

Bridging Asia and Europe Through Maritime Connectivity

China's Maritime Silk Road and Indonesia's Maritime Axis

March 2015

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In 2013, in front of the Indonesian Parliament, China's President Xi Jinping announced the launch of a Maritime Silk Road. This massive connectivity project linking Asia and Europe encompasses the building and upgrading of maritime infrastructures. One year later, the newly-elected Indonesian President, Joko Widodo announced the project to make Indonesia a "maritime axis". This policy, which has received strong support from Beijing, involves a boost of Indonesia's infrastructure and maritime connectivity, fisheries, maritime diplomacy and maritime defence power.

This paper analyzes these two dawning strategies. The authors address the challenges that lie ahead, and argue that a more proactive engagement from the European Union, including the European Commission and European companies, would benefit to all three actors.

EU-Asia at a Glance is a publication series about the current state of affairs in Asia and EU-Asia relations

This paper expresses the view of the authors and not the European Institute for Asian Studies

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Introduction

China and Indonesia have both presented ambitious projects to improve their maritime infrastructure and broader maritime connectivity.

China's President Xi Jinping first outlined China's Maritime Silk Road strategy during a speech addressed to the Indonesian Parliament in Jakarta on 3 October 2013. The Maritime Silk Road had to become an integral part of China's 21st Century Economic Belt, also known as the One Belt One Road project. Backed by the USD 40 billion new Silk Road Fund and the USD 50 billion Asian Infrastructure Investment Bank (AIIB), the Maritime Silk Road is aimed to improve maritime infrastructure and connectivity, hereby facilitating trade and people-to-people relations between Asia, the Middle East, Africa and Europe.

Meanwhile, also the newly-elected Indonesian president Joko "Jokowi" Widodo made it clear that the upgrading of Indonesia's maritime infrastructure is a priority of his government, and he aims at making Indonesia a maritime axis between the Indian and the Pacific Ocean. Jokowi's strategy involves a boost of Indonesia's infrastructure and maritime connectivity, of its fisheries, its maritime diplomacy and maritime defense power, and it is seen as the absolute priority in Indonesia's foreign policy for the upcoming years.

The maritime re-engagement of China and Indonesia, and in particular the shift of their focus towards the Indian Ocean, is expected to have concrete consequences not only for the two countries themselves, but also for the politics and economics of South and East Asia. Many countries, including Indonesia itself, Sri Lanka, the Maldives and Greece have already been promised Chinese investments for improving their maritime infrastructure. Indonesia's international focus is also expected to shift more and more towards the Indian subcontinent and the Gulf Countries, while moving away from the ASEAN-region alone. The European Union and its member states will have to closely monitor these developments. The upgrading of maritime connectivity in and around Asia brings new opportunities such as improved trade and mutual relations and possibilities for investments, but it also means China and Indonesia are stepping up their role in the region, hereby further limiting the influence of the EU if it fails to respond to the new developments.

China's Maritime Silk Road

Following 14th century Chinese seafarer Zheng He's footsteps, President Xi Jinping aims to rejuvenate the Silk Road, which is a 2000 years-old series of cross-continental routes connecting Europe and China, enabling the trade of silk, spices and tea and the circulation of ideas, technologies and people. As a key part of the broader One-Belt-One-Road (一带一路) project, which is aimed at improving connectivity between China, the Middle East, Africa and Europe through land and sea, the Maritime Silk Road touches upon the coasts of numerous countries including Indonesia, where it was first announced.

This project is one of China's diplomatic cornerstones: it was ardently discussed during the annual plenary sessions of the national People's Congress and the national committee of the Chinese People's Political Consultative Conference, the so called "two sessions" (两

会), and it was labelled by Foreign Minister Wang Yi as "China diplomacy's number one focus in 2015"².

Beijing's new initiative has received strong support and enthusiasm from more than 50 countries and international organizations including Indonesia, the EU, and ASEAN. The maritime route will start in Guangzhou, China and stops in numerous Southeast Asian ports such as Pelabuhan Klang, Jakarta, Colombo, and Kolkata. It continues through the Indian Ocean to Mombasa, Kenya, circles around the Horn of Africa, and crosses the Red Sea into the Mediterranean Sea to reach Europe.

