

Politics of ports

China's investments in Pakistan, Sri Lanka & Bangladesh

Thilini Kahandawaarachchi

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Sunila Kale

Anand Yang

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University of Washington

Abstract

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Thilini Kahandawaarachchi

Chair of the Supervisory Committee:

Dr. Sunila Kale

South Asia Studies Department

Over the last decade China has heavily invested in deep-water ports in Pakistan, Sri Lanka and Bangladesh. Many scholars explain these investments in light of China's economic expansion and long-term strategic goals. However, scholars have not paid enough attention to the rationale for recipient countries to encourage and even actively seek Chinese investments. This thesis will examine the rationale behind the governments of Pakistan, Sri Lanka and Bangladesh for involving China to build their maritime infrastructure. Firstly, I argue that these countries consider China to be a favourable alternative to funding from international financial institutions and Western donors that usually have numerous conditionalities when extending development loans. Secondly, I argue that South Asian countries around India perceive China as a counter balance against the regional hegemony of India. Further, China is also a useful friend to these South Asian countries to resist the influence of external powers and international organizations such as the UN. Thirdly, I argue that Chinese funding for these projects is used to achieve local development agendas and to increase regional connectivity in South Asia. Relying on these three arguments, I point out that these South Asian governments exercise their agency based on their own reasons and domestic political concerns when they reach out to China to fund large port projects in their countries.

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Chapter 1: INTRODUCTION

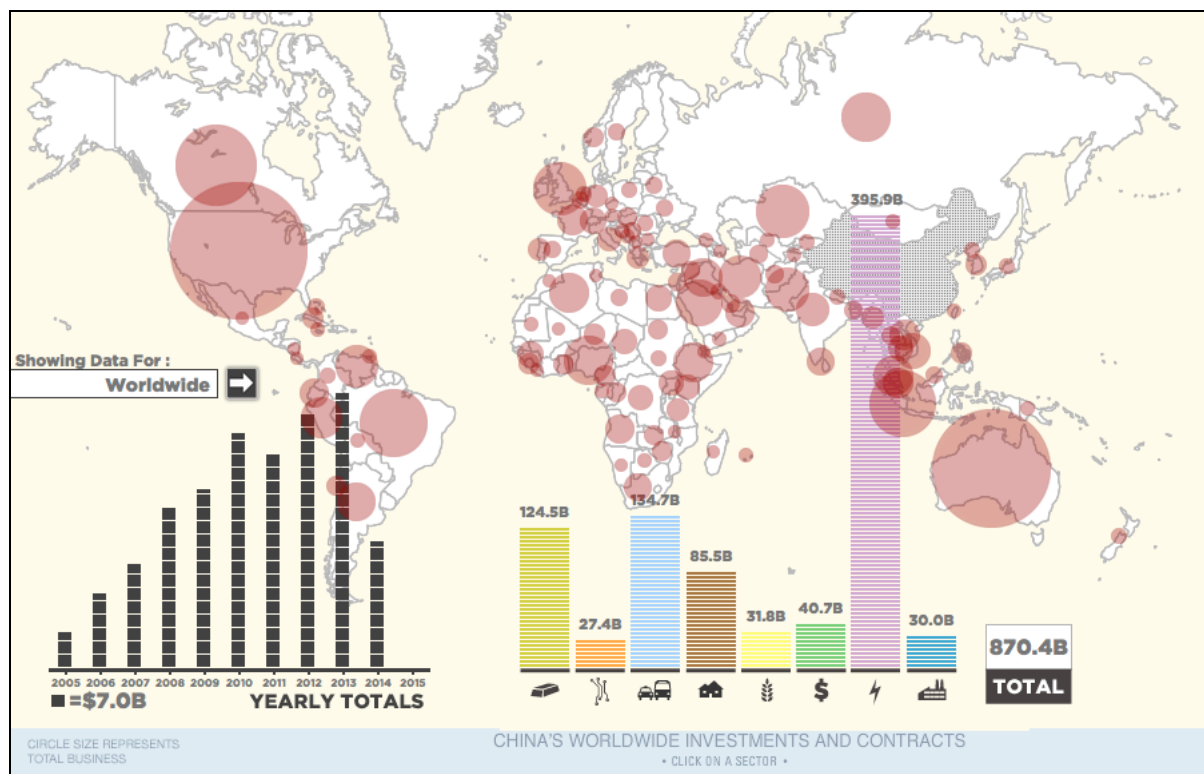


Figure 1: China's worldwide investments and contracts¹

Since the turn of the century, China's exponential growth and increasing influence in many regions spanning Australia, Africa and South America have attracted the attention of many scholars, foreign policy professionals, and political leaders around the world. China has not spared South Asia and the Indian Ocean region in its unquenchable thirst for resources, search for strategic locations, and reach for emerging markets. As depicted in Figure 1, according to the Heritage Foundation's China Global Investment Tracker, from 2005 to 2014 China spent US\$870.4 billion in worldwide investments and contracts, out of which US\$17.8 billion was invested in Pakistan, US\$8.9 billion in Sri Lanka, and US\$3.8 billion in Bangladesh.² In contrast, according to the International Finance Corporation (IFC), which is part of the World Bank group has made cumulative investments worth US\$5.2 billion in Pakistan.³ IFC's total commitment in Sri Lanka was US\$596 million⁴ and IFC has invested

¹ "China Global Investment Tracker," The Heritage Foundation, <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>. Accessed June 8, 2015.

² Ibid.

³ "IFC in Pakistan," http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/europe+middle+east+and+north+africa/ifc+

US\$428 million in Bangladesh in 2014.⁵ Therefore, even though Chinese investments in South Asian countries are a very small fraction compared to its global investments in regions such as Africa or South America, taken in the context of South Asia, and compared to other global investors such as IFC, these are considerable figures and the diverse influences of China in infrastructure investments in the region are omnipresent.

In South Asia, Chinese investments, grants, and trade are all intricately interlinked. For the cash-strapped economies of Pakistan, Sri Lanka, and Bangladesh, China is the biggest investor making large-scale investments in diverse sectors spanning from agriculture, transport, real estate, energy, and technology.⁶ In Pakistan, neighbouring China's foreign investments amounted to US\$696 million in the fiscal year ending 30 June 2014.⁷ According to the Board of Investment of Pakistan, from July 2014 to March 2015, out of total foreign investments of US\$710 million, China has contributed US\$178 million, closely followed by the US with US\$176 and the UAE with US\$163 million.⁸ In April 2015, China pledged US\$46 billion to the China Pakistan Economic Corridor far outweighing investments by all other countries.⁹ China has already made massive investments in the Gwadar Port Project, Lahore-Karachi motorway and numerous projects in infrastructure and energy sectors. All these investments are substantial amounts compared to investments by other organizations such as the World Bank, which pledged US\$11 billion over five years¹⁰ or the Asian Development Bank (ADB), which extended more than US\$25 billion in loans and more than US\$200 million in grants as of 2014.¹¹

middle+east+north+africa+and+southern+europe/countries/pakistan+country+landing+page. Accessed June 8, 2015.

⁴ "IFC Invests in Cargills Foods to Create Jobs, Boost Farmer Incomes, Support Growth in Sri Lanka," <http://ifcextapps.ifc.org/ifcext/pressroom/IFCPressRoom.nsf/0/561C5AAC85C6839985257D3F0041E5B6?openDocument>. Accessed May 15, 2015.

⁵ "IFC in Bangladesh," http://www.ifc.org/wps/wcm/connect/region__ext_content/regions/south+asia/countries/bangladesh_overview. Accessed May 15, 2015.

⁶ "China Global Investment Tracker," The Heritage Foundation.

⁷ Bobby Michael, "Moody's: Economic corridor to China to boost investments in Pakistan, ease energy crisis," *International Business Times*, <http://www.ibtimes.co.uk/moodys-economic-corridor-china-boost-investments-pakistan-ease-energy-crisis-1490074>. Accessed June 8, 2015.

⁸ "Foreign Investment inflows in Pakistan (\$Millions)," Board of Investment-Prime Minister's Office-Government of Pakistan, <http://boi.gov.pk/ForeignInvestmentinPakistan.aspx>. Accessed June 8, 2015.

⁹ Katharine Houreld and Mahreen Zahra-Malik, "China and Pakistan launch economic corridor plan worth \$46 billion," Reuters, April 20, 2015. <http://www.businessinsider.com/the-china-pakistan-relationship-is-about-to-get-46-billion-stronger-2015-4>. Accessed June 8, 2015.

¹⁰ "World Bank Group Approves \$1 billion for Supporting Economic Reforms in Pakistan," The World Bank, May 2, 2014. <http://www.worldbank.org/en/news/press-release/2014/05/02/world-bank-group-approves-1-billion-usd-for-supporting-economic-reforms-in-pakistan> Accessed May 10, 2015.

¹¹ "Pakistan and ADB," Asian Development Bank, <http://www.adb.org/countries/pakistan/main>. Accessed May 15, 2015.

