

**UNIVERSITY OF ECONOMICS PRAGUE**  
**FACULTY OF INTERNATIONAL RELATIONS**



**Security Externalities of the Chinese Maritime Silk Road**  
**Initiative in the Indian Ocean**

With Focus on Sino-Indian Competition

**MASTER'S THESIS**

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## **Declaration**

I hereby declare that I am the sole author of the thesis entitled “*Security Externalities of the Chinese Maritime Silk Road Initiative in the Indian Ocean, with Focus on Sino-Indian Competition*“. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on .....

.....

Hana Burešová

## **Acknowledgement**

I hereby wish to express my appreciation and gratitude to the supervisor of my thesis,  
*Jeremy Alan Garlick, M.A., Ph.D.*

## **Abstract**

The goal of this thesis is to provide a clearer understanding of the consequences – here especially security externalities – of the development along the Chinese Maritime Silk Road in the Indian Ocean. There are two aspects of this issue, firstly how Maritime Silk Road Initiative affects small economies perceived by China as strategic, and secondly the threats and opportunities of the Maritime Silk Road and String of Pearls in the waters of Indian Ocean.

## **Key Words**

Security Externalities

Indian Ocean

Maritime Silk Road

Belt and Road Initiative

India

China

Sri Lanka

Pakistan

Security Dilemma

Security Relations

Economic Statecraft

International Relations

## **List of Abbreviations**

BRI	Belt and Road Initiative
PRC	People's Republic of China
MSR	Maritime Silk Road
U.S., US, USA	United States of America
EU	European Union
EEZ	Exclusive Economic Zone
UNCLOS	United Nations Convention on the Law of the Sea
IOR	Indian Ocean Rim
NATO	North Atlantic Treaty Organization
ASEAN	Association of South East Asian Nations
UK	United Kingdom
IO	Indian Ocean
CPEC	China–Pakistan Economic Corridor
WWII	Second World War
ICJ	International Court of Justice
UN	United Nations
UAE	United Arab Emirates

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# Introduction

## a. The Belt and Road Initiative

*“China unveiled the principles, framework, and cooperation priorities and mechanisms in its Belt and Road Initiative on March 28, 2015, in a bid to enhance regional connectivity and embrace a brighter future together.”<sup>1</sup>*

The 21<sup>st</sup>-Century Maritime Silk Road is one of two principal parts of the Chinese Belt and Road Initiative<sup>2</sup> to connect countries of the Eurasian continent, Africa and ASEAN and promote economic development and prosperity in several areas of foreign trade. The Belt and Road Initiative builds upon the spirit and principles of the ancient Silk Road, dating roughly 207 BCE–220 CE and connecting China, Korea, Japan, India, Persia, Europe and North Africa, famously introducing silk onto the European market.<sup>3</sup>

The action plan, principles and framework of the Belt and Road Initiative (henceforth also BRI) were jointly released by The National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of People’s Republic of China (hereinafter also PRC) on March 28, 2015, but the idea was first communicated by president Xi Jinping in September 2013.

There are two distinguished but connected parts to the Belt and Road Initiative. While the first one is the Maritime Silk Road, the second branch is referred to as the Silk Road Economic Belt. It mainly consists of series of overland economic corridors, such as the China-Mongolia-Russia corridor, China-Central Asia-West Asia and China-Indochina Peninsula, while the main aim remains to construct a new Eurasian Land Bridge. Closely connected with these, but also important for their ports in the Indian Ocean, are the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor, for they can eventually connect both limbs of the Initiative.

The 21<sup>st</sup> Century Maritime Silk Road (hereinafter also Maritime Silk Road or MSR) has two routes. One goes East from China, through the South China Sea and towards the South Pacific;

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<sup>1</sup> Chronology of China’s Belt and Road Initiative, March 28, 2015. [online]. [Accessed 28 June 2019]. Available from: <[http://english.gov.cn/news/top\\_news/2015/04/20/content\\_281475092566326.htm](http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm)>

<sup>2</sup> Called also unofficially “New Silk Road” or previously “One Belt One Road” and their respective abbreviations.

<sup>3</sup> Jerry Bentley, *Old World Encounters: Cross-Cultural Contacts and Exchanges in Pre-Modern Times* (New York: Oxford University Press, 1993), 32.



while the second turns from the South China Sea towards the Strait of Malacca, into Bay of Bengal, the Palk Strait and Sri Lankan port Colombo to continue towards the Red Sea, Suez and Mediterranean.<sup>4,5</sup> It is not clear where the “road” itself will start or what are the precise stops and ports alongside it, as it was never mentioned in any Chinese governmental issue. Analysts believe it to start either in Quanzhou or Hong Kong, with Quanzhou being the original seaport center of ancient Asian trade.<sup>6</sup>

A new limb of the previously intended Belt and Road system of routes surfaced in the statement of Vladimir Putin in his Annual News Conference on December 14, 2017, mentioning the term Northern Silk Road or “Ice Silk Road”. It stands for what could be another trade route, connecting China with the rest of the world this time not through the southern waters, but between the Pacific Ocean and the Atlantic Ocean along Russia’s northern coast. The Chinese and Russian representatives claim it could shorten shipping times from Shanghai to Rotterdam by at least a week compared to sailing through the Suez Canal.<sup>7,8</sup> The whole narrative is based upon a recent successful project of shipments of liquified natural gas JSC Yamal LNG, a joint venture between the Russian company Novatek (50.1 percent), French company Total (20 percent), China National Petroleum Corp. (20 percent), and Chinese Silk Road Fund (9.9 percent).<sup>9</sup>

There are also several platforms and organizations connected to the whole project of the BRI. Together with strengthening of economic ties between Russia and China and the potential new “Ice Silk Road”, the BRI has gained the approval of the Eurasian Economic Union, consisting

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<sup>4</sup> This information is based on the map drafted by the Maritime Silk Road Society, however, contrary to more detailed information on the overland route, it has never been mentioned clearly through which ports and points on the map will the Maritime Silk Road go.

Chronology of China’s Belt and Road Initiative, March 28, 2015. [online]. [Accessed 28 June 2019]. Available from: <[http://english.gov.cn/news/top\\_news/2015/04/20/content\\_281475092566326.htm](http://english.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm)>

<sup>5</sup> *Blue China: Navigating the Maritime Silk Road to Europe*, April 23, 2018. [online]. [Accessed 28 June 2019]. Available from: <[https://www.ecfr.eu/publications/summary/blue\\_china\\_navigating\\_the\\_maritime\\_silk\\_road\\_to\\_europe](https://www.ecfr.eu/publications/summary/blue_china_navigating_the_maritime_silk_road_to_europe)>

<sup>6</sup> Quanzhou: a crucial port along the eastern maritime Silk Roads | SILK ROADS, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://en.unesco.org/silkroad/content/quanzhou-crucial-port-along-eastern-maritime-silk-roads>>

<sup>7</sup> Another way to market? “The Ice Silk Road,” 2017. *Week In China* [online]. [Accessed 28 June 2019]. Available from: <<https://www.weekinchina.com/advertorial/2017/07/another-way-to-market-the-ice-silk-road/>>

<sup>8</sup> Vladimir Putin’s annual news conference, December 14, 2017. *President of Russia* [online]. [Accessed 28 June 2019]. Available from: <<http://en.kremlin.ru/events/president/news/56378>>

<sup>9</sup> Russia ships first gas from \$27bn Arctic project, December 8, 2017. *Financial Times* [online]. [Accessed 28 June 2019]. Available from: <<https://www.ft.com/content/515d451c-dc11-11e7-a039-c64b1c09b482>>

of Russia and Central Asian countries.<sup>10</sup> Another initiative, called the 16+1 is described by its official website as follows:

*“The 16+1 format is an initiative by the People’s Republic of China aimed at intensifying and expanding cooperation with 11 EU Member States and 5 Balkan countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia) in the fields of investments, transport, finance, science, education, and culture. In the framework of the initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies.”<sup>11</sup>*

Some authors estimate the BRI’s current worth both in trade volume and investment equals around \$1 trillion.<sup>12,13</sup> According to the BRI official page however, total costs might reach more realistically somewhere between \$4 - 8 trillion. The funding for various projects is spread between several types of institutions:

*To fully fund the total BRI project [...], diverse funding channels such as BRI bonds, private capital investment and public-private partnerships (PPP) but also State-Owned Enterprise (SOE) investment will be crucial for the success of the Initiative.<sup>14</sup>*

There are three BRI-specific banks: Agricultural Development Bank of China (ADBC), China Development Bank (CDB) and Export-Import Bank of China (CHEXIM), but many other financial institutions that identify as ‘international’ sprang up around the announcement of BRI (as is the case for example of Asian Infrastructure Investment Bank, that opened for business in early 2016<sup>15</sup>).<sup>16</sup>

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<sup>10</sup> Vladimir Putin’s annual news conference, December 14, 2017.

<sup>11</sup> CEEC-China (16+1), [no date]. *CEEC-China (16+1)* [online]. [Accessed 28 June 2019]. Available from: <<http://ceec-china-latvia.org/>>

<sup>12</sup> Projects worth \$1 trillion fall under China’s One Belt, One Road initiative, 2019. *International Finance* [online]. [Accessed 28 June 2019]. Available from: <<https://internationalfinance.com/projects-worth-1-trillion-fall-under-chinas-one-belt-one-road-initiative/>>

<sup>13</sup> 2018 Belt and Road Trade Reached \$1.3 Trillion, January 26, 2019. *The Maritime Executive* [online]. [Accessed 28 June 2019]. Available from: <<https://www.maritime-executive.com/article/2018-belt-and-road-trade-reached-1-3-trillion>>

<sup>14</sup> Belt and Road Initiative, [no date]. *Belt and Road Initiative* [online]. [Accessed 28 June 2019]. Available from: <<https://www.beltroad-initiative.com/belt-and-road/>>

<sup>15</sup> Our First Three Years - AIIB, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://www.aiib.org/en/about-aiib/who-we-are/third-anniversary/index.html>>

<sup>16</sup> Belt and Road Initiative, [no date]. *Belt and Road Initiative* [online].

China denies any allegations to their activities in the Indian Ocean in any other context than that of peaceful development in sync with the wishes and policies of the target country, while promoting cooperation towards a new mutually beneficial trade infrastructure.

## b. The thesis

The goal of this thesis is to provide a clearer understanding of the consequences – here especially security externalities – of the development along the Chinese Maritime Silk Road in the Indian Ocean. There are two aspects of this issue, firstly how Maritime Silk Road Initiative affects small economies perceived by China as strategic, and secondly the threats and opportunities of the Maritime Silk Road and String of Pearls in the waters of Indian Ocean.

The thesis' research questions are defined as: What effect does the economic development under Maritime Silk Road Initiative have on smaller economies perceived by China as strategic in the Indian Ocean? How does or how could the Maritime Silk Road destabilize the security situation in Indian Ocean waters? A sub-question can also be linked to these two: To what extent do the real security impacts of the Chinese Maritime Silk Road correspond with the String of Pearls Strategy theory?

The research method used throughout this thesis is a qualitative analysis based on available information acquired from a combination of primary sources, such as official documents, speeches and press conferences; and secondary sources such as research and case studies by acknowledged authors in this field. The analysis draws on the theoretical background of 'economic statecraft' by William Norris in the first part and security relations and dilemma by K. Booth in the second.

The first part entitled 'Chinese Economic Statecraft in The Indian Ocean' links various events or opinions associated with the Maritime Silk Road in the Indian Ocean to Norris's theory of economic statecraft and the goals of Chinese grand strategy and examines them for their capacity to generate a security externality for China or function as a mechanism to acquire one.

I focused on Chinese engagement in two different cases, Sri Lanka and Pakistan, that were chosen for their dissimilar circumstances – especially the nature of their relationship to India. Despite that reasoning, in no way does this mean they are primarily explored through the comparison method, even though drawing a link between similar or dissimilar developments is inevitable in several places including conclusions about Chinese economic statecraft. By examining two different cases instead of one I hoped to shed more light on the endless variables that shape the outcomes of Chinese development in the region.

The case studies in the first part are complemented by an analysis of the security situation in the waters of Indian Ocean in the second part of the thesis titled: 'Strategic Competition in the

Indian Ocean Waters’ and derive the relationship, potential threats and opportunities coming from the Chinese, Indian and US maritime presence in the Indian Ocean. Special focus is accorded to the possibility of a security dilemma, which is delimited by the theory of Security Relations by K. Booth and N.J. Wheeler. The goal of this part is to be able to draw conclusions from analyzed topics about the way the development of the Maritime Silk Road influences or might influence the security situation in this region and vice versa.

This analysis is based on the theory of Chinese “economic statecraft”, used by William J. Norris in his eponymous 2016 publication and defined as state’s intentional manipulation of economic interactions to further its broad strategic interests. The second chapter on Chinese grand strategy works with official materials from Chinese government website and uses an article by Elizabeth C. Economy in Foreign Policy to present the persona of Xi Jinping.

The analytical part consists of application of these principles to past and present events and large percent will therefore draw on information from various articles as they were published at the time of the event. Apart from these in case of Sri Lanka I utilized a study of Chinese externalities by D. Lim and R. Mukherjee that I found very useful and informative especially for the mechanisms of security externalities (economic statecraft) they derived from examination of events. I incorporated these mechanisms into my analysis as an additional theory to W. Norris’ economic statecraft and applied them in reverse back to Chinese economic development in Sri Lanka, which is primarily concentrated in two cities, Hambantota and Colombo. Since Sri Lanka has a history of generally favorable relations with India, major Chinese investments usually elicit some kind of reaction from India that is considered here too, since it might further influence Sri Lanka’s attitude to Chinese investment.

In the Pakistan case study I tried to approach the topic of CPEC benefits and threats from several viewpoints to be able to analyze it thoroughly. That is why I chose studies from both Pakistani and Chinese, as well as Indian research institutes or authors, as is the case with ClearIAS and Farhan Zahid publications, that I utilized mostly for my evaluation of security externalities that might stem from this economic activity. Articles from Pakistani, Chinese, Indian, US and British newspapers helped me assess each situation as it was reported from various viewpoints on topical basis.

The most important source for my analysis of security externalities in the Pakistan case study section is a public version of the joint governmental document “Long-term Plan on China-Pakistan Economic Corridor” as published by Pakistani daily Dawn after its leak in 2017. This

document summarizes all areas of cooperation under CPEC, including some possibly alerting subjects like proposed internal policy changes to benefit Chinese corporations, dissemination of Chinese culture and beliefs through media channels or Chinese military law enforcement and complex surveillance systems to ensure the safety of workers. The plan also identifies “multi-party democracy” as one of the biggest threats to the successful execution of CPEC, together with “western intervention”. Development in the port of Gwadar is essential to this case study because it connects it to situation in the waters of Indian Ocean.

The theoretical background in second part delimitates aspects of theory of security relations in connection to fear and cooperation, while focusing on the possibility of a security dilemma. The important part for subsequent analysis is also the overview of strategic appeal of the Indian Ocean, effectively answering the question why do these global powers choose Indian Ocean as the venue for the clash of their various interests. The analytical part applies these to position, behaviors and goals of involved parties, with focus on strategic competition in the Indian Ocean waters especially between India and China; and maritime cooperation between India, the US, Australia and Japan as part of an informal Quad alliance that installs some concerns in the mind of Chinese Communist party.

The two separate parts of this thesis come back together in the mutual conclusion that links together the Sino-Indian competition over influence in littoral states with increasing naval engagement from both parties in the waters of Indian Ocean: there is indeed a security dilemma (albeit so far in a latent stage) in the waters of Indian Ocean, but we can also observe a form of soft-power security dilemma through increasing race for economic and political influence in littoral states. This influence ties back to enhancing the naval security through acquiring security externalities – a feat India appears to have joined in too in an effort to catch up with China.

Throughout the whole text I use a number of shortened terms, that are all duly marked out with their original meaning in the list of abbreviations preceding this Introduction. Most utilized one here is ‘China’, in the meaning of the state of People’s Republic of China; or US, U.S. or USA (depending on the one used in the referenced source) all in the meaning of United States of America. Other frequent abbreviations are MSR and BRI, that stand for Maritime Silk Road and Belt and Road Initiative respectively.

One more thing I would like to mention is why the principles and theory surrounding Maritime Silk Road as part of the Belt and Road Initiative are not mentioned as extensively as could be expected being the primary framework of this thesis. The problem with these terms is while

there of course exist some statements the scope is not clearly delimited even by China itself, given their ever shifting and growing nature in reality. In simple words, any project can become part of BRI or can be declared as a standalone investment if it came to it. So in reality it might actually become less important what in fact is and what isn't in the scope of BRI, as long as a flow of Chinese capital or trade can be detected behind it. On the other hand for the purpose of this thesis it was important to consider all events and investments in the framework of the MSR *exactly* in order to be able to judge China on the accountability for its action. Analyzing a certain development as under the MSR becomes especially meaningful if the development starts to take a security or military turn, despite the fact MSR should be focused on peaceful economic cooperation; thus providing for the small paradox in the title of this thesis.

Lastly, the thesis focuses specifically on the Sino-Indian competition for a reason, because otherwise the number of actors, whether state or not, that would all have different viewpoints on the same events would be endless. Heightened attention is also in some cases accorded to the US, because it possibly ties this regional rivalry to the global context

PART I.

CHINESE ECONOMIC STATECRAFT  
IN THE INDIAN OCEAN





# 1. Theory of Economic Statecraft

*"[The term statecraft stands for] organized actions governments take to change the external environment in general or the policies and actions of other state in particular to achieve the objectives that have been set by policy makers".<sup>17</sup>*

The word statecraft is used by David Baldwin to describe the art of state to control its state affairs. K.J. Holsti defines statecraft as *"all means by which states strive to change the outside environment to better suit their needs."*<sup>18</sup>

Economic statecraft however, and statecraft in general, should be distinguished from foreign policy or economic diplomacy or even foreign trade of a state. William Norris corrects a common misconception – that international economic activity is conducted by states. Instead, this is carried out by a number of commercial actors, that can but don't necessarily have to be influenced by states. For a state to exercise economic power to achieve its strategic goals, he needs to rely on economic actors, overcoming a host of challenges, such as whether the actor will act in the interest of itself or the state when their goals start to differ. Therefore the term international economic relations "between states" is an incorrect shortcut that would imply that states itself are the source of global economic activity.<sup>19</sup> That is why when state itself steps in to influence the outside environment through its economic tools, this can be viewed as an exercise of economic statecraft.

## 1.1. Security externalities

One of the key terms connected with the study of economic statecraft are externalities – in this case particularly security externalities. Externalities are a term borrowed from economic theory, whereby externality is in effect a case of market inefficiency, in which production or consumption result in unintended cost or benefit to other subject. Externalities in microeconomics are considered either positive or negative from the view of the afflicted party.<sup>20</sup> While economics usually consider the externalities to be unintended, that doesn't mean the

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<sup>17</sup> KJ Holsti, "The Study of Diplomacy" World Politics JN Rosenau. KW Thompson, ed.s., (New York: Free Press, 1976) page 293.

<sup>18</sup> Holsti, K. J. 1970. National Role Conceptions in the Study of Foreign Policy. *International Studies Quarterly* 14(3): 233-309.

<sup>19</sup> Norris, W.J., 2016. Chinese economic statecraft: Commercial actors, grand strategy, and state control. Cornell University Press.

<sup>20</sup> Mikroökonomie, Libuse Macakova, p. 218

inflicting party is completely unaware of it. For our theory of economic statecraft however, the states are not only aware of these externalities, but they usually intend to use them voluntarily for their strategic advantage.

William Norris connects externalities with economic statecraft thusly:

*“Economic statecraft is defined as the state’s intentional manipulation of economic interaction to capitalize on, reinforce, or reduce the associated strategic externalities.”*<sup>21</sup>

When the theory of externalities is applied to the study of statecraft, several cases might occur. A behavior of a certain actor might produce no externalities, or it can produce externalities of various natures, for example environmental, social, economic, security, strategic or political. On the other hand, security externalities can be caused not only by economic means, but also by a number of other factors, such as demographic, environmental or other possible changes.<sup>22</sup>

This thesis will especially investigate the possibility of intently effectuating economic statecraft to generate security externalities that will prove useful (exploitable) to the first party. Since state can at least to a certain degree manipulate the behavior of a commercial actor it can seek to fulfill its strategic goals through influencing this actor. While the same security externality can originate from an ordinary behavior of uninfluenced actors, in the theory of economic statecraft, states would specifically manipulate such actors in order to achieve this externality.

