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PROSPECTS FOR GERMAN FOREIGN POLICY

A Fragile Value Chain: The Need for German Maritime Engagement

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Reliable maritime lifelines are the foundation of our prosperity, yet in the face of new threats the fragility of global maritime trade routes has massively increased over the past several years. German society and the economic sector are not adequately attuned to this.

This paper analyses the significance and the complex challenges confronting Germany as well as other industrial nations in securing their maritime lifelines.

Politics and enterprises are being called upon to seek conceptual and institutional solutions for the protection of German maritime interests together with regional and global partners, and to provide the appropriate resources to do so.

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"The character of the sea has changed. From an open space, where freedom was the rule, it has become a shared, common good for humanity, vast but fragile, needing world-wide management and protection."¹

*Vice Admiral (retired) Lutz Feldt,
former German Navy Inspector*

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Figure 1: Main routes and sensitive intersections in global maritime trade



Source: Jean-Paul Rodrigue, *The Geography of Transport Systems*, 2013, New York: Routledge, 416 pages, ISBN 978-0-415-82254-1
http://people.hofstra.edu/geotrans/eng/ch3en/conc3en/img/Map_main_shipping_routes.png [Zugriff 05.06.2013]

I. INTRODUCTION

"We cannot control the wind, but we can direct the sail." German Chancellor Dr. Angela Merkel used this quote to remind Germany of its challenges and responsibilities as a maritime power at the 8th National Maritime Conference in April 2013.² But were the sails of German foreign policy and trade positioned correctly and has the "prevailing political sea blindness"³ been overcome? The facts speak for themselves:

- A nation that imports and exports nearly two-thirds of its goods by sea is reliant on secure maritime lifelines.
- A political economy in which the proportion of imported and exported goods currently accounts for approximately 70 per cent of GDP⁴ is highly vulnerable economically.
- A country whose shipping and ship-owning companies account for approximately 2 per cent of its GDP must actively contribute to its economic sustainability through the formation of regional and global maritime regimes

and build up and provide for its own efforts, not only militarily, to enforce global commons.

Recently, there seems to have been a change of mind in this regard, as demonstrated by German Chancellor Dr. Angela Merkel's participation in the 8th National Maritime Conference in Kiel in April 2013 and its public resonance.⁵

When we speak of the *maritime value chain* and its fragility, we are not only referring to the ocean's capacity as a *means of transport*. It has become clear that the entire *marine ecosystem* in its various dimensions is the means of existence for our political economy, as a source of food and energy, as a climate regulator, etc. Therefore, if we were to define the political objective of "maritime engagement", the environmental dimension must always be taken into account. This integrated approach demonstrates that German maritime engagement can in no way be interpreted as a renewal of pre-1914 dreams of becoming a great colonial power; rather, it is because of the simple understanding that "control of the seas determines a nation's economic prosperity".⁶

