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Leaping across the ocean

The port operators behind China's naval expansion

Charlie Lyons Jones and Raphael Veit

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About the authors

Charlie Lyons Jones is a researcher in ASPI's Defence and Strategy Program, where he assesses developments in the People's Liberation Army, Taiwan–China relations and East Asian security.

Proficient in Mandarin, Charlie was one of the analysts who helped build the *China Defence Universities Tracker*, which is the world's most comprehensive database of institutions in China that conduct research into military science and weapons technology. Charlie has deep experience working on China, having interned at the Australian Trade and Investment Commission in Beijing and at the Lowy Institute's East Asia Program in Sydney.

Charlie's commentary on Chinese foreign and defence policy has appeared in publications such as *The National Interest*, *The Strategist*, *The Interpreter*, *Real Clear Defense* and *The Diplomat*. His expert opinion has been quoted in major media outlets such as *The Economist* and the *South China Morning Post*. He has also appeared on *7 News*, *SBS World News* and *ABC News Radio*.

Before joining ASPI, Charlie read an MSc at the University of Oxford, where he won the Contemporary China Studies Scholarship from the School of Global and Area Studies. At Oxford, he was a member of St Antony's College and wrote a dissertation on the influence of Communist Party ideology on naval doctrine under Xi Jinping. Charlie also holds a BA from the University of Melbourne and has studied abroad at Peking University, Fudan University and National Taiwan University.

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EXECUTIVE SUMMARY

The People's Republic of China (PRC) has become increasingly willing to project military power overseas while coercing and co-opting countries into accepting the objectives of the Chinese Communist Party (CCP). Beijing's greater willingness to flex its muscles, both politically and militarily, is supported by its overseas investments in critical infrastructure, which provide the People's Liberation Army (PLA) with the logistical enablers needed to project military power beyond the 'first island chain' in the Western Pacific. 'Controlling the seas in the region, leaping across the ocean for force projection' (区域控海，跨洋投送) is the term Chinese naval commentators use when referring to the PLA Navy's bid to project power across the world.[1]

Beijing's strategy of using commercial investments in critical infrastructure to support its military expansionism is most evident in the Belt and Road Initiative (BRI). The overland 'belt' is envisaged as an economic and trade corridor from China's west through Central Asia and into Europe. For the maritime 'road', a network of ports and hubs—aka the 'string of pearls'—across the Indo-Pacific is fundamental to Beijing's vision. The BRI is primarily an economic construct, but its role as a military enabler is understudied and remains important to the PLA and the Chinese regime.

China's state-owned enterprises (SOEs) play a key role in implementing the BRI. Ostensibly commercial operations, they operate in a hybrid style, fulfilling CCP objectives and in return receiving strong government support, including large-scale subsidised funding from the Chinese regime. Each Chinese SOE is required to have a CCP committee and numerous subordinate party branches, ensuring that commercial strategies are aligned with party directives.

Chinese SOEs designated 'important backbone state-owned enterprises' are uniquely beholden to the CCP. Those firms, which include maritime companies such as COSCO and China Merchants, often have an in-house paramilitary capability or close ties to the CCP's leadership in Zhongnanhai. Large-scale investments made by those companies in critical infrastructure projects are often accompanied by CCP 'active measures'.[2] SOEs such as COSCO or China Merchants will support PLA operations in wartime or grey-zone activities in peacetime. There's good evidence that such support is taking place now.

The PRC's overseas investment in critical infrastructure poses a significant challenge to Australia and to other nations that don't share China's strategic interests. Australia should adopt a whole-of-nation approach to safeguarding the resilience of critical infrastructure in an era of PRC maritime–technological expansion and CCP active measures. The Australian Government will need to bring state and territory governments up to speed on the risks posed by PRC investments in critical infrastructure. That effort could begin by the government conducting a review of the country's high-level critical infrastructure governance, including the terms of reference for the Critical Infrastructure Advisory Council and the Resilience Expert Advisory Group, to ensure appropriate alignment between the state and federal governments.

Overseas, Australia would also need to enhance diplomatic collaboration with like-minded partners—specifically, Japan and the US—beginning with a trilateral meeting on critical infrastructure security to harmonise standards and develop a coherent international strategy. Another complementary initiative would be to use the recently created Blue Dot Network for critical infrastructure projects. Australia, Japan and the US should consider sharing expertise in critical infrastructure security across the Indo-Pacific to alert countries to the Blue Dot ‘brand’ as well as to the risks posed by PRC investments in critical infrastructure. With sufficient buy-in from New Delhi, this critical infrastructure strategy could be elevated to the Quadrilateral Security Dialogue.

Australia should build its research and analytical capacity to better understand the nexus between the CCP and SOEs. That due diligence, building on open-source research conducted for this report, will better illuminate the PRC’s global expansion, potential grey-zone operations and the companies and individuals involved.

THE BELT AND ROAD INITIATIVE

Connectivity is the key to the Chinese regime's ability to project power beyond its borders—on land, at sea, and digitally. That connectivity is underpinned not just by China's global technological expansion but also by the numerous large infrastructure projects that form the Belt and Road Initiative (BRI) and Beijing's diplomatic offensive.[3] The overland 'belt' is envisaged as an economic and trade corridor from China's west through Central Asia and into Europe. For the maritime 'road', a network of ports and hubs across the Indo-Pacific is the key to Beijing's vision.[4]

Described as 'the world's greatest branding exercise', the BRI is promoted by Beijing as bringing development, aid, connectivity and cooperation to countries that sign up to projects—usually beginning with a vague memorandum of understanding.[5] China's flexibility in how the BRI is rolled out illustrates a key element of the initiative: it's a broad guideline, rather than a precise strategy and plan with project milestones and grant charts that can be mapped into the future.

That said, dismissing the BRI's strategic significance would be a mistake. As Euan Graham argues, 'it is … possible to see in BRI the clear contours of a thought-through, full-spectrum grand strategy for China, straddling economic, political, military and even psychological domains.'[6] The BRI, in this respect, is best understood as a broad directive for Chinese entities to form partnerships with foreign actors so as to advance the strategic interests of the People's Republic of China (PRC). Seeing the BRI as 'grand strategy by directive' means that its implementation is expected to be refined as circumstances change and context demands. Tactical flexibility is a feature of the BRI, not a bug.

To date, more than 60 countries have signed up to BRI projects or indicated an intention to do so, seeking to benefit from trade and investment,[7] and China's BRI spend has amounted to around US$200 billion.[8] But, faced with a Covid-19-induced global recession, investment projections are likely to be lower, and business cases that were questionable before 2020 could well look unpalatable and burdensome.

The global economic fallout from the pandemic is likely to constrain countries' ability to pay for BRI projects and potentially limit Beijing's ability to subsidise projects by Chinese firms. Reduced capital flows and financial challenges to small and medium-sized enterprises are likely to divert official attention away from the BRI in the short to medium term and will make Beijing less likely to grant debt forgiveness.[9] Supply-chain disruptions and travel restrictions will lead to project suspensions and delays—particularly since many BRI projects use imported Chinese labour.[10] Many BRI projects are in developing countries where containment and recovery from the pandemic may be more difficult, putting further strain on those projects.[11] Chinese investment banks will be hesitant to fund projects with questionable long-term prospects.[12]

A lesser studied aspect of the BRI is its connection to the People's Liberation Army (PLA). What's likely to emerge from Covid-19 is a pared-down, more focused BRI. Future projects, and those that remain, are likely to be more strategically targeted and financially viable. The BRI that evolves out of this new focus will be geared towards supporting PLA operations and objectives, denying adversaries the ability to project military power, or building significant strategic influence. Refocusing the BRI in this way would require companies from the PRC to position themselves as better able and more willing to support Beijing's strategic interests, which would probably involve tighter collaboration with the Chinese Communist Party (CCP).

However, a more overtly strategic BRI might not be well received by the rest of the world after Covid-19. The PRC's militarisation of the South China Sea through an expanded, aggressive military and militia presence and through the construction of wharves, airfields and other military facilities, as well as an increasingly provocative submarine presence, had already fuelled fear of Beijing's military expansionism before the Covid-19 pandemic struck. As the PLA's presence continues to expand beyond the region after Covid-19, BRI projects will need to be subjected to heightened scrutiny. Nowhere would that scrutiny be more important than in PRC investments in port infrastructure under the BRI brand.

INTEGRATING THE MARITIME SILK ROAD WITH THE 'INFORMATION SILK ROAD': A KEY ELEMENT OF THE BRI

President Xi Jinping announced the Maritime Silk Road (MSR,海上丝绸之路) initiative in a speech to the Indonesian Parliament in 2013, promising to strengthen maritime cooperation with ASEAN countries.[13] While the geographical end goal of the MSR is to connect China with Europe and the rest of Asia, it's also important in facilitating expanding trade growth between Africa and Asia. Maps released in 2015 extended the MSR to the South Pacific.[14] The MSR shouldn't be conceived of as just hard infrastructure. China is also pushing soft engagement, such as trade and investment agreements, tourism, aid and training, as part of this initiative.

The MSR will be supported by a backbone of hard infrastructure—highways, high-speed rail, trucks, airports and seaports and supporting power and communications networks—but no complete project list exists or will be published in the foreseeable future. Much like the broader BRI, the expansion of the MSR is largely *ad hoc* by Chinese state-owned enterprises (SOEs) following a broad strategic directive set by the CCP. The physical infrastructure is laced together with digital systems and digital critical infrastructure that has Chinese companies and technologies at the heart of it.

The MSR will be supplemented by what Beijing calls its 'Information Silk Road' (信息丝绸之路). The two initiatives have long been integrated. On 28 March 2015, the PRC Government released a joint statement on the MSR by the PRC's National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce and made clear that Beijing would 'jointly advance the construction of cross-border optical cables and other communications trunk line networks, improve international communications connectivity, and create an Information Silk Road'.[15] The goal would be to 'build bilateral cross-border optical cable networks at a quicker pace, plan transcontinental submarine optical cable projects, and improve spatial (satellite) information passageways to expand information exchanges and cooperation.'[16] This suggests that PRC technology companies are expected to play a crucial role in supporting the development of the MSR.