Norris suggests several types of security externalities stemming from economic activity, while there are many others: sensitive technology transfer, loss of strategic industries, joint ventures, macroeconomic coordination etc. Similarly there several ways and state policy tools to manipulate an economic actor. These include: taxation, sanctions, freezing assets, embargoes, tariffs or trade agreements.

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<sup>21</sup> Norris, W.J., 2016.

<sup>22</sup> *Ibid.*

## 1.2. Mechanisms of Economic Statecraft

Lim and Mukherjee<sup>23</sup> in their case study of Chinese economic statecraft examine the ways through which applying economic statecraft results in generating externalities, specifically what moves the actors of economic statecraft to influence the policy in the target state.<sup>24</sup> They identify several mechanisms that can be utilized separately or in combination with others:

First mechanism is the use of *trade* between the sender and target state. This mechanism has two different exploitable effects: the first one relies on the positive impact of long-term favorable relations that start by building a friendly business environment between different firms in both countries. In such a case it is possible that the firms in the target state will try to influence the state's policy to prolong favorable relations with the sender state in order to maintain their own profit. The second effect of trade relations is less positive and leaves more room for manipulation. If the target state becomes dependent on the trade with the sender state to fuel its economy (which could also be a result of a long term application of the first effect), it becomes vulnerable to coercive behavior of the sender, such as threats to disruptions of trade relations should the target state not act as expected.

Second mechanism is identified as the *capital mechanism*, in which the transfer of money rather than goods and services plays a key role in influencing the relationship between the sender and target states. There are several methods of transfer of capital, such as foreign direct investment (where sender state companies purchase stakes at target state companies), foreign debt (target state issues obligations) or foreign aid (in the form of grant or a loan from the sender state). To exploit this mechanism in the case of foreign direct investments, the sender state companies could effectively start taking over all major target state companies in the industry. Especially in the case of China where the firms investing abroad are state-owned, having the whole industry owned by another state makes the target state certainly very vulnerable to pressure from the business environment inside as well as again the pressure to maintain positive relations with the sender state. Foreign aid might work more straightforwardly in that not only it cultivates relations with the target state so it will view the sender state more favorably (and possibly coordinate it's own ideologies / political models alongside it); but again it places the burden of

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<sup>23</sup> LIM, Darren J.; MUKHERJEE, Rohan. What Money Can't Buy: The Security Externalities of Chinese Economic Statecraft in Post-War Sri Lanka. *Asian Security*, 2017, 1-20.

<sup>24</sup> Here the target state stands for the one on the receiving end of economic transactions from the sender state. Sender state is the one that exerts economic statecraft onto the target state in the hope of influencing its policy to benefit the sender state's interests.

complying with the sender state's wishes or else the inflow of funds could stop. Lastly, with foreign debt (whether incurred by issuing obligations or from direct loans), the leverage of sender state is clearly in receiving interest payments and, should the target state fall in the 'debt-trap' and become unable to pay, in offering some form of alleviation or write-off (preferably in exchange for a strategic externality) should the target state become unable to pay.

Lim and Mukherjee also observe that there are more factors that influence the economic-strategic preferences relationship in a state. While the previously mentioned mechanisms suggest it is possible for a state to give up some influence or security externalities for favorable economic terms, the opposite is also very much feasible, since if ruling party decides to give up the state's autonomy over economic benefits, such a party might face large repercussions from the public. A decision to tolerate heightened influence of sender state in a target state's economy can also be in conflict with a third party. This is typical of the relationship between China, Sri Lanka and India. If China begins influencing Sri Lanka that has long term relationships with India (who sees China as a direct competitor in the region), Sri Lanka may potentially decline China in the fear of rupture of relations with India.

In a situation where a country is in dire need of foreign aid it is also possible for the sender state to secure influence by competing with offers of other states. For example if the sender state offers better terms than other countries or international organizations (such as requiring no conditions of structural reforms to accord the aid or lower interest on the loan) the target state is usually not in a position to deliberately accept a worse deal given its probably declining economy.

### 1.3. Grand Strategy

An important element of a state's international engagement through economic statecraft, especially if this is a state with relatively big global influence, is its grand strategy. Grand strategy is closely connected to procuring security externalities and generally translates as: employment of all available resources in a strategic manner to achieve a long term objective. Derived from the theory of war, Hart Liddell in his book on Strategy specifies this further:

*“Grand strategy should both calculate and develop the economic resources and man-power of nations in order to sustain the fighting services. (...) Moreover, fighting power is but one of the instruments of grand strategy – which should take account of and apply the power of financial pressure, and, not least of ethical pressure, to weaken the opponent's will. [...] It should not only combine the various instruments, but so regulate their use as to avoid damage to the future state of peace – for its security and prosperity.”*<sup>25</sup>

While the original definition of grand strategy was inevitably tied to the art of conducting war, it doesn't fail to note that states should think ahead to the times of peace as well. Although it might be relatively safe to assume that modern times are not characterized by frequently occurring wars anymore, that alone wouldn't justify state's lack of grand strategy. It can still be understood as a plan of conduct of various assets to reach a long term goal or goals, such as for example regional or global economic or security dominance – i.e. the specific plan how a state will employ its economic statecraft. Drawing on this argument, it can be concluded China has one as well. W. Norris briefly observes that it is also necessary for a grand strategy to be layered according to priorities among goals so as to be able to execute a possible trade off or other concession for a less significant goal if a conflict arises. Another important analysis is that execution of various level grand strategy goals can become easier or more challenging according to the diplomatic, economic or military power of a state. States with larger international power will easily pursue even secondary ambitions, while small states will struggle to accomplish their primary interests (to survive or to guarantee the safety of its people) in the international environment.

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<sup>25</sup> Liddell Hart, B. H. Strategy London: Faber & Faber, 1967. 2nd rev. ed. p.322

## 2. Chinese Grand Strategy

After 1978, China is generally concerned by spurring economic growth to escape the terrible inner conditions, with domestic reforms and foreign policy alike economically driven too. After 2008 we can see a shift, or rather a big reversal: instead of using foreign policy to achieve economic goals, it is beginning to leverage its built-up economic position in the world for other strategic goals. Norris describes how 2008 crisis left more room for state controlled action on the global scene and spurred the hardline policy approach in China's diplomacy, causing concern not only in the region. At the same time the soft power China began to execute in connection with its economic pieces already in place at the global scene brings quite effective results in the use of economic statecraft to manipulate actors.<sup>26</sup>

Even though states typically don't reveal their grand strategy to the public, it can usually be analyzed to a certain extent from their publicly shared goals, resources and actors at their disposal, and their actions so far. The People's Republic of China is governed by a single party, the Communist Party of China (hereinafter also CPC) which would also become the body behind the construction of a grand strategy – in fact, it is presumable the interest of a state is greatly connected to the needs of the party, and would then influence the grand strategy as well. It is therefore useful to look at the policy as a whole together with its domestic part.

An important part of nowadays Chinese politics is the persona of Xi Jinping. In some aspects his goals and ambitions are shaping the direction of the party (and therefore China's interests) differently than his predecessors while domestic and foreign policy become ever more interconnected. After Hu Jintao's "Scientific Outlook on Development" and Jiang Zemin's Three Represents, Xi comes with a "Chinese dream" rhetoric, that has however quite different meaning than the American counterpart. Where "American dream" represents the land full of opportunity for individual development, Chinese dream refers to collective effort, prosperity and fame of the nation with socialistic approach. There is a particular shift between the "thought" of Deng Xiaoping and that of Xi Jinping, where it can be said that Xi is even stricter when it comes to upholding the communist and Maoist ideals. While Deng emphasized the importance of opening China to the world, sending young scholars out to learn and come back and introduced a number of economic reforms to boost competitiveness on the global scene; Xi Jinping takes a different approach to 'opening up'. He is still very determined to boost China's

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<sup>26</sup> Norris, W.J., 2016.

global influence, but conversely closes up the country from inside and stops the reforms that threaten to change the character of the political system. The idea is to have others learn from China instead. One of the visible trends is even further strengthening the power of the party and the president, who suddenly becomes eligible to a lifelong rein and a central to all power by unifying the military, finance and administrative under his command.<sup>27</sup>

For the sake of this analysis, three points of Xi Jinping's Thought are more closely related to BRI and security and especially important: number 4 on development, number 8 talks about the need to strengthen national security and number 13 "to tie the fate of China to other nations around the world in creating a peaceful international environment".<sup>28</sup> The vision for development is termed by Xi himself as the "two-stage development plan for a beautiful China"<sup>29</sup>. First stage from 2020 to 2035 will be characterized by identifying the idea of socialist modernization based on a strong economy, with the further aim to become a great, prosperous and advanced modern socialist country by 2050. While Xi and Deng's leadership might differ in approaches, this development actually illustrates the continuation of grand strategy throughout the generations of leaders as it draws upon Deng's three-stage development plan from the 1987, effectively representing the third stage which was supposed to take place in years 2000-2050. Deng's ambitions aimed to boost GDP and therefore escape the threat of poverty amongst population and establish China as a "mid-level developed country by 2050"<sup>30</sup>. Thanks to his politics of opening up to the world and many reforms, the GDP growth rate indeed shot up through 5 to 10% annually and incredibly enough this trend continued for more than 30 years. Nowadays strategy builds upon that massive economic growth and a network of exports that make it possible for Xi to further the objective from becoming a mid-level developed country to a globally competitive great power.

This fourth point of the Thought about development is furthermore specified as aiming to achieve harmony between man and nature (which hints at environmental concerns) and is connected to point number 13 that emphasizes promoting harmonious and peaceful ties with other states and helping create equally harmonious international environment. by contributing

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<sup>27</sup> This section is heavily based on publication by: ECONOMY, Elizabeth C. China's New Revolution: The Reign of Xi Jinping. *Foreign Affairs*, 2018, 97: 60.

<sup>28</sup> "Four Comprehensives" pillars of Xism - China.org.cn, April 15, 2015. [online]. [Accessed 28 June 2019]. Available from: <[http://www.china.org.cn/opinion/2015-04/15/content\\_35325730.htm](http://www.china.org.cn/opinion/2015-04/15/content_35325730.htm)>

<sup>29</sup> CPC incorporates "Beautiful China" into two-stage development plan - China - Chinadaily.com.cn, [no date]. October 18, 2017. [Accessed 28 June 2019]. Available from: <[http://www.chinadaily.com.cn/china/2017-10/18/content\\_33404172.htm](http://www.chinadaily.com.cn/china/2017-10/18/content_33404172.htm)>

<sup>30</sup> China's grand strategy in a new era, 2018. *East Asia Forum* [online]. [Accessed 28 June 2019]. Available from: <<https://www.eastasiaforum.org/2018/03/05/chinas-grand-strategy-in-a-new-era/>>



new ideas as well as material . This can be interpreted as using China's newly acquired wealth and position to contribute to the world through material help as well as new ideas. However taking into account the desire to further develop its global position, strengthen national security and spread the model of the modern socialistic state, it is not hard to fit this grand strategy onto the exploitation of security externalities stemming from foreign economic activity. For example having a Chinese state-owned company build a port for one of its poorer neighbors can check several of these objectives: foreign aid and favorable loans manifest sharing material wealth while helping develop a region in a political turmoil after civil war (in case of Sri Lanka for example), high returns from interest and trade that will be conducted in that port will yield profit from this investment (contributing to further economic development of China), not to mention that when the target country becomes unable to pay off the debt, the port could become China's security point for the next 99 years, touching point 4, to strengthen the national security.

As previously mentioned, grand strategy doesn't equal only goals, but also patterns of conducting different actors to achieve these goals and as such is rarely made public and can only be guessed. This is also the case with China and especially with its strategy to further national security. The only aspect that is more specified officially however is that China is going to take a "holistic approach" to national security, which could mean that it will strive to empower not only overground defense, but also strategic locations, air force and maritime security.

Considering specific grand strategy and foreign policy moves Xi's last five years have been generally regarded as successful in fulfilling his agenda, certain inconsistencies between his statements and actions can still be found. While the Thought mentions the importance of opening China to the world, some policies contradict this idea: starting in January 2017 all non-governmental organizations operating in China have to register with the Ministry of State Security, there are restrictions on apps Apple can sell in Chinese Appstore and big Made in China 2025 program features import and incoming investment restriction to ensure 80% dominance of Chinese firms on the domestic market.

The last 19<sup>th</sup> CPP congress in October 2017 stressed the recommendation for other countries to draw from Chinese wisdom and follow its problem-solving approach. This statement is significant in the light of some analysts' alerted articles concerning the efforts to export Chinese values and political model to other countries. One general example would be presenting to other countries (Sudan, Ethiopia) how to exercise effective state control over media and recommending legislation principles that allow monitoring of the population to ensure safety

against inside threats (such as criminals). Instead of business operated globally available online services, China is promoting a different idea of cyber-sovereignty where each state should decide for themselves the extent of cyber development and the rules of internet usage by public. Such a control does preference state's role over the private sector and civil society, but it could also be looked at as a different sphere of business that the state might establish protective laws in.

Whether these policies should be considered a threat to principles of democracy and human rights may not have a clear answer if we look at them inside China, inasmuch juxtaposed directly the two approaches could be stripped down to mere difference in models of governance. But a closer examination of specific measures visible especially in the Pakistani case study reveals some disquieting possibilities that could go against the most fundamental of freedoms.<sup>31</sup>

William Norris specifies a mechanism characteristic for the major role economics plays in Chinese grand strategy, and that is the use of sovereign wealth funds. Through the huge economic boom and growing exports with Yuan operating on a fixed exchange rate, China needs to allocate the vast foreign exchange reserves that will only continue to grow. Another strong tool for China is its economic power itself, together with established trade relationships and dominance over world production in certain markets (such as for example lithium batteries). This is the manifestation of the reversal of roles between foreign policy and economics in the grand strategy – while the previous trend was to tailor the domestic and foreign policies and engage the actors in a way that would ultimately boost Chinese economy, its successful growth has gained China enough leverage on the global scene to be able to rally all economic actors to further other objectives of its grand strategy instead.<sup>32</sup> There are two ways to interpret this phenomenon that can be applied simultaneously. Either the ultimate main goal shifts and becomes secondary to the new desire to strengthen national security as well as domestic policy; or it could ultimately also be perceived as a proof of transition from a developing country to one with gaining global influence. This is based on the previously mentioned assumption that smaller or less developed states struggle to survive and fulfil even their one major grand strategy goal, while the more influential countries are able to focus even on several minor ones.

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<sup>31</sup> This section is heavily based on publication by: ECONOMY, Elizabeth C. China's New Revolution: The Reign of Xi Jinping. *Foreign Affairs*, 2018, 97: 60.

<sup>32</sup> Norris, 61

### 3. Security Externalities in Select Economies

#### 3.1. The Case of Sri Lanka

Sri Lanka's relationship with China is characterized by several factors that make it possible for China to exert their grand strategy through making use of different mechanisms to exploit possible security externalities here. Firstly Sri Lanka has a history of good relations with China, described as “[67 years long] uninterrupted friendship between the two countries in the political, economic and cultural fields”<sup>33</sup> by the Sri Lankan ambassador to China, as Sri Lanka was among the first ones to recognize the new People's Republic of China in 1950. Sri Lanka is proud about its apparel production alongside precious gems and is looking to improve the imbalanced trade with China, which is characterized by massive Chinese imports but diminishing exports. Sri Lanka is well aware that one of the major motivations for China's uninterrupted friendship is Sri Lanka's strategic position, and this fact is also mentioned in a U.S. report: “Sri Lanka's strategic importance to the United States, China and India is viewed by some as a key piece in a larger geopolitical dynamic.”<sup>34,35,36</sup>

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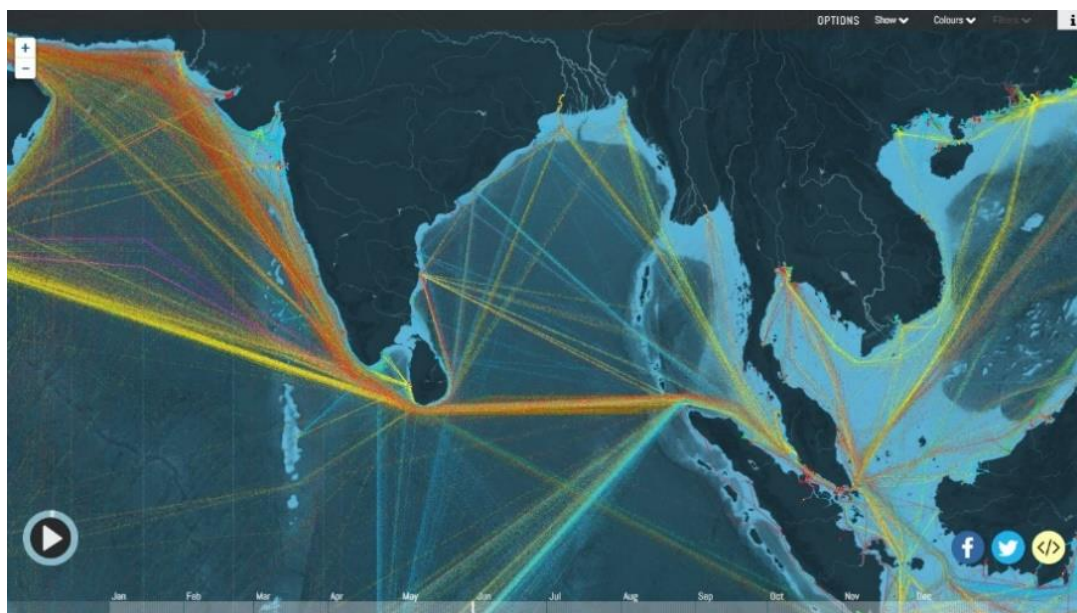
<sup>33</sup> Department of Government Information, February 21, 2017. China-Sri Lanka ties going strong at 60. [online]. [Accessed 28 June 2019]. Available from: <https://www.dgi.gov.lk/news/features/667-china-sri-lanka-ties-going-strong-at-60>

<sup>34</sup> 25. AUGUST 6TH, FEATURED, 2018, OCEANS, SECURITY and COMMENT, Foreign Policy|1, 2018. Can Sri Lanka capitalise out of its strategic location in the Indian Ocean region? South Asia @ LSE [online]. 6 August 2018. [Accessed 28 June 2019]. Available from: <https://blogs.lse.ac.uk/southasia/2018/08/06/can-sri-lanka-capitalise-out-of-its-strategic-location-in-the-indian-ocean-region/>

<sup>35</sup> 26. US takes a closer look at Sri Lanka, [no date]. [online]. [Accessed 28 June 2019]. Available from: [http://www.sundaytimes.lk/091213/News/nws\\_18.html](http://www.sundaytimes.lk/091213/News/nws_18.html)

<sup>36</sup> The original report is no longer available on the official U.S. Embassy of Sri Lanka webpage, therefore it is cited through other appearances.

This is quite evident from its location on the most frequented shipping routes halfway through the northern part of Indian Ocean, as shown by the red and yellow maritime traffic indicators in Picture 1:



*Picture 1, Shipping lanes through Indian Ocean*<sup>37</sup>

### 3.1.1. Trade relations and civil war

The history of friendly relations and the crippling 26 year civil war against Tamil Tigers that finally ended in May 2009 already made it possible to apply several mechanisms of economic statecraft here. Firstly, as mentioned, the economic ties to China are quite important for Sri Lanka. The three major import partners as from 2016 are China, India and the U.S. respectively, with China taking India's first place around the second half of 2015. While the trade with India is characterized by instability and deep up and downs, the imports from China have been steadily rising, with a slight acceleration around 2009 and again 2011. On the other hand, U.S. imports have dropped somewhat following year 2009.<sup>38</sup>

Despite favorable trade relations between China and Sri Lanka there doesn't appear to be any direct manifestation of the positive effect of the trade mechanism on the business sphere. There isn't any China-centered commercial group that would be capable of influencing Sri Lankan policy through lobbying or exerting pressure any other way. Even though the trade balance is

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<sup>37</sup> Based on <<https://www.shipmap.org/>>

<sup>38</sup> Based on UN Comtrade data:

STRATEGY (UK), Department for International Trade / Department for Business, Energy and Industrial, [no date]. International Trade in Goods and Services based on UN Comtrade data. [online]. [Accessed 28 June 2019]. Available from: <<http://comtrade.un.org/labs/BIS-trade-in-goods>>

dropping further and further as imports from China grow much quicker than exports, the only notable pressure from Sri Lanka's Exporters, Importers and Manufacturers Association is to boost profit from exports as much as possible. Sri Lanka has a Free Trade Agreement (henceforth also FTA) with India but is still looking to conclude one with China. Negotiations broke down last May when China refused to agree to a review of conditions after 10 years.<sup>39</sup> This is understandable for a number of reasons: while for Sri Lanka China is the largest import and third largest export partner, from the perspective of China, Sri Lanka represents a mere 0.2% of Chinese exports, figuring somewhere around 56<sup>th</sup> place. Imports from Sri Lanka are even more nominal, reaching as little as 0.015% of all Chinese imports.<sup>40</sup> With these figures China doesn't need to accept a FTA that could be completely reworked after 10 years with unsure results, especially supposing its main goal isn't putting economic development first anymore.

