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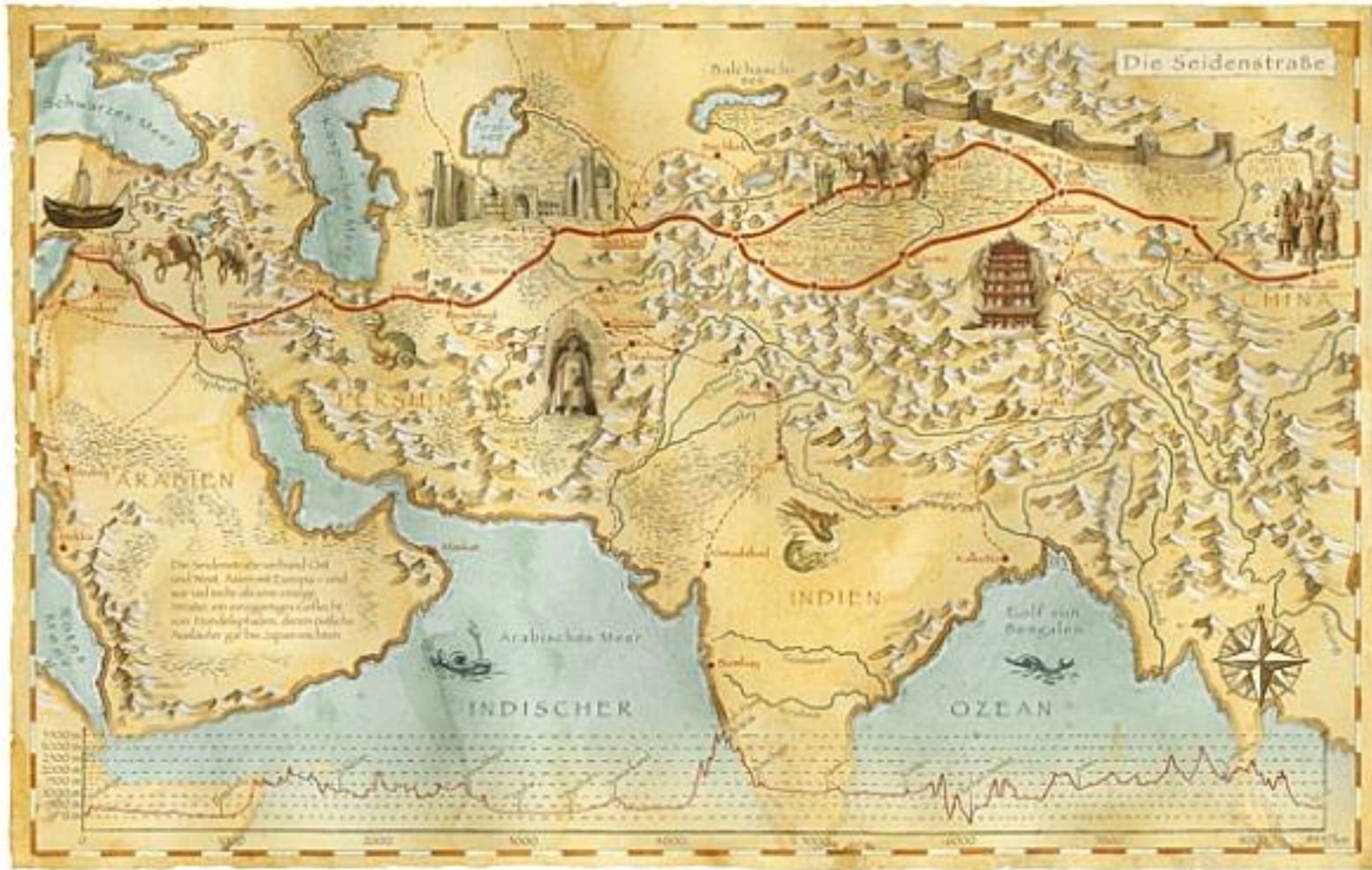
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| **The Maritime Silk Road**  
Ton van den Bosch



