of a flying formation of Asian countries that would include Southeast Asia. For more on Japan's development strategies in Asia and how they compare to China's efforts, *see*: Jonathan E. Hillman, *The Emperor's New Road: China and the Project of the Century* (New Haven, CT: Yale University Press, 2020).

9. David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985).

10. William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, NY: Cornell University Press, 2016).

11. Jean-Marc F. Blanchard, "Problematic Prognostications about China's Maritime Silk Road Initiative (MSRI): Lessons from Africa and the Middle East," *Journal of Contemporary China*, 29, no. 122 (2020): 159–174.

12. Deng, "CMG wants to make African of Djibouti 'new Shekou'"; and Gao, "Shekou 4.0 Lands in Djibouti."

13. Norris, *Chinese Economic Statecraft*, 2016.

14. James Reilly, *China's Economic Statecraft: Turning Wealth into Power* (Sydney: Lowy Institute, November 2013), 2.

15. Norris, *Chinese Economic Statecraft*; and Shu Guang Zhang, *Beijing's Economic Statecraft during the Cold War, 1949-1991* (Washington, DC: Woodrow Wilson Center Press and Baltimore, MD: Johns Hopkins University Press, 2014).

16. Norris, *Chinese Economic Statecraft*, 2016.

17. Li-Wen Lin and Curtis J. Milhaupt, "We Are the (National) Champions: Understanding the Mechanisms of State Capitalism in China," *Stanford Law Review*, 65, (2013): 697–759.

18. Mary Ann O'Donnell, Winnie Wong, and Jonathan Bach, "Introduction: Experiments, Exceptions, and Extensions," in *Learning from Shenzhen: China's Post-Mao Experiment from Special Zone to Model City*, ed. Mary Ann O'Donnell, Winnie Wong, and Jonathan Bach (Chicago: University of Chicago Press, 2017), Kindle edition.

19. Tang Xiaoyang, "Co-evolutionary Pragmatism: Re-examine 'China Model' and Its Impact on Developing Countries," *Journal of Contemporary China* 29, no. 126 (2020): 853–70.

20. Yuen Yuen Ang, *How China Escaped the Poverty Trap,* Cornell Studies in Political Economy (Ithaca, NY: Cornell University Press, 2016).

21. Ang, *How China Escaped the Poverty Trap,* 17.

22. NDRC, "13th Five-Year Plan," 2016; Xi Jinping, PRC State Council, NDRC, Ministry of Foreign Affairs, and Ministry of Commerce, "Full-text: Action plan on the Belt and Road Initiative," 30 March 2015, http://english.www.gov.cn/; "Chronology of China's "Belt and Road" initiatives," *Xinhua News*, 5 February 2015, http://news.xinhuanet.com/; and PRC Ministry of Foreign Affairs, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries," 7 September 2013, http://www.fmprc.gov.cn/.

23. Lin and Milhaupt, "We Are the (National) Champions," 700.

24. Jude Blanchette, "From 'China Inc.' to 'CCP Inc.': A New Paradigm for Chinese State Capitalism," *China Leadership Monitor,* Winter 2020, no. 66 (1 December 2020), https://www.prcleader.org/; and Lin and Milhaupt, "We Are the (National) Champions."

25. State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, 央企名录,*Yangqi Minglu* [List of central enterprises], 24 June 2021, http://www.sasac.gov.cn/.

26. April A. Herlevi, "Economic Growth or Sowing the Seeds of Destruction? The Role of Economic Development Zones in China," *Journal of Chinese Political Science* 22, no. 4 (2017): 675–89, https://doi.org/. In 2006, there was an effort to close many of these zones, but in the past five years in China, "special zones" and SEZs are once again being created to manage development including the new Xiong'an zone near Beijing and the designation of all of Hainan Island as a "free trade zone."

27. Blanchard, "Problematic Prognostications," 161.

28. David Styan, "China's Maritime Silk Road and Small States: Lessons from the Case of Djibouti," *Journal of Contemporary China* 29, no. 122 (2020): 191–206, https://doi.org/.