The drop in U.S. imports in 2009 could be directly or indirectly tied either to the global debt crisis or to the resolution of Sri Lankan civil war, that the international community despite victory against a terrorist group couldn't help but view as controversial in respect to reported human rights breaches.<sup>41</sup> For the same reason the humanitarian and other types of foreign aid were greatly conditioned from international organizations and the U.S. and refused by India for their disagreement on the legitimacy of the Tigers, while the EU threatened to degrade Sri Lanka's preferential trade status unless the human rights concerns are resolved. This is a prime example of the situation where a state's economy is so crippled by the long lasting civil war, that it has to think about economic survival before concerns about saving face on the international scene or giving up some leverage to China. The little conditioned Chinese aid started pouring in about two years before the end of the civil war and most likely helped decide the final outcome. The aid came in several different forms, mostly deals on military technology from China and Pakistan (or a gift of 6 Chinese jet fighters) and loans from China and Iran. Just Chinese financial support between years 2008 and 2009 reached 1 billion U.S. dollars<sup>42</sup> and China also helped postpone Sri Lanka's human rights backlash by vetoing putting Sri Lanka's case on the agenda of UN Security Council.

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<sup>39</sup> 30. Exclusive: Free trade talks between China and Sri Lanka hit big..., 2018. Reuters [online]. [Accessed 28 June 2019]. Available from: <https://www.reuters.com/article/us-sri-lanka-china-trade-exclusive-idUSKCN1IW1FM>

<sup>40</sup> Based on UN Comtrade data.

<sup>41</sup> "International Commission of Jurists Submission to the Universal Periodic Review of Sri Lanka", April 2012. *International Commission of Jurists* [PDF]. in LIM, D. J.; MUKHERJEE, R., 2017. What Money Can't Buy.

This dependency on arms and financial support already qualifies as one of the effects of the foreign aid mechanism of economic statecraft according to Lima and Mukherjee. Whether or not China derived a direct security externality from it is unclear: it is more probable that with Sri Lanka being in China's "debt" both formally and literally, other mechanisms (such as infrastructure projects) can be carried out in the future as a show of gratitude. One direct security effect would however be China's control over the future supply of firearms. In a situation where Sri Lanka's long time ally India were to engage China in some kind of an armed conflict, China could either hope to win Sri Lanka over to their side or at least completely cut off their only weapon supply were they to side with India.

This era of heightened relations between Sri Lanka and China continued especially after president Mahinda Rajapaksa's reelection victory for the second term between 2010 and 2015. The UN reports say human rights oppressions didn't cease even after the end of the civil war, especially against Tamil media but allegedly also Muslim journalists, therefore Sri Lanka still continued its isolation from the Western world and especially their aid. China stepped up to provide means for a \$6 billion investment program, especially through foreign direct investment in the form of Chinese companies working on large scale infrastructure projects.<sup>43</sup>

Even though the first time the Belt and Road Initiative concept (including the Maritime Silk Road) was introduced publicly was in 2013, Chinese aid in Sri Lankan civil war can still be viewed as inevitably connected to successful execution of the Maritime Silk Road. China came with an enormous aid just when the country was about to exhaust itself and potentially lose to the rebels, while even Sri Lanka's long-term partner India didn't come to their help. Without this whole sequence of events executed through China's economic statecraft, it would probably be much harder to persuade Sri Lanka to agree to so many infrastructure projects that led to the security externalities in the form of: Hambantota port majority stake for 99 years, with a completely Chinese state owned terminal and four out of seven container berths leases, ...

Maritime silk road – announced 2013 but army support etc. 2007 could have already started as part of this strategy. Above all maritime silk road concept doesn't explain all the ways china is going to promote the "peaceful development" and help poorer countries grow by sharing china's wealth and knowledge. Helping end a civil war, albeit against the wishes of the international community and sending aid to restore economy of a vital state in Maritime shipping routes can easily fit with the vague objectives as well.

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<sup>43</sup> LIM, D. J.; MUKHERJEE, R., 2017. What Money Can't Buy.

### 3.1.2. Investment in Hambantota

One of the most significant projects to Chinese security was the construction of the Magampura Mahinda Rajapaksa Port in Hambantota. The main reasoning behind the construction of a new port was to use the strategic location on the Indian Ocean shipping lanes to jumpstart the Sri Lankan economy with enormous profit. Apparently president Rajapaksa first offered the project to Indian companies and only after declination turned to China. From an Indian report however, they never declined, only Chinese company made their proposal quicker and were given the deal. It is also quite imaginable that the proposal to India was given only to keep up positive relations, while major stakes in infrastructure projects were already agreed upon with China when they stepped in with financial aid during the war. Not only was the port constructed by a Chinese state-owned company, but 85% of the cost was also financed from a loan by the Export – Import Bank of China.

The port's total cost was \$1.5 billion (plus the annual 6.3% interest on the loan), while in the end the government agreed to a lease for 99 years in exchange for write off of \$1.1 billion. The outcome is essentially that Sri Lanka not only let China build themselves a fully controlled port on their territory, but even paid China over \$0.5 billion to do it. Several mechanisms are at play here, firstly, the foreign direct investment: even from a Chinese state-owned company the foreign direct investment alone would only achieve some income for Chinese firms and probably 50% stake at best. While favorable for Chinese economy, this would hardly aid in procuring any security externalities.

However the fact that Sri Lanka couldn't finance any of these infrastructure projects in the first place set conditions for another mechanism, the foreign debt installed through large loans at commercial interest rates. Bundled with the deals were the conditions for a side terminal owned by the Chinese companies and 35 years long lease on 4 out of 7 of the container docks.<sup>44</sup> It is quite possible that if Sri Lanka had the necessary funds to finance this investment and was only looking to build a profitable port, it wouldn't need to accept any of these concessions, because it would be fairly simple to choose any other firm from any other country that would be willing to build such a port. But these concessions were exactly possible because Sri Lanka needed a big loan that no other country was willing to make. At this point it was already a win-win situation for China. If the port worked perfectly and started making profit, China would make profit as well from 4 of the berths and the second terminal would still have high shares owned

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<sup>44</sup> This section is largely based on: LIM, D. J.; MUKHERJEE, R., 2017. What Money Can't Buy.

by Chinese firms. If the port didn't turn in any profit, Sri Lanka would have to sacrifice it to avoid falling into the debt trap even further and sell it (lease it out for 99 years) to the only party interested, China.

It seems some articles report that Sri Lankan government was made to promise the concerned India that China will not use the port for any military or other defense purposes. However, it is unclear whether this is a vague assurance on the part of Sri Lankan government or a fact embedded in some of the agreements between China and Sri Lanka.<sup>45,46</sup> This situation is a perfect demonstration of the aforementioned security triangle where the state C being a long term supplier of state A's security will feel threatened if a state B starts to invest, especially in potentially military facilities in state A. Despite Indian concerns about Sri Lankan security, Prime Minister Ranil Wickremesinghe called the exchange for a debt write-off a "great victory".<sup>47</sup> After the fall of Rajapaksa administration in 2015 (that was in hind sight characterized by a number of failed Chinese investment projects) the new president Maithripala Sirisena instead of an envisioned economic spur had to deal with enormous debt and dedicate almost 35% of government income to interest payments alone.<sup>48</sup>

Another big infrastructure project in Hambantota was the Mattala Rajapaksa International Airport. It began already in 2007 and was constructed by the same company that constructed the port, China Harbour Engineering Company. It was also financed by a loan, although this time substantially lower than the port (around \$209 million compared to \$1.5 billion for the port). Just like the port, the airport too failed to make any profit, when the only scheduled daily flight by FlyDubai was cancelled in March 2015.<sup>49</sup> Sri Lanka was looking to sell off this failed investment in a bundle with the port, a cricket stadium and a special investment zone to Chinese companies in exchange for debt-equity swap with China, but in the end China only leased the

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<sup>45</sup> GOULD, Joe, 2018. Sri Lanka cedes major port to China, fueling tensions. *Defense News* [online]. 10 April 2018. [Accessed 28 June 2019]. Available from: <<https://www.defensenews.com/digital-show-dailies/navy-league/2018/04/09/sri-lanka-cedes-major-port-to-china-fueling-tensions/>>

<sup>46</sup> Dipanjan Roy Chaudhury August 22, 2017. Hambantota: China has seaport in Sri Lanka, India may get an airport. *The Economic Times* [online]. [Accessed 28 June 2019]. Available from: <<https://economictimes.indiatimes.com/hambantota-china-has-seaport-india-may-get-airport/articleshow/60166038.cms>>

<sup>47</sup> Sri Lanka Hopes India Will Buy Into Airport Without Planes. China Refused, July 09, 2018. *NDTV.com* [online]. [Accessed 28 June 2019]. Available from: <<https://www.ndtv.com/world-news/sri-lanka-hopes-india-will-buy-into-airport-without-planes-china-refused-1880069>>

<sup>48</sup> The World Bank in Lim, Mukherjee (p. 9, cit 74)

<sup>49</sup> Sri Lanka Hopes India Will Buy Into Airport Without Planes. China Refused, July 09, 2018.



port. 70% stake in the airport was finally bought by India in 2018, despite the fact India was the first investor Sri Lanka approached to construct the whole port complex and declined.<sup>50</sup>

Concerning security externalities in this case: it is improbable China gained any security leverage from this initial investment and any possible benefits are gone with the sale to India. Even though it seems for the final sale Sri Lanka was originally considering some sort of offer from China, apparently it was unfavorable to Sri Lanka either for economic reasons or perhaps continuing Indian security concerns. However a second question would be – why did India buy the airport at all, if it wasn't interested in constructing it at first?

Since the airport itself proved unprofitable, it most likely wasn't for economic purposes. The only other answer could be either just to help Sri Lanka financially (going as far as to end up with a loss making investment) or to prevent China from gaining another potential security asset in this country. But it remains unclear what India plans to do with this “ghost airport” in the future, unless it finds ways to make profit after all. There is also the potential to turn it into an army airfield in the future, although openly declaring such intentions would no doubt raise some alarms that India is strengthening their security 30 kms from China operated port. It is therefore imaginable India wants to buy this facility exactly to be able to keep Chinese activity in the port in check, or be able to respond swiftly in kind, as hinted by Indian Minister of State for External Affairs Mr. Singh in reply to question about growing Chinese investments in Sri Lanka:

*"Government keeps a constant watch on developments having a bearing on India's security and economic interest, and takes all necessary measures to safeguard it. India is confident about the strength and enduring nature of its bilateral ties with Sri Lanka, which are deep-rooted and multi-dimensional. India has taken up with Sri Lanka security issues, including in the regional context. We are hopeful that Sri Lanka will continue to keep in mind India's security concerns and sensitivities."*<sup>51</sup>

Despite these two large scale failed investments, it seems that China or at least Chinese companies still think of the little fisher town of Hambantota as strategic and want to keep expanding it. The same can be said of Sri Lanka, that appears to be already dependent on more incoming future Chinese investment, as the following section of this case study concludes. The

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<sup>50</sup> Sri Lanka Hopes India Will Buy Into Airport Without Planes. China Refused, July 09, 2018.

<sup>51</sup> QUESTION NO.651 LEASING RIGHT OF HAMBANTOTA PORT IN SRI LANKA, February 08, 2018. [online]. [Accessed 28 June 2019]. Available from: <[https://www.mea.gov.in/rajya-sabha.htm?dtl/29453/QUESTION\\_NO651\\_LEASING\\_RIGHT\\_OF\\_HAMBANTOTA\\_PORT\\_IN\\_SRI\\_LANKA](https://www.mea.gov.in/rajya-sabha.htm?dtl/29453/QUESTION_NO651_LEASING_RIGHT_OF_HAMBANTOTA_PORT_IN_SRI_LANKA)>

initial port project in Hambantota was already upgraded by a connecting railway and during his visit in 2014 president Xi Jinping signed a memorandum to build-operate-transfer a container terminal in Hambantota. In 2016 China's Cosco Shipyard Group Company Ltd and China Harbour Engineering Company Ltd started looking into building a shipyard and drydock here as well.<sup>52</sup>

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<sup>52</sup> China's Cosco Shipyard and CHEC eye Sri Lanka drydock, [no date]. [www.economynext.com](http://www.economynext.com) [online]. [Accessed 28 June 2019]. Available from: <[https://economynext.com/China\\_s\\_Cosco\\_Shipyard\\_and\\_CHEC\\_eye\\_Sri\\_Lanka\\_drydock-3-3991.html](https://economynext.com/China_s_Cosco_Shipyard_and_CHEC_eye_Sri_Lanka_drydock-3-3991.html)>

### 3.1.3. Investment in Colombo

Apart from Hambantota, the capital city of Colombo also received two major infrastructure upgrades, among which the Colombo Port and the Colombo Port City stand out as most controversial regarding Chinese capital.

While the Colombo Port upgrade itself was a success in boosting Sri Lankan economy, it also became another possible security externality from Chinese development along the Maritime Silk Road. Much like with the Hambantota Port, the upgrade was carried out by a Chinese firm but this time paid by a loan by the Asian Development Bank. Even though there was no debt write-off this time, the China Merchants Group still gained 55% stake and complete management over the South Container Terminal for 35 years. This investment again provided China with economic profit as well as majority stakes at another strategic port. While its success after starting operation in 2013 is definitely a positive outcome, the whole idea behind largely developing the little city of Hambantota had been to divert at least part of the large shipping traffic away from the capital, where it would be possible to focus on urban infrastructure.

That is why the second part of Chinese investment, an artificial island dubbed the Colombo Port City, was supposed to be a project focused on apartment buildings, hotels and leisurely entertainment. Imitating cities like Hong Kong, Dubai or Singapore in design, with ambition to almost double the population of Colombo, this initially \$1.4bn project constitutes the “*largest single foreign direct investment in Sri Lankan history*”<sup>53</sup> and up to its scheduled completion in 2041 could end up with the full cost of around \$15 billion.<sup>54</sup>

This project was in the minds of Sri Lankan government for a long time, but impossible to execute due to the civil war. The first tangible proposal came during aforementioned president Xi Jinping’s visit in 2014 and was shortly scrapped again by the newly appointed Prime Minister Ranil Wickremasinghe after Sirisena’s presidential victory in 2015. Sirisena made it his agenda to review the existing Chinese investment based on allegations about corruption and Chinese influence in the domestic politics that were supposedly possible through the Rajapaksa family:<sup>55</sup>

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<sup>53</sup> SAFI, Michael, 2018. Sri Lanka’s “new Dubai”: will Chinese-built city suck the life out of Colombo? *The Guardian* [online]. 2 August 2018. [Accessed 28 June 2019]. Available from: <<https://www.theguardian.com/cities/2018/aug/02/sri-lanka-new-dubai-chinese-city-colombo>>

<sup>54</sup> BENDIX, Aria, September 15, 2018. Sri Lanka is building a \$15 billion metropolis meant to rival cities like Hong Kong and Dubai. *Business Insider* [online]. [Accessed 28 June 2019]. Available from: <<https://www.businessinsider.com/sri-lanka-port-city-dubai-2018-9>>

<sup>55</sup> Lim and Mukherjee, p. 9

*“In the final months of Sri Lanka’s 2015 election, China’s ambassador broke with diplomatic norms and lobbied voters, even caddies at Colombo’s premier golf course, to support Mr. Rajapaksa over the opposition, which was threatening to tear up economic agreements with the Chinese government.” [...] “At least \$7.6 million was dispensed from China Harbor’s account at Standard Chartered Bank to affiliates of Mr. Rajapaksa’s campaign;”*<sup>56</sup>

in an effort not to fall further into the crippling debt intensified by the choices of previous administration and out of concern about giving up stakes in a project at such prime security location. The project was suspended on suspected damage to the coastline but thanks to an added clause on environmental precautions by China Communications Construction Company that is in charge of the development, it has started moving anew in 2016, with first phase set to be completed by 2020.<sup>57</sup>

This development nonetheless hints at possibility of direct Chinese influence on the political scene in Sri Lanka. If Chinese investment, long tradition of mutual trade and especially Chinese debt were to have a direct influence on the policy-making process at presidential level, it might be conceivable that manipulating Sri Lanka’s politics to gain security externalities isn’t impossible. Some evidence that even without Chinese interference in election Sri Lanka has no choice but to accept new Chinese investment can be seen from analyzing Sirisena’s term: Even though he promised to review current deals with China and make them less risky, it didn’t appear that China was open to any renegotiations. The biggest obstacle lied in the fact that most of the conditions negotiated by previous government didn’t even appear officially on the paper, as Sri Lankan economist A. Wijesinha remarks:

*“We don’t know what the cost of these projects really was . . . We don’t really know what went on with the public finances.”*<sup>58</sup>

Sirisena’s second objective, finding ways to alleviate the public debt, proved equally impossible without relying on China again. Falling investor rating created a vicious cycle that discouraged the much needed foreign direct investment and in 2015 Sirisena had no choice but to declare a national financial crisis. In the end despite both his promises he ended up making more deals

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<sup>56</sup> ABI-HABIB, Maria, 2018. How China Got Sri Lanka to Cough Up a Port. *The New York Times* [online]. 25 June 2018. [Accessed 28 June 2019]. Available from: <<https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>>

<sup>57</sup> BENDIX, Aria, September 15, 2018. Sri Lanka is building a \$15 billion metropolis...

<sup>58</sup> GOWEN, Annie, 2015. Can Sri Lanka’s new government break free from China? *Washington Post* [online]. August 16, 2015. [Accessed 28 June 2019]. Available from: <[https://www.washingtonpost.com/world/asia\\_pacific/can-sri-lankas-new-government-break-free-from-china/2015/08/15/d7bd9974-4044-11e5-b2c4-af4c6183b8b4\\_story.html](https://www.washingtonpost.com/world/asia_pacific/can-sri-lankas-new-government-break-free-from-china/2015/08/15/d7bd9974-4044-11e5-b2c4-af4c6183b8b4_story.html)>

with China just to receive some initial funding to pay off the last loan. As long as the government was focused on rescuing Sri Lanka's economy, even if the Rajapaksa family got ousted, there was simply no way out of the debt, other than keep buying more Chinese investment and hoping for future profit to pay the bill.

The big risk for the target state here and the real coercive power of the capital mechanism is that eventually China could propose the kind of investment that would guarantee significantly more tangible security externalities or other concessions; while Sri Lanka would still have no choice but to nod assent in order to survive, even if it originally didn't want to bring any security aspects into the relationship. This also validates the aspect of theory on grand strategy where smaller and more vulnerable states often have to focus on their survival first and any ramifications from their actions will have to be solved later. To spare Sri Lanka such a fate the International Monetary Fund (IMF) finally accorded the country a \$1.6 billion loan despite previous reservations.

The Rajapaksa affair however didn't end in 2015. A major surprising turn from Sirisena's original China-cautious rhetoric came in October 2018, when he suddenly declared his then prime minister Ranil Wickremesinghe "inflexible and corrupt" and proceeded to install none other than his 2015 rival Mahinda Rajapaksa in his place. The move was immediately deemed unconstitutional by lawmakers in the country and after seven weeks of no functioning government and mass protests Rajapaksa finally resigned in mid-December and Wickremesinghe was reinstated.<sup>59</sup> This political crisis came with a heavy price, not only Sirisena undermined his electoral support and credibility, but more devastatingly Sri Lanka faced January with the prospect of being unable to draw any state funds since there was no government to pass the budget for next year – with a \$1 billion foreign debt repayment due mid-January.<sup>60</sup> There will have to be new presidential election by the end of 2019 and parliamentary by the end of 2020. Even though Rajapaksa now has two defeats to his name and cannot run for president anymore, according to Brookings Institute it is still very much possible we might see

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<sup>59</sup> BASTIANS, Dharisha and GETTLEMAN, Jeffrey, 2018. Bribery Accusations Deepen Turmoil in Sri Lanka. *The New York Times* [online]. 2 November 2018. [Accessed 28 June 2019]. Available from: <<https://www.nytimes.com/2018/11/02/world/asia/sri-lanka-prime-minister-bribery-crisis.html>>

<sup>60</sup> Sri Lanka's disputed Prime Minister Mahinda Rajapaksa resigns, December 15, 2018. *ABC News (Australian Broadcasting Corporation)* [online]. [Accessed 28 June 2019]. Available from: <<https://www.abc.net.au/news/2018-12-15/sri-lankan-pm-mahinda-rajapaksa-resigns/10623688>>

his comeback (or at least his protégé) as he retains a large voters base that saw him finally save the country from the civil war.<sup>61</sup>

What is also possible to deduce from this example of economic statecraft is that manipulating actors to one's will and securing valuable externalities is somewhat easier for a state like China, where all aspects of the economy are tied together by the Party. While it might appear the whole Rajapaksa Port Project was conducted between the state of Sri Lanka and China, many different actors, albeit tied together, were actually at play. The weapons and arms in civil war are supplied by a weapon company and came also from Pakistan and Iran. The foreign loans are given by various commercial banks, often Bank of China,<sup>62</sup> or with BRI projects the official financial institutions of the Initiative. Everything is negotiated by the government. The port was financed by the Export – Import Bank of China (hereinafter also EXIM) and built by China Harbour Engineering Company<sup>63</sup>; while the 99 year lease-off was accorded to the China Merchants Group.<sup>64</sup> The debt write-off in return was presumably again from EXIM. If the companies, banks and any other involved actors weren't state-owned, the state trying to exercise statecraft would have to find a way to manipulate every single one of these actors to perform in check with their strategic goals. It would be otherwise unthinkable that an independent actor such as a private company would accept buying a non-profitable port that it has no use for, unless given some sort of motivation by the state that seeks to obtain a security externality.