Denying any parallel with the Marshall Plan, Minister Wang used a musical analogy explaining that "[One-Belt-One-Road] should not be seen as China's solo, but as a symphony, with the parts being performed by all the relevant countries."³ One-Belt-One-Road will create opportunities for the countries it crosses as it provides financial assistance and investment. A USD 40 billion Silk Road Fund and a USD 50 billion Asian Infrastructure Investment Bank (AIIB) have been established in order to finance the projects.

According to Beijing the One-Belt-One-Road project only has economic ends. It is described as an exchange platform aiming at improving trade and people-to-people relations between China and its neighbours. Intentional or not, this immense project will nonetheless have political repercussions. As China has offered to build and upgrade infrastructures in the neighbouring countries⁴, it will improve its attractiveness and extend its soft power. However, as some states are likely to tilt toward China (Pakistan, Indonesia, Myanmar), it might trigger wariness by other big powers and could be perceived as China stepping in their sphere of influence. This is for instance the case with Russia in Central Asia, and with India in the Indian Ocean. China has tried to ease these fears claiming that the Silk Road is a win-win initiative which would benefit anyone who wants to join, and invited both Russia and India to be part of it.

Indonesia's Maritime Axis

Indonesia, the world's biggest archipelago, stretches 5,000 km east to west, and lies in the middle of one of the world's busiest maritime fulcrums. Indonesia naturally links maritime navigation between two oceans, between two continents and between major markets. With a prevalently young population of 250 million people, rising incomes, which will add 90 million Indonesian people into the world's consuming class by 2030,⁵ and an annual stable GDP growth of around 6 per cent in the last ten years, Indonesia is becoming an increasingly important economic player. In 2030 Indonesia might already be the world's seventh largest economy,⁶ and in 2050 it is projected to become the world's fourth largest economy in terms of purchasing power parity.⁷ The country is by far the biggest economy in the ASEAN-region, and it already takes seat in the G-20. Indonesia now has all prerequisites for growing even more as a major international player.

Despite its enormous economic potential, Indonesia does not have the maritime infrastructure befitting the world's biggest archipelago. In fact, Indonesia's economic

² Ministry of Foreign Affairs of the People's Republic of China. (2015). Foreign Minister Wang Yi Meets the Press. Retrieved from: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1243662.shtml

³ Ibid.

⁴ Sri Lanka, Myanmar, Pakistan, Maldives, Kenya, South-Eastern Europe

⁵ McKinsey Global Institute (2012) "The archipelago economy: Unleashing Indonesia's potential" pp. 1, September 2012

⁶ Citigroup Global Markets (2011) Global economics view, September 2011

⁷ PwC Economics (2015) The World in 2050: Will the shift in global economic power continue? Pp. 3, February 2015

growth has been concentrated in the country's major islands, but interconnectivity between islands is still lacking, and companies that experienced high transportation costs because of the lack of deep water ports, moved their production to neighbouring countries.⁸

The newly elected President of the Republic of Indonesia, Mr Joko "Jokowi" Widodo, promised to address the country's lack of maritime infrastructure, and to make maritime policy a focal issue of his presidency. Jokowi acted on his promises by establishing Indonesia's first Coordinating Ministry of Maritime Affairs – to be put aside the already existing Coordinating Ministry of Political, Legal and Security Affairs, Coordinating Ministry of Economic Affairs and Coordinating Ministry of Human Development and Culture. On 13 November 2014, just two weeks after taking office, President Jokowi outlined the five pillars of his maritime strategy at the East Asia Summit in Myanmar's capital Naypyidaw:⁹

- A revival of Indonesia's maritime culture
- An improvement of the country's fisheries, building maritime food sovereignty and security
- Boosting Indonesia's maritime economy by improving the country's port infrastructure, shipping industry and maritime tourism
- Defining a maritime diplomacy with Indonesia's partners
- Building up Indonesia's maritime security and sovereignty, almost doubling the country's budget for maritime security