Pushback against the BRI and the MSR has been increasing as global perceptions of the Chinese regime deteriorate under Xi Jinping.[17] Whereas a decade ago engagement with the PRC was seen as primarily economic, governments are increasingly concerned with the political and security risks attached and Beijing's sensitivities about the BRI brand. PRC expansionism and global political activism, and numerous reports of traditional and cyber espionage, along with foreign interference, have increased suspicion about Beijing's motives.

Concerns about Chinese SOEs and strategically important sectors, such as ports and shipping, have followed.[18] Growing international pushback has slowed Chinese commercial expansion—port acquisitions and investments have become more selective in recent years, although the appetite to expand holdings remains.[19] The ability of SOEs to contribute to and engage in grey-zone activities and to extend Chinese Government influence into Australia's near abroad makes them a credible security risk.

Strategic competition between the US and China—as highlighted in Australia's 2020 Defence Strategic Update—is the primary driver of strategic dynamics in the Indo-Pacific.[20] For Beijing, the BRI is also a pushback to the Trump administration's competitive approach to US–China relations and a way to reshape international norms in its favour.[21] Bilateral arrangements with China that are portrayed by Beijing as simply commercial will have broader geopolitical implications. Commercial decisions to engage with the PRC are more sensitive and could limit information sharing between like-minded allies if there's a perceived security risk.

It's within this context that China's acquisition of overseas ports plays out.

CHINESE PORT EXPANSION

The development of the PRC's global port network mirrors many of the issues faced by domestic ports. Most Chinese port operations remain domestic, and the maritime economy contributes around 10% of China's GDP (seven Chinese ports are among the world's top 10).[22] Until recently, much focus has been on the quantity rather than the quality of ports.[23]

Internationally, over the past decade the PRC has rapidly become a more prominent port investor and operator. Chinese port holdings now span the globe and include investments in Greece, Myanmar, Israel, Djibouti, Morocco, Spain, Italy, Belgium, Côte d'Ivoire and Egypt,[24] among others. Port acquisitions and operations by large international operators aren't rare in the global maritime industry. For example, the Port of Singapore Authority operates terminals in 15 countries, Denmark's Maersk Line has 76 ports in 41 countries, Switzerland's Mediterranean Shipping Co. has 35 terminals in 22 countries, and Dubai's DP World runs more than 70 ports in 40 countries.[25]

What's different about the PRC's international port expansion is that it serves both economic and security purposes and is part of China's strategic ambition to be a dominant strategic, technological, military and economic power. Chinese companies, furthermore, are unique in that the CCP expects to exert control over their operations. As John Dotson from the Jamestown Foundation notes, the Chinese regime recently set new 'directives for CCP organs to take a closer and more direct role in supervising China's private sector enterprises.'[26] Those directives, known as the 'Opinions Concerning Strengthening New Era United Front Work in the Private Economy' (关于加强新时代民营经济统战工作的意见),[27] are likely to place additional pressure on private companies to adhere more closely to the political objectives of the Chinese regime.[28]

The strategic value of controlling global port operations is clear for the Chinese regime. Economically, a network of ports connects with other BRI road and rail projects, creating jobs for a plethora of Chinese companies in the construction of infrastructure and its continued operation. China also benefits from a network of 'friendly' ports and shipping by which its goods can reach a much broader customer network. China could also limit access for competitors to use its networks to help forge a Sinocentric global economy. However, that strategy would have limitations—such as driving up insurance costs and prompting rivals to develop alternative networks.

It's important to understand the notion of the 'strategic strong point' (战略支点) before assessing the implications of the PRC's international port expansion. Connor Kennedy from the US Naval War College notes that PLA commentators avoid using the term 'overseas military base' (海外军事基地) to describe naval facilities in order to avoid being associated with imperialism.[29] To that end, the 'strategic strong point' is presented by PLA commentators not as a location for conducting military operations, but as a means of 'offer[ing] benefits to host states and provid[ing] them with public security goods'—albeit security goods brought to them by Beijing through the PLA and other institutions and actors.[30]

Greater control over the international supply chain for commodities also increases the PRC's self-reliance and reduces the amount of political leverage that can be applied by other countries. Nearly a third of global sea trade, and 80% of China's energy imports, pass through the Malacca Strait,[31] which is dominated by the US Navy. Diversification of trade routes—by land and sea—allows China to hedge against that vulnerability.

Moreover, the PRC uses the growing number of Chinese citizens and business interests overseas to justify a growing international presence in order to provide security for its international commercial interests.[32] As noted in China's 2015 military strategy white paper, 'the security of overseas interests … [including] institutions, personnel and assets abroad, has become an imminent issue'.[33] China's involvement in multilateral peacekeeping and counter-piracy missions will add pressure to use Chinese-managed ports for resupply, ship repairs and personnel transfers.[34] It's highly likely that Chinese SOEs will be tasked to assist in supporting Chinese military operations abroad where needed, as occurred when the PLA Navy evacuated Chinese citizens from Yemen in 2015.[35]

Under the broad guidance of BRI objectives, a number of Chinese companies have been engaged in acquiring port holdings. Much like China's domestic port operations, its international port acquisitions have often been poorly coordinated, but that's changing. 'The Chinese government … recognised that there is some destructive competition and unco-ordinated capacity expansion in a number of Chinese ports and has instructed that they merge together to co-ordinate activities,' according to Neil Davidson, an analyst at Drewry.[36]

Much like the greater BRI, acquisitions by Chinese SOEs are under greater scrutiny because of aggressive diplomacy from Beijing, overt or implied political influence over countries with Chinese-operated ports, and the potential securitisation of strategic purchases. With state support, PRC operators have been able and prepared to pay a premium for a port;[37] for example, in 2009, the China Ocean Shipping (Group) Company (COSCO, 中国远洋运输 (集团) 总公司) borrowed €215 million from the China Development Bank—owned by the Chinese Government—to be repaid over a 21-year period, for the sole purpose of investing in the port of Piraeus in Greece.[38] COSCO borrowed a further €120 million in 2012 to finance the construction of terminal 3 at the port.[39] Such state support underlines the probability that China's port acquisitions are driven by a strategic motive (see box).

Darwin and Melbourne: China's BRI comes to Australia

In October 2015, the Northern Territory Government leased Darwin Port for 99 years to Landbridge Industry Australia, which is a subsidiary of Shandong Landbridge Group, in return for $506 million.[40] The lease wasn't investigated by the Foreign Investment Review Board (FIRB) because, at the time, arrangements between a state or territory government and a private company were exempt from the board's scrutiny.[41]

Authoritative commentators and politicians on both sides of the aisle have raised questions about the national security implications of the Darwin Port lease to Landbridge,[42] given the port's highly strategic location and the presence of US Marine Corps personnel nearby.[43] Ye Cheng, who owns Landbridge, reportedly referred to the acquisition of Darwin Port as an example of 'our involvement' in the BRI.[44] From March 2016, FIRB approval has been required for critical infrastructure sales worth more than $250 million to private companies.[45] Given current levels of scrutiny, it's possible that the lease wouldn't have been approved had it been referred to the FIRB today.

In 2016, Victoria leased the Port of Melbourne for 50 years to the Lonsdale Consortium, which is led by the Queensland Investment Corporation, for $9.7 billion.[46] The consortium includes a fund managed by Global Infrastructure Partners, in which CIC Capital, a Chinese sovereign wealth fund, is an investor—effectively giving it a 20% stake in the port.[47] Although the deal isn't as contentious as the Landbridge lease, it's worth questioning whether such an investment would meet national security tests that are commonly used in FIRB assessments today.

THE ROLE OF KEY SOEs IN THE BRI

A number of Chinese SOEs are active in international port operations. COSCO, China Merchants and Hutchison and their subsidiaries are among the most prominent in gaining interests in foreign ports. Often, this includes minority stakes but involves port and terminal operations, which influence the flow of goods, particularly for Chinese companies making use of BRI infrastructure.