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<sup>61</sup> FELTMAN, Jeffrey, April 2019. Sri Lanka's presidential elections: Progress, regression, or paralysis?. *Brookings*. P. 9. [online]. [Accessed 28 June 2019]. Available from: <[https://www.brookings.edu/wp-content/uploads/2019/04/FP\\_20190410\\_sri\\_lanka\\_feltman.pdf](https://www.brookings.edu/wp-content/uploads/2019/04/FP_20190410_sri_lanka_feltman.pdf)>

<sup>62</sup> Bank of China offers \$300m loan to Sri Lanka, January 16, 2019. *China News / Al Jazeera* [online]. [Accessed 28 June 2019]. Available from: <<https://www.aljazeera.com/news/2019/01/bank-china-offers-300m-loan-sri-lanka-190116064011066.html>>

<sup>63</sup> Hidden Costs: The Impact of Foreign Debt on Sri Lankan Citizens, 2018. *Groundviews* [online]. [Accessed 28 June 2019]. Available from: <https://groundviews.org/2018/08/21/hidden-costs-the-impact-of-foreign-aid-on-sri-lankan-citizens/>

<sup>64</sup> Lim and Mukherjee, p. 8

### 3.2. The Case of Pakistan

The cooperation with China in Pakistan appears to share some similarities with Sri Lanka, especially in their dire need for foreign aid, failing infrastructure and crippling financial crisis. The difference lies in relationship with their biggest neighbor, India. Where Sri Lanka might consider both India and China their allies contesting for bigger influence; Pakistan and India are bitter rivals over the disputed Kashmir territory<sup>65</sup>, partially administered by India, Pakistan and China. Pakistan's strong bond to China starts in 1950 when Pakistan became the first country to recognize communist China. When Indo-Chinese war severed ties with India, China becomes more interested in Pakistan – and Pakistan in turn in China after India-Pakistani war in 1965.<sup>66</sup>

According to Shaheed Zulfikar Ali Bhutto Institute of Science and Technology in Karachi, Pakistan's economy is currently at the brink of collapse, facing starvation, poverty and unemployment – at the hands of India: *“India might cause the collapse of our economy as the US did with the USSR.”*<sup>67</sup> Apart from the dispute with India, the poverty and debt in Pakistan can be attributed to many turbulent changes of leadership through several coup d'états from its very foundation after the Second World War.<sup>68</sup> Each new (rather dictatorial than democratic) government comes with a new economic plan and new priorities for the budget, practically disabling continuous strategy for the country.<sup>69</sup> The level of government corruption, the skirmishes along the India- and Afghani-Pakistani border and with Taliban, coupled with severe consequences of the global debt crisis in 2009; all land Pakistan as the 4<sup>th</sup> poorest country in South Asia.<sup>70</sup>

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<sup>65</sup> Indian-Pakistani dispute concerns specifically regions of Gilgit-Baltistan in the north and Azad Kashmir to the South-West.

Derived from: NATIONSONLINE.ORG, klaus kastle-, [no date]. Map of Kashmir region. *Nations Online Project* [online]. [Accessed 28 June 2019]. Available from: <<https://www.nationsonline.org/oneworld/map/Kashmir-political-map.htm>>

<sup>66</sup> Pakistan: a Chinese colony?, 2018. *Daily Times* [online]. [Accessed 28 June 2019]. Available from: <<https://dailytimes.com.pk/225183/pakistan-a-chinese-colony/>>

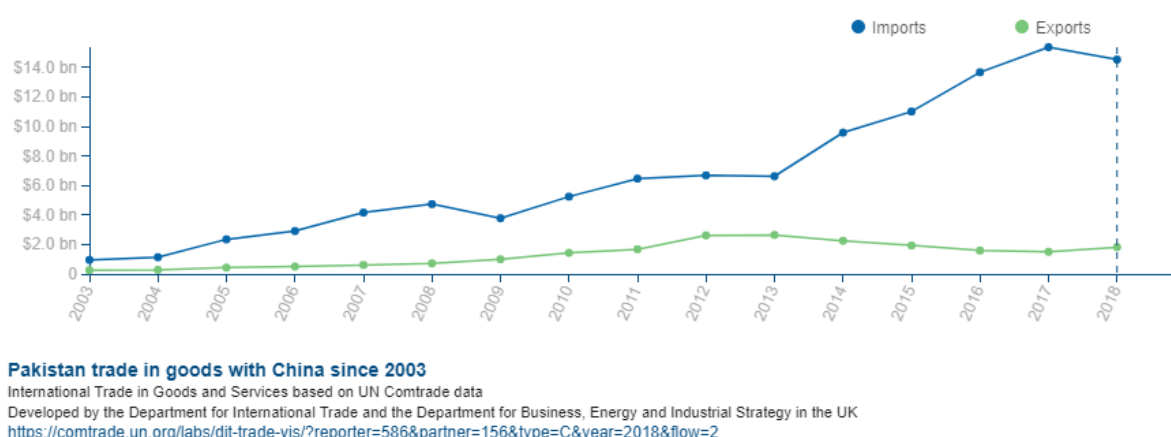
<sup>67</sup> ASIANEWS.IT, April 18, 2019. Pakistan's economy on the brink of collapse. [online]. [Accessed 28 June 2019]. Available from: <<http://www.asianews.it/news-en/Pakistan's-economy-on-the-brink-of-collapse-46810.html>>

<sup>68</sup> Pakistan: A democracy of dictatorships - World News, March 19, 2013. *India Today*. [online]. [Accessed 28 June 2019]. Available from: <<https://www.indiatoday.in/world/pakistan/story/timeline-of-pakistan-elections-156500-2013-03-19>>

<sup>69</sup> Poverty in Pakistan: Issues, Causes, and Institutional Responses, July 2002. *Asian Development Bank* [online]. [Accessed 28 June 2019]. Available from: <<https://www.adb.org/sites/default/files/institutional-document/33464/files/poverty.pdf>>

<sup>70</sup> Human Development Report 2016 – "Human Development for Everyone". *HDRO (Human Development Report Office) United Nations Development Programme*. [online]. [Accessed 28 June 2019]. Available from: <[http://hdr.undp.org/sites/default/files/2016\\_human\\_development\\_report.pdf](http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf)>

### 3.2.1 Trade with China



*Graph 1, UN Comtrade*<sup>71</sup>

In trade the case of Pakistan is quite different from that of Sri Lanka. Graph 1 does suggest similar evolution of trade relations, both export and import with China as in the case of Sri Lanka, where trade with China was too almost non-existent before the 21<sup>st</sup> century compared to current numbers, but imports start to grow steadily, while exports lag behind. Following the global debt crisis we see a dip in imports in 2009, but both exports and imports start to grow anew and imports bounce up rapidly after 2013. This could be most likely attributed to the announcement of the Belt and Road Initiative and consequent announcement of the construction of China-Pakistan Economic Corridor in 2014, that is, after all, meant to be a trade route from China.

China and Pakistan have signed a two-phase free trade agreement in 2006.<sup>72</sup> Biggest importer in Pakistan is with \$14.5 bn in 2018 indeed China, followed by \$8.7 bn from United Arab Emirates (also UAE), then Saudi Arabia and the USA. But export-wise their biggest destination is conversely the US with \$3.8 bn, followed by China and UK at almost same position worth around \$1.8 bn. The trade balance overall has grown from zero in 2003 to more and more pronounced negative gap between exports and imports, 26.8% of which are dependent on China.<sup>73</sup> If applied to the statecraft mechanisms that *Lee and Mukherjee* describe in their publication, this dependency can be seen both as a bond that connects China to Pakistan in favorable trade relations; but at such a percent of dependence on Chinese imports equally as a

<sup>71</sup> Based on UN Comtrade data.

<sup>72</sup> Ministry of Foreign Affairs, Government of Pakistan. 2013. „Joint Statement – Deepening Comprehensive Strategic Cooperation between the People’s Republic of China and the Islamic Republic of Pakistan [online]. [Accessed 28 June 2019]. Available from: <[http://www.mofa.gov.pk/pr\\_details.php?prID=1200](http://www.mofa.gov.pk/pr_details.php?prID=1200)>

<sup>73</sup> Based on data by UN Comtrade for year 2017.



tool of negotiation or coercion should Pakistan change their mind about cooperating with China's objectives. Since China also has close ties to Pakistan's other top two importers, especially Saudi Arabia,<sup>74</sup> it is not inconceivable it has power to put pressure on them if there was need to reprimand Pakistan for a change of foreign policy or backing out of a deal. This could be all the more so the case given Pakistan's long history of bad relations with India, that apart from partially the US and Japan has been seen as the counter power to China in the region. Pakistan could therefore might find itself in a position where they may not like Chinese policy or actions anymore, but have no other choice but to follow through unless facing heavy blow to the trade and economic development from their major sustainer.

So far, however, Mezzera and Marco<sup>75</sup> suggest that Sino-Pakistani policies, economic and strategic aims and even views on the geopolitical situation in Indian Ocean region are in sync. As Muhammad Akbar Notezai suggests in *The Diplomat*, apparently since the 2011 assassination of al-Qaeda chief Osama bin Laden by US forces Pakistan made a full turn away from the US and "*put all its eggs in China's basket*".<sup>76</sup>

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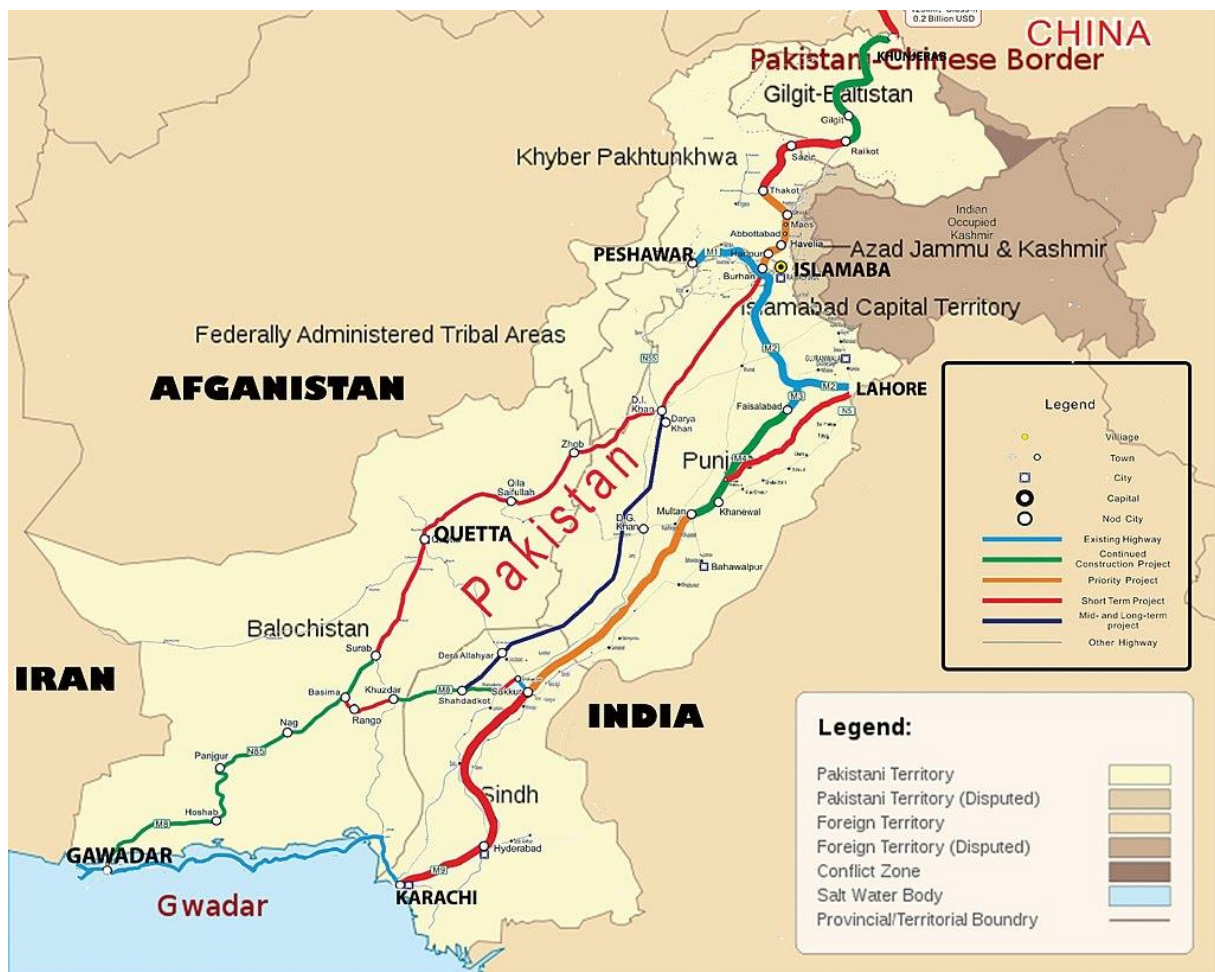
<sup>74</sup> Closer Ties: China And Saudi Arabia Sign \$70 Billion in New Deals, [no date]. *The Diplomat* [online]. [Accessed 28 June 2019]. Available from: <<https://thediplomat.com/2017/08/closer-ties-china-and-saudi-arabia-sign-70-billion-in-new-deals/>>

<sup>75</sup> Mezzera, Marco, 2011. The nature of a friendship: making sense of Sino-Pakistani relations. *Norwegian Peacebuilding Resource Centre* [online]. [Accessed 28 June 2019]. Available from: <<https://www.clingendael.org/publication/nature-friendship-making-sense-sino-pakistani-relations>>

<sup>76</sup> Muhammad Akbar Notezai, July 11, 2018. Is China Influencing Pakistan's Elections? *The Diplomat* [online]. [Accessed 28 June 2019]. Available from: <<https://thediplomat.com/2018/07/is-china-influencing-pakistans-elections/>>

### 3.2.2 China-Pakistan Economic Corridor

One of the most prominent components that link together the MSR and the BRI is the China-Pakistan Economic Corridor (hereinafter also CPEC), a name encompassing a large scale of investment that begins in the port of Gwadar in Arabian Sea and Karachi, going North as highways and railroads along the border of Sindh and Punjab provinces and up through the Gilgit-Baltistan region to Chinese Kasgar in Xinjiang province, where it connects to a railway servicing the rest of China.



Map 1, *China-US Focus*, 2018<sup>77</sup>

CPEC doesn't represent a single artery between China and the Indian Ocean, but rather as the Map 1 suggests, an infrastructure web of highways and railways that connects all the major cities from South (especially Gwadar and Karachi) to North (Islamabad and Lahore). The final cost of this whole project is still unclear, as estimates keep rising from original 46 through 55

<sup>77</sup> Is India Supporting Baloch Insurgents to Sabotage the China-Pakistan Economic Corridor?, December 18, 2018. *China-US Focus* [online]. [Accessed 28 June 2019]. Available from: <<https://www.chinausfocus.com/peace-security/is-india-supporting-baloch-insurgents-to-sabotage-the-china-pakistan-economic-corridor>>

to \$62bn announced in 2017. The longest road counts 3,200 km from Gwadar to Kasgar but is divided in several sections that are being completed at different timelines. For instance the existing Karakoam Highway section going from Hasan Abdal on the Northern border of Panjab to Chinese border is being reconstructed to withstand further load. Karachi and Lahore are to be connected by a 1,100 km long motorway<sup>78</sup>, that was in 2014 projected to cost \$6.6 bn, ten percent of which would come from the Public Sector Development Programme (PSDP), the rest from Chinese and BRI credit financing.<sup>79</sup> The project was supposed to be completed by 2017, but so far one part of the road is still awaiting completion due in autumn 2019.<sup>80</sup> Apart from highway the Karachi-Peshawar railway is too awaiting further upgrades due at the end of 2019 to allow faster speed and to eventually connect all the way to Xinjiang.<sup>81</sup>

The second major feature of CPEC besides building roads and railroads is the energy plan that envisages to satisfy both Pakistan's energy shortages and China's growing demand. Major project here is called "Early Harvest", that aimed to complete first powerplants between 2018 and 2020. Apart from some 15 other projects under CPEC the most prominent contributions will be the newly opened Balloki, natural gas power plant in Punjab<sup>82</sup>, Jhimpir and Gallo wind clusters<sup>83</sup> or Neelum-Jhelum hydropower plant. Solar plants figure in the plan as well and supplementary electricity started being imported from Kyrgyzstan and Tajikistan in 2018.<sup>84</sup> Concerning other energy resources, natural gas is envisioned to be imported via pipeline networks mainly from Iran, while the CPEC currently focuses on link between Nawabshah and Gwadar.<sup>85</sup>

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<sup>78</sup> REPORTER, The Newspaper's Staff, 2014. Karachi to Lahore motorway project approved. *DAWN.COM* [online]. 4 July 2014. [Accessed 28 June 2019]. Available from: <<http://www.dawn.com/news/1116948>>

<sup>79</sup> *Ibid.*

<sup>80</sup> CPEC Project Details: Karachi-Lahore Motorway (Sukkur-Multan Section), 392 km - CPEC Latest News, April 17, 2018. [online]. [Accessed 28 June 2019]. Available from: <[http://www.cpecinfo.com/news/cpec-project-details-karachi-lahore-motorway-\(sukkur-multan-section\)392-km/NTEzNg==>](http://www.cpecinfo.com/news/cpec-project-details-karachi-lahore-motorway-(sukkur-multan-section)392-km/NTEzNg==>)

<sup>81</sup> Railway track project planned from Karachi to Peshawar, November 13, 2015. *Paktribune* [online]. [Accessed 28 June 2019]. Available from: <<http://paktribune.com/news/Railway-track-project-planned-from-Karachi-to-Peshawar-275016.html>>

<sup>82</sup> NPPMCL, HEI & GE announce completion of Balloki Power Plant, 2018. *GE Newsroom* [online]. [Accessed 28 June 2019]. Available from: <<https://www.genewsroom.com/press-releases/nppmcl-hei-ge-announce-completion-balloki-power-plant-284451>>

<sup>83</sup> REPORTER, 2014. Karachi to Lahore motorway project approved.

<sup>84</sup> Tajik Energy Ministry: CASA-1000 project implementation to be launched this year, 2018. *AzerNews.az* [online]. [Accessed 28 June 2019]. Available from: <<https://www.azernews.az/region/126770.html>>

<sup>85</sup> SHAH, Saeed, April 9, 2015. China to Build Pipeline From Iran to Pakistan. *WSJ* [online]. [Accessed 28 June 2019]. Available from: <<https://www.wsj.com/articles/china-to-build-pipeline-from-iran-to-pakistan-1428515277>>

The main observed direct benefit from these roads and links for China is the mutual development with Chinese Kasghar in Xinjiang, that is in dire need of employment opportunities, while CPEC could help alleviate the staggering poverty of over 50% and generally help with the growth of the less populated and developed Chinese West.<sup>86</sup>

*“The Sahiwal coal power plant in Pakistan’s Punjab Province was one of the first and biggest projects financed and completed under the Belt and Road Initiative. Pakistan has fallen behind on payments just to operate the plant”.*<sup>87</sup>

Having laid out the massive scope of Chinese investment in comparison to the state of Pakistani economy, it is not surprising the struggle to repay snowballing debt before first projects start bringing in profit didn’t miss Pakistan either. Even China acknowledges the deteriorating economic situation and identifies climbing inflation of average 11.6% as a major risk for the decline in profits of companies invested in CPEC projects. It would seem the risky conditions discouraging most foreign investors might be somewhat connected to how Pakistani people view China as their savior:

*“No one wanted to invest here — the Chinese took a chance,”*<sup>88</sup>

said a former Pakistani cabinet minister in an interview.