Similarly in Sri Lanka, China is the biggest source of Foreign Direct Investment (FDI).¹² In December 2013, China brought in 24% of the total investments. Hong Kong followed with 12%, Singapore with 10%, Netherlands 8%, UK and Malaysia bringing in 7% each, and India with 5%.¹³ China has provided development loans for numerous mega projects such as the Hambantota Port Development Project, Norochcholai Coal Power Plant, Mattala International Airport, Katunayake Airport Expressway, Moragahakanda Irrigation Development Project, and the Colombo Galle Expressway, which is also the country's first four-lane expressway.¹⁴

However, unlike in Pakistan and Sri Lanka, China did not make any noteworthy investments in Bangladesh until as recently as 2010.¹⁵ But, in 2011, Bangladesh signed a loan agreement worth US\$211 million with the Export-Import (Exim) Bank of China to upgrade the country's telecommunications network.¹⁶ China has also agreed to make what would be the second-biggest investment by any nation in Bangladesh through contributing two-thirds of the US\$659 million construction cost of a fertilizer factory in Sylhet.¹⁷ But it was only when China financed the modernization of the Chittagong Port, which handles around 92% of Bangladesh's trade, that it attracted the attention of the world to Chinese investments in Bangladesh.¹⁸ Without stopping there, China has also expressed interest in investing in the proposed Sonadia Island deep-water port in Cox's Bazaar.¹⁹ With the recent expansion of China's Maritime Silk Road (MSR) initiative beyond the ASEAN region, China is expected

¹² Jack Goodman, "Sri Lanka's Growing Links with China," *The Diplomat*, March 6, 2014, <http://thediplomat.com/2014/03/sri-lankas-growing-links-with-china/>. Accessed June 8, 2015.

¹³ Shania Smith, "Sri Lanka earns \$870m in Foreign Direct Investment in 2013," *The Republic Square*, December 9, 2013, <http://www.therepublicsquare.com/business/2013/12/sri-lanka-receives-870-m-in-foreign-direct-investment/>. Accessed May 15, 2015.

¹⁴ Goodman, "Sri Lanka's Growing Links with China."

See also, "Chinese President Xi Jinping arrives on Sept. 16," *News.lk*, September 15, 2014.

<http://www.news.lk/news/sri-lanka/item/2951-chinese-president-xi-jinping-arrives-on-sept-16>. Accessed February 16, 2015.

¹⁵ Md Shariful Islam, "Emerging trends in Chinese investments in Bangladesh", *ICS Analysis* 12, 1 <http://www.icsin.org/ICS/ICSAnalysispdf/13.pdf>. Accessed January 6, 2015.

¹⁶ Chris Devonshire-Ellis and Sondre Ulvund Solstad, "China-The Great Infrastructure Developer," *China Briefing*, March 27, 2013, <http://www.china-briefing.com/news/2013/03/27/china-the-great-infrastructure-developer.html>. Accessed March 11, 2015.

¹⁷ *Ibid.*

¹⁸ Billy Tea, "Unstringing China's strategic pearls," *Asia Times*, March 11, 2011, <http://www.atimes.com/atimes/China/MC11Ad02.html>. Accessed May 15, 2015.

¹⁹ Sergei DeSilva-Ranasinghe, "China's Investment Spurs Bangladesh Development," *Future Directions International*, June 15, 2011, <http://www.futuredirections.org.au/publications/indian-ocean/29-indian-ocean-swa/101-chinas-investment-spurs-bangladesh-development.html>. Accessed January 6, 2015.

to play a larger role in building maritime infrastructure in South Asia and the Indian Ocean region as a whole.²⁰

Similar to its massive investments, China is also one of the largest donors to all these three countries. Pakistan is China's largest recipient of aid in the region and China is Pakistan's largest donor.²¹ During the last decade, China extended US\$66 billion to Pakistan, which amounted to 87% of China's total aid in the region. However, it amounted to only 6% of the total aid pledged by China.²² As USAID is pulling back from Pakistan, China has replaced the USA as Pakistan's biggest bilateral donor.²³ In Sri Lanka, China has been the largest donor since 2009.²⁴ China extended US\$1.2 billion worth of assistance in the form of grants, loans, and credit amounting 54% of the total US\$2.2 billion committed by foreign countries and multilateral agencies.²⁵ On the other hand, the Asian Development Bank invested only US\$423 million and the World Bank US\$241 million.²⁶ China provided Sri Lanka US\$5 billion in aid over the last decade.²⁷ Some of China's lavish gifts to Sri Lanka include prominent landmarks in the capital such as the Bandaranaike Memorial International Conference Hall (BMICH), the Superior Law Court complex, and the most recently constructed Lotus Pond Performing Arts Theatre, among others.²⁸ China also fulfilled 65% of its total pledged assistance to Sri Lanka.²⁹ In the case of Bangladesh, in recent years China has increased foreign aid disbursements to the country.³⁰ In 2014, China donated 50 ambulances and calamity rescue equipment to Bangladesh's Fire Service and Civil

²⁰ Cigui Liu, "Reflections on Maritime Partnership: Building the 21st Century Maritime Silk Road," China Institute of International Studies, September 15, 2014, http://www.ciis.org.cn/english/2014-09/15/content_7231376.htm. Accessed May 15, 2015.

²¹ "China remained largest donor to Pakistan by disbursing \$493.77 million-reveals Business Recorder," Humanitarian Initiative for News Advocacy, <http://push.pk/178>. Accessed January 6, 2015.

²² Charles Wolf, Xiao Wang and Eric Warner, "China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications," (Santa Monica, CA: RAND Corporation, 2013), http://www.rand.org/pubs/research_reports/RR118. Accessed March 4, 2015.

²³ Lorenzo Piccio, "As USAID pulls back from Pakistan, China steps up to the plate," Devex, January 30, 2015, <https://www.devex.com/news/as-usaid-pulls-back-from-pakistan-china-steps-up-to-the-plate-85407>. Accessed March 10, 2015.

²⁴ Saman Kelegama, "China's growing reach in South Asia," East Asia Forum, June 25, 2014, <http://www.eastasiaforum.org/2014/06/25/chinas-growing-reach-in-south-asia/>. Accessed November 15, 2014.

²⁵ "China-The key development partner of Sri Lanka." The Embassy of Sri Lanka in the People's Republic of China, April 1, 2012. http://slemb.com/third.php?menu_code=68&lang=en. Accessed May 12, 2015.

²⁶ Ibid.

²⁷ Kelegama, "China's growing reach in South Asia."

²⁸ "China- The key development partner of Sri Lanka." The Embassy of Sri Lanka in the People's Republic of China.

²⁹ Wolf, Wang and Warner. "China's Foreign Aid and Government-Sponsored Investment Activities."

³⁰ Fahmida Khatun, "South-South cooperation and changing BD aid scenario," *The Financial Express*, December 19, 2013, <http://cpd.org.bd/index.php/south-south-cooperation-and-changing-bd-aid-scenario-by-fahmida-khatun/>. Accessed January 6, 2015.

Defence.³¹ China also provides massive military aid, training, technology, and equipment to all these countries.³² Compared to Chinese aid in other countries, its aid to Bangladesh does not amount to much. However, in the context of Bangladesh, the amount of aid is quite substantial.

China is not only a key investor and donor, but also a significant trading partner of Pakistan, Sri Lanka, and Bangladesh. In 2013, China invested US\$15 billion in Pakistan and remained its largest trade partner for the fourth consecutive year.³³ In 2008, China also purchased US\$500 million of Pakistani sovereign debt.³⁴ In Sri Lanka, China surpassed the United States as Sri Lanka's second-largest trading partner behind India in 2013.³⁵ In the same year, Sri Lanka's bilateral trade with China exceeded US\$3 billion.³⁶ According to the Commerce Ministry of Bangladesh, the country imported US\$6.32 billion worth of goods from China in the fiscal year 2012-13 and exported goods worth US\$458.12 million during the same period.³⁷ All these rising aid packages, trade relations, and investments indicate China's increasing involvement in South Asia and that China's lasting impact on the region.³⁸

³¹ "China donates 50 ambulances, calamity rescue equipment to Bangladesh," China Human Rights, March 4, 2014, http://www.chinahumanrights.org/Exchanges/Assistances/t20140305_1152056.htm. Accessed January 17, 2015.

³² "Relations between China and Bangladesh," http://www.caluniv.ac.in/academic/China_Study/Relations%20between%20China%20and%20Bangladesh.html. Accessed January 6, 2015.

³³ Faseeh Mangi and Kamran Haider, "Pakistan's Sharif Seeks Energy Deals During China Visit," Bloomberg Business, November 6, 2014, <http://www.bloomberg.com/news/articles/2014-11-06/pakistan-s-sharif-seeks-energy-deals-during-china-visit>. Accessed June 8, 2015.

³⁴ Wolf, Wang and Warner, "China's Foreign Aid and Government-Sponsored Investment Activities."

³⁵ Dharisha Bastians and Gardiner Harris, "Chinese Leader Visits Sri Lanka, Challenging India's Sway," *The New York Times*, September 16, 2014, <http://www.nytimes.com/2014/09/17/world/asia/chinese-leader-visits-sri-lanka-chipping-away-at-indias-sway.html>. Accessed January 6, 2015.

³⁶ Goodman, "Sri Lanka's Growing Links with China."

³⁷ Refayet Ullah Mirdha, "Bangladesh seeks expanded trade privileges from China," *The Daily Star*, March 31, 2014, <http://www.thedailystar.net/bangladesh-seeks-expanded-trade-privileges-from-china-17967>. Accessed March 2, 2015.