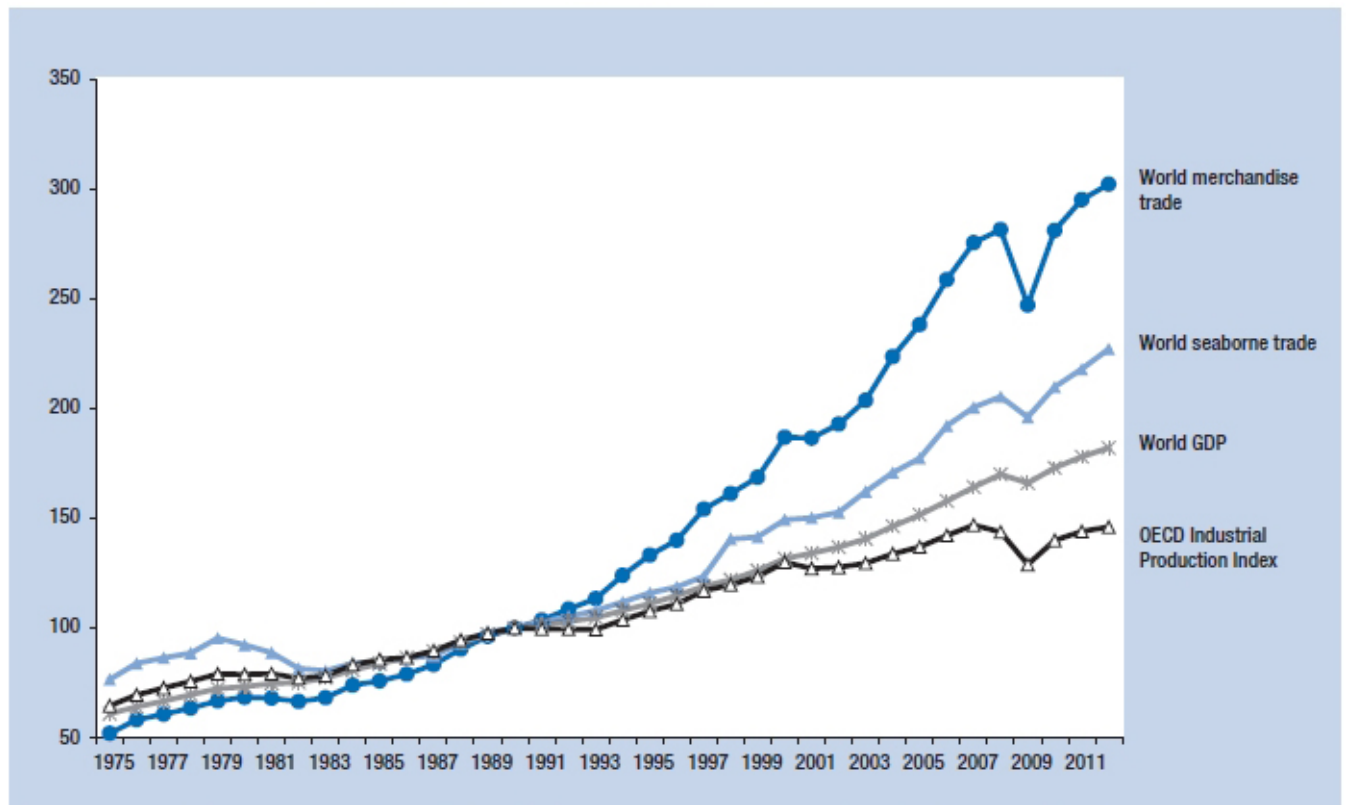
The risks accompanying the global maritime value chain are described below. At the same time, this investigation is not confined to questions of foreign trade but rather attempts to include foreign, security and environmental aspects – a classic example of “networked security”.⁷ A second section then sheds light upon the existing institutional framework for German maritime engagement and derives recommendations for policy and business action.

II. SITUATION

Globalisation’s Maritime Foundations

The introductory quote from Vice Admiral (retired) Lutz Feldt, former Inspector of the German Navy, precisely describes the extensive challenges maritime policy faces today. Just as with the advances in globalisation in the early modern era or before the First World War, this most recent wave of globalisation since the 1980s is unimaginable without an unparalleled expansion of seaborne transportation capacity.

Figure 2: Index of OECD industrial production and indices of global economic growth, global commodity trade and seaborne trade (1975-2012) (1990 = 100)



Source: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT REVIEW OF MARITIME TRANSPORT
Report by the UNCTAD secretariat, Chapter 1, New York and Geneva, 2012, p. 2.

When comparing the growth rates of global trade and seaborne transport, the latter has increased by approximately one-third since 1990 (see Figure 2). The rate of foreign trade⁸ between 1970 and 2008 increased worldwide from 19.7 to 53.2 per cent. When discussing globalisation, the maritime dimension *cannot* be left out.⁹ The focus of the attention is transcontinental trade, but to some extent, an even higher rate of growth is being observed in intraregional seaborne trade (coastal shipping), for example, in East and Southeast Asia.

The weaknesses of this maritime transport network have long been known (see Figure 1). Piracy attacks in the Horn of Africa and the Strait of Malacca, threats from Iran in the Strait of Hormuz and transport congestion in the Suez and Panama Canals demonstrate acute “risks of collapse”. However, the significance of this “chain link” in connection with potential terrorist attacks on *harbours* has been highlighted only very recently as a further sensitive intersection of maritime security.



Assuming that by 2030 global exports increase annually by five per cent and global GDP by four per cent¹⁰, even in the medium-term a further increase in the significance of maritime trade routes can be expected. The Hamburg Global Economic Institute's (*Hamburger Weltwirtschaftsinstitut – HWWI*) predictions assume that sea trade will once more increase by 125 per cent by 2030¹¹ and new intersections (e.g. West Africa) will be added to the global network of sea-ways. In the process, there is a greater likelihood of being confronted with the effects of fragile statehood or non-traditional security risks. The vulnerability of maritime lifelines will also increase.