Much more serious challenge for China stemming from the bad economic situation in Pakistan however present the loans from an international organization, such as IMF or WBG. Unlike Sri Lanka, Pakistan delayed pleas for financial aid to international institutions for as long as possible – Prime Minister Imran Khan had been a fierce critic of IMF as being a tool of Western influence up until taking up his office in 2018,<sup>89</sup> but it seems an imminent financial crisis drove him to start negotiating a \$12 billion IMF loan after all. China stepped in the negotiations when IMF pressed Pakistan for absolute transparency of all deals connected to CPEC; demanding instead that the CPEC documents be kept secret and China itself will provide another loan to

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<sup>86</sup> CPEC “A mutually beneficial business model” - CPEC Latest News, May 18, 2017. [online]. [Accessed 28 June 2019]. Available from: <<http://www.cpecinfo.com/news/cpec-a-mutually-beneficial-business-model/MzA2OQ==>>

<sup>87</sup> ABI-HABIB, Maria, 2018. China’s ‘Belt and Road’ Plan in Pakistan Takes a Military Turn. *The New York Times* [online]. 19 December 2018. [Accessed 28 June 2019]. Available from: <<https://www.nytimes.com/2018/12/19/world/asia/pakistan-china-belt-road-military.html>>

<sup>88</sup> *Ibid.*

<sup>89</sup> MASOOD, Salman, 2019. Pakistan to Accept \$6 Billion Bailout From I.M.F. *The New York Times* [online]. 12 May 2019. [Accessed 28 June 2019]. Available from: <<https://www.nytimes.com/2019/05/12/world/asia/pakistan-imf-bailout.html>>

help save Pakistan's economy.<sup>90</sup> Mr. Khan interrupted the IMF negotiations then but when no exact deal with China was reached he finalized a \$6bn bailout package with IMF in May 2019.<sup>91</sup>

The reluctance to reveal the exact content of CPEC deals could either be a simple act of defiance against Pakistan's reliance on a 'Western' financial institutions instead of turning to China for help; or because of the actually controversial nature of those deals, that would make the whole world including Pakistani public much more cautious of future Chinese investment and confirm the suspicions of security externalities coming with their money. It appears both of these speculations are valid. Concerning the issue of "Western intervention" (that apart from IMF also most likely talks about NATO and US engagement with local terrorist cells), this in fact appears right next to the financial situation as one of Chinese biggest concerns endangering CPEC execution:

*"There are various factors affecting Pakistani politics, such as competing parties, religion, tribes, terrorists, and Western intervention. The security situation is the worst in recent years."*<sup>92</sup>

Some analysts raise warning flags in response to this statement and identify it as proof that China identifies diversity and multi-party democracy in the target state as a hindrance to its investment, which puts the democratic principles in Pakistan and any other states receiving Chinese capital in great danger.<sup>93</sup> However if we take a closer look at Pakistani political scene, can we actually see any signs that China would be taking action against minor political parties that disagree with its views or even engage in election manipulation? While an article from November 2018 in The Financial Times suggests that:

*"This year alone, Chinese influence — and investment — have been decisive factors in electoral upsets in Pakistan, Malaysia and the Maldives. In each case, opposition parties critical of Beijing's "debt trap diplomacy" have been rewarded at the ballot box. The surest way to lose an election in south Asia is to be too enthusiastic about China's Belt and Road Initiative;"*<sup>94</sup>

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<sup>90</sup> ABI-HABIB, Maria, 2018. China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

<sup>91</sup> <https://www.bbc.com/news/business-48250399>

<sup>92</sup> HUSAIN, Khurram, 2017. Exclusive: CPEC master plan revealed. *DAWN.COM* [online]. 14 May 2017. [Accessed 28 June 2019]. Available from: <<https://www.dawn.com/news/1333101>>

<sup>93</sup> <https://www.forbes.com/sites/anderscorr/2017/05/15/china-will-suppress-terrorism-diversity-and-democracy-in-pakistan/#88c570b5cd6e>

<sup>94</sup> <https://www.ft.com/content/ccfb4d06-e807-11e8-8a85-04b8afea6ea3>

there appear to be various counter-arguments in the case of Pakistan, that contradict this statement from several points.

This article in The Diplomat<sup>95,96</sup> for example concludes that quite differently from Sri Lanka, where voices started to appear against the dangers of growing Chinese influence and where it was in China's interest to keep Rajapaksa in power by any means; it seems there is less to worry about for China in the Pakistani political scene. The mass population regards the CPEC as something that *"is going to change the fate of not only the country but also the entire South Asia region"*, and while it is true that Khan's party PTI took victory from the ruling PML-N in summer 2018, both these parties are actually in favor of continuing the relationship with China, and along other major political parties all vie to take credit for initiation of the CPEC. The worry about falling into a debt trap and all the security ramifications connected to repaying it like in the case of Sri Lanka seems to be shared only amongst some journalists and analysts, or what M. A. Notezai calls 'educated Pakistanis'. Similarly China is less worried here about the results of elections, since there is strong political consensus among various parties for the continuation of CPEC and economic partnership with China:

*"No matter what the next Pakistani government looks like, Beijing will be happy to work with it. And the next Pakistani government will be happy to work with Beijing."*<sup>97</sup>

This fact again makes sense given not only Pakistan's beliefs that China may become the savior of their faltering economy, but also because China is the only big ally they can turn to in this region, considering the damaged relationships with India and the US. In any case based on this article there would seem to be neither evidence nor need for manipulation with elections or other democratic principles in Pakistan to establish Chinese influence here – yet. Such a problem could however definitely arise in the future, if Pakistan started rebelling against some negative impacts of CPEC like falling into a debt trap or growing Chinese military presence; or decided to diversify its assets to be less dependent on China. It is quite possible China made it clear on purpose that local parties opposing its plans and Western intervention are not welcome on Chinese turf.

But lastly there comes an article by New York Times' Maria Abi-Habib, that presents evidence that China might be manipulating the political scene not directly but through its internal ally,

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<sup>95</sup> <https://thediplomat.com/2018/07/is-china-influencing-pakistans-elections/>

<sup>96</sup> Author of this article also writes for Pakistani daily Dawn.

<sup>97</sup> <https://thediplomat.com/2018/07/is-china-influencing-pakistans-elections/>

the Pakistani military.<sup>98,99</sup> Even though Mr. Khan was always a supporter of CPEC, when taking office he promised to renegotiate the existing deals that were instead of promised spur setting Pakistani economy too much back. When his minister later proposed pausing the CPEC projects shortly to assess the possibility of Saudi Arabia joining in on the financing, China got angry that this would impact the BRI on a global scale. What immediately followed was a secret visit of Pakistan's army commander Gen. Bajwa to president Xi Jinping that resulted in this conclusion:

*“General Bajwa ‘said that the Belt and Road initiative with CPEC as its flagship is destined to succeed despite all odds, and Pakistan’s army shall ensure security of CPEC at all costs,’ read a statement from the Pakistani military. Shortly after the Beijing meeting, Pakistan’s government rolled back its invitation to Saudi Arabia to join CPEC and all talk of pausing or canceling Chinese projects has stopped.”<sup>100,101</sup>*

The idea that China can use the lure of its money to make Pakistan's own army put pressure on a non-cooperative government maybe points to security concern of much higher level than financing a rival candidate's campaign like in Sri Lanka. The list of security issues however grows even further. A joint document “Long-Term plan on China-Pakistan Economic Corridor” detailing the individual aspects of Sino-Pakistani cooperation under CPEC leaked in 2017<sup>102</sup> and published in Pakistani daily Dawn hints to several security externalities in areas much more extensive than the original presented infrastructure and energy cooperation, thus proving the point that China indeed probably didn't want IMF to see this and potentially other like this document. First of all the plan talks about the need for Pakistan to change their policies and legislation so they would better suit the interests of Chinese companies that invest in various aspects connected to the CPEC:

*“Preferential policies will be necessary to attract enterprises to come to the newly built industrial parks envisioned under the plan. The areas where such preferences need to be*

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<sup>98</sup> ABI-HABIB, Maria, 2018. China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

<sup>99</sup> China woos the Pakistani army under its thumb by according the winning bids in CPEC projects to military construction companies, which means the army gets to fill their war chest (and pockets) and has no good reason to oppose both growing influx of Chinese investment and heightened Chinese military presence, that (at least for now) help manage the border skirmishes.

<sup>100</sup> If assessed together, all three of these articles were written in the second half of 2018, which means several analysts/journalists can watch the same events unfold, albeit each reaches slightly different conclusions based on considering different factors and information.

<sup>101</sup> ABI-HABIB, Maria, 2018. China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

<sup>102</sup> HUSAIN, Khurram, 2017. Exclusive: CPEC master plan revealed.

*extended are listed in the plan as “land, tax, logistics and services” as well as land price, “enterprise income tax, tariff reduction and exemption and sales tax rate.”*<sup>103</sup>

Whether this should be approached as China forcing Pakistan to reorder its internal legislation to better suit Chinese grand strategy in this area, or simply an initiative of Pakistan’s government to better accommodate the interests of Chinese investors (or future investors in general) and ensure prosperous relations in the future is unclear. In any case this signifies that what is presented as purely economic development along the MSR and BRI that aims to spur the economic growth of individual states in the region, may intentionally overlap into countries’ internal affairs. This is further supported in the section on technological development in the document, where a plan to bring expanded bandwidth will not only enable the technological advancement of digital HD television for Pakistanis, but is described to act also as a “*cultural transmission carrier*”:

*“The future cooperation between Chinese and Pakistani media will be beneficial to disseminating Chinese culture in Pakistan, further enhancing mutual understanding between the two peoples and the traditional friendship between the two countries.”*<sup>104</sup>

It doesn’t seem that Lim and Mukherjee have case-specific statecraft mechanisms ready to fit all of these various scenarios how China exerts influence through and into several aspects of country’s politics and decision-making. Nevertheless if one accepts the view of some theories in the study of Foreign Policy Analysis that public opinion is one of the factors that shape foreign policy of the country<sup>105</sup>, then special channels allowing broadcast of programs in sync with Chinese values are a prime example of effective ways to influence public opinion – either as an end result, to accept the views of a pro-Chinese government; or conversely to influence the government’s foreign policy indirectly through public opinion. It is however not specified how the broadcast will be managed and as such it would be too premature to simply conclude that this is going to serve as tool for harmful Chinese propaganda.

Another controversial area covered by the “Long-Term plan on China-Pakistan Economic Corridor” pertains to possible law enforcement in the form of Chinese military forces:

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<sup>103</sup> HUSAIN, Khurram, 2017. Exclusive: CPEC master plan revealed.

<sup>104</sup> *Ibid.*

<sup>105</sup> Public opinion usually doesn’t factor directly into foreign policy making, but can influence the politics in power through elections or protests. See DRULÁKOVÁ, Radka a DRULÁK, Petr. Tvorba a analýza zahraniční politiky. 3. ed. Praha: Oeconomica, 2011. 183 s. ISBN 978-80-245-1815-2.



*“In the final sentence of the chapter on agriculture, the plan says the government of China will ‘[...] jointly prevent and crack down on terrorist acts that endanger the safety of Chinese overseas enterprises and their staff.’”<sup>106</sup>*

If we take a positive approach to this statement, it could have been incorporated into the document in order to dispel some uneasiness on the Pakistani part from rejecting any future international help in fighting terrorism by mentioning the unwanted “Western intervention” earlier on. But the real danger here lies not only in the presence of Chinese army in Pakistan itself, but in the possible interpretations of this sentence. First of all, it only mentions help with terrorist threats if “*they endanger safety of Chinese enterprises*”, disregarding for example Pakistani citizen if it doesn’t directly threaten the Chinese company. This seems less like an offer of military aid and more like an excuse to protect Chinese interests while given basically free roam to monitor the investment sites around Pakistan. Yet even more dangerous situation could possibly arise. In some twisted scenario it wouldn’t be impossible to label some opposition political movement or even ethnical or religious group as terroristic and threatening the safety of Chinese investors and start persecuting them. This scenario suddenly looms even more realistically if we remember the earlier paragraph indicating “religion and tribes” as one of threats to stable political situation in Pakistan<sup>107</sup> and if we regard the current persecutions of Uighur Muslim minority in the Xinjiang region of China, the one that directly connects to the CPEC infrastructure.

*“Beijing justifies this crackdown as a counterterrorism measure, and calls the internment camps ‘free vocational training.’”<sup>108</sup>*

The similarity of language with the CPEC document is unmistakable.

This isn’t the last of disquieting terrorist crackdown measures mentioned in the leaked joint document. Again similarly to already functioning system in some Chinese cities, the CPEC document promises to administer:

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<sup>106</sup> HUSAIN, Khurram, 2017. Exclusive: CPEC master plan revealed.

<sup>107</sup> (unstable political situation being a threat to the CPEC and therefore to Chinese interests)

<sup>108</sup> MA, Alexandra, March 2, 2019. A wall of silence around China’s oppression of its Muslim minority is starting to crumble. *Business Insider* [online]. [Accessed 28 June 2019]. Available from: <<https://www.businessinsider.com/muslim-countries-standing-up-to-china-over-uighur-muslim-oppression-2018-12>>

*“[...] an electronic monitoring and control system [featuring] explosive detectors and scanners to cover major roads, case-prone areas and crowded places [...] in urban areas to conduct real-time monitoring and 24 hour video recording,”*<sup>109</sup>

complemented by a ‘smart city’ infrastructure that enables data collection and sharing among various city assets. The first to test the new ‘safe city’ technology will be Peshawar, a town in a turbulent northwestern territory. As a home to the Burusho Muslim ethnic minority it can be expected the location wasn’t picked at random; this pilot project will probably help thwart attempts for Muslims to cross over to Chinese Xinjiang.

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<sup>109</sup> HUSAIN, Khurram, 2017. Exclusive: CPEC master plan revealed.

### 3.2.3 Gwadar Port and Military Cooperation

*[Chinese company has a] 40-year contract, including for military vessels, at the Port of Gwadar on the Arabian Sea just west of India.<sup>110</sup>*

The primary benefit of these economic corridors for China is that they offer means to help satisfy China's insatiable energy requirements while providing ways to enhance exports. But the quotation in the beginning clearly points to a military aspect linked to maritime security in the Indian Ocean, even though Gwadar port is being developed as part of CPEC which shares the BRI narrative of peaceful development.

From economic point of view the Gwadar port gives China much more direct access to resources coming via Strait of Hormuz from Middle East, Iran and access to Africa and Europe, instead of having tankers transport it another 10 000 miles along the coast of China. Above all it provides a way to surpass the chokepoint that is Strait of Malacca, which is currently used for 80% of Chinese oil imports. The fact that it is deep water allows Gwadar port to receive large or heavily loaded vessels, as is especially the case of oil cargo. Projected capacity of the Gwadar port is close to 20 million tons of crude oil that can be refined in Pakistan before distribution by the CPEC network.<sup>111</sup>

Needless to say Chinese development in Gwadar is not limited only to enhancing the port itself but instead to *"enrich it as an economic hub that will cater to the local population by improving their livelihoods"*.<sup>112</sup> This includes water and waste processing plants, kindergarten, college, hospital, free zone and even 'smart city' master plan.<sup>113</sup> For China there are undeniable economic benefits stemming from such an enormous investment but some analysts also argue threats to Pakistan democracy and Indian security. For instance, building Chinese schools and universities featuring Chinese study programs sometimes elicits doubts whether the curriculum is really objective and doesn't contain Chinese propaganda, especially if we talk about lower level education. Same can be said about the hospital, such as whether it will accord any

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<sup>110</sup> China Will Suppress Terrorism, Diversity, And Democracy In Pakistan: Leaked Document, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://www.forbes.com/sites/anderscorr/2017/05/15/china-will-suppress-terrorism-diversity-and-democracy-in-pakistan/#88c570b5cd6e>>

<sup>111</sup> China-Pakistan Economic Corridor (CPEC), 2019. *IAS gateway* [online]. [Accessed 28 June 2019]. Available from: <<https://iasgatewayy.com/china-pakistan-economic-corridor-cpec/>>

<sup>112</sup> Gwadar Port City | China-Pakistan Economic Corridor, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<http://www.cpecinfo.com/gwadar-port-city>>

<sup>113</sup> Smart city is a city whose individual components are linked into an internet of things, especially utilizing mass data collection and processing to ameliorate and automatize its processes.

preferential status for example to an ethnical Chinese patient before a local Muslim community member. To prove or disprove these concerns might not be easy without seeing the exact practices or teaching materials that are used. But when Australian government attempted to review the teaching materials used in Chinese Confucius Institutes,<sup>114</sup> one of “*most prominent and most controversial tools of China’s global image management*”, as this study puts it,<sup>115</sup> they were denied. The same study finally concludes that while Chinese Confucius Institute materials didn’t contain any hateful propaganda; they generally focused on teaching history in a more of an apolitical and cultural manner and tended to regard China in a positive light. Controversial topics such as Tibet were never mentioned.<sup>116</sup> There is one other problem with Pakistani education especially in Gwadar, but in the rest of Pakistan too: since 2011 they contain a mandatory Chinese language class. This shouldn’t be such a problem, especially since China is Pakistan’s big neighbor and favorable relations are key, but Pakistani provinces are dissatisfied that Chinese language replaced the provincial languages that are spoken on a daily basis, like Balochi in Gwadar, Balochistan.<sup>117</sup>

Regarding the second nature of concerns, these usually observe that apart from the lucrative commercial benefits and possible ‘soft power’ influences connected to the CPEC, China also has huge strategic and geopolitical advantage for the Indian Ocean region given Gwadar port’s advantageous position.<sup>118</sup> If a port constructed under the peaceful-development-only nature of the MSR somehow allows naval ships to dock near one of the most busy locations in the Indian Ocean without any protests from Pakistani government, it would appear the economic statecraft mechanisms were indeed successful in procuring the desired security externality. Given Pakistan’s desperation for any form of foreign investment, it is perfectly possible that option automatically came with the deal to develop the port and didn’t even have to be a result of any other mechanism like in Sri Lanka, where only after the debt-trap mechanism rendered Sri Lanka unable to keep it any longer, it gave the port up in exchange for a write-off.

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<sup>114</sup> Chinese centres of language and cultural learning usually affiliated with local universities.

<sup>115</sup> HARTIG, Falk, 2018. China’s Global Image Management: Paper Cutting and the Omission of Politics. *Asian Studies Review*. 2 October 2018. Vol. 42, no. 4, p. 701–720. DOI 10.1080/10357823.2018.1511684.