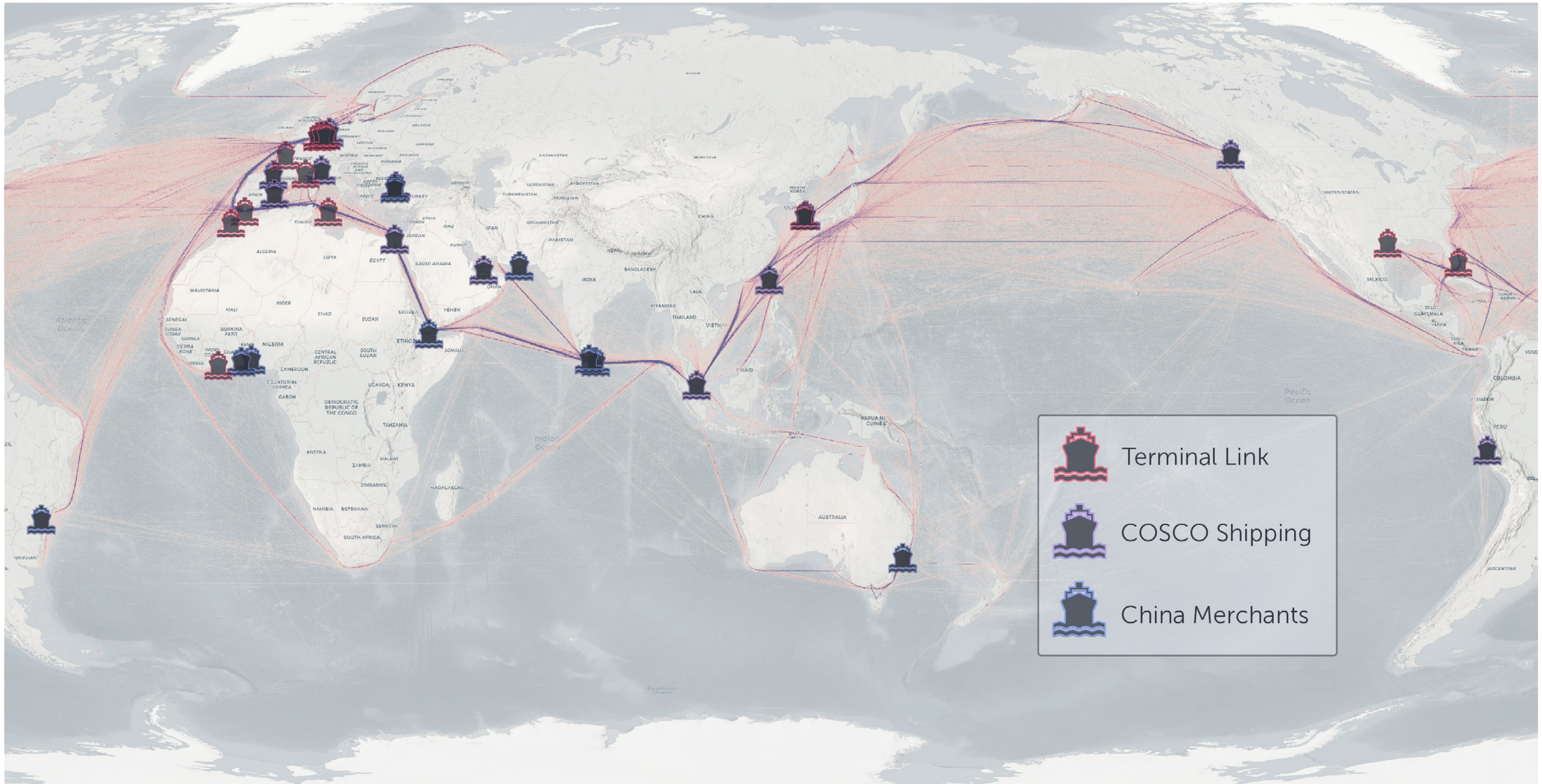
COSCO and its subsidiary, COSCO Ports, operate as major shipping companies and port investors. COSCO has long been a major port operator in China, Hong Kong and Taiwan, where it has holdings in 20 strategic locations.[48] The company also operates 13 ports outside of China's near abroad, including through majority stakes in terminals in Piraeus (100%), Abu Dhabi (90%), Zeebrugge (85%) and Valencia (51%).[49]

China Merchants and its subsidiary, China Merchants Port Holdings Company Limited, are also major state-owned shipping companies and port operators. China Merchants has a long history in port operations in China, Taiwan, Hong Kong and Macau, where it operates 16 ports across the region.[50] China Merchants states that the '"One Belt One Road" [initiative serves] as the core of [its] internationalization strategy'[51] and currently operates seven ports overseas, including in strategic locations such as Hambantota and Djibouti.[52]

Together, COSCO and China Merchants operate 36 ports across the world, and many of them are at crucial shipping nodes in Europe, the Middle East and Asia. Terminal Link, which is a joint venture between CMA CGM (51%) and China Merchants (49%), is also a significant player in international port operations (Figure 1, opposite).

This report further examines the operational structure of COSCO and China Merchants and their links to the CCP. The ports of Piraeus and Doraleh serve as examples of international Chinese port operations and the security and strategic implications that can emerge from Chinese SOE involvement in global ports.

Figure 1: Overseas ports held by COSCO, China Merchants and Terminal Link



Sources: Personal dataset on COSCO, China Merchants and Terminal Link. Map developed by Nathan Ruser using software from GQIS and data from B Halpern, M Frazier, J Potapenko et al., 'Spatial and temporal changes in cumulative human impacts on the world's ocean', Nature Communications, 2015, 6:7615, online.

COSCO

COSCO is the most prominent Chinese company involved in global ports and international shipping. It's the third largest container carrier and the fifth largest port terminal operator[53] and has a fleet of more than 460 container ships and nearly 3 million twenty-foot equivalent units in carrying capacity.[54] The company took its current form as one of the world's largest shipping companies after a merger between the COSCO Group and the China Shipping Group (中国海运 (集团) 总公司) that was approved by the Chinese State Council in December 2015.[55]

COSCO's origins can be traced back to the earliest days of the PRC, when Premier Zhou Enlai began pursuing shipping collaboration with other socialist republics, such as Poland and Czechoslovakia, between 1951 and 1959.[56] In 1958, the Ministry of Transport (交通部) established a unit devoted international shipping and established a representative office in Guangzhou.[57] Personnel then began developing experience in international shipping, after having been pivotal to a government-backed repatriation of overseas Chinese from Sukarno's Indonesia in 1959.[58] Following that successful operation, COSCO was separated from the Ministry of Transport and formally established on 27 April 1961.[59]

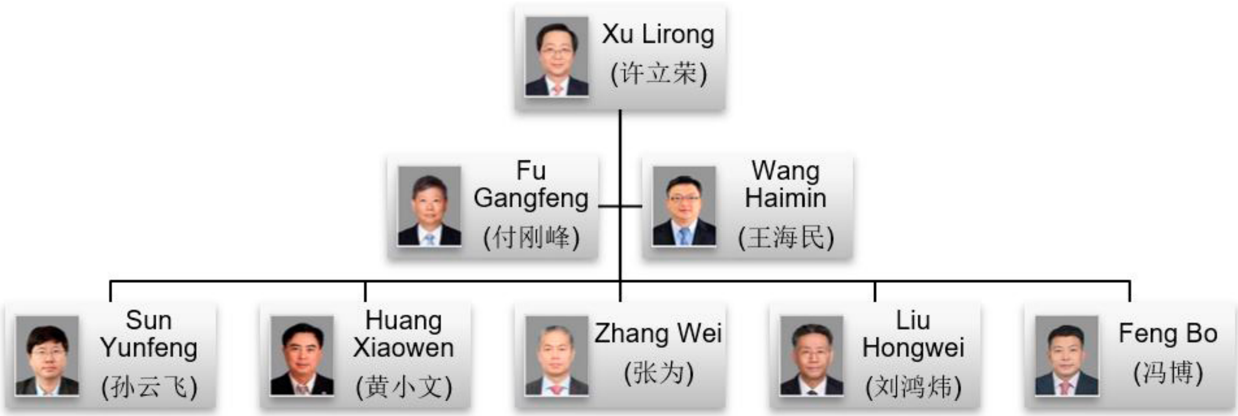
COSCO's party committee and status as a state-owned enterprise

COSCO is a central-level SOE (中央企业), meaning that the Chinese regime considers the company to be one of its most important assets.[60] Central-level SOEs are required by law to have CCP committees embedded within them.[61] Members of the board and the central party committee in prominent companies enjoy a similar administrative status to that of vice ministers in the government.[62] Commercial decisions are to be discussed by the company's central party committee before being presented to the board, ensuring that the activities of central-level SOEs align with the priorities of the CCP. Any actions they take are considered to be outside the purview of courts and regulators and fall directly under the authority of the CCP.[63]

COSCO's party committee consists of eight members, with one head, two deputies and five general members (Figure 2). Together, they're responsible for:

- integrating CCP policies into the company's strategic agenda
- carrying out 'party-building' (党建工作) activities such as 'youth work' (青年工作)[64] and 'trade union work' (工会工作),[65] along with 'anti-corruption and clean governance' (反腐倡廉) initiatives.[66]

Figure 2: COSCO's Party Committee



Source: 'The company's senior management' [公司高管], China (COSCO) Shipping Corporation Limited [中国远洋海运集团有限公司], no date, online.

Other party-building activities include the publication of COSCO's daily newspaper[67] and study sessions focused on CCP ideology.[68] The committee oversees those activities for 137 branches (党总支) with 2,761 subordinate departments (党支部) across the company's domestic and overseas operations, and there are 36,839 active party members embedded within the company,[69] which has 111,397 employees in total.[70] That means that roughly one in three COSCO employees are members of the CCP.

The head of COSCO's central party committee, Xu Lirong (许立荣), concurrently serves as the company's managing director after a long career spanning COSCO's subsidiaries.[71] Xu was a delegate to the 2018 National People's Congress (全国人民代表大会), which indicates that he has strong CCP credentials.[72] PRC state media has also lauded Xu's ability to handle COSCO's complex merger with China Shipping,[73] suggesting that he has shown distinction in handling COSCO's financial affairs. Xu's background aligns with the Maoist ideal of being a leader who is both 'red' in his ideological loyalty to the CCP and 'expert' in his professional acumen.[74] Members of COSCO's party committee would be expected to fit into this idealised Maoist mould.

Links with China's security services

COSCO's central party committee has demonstrable links with the PRC's security services, which is to be expected for an SOE as prominent as COSCO. Liu Hongwei (刘鸿炜) is a good example of a security professional turned COSCO employee. Liu has been the head of the company's Party Discipline Inspection Office since 21 September 2019 and is a member of COSCO's central party committee.[75] Before his appointment at COSCO, he had a long career as a party disciplinarian (纪委) in China's public security agencies and political warfare bureaus.[76] Some of Liu's most recent jobs have included Discipline Inspection Officer and National Supervision Commission Representative in the Ministry of Public Security (公安部纪委/监察部驻公安部监察局) and Deputy Head of the Central Discipline Inspection Commission Group within the United Front Work Department (UFWD, 中央纪委驻中央统战部纪检组副组长),[77] where he won a citation for outstanding performance for investigating disciplinary violations in 2017.[78] Liu's work at the Ministry of Public Security and UFWD, combined with his strong professional performance, suggests that he was trusted by the CCP leadership to carry out highly sensitive investigations into suspected disciplinary violations among China's most prominent security services (Figure 3).