This is most strikingly demonstrated by the global piracy phenomenon.¹² There were 445 attacks worldwide in 2010; annual losses for global trade are estimated by the World Bank at approximately US\$13 billion.¹³ Since then, the number of attacks has significantly decreased (to date approximately 100 attacks have been reported in 2013). This is primarily due to the decline in attacks on trade ships in the waters near the Horn of Africa. The increasing efficiency of Operation ATALANTA¹⁴ has demonstrated a deterrent effect. However, this does not mean the danger is over. Because at the same time the number of cases in the Gulf of Guinea and in Indonesian waters are once again sharply on the rise.¹⁵ The threat of piracy will remain one of the main sources of maritime threat situations over the next several years.

Are there alternatives to sea-based trade? Taking, for example, trade between Europe and Asia, land-based alternatives have been researched for decades in order to reduce unilateral dependence on maritime transportation routes. Since the 1960s, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has promoted a project to develop an "iron silk route", or Trans-Asian Railway (TAR). The northern corridor should link Russia and Central Asia to Western Europe and East Asian centres of growth. Other elements incorporate railroad projects in South and Southeast Asia (e.g. Kunming-Singapore) and aim to provide logistical alternatives, especially for the Strait of Malacca. Currently, a freight train with automobile parts can travel from Leipzig to the Chinese city of Shenyang 11,000 kilometres away in 21 to 23 days. The Duisburg-Chongqing route is also regularly used.¹⁶ However, its predicted transport capacity will only be able to cover a fraction of the demand in the future. It is questionable as to whether or not the transit routes through Central Asia are associated with an increase in security, keeping in mind the trouble spots found there.

Stable Maritime Value Chains as a Foundation for German Prosperity

Currently approximately 400,000 people are employed in the maritime sector in Germany; they generate approximately 85 billion euro annually (three per cent of German GDP in 2012).¹⁷ These numbers are based on a very strict definition of "maritime". Let us continue with the estimation that, as previously mentioned, approximately 60 per cent of German imports and exports are carried out via sea routes; more than 20 per cent of German automotive products are exported overseas; and 55 per cent of the German machine building industry is exported by sea. This illustrates what the maritime value chain means for the German economy. The key sectors of Germany's production locations, both in terms of the delivery of intermediate inputs and export of finished products, are part of a global maritime value chain. This dependency has increased and will continue to do so. The following factors play a crucial role in this process:

- The increasing significance of overseas markets is reflective of the shifting and growth dynamics of global economic powerhouses. While approximately three-quarters of *European* imports and exports were transacted with non-European countries and regions in 1980, their value in 2010 was just under 83 per cent.¹⁸ As a leading export-based economy, Germany cannot disconnect itself from this trend.
- Multi-national companies are increasingly focussing on global production and distribution chains and are promoting maritime networks. But even the German medium size companies are performing at a noticeably more global level.
- Emerging industrialising countries stand to become increasingly important for Germany in the future as purchase and sales markets due to their geographic locations and comparative cost advantages. A large proportion of this trade will be carried out by sea. The commodities trade with Germany's two largest non-European trade partners – the USA (2nd place), China (5th place) – is already predominantly carried out by sea.

Within Germany itself, the maritime economy comprises the backbone of the regional value chain for *northern German coastal states*. Because of this, in Hamburg and Schleswig-Holstein, for example, approximately one-seventh of the local value chain and twelve per cent of jobs are directly dependent upon marine-based production of goods and services.¹⁹ However, the basis of Germany's export success and therefore our prosperity lies with inland *economic*



centres in western and southern Germany. Indeed their dependence is less apparent, although it is more significant macro-economically.

It is easy to bemoan this dependence. However, due to the pattern of goods traded, the global character of modern production processes and pre-existing transport cost structures and capacities, there are currently no alternatives to seaborne trade for the better part of the German economy. But Germany is not alone. All developed industrial nations and, increasingly, emerging economies share in this fate.

Maritime Policy Concepts of Other Nations

Other nations identified the fragility of their maritime lifelines as part of their national security much earlier and more intensely, and have acknowledged the corresponding strategic significance in designing foreign, security and economic policy.