One of the goals of this policy is to improve Indonesia as a trade nation through the construction and upgrading of its maritime infrastructure, including 24 strategic ports and five deep-sea ports. The ports, that will have to be built between 2015 and 2019 for a total estimated cost of USD 57 billion, will be placed along strategic maritime highways and will boost Indonesia's connectivity, trade relations and attractiveness for investments. The Port of Kuala Tanjung in North Sumatra is prospected to become a major port in the Strait of Malacca, one of the world's most important shipping lanes, hereby becoming the port hub for the western provinces of Indonesia. The Port of Bitung, in North Sulawesi, is expected to become the hub for the country's eastern provinces, and a good platform for commerce with the Philippines archipelago and towards the Pacific Ocean. Indonesia is also heavily investing in the upgrading of its shipyards and vessels. The Coordinating Ministry for Maritime Affairs is studying changes in legislation to increase the number of shipyards, and hereby to increase the size of the Indonesian fleet. These investments are targeting container ships, fishing boats and ferry boats, as well as military ships.

Indonesia considers it fundamental to have strong maritime sovereignty, and apart from an increased budget, it will possibly show a more active engagement in regional disputes. Already Indonesia's court decisions to publicly and dramatically sink a number of confiscated illegal fishing vessels operating in its waters has been questioned by international observers,¹⁰ and although officially remaining neutral, the country has recently become more involved in the South China Sea dispute now that China has claimed the Indonesian Natuna Island's waters as their territorial waters.¹¹

⁸ KPMG Report (2013) Investing in Indonesia. Pp. 9

⁹ Neary, A. (2014) Jokowi Spells Out Vision for Indonesia's "Global Maritime Nexus" CSIS Publication, 26 November 2014

¹⁰ Quartz Staff (2015) 'Indonesia is sinking illegal fishing boats in dramatic fashion—and may be killing fish in the process', 19 February 2015

¹¹ Antara News (2014) 'China includes part of Natuna waters in its map' 13 March 2014

Indonesia's and China's maritime strategies are closely intertwined. President Xi Jinping first presented China's Maritime Silk Road in front of the Indonesian Parliament in Jakarta, and China showed support for the Indonesian maritime strategy as much as Indonesia has expressed its appreciation for the Chinese one. Chinese funds that are set apart for developing the Maritime Silk Road can also become an important financing source for the Indonesian projects. After having no diplomatic relations during most of the Soeharto-era, when Indonesia was openly acting as an anti-communist country, China and Indonesia finally established diplomatic relations in the early 1990s, and strengthened them especially after China offered Indonesia a helping hand in the aftermath of the 1997 Asian financial crisis. The two countries now have prosperous diplomatic and economic ties, and Indonesia is in fact one of the ASEAN-countries with which China has better relations. At present, the good relations between the two countries and the shared interest in building maritime infrastructure make it very likely that many of Indonesia's ports will at least be partially funded by the AIIB, and that they might hereby at the same time become part of the Indonesian maritime strategy as of the Chinese Maritime Silk Road.

Europe's Involvement

The Indian Ocean Region is of critical importance to the European Union's economic and energy interests. The area accounts for 50 percent of the world's container traffic and 66 percent of its seaborne trade in oil¹². Given both the geographic proximity of the Gulf of Aden and the impact maritime piracy has on European shipping, the attention of the EU remains focused on counter-piracy operations in the Indian Ocean.

The EU is currently involved in successful anti-piracy missions in the Gulf of Aden. In 2008, it launched Operation Atalanta, a Common Security and Defence Policy (CSDP) mission around the horn of Africa, to deter and disrupt piracy and armed robbery at sea. Moreover, it is also increasingly collaborating with the Chinese navy, as joint naval exercises with the People's Liberation Army Navy have been conducted in the Gulf of Aden. Furthermore, several European countries are members of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP). This multilateral counter-piracy mechanism operates across the vast stretch of ocean from the Gulf of Aden to the East China Sea, and now counts four European countries: Denmark, the Netherlands, Norway and the United Kingdom.

As both China and Indonesia are "looking West", and choose to focus on the Indian Ocean and not only on the Pacific Ocean and the Trans-Pacific Partnership (TPP), this is a big opportunity for the European Union in terms of trade and investments.