Figure 3: ***Beijing News*** **article on Liu Hongwei's appointment to COSCO and his career history**

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曾受中纪委嘉奖的他，带队出国有任务

近期，中远海运集团纪检监察组组长刘鸿炜带队对中远海运境外单位开展现场监督检查。

9月21日，据中央纪委国家监委网站消息，近期，中远海运集团纪检监察组组长刘鸿炜带队，先后赴中远海运船员公司、中远海运比雷埃夫斯港、中远海运阿布扎比码头等单位，对贯彻落实习近平总书记重要指示批示精神情况进行现场监督，采取听取汇报、座谈讨论、现场察看等方式，督促各有关单位从政治和全局的高度，认真贯彻落实习近平总书记重要指示批示精神，深入查摆存在的问题和不足，抓紧补齐短板，高标准完成各项工作任务。

刘鸿炜一行对船员公司党委领导班子进行调研检查，督促船员公司党委进一步提高政治站位，经常检视贯彻落实情况，确保将习近平总书记重要指示精神落到实处；督促船员公司党委深入落实集团党组关于船员管理体制改革等重大部署，并提出具体要求。

据公开简历，刘鸿炜1985年8月参加工作，毕业于中国人民大学法律系，曾先后在大连远洋运输公司经理办公室，国家监察部宣教司，中央纪委宣教室、研究室，公安部纪委、监察部驻公安部监察局工作。

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蒋超良辞去湖北省人大常委会主任职务

排行榜 一天 一周 一月

1 武汉一新冠患者出院6天后"猝死" 3D还原诊治始末
2 国际丨韩国再现"超级传播者" 疑似1人传染56人
3 多种中药初步证实对新冠肺炎有效 涉以岭药业贵州百灵等
4 专访和君咨询董事长王丰：非常时期正催生未来的商业形态

Source: 'He had been praised by the CDIC and now leads a team to go overseas' [曾受中纪委嘉奖的他·带队出国有任务], *Beijing News* [新京报网], 22 September 2019, online.

Liu's job at COSCO is to ensure that party members within the company comply with party discipline and implement CCP directives.[79] 'Discipline inspection' (纪律检查) is a term of art within the CCP that refers to work promoting adherence to official ideology and directives as well as investigations into suspected violations of internal disciplinary regulations. The consequences for those found guilty after a discipline inspection investigation can range from slap-on-the-wrist penalties, such as fines or demotions, to much harsher punishments, such as expulsion from the CCP, long-term detention or, in the most extreme cases, execution.[80]

Liu's day-to-day activities as COSCO's discipline inspection cadre include presiding over study sessions[81] and anticorruption meetings,[82] with the aim of improving adherence to CCP ideology and policy across the company.[83] Being part of COSCO's senior management also means that Liu has continued access to classified information,[84] which would be likely to be used in any sensitive investigations of COSCO employees that he might carry out.

Liu's work at COSCO has an extraterritorial dimension that would make use of his experience in the UFWD. On 21 September 2019, he led a delegation from COSCO's discipline inspection office to the company's overseas sites at Piraeus Port in Greece and Abu Dhabi Terminal in the United Arab Emirates.[85] The stated purpose of the visit was to inspect COSCO's adherence to party discipline in general and Xi Jinping's directives in particular.[86] This indicates that Liu's work to enforce party discipline among COSCO's employees applies both within China and overseas.

Role in China's national defence

The Chinese Government considers COSCO's role in international shipping to be of potential military value. In 2013, COSCO was formally designated as one of the Chinese regime's 53 'important backbone state-owned enterprises' (重要骨干国有企业).[87] Important backbone SOEs include China's 'defence industry conglomerates' (军工集团), nuclear energy companies and other firms that form part of China's defence–industrial base.[88] Wendy Leutert, an expert on the PRC's SOEs, judges that such companies are driven more by political considerations than market incentives.[89] In effect, COSCO's status as an important backbone SOE means that it's uniquely beholden to the CCP in a way that other SOEs aren't.

COSCO's important backbone SOE status has noteworthy military implications. To understand how the company's support for the PLA might play out in practice, it's worth outlining the CCP's notion of 'struggle' (斗争). The CCP, being a Leninist political organisation, sees itself as an agent for historical change that's working to overthrow hostile forces—both within China and overseas.[90] To that end, the PLA, acting as the militarised branch of the CCP, applies coercive measures to neutralise those hostile forces wherever and whenever they appear. The need to defeat threats rapidly and frequently means that the PLA can't function as a conventional military that operates either in peacetime or wartime with clearly defined thresholds of readiness and mobilisation. Rather, it's expected to engage with as much coercive power as necessary in a prolonged struggle to defeat threats to the CCP as soon as they appear. Therefore, civilian resources that can support PLA operations could be mobilised in times of peace or war and in the grey zone in between.

With that background in mind, two Chinese laws are worth considering in respect of COSCO. The first is the 2017 National Intelligence Law (国家情报法), in which Article 7 states that 'any organisation and citizen shall, in accordance with the law, support, provide assistance, and cooperate in national intelligence work'.[91] The second is the 2010 National Defence Mobilisation Law (国防动员法), which makes clear in Chapter 10, Article 56 that only schools, private homes and other institutions that serve social welfare purposes are exempt from assisting China's military and paramilitary forces, meaning that all other assets or human capital are expected to assist the PLA and militia in mobilisation activities for the purposes of national defence.[92] Given COSCO's status as a central-level SOE operating in a strategic industry, it's highly unlikely that the company's board and party committee would disobey a directive from Beijing to assist the government with intelligence collection and defence mobilisation. Doing so would be a likely breach of party discipline and in probable contravention of China's domestic law.

COSCO regularly assists with China's national defence mobilisation activities. For instance, a 2019 report from the company stated that its offices in Shanghai, Guangzhou and Dalian had worked hard to improve knowledge of China's national defence mobilisation system among its employees and to bolster transport readiness across the company's ports.[93] COSCO's property management arm also boasts that it provides services to Pudong District's militia in Shanghai.[94] The company's role in supporting the Chinese regime, military and militia to mobilise for specific missions is likely to be focused on strategic locations where the company operates ports or provides facilities and services to militia units. However, that doesn't mean that COSCO's overseas outposts would be exempt from assisting in the CCP's mobilisation activities. The company's status as an 'important backbone' SOE means that it's expected to mobilise or assist the PLA at any of its global locations should the CCP believe there to be a threat to the regime's interests.

Paramilitary capabilities and involvement in grey-zone operations

COSCO's organisational structure includes paramilitary capabilities that can be mobilised by the Chinese regime to defeat threats to the CCP's interests. One such capability is the company's in-house militia (集团人武部).[95] Sun Jiakang (孙家康), through his former role as deputy party secretary, oversaw the operations of COSCO's militia before stepping down from the company in July 2020.[96] Wang Haimin (王海民), Sun's successor as the company's deputy party secretary, is likely to have taken on Sun's role as commander of the militia.

Some of the militia's operations have become quite sophisticated. On 6 August 2019, it activated its first 'maritime aviation search and rescue platoon' (海上空中搜救排) to mark the 92nd anniversary of the PLA (Figure 4).[97] Days later, the newly established search-and-rescue platoon conducted its first training exercise, overseen by senior members of the militia.[98] COSCO's website described activating the platoon as 'an important activity' in 'fulfilling a central-level SOE's national defence duties and responsibilities'.[99] This indicates that COSCO's militia not only undertakes specialist training but is also overseen by a chain of command that answers to a senior figure in the company's central party committee.

Figure 4: Inauguration ceremony of COSCO's 'maritime aviation search and rescue platoon'

Source: 'COSCO Shanghai formally establishes "maritime aviation search and rescue platoon"' [上海中远海运举行"海上空中搜救排"成立仪式], China COSCO Shipping (Shanghai) Co. Ltd [中远海运(上海)有限公司], 6 August 2019, online.

We have limited information on the size and capability of COSCO's militia, but we can make worthwhile inferences about the possible operations it might be expected to perform. The fact that it includes a 'maritime aviation search and rescue platoon'[100] is indicative of an ability to operate helicopters or fixed-wing aircraft that could be used for counter-piracy missions, search-and-rescue operations or maritime surveillance activities. Those paramilitary capabilities could have strategic effects that benefit the Chinese regime in peace, war and the grey zone.

COSCO's integration of paramilitary capabilities into its merchant fleet provides indications of how it might be expected to support PLA operations in the grey zone. Historical precedent offers a guide. In early 2019, Chinese fishing vessels—possibly belonging to the country's 'maritime militia'—shone lasers into the eyes of Royal Australian Army helicopter pilots in the South China Sea.[101] Given that Chinese-flagged vessels have a record of shining lasers into foreign military aircraft,[102] COSCO's militia could be ordered by its commanders to undertake similar actions against Australian or US targets. Doing so would place the burden of escalation onto the ADF or the US Armed Forces, as Beijing would be likely to see a kinetic response against a merchant vessel as a *de facto* declaration of war.

More recent events offer insight into possible roles for COSCO's militia in wartime. For example, the China Academy of Launch Vehicle Technology (中国航天科技) worked with the Taiyuan Satellite Launch Centre (太原卫星发射中心) to deploy the Long March 11 carrier rocket off a merchant vessel in the Yellow Sea on 15 September 2020.[103] The similarity between the solid-propellent technology used in the Long March 11 and ballistic missiles such as the Dongfeng-21 and Dongfeng-26 brings to light the possibility that Chinese-flagged merchant vessels will be equipped with the vertical launch cells needed to deploy ballistic missiles in wartime.[104] Should Chinese merchant vessels develop this capability in future, COSCO's militia could be expected to support PLA missile campaigns in a wartime contingency.[105]

Outside its militia, other parts of COSCO are actively involved in grey-zone activities that undermine Australian interests in the South China Sea. On 20 May 2016, Nanhai Cruises (三沙南海梦之旅邮轮有限公司) was established as a joint venture between COSCO, the China Travel Service (中国旅游集团公司) and the China Communications Construction Company (中国交通建设股份有限公司) to take tourists on sea voyages through the disputed Paracel Islands archipelago.[106] Nanhai Cruises currently operates one ship, called the *Nanhai Dream*[107] (南海之梦), that takes tourists to the Lesser Silver Islet (银屿岛), Quanfu Island / Đảo Ốc Hoa (全富岛) and Yagong Island / Đảo Ba Ba (鸭公岛)[108]—the latter two of which are the subject of an ongoing territorial dispute between China and Vietnam. The company also takes tourists to Sansha,[109] which is an artificial city near Woody Island that's currently administered by China's Hainan Province. Woody Island is the subject of an ongoing territorial dispute with two littoral states and hosts PLA military facilities such as aircraft hangars and surface-to-air missiles.[110] Tourism to islets in the Paracel archipelago serves the objective of normalising the CCP's claims in the South China Sea.