³⁸ China has also expressed its interest in investing in infrastructure projects in India, but India has refused China's investment proposals due to its concern over China's growing influence in South Asia. Chinese companies or groups with Chinese links were barred from bidding for construction and development contracts of central government owned ports and other ports in India. However, during Indian Prime Minister Modi's visit to China in May 2015, the two countries signed a sister-port agreement between Mundra Port in India and Guangzhou port in China. Many personnel in India's ports industry believe this is the first sign of India preparing the ground for allowing Chinese firms to participate and compete for developing ports in South Asia's biggest economy. In 2014 China became India's biggest trade partner ahead of the US and the UAE. Therefore, even if China cannot make large-scale investments in the Indian port sector at present, it remains a very important trade partner for India and the doors of the Indian ports could possibly open to Chinese investors in the near future too. See, Jerin Mathew, "China Offers to Invest \$300bn in India's Infrastructure Projects," *International Business Times*, February 20, 2014, <http://www.ibtimes.co.uk/china-offers-invest-300bn-indias-infrastructure-projects-1437191>. Accessed May 15, 2015; P. Manoj, "Mundra-Guangzhou pact may pave way for Chinese investments in Indian ports," *Live Mint*, May 22, 2015, <http://www.livemint.com/Opinion/INKkA241lSfRNMjaKPpSYP/MundraGuangzhou-pact-may-pave-way-for-Chinese-investments-i.html>. Accessed May 24, 2015; "China emerges as India's top trading partner: Study," *The*

Particularly since the turn of the century, numerous writers and scholars have explained China's expansion in the region with diverse arguments. The most well known among them, especially with regard to port construction, is the theory of "string of pearls" theory which examines the intentions of China in building commercial and naval bases along the Indian Ocean region, including countries encircling India.³⁹ Another argument is that China is competing with its regional rival India for dominance of power and presence in the region.⁴⁰ Other arguments focus on China's need for securing energy supply routes along the Indian Ocean,⁴¹ its interest in having a firm foothold on strategic locations along the Indian Ocean,⁴² and some explain China's investments in South Asia as part of friendship and goodwill between long standing friends such as Pakistan and Sri Lanka.⁴³

Robyn Meredith's book *The elephant and the dragon: the rise of India and China and what it means for all of us*, which examines "geopolitical implications mixed with oil and water," was one of the first books to examine the implications of the rivalry between rising China and India.⁴⁴ David Smith's *The dragon and the elephant: China, India, and the new world order* is another book which examines the implications of global power shifting to the East.⁴⁵

Robert Kaplan's *Monsoon, the Indian Ocean and the future of American power*, he examines the naval strategies of China and India in the Indian Ocean and their impact on America.⁴⁶ Geoffery Till's *Asia's naval expansion: an arms race in the making?* discusses the expansion of major naval powers in the Asia Pacific region including Indian and Chinese

Economic Times, March 2, 2014, http://articles.economictimes.indiatimes.com/2014-03-02/news/47823742_1_uae-trade-share-india-china-trade. Accessed May 15, 2015.

³⁹ James R. Holmes, "Gwadar and the 'String of Pearls,'" *The Diplomat*, February 9, 2013, <http://thediplomat.com/2013/02/gwadar-and-the-string-of-pearls/>. Accessed May 15, 2015.

⁴⁰ John J. Mearsheimer, "Can China rise peacefully?" *The National Interest*, October 25, 2014, <http://nationalinterest.org/commentary/can-china-rise-peacefully-10204>. Accessed May 15, 2015.

⁴¹ Harsh V. Pant, "China's Naval Expansion in the Indian Ocean and India-China Rivalry," *The Asia Pacific Journal- Japan Focus*, http://japanfocus.org/-Harsh_V_Pant/3353/article.html. Accessed May 15 2015.

⁴² Loro Horta, "China's Strategic Foothold in the Indian Ocean," ISN ETH Zurich, October 14, 2013, <http://isnblog.ethz.ch/international-relations/chinas-strategic-foothold-in-the-indian-ocean>. Accessed May 15, 2015.

⁴³ Evan A. Feigenbaum, "China's Pakistan Conundrum- The End of the All-Weather Friendship," *Foreign Affairs*, December 11, 2011, <https://www.foreignaffairs.com/articles/pakistan/2011-12-04/chinas-pakistan-conundrum>. Accessed May 15, 2015; Shannon Tiezzi, "China, Pakistan Renew 'Iron Brotherhood,'" *The Diplomat*, February 14, 2015. <http://thediplomat.com/2015/02/china-pakistan-renew-iron-brotherhood/>. Accessed May 15, 2015.

⁴⁴ Robyn Meredith, *The elephant and the dragon: the rise of India and China and what it means for all of us* (New York: W.W. Norton, 2007).

⁴⁵ David Smith, *The dragon and the elephant China, India, and the new world order* (London: Profile Books, 2007).

⁴⁶ Robert D. Kaplan, *Monsoon: the Indian Ocean and the future of American power* (New York: Random House, 2010).

navy from the perspective that international security affairs in the 21st century will be centred on this region.⁴⁷

Writers who have contributed to books such as *The rise of the Indian Navy: internal vulnerabilities, external challenges*,⁴⁸ *Deep currents*⁴⁹ and *rising tides: the Indian Ocean and international security*, and *The Indian Ocean and US grand strategy: ensuring access and promoting security*⁵⁰ examine China's naval expansion in the Indian Ocean region from a security and strategic perspective and its rivalry with India and concerns for the United States based on US and Indian perspectives.⁵¹ Scholars such as James Steinberg and Michael O'Hanlon argue that the rivalry between China and the US could push the bilateral relationship toward an arms race and confrontation.⁵² Vijay Sakhuja's book *Asian maritime power in the 21st century: strategic transactions: China, India, and Southeast Asia*, examines the rise of Indian and Chinese maritime power from a military and a strategic point of view.⁵³

According to James Holmes and Toshi Yoshihara, China will no longer limit itself to its coastal waters, nor compete with the US in the Pacific. Instead, it will focus on South and Southeast Asia, through which China transports oil, natural gas, and commodities critical to China's economic development.⁵⁴ Despite many studies on China's "string of pearls" there have not been many studies that examine these Chinese port projects in South Asia as a whole.

Sumita Kumar points out that China's increasing trade with Pakistan provides China access to a new market for its goods while Pakistan gained large-scale infrastructure development.⁵⁵ Rorry Daniels points out that infrastructure development projects such as

⁴⁷ Geoffrey Till, *Asia's naval expansion: an arms race in the making?* (London: The International Institute for Strategic Studies, 2012).

⁴⁸ Harsh V. Pant, *The rise of the Indian Navy: internal vulnerabilities, external challenges* (Burlington, VT: Ashgate Publishing Co., 2012).

⁴⁹ *Deep currents and rising tides: the Indian Ocean and international security*, ed. John Garofano et al. (Washington, DC: Georgetown University Press, 2013).

⁵⁰ Peter J. Dombrowski and Andrew C. Winner, *The Indian Ocean and US grand strategy: ensuring access and promoting security* (Washington, DC: Georgetown University Press, 2014).

⁵¹ C. Uday Bhaskar, "China and India in the Indian Ocean Region". *China Report*. 46 (3), (2010): 311-318; Mohan Malik, "India Balances China," *Asian Politics & Policy* 4 (3), (2012): 345-376; Nathaniel Barber et. al, *China in the Indian Ocean: impacts, prospects, opportunities* (Madison: University of Wisconsin, 2011), <http://minds.wisconsin.edu/handle/1793/52948>. Accessed June 8, 2015.

⁵² James Steinberg and Michael E. O'Hanlon, *Strategic reassurance and resolve: U.S - China relations in the twenty-first century* (Princeton, New Jersey: Princeton University Press, 2014).

⁵³ Vijay Sakhuja, *Asian maritime power in the 21st century: strategic transactions: China, India, and Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 2011); Ravi Inder Singh Kahlon, *The Indian Ocean - An Area of Future Conflict* (Ft. Belvoir: Defense Technical Information Center, 1981)

⁵⁴ James Holmes and Toshi Yoshihara, "China's Naval Ambitions in the Indian Ocean," *Journal of Strategic Studies* 31 (3), (2008): 367-394; Sam Chambers, *Oil On Water* (London: Zed Books, 2010).

⁵⁵ Sumita Kumar, "The China - Pakistan Strategic Relationship: Trade, Investment, Energy and Infrastructure," *Strategic Analysis* 31 (5), (2007): 757-790.

Gwadar are creating an uncertain balance of regional power.⁵⁶ According to Mathias Hartpence, China-Pakistan relations in trade and investment have become increasingly strategically and commercially driven and with this deepening ties China has become economically integrated with South Asia.⁵⁷ According to Tousif Yousaf, Gwadar port will increase both China and Pakistan's access to the world.⁵⁸ Hassan points out that Gwadar's status as hub port will make significant contributions to the revival of Pakistan's economy.⁵⁹ On the contrary, Jason R. Murtha argues that the strategic importance of Balochistan is such that it will either be the forefront of development in South Asia or the setting for a conflict.⁶⁰ However, according to Mathieu Duchâtel, the growing insecurity in strategically important Pakistan is affecting the security of China's investments, causing Beijing to double adjust its policy towards Pakistan.⁶¹ Jabin T. Jacob argues that there has been a visible drawdown in Chinese political commitment to Pakistan and India is no longer the central concern in the Sino-Pakistani relationship.⁶²

Regarding Sri Lanka, Nilanthi Samaranayake argues that Sri Lanka is neither "bandwagoning" with nor balancing China and argues that more attention should be devoted to explaining the security thinking of small states with regard to the rise of China.⁶³ On the other hand, scholars such as V. Suryanarayan argue that the future of countries in South Asia would depend on the impact that China and India would exert on them.⁶⁴ Sithara Fernando points out that China's relations with South Asian countries have been analyzed from strategic triangles including China, India and other South Asian countries. According to him,

⁵⁶ Rorry Daniels, "Strategic Competition in South Asia: Gwadar, Chabahar, and the Risks of Infrastructure Development," *American Foreign Policy Interests* 35 (2), (2013): 93-100.

⁵⁷ Mathias Hartpence, "The Economic Dimension of Sino-Pakistani Relations: an overview". *Journal of Contemporary China* 20 (71), (2011): 581-599.

