Report by Jaap Muijs, Global Security Consultant & Analyst — March 2021

Play by China's rules: Strategic seaports and the case of Brazil

For hundreds of years, seaports are being used as the main driver for trade, interdependence, and connectivity between countries. Seaports are a crucial element of the economic development of a nation-state. Besides, seaports are strategically crucial for naval operations and geopolitical interests. Seaports being used as a naval base or military port is a military base where warships and naval ships are, or can be, docked. They serve as an intermediary point for supplies, refuelling, and ammunition.

Around the world, big Chinese companies buy significant shares of seaports. The buying of these seaports is under the strategic framework of what has been dubbed the 21st Century Maritime Silk Road (MSR) — the watery part of the broader Belt and Road Initiative (BRI) by the Chinese government. The BRI a Chinese strategic initiative to increase investment, stimulate the economy, and foster collaboration across the world. The initiative is often called a state-backed campaign for global dominance by Chinese investments across the world[1].

Ports are being bought strategically at, for example, 'choke points', where naval forces could block critical maritime routes and economically strategic locations. Furthermore, analysts suggest that almost all the ports being built can be dual-use for commercial and military purposes[2]. Recently, China established its first overseas military base in Djibouti and is building and buying seaports close to some United States military bases, as, for example, in Haifa, Israel[3], where the military base is within sight of the seaport.

Figure 1: Seaport

The Chinese alternative

The United States and Western dominance are declining for years. China is stepping up its game to offer an alternative and is becoming economically and military more and more dominant under different beliefs and political systems. German Minister of Foreign Affairs Sigmar Gabriel stated that 'China is developing a comprehensive systemic alternative to the Western model that, in contrast to our own, is not founded on freedom, democracy and individual human rights[4]'. For multiple decades, China offers a systemic alternative that is economically successful without using Western values and standards.

Chinese economic activities in Europe and worldwide are increasingly regarded by European politicians and policy-makers as potentially harmful, especially when state-owned enterprises are involved in these activities and occur in strategically important sectors, such as ports[5]. European leaders fear that China uses its economic heft into a political pull and will use the ports for other ends then trade. Chinese state-owned enterprises are buying influence across the world and even in Europe. It is estimated that China controls one-tenth of European ports. Beijing tries to become less dependent on foreign elements and is increasing its influence across the world[6].

China has been buying up the development and operational rights of ports across the globe. In the past few years, China has created a wholly state-owned and operated maritime empire. State-owned enterprises (SOE's), wherein 2017, running 29 ports in 15 countries and 47 terminals in 13 countries[7], and this amount is growing significantly. China is not the only country owning multiple ports and terminals across the world. For example, countries like Denmark, Switzerland, and Dubai also own ports and terminals worldwide. However, unlike other countries, China state-owned enterprises have to align with state policy, which is significantly different from Western policy standards.

Furthermore, by building ports, China is trying to create political leverage in countries where they built ports[8] and is China increasing its geopolitical reach and influence worldwide. Moreover, China is using the debts it is owed by other, mostly poor, countries to purchase or invest in strategically located ports around the world on terms favourable to Beijing. This purchasing and investing apply not only to ports but often to a country's broader infrastructure.

Figure II: Chinese ship

Latin America: Brazilian ports

Privatization of ports is promoted to create more logistical efficiency. Since 1993, Brazil is selling its ports and terminals to enterprises, and on short notice, Brazil is planning to sell another 22 terminals worth 1,75 billion dollars[9]. It is likely that China will show interest in these terminals and might buy the majority of stakes. For enterprises, Brazil is an exciting trade partner, as it is one of the most important exporters of raw materials in the world. Almost 95% of the Brazilian raw materials are exported through seaports[10], making it a vital section of the Brazilian economy, and are the ports offering many economic opportunities.

In recent years, China has shown increased interest in Brazilian ports. In 2017, China Merchants Port Holdings Co Ltd agreed to buy 90 percent of TCP Participações SA, Brazil's most profitable port terminal[11], and have recently intended to invest in more Brazilian ports[12]. These ports are strategically crucial for China, as China is the biggest trading partner of Brazil and the biggest customer of Brazilian soy exports[13].

Figure III: Chinese marine ships

Play by China's rules: operational risks

Chinese investments and buying of ports bring strategic risks. It enables Beijing to potentially restrict access for rivals, gather intelligence, and exploit the ports during a conflict. The buying of ports mostly aligns with the broader Chinese military, economic and political interest. Some signs indicate that China is using ports to increase its military and political reach[14]. When doing business in ports that are owned or partially owned by Chinese companies, enterprises must consider these businesses' governmental influences. Chinese businesses often enjoy state, financial, and regulatory support from the Chinese government.

Furthermore, Chinese culture and politics differ significantly from the more Western-oriented corporate culture. When doing business in ports with Chinese influences, political and cultural awareness is crucial for success. The business and political model that is being used is not built on freedom, democracy and human rights, and enterprises might be subjected to various operational and strategic risks in these ports. China is known for stealing Intellectual Property (IP), and China's legal system enables these thefts[15]. Enterprises should consider and be aware of the risks of bringing their data, IP, and other assets to those Chinese owned ports.

Moreover, enterprises might be drawn into a conflict. As ports are made for commercial and military use, they might be exposed to intelligence gathering strategies, subjected to state-conflict, and get involved in China's broader geopolitical interest. China is not buying these ports solely to make money and stimulate the economy; a much broader interest is involved, which must be considered and assessed.

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