# The Historical Silk Road



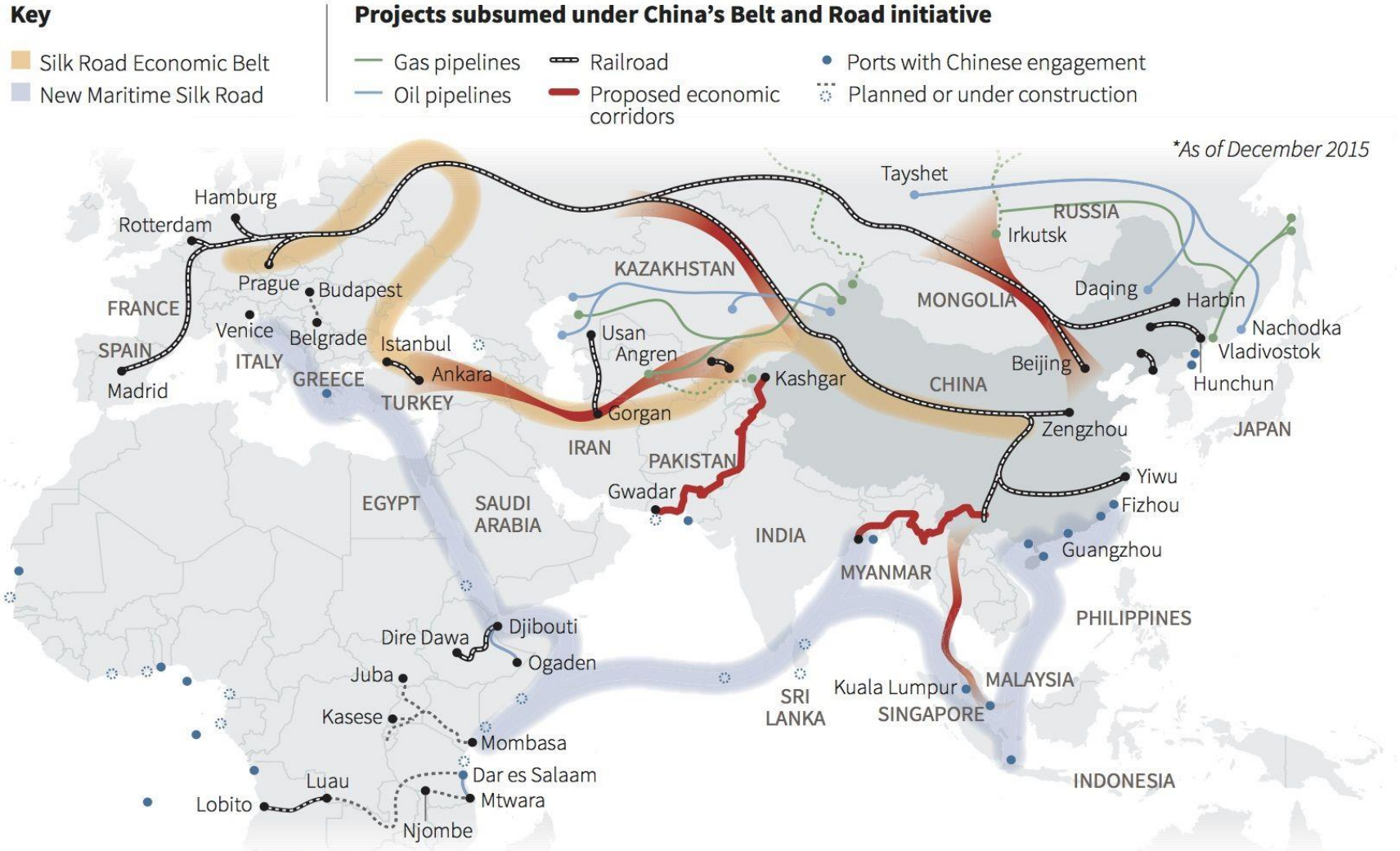
# China's *belt & road* initiative

1. development strategy proposed by Xi Jinping in 2013
2. initially referred to as "*one belt, one road*" (OBOR)
3. includes the:
  1. Silk Road Economic Belt; and
  2. 21st-century Maritime Silk Road (the "*road*" somewhat confusingly refers to the shipping lanes)
4. proposed investment = USD \$1,2 trillion
5. 12 times bigger in absolute dollar terms than the Marshall Plan
6. countries along the belt & road represent ~30% of global economy
7. is:
  - a collection of infrastructure projects
  - combined with (planned) free-trade agreements with 65 countries
  - to stimulate trade and export
8. commercial and geopolitical drivers



# Reviving the Silk Road

Announced by Chinese President Xi Jinping in 2013, the Silk Road initiative, also known as China's Belt and Road initiative, aims to invest in infrastructure projects including railways and power grids in central, west and southern Asia, as well as Africa and Europe.