⁵⁸ Tousif Yousaf, *Is Gwadar Port an economic haven for Balochistan and Pakistan?* (Lunds universitet: Ekonomisk-historiska institutionen, 2012).

⁵⁹ Ammad Hassan, *Pakistan's Gwadar port prospects of economic revival* (Monterey, California: Naval Postgraduate School, 2005).

⁶⁰ Jason R. Murtha, *The strategic importance of Balochistan* (Monterey, California: Naval Postgraduate School, 2011); Robert G. Wirsing, *Baloch Nationalism and the Geopolitics of Energy Resources: The Changing Context of Separatism in Pakistan* (Ft. Belvoir: Defense Technical Information Center, 2008).

⁶¹ Mathieu Duchâtel, "The Terrorist Risk and China's Policy toward Pakistan: strategic reassurance and the 'United Front'" *Journal of Contemporary China* 20 (71), (2011): 543-561.

⁶² Jabin T. Jacob, "China-Pakistan Relations," *China Report* 46 (3), (2010): 217-229.

⁶³ Nilanthi Samaranayake, "Are Sri Lanka's Relations with China Deepening? An Analysis of Economic, Military, and Diplomatic Data," *Asian Security* 7(2), (2011): 119-146.

⁶⁴ M. Rasgotra, *China and South Asia: developments and trends* (New Delhi: Academic Foundation in association with the Observer Research Foundation, 2012); V. Suryanarayan, "Explaining China's Growing Influence in Sri Lanka," Chennai Centre for China Studies, May 6, 2010, <http://www.c3sindia.org/srilanka/1335>. Accessed June 7, 2015.

for China to improve its relations with South Asia, it is crucial to sustain the cooperative momentum in the China-India relationship.⁶⁵

One of the key features of these theories and explanations is that they have all examined China's growing presence from the perspective of China, US or India. As a result, these scholars and analysts have completely stripped recipients of Chinese funding in South Asia of agency and made them mere passive beneficiaries of aid and powerless "pawns in China's great game" of the 21st century.⁶⁶ Due to this, there is a lacunae in material that examines why countries in South Asia allow or encourage Chinese investments, and the role of these South Asian governments in engaging China to invest in critical infrastructure such as ports in South Asia.

Therefore, in this thesis I examine Chinese investments in port infrastructure in Pakistan, Sri Lanka, and Bangladesh from the perspective of those countries and the reasons for them to encourage China to make strategic investments on their soil.

Ambassador Teresita C. Schaffer has noted that for Pakistan, the Indian Ocean is an arena in their epic rivalry with India while the strategic perspectives of Sri Lanka and Bangladesh are more inward-looking.⁶⁷ However, numerous interviews and news reports show that it is in fact these countries that accommodate and encourage China to invest and develop their infrastructure.⁶⁸ Therefore, they are acting with agency and behaving as potent international actors securing their national interest when they strengthen links with China and reach out for Chinese investments to develop their infrastructure.

In order to support my argument, I examine the factors driving Chinese investments in South Asia from the perspective of the countries where China has made large-scale investments in ports. I have specifically selected port projects because they are some of the largest investments China has made in these South Asian countries. Further, scholars, governments, politicians, and media have discussed the significance of these ports and tried

⁶⁵ Sithara N. Fernando, "China's Relations with Sri Lanka and the Maldives," *China Report*, 46 (3), (2010): 285-297.

⁶⁶ Charitha Ratwatte, "Sri Lanka and Maldives are mere pawns in the great game to dominate Southern sea routes," *Transcurrents*, February 17, 2012, <http://dbsjeyaraj.com/dbsj/archives/4279>. Accessed March 2, 2015.

⁶⁷ Teresita C. Schaffer, "Indian Ocean Geostrategic Environment -The View from South Asia," *South Asia Hand*, February 1, 2011. <http://southasiahand.com/regional/indian-ocean-geostrategic-environment-the-view-from-south-asia/>. Accessed May 15, 2015.

⁶⁸ Brian Spegele and Annable Symington, "In China, Pakistan Leader Seeks to Win Investment," *The Wall Street Journal*, July 3, 2013.

<http://www.wsj.com/articles/SB10001424127887324399404578583462343813702>. Accessed May 15, 2015;

"President's visit to China keeps relations on track," *The Economist*, April 17, 2015, <http://country.eiu.com/article.aspx?articleid=1203076704&Country=Sri%20Lanka&topic=Politics>. Accessed May 15, 2015; Ravi Velloor, "A Man Who Loves His Country," *Straits Times*, March 18, 2010, http://www.president.gov.lk/inter_New.php?Id=16, Accessed November 15, 2014.

to speculate on China's plans for them, but they have not examined these ports from the perspective of the governments that planned and built them. However, I have limited my study to Pakistan, Sri Lanka, and Bangladesh and deliberately excluded India for a number of reasons. Firstly, India does not have any Chinese funded port projects. Secondly, India's relations with China are vastly different from those of the other three nations. Relations between the two countries are tainted by the border war in 1962. However, given their status as two major powers in Asia, at times they work as partners and at others as rivals and competitors.⁶⁹ Thirdly, there is an extensive and a rapidly growing literature on Sino - Indian relations.⁷⁰

My first argument in this thesis is that many South Asian countries perceive China as a favourable alternative for funding compared to Western countries and multilateral organisations such as the International Monetary Fund (IMF), the International Development Agency (IDA), the World Bank, and the Asian Development Bank (ADB) among others. There are a number of reasons for South Asian countries to adopt this perspective. Unlike multilateral institutions, which impose numerous conditionalities based on human rights, democracy, and good governance, when extending development loans, China does not interfere in the internal workings of loan recipient countries.⁷¹ Many developing countries perceive these conditionalities imposed by international organizations as undermining their sovereignty and as interference in their internal affairs.⁷² For China, internal matters are not relevant for providing funding for projects or investments. Therefore, it is one of the main reasons why many developing countries around the world and in South Asia prefer China as a lender, an investor, and a trade partner.

Secondly, I argue that India's neighbours perceive that closer ties with China is a measure to balance power in South Asia. Since Independence, India's neighbours have

⁶⁹ Cheng Li and James Tyson, "China and India: Asia's Budding Partnership or Growing Rivalry?," *The National Interest*, September 24, 2014. <http://nationalinterest.org/feature/china-india-asias-budding-partnership-or-growing-rivals-11361>. Accessed June 8, 2015.

⁷⁰ C. Raja Mohan, *Samudra Manthan Sino-Indian rivalry in the Indo-Pacific* (Washington, DC: Carnegie Endowment for International Peace, 2012); L. Alan Winters and Shahid Yusuf, *Dancing with giants: China, India, and the global economy* (Washington, DC: World Bank, 2007); David Denoon, *The economic and strategic rise of China and India: Asian realignments after the 1997 financial crisis* (New York: Palgrave Macmillan, 2007); M. Sornarajah and Jiangyu Wang, *China, India, and the international economic order* (Cambridge: Cambridge University Press, 2010); Anil K. Gupta and Haiyan Wang, *Getting China and India right: strategies for leveraging the world's fastest-growing economies for global advantage* (San Francisco: Jossey-Bass, 2009); Waheguru Pal Singh Sidhu and Jing Dong Yuan, *China and India: cooperation or conflict?* (Boulder, Colorado: Lynne Rienner Publisher, 2003).

⁷¹ Carlos Santiso, "Good Governance and Aid Effectiveness: The World Bank and Conditionality," *The Georgetown Public Policy Review* 7 (1), (2001):1-22.

⁷² Douglas Zormelo, *Is aid conditionality consistent with national sovereignty?* (London: Overseas Development Institute, 1996).

perceived India as a country aspiring to the role of regional hegemon.⁷³ There have been numerous border disputes between India and Pakistan, Bangladesh, China, and Nepal. In 1988 India played a key role in crushing the attempted coup in Maldives.⁷⁴ India also armed, trained and financially supported the Liberation Tigers of Tamil Eelam (LTTE) and intervened in Sri Lanka with Indian Peacekeeping Forces.⁷⁵ In more recent times, India has also had various maritime and fisheries disputes with Sri Lanka.⁷⁶ All these have had an adverse impact on their bilateral relations. With increasingly strong ties with the US and aims to curb China's expansion in the region, India threatens to become an ever-greater hegemon in the region.⁷⁷ Therefore, while the US is strengthening ties with India, countries such as Pakistan, Sri Lanka and Bangladesh are strengthening their ties with China as a way to counterbalance against the regional hegemony of India.⁷⁸ Moreover, these countries also rely on China as a strong power who will stand by them against the influences of international organizations such as the United Nations. As all other relatively smaller powers in the world, they are also keen to have powerful friends such as China. As a country that has one foot in the developed world and the other in the developing world, China is an inspiration to many developing countries and a development partner that understands practical issues related to development.⁷⁹ It has pulled millions of people out of poverty over the last several decades and is believed to be on the way to becoming a superpower. This is yet another reason for the developing countries in the region to actively strengthen their ties with China.

Thirdly, I argue that for Pakistan, Sri Lanka and Bangladesh, Chinese investments are justified as a way to achieve their long-term development goals both in terms of infrastructure development and trade expansion. Sri Lanka's previous government claimed that one of its main focuses at the end of the war was to catch up on thirty years of lost

⁷³ Mohammed Ayoob, "India as Regional Hegemon: External Opportunities and Internal Constraints". *International Journal*, 46 (3), (1991): 420-448.

⁷⁴ Ibid.