USA

The United States of America has defined (since the 19th century) freedom of navigation as being of "national interest" because, at present, 90 per cent of the United States' foreign trade is carried out by sea. The deployment of naval forces to main maritime arteries has been consistently executed since the end of the Second World War, and illustrates a decisive contribution from an American perspective in terms of an important global commons. A new "Cooperative Strategy for 21st Century Seapower" was last presented by the Navy, Marine Corps and Coast Guard in 2007 with the goal "[that] Navy, Marine Corps and Coast Guard [should cooperate] even more closely together in working to protect and sustain the American Way of Life".²⁰ This change in strategy should be interpreted not least against the backdrop of new and non-traditional threats (terrorism, piracy) since the end of the Cold War. A complex, value chain oriented security concept underlies this plan.

European Union

Not least due to its extensive responsibilities in terms of trade, over the past few years the European Commission has passed a range of guidelines for the improvement of maritime security and has established several maritime authorities.²¹ However, because maritime problem areas affect a range of policies, and in many cases the appropriate instruments remain the responsibility of national governments, the EU can only perform its role as a guarantor of maritime security in close coordination with national governments and supranational groups, most notably NATO. It

has made significant advances since 2008 in terms of a comprehensive approach with the EU NAVFOR Operation ATALANTA around the Horn of Africa.²² However, ATALANTA also demonstrated that effective national navies remain essential. In the process of reconfiguring the German Federal Armed Forces, the German Navy gained a tighter leadership structure through the introduction of uniform naval command. This departure from a focus on coastal defence and an "escort navy" to that of a force capable of handling multinational missions with greater sustainability has been in place conceptually since the 1990s and was reinforced in the recent "Defence Policy Guidelines for 2011".²³ While the corresponding capacity is being established for large projects at sea, deficits remain, for example in air support/reconnaissance units.²⁴

East Asia

Foreign trade in large industrial nations in East Asia (China and Taiwan, Japan, South Korea) is similarly dependent upon secure maritime supply channels.

The People's Republic of China

In 2010, the *People's Republic of China* replaced Germany as the world's leading exporter. More than 85 per cent of China's global foreign trade is currently carried out by sea.²⁵ The country possesses both the largest and second-largest ports in the world, Shanghai and Ningbo-Zhoushan, respectively, as well as the greatest shipbuilding capacity and third-largest merchant fleet. China has become a (civilian) naval world power and will continue to contribute significantly to the future growth of sea trade.

The protection of vital imports and exports in China's rapid, resource-intensive industrialisation process has become a strategic core interest of the People's Republic. This, along with the build-up of a massive civilian cargo and transport capacity, is reflected in an extensive programme to modernise coastal and naval forces.²⁶ Currently, the country still lacks the ability to project itself as a global sea power, including militarily. However, the presence of Chinese naval forces in the Indian Ocean and the Horn of Africa since 2008 can be interpreted as a first step toward a global maritime presence.

Japan

As an island nation, Japan is almost completely reliant upon effective maritime trade routes: "Japan's Sea Lane Security [is therefore, PH] a Matter Of Life And Death".²⁷



Approximately 99 per cent of its foreign trade is carried out by sea; 80 per cent of its crude oil imports take a course through the Strait of Malacca; the importance of energy supplies from the Persian Gulf is still much greater than it is for Europe and the USA – no other highly developed industrialised nation is dependent on one single transport route to such a high degree.²⁸ At the same time, the country is located in one of the most conflict-ridden parts of the world. Ongoing territorial disputes in the East China and South China Seas have confirmed that *maritime* security is once again the highest priority for national security.

It is, therefore, little wonder that the Japanese coastal and naval forces (including the air force) are among the most modern elements of “self-defence forces” and are subject to a permanent modernisation programme.

Over the past few years, Japan has engaged in active “maritime” diplomatic activities in South and Southeast Asia in order to gain allies along their shipping lanes. Japan and most other neighbouring states regard China’s rise with caution, if not with outright concern. The unresolved conflicts regarding maritime sovereign territory in the East China and South China Seas have contributed considerably to this concern. As a result of this, the region is not expected to foster closer maritime cooperation over the next few years. From a maritime threat scenario standpoint, this is a fatal shortcoming for the Indian Ocean and western Pacific Ocean regions; the risk of massive disruptions to maritime value chains – on a global scale – is currently highest in East and Southeast Asia.