<sup>116</sup> TIMES, Asia, March 30, 2019. Asia Times | Do Confucius Institutes teach Chinese propaganda? | Article. *Asia Times* [online]. [Accessed 28 June 2019]. Available from: <<https://www.asiatimes.com/2019/03/article/do-confucius-institutes-teach-chinese-propaganda/>>

<sup>117</sup> Schools in Gwadar ordered to teach Chinese language | The Balochistan Post, October 1, 2018 [online]. [Accessed 28 June 2019]. Available from: <<http://thebalochistanpost.net/2018/10/schools-in-gwadar-ordered-to-teach-chinese-language/>>

<sup>118</sup> China-Pakistan Economic Corridor (CPEC) – What can India do?, 2017. *ClearIAS* [online]. [Accessed 28 June 2019]. Available from: <<https://www.clearias.com/china-pakistan-economic-corridor-cpec/>>

On a second thought – maybe Pakistan never had any reservations about docking Chinese ships in the first place, in fact, they may welcome the relative increase in security of their ally (and in the perfect position to defend not only Pakistan's land borders as up until now but prevent an attack from the sea too), especially if it relatively decreases security of India. It sounds like a win-win situation for both parties:

*Military analysts predict that China could use Gwadar to expand the naval footprint of its attack submarines, after agreeing in 2015 to sell eight submarines to Pakistan in a deal worth up to \$6 billion. China could use the equipment it sells to the South Asian country to refuel its own submarines, extending its navy's global reach.*<sup>119</sup>

That submarine transaction wasn't the first nor the last of Sino-Pakistani military cooperation. China has been long-term weapon supplier for Pakistan, especially cooperating on the protection of disputed areas, but also for example jointly manufacturing the JF-Thunder aircraft. Latest news indicate that China started building the first of four promised Chinese most advanced naval warships for Pakistan this January 2019; and there are rumors about assembling a new type of Chinese fighter aircraft in Pakistan, that would allegedly newly factor under the CPEC deal.<sup>120</sup> However it is improbable China would officially add military aspect under the CPEC framework, undermining its own rhetoric about non-military aspects. There is no reason not to simply talk about the military cooperation as a standalone initiative to:

*"[...] strengthen the country's capability to respond to future challenges, maintain peace and stability and the balance of power in the Indian Ocean region."*<sup>121</sup>

There is another strongly worrying aspect of the Sino-Pakistani military cooperation: the nuclear weapons. Pakistan, India and China are all part of the eight countries worldwide in possession of successfully developed nuclear weapons.<sup>122</sup> This raises stakes not only in the Kashmir conflict, but also possible war erupting in the Indian Ocean indefinitely, as seen when the whole world held its breath in a India-Pakistani bombing exchange in February 2019.<sup>123</sup>

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<sup>119</sup> ABI-HABIB, Maria, 2018. China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

<sup>120</sup> China building 'most advanced' naval warships for Pakistan: Report, January 03, 2019. *The Economic Times* [online]. [Accessed 28 June 2019]. Available from: <<https://economictimes.indiatimes.com/news/defence/china-building-most-advanced-naval-warships-for-pakistan-report/articleshow/67345177.cms?from=mdr>>

<sup>121</sup> *Ibid.*

<sup>122</sup> Pakistan Nuclear Weapons, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://fas.org/nuke/guide/pakistan/nuke/index.html>>

<sup>123</sup> China's role in the India-Pakistan nuclear equation, 2019. *The Strategist* [online]. [Accessed 28 June 2019]. Available from: <<https://www.aspistrategist.org.au/chinas-role-in-the-india-pakistan-nuclear-equation/>>

Even though the nuclear power of China itself is relatively modest, the initiator behind Pakistani nuclear power in 1982, providing know-how to help Pakistan not fall behind India's first tests was indeed none other than China.<sup>124</sup>

The last notable military avenue of cooperation between China and Pakistan is, as some put it the 'space militarization'. In essence Pakistan is the only other country that uses and cooperates with China on the development of the Beidou satellite navigation system. By means of this system it is possible to guide ships, missiles and aircraft from space, as such definitely a notable security externality this time probably for both of the countries in their defense not only in Indian Ocean waters. The fact that China, like Europe, develops its own navigation system is perhaps not surprising in the face of growing awareness of data monitoring through relying on technology of another state, such as could be possible with American GPS. What is more, Beidou is actually an official component of the CPEC, as part of the 'information Silk Road' delimited by the 2015 BRI White paper.<sup>125</sup>

It is also true that where the US are reluctant to supply weapons such as ballistic missiles to their allies in the Middle East, China has no such reservations. It could be said the military cooperation with China makes Pakistani dreams come true, whether hyperbolically or realistically:

*In October, Pakistan's information minister, Fawad Chaudhry, said that by 2022, Pakistan would send its own astronaut into space with China's help.*<sup>126</sup>

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<sup>124</sup> China's role in the India–Pakistan nuclear equation, 2019. *The Strategist* [online].

<sup>125</sup> ABI-HABIB, Maria, 2018. China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

<sup>126</sup> *Ibid.*

### 3.3 Security Externalities of MSR Development

The conclusion of the first part of this thesis is that Chinese development along the Maritime Silk Road indeed has some impact on the littoral states of Indian Ocean. Firstly, both Sri Lanka and Pakistan are states in desperate need of foreign capital boost but were too risky to attract any other investors – as is after all the case of most other South Asian countries participating in the Initiative. This sets perfect conditions for China, who can through steady inflow of its money establish almost perfect dependence in the target states, thus making long-term strategies possible. Giving out large quantities of financial aid also makes it seem like the perfect benefactor the poor South Asian states need; while sustaining the image of a smart donor, who doesn't just pour unconditioned money into the economy, but invests in schools, hospitals and above all functioning infrastructure and energy sectors. The problems start when this otherwise very likeable initiative suddenly brings negative financial, security or other externalities to the target state. Public debt spiraling out of control, depleted foreign exchange reserves, political turmoil as people start doubting the effectivity of Chinese investment.

So what are the externalities of Chinese power in Sri Lanka so far? The capital mechanism applied in four pivotal investments and a variety of smaller ones managed to win China some amount of leverage over Sri Lankan government, through their dark horse Mahinda Rajapaksa. The level of closeness of the two governments during his presidency was maintained on the Chinese part by many personal gifts and guarantees and it came to light even his electoral campaign for the second term was largely financed and disseminated by China. What exactly motivated his avid rival candidate Sirisena in 2018 invite him back into government is unsure too, but another Chinese interference cannot be eliminated either. The acquired government influence manifested not only on the domestic scene, but affects the foreign policy, such as Sri Lanka's shift away from India. On the other hand precisely because of the third-power existence as Sri Lanka's other option, it had some room to negotiate and tilt the conditions in its favor by making both parties compete over influence. Second problem was the debt-trap mechanism – making Sri Lanka dependent on the influx of foreign aid because they need loans to pay off the debt from previous investment.

Apart from the political externalities all however builds up to the key security externality China gained by investing in Sri Lanka: the Hambantota port with the capacity to generate both revenue and an unparalleled strategic position. Even if China lost all other past and future influence and investment in Sri Lanka, this one port China got paid to build many times over in

the loan interests, modeled according to its needs and then bought back with 100% ownership will make up for all other lost projects, such as the Hambantota airport that fell in the hands of India. Even with the port's strictly civilian use for now it does not mean it cannot be turned into military one later – for example by putting pressure on the new government, in exchange for a debt write-off or by helping reinstate Rajapaksa or his protégé back in power.

In the case of Pakistan the relationship with India had been already damaged by the time China started its BRI investments here, but the tradition of favorable relations with China was all the longer given for example the substantial military and security cooperation. That is why Pakistan had but one ally to turn to with both economic and security issues and why the dependence runs much deeper than in Sri Lanka and many other littoral states that have options like India and US to choose from. Trade and debt-trap mechanisms apply as well and there is very visible leverage over Pakistani decision-makers, that appears to be through even more serious measures than in the case of Sri Lanka – instead of supporting a candidate, China exercises control over current government through Pakistani's own military body. Given Pakistan's long history of coups it is quite possible another one could occur should the government fail to deliver on promises to China. But Pakistani views and ambitions are generally in sync with China's, which could be one of the reasons why they allowed Chinese interference into its internal affairs such as legislation, law enforcement or action against future illegal migrants to China.

For China the biggest economic benefit of CPEC under BRI in Pakistan lies in shortening its energy and trade routes while developing its Western provinces and of course and boosting its finances maybe for long years to come off of Pakistani debt payments. Apart from the above mentioned the most tangible security externality is definitely Gwadar port, that is already capable to receive military vessels and is in perfect position between India and Indian Chabahar port in Iran to map out their actions.

Observed aftereffects of MSR that are shared by both of these cases are: first of all crippling debt that stems from too many projects taking too long to generate profit, threats to democracy through coercion on the parliament and sometimes controversial nature of investments and yielding of various types of externalities, including security that appear to be the most valued by China and hard to get in other circumstances than pressure on the target state through various mechanisms.



## PART II.

# SECURITY AND STRATEGIC COMPETITION IN THE INDIAN OCEAN

# 1. Theory of Security Relations

Defining 'security' is a difficult task, because depending on different international relations' theories we could draw a completely different picture of actors, victims or threats in international security. Whom is the security for: Is the primary aim of every state to protect the security of every individual citizen as per Liberal theories? If so, such state would probably refuse to ever enter an open war conflict, even if it had to make concessions over its sovereignty.<sup>127</sup> Or does state and its interest come first as the Realist theory suggests? Who are the actors of international security? Early Realists again see only states as actors of international relations, Liberals identify international organizations as also capable of influencing the security of other states/actors; but even these views fall short of accurately describing the current situation on the international scene, if we look for example at the work of terrorist organizations.<sup>128,129</sup>

Booth and Wheeler suggest there are three important elements in the process of international decision-making: fear, cooperation and trust. They divide the political decision-making in response to actions of another state into two realities that have to be accounted for: the material reality or the weapons, and the psychological reality, where decisionmakers have to gauge the psychological state of the opponent to derive whether they possess the weapons with present or future intent to threaten others or just for self-protection.<sup>130</sup> For the purpose of analyzing the security situation in waters of Indian Ocean, let us take a closer look at the concept of security dilemma that builds upon these notions of fear, cooperation and trust.

Dilemma is from the viewpoint of logic a situation where two lemmas (equally valid propositions) appear at the same time. In plain words it is essentially a difficult decision. In international relations the security dilemma lies in two different aspects: what is the other party planning? And not knowing the answer, how should we act?

Therefore Jervis says a security dilemma will occur when *"an increase in one state's security decreases the security of others."* This coupled with the explanation by Booth and Wheeler

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<sup>127</sup> After all, in the earlier Liberalist theories war is seen as a product of misunderstanding, since the inherent nature of states is cooperative.

<sup>128</sup> There are many more theories in the field of International Relations Studies, but these examples are given only to shortly illustrate the vast scope of defining 'international security' as a concept.

<sup>129</sup> This paragraph is based on DRULÁKOVÁ, Radka a DRULÁK, Petr. *Tvorba a analýza zahraniční politiky*.

<sup>130</sup> BOOTH, Ken and WHEELER, Nicholas J. *The security dilemma: fear, cooperation and trust in world politics*. Basingstoke: Palgrave Macmillan, [2008]. pp xv, 364. ISBN 978-0-333-58745-4.

means that if the decisionmakers have ascertained the possession or increase of weapons by the opponent and believe the motive to be to threaten others, they are probable to feel vulnerable by their own, though relative, decrease in security level. Eriksson adds that a leader perceives threat when he perceives his values and interests endangered while feeling unable to bring the situation under control and lacking resources to move against this threat.<sup>131,132</sup>

Jervis also suggests two possible effects resulting from the security dilemma: the spiral effect and deterrence.

*A security dilemma is often accompanied by spiral effects because state A's increase of security decreases state B's security and as a result, state B also tries to increase its security, which in turn decreases state A's security, thereby unintentionally encouraging state A's increase of security.*<sup>133</sup>

This spiral theory derives from the assumption that relations between actors in international politics are characterized by anarchy and driven primarily by fear. If one country fears the increase in arms of one country and deems their intent to be hostile in nature, they will respond by protecting themselves by increasing their own security – triggering the spiral process. On the contrary in the model of deterrence Jervis incorporates the argument of Hertz that anarchy does not bring only mutual fear but states think also in terms of balancing the distribution of power and looking towards allies. The prudent position to a perceived threat in the form of other state's increase of security level would therefore be to avoid a show of weakness: by maintaining status quo for as long as possible. Otherwise the “aggressor” could feel as though their actions incite fear and would continue to press in other manners.

The task for decisionmakers therefore increases to deciding which situation they are in: the spiral effect where the intent of state A was wrongly interpreted to be hostile would thwart possible cooperation between both states, while deterrence by state B in signal of friendly attitude might feed the aggressor who exploits the difference in security levels.<sup>134</sup>

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<sup>131</sup> Kim, Yongho, and Yongho Kim. North Korean Foreign Policy : Security Dilemma and Succession, Lexington Books, 2010. ProQuest Ebook Central, <http://ebookcentral.proquest.com/lib/natl-ebooks/detail.action?docID=662226>. Created from natl-ebooks on 2019-03-31 02:05:55.

<sup>132</sup> Johan Eriksson, Threat Politics: New Perspectives on Security, Risk and Crisis Management (Aldershot: Ashgate, 2001), p. 3.

<sup>133</sup> Robert Jervis, Perception and Misperception in International Politics (Princeton: Princeton University Press, 1976), pp. 62– 76 and p. 186.

<sup>134</sup> Booth, K., Wheeler, N.J. The Security Dilemma, pp. 47-48.

This would suggest that not only fear, but trust (and cooperation) is indeed very important in international policy making. If two or several countries can trust each other (for example through treaties or alliances), an increase in security of one might not trigger the spiral effect; in fact, a country whose ally is stronger might on the contrary feel more secure against outside threats. Such a conclusion is also reached in a report by Palme commission pertaining to the resolution of the nuclear issue in international relations. The answer is the beginning of the concept of common security:

*“There can be no hope of victory in a nuclear war, the two sides would be united in suffering and destruction. They can survive only together. They must achieve security not against the adversary but together with him. International security must rest on a commitment to joint survival rather than on a threat of mutual destruction.”*<sup>135</sup>

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<sup>135</sup> Palme 1982, Introduction in Booth, K., Wheeler, N.J. The Security Dilemma, p. 139.

## 2. Security in the Indian Ocean Waters

### 2.1. Strategic Appeal of the Indian Ocean Rim

Mohan Malik in his 2014 book designates the Indo-Pacific as one of key geostrategic centres of the 21<sup>st</sup> century. The strategic appeal lies in his opinion in several key points. Firstly, the fact that Indian Ocean is a semi-enclosed ocean versus the open ones like in the case of Atlantic and Pacific Oceans:

*“This is the ocean with the largest number (four of six) of critically important maritime “choke points”: the Mozambique Channel, Bab-el-Mandeb (bordering Djibouti and Yemen), the Strait of Hormuz (bordering Iran and Oman), and the Strait of Malacca (bordering Indonesia and Malaysia).”*

These “choke-points” prove as important strategic but also security points, since most commodities and energies to or from East Asia and Europe transported via sea have to pass through them, therefore being essential for global trade.<sup>136</sup> This argument is sustained by Malik’s second and third point, the immense richness of the Indian Ocean Rim (hereafter also IOR) itself, where only Persian Gulf holds 65 % of the world’s energy reserves, mainly in the hands of IOR littoral states.<sup>137</sup> India and China can be identified as Europe’s and Japan’s biggest suppliers of oil from Indian Ocean, but the links to West Pacific and the inexhaustible riches draw many newly booming Asian countries to the possibility of their own drilling operations – causing frictions due to competition and maritime disputes despite the establishment of UNCLOS EEZs in the process.

Fourthly, these littoral nations face religious and prosperity differences, where failed or weak states are unable to defend against or willingly sustain piracy or terrorism. Malik views the Indian Ocean waters rather as a complex chessboard with many challenges to overcome, on which several significant powers emerge, seeking to influence the smaller states. This is also where many scholars use the term “The Great Game of the Indian Ocean”, referring to the great powers competing for dominance, while the playground for 21<sup>st</sup> century is according to them

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<sup>136</sup> Ed. by Malik, 2014. *Maritime security in the Indo-Pacific: perspectives from China, India, and the United States* [online]. Lanham, Maryland: Rowman & Littlefield. [Accessed 28 June 2019]. ISBN 978-1-4422-3533-5. Available from: <<http://ebookcentral.proquest.com/lib/natl-ebooks/detail.action?docID=1810406>>

<sup>137</sup> Why all eyes should be on the Indian Ocean, January 9, 2014 [online]. [Accessed 28 June 2019]. Available from: <<http://english.alarabiya.net/en/views/news/world/2014/01/09/Why-all-eyes-should-be-on-the-Indian-Ocean.html>>

going to be the Indian Ocean. Three or less commonly four powers are identified: India, China, US and Malik also names Japan as one of them. In spite of the strategic competition, it is according to him impossible for a single state to control the security of a sea lane alone, defending against occurrences such as piracy and ship hijacks, oil spills but also earthquakes and tsunamis, where IOR is considered to provide for more than 75 % of world's natural disasters:

*Because both the Middle East and Africa are richly endowed with natural resources from hydrocarbons to minerals and metals, China and India are competing for influence with IO (Indian Ocean) littoral states, seeking to establish military presence through a combination of a direct military footprint and broader security engagement. China is giving liberal economic aid to Indian Ocean nations, signing friendship pacts and security assistance agreements, and building ports, signal intelligence facilities, and special naval-access arrangements along the strategic sea lanes.*<sup>138</sup>

Apart from these four countries identified as great powers here, one more potentially interesting actor enters the security scene in the Indian Ocean: Australia. Its maybe otherwise unusual listing here as one of factors in the fate of Indian Ocean would be due to participation in an informal alliance “The Quad” consisting of the US, India, Japan and Australia that some analysts identify to serve as a countermeasure against possible Chinese aggression. The Quad draws on the tradition of joint naval exercises between these countries (in various combinations) called ‘Malabar’, that admittedly aren’t limited only to Indian Ocean (latest one took place near Guam). While India, US and Japan are the permanent members, Australia<sup>139</sup> participated in several, but then once refused in 2007 in an effort to strengthen its relationship with China. From then on India has been cautious against letting Australia join the quadruple military exercises again with what it calls a half-hearted Australian resolve against deterring China.<sup>140</sup>

In sum, the Indian Ocean environment invites conflict and competition for abundant resources, but also necessary cooperation to overcome any unpredictable challenges. A closer look at specific interests and policies of individual actors in relation to Indian Ocean is nevertheless essential for any conclusions about the fate of Indian Ocean.

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<sup>138</sup> Ed. by Malik, 2014. *Maritime security in the Indo-Pacific: perspectives from China, India, and the United States*.

<sup>139</sup> Singapore also participated, even if only once.

<sup>140</sup> DIPLOMAT, Asha Sundaramurthy, The, May 08, 2018. India Keeps Australia Out of the Malabar Exercise -- Again. *The Diplomat* [online]. [Accessed 28 June 2019]. Available from: <<https://thediplomat.com/2018/05/india-keeps-australia-out-of-the-malabar-exercise-again/>>

## 2.2. Security Positions of Powers in the Great Game

It is interesting to observe what was happening in the Indian Ocean around year 1990. A book by Cecil Victor on India's (then) Security Dilemma in the Indian Ocean speaks about a *"carefully orchestrated campaign in regional and world forums against the expansion of the Indian Navy"*<sup>141</sup> with the sole ambition of several powers to gain control over such a strategic region. India's navy and especially submarine expansion was being presented as a threat to other states of the littoral, which therefore justified NATO (U.S.) military presence in the Persian Gulf. The author argues the opposite was true, if anything, more danger for the Indian Ocean states would stem from the hidden "malefic" presence of the US than India, who had been in the past seen helping host the NATO fleets instead of confronting them. The US is also depicted as trying to rail other powers such as Australia and New Zealand against India, presenting India as a threat to Indonesia; all in the name of the U.S. becoming a *"self-appointed protector of maritime shipping in the Gulf"*.<sup>142</sup>

Even more interesting is the subtle conclusion the author draws in this chapter: this whole rhetoric and subsequent actions are no doubt viewed as a threat to Indian dominance over the region, and as such it has become imperative to speed up the building of a navy even more to be able to withstand it. The position of China in this particular instance is also mentioned, specifically that it for the moment chooses to confront India through supporting militarization in Pakistan, but might not limit itself to the shore for much longer, sailing its own flag in the waters of Indian Ocean soon enough.

The situation clearly shifts in 21<sup>st</sup> century, and we observe hints to a different alliance structure: the U.S. are engaging China in trade and technological war globally, while the main clash of influences in Indian Ocean region is between India and China. To deter China even further, Japan and Australia join in on various naval exercises and the new alliance structure shapes itself into the unofficial 'Quad' group. Apart from these powers and the various littoral states that might have some limited say in the outcome of this Indian Ocean 'power balance', as China calls it, two 'outsiders' hold some marginal influence potential: France and United Kingdom that have territories with naval bases in the Indian Ocean.