⁷⁵ Bertram E.S.J. Bastiampillai, "The Indian Peace Keeping Force in Sri Lanka" in *Security Dilemma of a Small State – a Part two- Internal crisis and external intervention in Sri Lanka*, ed. Mahinda Werake et al. (Sri Lanka: Institute for International Studies, 1995) 330.

⁷⁶ Charu Gupta and Mukul Sharma, *Contested coastlines: fisherfolk, nations, and borders in South Asia* (New Delhi: Routledge, 2008) 103.

⁷⁷ Andrew Small, *Regional Dynamics and Strategic Concerns in South Asia: China's Role* (Washington DC: Centre for Strategic and International Studies, 2014).

⁷⁸ Paul J. Leaf, "With China on the Rise, America Must Woo India" *The National Interest*, September 15, 2014, <http://nationalinterest.org/feature/china-the-rise-america-must-woo-india-11275>. Accessed on May 8, 2015; Sean Patrick Thomas, "Thailand's next fix: The developing world looks to China for inspiration, not the West.(Essay), (Travel narrative)," *Spectator* (2014) 325 (9696).

development opportunities.⁸⁰ China with its multi million-dollar investments to put in place much-needed infrastructure has become a dependable friend for these countries.⁸¹ In the case of Pakistan, the government claims to provide a solution to Balochistan's separatist issue through development, economic activity and addressing regional imbalances within the country, rather than providing a political solution.⁸² The Pakistani government seems to believe that economic development and prosperity would be the panacea for many issues that they have to face in the unstable Balochistan region.⁸³ In the case of Bangladesh too, the government has claimed that expanding its port infrastructure will help meet the rising demand for imports and exports that will support its important garment manufacturing export sector. The government believes that better infrastructure financed and put in place in a timely manner with the assistance of China will benefit not only Bangladesh, but the whole region.

Therefore, all the governments believe that these ports will facilitate trade and development, increase regional connectivity, and in the long run benefit the whole of South Asia as a region. The increased economic activity is expected to contribute towards increasing regional transport linkages and boosting economic development by becoming regional maritime hubs. Better transport infrastructure will provide better access to regional markets, especially those of rising economies such as China and India. Considering that Pakistan, Sri Lanka and Bangladesh are located at strategically significant points along the Indian Ocean, all these countries aim to be hub ports similar to Singapore and Dubai. In the case of Pakistan, the implementers of the port project believe that Gwadar will not only usher in development and prosperity to the rural Balochistan region, but that it will also be a solution to the instability in the region and help integrate the region to Pakistan's mainstream economy. When the Hambantota port project commenced, the Sri Lankan government expected to bring in prosperity to one of the least developed regions of Sri Lanka and

⁸⁰ Eric Ellis, "Sri Lanka's Next Battle," *Forbes*. August 28, 2009, <http://www.forbes.com/global/2009/0907/people-economy-rajapaksa-sri-lanka-next-battle.html>. Accessed May 8, 2015.

⁸¹ Greg Knowler, "China Merchants makes second huge investment in Sri Lanka ports," *Journal of Commerce*, (2014) September 17, 2014.

⁸² Adeel Khan, "Renewed Ethnonationalist Insurgency in Balochistan, Pakistan: The Militarized State and Continuing Economic Deprivation," *Asian Survey* 49 (6), (2009): 1071-1091: Wirsing. "Baloch nationalism and the geopolitics of energy resources the changing context of separatism in Pakistan,"; Murtha. *The strategic importance of Balochistan*; Ather Naqvi, "The most important issue is the political settlement with insurgents," *The News on Sunday*, February 23, 2014, http://tns.thenews.com.pk/rashed-rahman-interview-on-balochistan-conflict/#.VVeD_6Zill8. Accessed May 8, 2015.

⁸³ (Retd.) Brigadier Nadir Mir, telephone interview with author, November 24, 2014.

creating job opportunities and boosting the regional economy.⁸⁴ In Bangladesh, people believe that the Chittagong port will serve not only the country, but also the North Eastern states of India, and the Southern states of China and Myanmar.⁸⁵ Thus, political leaders in Pakistan, Sri Lanka and Bangladesh hope that these ports will bring in development and economic stability to some of the least developed regions in South Asia.

It is important to point out that this thesis is based on the rationale and intentions of these South Asian countries when they attract Chinese investments. Irrespective of their stated aims of turning these ports to regional maritime hubs, achieving the goals of building these ports will only be possible if these countries address some of the basic issues such as maintaining rule of law, reducing corruption and nepotism that hinder development and attracting foreign investment. Gwadar port in Pakistan faces opposition from sectors of the local Baloch population. In Sri Lanka, many consider Hambantota port as a white elephant project of the former President Mahinda Rajapaksa. In Bangladesh, the country's political instability and union workers at the Chittagong port continue to prevent these projects from reaping the benefits of these large investments.

To sum up, I argue that South Asian countries around India are strengthening their ties with China firstly, because they perceive China as an alternative development partner. Secondly, their ties with China are partly based on a strategy of counterbalancing power with other regional players and international actors. Thirdly, their keen interest in attracting Chinese investments is to achieve their local development agendas. Based on these contentions, I argue that Pakistan, Sri Lanka and Bangladesh are in fact acting with agency and that they are not mere pawns in the great game between China and India or China's search for dominance in the Indian Ocean region.

1.1 Methodology

My arguments in this thesis are based on China's investments in deep-water ports in Gwadar in Pakistan, Hambantota in Sri Lanka and Chittagong and the proposed Sonadia Island port in Bangladesh. I have adopted a mixed methodology for this thesis and my findings rely on primary research and secondary research. As primary research I conducted semi-structured interviews with a convenience sample of personnel who were willing to be interviewed via telephone, e-mail or Skype. These personnel were either directly or indirectly

⁸⁴ "China - Sri Lanka's top lender in 2009," *The Sunday Observer*, April 18, 2010, <http://www.sundayobserver.lk/2010/04/18/fea01.asp>. Accessed May 8, 2015.

⁸⁵ "Bangladesh to persuade China to use Chittagong port," Reuters, March 14, 2010, <http://in.reuters.com/article/2010/03/14/idINIndia-46904220100314>. Accessed May 8, 2015.

involved in these port projects or were scholars who work on international relations relating to China and South Asia. My aim in conducting interviews with these personnel was to obtain their perspectives and local rationalizing behind Chinese funding of these projects. I further depended on primary sources such as reports and publications from various government ministries. I also used local media reports in newspapers such as *The Dawn*, *The Daily News*, *The Sunday Times*, *The Financial Times*, *Lanka Business Online* and others because projects related to these ports are currently under way and newspapers revealed the latest information on these ports and also local discourses and government rationalization of these investments.

The secondary literature I used includes books and articles on international studies, strategic studies, development, and South Asia's international relations with China. I also referred to work on China's investments in Africa as a comparison against its investments in South Asia.

1.2 Chapter Outline

In Chapter 2, I examine China's interest in South Asia and the importance of Pakistan, Sri Lanka and Bangladesh to China in light of its quest for natural resources and securing energy supply routes along the Indian Ocean. Strategically significant ports in Pakistan, Sri Lanka, and Bangladesh are important for China because securing the Sea Lines of Communication (SLOC) are crucial for its economy. In Chapter 3, I argue that Pakistan, Sri Lanka and Bangladesh consider China as an alternative development partner to multilateral organizations and western countries, which are the traditional donors and development partners of these countries. In Chapter 4, I argue that these South Asian countries reach out to China as a way to counterbalance external influences such as India and international organizations such as the United Nations. In Chapter 5, I argue that Pakistan, Sri Lanka and Bangladesh use these Chinese funded port projects to achieve their local development goals.

Based on all these arguments, I contend that Pakistan, Sri Lanka, and Bangladesh are exercising their agency and actively reaching out to China to maintain their national interests and to achieve their local development, political, and strategic goals.

Chapter 2: CHINA'S INTEREST IN SOUTH ASIA

"Whoever controls the Indian Ocean dominates Asia. This ocean is the key to the seven seas in the twenty-first century, the destiny of the world will be decided in these waters."

-US Rear Admiral Alfred Thayer Mahan⁸⁶

The quote above is allegedly attributed to United States Navy Admiral, geo-strategist and historian Alfred Thayer Mahan. It is widely quoted in recent literature on the importance of the Indian Ocean and aptly sums up the significance of the Indian Ocean in current day politics and economy. The 21st century is regarded as the Asian century.⁸⁷ With China and India, the rising Asian giants, rapidly expanding their economies and becoming increasingly dependent on the Indian Ocean for their supply of energy and raw materials as well as to access markets for their manufactured goods, the third largest ocean in the world is reclaiming its significance in world trade.⁸⁸

2.1 The importance of the Indian Ocean to China's rapid growth

During the last decade, Chinese trade has grown at an exponential rate. In 2013, China's exports and imports of goods amounted to US\$4.16 trillion.⁸⁹ For the very first time in history, in September 2013, China also became the world's largest net importer of petroleum and other liquid fuels surpassing the United States of America.⁹⁰ Interestingly, more than 85% of this trade takes place in the Indian Ocean shipping routes including the Malacca Strait, which becomes as narrow as 1.5 miles at its slimmest point, thus slowing

⁸⁶ Farzana Shah, "LTTE, Sri Lanka and struggle for controlling Indian Ocean," *Asian Tribune*, March 2, 2009, <http://www.asiantribune.com/?q=node/15438>. Accessed January 25, 2015.

⁸⁷ Jeffrey D. Sachs, "Welcome to the Asian Century By 2050, China and maybe India will overtake the U.S. economy in size," *Fortune Magazine*, January 12, 2004, http://money.cnn.com/magazines/fortune/fortune_archive/2004/01/12/357912/index.htm. Accessed January 25, 2015.