Source: Mercator Institute for China Studies.

C. Inton, 24/03/2017

# *the 21st Century Maritime Silk Road*

1. China aspires to become a maritime superpower
2. creates a network of ports in Asia, Africa and the Mediterranean
3. China has been investing heavily in ports, such as in:
  - Kuantan in Malaysia
  - Kyaukphyu in Myanmar
  - Gwadar in Pakistan
  - Colombo and new port at Hambantota in Sri Lanka
  - Nairobi in Kenya
  - Piraeus in Greece
4. will redefine trade patterns between Asia and Europe
5. enormous impact on the maritime sector

# Maritime Silk Road

## 1. *is not*

- development aid
- foreign direct investment by the Chinese government

## 2. *instead it*

- includes loans (by Export-Import Bank of China, China Development Bank, Bank of China, the New Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB))
- is executed indirectly by state controlled companies such as
  - China Harbour Engineering Co Ltd (CHEC)
  - CITIC
  - China Cosco Shipping

# Impact on lines and on terminal operators

1. increased economic activity will boost volumes (the *growing pie*)
2. Chinese policy may influence port call and hubs decisions
3. increased competition
4. change in trade routes
5. 6 of the top 10 container terminals worldwide are in mainland China (with another in HK)
6. massive investments have made Chinese port operators world leaders



## Forecast global/international container terminal operator capacity ranking, 2020

Operator	Capacity rank	
	2020	Current
Cosco-China Shipping	1st	4th and 8th
APM Terminals *	2nd	2nd
PSA International	3rd	3rd
Hutchison Port Holdings	4th	1st
DP World	5th	5th
Terminal Investment Ltd	6th	6th
CMA CGM **	7th	9th

\* Grup TCB included in 2020 ranking calculations

\*\* APL included in 2020 ranking calculations

Calculations are based on the total capacity for all terminals (regardless of size of shareholding) and do not include the capacity of other operators in which minority stakes are held.