29. This research has been part of a larger research project funded initially by the NBR's National Asia Research Program (NARP). I collected corporate records for China Merchants, China Ocean Shipping Corporation (COSCO) Shipping Group, and other PRC shipping companies with port projects abroad and created a dataset of overseas port operations with indicators for concession term length, ownership shares, and the role of the Chinese firm. For more information on that data, *see*: April A. Herlevi, "Building China's 21st Century Maritime Silk Road: Port Management Operations as Economic Statecraft," Working Paper, 2021, (currently under review).

30. Ezra F. Vogel, *One Step Ahead in China: Guangdong Under Reform* (Cambridge, MA: Harvard University Press; Tu Qiao [涂俏], 袁庚转: 改革现场*1978-1984 [Biography of Yuan Geng: Site of Reform]* (Beijing, China: Writers Publishing House, 2008).

31. China Merchants did not formally begin publishing annual reports online until 2001; author dataset contains all CMPH reports from 2001 to 2021.

32. China Merchants Port Holdings Company Ltd., "Annual Report 2001," 2001, https://www.cmcdi.com.hk/.

33. According to one China scholar, Ni Shixiong (2009), Jiang Zemin reportedly said, 为服务祖国和同胞走出去 (*wei fuwu zuguo he tongbao zou chu qu*), "For the service of the motherland and its compatriots, go out." Ni Shixiong, 《江泽民与中美关系》[Jiang Zemin and China-US Relations], Mao Zedong Deng Xiaoping Theory Research 6 (2009): 56–64.

34. Ang, *How China Escaped the Poverty Trap,* 15.

35. Ang, *How China Escaped the Poverty Trap,* 16.

36. China Merchants Port Holdings Company Ltd., "Annual Report 2002," 2002, 18, http://www.cmport.com.hk/.

37. Ang, *How China Escaped the Poverty Trap,* 14.

38. At the outset, Shenzhen was known as an" Export Commodity Base," according to the Shenzhen Museum, Shenzhen, China, June 2016. Later, because the focus on trade appeared too controversial for some PRC leaders, Deng Xiaoping changed the name to "special economic" area.

39. Shenzhen Museum, Shenzhen, China, June 2016. The phrase used was: 改革开放的 "第一炮" (*gaige kaifang de "di yi pao")* [Reform and opening's "First blast"].

40. Ann Fenwick, "Evaluating China's Special Economic Zones," *Berkeley Journal of International Law* 2 no. 2 (1984), 378.

41. Vogel, *One Step Ahead in China*, 130-131.

42. Fenwick, "Evaluating China's Special Economic Zones," 379. China Merchants remained a state-owned enterprise under the PRC, but the company's headquarters was in Hong Kong. *See also*: Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Boston, MA: Harvard University Press, 2011).

43. Vogel, *One Step Ahead in China*, 132.

44. Fenwick, "Evaluating China's Special Economic Zones," 379.

45. Fenwick, "Evaluating China's Special Economic Zones," 381. Quote is drawn from Article 12 of the *Regulations for Guangdong Special Economic Zone*.

46. Mary Ann O'Donnell, "Heroes of the Special Zone: Modeling Reform and Its Limits," in *Learning from Shenzhen: China's Post-Mao Experiment from Special Zone to Model City*, ed. Mary Ann O'Donnell, Winnie Wong, and Jonathan Bach (Chicago: University of Chicago Press, 2017), Kindle edition.

47. Li Qiaoyi, "Tributes to Yuan Geng reflect nation's belief in need to stick with reform program," *Global Times*, 2 February 2016, http://www.globaltimes.cn/.