COSCO is a strong supporter of grey-zone activities conducted by Nanhai Cruises in the South China Sea. On 12 June 2016, the company's managing director and party secretary, Xu Lirong, attended a promotional event for Nanhai Cruises in Shanghai, together with senior COSCO employees such as then company director and deputy party secretary Sun Jiakang (Figure 5).[111] The event was to promote Nanhai Cruises' inaugural voyage through the Crescent Group of the Paracel Islands archipelago—a four-day trip that began on 15 July 2015 and included visits to Sanya and other islets nearby.[112] Shortly before the cruise set sail, *Reuters* quoted representatives of COSCO as saying that '… developing tourism services in the South China Sea was part of China's "One Belt, One Road" strategy and the responsibility of its state enterprises.'[113] This suggests that COSCO is not only committed to promoting the Chinese regime's expansionist claims in the South China Sea but is actively working to ensure that those claims garner international support.

Figure 5: COSCO's website showing managing director Xu Lirong farewelling staff from the Nanhai Dream before its first voyage through disputed territory in the South China Sea

Source: 'Xu Lirong leads a team to greet the *Nanhai Dream*: Nanhai Cruises, dreams of setting sail' [许立荣率队慰问南海之梦轮 : 南海邮轮 梦想启航], China COSCO Shipping Corporation Limited [中国远洋海运集团有限公司], 13 June 2016, online.

Piraeus

The CCP's deep influence over COSCO, along with COSCO's role as an enabler of PLA operations, means that the company's investment in overseas ports should be scrutinised deeply. The company's interest in Piraeus is one of the best examples of how commercial and political interests interplay to influence political decision-making, bringing suboptimal results to host countries.

Piraeus is strategically located on trade routes between Europe, Africa and Asia and was established by the Athenians as their major port for trade and warships in the middle of the 5th century BC.[114] It's the largest port in Greece and is on the outskirts of Athens, about 10 kilometres from the city. Piraeus is also the only European port in the eastern Mediterranean with the necessary infrastructure to allow the transhipment of cargo and the harbour depth to allow the largest container ships to dock.[115]

Beijing has noted the strategic value of Piraeus, which CCP General-Secretary Xi has called 'the dragon's head'.[116] The PRC intends to make Piraeus a major global transhipment point based on the model of Singapore.[117] That would place it in direct competition with other major European ports such as Rotterdam and Hamburg—and its location in southern Europe gives Piraeus a competitive advantage over its northern rivals by saving around a week of transit time from Asia and Africa.[118] Over the past decade of the CCP's courtship of Greece, Beijing's largesse has included loans of around US$3 billion to Greek shipowners to build ships in Chinese shipyards, where more than a thousand ships worth more than US$50 million each have been built over the past 15 years.[119]

Beijing's interest in Piraeus notably predates the BRI, to the 1990s, when China Shipping Container Lines (a China Shipping subsidiary that merged with COSCO in 2016) signed a contract to use the port for transhipment. That interest—like others—has been subsumed under the BRI umbrella and slowly taken on a broader political dimension in recent years as China has become more assertive and diplomatically active. China Shipping's initial interest in Piraeus was followed by COSCO around 2001, which resulted in a 35-year lease for COSCO and an agreement to operate piers—which later became terminals.[120] Under a 2009 arrangement, COSCO leased half of the port for €500 million, rapidly expanding and increasing commercial trade. Over the next five years, COSCO is projected to have spent more than US$3 billion in Piraeus.[121]

COSCO operates two of Piraeus's three terminals via its subsidiary, the Piraeus Container Terminal, and has effective control of the third through the 51% stake in the Piraeus Port Authority it acquired after Greece sold its majority stake in 2016 for €280.5 million in order to repay debt to the International Monetary Fund and the EU.[122] The European Commission approved COSCO's buyout of the port authority, but not without reservations about undue PRC influence over Greece. Piraeus is the only instance in the EU where COSCO has a controlling stake in an entire port rather than in a container terminal that's part of a port.[123]

COSCO promotes its involvement in Piraeus as a positive contribution to the Greek economy, as noted in its *2017 Interim financial report*: 'Piraeus Terminal continues to create stable and long-term employment opportunities in Greece, which demonstrates its commitment to sustainable development and making itself a green terminal.'[124] Arguably, the COSCO port operation is much more productive and profitable than the Greek terminals—COSCO has increased Piraeus's turnover by a third and its profitability fourfold, and container throughput rose from 685,000 in 2010 to 5 million in 2018[125]—but that has come with a sharp reduction in labour costs and job protection.[126] Moreover, as an estimated €30–40 billion worth of commodities transit into Europe annually, the Greek share of profits is very small.

The PRC's involvement in the port continues to court controversy within and outside Greece. In early 2019, Greece's Central Archaeological Council, an advisory body, proposed declaring everything within the limits of the ancient city of Piraeus an archaeological site—and that would include the port.[127] Greece and the PRC agreed in November 2019 to push ahead with development, but even that is likely to progress gradually and unevenly, as discussions continue.

The PRC has capitalised on Greece's economic vulnerability and a new government looking for an exit from restrictive and severe policies imposed upon it, including cutting pensions and sharp tax rises. Greece's readiness to accept Chinese investment can be viewed in comparison to the EU's reluctance to continue bailing out the Greek economy and is almost certainly born of an attempt to leverage against Greece's debt to the Eurozone. Much of that began under the Syriza government, which came to power in 2015 with a mandate to end EU austerity measures imposed on Greece. As quoted in the *New York Times* in 2017, 'While the Europeans are acting towards Greece like medieval leeches, the Chinese keep bringing money,' said Costas Douzinas, the head of the Greek Parliament's foreign affairs and defence committee and a member of the governing Syriza party.[128]

Greece's weak economic position and the relative value of Piraeus to the Greek economy also make it more susceptible to political influence from the PRC. Although Greece denies any explicit *quid pro quo*, several examples strongly suggest the PRC's implicit, if not explicit, influence on Greek decision-making:

- Most notably, in June 2016—not long after selling its share of the Piraeus Port Authority to COSCO—Greece blocked a unified EU statement condemning China after the International Court of Justice in the Hague ruled against China over fishing rights in the Spratly Islands disputed with the Philippines.[129]
- In 2017, Greece blocked an EU statement criticising China's human rights record at the UN Human Rights Council in Geneva,[130] arguing that 'unconstructive criticism of China' was counterproductive and selective.
- In 2017, Greece opposed tougher screening of Chinese investments in Europe.[131] Given its dependence on Chinese investment, that move wasn't surprising, but it undermines EU policy cohesion and opens the door for China to court other EU members, such as Spain, Hungary, Croatia and Slovenia, which are also cash-starved.

More broadly, in the wake of Covid-19, NATO recently pointed to the risk of critical infrastructure being sold by economically vulnerable countries. Both EU and NATO officials have warned governments to guard against a potential spending spree by Beijing.[132] Given Greece's receptiveness to investment under previous austerity measures, that pattern is likely to be repeated. As recently as 4 June 2020, Greece's Development and Investments Minister, Adonis Georgiadis, voiced his support for continued PRC investment in Greece: 'We are very happy with the Chinese presence in Greece, very proud of our cooperation in Piraeus port. We want to go forward with the master plan of the upgrade of Greece's largest harbour.'[133] Greece will almost certainly court further Chinese investment in the wake of the economic upheaval wreaked by Covid-19 (see box).

Active measures in Greece: united front work supporting COSCO's investment in Piraeus

The PRC's active measures campaigns in Greece are conducted by organisations subordinate to the CCP's UFWD,[134] with help from the Chinese Embassy[135] and coverage from Chinese-language media outlets.[136] The primary objective of the campaigns is to portray overseas Chinese as one unified whole that diligently advances the CCP's interests at opportune times and willingly 'tells China's story well' whenever possible.[137] PRC active measures also involve co-opting prominent politicians and community figures so that they promote key CCP policies, such as the BRI. Both elite co-optation and grassroots political organisation are tactics of united front work (统战工作) that are often used by the CCP to advance its interests.[138]

Elite politics and the united front: Kyriakos Mitsotakis meets Wang Yang and Xi Jinping and echoes their talking points

A good example of how PRC active measures can benefit COSCO took place in the months leading up to Xi Jinping's state visit to Greece in 2019. The influence operation began on 27 April 2019, when Greek Prime Minister Kyriakos Mitsotakis met with the UFWD's top cadre, Wang Yang, in Beijing. Shortly after the meeting, the UFWD published a statement noting that both Wang and Mitsotakis believed Greece to be 'an important node on the Maritime Silk Road and that the Piraeus port project offers an example of the benefits of international cooperation'.[139] The narrative put forward at the elite level was of a benevolent PRC helping a vulnerable Greece recover from the 2015 Eurozone crisis via its BRI and of Piraeus being the ultimate symbol of PRC assistance.

After the official narrative had been set in April, Greek media produced articles by the CCP's leadership that portrayed Greece as the bearer of an ancient civilisation that had now become China's supplicant. To mark his arrival on 11 November, the Greek daily *Kathimerini* ran an article written by Xi, in which he claimed that Piraeus was the 'dragon's head' of the BRI and that China and Greece had much to learn from 'the deep wisdom of their ancient civilisations'.[140] The narrative put forward by Xi was that Greece could reclaim some of its former greatness by learning from China and cooperating with Beijing on the BRI.