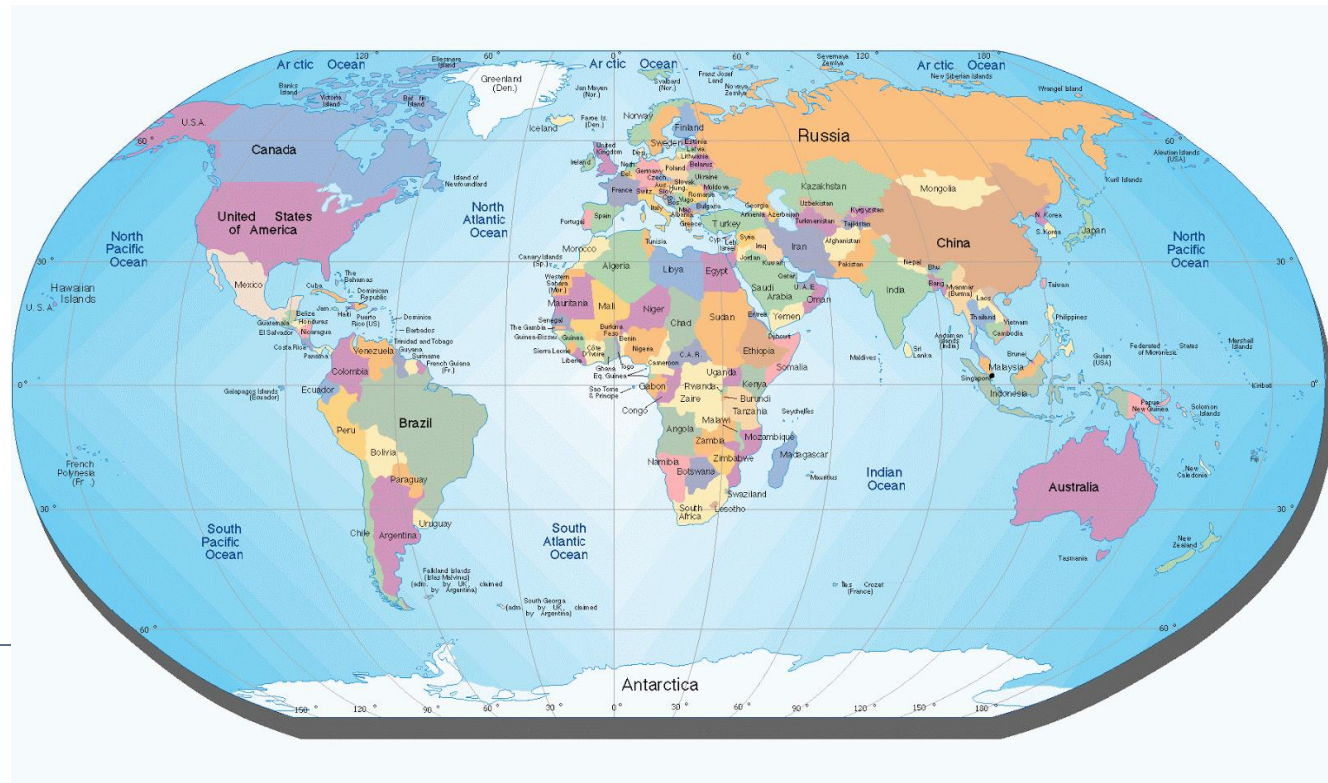
Source: Drewry Maritime Research



## Impact – change in trade routes

for example:

1. Mediterranean
2. ME and East Africa
3. US East coast
4. Singapore



# Impact – Mediterranean

1. Egypt: China Cosco Shipping controls Suez Canal Container Terminal
2. Turkey: China Cosco Shipping and CIC Capital Corp acquired a 65% stake in the Kumport terminal in Ambarli
3. Italy: a €1bn offshore container terminal may be developed in Venice
4. Greece:
  1. China Cosco Shipping acquired a 67% stake in Piraeus in 2016
  2. Now 3<sup>rd</sup> busiest terminal in the Mediterranean



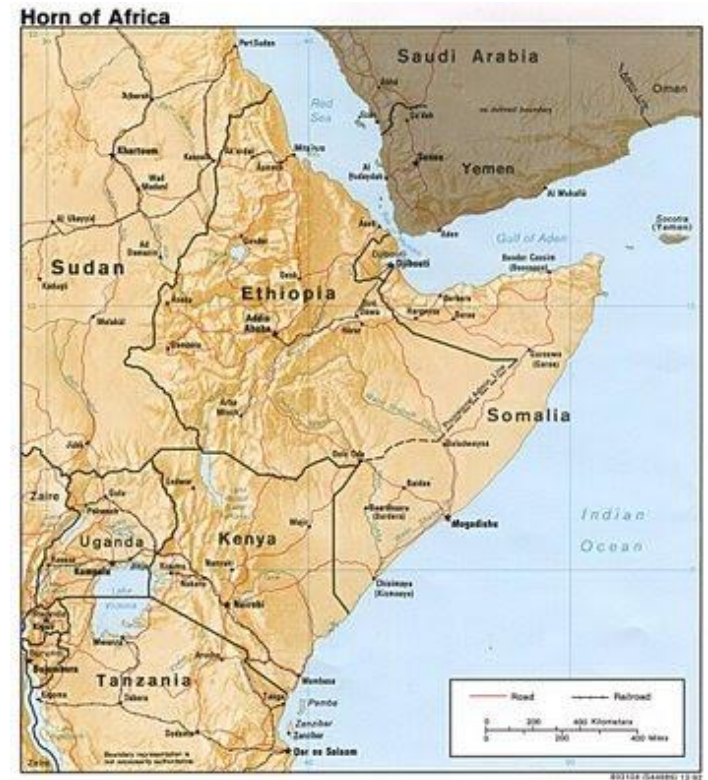
# Impact on the ME and East Africa

Development of container terminals:

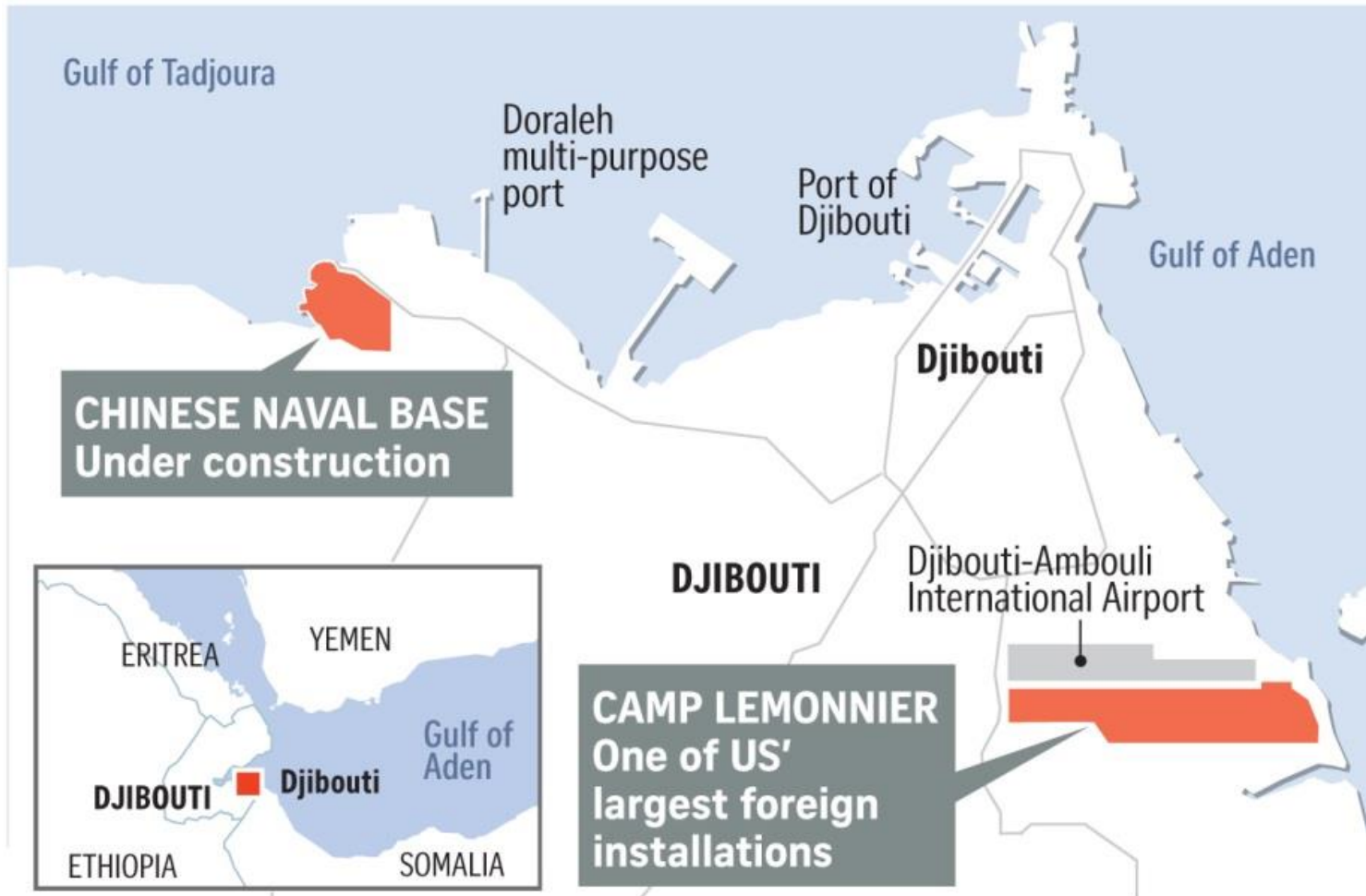
- Duqm Port in Oman
- Mombasa and Lamu port in Kenya

as well as Djibouti

- first naval port outside of China
- strategic location on the Horn of Africa (gate to the Red Sea)
- China will also invest to
  - upgrade commercial port
  - expand railway to Ethiopia



# Chinese and US bases in Djibouti



Source: THE NEW YORK TIMES STRAITS TIMES GRAPHICS



# Impact - US East coast

1. Panama Canal has been widened but can still not accommodate the largest container vessels
2. Suez canal as an alternative to the Panama canal
3. Suez and the Mediterranean are becoming more important to serve the US East coast
4. Resulting in a shift from the trans-Pacific to the trans-Atlantic route for containers between Asia and the East coast





# Impact on Singapore

- as transshipment hub
- as maritime capital



## Impact - Strait of Malacca

1. shortest route between the Indian and Pacific oceans
2. > 60,000 vessels transit the Strait each year, carrying 25% of global trade
3. > 13m barrels of oil flow through the Strait each day
4. 80% of China's energy imports pass through the Strait
5. geostrategic concern - the "*Malacca Dilemma*"