⁸⁸ Sarah A. Emerson and Vivek S Mathur, "The Indian Ocean – geographic centre of the global oil market" in *Deep currents and rising tides*, Garofano, 8.

⁸⁹ Mamta Badkar, "China Has Accomplished Something In Global Trade Not Seen Since Colonial Britain" *Business Insider*, April 29, 2014, <http://www.businessinsider.com/china-is-a-true-mega-trader-map-2014-4#ixzz30KxfEmij>. Accessed January 25, 2015.

⁹⁰ This is partly due to increased domestic oil production the US. "China is now the world's largest net importer of petroleum and other liquid fuels," US Energy Information Administration, March 24, 2014, <http://www.eia.gov/todayinenergy/detail.cfm?id=15531>. Accessed January 25, 2015.; "U.S. oil production growth in 2014 was largest in more than 100 years," US Energy Information Administration, March 30, 2015, <http://www.eia.gov/todayinenergy/detail.cfm?id=20572>. Accessed May 10, 2015.

down both imports and exports and also posing threats from pirates and other geo-political risks.⁹¹

China's greatest threat is not piracy or terrorism, which are considered to be some of the key issues in the Indian Ocean, but the ability of other states to block its trade routes denying it access to oil and natural resources.⁹² Thus, in order to free itself from what Chinese President Hu Jintao in 2003 referred to as 'China's Malacca dilemma',⁹³ the Chinese government has taken various measures to find alternative trade routes and to increase its presence in the Indian Ocean region to secure its Sea Lines of Communication. These measures range from building deep-water ports in numerous geo-strategic locations along the Indian Ocean region, building alternative energy pipelines across land routes, to expanding its naval capabilities to provide protection to its vessels along the sea-lanes of communication.⁹⁴ In October 2013, China's President Xi Jinping proposed to construct a 21st century Maritime Silk Road to promote maritime cooperation.⁹⁵ Later the Communist Party of China (CPC) called for accelerating and expanding the interconnection of infrastructure among neighbouring countries, and facilitating the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road.⁹⁶

China's booming manufacturing businesses require approximately 9.71 million barrels of oil per day. The Middle East led by Saudi Arabia, Oman, Iran and Iraq; Africa led by Angola; South America and Russia cater to this growing Chinese demand for oil.⁹⁷ The Middle East supplies more than 50% of Chinese oil demand and this oil is transported through the Dubai-Shanghai-Urumqi ocean route, which spans more than 10,000

⁹¹ Tyler Durden, "Where Does China Import Its Energy From (And What This Means For The Petroyuan)," Zero Hedge, January 20, 2014, <http://www.zerohedge.com/news/2014-01-20/where-does-china-import-its-energy-and-what-means-petroyuan>. Accessed January 25, 2015.

⁹² Pant, "China's Naval Expansion in the Indian Ocean and India-China Rivalry."

⁹³ Ian Storey, "China's 'Malacca Dilemma,'" China Brief 6(8), The Jamestown Foundation, [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=3943&no_cache=1#.VXIy_qZill8](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=3943&no_cache=1#.VXIy_qZill8). Accessed on June 4, 2015.

⁹⁴ Siddharth Srivastava, "India's Strategic and Political Environment" in *India's contemporary security challenges*, ed. Michael Kugelman (Washington DC: Woodrow Wilson International Centre for Scholars, 2011) 70. http://www.wilsoncenter.org/sites/default/files/ASIA_100423_IndiaSecurityFINAL.pdf. Accessed April 16, 2015.

⁹⁵ "Chronology of China's 'Belt and Road' initiatives," *China Daily USA*, February 5, 2015, http://usa.chinadaily.com.cn/business/2015-02/05/content_19499155.htm. Accessed February 10, 2015.

⁹⁶ Ibid.

⁹⁷ "UPDATE 1-China's April oil demand falls nearly 1 pct from March to 7-mth low," Reuters, May 13, 2014, <http://uk.reuters.com/article/2014/05/13/china-oil-demand-idUKL3N0NY3D220140513>. Accessed January 25, 2015.

kilometres.⁹⁸ Except in the case of Russia, all these oil imports to China depend on sea-lanes of communication making the Indian Ocean crucial for China's trade and economy.⁹⁹ Blocking the Malacca strait would not only choke Chinese oil and natural resource supply, but would also have an adverse impact on world trade as China is both the world's biggest importer of oil and largest manufacturing hub.¹⁰⁰ Its economy heavily relies on the Indian Ocean, but geography has denied China direct access to this most important ocean. Its considerable investments in ports, roads and highways in neighbouring South Asia are a way to gain direct access to this crucially crucial ocean.¹⁰¹

The Indian Ocean is of great significance to China not only to source its energy, but also to supply other raw materials. During the last decade China became Africa's largest trade partner sourcing oil as well as raw materials and natural resources from many African countries.¹⁰² China sources its petroleum from Angola, Cameroon, Equatorial Guinea, Gabon, Ghana, Nigeria, the Republic of Congo, the Sudan, South Sudan and Uganda.¹⁰³ Liberia, South Africa, the Republic of Congo, Zambia and Zimbabwe provide China minerals and raw materials such as copper, cobalt, cadmium, coltan, diamonds, ferrochrome, gold and platinum which are required for industrial purposes.¹⁰⁴ All these raw materials and oil from Africa, South America, and the Middle East traverse thousands of kilometres across the Indian Ocean for weeks to reach the world's biggest manufacturing hubs in China.¹⁰⁵

Admiral Jayanath Colombage points out that in the 19th and 20th centuries, the Atlantic and Pacific Oceans played a key role in politics and economy, but in the 21st century, the Indian Ocean has regained its importance because 80% of the energy traded is transported across the Indian Ocean, and 50% of containerised cargo also goes through the Indian Ocean.¹⁰⁶ Three members of the BRICS countries—India, China, and South Africa—have a stake in the Indian Ocean. They are all either within the Indian Ocean, or in close proximity

⁹⁸ Zafar Bhutta, "Gwadar Port: Pakistan, China all set to develop master plan," *The Express Tribune*, February 15, 2014, <http://tribune.com.pk/story/671852/gwadar-port-pakistan-china-all-set-to-develop-master-plan/>. Accessed January 25, 2015.

⁹⁹ Emerson and Mathur, "The Indian Ocean," 9.

¹⁰⁰ B. Eichengreen and H. Tong, "Fear of China," *Journal of Asian Economics* 17(2), (2006): 226-240.

¹⁰¹ "China's Xi Jinping agrees \$46bn superhighway to Pakistan," BBC News, April 20, 2015, <http://www.bbc.com/news/world-asia-32377088>. Accessed April 28, 2015.

¹⁰² Deborah Brautigam, *The dragon's gift: the real story of China in Africa*, (Oxford, England: Oxford University Press, 2009) 2.

¹⁰³ Robert Rotberg, "China's trade with Africa at record high," *The Christian Science Monitor*, March 19, 2014, <http://www.csmonitor.com/World/Africa/Africa-Monitor/2014/0319/China-s-trade-with-Africa-at-record-high>. Accessed January 25, 2015.

¹⁰⁴ Ibid.

¹⁰⁵ Emerson and Mathur, "The Indian Ocean," 10.

¹⁰⁶ (Retd.) Admiral Jayanath Colombage, Chairman, Ceylon Shipping Corporation and Former Commander, Sri Lanka Navy, telephone interview with the author, January 19, 2015.

to it, or depend on it for their economic wellbeing. Not only China, but also Japan and South Korea heavily depend on the freedom of the sea-lanes of communication in the Indian Ocean. Therefore, the Indian Ocean has regained significance in the 21st century.¹⁰⁷

The Indian Ocean plays a significant role in the Chinese economy not only by being the route for its imports but also for its exports, which purportedly amounted to US\$2.21 trillion in 2013.¹⁰⁸ China exports textiles, clothing, blankets, inexpensive footwear, headgear, toys, telecom equipment and affordable cell telephones, furniture, caskets, computers and televisions to consumer markets around the world, and sells fighter jets, military equipment and ammunition, military uniforms, heavy communications technology, agricultural implements, road machinery, turbines, and generators to smaller governments.¹⁰⁹

Therefore, it is obvious that China has a great interest in securing its trade routes along the Indian Ocean, and China is in the process of overcoming geographical obstacles with its numerous port projects in the Indian Ocean.¹¹⁰ China has invested in a number of port projects in strategically located points along the Indian Ocean. They span from Tanzania's Bagamoyo port, which is Africa's biggest port, to Gwadar in Pakistan, Hambantota, and Colombo in Sri Lanka, Chittagong and proposed Sonadia Island port in Bangladesh to Kyauk Phyu in Myanmar.¹¹¹ China is also providing considerable military and economic assistance to these countries, thereby strengthening its relations with these Indian Ocean states.¹¹²

¹⁰⁷ Ibid.

¹⁰⁸ There is speculation that China counted a substantial number of fictitious export transactions, but some analysts believe that even if exports were accurately reported China is actually the biggest trader in the world. See, Gordon G. Chang, "Is China Really The World's No. 1 Trader?," *Forbes*, January 12, 2014, <http://www.forbes.com/sites/gordonchang/2014/01/12/is-china-really-the-worlds-no-1-trader/>. Accessed January 25, 2015.

¹⁰⁹ Rotberg, "China's trade with Africa at record high,"

¹¹⁰ "China's Xi Jinping agrees \$46bn superhighway to Pakistan," BBC News, April 20, 2015.