An article from China's *Xinhua* news agency then echoed Wang Yang's earlier talking points from April. In the article, Xi was reportedly 'delighted to know that COSCO's Piraeus Port project was able to help local people through hard times'. Xi then 'urged the two sides to make continued efforts to further construct and develop the port, achieve the goal of making the port a regional logistics distribution centre, and advance the building of the China–Europe Land–Sea Express Line'.[141]

The talking points from Wang and Xi were later picked up by Greek Prime Minister Mitsotakis during a joint press conference. Mitsotakis stated to the press that 'our people [China and Greece] are bearers of great ancient civilisations that sealed the course of humanity'.[142] Mitsotakis later 'expressed our appreciation to [Xi] once more for China's support when Greece was suffering from the economic crisis'.[143] He also singled out COSCO's contribution, claiming that 'Our goal is common: To make Piraeus not only the greatest port of the Mediterranean Sea but—why not—the greatest port of Europe.'[144] Kyriakos Mitsotakis's talking points echoed those previously put forward by Xi and Wang, in which COSCO's investment in Piraeus is seen as the means by which China will restore Greece's status as a major power in Europe.

United front mobilises patriotic overseas Chinese to welcome Xi Jinping

Once Beijing's narrative had worked its way through the media via Greek politicians, the UFWD began mobilising overseas Chinese to portray the group as unified under the leadership of the CCP. On 13 November, the Chinese-language *Greek Reporter* (希华时讯) quoted UFWD figure and deputy head of the China–Greece Overseas Chinese Friendship Association (中希友好华侨华人协会),[145] Yu Chenxing (虞陈星), as saying:

> We overseas Chinese want to take advantage of the historic opportunities [that have come] from Chairman Xi Jinping's official visit, and better display our utility as a go-between [while] using our own power to bring honour and add colour to China and Greece's joint efforts for cooperation on the BRI, pushing bilateral co-operation up to a new level.[146]

Those words of support for the CCP were then supplemented by gatherings of overseas Chinese to greet Xi Jinping as he entered Greece (Figure 6).

Figure 6: Overseas Chinese welcoming Xi Jinping on his state visit to Greece

Source: 'Overseas Chinese warmly welcome general-secretary Xi Jinping on his state visit to Greece' [希腊华侨华人热议习近平主席访问希腊], *Greek Reporter* [希华时讯], 13 November 2019, online.

COSCO employees also echoed the talking points from Xi and Wang. For instance, the overseas edition of the *People's Daily* quoted a COSCO employee as saying that 'the Port of Piraeus has already become an important achievement and successful example of joint effort for the BRI.'[147] 'Everyone believes that Chairman Xi's official visit to Greece will improve relations between the two countries, and every ordinary citizen thinks that they can get tangible benefits from friendly contact between the two countries,'[148] the COSCO employee added. In sum, COSCO employees echoed Beijing's talking points in a manner that portrayed Greece's diverse Chinese community as unified under the leadership of the CCP.

The UFWD's grassroots organisation didn't end with Xi Jinping's visit to Greece on 13 November. On 29 November 2019, Wan Lijun (万立骏), a senior figure in the All-China Federation of Returned Overseas Chinese,[149] made a follow-up visit to Greece to meet with united front groups.[150] Wan also met Chinese Ambassador to Greece Zhang Qiyue (章启月), probably to coordinate united front work during his visit, and made a trip to Piraeus with COSCO.[151] Wan highlighted the importance of Piraeus to a joint development of the BRI, arguing that it would 'promote Greece–China cooperation' and create further employment opportunities for overseas Chinese.[152] This indicates that the UFWD has a lasting interest in securing COSCO's success at Piraeus and in co-opting community and public figures to advance the CCP's interests in Greece.

CHINA MERCHANTS

China Merchants Group (招商局集团) is a large Chinese SOE with major business units in transport, finance and property.[153] The company oversees 12 subsidiaries, half of which are headquartered in mainland China, while the rest are based in Hong Kong.[154] China Merchants Port Holdings Co. Ltd (招商局控股港口有限公司), a subsidiary of China Merchants Group, acts as a major player in global port operations and international shipping. Headquartered in Hong Kong, China Merchants Port Holdings boasts a network of 41 ports in 25 countries and earned a total of US$1,147,838,440 in revenue during the last financial year.[155] Port operations produce around 93% of the company's revenue; the rest comes from its bonded logistics and other operations.[156]

China Merchants Group dates its history back to the 'self-strengthening movement' during the latter years of the Qing Dynasty, so it predates COSCO by some decades. The company was established in 1872 by Li Hongzhang, who was later embroiled in a diplomatic fiasco involving Queen Victoria, as part of China's bid to develop a modernised navy and shipping industry. The company continued operating during the republican era (1912–1949) but split in 1949 as Chiang Kai-shek's Kuomintang-backed government fled the mainland for Taiwan.[157] Mainland China's communist government assumed control of China Merchants Group when the PLA gained control of Shanghai on 27 May 1949.[158] Chiang Kai-shek established the China Merchants General Management Office in Taiwan on 30 April 1949;[159] it now operates as the Yang Ming Marine Transport Corporation (陽明海運股份有限公司) after being renamed in 1972.[160] Despite having similar historical origins, China Merchants and Yang Ming Marine are, of course, separate companies.

In the early years of the PRC, China Merchants was overseen by the Ministry of Transport's main shipping company, COSCO, from 1958.[161] China Merchants' shipping operations were accordingly limited. However, the company's operations in Hong Kong expanded significantly in the 1960s, as it enjoyed a monopoly on the transhipment of goods to the British outpost.[162] In September 1978, communist guerrilla warrior and foreign intelligence officer Yuan Geng (袁庚) was dispatched to China Merchants by the Ministry of Transport to provide a report on the company to the State Council.[163] Yuan's report stressed the importance of international shipping to China's economic growth. Yuan later became the company's vice-chairman.[164] China Merchants has since played a major role in China's expansion in overseas shipping and is considered an 'important backbone state-owned enterprise', which indicates that the company is among the CCP's most prized assets.[165]

China Merchants' leadership

Unlike in the case of COSCO, the structure of China Merchants' central party committee isn't readily available on the company's website. However, the company has been designated as a 'central-level state-owned enterprise' by the Chinese Government and would need to have a central party committee, along with its subordinate branches, in order to comply with Chinese law. China Merchants' status as a central-level SOE also means that the company's managing director is required by Chinese law to serve concurrently as the head of the company's party committee. Just as for COSCO, the head of the party committee would be supported by a deputy who oversees five or six general members.

Miao Jianmin (缪建民) is currently the managing director of China merchants, having taken over from Li Jianhong (李建红) on 10 July 2020.[166] Miao has strong CCP credentials, including serving as an alternate member of the 19th Central Committee (中国共产党第十九届中央委员会候补委员).[167] He has a strong professional background and began his career as an academic economist, after having completed a doctorate in economics and a postdoctoral fellowship at the Central University of Finance and Economics (Figure 7).[168] After completing his academic work, Miao held a variety of senior positions in many Chinese insurance companies, such as China Tai Ping Insurance Holdings (中国太平保险集团有限责任公司) and China Life Insurance Company (中国人寿保险集团公司).[169] Miao's last position before joining China Merchants was as president and chairman of the People's Insurance Group of China (中国人民保险集团)[170]—one of China's largest insurers, which holds assets worth over US$160 billion and employs nearly 200,000 employees.[171] That background indicates that Miao has significant experience in managing risk in a complex commercial environment.

Figure 7: Managing director Miao Jianmin's biography on China Merchants' website

Source: 'About China Merchants: Board of directors' [关于招商局—董事会], China Merchants [招商局集团], no date, online.

CCP influence over China Merchants

Despite the managing director's commercial focus, China Merchants has also sought to improve its party-building initiatives. That work is most likely led by deputy party secretary and general manager Hu Jianhua (胡建华).[172] In early 2019, Hu oversaw a major conference on party building for the company's subsidiaries in the Yangtse River region.[173] At the conference, Hu stressed the importance of both strengthening the party committee's ability to manage company affairs and improving adherence to 'Xi Jinping's thought on socialism with Chinese characteristics for a new era'.[174] In March 2019, shortly after Hu's statement at the conference in Wuhan, the 12th Inspection Team from the PRC Government in Beijing was deployed to review China Merchants' adherence to CCP discipline and directives.[175] Recent articles in Chinese state media suggest that party-building is likely to remain a focus for China Merchants.[176] The results, later published in the *People's Daily*, required China Merchants to 'resolutely rectify, reform, and be strict with all party members in carrying out the matters from the strategic plan' outlined by the 12th Inspection Team during its three-month tour.[177] China Merchants' adherence to party discipline is likely to be closely monitored by the Chinese regime in future.

Duan Xianghui: China Merchants' elite disciplinarian

One of the key players responsible for China Merchants' overall adherence to CCP discipline is Duan Xianghui (段湘晖, Figure 8). Duan currently sits on the board of China Merchants and concurrently serves as the representative of the Central Discipline Inspection Commission (CDIC) within the company[178] and has been at the company since at least 2017.[179] Duan's official biography on China Merchants' website fails to mention the CDIC appointment and provides little information about her career history, beyond that she 'previously served as director and deputy director at the Supreme People's Procuratorate (最高人民检察院监察局), the General Office (中共中央办公厅), and in other relevant government agencies'.[180] However, a close look at the open-source material on Duan Xianghui can glean further information on her career background.

Figure 8: Duan Xianghui (middle, behind flag) awards a communist flag to the party branch of a China Merchants project in Belarus

Source: 'Duan Xianghui led a team to investigate party building and discipline inspection work at the China–Belarusian Trade and Logistics Park' [段湘晖率队调研中白商贸物流园党建和纪检工作], China Merchants [招商局集团], 25 April 2018, online.