# "Malacca Dilemma" – China aims to reduce dependence on the Strait of Malacca

## 1. Gwadar

- Development of port at Gwadar on the Arabian Sea
- Linked to railways and pipelines to carry oil and gas
- Part of the China–Pakistan Economic Corridor (CPEC)

## 2. Kra Canal

- proposal to construct a canal across the Kra Isthmus in southern Thailand



# *"Malacca Dilemma"* – China aims to reduce dependence on the Strait of Malacca



3. train to Europe: via Khorgos Gateway in Kazakhstan to Europe (> 12,000km) in ~ 15 days
4. Kyaukpyu port (and pipelines) in Myanmar on the Bay of Bengal
5. East Coast Rail Line (ECRL), linking Kuantan Port on Malaysia's East coast to Port Klang on its West coast



## Route of service from China to the UK



Source: Project Cargo Network

BBC





# Shenzhen to Port Klang



NOTE: \*Cost estimates for bulk cargo per tonne.

Sources: MALAYSIAN LOGISTIC EXECUTIVES/  
GOVERNMENT OFFICIALS  
STRAITS TIMES GRAPHICS

# Challenges for S'pore as transshipment hub

1. massive new capacity in other transshipment hubs - increased competition
2. remember:
  - historically, strategic location on Strait of Malacca has been advantage
  - key driver for China is the Malacca Dilemma
  - China wants to bypass the Malacca Straits for its trade and energy



# The Dubai example



- Until around 1980, Dubai was off the main shipping routes
- D-tour and concerns over the Strait of Hormuz
- After massive investment in terminals and intermodal connections, Jebel Ali is now the world's 9<sup>th</sup> busiest port
- Dubai itself now at risk from King Abdullah Port (planned capacity >10m TEUs per year) and other developments

→ *Lesson: with ambition and investment, location is not everything...*

# Impact on Singapore - opportunities

Having said this:

1. strategic location still matters
2. Singapore is still the world's 2<sup>nd</sup> busiest container port (after Shanghai)
3. role as transshipment hub could be enhanced by increased trade (again, the *growing pie*)
4. Singapore works hard to remain very competitive (e.g. development in Tuas, investment in training and technologies)
5. limited security and geopolitical risks (U.S. navy uses Singapore as a gateway to the South China Sea)





## Leading maritime capitals

Rank	Shipping centres	Maritime finance and law	Ports and logistics	Maritime technology	Attractiveness and competitiveness	Overall Rank
1	Athens	London	<b>Singapore</b>	Oslo	<b>Singapore</b>	<b>Singapore</b>
2	<b>Singapore</b>	Oslo	Hong Kong	Hamburg	Hamburg/Oslo	Hamburg
3	Hamburg	New York	Rotterdam	Tokyo	–	Oslo
4	Tokyo	<b>Singapore</b>	Shanghai	Busan	London	Hong Kong
5	Hong Kong	Hong Kong	Dubai	<b>Singapore</b>	Shanghai/Hong Kong	Shanghai

Source: MENON  
ST GRAPHICS

# Impact – Singapore as maritime capital

1. Menon Economics named Singapore *The Leading Maritime Capital of the World* in April (again)
2. Maritime cluster:
  - includes shipping lines, terminal operators, shipbrokers, banks, marine insurance, P&I Clubs, classification societies and law firms
  - 5,000 establishments
  - employs more than 170k people
  - contributes ~ 7% to Singapore's GDP
3. Singapore Registry of Ships
  - is amongst the world's top 5 largest ship registries in the world
  - with over 4,000 Singapore-flagged ships

# Impact – Singapore as maritime capital

4. Ease of doing business, clean government, efficient customs procedures and quality of living
5. More “neutral” hub (consider tensions in South China Sea and concerns that China may be too dominant)
6. Transparent, sound and predictable legal system
7. Singapore is becoming Asia’s hub for maritime law and arbitration



# Impact – Singapore as insurance hub



1. regional insurance hub: major direct insurers, reinsurers and brokers have the RHQ in Singapore
2. gateway to Southeast Asia
3. significant expertise in specialty insurance (marine, energy, catastrophe, credit and political risks)
4. Insurancetech: R&D on big data and smart analytics increase competitiveness
5. stable and well regulated
6. can benefit from increased activity resulting from the development of the Maritime Silk Road