48. Gao, "'Shekou 4.0' Lands in Djibouti."

49. China Merchants Port Holdings Company Ltd., "2018 Annual Report," 2018, http://www.cmport.com.hk/.

50. Downs, Becker, and deGategno, "China's Military Support Facility in Djibouti."

51. Johns Hopkins University School of Advanced International Studies (SAIS) China Africa Research Initiative (CARI), "Development-Security Nexus," *6th Annual Conference Strategic Interests, Security Implications: China, Africa, and the Rest*, 22 September 2020. *See also*: Ilaria Carrozza, "New Perspectives on China's Relations with the World," in *China's Multilateral Diplomacy in Africa: Constructing the Security-Development Nexus*, ed. Daniel Johanson, Jie Li, and Tsunghan Wu (Bristol, England: E-International Relations Publishing, 2019), 142–58.

52. In this analysis, we do not cover the Ghoubet Port, which is being built by China Harbour Engineering Company with funding from the China Export-Import Bank. For that project, *see*: Downs, Becker, and deGategno, "China's Military Support Facility in Djibouti," 9.

53. Styan, "China's Maritime Silk Road and Small States," 192.

54. Thomas Farole and Gokhan Akinci, eds., *Special Economic Zones: Progress, Emerging Challenges, and Future Directions* (Washington, DC: The World Bank, 2011). Launch dates for the program are mentioned in table 3, page 68, while the quote is drawn from page 160.

55. Africa Economic Zones Organization, "Djibouti," https://www.africaeconomiczones.com/.

56. US Department of State, "2020 Investment Climate Statement: Djibouti," 2020, https://www.state.gov/.

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59. Djibouti, "Vision 2035," 96.

60. Downs, Becker, and deGategno, "China's Military Support Facility in Djibouti," 10.

61. Styan, "China's Maritime Silk Road and Small States," 196.

62. Styan, "China's Maritime Silk Road and Small States."

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64. John Pomfret, "Opinion: China's debt traps around the world are a trademark of its imperialist ambitions," *Washington Post*, 27 August 2018, https://www.washingtonpost.com/. The Center for Global Development also listed Djibouti as high-risk for future debt distress, *see*: John Hurley, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and

Road Initiative from a Policy Perspective," Center for Global Development Policy Paper, March 2018, https://www.cgdev.org/.

65. Author dataset, as described in "Building China's 21st Century Maritime Silk Road: Port Management Operations as Economic Statecraft," Working Paper, 2021, (currently under review). *Long concession terms* are defined as longer than 50 years. According to shipping industry and academic publications, 25 to 40 years has historically been the norm for concession term lengths. *See*: Joseph Botham, "Concession Choices," *Strategy: Ports and Terminals*, 2014; and Christophe Theys and Theo Notteboom, "Determining Terminal Concession Durations in Seaports: Theoretical Considerations, Applicable Techniques and Current Practices," *Journal of International Logistics and Trade* 8, no. 1 (June 2010): 13–40, https://doi.org/.

66. Styan, "China's Maritime Silk Road and Small States," 201.

67. China Merchants Port Holdings, "2018 Annual Report," 25.

68. PRC State Council, et al., "Full-text: Action plan on the Belt and Road Initiative."

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73. Zhang, *Beijing's Economic Statecraft During the Cold War*, 119.

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85. Ken Moriyasu, "Tanzania to revive $10bn Indian Ocean port project with China," *Nikkei Asia*, 27 June 2021, https://asia.nikkei.com/.

86. Blanchard, "Problematic Prognostications," 168.

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88. Herlevi, "Building China's 21st Century Maritime Silk Road."

89. China Merchants Port Holdings, "We Connect the World," 4.

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作情况的报告» *guanyu fazhan haiyang jingji jiakuai jianshe haiyang qiangguo gongzuo qingkuang de baogao*, [Report on Development of the Maritime Economy, Speeding up Construction of Maritime Power], 24 December 2018, http://www.npc.gov.cn/.

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112. Thank you to Joe Siegle of the Africa Center for Strategic Studies at the National Defense University for raising this question during the "Development-Security Nexus" panel held at the SAIS-CARI 6th Annual Conference on 22 September 2020.

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