The EU is the final destination of China's Maritime Silk Road. This initiative "of the people, by the people, and for the people"¹³ is also seen as a good way for China to promote people-to-people relations between Chinese citizens and its neighbours. Since 2012, all these activities have been integrated under the EU-China High Level People-to-People Dialogue (HPPD), the third pillar of EU-China relations, complementing the other two pillars – the High Level Economic and Trade Dialogue and the High Level Strategic Dialogue.

¹² Chellaney, B. (2013). Bridge between Europe and Asia — Strategic Challenges in the Indian Ocean. Körber Foundation, Policy Brief No. 1.

¹³ As it was defined by Mr Qian Bo, Minister Counsellor of the Chinese Mission to the EU, during a conference held by the European Institute for Asian Studies on the 5th of March 2015.

China's Maritime Silk Road is also perceived as a breath of fresh air for some suffocating European economies. For instance, China has already invested USD 400 million in the Piraeus Port in Greece, and has recently signed a new USD 300 million package for future investment. Beijing has also invested in energy, agriculture, industry and infrastructure in the Balkans, which it sees as a gateway into Europe. The third summit between China's Prime Minister Li Keqiang and the leaders of state and government of 16 Central and Eastern European countries was held last December and China signed numerous agreements with countries such as Czech Republic, Latvia, Montenegro, Slovenia, and Serbia. Trade between China and the region has expanded five-fold since 2003, and could exceed USD 60 billion this year, up USD 4.9 billion year-on-year¹⁴. EU's biggest players seem to have understood the potential of China's Silk Road, as the UK, Germany, France and Italy have joined the AIIB, the Chinese-led venture.

A stronger maritime engagement by Indonesia will also inevitably have consequences for the European Union and its economic endeavours in the region. In a maritime junction, Indonesia has the potential to attract a great deal of European investment. Already, Indonesia is stimulating foreign investors, including Europeans, to participate in the upgrading of its maritime infrastructure, as the USD 57 billion sum that is needed is by far too large to be covered by Indonesian government expenditures alone.

Indonesian maritime engagement can also have consequences for the broader regional geopolitics. Rizal Sukma, executive director at Jakarta-based Centre for Strategic and International Studies (CSIS) and foreign policy advisor to Jokowi, explained that the new policy might lead to a new Indonesian appreciation of the Indian Ocean and the Gulf Region,¹⁵ at the expense of the mainly ASEAN-centred foreign policy under former President Yudhoyono. The European Union and its member states will need to have an answer for this renewed Indonesian westward interest, and possibly stretch a hand out to make mutual approach more successful.

EU-Indonesia relations have intensified in the last years, after a Partnership and Cooperation Agreement (PCA) between the two parties was signed in 2009. At present, both European and Indonesian officials have shown a strong will to further develop a Comprehensive Economic Partnership Agreement (CEPA), but trade negotiations with Indonesia are still lagging behind those between the EU and some other ASEAN countries, including Singapore, Vietnam, Malaysia and Thailand. In 2014 both Indonesia and the European Union have had a leadership change, and both parties now have good reasons to step up cooperation on a series of issues, including maritime connectivity. Top Indonesian diplomats who were previously based in Europe, such as the former ambassador in The Hague Retno Marsudi and the former ambassador in Brussels Arif Havas Oegroseno, have been appointed to crucial positions in the new government as Minister of Foreign Affairs and Deputy Minister of the Coordinating Ministry of Maritime Affairs respectively. Indonesia has expressed interest in opening up to European investors, and to invest more on connectivity with the Indian Ocean, the Gulf and the Mediterranean; so now it is up to Europe to respond to these opportunities, and to more proactively engage with the world's prospective fourth economy.