Whether the Quad or any other power structure will come to manifest itself as an official alliance and actively engage China in the Indian Ocean is however still unclear. A study by

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<sup>141</sup> CECIL, Viktor. India: The Security Dilemma. New Delhi: Patriot, 1990, p. 215

<sup>142</sup> CECIL, Viktor. India: The Security Dilemma. New Delhi: Patriot, 1990, p. 216

Brookings Institute suggests one of problematic trust issues for India in this uncertain triangle of India-US-China power balance is whether to fear the US-China ‘Group of Two’ world dominance prospect or US-China global war prospect more.<sup>143</sup>

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<sup>143</sup> MADAN, Tanvi, [no date]. The U.S.-India Relationship and China. [online]. [Accessed 28 June 2019]. Available from: <[https://www.brookings.edu/wp-content/uploads/2017/07/2ndmodi\\_o\\_china\\_tanvi.pdf](https://www.brookings.edu/wp-content/uploads/2017/07/2ndmodi_o_china_tanvi.pdf)>



### 2.2.1 Interests of Japan

Japan is named as one of the “Great Game” powers that figure in the race for strategic security in Indian Ocean, mainly because of their long-term and absolute dependency on the energy supplies from Indian Ocean through the Strait of Malacca. Japan is troubled about measures that let other countries monopolize resources that would otherwise be open for competition. Like China and India they would like to overcome this dependency by incorporating imports from Africa, but like India, they have to go to great lengths to overcome already embedded Chinese presence.<sup>144</sup>

*According to Sunni Lamba, the Chief of Staff of the Indian Navy, who also attended the Raisina Dialogue in January 2019, at any given time, there are six to eight Chinese Navy ships dispatched to the northern part of the Indian Ocean.*<sup>145,146</sup>

The development in the Indian Ocean littoral along the Maritime Silk Road is a great concern for Japan, especially if such rapidly gained influence should impact China’s standing in the South China and East China Sea disputes or, of course, cut off Japan’s precious resources from the Indian Ocean. While in possession of quite a powerful navy, Japan still looks to India to provide a response to Chinese activities in the Indian Ocean,<sup>147</sup> and this study by Japanese Research Institute on Peace and Security says Japan’s primary policy in this regard should be to continue urging India to play a greater role in deterring China.<sup>148</sup> Principal Japanese endeavors in this regard are state visits to India and to geopolitical conferences, participation in the Free and Open Indo-Pacific initiative or donating navy vessels to Sri Lankan defense. If we look at the real engagement in the Indian ocean however, apart from latest instances this year where it showcased its most powerful aircraft carrier vessel by participating in South Asian countries’ defense drills,<sup>149</sup> it appears Japan is binding its time awaiting how the situation will

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<sup>144</sup> Ed. by Malik, 2014. *Maritime security in the Indo-Pacific: perspectives from China, India, and the United States*.

<sup>145</sup> “Chinese Navy Is A Force That Is Here To Stay,” Says Navy Chief, January 10, 2019. *NDTV.com* [online]. [Accessed 28 June 2019]. Available from: <<https://www.ndtv.com/india-news/navy-chief-admiral-sunil-lamba-says-chinese-navy-is-a-force-that-is-here-to-stay-1975415>>

<sup>146</sup> What is Japan’s Indian Ocean Strategy?, [no date]. *RIPS - Research Institute for Peace and Security* - [online]. [Accessed 28 June 2019]. Available from: <[http://www.rips.or.jp/en/rips\\_eye/1575/](http://www.rips.or.jp/en/rips_eye/1575/)>

<sup>147</sup> Ed. by Malik, 2014. *Maritime security in the Indo-Pacific: perspectives from China, India, and the United States*.

<sup>148</sup> What is Japan’s Indian Ocean Strategy?, [no date]. *RIPS - Research Institute for Peace and Security* - [online]. [Accessed 28 June 2019]. Available from: <[http://www.rips.or.jp/en/rips\\_eye/1575/](http://www.rips.or.jp/en/rips_eye/1575/)>

<sup>149</sup> <https://asia.nikkei.com/Politics/International-relations/Japan-sends-largest-naval-vessel-to-Indian-Ocean-for-drills>

play out before clashing with China head on or provoking an angry response – it would seem their warships guarding Japanese sea lines of communications since 2001 might in the end not be able to stand against the number of newly placed Chinese and Pakistani submarines, unless Japan too steps up the Indian Ocean maritime security game.<sup>150</sup>

There are two other possible strategies for Japan to take in the Indian Ocean. Since it has a large fraction of its naval force already busy keeping eye on the situation in East China and South China sea disputes, it cannot dedicate much more hard power in the Indian Ocean too. It can however serve as something akin to a mediator for littoral states that find itself vary of the crossfire between influences by the US, India and China. Even more so since neither of these have perfect history of amicable relations with each of the small states in this region. In this regard Japan could step in as a partner for such a small state, while in terms of policy alignment alienating neither India nor the US. Another prudent strategy would be to increase its own especially technological footprint in this region. Instead of hardware or military supplies to smaller states it can provide specialized high-tech products that neither of those other three big powers in the game here are able to supply – in other words exploiting its own niche in this market to further its credibility, prestige and economic reach.<sup>151</sup>

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<sup>150</sup> What is Japan's Indian Ocean Strategy?, [no date]. *RIPS - Research Institute for Peace and Security* - [online]. [Accessed 28 June 2019]. Available from: <[http://www.rips.or.jp/en/rips\\_eye/1575/](http://www.rips.or.jp/en/rips_eye/1575/)>

<sup>151</sup> *Ibid.*

### 2.2.2 Current U.S. Policy

From a briefing conducted by Alice G. Wells from the Bureau of South and Central Asian Affairs of the U.S. in August 2018, Indian Ocean can be seen as one of key strategic interests of the American foreign policy. This briefing draws from Secretary of State Pompeo's previous statement at ASEAN regional conference, where he announced the *intent to provide nearly \$300 million in security assistance to improve security relationships across the Indo-Pacific region*, and a first ever U.S. donation to the Indian Ocean Rim Association.<sup>152</sup> These funds will be divided into peacekeeping, humanitarian assistance, law enforcement and inevitably, maritime security. Such a statement can be analyzed as enough vague not to provide any details on how security will be executed. However, it suggests that in effect security level in the region will rise again, if only from the side of the U.S. by the contribution of these \$300 million to the region.

This could unmistakably be a setting for a future security dilemma. In a scenario where at least one other of the identified four powers in the "Great Game" of Indian Ocean would feel threatened by American investment in security and felt the need to increase their own security it would create the mentioned spiral of arms race and end up diminishing U.S. security presence again instead of increasing it. On the other hand, if this donation was viewed not only by poorer littoral states, but also by the great powers rather as contribution to eradicating challenges that all of them face (like for example piracy), it would strengthen cooperation. The United States can be seen as trying to imply the second, since a number of neutral purposes are specifically named to promote transparency and suggest the money will serve for collective benefit of the region: "*...a down payment on a new era in U.S. economic commitment to peace and prosperity in the Indo-Pacific.*"

This investment in beneficent causes, however, does not come alone, but rather as part of a new U.S. policy on enhanced economic and security engagement in Indo-Pacific, therefore not pretending they will not protect American interests either. As Mr. Pompeo announced at the Indo-Pacific Business forum in July 2018, the United States will be seeking to pursue new economic and development initiatives here. Among these are specifically named infrastructure, digital economy and new energy resources exploration by supporting private investors in pursue

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<sup>152</sup> Press Releases, [no date]. *United States Department of State* [online]. [Accessed 28 June 2019]. Available from: <<https://www.state.gov/press-releases/>>

of strategic opportunities in the region.<sup>153</sup> And following a June 2019 report by the Department of Defense, the Indo-Pacific region has risen to the status of “priority theatre” for US foreign policy.<sup>154</sup>

The economic aid rhetoric could be seen as either a selfless desire to help develop the poorer littoral states in the Indo-Pacific, a strategy to tap into the idle potential for energy resources and business opportunities, or a response to the security-economic activities of China and the influence on the region that is resulting from them. It would be safe to conclude all three are at play, since stopping China from getting unparalleled power while building up more energy resources by employing domestic companies *and* being seen as a benefactor that is helping develop the region, is indisputably a win-win-win scenario.

Although this new U.S. strategy chose not to specify any further means, it was proposed to the Congress to dedicate one third of the security contribution to three states in particular, in line with the newly enhanced focus on the Bay of Bengal (also mentioned in the statement): Sri Lanka, Bangladesh and Nepal. These three happen to be some of the epicentres of India-China economic development rivalry resulting from BRI and all three registered at some point a turn away from alliance with India and decided to receive infrastructure development from China. Then again, this can be said about a number of other states in South Asia. It therefore remains unclear whether the U.S. a) chose these specifically to overturn growing influence from China (an act that could be either seen as helping India or joining the game as a third influencer), b) deemed them in need of security protection from other challenges (such as mentioned piracy and natural disasters) or c) because they were strategic in some other ways or d) simply because they previously asked for help themselves. Seeing how the current US administration views China’s rise not only in the Asia-Pacific as dangerous,<sup>155</sup> it is quite safe to assume that the whole strategy is indeed linked to countering Chinese influence. The option to support India in its race for influence seems even more likely with the launch of the mentioned “Bay of Bengal Initiative” that focuses on an information exchange network between Bangladesh, Sri Lanka,

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<sup>153</sup> Press Releases, [no date]. *United States Department of State* [online]. [Accessed 28 June 2019]. Available from: <<https://www.state.gov/press-releases/>>

<sup>154</sup> The Department of Defense Indo-Pacific Strategy Report, June 1, 2019 [online]. [Accessed 28 June 2019]. Available from: <[https://media.defense.gov/2019/May/31/2002139210/-1/-1/1/DOD\\_INDOPACIFIC\\_STRATEGY\\_REPORT\\_JUNE\\_2019.PDF](https://media.defense.gov/2019/May/31/2002139210/-1/-1/1/DOD_INDOPACIFIC_STRATEGY_REPORT_JUNE_2019.PDF)>

<sup>155</sup> Trump’s China Policy & The National Security Strategy, February, 2018. [online]. [Accessed 28 June 2019]. Available from: <<http://isdpr.eu/publication/breaking-mould-trumps-china-policy/>>

India and other partners (presumable the U.S.) “...to improve detection and response to emerging threats.”<sup>156</sup>

In terms of tangible security presence the United States have only one naval station in the Indian Ocean, and that is the Naval Support Facility Diego Garcia south of Maldives. As it includes an air facility, in the past it served most notably in bombings throughout operation Enduring Freedom in Afghanistan and Iraqi War. While there have been no further bombings after 2006, the base apparently remains very secretive and closeted. Being located almost precisely in the middle of the Northern Indian Ocean, 1700 km south of India and part of a territory still retained by the United Kingdom; the only base in such a strategic position would be very unfortunate for U.S. security presence to lose. This scenario however looms closer as a new ruling from ICJ comes in February 2019: Britain is to return this territory to Mauritius in an effort to finish the decolonization process. Even if Mauritius leases the facility to the US navy anew, the US fear growing Chinese influence in Africa might reach even Mauritius, that could for example lease another island to China and therefore completely defeat the purpose of a US secret base; even more since with Mauritius in possession of the island it will effectively hold the right to veto any US military operations.<sup>157</sup>

For the deductions about the existence of a security dilemma it will be crucial to analyze China's response to these actions. Will it be a steady continuation of its activities, at least a partial withdrawal to avoid conflict or further escalation?

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<sup>156</sup> Foreign Press Centers, [no date]. *United States Department of State* [online]. [Accessed 28 June 2019]. Available from: <<https://www.state.gov/bureaus-offices/under-secretary-for-public-diplomacy-and-public-affairs/bureau-of-global-public-affairs/foreign-press-centers/>>

<sup>157</sup> <https://www.theguardian.com/world/2019/may/21/chagos-islands-un-expected-to-call-for-end-of-british-control>

### 2.2.3. Chinese Assets and Perceptions

Chinese resource consumption reflects the change from a developing regional power into a global superpower. Massive production and dependency on import of necessary ores, oil and gas makes locating new ways of satisfying the enormous demand for resources one of its primary goals. As Malik bluntly puts it: *“Not surprisingly, China is suddenly everywhere.”*

One of possible strategies connected to the security interests of China in the Indian Ocean is described by the theory of String of Pearls. This strategy is quite different from that of the BRI in several aspects: it is a security strategy rather than an economic and trade initiative, it is not one officially proclaimed by China and it is more of a theory rather than a policy in effect. It was first used by B. A. Hamilton in his energy report and later in 2005 adopted by U.S. Department of Defense's Office of Net Assessment in response to Chinese activities in the South China Sea and Indian Ocean, with the believed aim of increasing Chinese maritime presence and securing energy resources through series of strategic naval bases and routes throughout the region.<sup>158</sup> Each “pearl” in this context represents *“a nexus of Chinese geopolitical influence or military presence”*<sup>159</sup>, while the string that connects them is the network of maritime communication routes.

It can be only debated by the analysts how many and which exact points of Chinese interest in the Indian Ocean are to be seen as the “pearls” – although in the South China Sea, China is rather openly claiming its security dominance and historical right to the region, holding not only the airstrip on Woody Island in the Paracel Archipelago, but recently also filling the Mischief Reef and surrounding shoals and turning them into large military base.<sup>160</sup> In the Indian Ocean the Chinese container shipping facility in Chittagong, Bangladesh and a deep water port in Sittwe, Myanmar,<sup>161</sup> plus Sri Lankan Hambantota port leased off for 99 years<sup>162</sup> and the

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<sup>158</sup> MacDonald, J. A., Donahue, A., Danyluk, B., & Booz Allen Hamilton. (2004). Energy futures in Asia: Final report. McLean, VA: Booz-Allen & Hamilton.

<sup>159</sup> Pehrson, Christopher J - String of Pearls Meeting the Challenge of China's Rising Power across the Asian Littoral.

<sup>160</sup> BEECH, Hannah, 2018. China's Sea Control Is a Done Deal, 'Short of War With the U.S.' *The New York Times* [online]. 20 September 2018. [Accessed 28 June 2019]. Available from: <https://www.nytimes.com/2018/09/20/world/asia/south-china-sea-navy.html>

<sup>161</sup> Pehrson, Christopher J - String of Pearls Meeting the Challenge, ...

<sup>162</sup> DIPLOMAT, Ankit Panda, The, December 11, 2017. Sri Lanka Formally Hands Over Hambantota Port to Chinese Firms on 99-Year Lease. *The Diplomat* [online]. [Accessed 28 June 2019]. Available from: <https://thediplomat.com/2017/12/sri-lanka-formally-hands-over-hambantota-port-to-chinese-firms-on-99-year-lease/>

Friendship China-Maldives bridge<sup>163</sup> all factor in this theory as strategic points that may be converted into naval bases if a conflict in Indian Ocean waters will demand it. Gwadar port in Pakistan is also by this theory counted as one of the security points given that the Chinese contract for next 40 years apparently doesn't explicitly exclude military vessels. There also exist other rumors of a plan for a new Chinese naval base in the Indian Ocean, resembling the first ever overseas base China established in Djibouti in 2017. This one would allegedly lie on the Pakistani Jiwani Peninsula:

*"The Chinese naval flotilla patrolling in the Gulf of Aden and other warships escorting Chinese oil tankers in the Indian Ocean need a naval base for maintenance as well as logistical supplies because they can't buy much of what they need in Pakistan,"*<sup>164</sup>

This location is just a bit off of Gwadar, which could however be subsequently wholly dedicated to civilian (economic) use; close to Iran and not far from India-operated Iranian port in Chabahar. On the positive or negative consequences of the last point, proximity to Chabahar, analysts tend to disagree: Indian international studies professor S. Singh claims a naval base in either Gwadar or Jiwani would be disadvantageous for China, indeed because of India's presence in Chabahar:

*"Potentially both [Gwadar and Jiwani] can become vulnerable to any stand-off... between Pakistan and Iran but also China in Pakistan and India which is present in Chabahar,"* Singh said.<sup>165</sup>

On the other hand, precisely because of its proximity China could monitor both Chinese flow of cargo from Middle East and potentially provide a quick response to any Indian activities that would come from Chabahar.

In contrast to the peaceful nature of MSR activities as part of BRI, China doesn't go to unnecessary lengths to deny its material military presence in the waters of Indian Ocean. The People's Liberation Army Navy (or PLA Navy) is for instance often present near the Gulf of Aden, although China claims to mainly provide anti-piracy measures to cargo vessels

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<sup>163</sup> After building spree, just how much does the Maldives owe China?, 2018. *Reuters* [online]. [Accessed 28 June 2019]. Available from: <<https://www.reuters.com/article/us-maldives-politics-china-idUSKCN1NS1J2>>

<sup>164</sup> Beijing-based military analyst Zhou Chenming for First Djibouti ... now Pakistan tipped to have Chinese naval base, 2018. *South China Morning Post* [online]. [Accessed 28 June 2019]. Available from: <<https://www.scmp.com/news/china/diplomacy-defence/article/2127040/first-djibouti-now-pakistan-port-earmarked-chinese>>

<sup>165</sup> *Ibid.*

(apparently not only Chinese but also for example those of the UN World Food Programme), and definitely not to conduct drills as demonstration of its military powers.<sup>166</sup>

Upon freeing itself from the cumbersome route through strait of Malacca by establishing CPEC, China effectively shoots down a very dangerous weakness that lied in a simple naval blockade of Strait of Malacca. However simple, this measure was still capable of completely cutting off 80% of all Chinese oil imports.<sup>167</sup> In a way then Chinese naval expansion could be seen as less of an intention to oppress or threaten other countries in the region and more just a compensation for its innate disadvantages that Chinese geographical location brings: extensive both maritime and land borders to protect. If we're examining the justifications of perceiving current Chinese security growth as justifiable cause to create reactions typical for a security dilemma; we must also make sure whether the Chinese economic and naval expansion isn't a mere response to some previous increase in security that made China feel threatened and compelled to diversify its imports and raise defenses. We could indeed find some, reaching all the way to Cold War. Very good example of this would be the "island chains" tactic that the US came up with in 1951 originally with the purpose to contain the USSR, followed by keeping close watch on Chinese military and territorial expansion under Deng Xiaoping. In principle these are three chains of US-allied islands East of Chinese borders that have the capacity to carry aircraft and dock navy – ready to strike if Chinese economic development got out of hand. This theory was less officially used by the US than in Chinese rhetoric, confirming the Chinese subjective fear of the US navy advantage, one of prerequisites for the existence of a security dilemma.<sup>168</sup>

On the other hand, there have been speculations that China might be trying to establish some military bases even further from its direct borders, for instance in Vanuatu. This location clearly doesn't serve protecting Chinese shipping lanes in the Indian Ocean either, so it would be solely for the purpose of gaining farther presence or, as some fear, for monitoring Australian naval activity to be able to effectively counter the 'Quad encirclement' which it actively berates.

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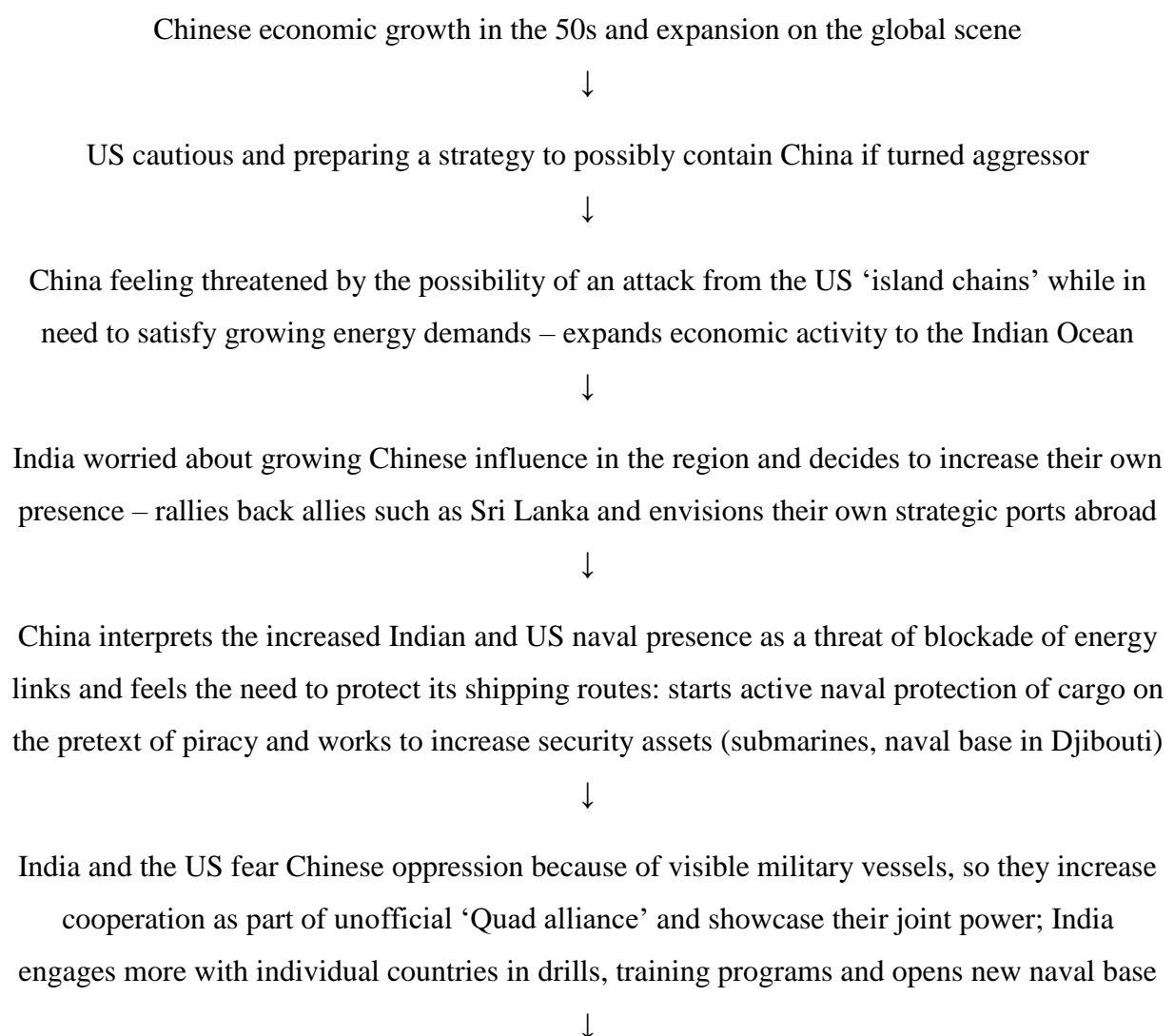
<sup>166</sup> Peacekeeping, anti-piracy operations aren't muscle flexing, experts say - China Military, December 14, 2018. [online]. [Accessed 28 June 2019]. Available from: <[http://eng.chinamil.com.cn/view/2018-12/14/content\\_9378306.htm](http://eng.chinamil.com.cn/view/2018-12/14/content_9378306.htm)>

<sup>167</sup> ISPI, 2018. The Indo-Pacific "Encirclement": How Is China Reacting? *ISPI* [online]. 4 June 2018. [Accessed 28 June 2019]. Available from: <<https://www.ispionline.it/en/pubblicazione/indo-pacific-encirclement-how-china-reacting-20716>>

<sup>168</sup> Hiroyuki Umetsu, "Communist China's entry into the Korean hostilities and a US proposal for a collective security arrangement in the Pacific offshore island chain." *Journal of Northeast Asian Studies* (1996) 15#2 pp: 98–118.