Once again, this can be traced back to the question of the United States’ role in the region. Whether or not this can be referred to as a “pivot to Asia”, in the future, the USA will provide the key contribution to the stabilisation of maritime trade routes in Asia in cooperation with regional Southeast Asian/Pacific powers (Singapore, Australia). Europe can take an active supporting role in developing regional security cooperation diplomatically (for instance through ASEAN), if not militarily.

Protection of Maritime Resources

Only in more recent discussions has the term “maritime security” expanded to include an environmental dimension.²⁹ And rightly so as, along with the atmosphere, oceans play a central role in the climate system and the Earth’s resources. Oceans and coastal shelf seas make up the world’s greatest complex ecosystem: 99 per cent of global fishing comes from this important food reservoir; the proximate coastal regions make up 70 per cent of living and recreational space

for the global population.³⁰ Ever greater intrusion and disruption of natural mechanisms of regulation have grave consequences: depletion of exhaustible sources of food and energy; the loss of a buffer for the global climate; a rise in sea level, etc. The considerable negative consequences of this will also affect Germany.

Institutional Maritime Expertise

Germany has a broad network of maritime expertise at its disposal in the form of university institutes, extra-university research centres and business-related competence centres. In terms of maritime law, Germany is among the leading nations. In this regard, it is often overlooked that the International Tribunal for The Law of the Sea in Hamburg, the only international court, is located on German soil. Because of this, Germany is able to provide a significant contribution to the further development of international legal norms.

III. RECOMMENDATIONS

1. Political and economic decision makers must create awareness of the problem of fragile maritime value chains. The German federal government has rightly raised the significance of this issue on the political agenda. The tradition of a “national maritime conference” should be continued and should take an even stronger thematic position on the security policy dimensions described here. Corresponding national and European networks of expertise should be further strengthened. With the Limassol Declaration in 2012³¹, the EU established the terms of a maritime policy agenda for this purpose at the European level. However, this must be further interlinked with other provisions, including the Common Foreign and Security Policy’s (CFSP) military instruments.³² Both government and private companies are called upon to exchange insights on threat levels and to join together in terms of their options without blurring the lines of their specific legal and political responsibilities. In doing so, the Working Group for Economic Security (*Arbeitsgemeinschaft für Sicherheit in der Wirtschaft* – ASG)³³ is engaging in the task of creating a central coordination unit for the transmission of information between the state and the economic sector. Similar to the cyber-security sector, an efficient platform for exchange on issues of maritime threats could be established.

2. Companies are requested to attach a higher degree of significance to the factor of “fragility of maritime supply channels” in their risk analyses. Depending on the threat level and the sensitivity of value chains, logistic designs and production processes should be reviewed and, if necessary, alternative supply networks (e.g. land-based) should be de-



veloped.³⁴ Greater significance must be attached to the factor of the supply chain's "resilience" vis-à-vis a narrow definition of efficiency and economic viability.

3. Germany's political and military presence in key regions of the global maritime network should be increased. It seems necessary to establish further (border) patrol/military capacities to make Germany a reliable and assertive maritime partner. This requires appropriate investments in sea-based and satellite-based reconnaissance technologies and interconnectivity with other naval forces' systems (interoperability). The German Navy's planned investments in large maritime units (ships) is sufficient, but should not bring about the continued under-financing of the above-mentioned support systems.³⁵ Moreover, EU and NATO design considerations for maritime security³⁶ should be further developed.³⁷

4. Germany should provide for clear and enforceable judicial foundations and approaches in the fight against maritime piracy at the national and international legal level and should be committed to the protection of the German merchant fleet at sea. Reforms could secure institutional reorganisation, for example by establishing a uniform coast guard; it would also be beneficial to consider constitutional amendments to ensure the readiness and assertiveness of German maritime forces. According to the current valid interpretation of the law, the German Navy may not engage in policing activities on the high seas.³⁸ This impedes effective operations to combat maritime piracy.

5. The maritime economy can and must provide an important contribution to the goal of creating a sustainable economy. The starting point lies alongside the entire maritime value chain. Moreover, the fragility of marine ecosystems must be raised to a higher degree of awareness as an integral component of the global environmental and climate discussion. The eco-balancing instrument is an established tool for measuring the environmental "footprint" for many economic sectors; this should also be implemented for the maritime economic sector.³⁹

6. In terms of a globally expanded corporate social responsibility (CSR) concept, the business world must also contribute in order to energetically combat the worldwide environmental and social drawbacks. Because ultimately, this is one of the causes of fragile statehood and its negative maritime consequences, such as piracy.