¹¹¹ Toh Han Shih, "Strife hangs over China billions in Myanmar," *South China Morning Post*, May 20, 2013, <http://www.scmp.com/business/economy/article/1241559/strife-hangs-over-china-billions-myanmar>. Accessed January 25, 2015; "Adding a pearl: China looks for a naval base in Bangladesh," CASS-India, http://www.cassindia.com/inner_page.php?id=20&&task=diplomacy. Accessed January 25, 2015; Shihar Aneez, "Sri Lanka takes next step to opening strategic China-built port," Reuters, March 4, 2013. <http://www.reuters.com/article/2013/03/04/us-srilanka-port-china-idUSBRE92312Y20130304>. Accessed January 25, 2015; Fumbuka Ng'wanakilala, "Tanzania says construction of China-funded port to start in 2015," Reuters Africa, October 27, 2014. <http://af.reuters.com/article/investingNews/idAFKBN0IG0YM20141027>. Accessed December 19, 2014.

¹¹² Stephen Kurczy, "Robert Kaplan: Indian Ocean becomes battleground for India and China," *The Christian Science Monitor*, October 26, 2010, <http://www.csmonitor.com/World/Global-News/2010/1026/Robert-Kaplan-Indian-Ocean-becomes-battleground-for-India-and-China>. Accessed January 25, 2015.

2.2 The string of pearls

In 2004, a Booz Allen Hamilton report called these Chinese ports in the Indian Ocean a “string of pearls.”¹¹³ Security analysts from both India and the US who view the rise of China as a threat to those countries were quick to adopt this parlance and view these ports as part of a larger Chinese strategy to contain India.¹¹⁴ It is undeniable that China has made large investments in ports and terminals in countries around India. But to embrace this limited view and to ignore that China has also invested in port related infrastructure around the world is to miss the big picture. Figure 2 below illustrates that China has stakes in many ports and terminals not only around India but also around the world.

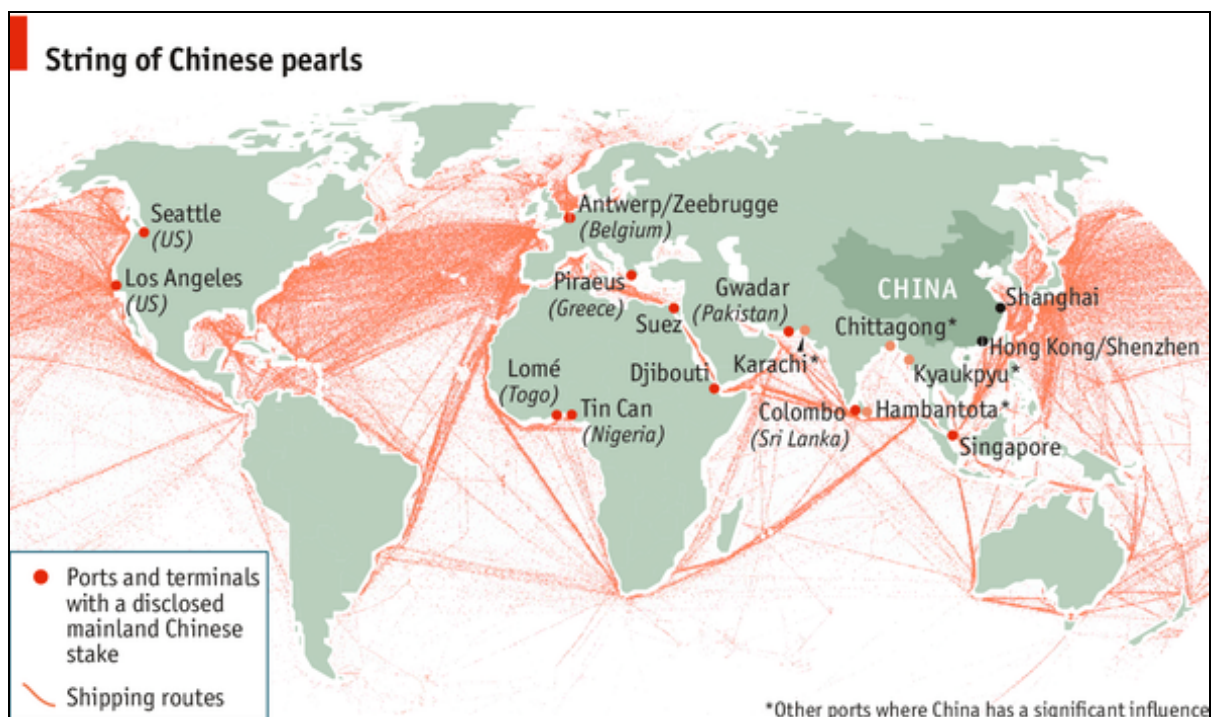


Figure 2: China's global investments in ports¹¹⁵

However, Figure 2 only indicates some ports and terminals in which China has made investments, from Seattle and Los Angeles in the USA to Chittagong in Bangladesh. In addition, China has also invested in ports in numerous South American countries such as

¹¹³ Juli A. MacDonald, Amy Donahue and Bethany Danyluk, *Energy futures in Asia: final report* (McLean, VA: Booz-Allen & Hamilton, 2004).

¹¹⁴ Sachin Parashar, “New Delhi tries to snap Beijing's string of pearls,” *Times of India*, October 20, 2011, <http://timesofindia.indiatimes.com/india/New-Delhi-tries-to-snap-Beijings-string-of-pearls/articleshow/10421153.cms>. Accessed January 25, 2015.

¹¹⁵ “The new masters and commanders,” *The Economist*, June 6, 2013, <http://www.economist.com/news/international/21579039-chinas-growing-empire-ports-abroad-mainly-about-trade-not-aggression-new-masters>. Accessed February 16, 2015.

Brazil, Chile, Mexico, Suriname, and Venezuela.¹¹⁶ In Africa, China funded ports in Cameroon, Djibouti, Egypt, Guinea, Ghana, Kenya, Nigeria, Tanzania, and Togo.¹¹⁷ In 2014, a China backed consortium bought Australia's Newcastle coal export port.¹¹⁸ China also made very successful investments in the Piraeus port in Greece.¹¹⁹ All these indicate that China's investments in port infrastructure are not only focused on countries around India, but around the world. Constructing mega projects in China and around the world is part of China's strategy to gain a national identity as an expert in infrastructure construction. According to Huang Yukon, an economist and senior associate at the Carnegie Endowment for International Peace, "China has always had this history of mega-projects" and it is this type of engineering expertise that the Chinese government wants its state-owned enterprises to export.¹²⁰

2.3 Sino-Pakistan relations

Many Pakistanis point to the long-standing friendship with China to explain Chinese investments in their country. Pakistan recognized the People's Republic of China (PRC) in 1951 and ever since then the two countries have had increasingly strong ties. According to Najam Rafique, Director of the Institute of Strategic Studies, Islamabad, both Pakistan and China consider each other as close and strategic partners.¹²¹ China has provided Pakistan with considerable economic, military and technical assistance over the years that has resulted in a strategic partnership between the two countries. Pakistan is considered to be geographically important in terms of connecting western Chinese regions through Xinjiang to the oil rich Middle East through Gwadar port, which can cut transportation costs and distance for

¹¹⁶ Caitlin Campbell and Zoe Valette, "China's Expanding and Evolving Engagement with the Caribbean," U.S.-China Economic and Security Review Commission Staff Report, May 16, 2014. http://origin.www.uscc.gov/sites/default/files/Research/Staff%20Report_China-Caribbean%20Relations.pdf. Accessed March 9, 2015.

¹¹⁷ "China's presence in African ports: investment across the ocean," European Parliamentary Research Service, May 13, 2013, <http://epthinktank.eu/2013/05/13/chinas-presence-in-african-ports-investment-across-the-ocean/>. Accessed February 4, 2015.

¹¹⁸ "Australian Newcastle coal exports port sold to China-backed group for \$1.6 bil," Platts McGraw Hill Financial, April 30, 2014, <http://www.platts.com/latest-news/coal/perth/australian-newcastle-coal-exports-port-sold-to-26779984>. Accessed February 6, 2015.

¹¹⁹ Alkman Granitsas and Costas Paris, "Chinese Transform Greek Port, Winning Over Critics," *The Wall Street Journal*, November 20, 2014, <http://www.wsj.com/articles/chinese-transform-greek-port-winning-over-critics-1416516560>. Accessed February 17, 2015.

¹²⁰ David Barboza, "In China, Projects to Make Great Wall Feel Small," *The New York Times*, January 12, 2015, <http://www.nytimes.com/2015/01/13/business/international/in-china-projects-to-make-great-wall-feel-small-.html>. Accessed May 15, 2015.