First, to Duan's role in the Supreme People's Procuratorate. The procuratorate is the highest level agency in the Chinese Government responsible for investigations and prosecutions, including in specialised cases involving the PLA and China's security agencies.[181] Chinese media reporting suggests that Duan worked as a prosecutor in the procuratorate and left her post on 1 July 2015.[182] However, additional reporting indicates that she had served as deputy head of the office for supervision in the procuratorate (最高人民检察院监察局副局长) from at least 2011.[183] Duan was also reported in 2014 to have served as deputy head of the CDIC's representative in the Discipline Inspection Group within the High Procuratorate (中央纪委驻高检院纪检组副组长).[184] Her work as a representative within the company of China's lead prosecution service indicates that she has experience in handling investigations that are highly sensitive for the communist regime.

That brings us to Duan's role in the CCP's General Office. A report from the *Xinhua* news agency indicated that Duan had been the deputy head of the Discipline Inspection Group within the General Office at least since 2015, serving under then head of discipline inspection Xu Lingyi (徐令义).[185] At the time of Duan's likely appointment in 2015, the General Office was overseen by Li Zhanshu (栗战书), who would have needed to provide official approval for her appointment.[186] Duan's status as deputy head of discipline inspection (纪检组副组长) would have made her lines of reporting complicated. As an employee of the CDIC working in the General Office, she would have been required to report into Li Zhanshu via her superior, Xu Lingyi, as well as to the CDIC representative on the Politburo Standing Committee, who was, at the time of Duan's tenure, Xi Jinping's close associate Wang Qishan (王岐山).[187] Those lines of reporting make it reasonable to conclude that Duan is likely to have had a close working relationship with her superior, Xu Lingyi, along with Li Zhanshu and Wang Qishan—the latter two of whom have now been appointed to the Politburo Standing Committee.

Duan has been active in promoting CCP discipline across China Merchants' subsidiaries since being appointed as the CDIC's representative within the company at large. Since early in her tenure at China Merchants, in 2017, Duan has hosted meetings on party building and disciplinary matters at China Merchants Expressway Network and Technology Holdings (招商公路)[188] and at China Merchants Energy Shipping (招商轮船).[189] Duan's party-building work continued in 2018 after the 19th Party Congress, during which Xi Jinping eliminated presidential term limits. On 30 July 2018, Duan and the company's party committee inspection team visited China Merchants Finance, China Merchants Life Insurance, China Merchants Leasing and China Merchants Ping An AMC for a work mobilisation meeting.[190] At the meeting, she urged the China Merchants employees to 'understand deeply the necessity and importance of comprehensive, high-quality coverage of party inspections, and unswervingly promote the comprehensive and strict management of the party to develop in full'.[191] Duan's work promoting CCP discipline gathered further steam in 2019, when she called for loyalty and faithful service to the CCP from the company's discipline inspection personnel at a study week in Shenzhen.[192] Her active promotion of CCP discipline in most of China Merchants' subsidiaries indicates that compliance with CCP directives is high on the company's agenda.

Duan Xianghui's promotion of party discipline at China Merchants isn't confined to Chinese territory. On 25 April 2018, she led a delegation to investigate China Merchants' 'overseas party-building and discipline inspection work' (海外党建和纪检工作) at the China–Belarus Trade and Logistics Subpark (中白商贸物流园) in the Great Stone Industrial Park (中白工业园) located to the east of Belarusian capital, Minsk.[193] During the visit, Duan reaffirmed the extraterritoriality of party discipline and awarded China Merchants' local party branch a CCP flag.[194]

Duan's promotion of party discipline has also taken her to other key BRI projects. From 27 to 29 April 2019, she visited China Merchants' recently acquired port at Hambantota in Sri Lanka and met with officials from the Chinese Embassy.[195] During the visit, Duan made clear to China Merchants overseas employees that, while they were required to abide by Sri Lankan law, discipline inspection personnel and branch secretaries were required 'to conscientiously fulfil the main responsibilities and supervision requirements [befitting] party conduct and clean government'.[196] Given that party discipline takes precedence over law in China's party-state system, China Merchants employees could be placed in a difficult position if party discipline requirements were to conflict with the laws of the country in which they're working.

Doralah, Djibouti

Due to the CCP's significant influence over the PRC's maritime and shipping SOEs, the primary challenge of PRC port ownership or control is undue and indirect political influence that exploits host countries' economic vulnerabilities. Port facilities that are operated by Chinese SOEs and connect with PRC shipping, road and rail networks should be of particular concern, as CCP-backed subversion or sabotage of critical national assets could occur at any time to advance Beijing's interests. PRC investments into ports such as Piraeus should offer a cautionary tale about how indebted governments are more likely to sign on to large BRI projects and accommodate Beijing's broader agenda.

Ports owned and operated by Chinese SOEs can also pose more overt security risks to Western interests. Djibouti is a good example of the economic and security implications posed by BRI projects, particularly when the projects are located close to important trade and security interests. Strategically positioned at the entrance to the Red Sea, at a narrow strait through which 10% of the world's oil and 20% of its commercial goods pass,[197] Doraleh Port is China's most significant investment in Djibouti, which is Africa's biggest and deepest port and is now heavily used by Chinese companies. Chinese commercial and military activity creates a potential vulnerability for countries using port facilities in Djibouti for trade or military resupply or for related services, such as communications via submarine cables. The acquisition of this port is also controversial.

In January 2018, Djibouti nationalised a container terminal facility—the Doraleh Container Terminal operated by global port operator DP World, a Dubai-based logistics company that had signed a 25-year lease in 2004. The concession was terminated 'on the grounds of the higher interest of the Djiboutian nation',[198] and China Merchants was allowed to take control instead. China Merchants also built a separate container terminal in Djibouti. In January 2020, the Court of International Arbitration in London ruled that control should return to DP World, but the Djibouti Government has rejected the ruling, offering only to pay 'fair compensation'.[199] This facility is now operated by China Merchants Port Holdings in a similar manner to COSCO-controlled ports. DP World is taking legal action against China Merchants in a Hong Kong court,[200] although that's unlikely to see it resume control of the facility.

A 'strategic strong point': Djibouti's value for the PLA

The PLA opened its first overseas base in Djibouti in 2017, ostensibly to support and resupply its mission in the Gulf of Aden. PLA commentators referred to Djibouti as a 'strategic strong point',[201] so China's interest in Djibouti extends much further than support to operations. In a US Senate hearing last year, AFRICOM commander General Thomas Waldhouser noted that two out of five terminals in Djibouti were already under Chinese control and that US forces rely on the port to supply nearby Camp Lemonnier, which is the largest US military base in Africa.[202] This creates a potential vulnerability for the US: Lemonnier is 15 minutes away, and roughly 98% of the US logistics support for 4,000 US troops in Djibouti, as well as Somalia and East Africa, passes through the port.[203] Loss of access would seriously disrupt US military activity there and in the Horn of Africa. In turn, US intelligence operations—which rely on military support in hostile environments—would also be severely restricted.

Recent modifications to China's support and logistics base in Djibouti

China continues to expand its naval base in Djibouti, extending and looking to increase the number of piers to accommodate larger warships.[204] A Chinese-owned commercial port operation at the same port almost certainly supports and enables the PLA Navy's presence and expansion. The fact that Chinese military commentators refer to Djibouti as a 'strategic strong point' means that the facility is likely to be used in support of PLA Navy operations in both peacetime and wartime.[205]

Potential Chinese disruption needn't come from brute force. Djiboutian officials insist that the country will maintain control over its ports, but China now holds 80% of Djibouti's national debt. Leveraging that debt to take control of ports is another risk. Thus far, Djibouti has a stable record of debt repayment,[206] but the government's political decisions to nationalise the Doraleh Container Terminal and reject rulings to return the port to DP World suggest that its decision-making has been compromised.

Djibouti's neighbours also rely heavily on the port for the shipment of goods, making them exposed economically should transhipment from Djibouti be restricted. This includes port access as well as connecting elements: the Addis Ababa to Djibouti City train line was built by China, which provided most of the US$4 billion financing as well as some of the staff aboard the train, including maintenance workers and the conductor.[207] Similarly, the dominance of Chinese shipping in Djibouti makes it a vulnerable choke-point for countries dependent on the port.

Regional naval collaboration for PLA Navy power projection

Russia, meanwhile, is interested in building military facilities in Eritrea and Somaliland. Future Russian naval facilities could provide additional basing infrastructure in the Gulf of Aden that could prove useful for PLA Navy counter-piracy missions. But Sino-Russian naval collaboration might not stop there. The PRC controls numerous ports across southern Europe, including Piraeus. The PLA Navy could use Russian naval bases in the Horn of Africa as launch pads for projecting power beyond the Suez Canal and into the eastern Mediterranean or North Atlantic and make good use of PRC-controlled port facilities in southern Europe in doing so. Taking part in such maritime power projection operations could strengthen Sino-Russian collaboration, heighten strategic competition in the Mediterranean Sea and Atlantic Ocean and pose a unique challenge to NATO's primacy in the region.

The CCPs interest in competing with the US and its NATO allies isn't restricted to the Mediterranean and North Atlantic. For instance, the PRC is reportedly considering constructing a new port in Senegal (ostensibly to assist the Senegal Navy) that could provide the PLA Navy with additional basing infrastructure for its growing schedule of operations in the South Atlantic.[208] Chinese military commentators have also noted that the PLA Navy is strengthening its regional diplomatic networks and participating in multinational naval exercises with Russia and South Africa in a variety of theatres, including the Atlantic Ocean.[209] But, as Ryan D Martinson notes, PLA Navy deployments in the South Atlantic have now started to move beyond short operations with regular port calls to more independent operations and training exercises involving significant time at sea.[210] Still, a new port in Senegal and strengthened relationships with partner navies would provide the PLA Navy with a stronger base off which to project power into the South Atlantic, so it's likely that established Atlantic sea powers such as the US and UK will see a heightened PLA Navy presence off both the northern and southern coasts of West Africa.

CONCLUSION

Although Chinese companies are more focused on terminal operations in Europe and the Mediterranean, ports in the Indo-Pacific are also of current or potential future interest, including Singapore, Kelang, Manila, Brisbane, Melbourne and Sydney.[211] Locations that Chinese commentators refer to as 'strategic strong points' ought to be monitored closely, for such places are likely to be judged by the PLA as being of military value.