7. Against this backdrop, in terms of its development policy, Germany should continue to apply its "comparative advantages" in establishing good governance and the rule of law.⁴⁰

8. Germany's technical, natural scientific and legal abilities in the maritime field should be combined and introduced into the global discourse.

- 1| Feldt, Lutz, *Maritime Surveillance as a Precondition for Maritime Security – A European Approach*, in: *New Strategic Challenges for Europe and China*, Lutz Feldt, Claas Knoop, Peter Roell, Ralph Thiele (Eds.), Shanghai 2012, 14 (KAS China Series 104).
- 2| Speech by German Chancellor Dr. Angela Merkel at the 8th National Maritime Conference on 08.04.2013 in Kiel, <http://www.bundesregierung.de/Content/DE/Rede/2013/04/2013-04-08-merkel-maritime-konferenz.html> [Accessed 24.06.2013].
- 3| Lutz Feldt, Carlo Masala, Hans-Joachim Stricker and Konstantinos Tsetsos, *Kein Land in Sicht*, *Frankfurter Allgemeine Zeitung* from 01.04.2013 [Accessed 05.06.2013].
- 4| To describe the phenomenon of increasing imported intermediate inputs in the German exported value chain, Munich economist Hans-Werner Sinn coined the term "bazaar economy" in 2005. According to current calculations by the Federal Statistical Office, this rate was 25.4 per cent in 2009; in the highly export-oriented vehicle manufacturing sector, this was 35 per cent; see Destatis,
- 5| "Made in the world" – Internationale Handelsströme neu vermessen, 28.03.2013, https://www.destatis.de/DE/Publikationen/STATmagazin/VolkswirtschaftlicheGesamtrechnungen/2013_03/2013_03Handelsstroeme.html [Accessed 21.05.2013].
- 6| Cf. speech by German Chancellor Dr. Angela Merkel, reference as above. 6| Lutz Feldt, Carlo Masala, Hans-Joachim Stricker and Konstantinos Tsetsos, *Kein Land in Sicht*, reference as above.
- 7| Since 2009, the Konrad-Adenauer-Stiftung has arranged a round table, "Networked Security"; see <http://www.kas.de/wf/de/71.7400/> [Accessed 24.06.2013].
- 8| This rate expresses a nation's number of merchandise exports and imports relative to gross domestic product (GDP). See also <http://www.bpb.de/nachschlagen/zahlen-und-fakten/globalisierung/52842/aussenhandel> [Accessed 21.05.2013].
- 9| Not to deny the importance of communications and financial market evolution, but ultimately a high amount of tangible goods are moved.
- 10| Cf. Roland Berger, *Megatrends 2030*, 2nd Weimar Economic Forum (Weimarer Wirtschaftsforum), 2011, www.thueringen.de/imperia/md/content/tmwta/wirtschaft/07042011_megatrends_2030_weimarer_wiforum_short_d_final.pdf [Accessed 20.05.2013]
- 11| See Hamburg Global Economic Institute (HWWI), *Maritime Wirtschaft und Transportlogistik*, Band A: *Perspektiven des maritimen Handels – Frachtschiffahrt und Hafenwirtschaft*, 8.
- 12| A current and graphic overview of the situation is provided by the International Chamber of Commerce's (ICC) International Maritime Bureau/Piracy Reporting Centre (IMB PRC), <http://www.icc-ccs.org/>. Data according to <http://de.statista.com/statistik/daten/studie/75315/umfrage/anzahl-der-piratenueberfaelle-weltweit-seit-2006/> [Accessed 30.05.2013].
- 13| See <http://www.worldbank.org/en/news/press-release/2013/04/11/ending-somali-piracy-will-need-on-shore-solutions-and-international-support-to-rebuild-somalia> [Accessed 30.5.2013].
- 14| For more on Operation ATALANTA and the implications for the EU, see Peter Roell, *Anti-Piracy and Anti-Terrorism in the Indian Ocean: Operation Atalanta and Europe's Contribution*, in: Lutz Feldt, Claas Knoop, Peter Roell, Ralph Thiele (Eds.), reference as above, 22-35.
- 15| Cf. German Federal Police (Bundespolizei), *Report on Piracy 4/2012*, 8, http://www.bundespolizei.de/DE/02Schutz-und-Vorbeugung/Pirateriepraev/pirateriebericht_file.pdf?__blob=publicationFile [Accessed 30.05.2013].

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