# So, in short, the Maritime Silk Road

- presents challenges and increased competition to terminal operators  
*and*
- offers opportunities to shipping lines, underwriters, engineers, bankers, tax advisors, lawyers and other marine service providers in Singapore





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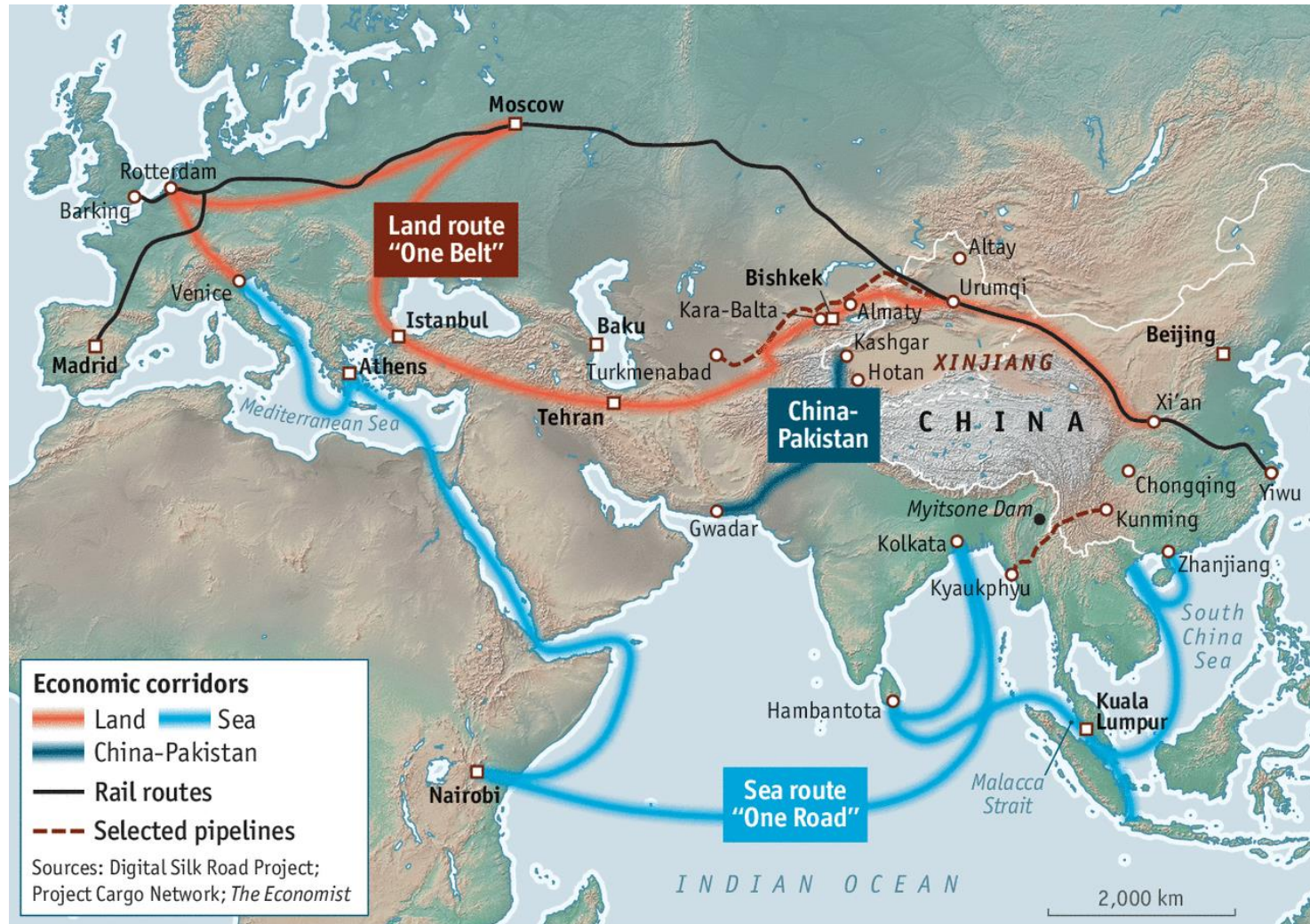
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### *Why Ince & Co?*

- World leading international firm
- Focus on energy, maritime and port industry
- Transactions, projects and dispute resolution
- Dedicated port practice with specialists in 13 offices in Europe, the Middle East and in Asia

# Questions?



Economist.com

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