The new maritime strategies also constitute a great opportunity for European ports. Although the One-Belt-One-Road project also includes the improvement of rail infrastructure between China and Europe, maritime transportation remains crucial. The Port of Rotterdam is a major investor in the Port of Kuala Tanjung, and several European

¹⁴ Glass, D. (2014, December 19). China's 21st century 'Maritime Silk Road' ambitions. *Seatrade Communications Limited*. Retrieved from <http://www.seatrade-global.com/news/asia/chinas-21st-century-maritime-silk-road-ambitions.html>

¹⁵ Sukma, R. (2014) USINDO Conference on "The Jokowi Administration: Prospects for Indonesia's Economic Development, Democratic Governance, and International Engagement" in Washington D.C. 11 December 2014

countries expressed their interest in investing in Indonesian maritime infrastructure. In fact, ports give a high and relatively fast return on investment, and investment in Indonesian infrastructure can also be an effective way for entering the high-potential Indonesian consumer market.

Conclusion

Both China's Maritime Silk Road and Indonesia's Maritime Axis will have regional and global consequences. These two expanding maritime powers will contribute to make South-East Asia one of the 21st century most dynamic economic hubs.

These new strategies will also reshuffle the geopolitical cards in the Indian Ocean region. If Indonesia manages to become the "Maritime Axis" President Jokowi foresees it to be, it will not only become an economic power, but also a key player in the region. As it is expanding, Indonesia's foreign policy has become more assertive, as Australia¹⁶ and even the ASEAN community¹⁷ have come to realise. As for China, its plan has triggered a lot of concern from India which sees the Maritime Silk Road as another way for Beijing to contain New Delhi's maritime ambitions in the Indian Ocean.¹⁸ Nevertheless, through its unrivalled financial clout, China has managed to convince all countries of the relevance and necessity of its initiative.

The question that remains is whether these two strategies will dovetail or oppose each other. Although both countries have officially welcomed each other's initiatives, some forerunners foretell potential disputes. China has for instance recently claimed the Indonesia-owned Natuna Islands¹⁹, while Jakarta says it will compete with Beijing to host the AIIB²⁰. It remains to be seen whether the two countries can overcome these difficulties to build up a common regional strategy, or whether they will eventually enter a mode of competition.

Since Washington's Trans-Pacific Partnership seems to gain little traction in China and Indonesia as both countries "look West", it is a great occasion for the European Union to seize the opportunity. Both China and Indonesia are welcoming the EU's involvement in their new strategies. The EU could benefit a great deal from investing in Indonesian ports, while it could at the same time take advantage of Chinese investments. The recent entry of major European powers in the China-led AIIB²¹ shows that they are fully aware of the benefits it could bring, but there is still room for deeper cooperation. While the EU's role in the Indian Ocean region is increasing, especially in security matters, it still fails to be involved in major infrastructure building between Europe and Asia. As the world's largest trading power, the European Union has direct interests in connectivity improvement, and it is therefore important to prompt European actors, including the European Commission and European companies, to come up with a maritime vision on the Indian Ocean and the South China Sea that complements the initiatives of China and Indonesia.

¹⁶ Belot, H. (2013, December 26). Indonesia and Australia: Deteriorating Diplomacy. *The Diplomat*. Retrieved from: thediplomat.com/2013/11/indonesia-and-australia-deteriorating-diplomacy/

¹⁷ Parameswaran, P. (2014, December 18) Is Indonesia Turning Away From ASEAN Under Jokowi? *The Diplomat*. Retrieved from: thediplomat.com/2014/12/is-indonesia-turning-away-from-asean-under-jokowi/

¹⁸ Panda, A. (2014, February 15). China Invites India To The 'Maritime Silk Road'. *The Diplomat*. Retrieved from: <http://thediplomat.com/2014/02/china-invites-india-to-the-maritime-silk-road/>

¹⁹ Keck, Z. (2014, March 20). China's Newest Maritime Dispute. *The Diplomat*. Retrieved from: <http://thediplomat.com/2014/03/chinas-newest-maritime-dispute/>

²⁰ Agencies. (2015, March 23). Indonesia says Jakarta will compete with Beijing to host AIIB. *China Daily*. Retrieved from http://www.chinadaily.com.cn/business/2015-03/23/content_19883346.htm

²¹ Higgins, A; Sanger, D. (2015, March 17). 3 European Powers Say They Will Join China-Led Bank. *The New-York Times*. Retrieved from : <http://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html>