The likeliest scenario would be for PRC port operations to continue expanding. That may offer commercial advantages for the Chinese companies involved but would also allow for some political leverage over vulnerable countries to develop. Active measures campaigns would continue but have only limited effect on the deliberations of countries hosting PRC-controlled port facilities. Still, PLA Navy port calls would be likely to increase in frequency, and Chinese SOEs should be expected to provide logistical assistance to the navy in expansion projects, such as in Djibouti, or potentially in wartime, so there's a moderate risk that PRC-controlled port facilities may be used against host countries to advance the interests of the CCP.

Conceivably, any disagreement with the PRC could escalate to involve other sectors, including ports and commercial operations. Clashes with the PRC over common interests mightn't be intentional, but they're inevitable. For example, on 12 April, a Royal Australian Air Force C-17A was prevented from delivering aid to Vanuatu because a Chinese plane delivering medical supplies was on the airport runway at Port Vila, making a landing risky.[212] Even if we accept China's explanation that its A320 was merely late in unloading, similar incidents, with inherent risks of miscalculation and escalation, are likely to occur in future.

In a confrontation between the PRC and another nation, SOEs could be called upon to assist in deniable operations, support the PLA Navy and, potentially, limit access to overseas ports in which the SOEs operate. Political influence operations and active measures campaigns would increase in frequency and intensity in the months prior to the outbreak of war, severely interfering with the deliberations of the political leaders of countries hosting PRC-controlled port facilities.

Whichever contingency arises, Chinese SOEs are required by law and the CCP's disciplinary code to assist with national defence mobilisation and intelligence collection in peacetime, in wartime and at every threshold in between. Overseas ports controlled by Chinese SOEs pose a significant challenge for the countries hosting them because they're potentially vulnerable to exploitation by the PLA Navy or the PRC's intelligence agencies. The risk that the SOEs will be called upon by the CCP to assist with PLA operations, be that through monitoring ship movements or through denial operations, is high. Risk mitigation measures could ameliorate some challenges for countries hosting ports controlled by Chinese SOEs but might not be sufficient to ensure the resilience of critical national assets in a contingency.

The most appropriate solution to China's overseas port expansion is to offer viable alternatives while drawing attention to the risks associated with allowing ports to be controlled by Chinese SOEs.

The Australian Government is fortunate to have a wealth of expertise on critical infrastructure security that it can deploy to improve risk awareness both within Australia's borders and across the world. Australia needs to ensure that its approach to bids for port infrastructure is both coordinated by the federal government and consistent with national security priorities. The relative success of the national cabinet in suppressing Covid-19 shows that there can be considerable synergy between the federal and state governments. A similar unity of purpose ought to be applied to Australia's standards for maintaining the security of its critical infrastructure, as China's intelligence services and political warfare units have proven adept at exploiting division between the federal and state governments on infrastructure matters relating to the BRI. Such domestic disunity is no longer tenable.

Unity of purpose at the international level is also important. Australia and its like-minded partners (specifically, Japan and the US) can collaborate in setting standards for international port operations. Canberra, Tokyo and Washington should establish a regular dialogue on critical infrastructure security via the recently created Blue Dot Network. Using the network as a kind of Michelin guide to critical infrastructure projects, the three countries should agree on standards for international port operations and projects.

The asymmetry between the PRC and other Indo-Pacific countries makes collaborative diplomacy the most viable response to China's maritime expansion and investment in overseas ports. Officials with expertise in critical infrastructure from Australia, Japan and the US can then be deployed to strategic locations around the world to advise foreign countries on Blue Dot Network best practice in international port projects. Diplomatic resources could be used to promote alternative bids from reputable companies that aren't Chinese SOEs. A more active and collaborative diplomatic approach that draws on the considerable expertise in the three countries would help to ensure that nations considering bids from Chinese SOEs for critical infrastructure do so with knowledge of international best practice and with awareness of the alternatives. If there were to be sufficient interest in New Delhi, elevating the Australia–Japan–US critical infrastructure strategy to the level of the Quadrilateral Security Dialogue should be explored. In addition to diplomatic exchanges, Australia and its partners can assist neighbouring countries in identifying and assessing potential risks in foreign investments and can share expertise in combating subversive activities. A coordinated, targeted and well-resourced diplomatic strategy that promotes international best practice will help develop resilient critical infrastructure networks across the Indo-Pacific.

RECOMMENDATIONS

Addressing China's maritime and port expansion—and, more generally, Beijing's BRI—requires greater communication and coordination within government, with the private sector and internationally. Within government, this involves regular information sharing and policy discussion between security, economic and diplomatic actors to ensure a consistent approach that isn't vulnerable to China's divide-and-conquer tactics. Similarly, industry sectors need to be kept up to date on government policy and concerns. Beyond Australia, a regional approach to China's BRI can also ensure that engagement with BRI projects isn't open to exploitation and doesn't carry hidden security risks. Further research and due diligence that builds on this report can provide government and industry with the foreknowledge needed to mitigate risk when engaging with Chinese SOEs.

1. Build capacity to investigate Chinese SOEs and their leaders

Australia should build its research base to better understand the nexus between the CCP and Chinese SOEs. Due diligence will better illuminate the PRC's global expansion, potential grey-zone operations and the companies and individuals involved. Greater analytical capacity will support the development of the following recommendations.

2. The Department of Defence should ensure that assessments of China's military capability consider the role of SOEs and militia units

As this report has demonstrated, the coercive power of the PLA isn't restricted to its conventional military capabilities. Indeed, the PLA's military and grey-zone operations are likely to be supplemented by a network of enablers controlled by the Chinese regime, such as SOEs and local militia units. The Department of Defence will need to improve its knowledge of how those SOEs and militias operate, what missions they're expected to perform and what their command structures are. Doing so will ensure that Defence is forewarned about how China might deploy its coercive power in the grey zone, as well as the full extent of the PLA's combat power in wartime.

3. The Department of Defence should launch a review of its future port requirements

A review of Australia's future port requirements is yet to take place, despite a major planned expansion of naval platforms. The Australian Government should now identify what future port infrastructure it needs, what will have to be addressed by new construction, and what access arrangements might be needed in existing ports.

4. The Australian Government should conduct a wideranging assessment of Australia's critical infrastructure assets

The Defence organisation, in conjunction with the Department of Home Affairs, should review commercial port security as part of an assessment of the robustness of Australian critical infrastructure, considering both cybersecurity and physical security. Many, if not all, critical supply chains funnel through ports. A cyberattack targeted at shutting down any one of Australia's ports would rapidly interfere with medical and other vital supplies.

5. The Australian Government should review the country's high-level critical infrastructure governance

Australia is vulnerable to a divide-and-conquer approach if not properly informed and guided on how to engage with BRI initiatives. Even though the Australian Foreign Relations Bill has secured passage through parliament, the federal government will still need to ensure that the activities of state governments and private companies align with its strategic objectives.[213] The government should review the Critical Infrastructure Advisory Council and Resilience Expert Advisory Group. Building on the success of the national cabinet during the Covid-19 crisis, it should consider the terms of reference and membership of the two groups to ensure sufficient alignment between it and the state and territory governments. Reporting to ministers and premiers, and public reporting in the form of an annual or similar report, should also be considered. That will provide assurance that Australia's critical infrastructure architecture remains fit for purpose in an increasingly complex threat landscape.

6. Develop and coordinate a strategy for engagements with Chinese companies

The operations of Chinese companies are expected to align with the CCP's priorities, and the ability of SOEs such as COSCO to draw on PRC Government backing may give them a competitive advantage. Similarly, SOEs aren't driven simply by commercial logic but operate within a framework of CCP objectives. Indeed, Chinese SOEs have been known to enjoy close links with the country's intelligence agencies and have been allegedly involved in espionage.[214] At a joint-agency level, guidelines should be drawn up on how Australian governments and businesses can protect intellectual property and assets from hostile foreign intelligence operations.

7. Establish an international ports strategy among members of the Blue Dot Network

As this report has shown, although there are many willing participants in BRI projects, Beijing's diplomacy has also generated suspicion and resistance.

Australia, Japan and the US should capitalise on such suspicions by advancing an international ports strategy under the auspices of the recently created Blue Dot Network.[215] The network, which was established in 2019 as a way of setting standards for high-quality infrastructure projects, should be used by Canberra, Tokyo and Washington as a way of creating a 'Michelin guide' for international port infrastructure.[216]

To begin that process, an annual trilateral meeting at the official level should be established between Australia, Japan and the US to devise appropriate standards for international port projects. Further initiatives could include posting diplomatic personnel with expertise in critical infrastructure to previously agreed strategic locations around the world.

Should there be sufficient buy-in from India, it would be worth exploring the possibility of elevating the international ports strategy to the level of the Quadrilateral Security Dialogue. Preparations for India's inclusion, ideally via the Blue Dot Network, in a coordinated international ports strategy ought to begin now, as the constituent members of the Quad have expressed interest in promoting critical infrastructure resilience across the Indo-Pacific.[217]

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ACRONYMS AND ABBREVIATIONS

ADF	Australian Defence Force
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CDIC	Central Discipline Inspection Commission
COSCO	China Ocean Shipping (Group) Company
EU	European Union
FIRB	Foreign Investment Review Board
MSR	Maritime Silk Road
NATO	North Atlantic Treaty Organization
PLA	People's Liberation Army
PRC	People's Republic of China
SOE	state-owned enterprise
UFWD	United Front Work Department

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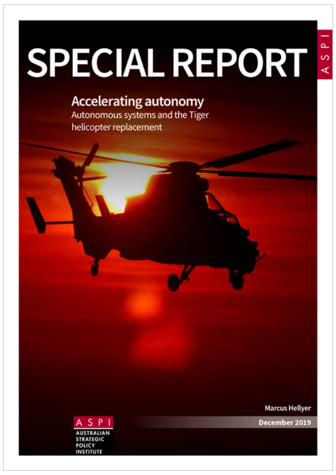

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