Closer look at Chinese naval plans brings the already mentioned 2015 China's Military Strategy White Paper,<sup>169</sup> that talks about strengthening off-shore or 'blue-water' defense whose exact purpose would be the protection not only of Chinese border but various other interests it has established mainly in the Indian Ocean. This is connected to the idea of being able to fight a "1.5 war" – essentially ability to handle a major war for instance in the Indian Ocean while holding off a simultaneous attack on Chinese borders.<sup>170</sup> Such admission might be enough alarming for the other power nations, since China is essentially preparing for a naval war, or more precisely even 1.5 wars. But again if given enough context, it is not impossible to link these events in such order that suggests new navy strategy is just response to feeling threatened:



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<sup>169</sup> China's Military Strategy (full text), [no date]. [online]. [Accessed 28 June 2019]. Available from: <[http://english.gov.cn/archive/white\\_paper/2015/05/27/content\\_281475115610833.htm](http://english.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm)>

<sup>170</sup> ISPI, 2018. The Indo-Pacific "Encirclement": How Is China Reacting?

China feels encircled by the 'Quad' and decides to adopt measures to be able to fight at several frontiers, both at home and protecting its supply lines – in other words additional increase in army levels and further cooperation on weapons with such allies as Pakistan.

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If regarded in this context there is clear evidence of a security dilemma with China at its centre; considering the spiraling levels of security raised again and again because of fear of being overpowered by the opponent and not prepared to counter. Even if policy-makers of other countries weight both possible motivations for Chinese security increase fairly (a mere reaction on one hand or some world domination scheme on the other), the theory of decision-making in a security dilemma still applies in the same scope: they either decide to trust in each other's good intentions, sit down for diplomatic talks and try to reveal their mutual objectives with the risk that the other party exploits their now relatively weaker security presence; or keep increasing their own security for 'just in case' scenarios, albeit with slim chances to ever end the spiral effect.

The conclusion is that this security dilemma would exist whether Chinese intentions were indeed motivated by 'world domination' and oppression of human rights in democracies as are often portrayed, or were not motivated by these at all and were purely responses to being made to feel insecure by other powers in the region. The resolution of a security dilemma like this would have to be based on not fear of the opponent, but mutual trust and diplomatic decision to simultaneously lay down the weapons and de-escalate the impending conflict.

## 2.2.4 Interests of India

Malik<sup>171</sup> identifies India as a (self-proclaimed) central power to the region of Indian Ocean, both in trade and in security goals. Being situated in between the two straits (Malacca and Hormuz) gives India an ideal location to control the flow of goods and be quick to detect any threats. This position is important for India to maintain, because conceding regional control can quickly sway inclination of long-term allies, as we saw in the 90s with the US and are seeing this very moment with China. Having said that, the previous chapters of this thesis deduce that China has put forward a plan to stop passing its cargo ‘under the nose’ of India by constructing Gwadar port in Pakistan to effectively avoid Strait of Malacca and any unnecessarily longer journey through monitored Indian Ocean waters.

India is also motivated by energy resources, and with the growing population and demand for crude oil, coal and even uranium, depending solely on the volatile Middle East is no longer a safe option. Even for the cost of imports it seeks to secure new sources, such as Central Asia, Africa, Russia or Latin America. This is however proving quite challenging, as:

*“China’s state-owned oil conglomerates have trumped Indian oil companies in countries ranging from Ecuador to Kazakhstan and Angola to Burma, mainly because China is playing a geopolitical game while Indian oil firms are primarily commercial ventures.”*<sup>172</sup>

The rivalry of China and India is therefore manifested even in the energy domain and even outside the Indian Ocean. It also clearly sets the difference between economic statecraft and international trade. While India is dependent on the resources won by its private companies (that may or may not choose to supply oil specifically to India, instead prioritizing a better deal from a different country or not venturing into a risky territory at all), Chinese state-owned CNPC (China National Petroleum Corporation) alone has made overseas investments about six times that of all Indian investment since 2000.<sup>173</sup> This links back to the theory of economic statecraft, where we established that countries with firmer control over their domestic actors are more successful in achieving the goals of their grand strategy.

In the Indian Ocean itself, China clearly poses a challenge too. Chinese influence already reached Burma and Bangladesh and the danger to India now would be to also lose control over

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<sup>171</sup> MALIK, Mohan. *China and India: great power rivals*. Boulder: First Forum Press, 2011. ISBN 978-1-935049-41-8.

<sup>172</sup> *Ibid.*

<sup>173</sup> *Ibid.*

the prominent Mannar Basin by Sri Lanka, which is not at all unlikely given recent developments in Hambantota. Indian energy security and protection of the trade routes can be seen as a motive for carving out a bigger role not only in this region, with the tool being the Indian Navy. Its expansion is still underway and future plans don't stop at increasing the fleet.

*"Indian naval capabilities and experience in the Indian Ocean region are fairly good. Much better than Pakistan and China."*<sup>174</sup>

Despite this statement's quite vague nature, there is some truth in it even if we only look at India's naval support facilities or similar security points all over the Indian Ocean.<sup>175</sup>

First of all, in January 2019 India opened its third full-fledged naval base in the Indian Ocean. Joining the Mumbai and Kochi bases, the latest addition in Andaman and Nicobar islands is too on Indian territory, so Chinese official reaction to the opening day was "guarded", saying a naval base on state's own territory is nothing out of the ordinary.<sup>176</sup> Indian security facilities however don't end here. Sri Lanka and Maldives house Indian naval surveillance capacity building and Bangladesh hosts an Indian Air Force capacity building. Thailand and Seychelles feature Indian naval capacity buildings that in the case of Seychelles have been agreed to be upgraded to a fourth fully functional Indian naval base. Since Mauritius apart from French and US bases also houses an Indian naval communication facility, together with Seychelles they are often described as India's closest defense partners in the Indian Ocean.<sup>177</sup> France and the US moreover signed pacts with India that allow Indian naval vessels refuel off of passing tankers, in their naval bases and in their various affiliate ports on a regular basis.<sup>178</sup> These two bases, the

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<sup>174</sup> Rajeev Ranjan Chaturvedy, a research associate at the Institute of South Asian Studies at the National University of Singapore in ,First Djibouti ... now Pakistan tipped to have Chinese naval base,' 2018. article by South China Morning Posts.

<sup>175</sup> These information are based off a map available at: 104. What is Japan's Indian Ocean Strategy?, [no date]. RIPS - Research Institute for Peace and Security –[online]. [Accessed 28 June 2019]. Available from: <[http://www.rips.or.jp/en/rips\\_eye/1575/](http://www.rips.or.jp/en/rips_eye/1575/)>

<sup>176</sup> The Economics Times, January 25, 2019. China reacts cautiously to Indian's navy new aribase in Andaman and Nicobar Islands. *The Economic Times* [online]. [Accessed 28 June 2019]. Available from: <<https://economictimes.indiatimes.com/news/defence/china-reacts-cautiously-to-indian-navys-new-air-base-in-andaman-and-nicobar-islands/articleshow/67691969.cms?from=mdr>>

<sup>177</sup> Dipanjan Roy Chaudhury, July 13, 2018. India and Seychelles agree on a naval base at Assumption island.. *The Economic Times* [online]. [Accessed 28 June 2019]. Available from: <<https://economictimes.indiatimes.com/news/defence/china-reacts-cautiously-to-indian-navys-new-air-base-in-andaman-and-nicobar-islands/articleshow/67691969.cms?from=mdr>>

<sup>178</sup> The Economic Times, June 16, 2019. Indian Navy benefits from strategic logistic pacts with US, France. and Seychelles agree on a naval base at Assumption island.. *The Economic Times* [online]. [Accessed 28 June 2019]. Available from: <<https://economictimes.indiatimes.com/news/defence/china-reacts-cautiously-to-indian-navys-new-air-base-in-andaman-and-nicobar-islands/articleshow/67691969.cms?from=mdr>>

US base in Diego Garcia and French base in Reunion are also disponible for Indian navy use should the need arise.

In the same sense India could make use of Australian Cocos Islands base, which effectively provides a strategic location in the center-Eastern part of the ocean. Speaking of the Eastern part of Indian Ocean, India has notably close security ties with Australia, Indonesia, Singapore, Malaysia and Thailand, as they frequently undertake joint exercises, drills and patrols with India. India also provides maintenance for Indonesian aircrafts, trains Malaysian Air Force and leases its own training facilities to Singapore.

In the North-Western part on the other hand, there could be identified some security cooperation with Iran, whose Chabahar port India helped develop and that now docks several Indian military vessels. India and Iran undertake naval exercises together<sup>179</sup> and there are also rumors of India supplying ships, submarines and submarine training to Iran.<sup>180</sup> Despite the fact that India, Iran and Afghanistan now have a trilateral agreement on trade routes,<sup>181</sup> it is still rather surprising India's prominent maritime security partner in the north-west should be Iran, given its strengthening relationship with China over current US policy.<sup>182</sup> On the other hand India does have close ties to Afghanistan, whom they aid in their fight against Taliban. But even if there are instances of joint military drills,<sup>183</sup> given its landlocked position, Afghanistan cannot aid India in issues of maritime security. Lastly, United Arab Emirates cooperate with India not only on oil storage, but carry out joint drills as well,<sup>184</sup> and Oman's Duqm port has agreed to receive Indian navy.

If we look back now at the thickly woven net of Indian naval assets throughout the Indian Ocean and links between them; Chinese only naval base in Djibouti at its disposal (not to mention Djibouti also houses US, French, Japanese and Saudi Arabian military missions, which doesn't

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<sup>179</sup> INS Tarkash Undertakes Passage Exercise with Iranian Naval Ship | Indian Navy, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://www.indiannavy.nic.in/content/ins-tarkash-undertakes-passage-exercise-iranian-naval-ship>>

<sup>180</sup> Iran's Navy trained in india?, [no date]. *Pakistan Defence* [online]. [Accessed 28 June 2019]. Available from: <<https://defence.pk/pdf/threads/irans-navy-trained-in-india.1028/>>

<sup>181</sup> KUTTY, Sumitha, 2016. India Cements Role in Iran with Chabahar Deal. *LobeLog* [online]. 23 May 2016. [Accessed 28 June 2019]. <Available from: <https://lobelog.com/india-cements-role-in-iran-with-chabahar-deal/>>

<sup>182</sup> China, Iran to forge closer ties due to common threat from US, 2019. *South China Morning Post* [online]. [Accessed 28 June 2019]. Available from: <<https://www.scmp.com/news/china/diplomacy/article/3011573/china-iran-forge-closer-ties-due-common-threat-united-states>>

<sup>183</sup> A new approach in Afghanistan: China and India take steps toward cooperation | Middle East Institute, November 14, 2018. [online]. [Accessed 28 June 2019]. Available from: <<https://www.mei.edu/publications/new-approach-afghanistan-china-and-india-take-steps-toward-cooperation>>

<sup>184</sup> Indian Navy - United Arab Emirates Bilateral Exercise | Indian Navy, [no date]. [online]. [Accessed 28 June 2019]. Available from: <<https://www.indiannavy.nic.in/content/indian-navy-united-arab-emirates-bilateral-exercise>>

really give China chance of covert action originating from here) suddenly looks less threatening. Thinking in terms of Chinese activities along the MSR as bringing potential security externalities – such as the various ports mentioned in String of Pearls Strategy – does generate a bit stronger perception. But a key fact to realize is that these ports and airports are so far strictly civilian and converting them into a navy facility takes both time and some tools to counter the aftermath of breaking a promise to the states that house them.

It is quite interesting to observe how this large net of Indian security presence throughout the Indian Ocean provokes now little to no caution on one hand compared to how it was portrayed by the US in the 1990s, and on the other hand compared to the attention that bring mere speculations of Chinese security related activities in several littoral states – that China moreover vehemently denies with reference to the peaceful character of BRI.<sup>185</sup>

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<sup>185</sup> It might actually even be the fault of this very proclamation of strictly economic activities, that once an investment starts shaping in a way that might possibly allow for some security externalities, it automatically incites accusations on international level of not sticking to economic-in-nature-only activities.

## 2.3 Prospects of a Security Dilemma

There still remains one unanswered question: is Chinese security presence in the Indian Ocean really serious cause for concern, as Indian, US and other media and analysts portray it? Of course we can never be absolutely sure about the hidden capacities of Chinese navy. But when compared side by side, even if China has been increasing its fleet numbers and even though it does send them out more and more frequently; Chinese naval forces (including potential Pakistani and Middle-Eastern countries' support), strategic points and security cooperation links are still nowhere near the complexity of Indian maritime security network and its defense partners spread out throughout the whole region and covering all strategic spots. If it really did come to a showdown, China would probably find itself in a hard situation facing off to four naval grand powers plus their numerous allies. On the other hand, China decidedly trumps India in terms of economic power and global market reach, that manifests even in the region of Indian Ocean and that helped her secure some strategic points – again though, points that merely *could* be turned into maritime security hubs, a feat which would require both time and antagonizing those who believed in its entirely peaceful intentions.

A conclusion can therefore be drawn that there appears to be less to fear from Chinese actions in the realm of maritime security than from the negative effects of Chinese investment on the small states that are lured in by economic benefits of Chinese capital and trade influx.

So all in all we might, in addition to the traditional one we already established, also be seeing a security dilemma of a broader sense unfold: if china invests more, whether through loans or specific projects, India tries to either counter, reply in kind or win back the influence over the country as seen in Sri Lanka and several other countries that are India's allies.

The responses from US and India can be easily applied to the theory of a security dilemma where an action of one actor provokes a response in kind from the second actor. Security dilemma is generally attributed to army or navy enhancement, but in the current international community a visible increase in hard power might garner too much negative attention, as there is general trend to demilitarize ever since the Cold War. As such gaining “soft” influence over countries through increasing our global economic standing, sharing our values and distributing

our model of governance may prove to be more feasible; while supporting these with just the right amount of force to back the claim might add the balance and credibility.<sup>186</sup>

But this narrative could also be easily applied to the behavior of both the US and China in the global context. While the US are one of globally most influential economic actors, they also spread their culture and values, ever since introducing democratic principles in the arrangement of states in Europe after WWI, according Europe foreign aid after WWII and exporting democracy into Middle East countries in the 21<sup>st</sup> century – alternately also backed by the use of hard power to bring down dictators or terrorists. China too helps poorer littoral states by according loans and boosts their declining economies through investment and helping build needed infrastructure, all the while exporting their own model of governance. This suggest the regional struggle between China and India could be part of a wider global context.

In the face of current ongoing trade conflict between the US and China, this article<sup>187</sup> likens the situation to a Second Cold War. Even though our particular scenario of Chinese economic involvement in the Indian Ocean sees India's reaction more materially than the US', India has much lower economic or military power to be able to oppose China on a global, rather than regional scale. But if we for a moment regard India as part of some future global alliance involving the US against growing Chinese influence, it is not impossible to attribute all these regional signs with another looming Cold War, since the previous one also featured the economic, space and technological race.

The conclusion is that there could also be a growing security dilemma of a different than original nature, featuring increasing strategic assets and influence and thus making the other party unsafe together with a traditional demonstration through visible arms race. Whether this foreshadows another Cold War might be too early to discern, though.

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<sup>186</sup> I based this spin-off the classical interpretation of 'security dilemma' concept is upon Joseph Nye's theory of hard power and soft power, that has been recently appended by a definition of smart power, that is the reasonable balance between both.

<sup>187</sup> KAPLAN, Robert D., January 7, 2019. A New Cold War Has Begun. *Foreign Policy* [online]. [Accessed 28 June 2019]. Available from: <<https://foreignpolicy.com/2019/01/07/a-new-cold-war-has-begun/>>



## Conclusion

The development along the Maritimes Silk Road in the Indian Ocean generates several types of externalities for China, including less or more material security externalities. Based on these two cases, the common denominator of states that become dependent on future influx of Chinese investment would appear to be poor economic conditions and risky environment which ensure China is virtually the only foreign investor interested in what the state has to offer. The usual evolution of politics in the target state can be characterized by an initial pro-Chinese enthusiasm where China is presented as the savior of the target state's declining economy. However after either worrying increase in public debt or appearance of some security related issue or combination of both, governments tend to want to take a step back to evaluate the real benefits of cooperation with China more closely. That is where several statecraft mechanisms to prevent this behavior might be applied by China. Here the 'less material' security externalities mostly connect to further leverage over the target governments, although the ultimate goal could be identified as gaining an asset that would link Chinese endeavors in littoral states with strengthening its naval capacities in the waters of Indian Ocean, which will in turn protect the cargo shipments sustaining Chinese economy.

But despite large difference in tangible influence in the littoral states between China and India; in the case of strictly security power and links in the waters of Indian Ocean India appears to be in the lead. The short answer to the thesis' sub question whether String of Pearls theory perceives the chain of Chinese ports along the Indian Ocean coast rightfully as a security threat to the US is: to an extent. These ports are indeed capable of being turned into naval points, but more time and more influence over politics in those states would be needed – nevertheless any manifestation of such intent could very well be the trigger for India, US and their allies to strike before China does. This renders China unable to flexibly respond to a challenge in the kind, given the large geopolitical advantages India has gained through its long-term investment into being perceived as central to the region's security.

Why then do the other powers perceive China as such a threat, if they possess so much stronger naval capacities? There are several reasonings that don't necessarily have to be mutually exclusive: firstly they don't intend to be seen as idle or weak when China raising its security gives them the perfect excuse to raise their own security on the pretext of security concerns. There's no reason to let China catch up if there's no guarantee of its intentions. Secondly, they don't like Chinese activities linked to the developments in littoral states, that might especially

in the case of Pakistan quickly take the turn for worse since several of these measures border on human rights violation (regardless of whether these constitute security externalities for China or not). If something of this scope happened, the Security Council could eventually recognize it as legitimate cause of war, permitting an intervention. Among other preventive reasons we could imagine outburst of a new Cold War between the US and China, open Chinese aggression of any kind, or an armed conflict erupting for example in the South China Sea.

Unfortunately all of these reasonings give rise to the security dilemma, which is indeed identified as already existing, only in such a scope that it hasn't yet grown into an open conflict. The spiral effect can be seen in both the traditional sense of word in the increase of naval security, and in a new sense of word, increasing soft power influence throughout the smaller states. If taken to the global context these events could potentially hint to brewing new Cold War, only the stakes seem higher this time. Whereas last time USA and SSSR halted at the prospect of using nuclear weapons, this didn't stop countries developing them and there are no guarantees one of these powers will not use them if pushed far enough.

Just like K. Booth suggests in his theory of security studies, the situation could be different if instead of fearing the other's intentions China and India in this region and maybe China and the US globally all agreed to collective disarmament and started promoting peaceful relations, non-violation of human rights and profit from mutual economic cooperation with their respective models of governance functioning peacefully next to each other.

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