¹²¹ Najam Rafique, Director, The Institute of Strategic Studies, Islamabad, Pakistan, e-mail interview with the author, February 25, 2015.

shipping commodities overland through Pakistan.¹²² Connecting Gwadar through land routes to China's landlocked western regions is considered to be one of the reasons behind China's interest in Gwadar. Thus, not only for Pakistan, this deep-water port is important for the overall development of China as well. A senior officer of the Pakistan National Shipping Corporation points out that Gwadar Port will be an important addition to Pakistan's maritime industry and it will become a world class maritime hub in the region which will satisfy the growing trading and shipping needs and increase the economic growth of Pakistan.¹²³ However, in addition to Pakistan, in the long term there are plans to connect Gwadar port to the Central Asian Republics, which possess vast energy and gas resources.¹²⁴

2.4 Sino-Sri Lanka relations

Similar to Pakistan, Sino-Sri Lanka relations also date back more than half a century. Sri Lanka was one of the first countries to recognize China in 1950, and in December 1952 the two countries signed the historic 'Rubber-Rice Pact.'¹²⁵ This agreement helped break the blockade and embargo that had been imposed on China by Western nations.¹²⁶ Sri Lanka and China established diplomatic relations in 1957 and have had strong cultural, economic and political ties for more than 60 years.¹²⁷ They have depended on each other for economic, military and technical assistance for more than half a century. China also played a crucial role to end the war in Sri Lanka in 2009.¹²⁸ According to the Former Navy Chief of Sri Lanka, Admiral Jayanath Colombage, China supplied the Sri Lankan government with aircraft, ships, weapons, ammunition and rockets for money or for soft loans during the war when many other countries had imposed sanctions on supplying military assistance to Sri Lanka.¹²⁹

According to Admiral Colombage, China's interest in Sri Lanka is due to the strategic importance of Sri Lanka. He points out that Sri Lanka is equidistant from the eastern coast of Africa and Indonesia. It is also at the southern tip of India. Therefore, Sri Lanka is at the centre of the Indian Ocean. One of the world's busiest shipping lanes is 12 nautical miles

¹²² Ibid.

¹²³ A senior officer of the Pakistan National Shipping Corporation, e-mail interview with the author, January 29, 2015.

¹²⁴ Anwar Zahid, "Gwadar Deep Sea Port's Emergence as Regional Trade and Transportation Hub: Prospects and Problems," *Journal of Political Studies* 1(2), (2010): 97-112. 102.

¹²⁵ Saman Kelegama, "China- Sri Lanka Economic Relations: An overview," *China Report* 50, (2014): 131.

¹²⁶ Donovan C. Chau and Thomas M. Kane, "China and international security: history, strategy, and 21st-century policy," *Choice Reviews Online* 52 (04), (2014): 228

¹²⁷ Kelegama, China- Sri Lanka Economic Relations."

¹²⁸ Ibid.

¹²⁹ (Retd.) Admiral Jayanath Colombage, interview.

South of Sri Lanka with approximately 275 ships passing through everyday.¹³⁰ Rohan Masakorala, Former Secretary General of the Asian Shippers Council, also states that the Chinese have a strategic interest in Sri Lanka as a geographic location to secure their supply chains. China has a lot of interest in East Africa, especially the ports in Africa. In the future, the Chinese would transport large amounts of bulk energy and other supplies from Africa to China. Therefore, according to Masakorala, investing in ports in Sri Lanka is a strategic investment for the Chinese.¹³¹

Maintaining closer ties with Sri Lanka has also been beneficial to China particularly in multilateral organizations such as the United Nations.¹³² Sri Lanka has been a consistent supporter of One China policy and opposed Taiwan's attempts to become a member of the UN and also held a similar stance with regard to Tibet.¹³³ Sri Lanka also strongly supported China's admission to the Asia Pacific Trade Agreement.¹³⁴ In 2000, the Sri Lankan government supported China's entry into the World Trade Organization and also played a key role to help China obtain Dialogue Partner status in the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) and Observer status in South Asian Association for Regional Cooperation (SAARC). In addition, Sri Lanka also assisted China during the Sichuan earthquake and Beijing Olympics in 2008.¹³⁵ Thus, in addition to being strategically located, Sri Lanka has been a reliable friend to China as well.

2.5 Sino-Bangladesh relations

Bangladesh established diplomatic ties with China in 1975.¹³⁶ When Bangladesh came into being China was supporting Pakistan and refused to recognise Bangladesh as an independent state. China denounced Bangladesh's relationship with India and described it as an Indian stooge.¹³⁷ The first veto China cast upon entering the UN was against Bangladesh's entry to the UN.¹³⁸ But from thereon relations have developed and today, there are hardly any anti-Chinese in Bangladesh, which is a remarkable development, says Prof. Imtiaz Ahmed of

¹³⁰ Ibid.

¹³¹ Rohan Masakorala, Former Secretary General, The Asian Shippers Council, telephone interview with the author, January 19, 2015.

¹³² Kelegama, "China- Sri Lanka Economic Relations." 131.

¹³³ Ibid.

¹³⁴ Ibid.

¹³⁵ "President Hu Jintao Meets with Sri Lankan President Rajapakse," Embassy of the Republic of China in the Kingdom of Belgium, April 10, 2008 <http://be.china-embassy.org/eng/sghd/t424818.htm>. Accessed May 10, 2015; Kelegama, "China- Sri Lanka Economic Relations." 131.

¹³⁶ Tareque Shamsur Rahman and Mohammad Jasim Uddin, "Bangladesh and China: A review of 35 year relations," *Journal of International Affairs* 15 (1&2), (2011) 49.

¹³⁷ Prashant Kumar Singh, "China-Bangladesh Relations," *China Report* 46 (3), (2010): 267-283.

¹³⁸ Ibid.

the Dhaka University, Bangladesh. According to him, China is interested in investing in Bangladesh because of its Maritime Silk Road project and there are long term plans to link Chittagong with Kunming and through Myanmar or India. According to Prashant Kumar Singh, Bangladesh also has a huge economic potential as it has maintained a steady 5–6% GDP growth rate since 1996 and has an estimated 10% growing middle class which has the potential to provide a big market opportunity for Chinese entrepreneurs.¹³⁹

Further, from a trade perspective, by 2005, China was the top exporter to Bangladesh and it is the third biggest export destination for China in the South Asian region.¹⁴⁰ More importantly, Bangladesh also has proven reserves of 5 trillion cubic feet (tcf) of natural gas and the potential to cater to the rising energy demand in Asia.¹⁴¹ The Bangladeshi government has offered exploration rights to China at Barakpuria.¹⁴² Similar to both Pakistan and Sri Lanka, Bangladesh is also located at a strategically significant location, which can provide the Southern Chinese province of Yunnan access to the Indian Ocean via Myanmar.¹⁴³ These are some of the reasons for China's interest in Bangladesh.

2.6 China in the Indian Ocean

China provision of investments to develop port construction in these countries is based on a variety of factors including economic, political, diplomatic, and strategic concerns.¹⁴⁴ These measures are also a way to maintain a presence in the Indian Ocean region.¹⁴⁵ Considering that Chinese companies manage some of these port projects, such as Gwadar, Chinese vessels will eventually gain many benefits to boost their international trade in the future.¹⁴⁶ When (rather than if) China's economy becomes the largest economy of the world in the near future, it will be the first time that the world will have a non-democracy as the world's largest economy.¹⁴⁷ It will also be the first time since the 1870's that a Non-

¹³⁹ Ibid.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² P. Sahoo, "Economic Relations with Bangladesh: China's Ascent and India's Decline," *South Asia Research* 33(2), (2013): 123-139.

¹⁴³ "Bangladesh to persuade China to use Chittagong port," Reuters, March 14, 2010, <http://in.reuters.com/article/2010/03/14/idINIndia-46904220100314>. Accessed May 8, 2015.

¹⁴⁴ In *Charm offensive: how China's soft power is transforming the world*, Joshua Kurlantzick examines how China uses soft power measures such as trade incentives, cultural and educational exchange, and diplomacy to appeal to its neighbours and countries across the world and also boost its image as a model of social and economic success. See, Joshua Kurlantzick, *Charm offensive: how China's soft power is transforming the world* (New Haven: Yale University Press, 2007).

¹⁴⁵ Toshi Yoshihara, "China's "Soft" Naval Power in the Indian Ocean," *Pacific Focus* 25(1), (2010): 59-88.

¹⁴⁶ Syed Irfan Raza, "China given contract to operate Gwadar port," *Dawn*, February 18, 2013, <http://www.dawn.com/news/786992>. Accessed February 6, 2015.

¹⁴⁷ "What China wants," *The Economist*. <http://www.economist.com/news/essays/21609649-china-becomes-again-worlds-largest-economy-it-wants-respect-it-enjoyed-centuries-past-it-does-not>. Accessed May 15, 2015.

Western country will be the world's largest economy.¹⁴⁸ These facts signify not just the rapid rise of Asia, but also the significance that it holds for the world as a whole.¹⁴⁹ It also indicates why the US is concerned about the rise of an Asian super power which will take away its place as the only super power in the world.¹⁵⁰

China has extensively used the story of Admiral Zheng He from the times of the Ming Dynasty to explain that he traversed the Indian Ocean region without any military conquest and that Beijing continues to have the same pacific outlook.¹⁵¹ In addition to setting up ports, China has taken a number of other measures to actively establish its authority in the Indian Ocean and expand its naval capabilities.¹⁵² According to China, its naval fleet would only seek 'supplies or recuperate' at these ports during anti-piracy operations in the Indian Ocean similar to the function of its other bases in Djibouti, Oman and Yemen.¹⁵³ But China set up its first military base abroad in Seychelles signalling contrary intentions to its claims of pacific rise.¹⁵⁴ When Admiral Wu Shengli took over as China's Navy chief in 2006, China's navy mainly operated closer to its coast.¹⁵⁵ In 2008, when China dispatched two destroyers and a combat logistics ship to the Gulf of Aden on counter piracy duty, it attracted the attention of the world to China's possible long-term strategic goals.¹⁵⁶ Since then, China has

¹⁴⁸ "The world's biggest economies: China's back," *The Economist*, October 9, 2014, <http://www.economist.com/news/finance-and-economics/21623758-chinas-back>. Accessed on December 14, 2014.

¹⁴⁹ "Remarks to the panel discussion 'America, Europe and the Rise of Asia,'" Hon. Kevin Rudd, Australian Minister for Foreign Affairs, February 4, 2012, http://www.foreignminister.gov.au/speeches/2012/kr_sp_120204.html. Accessed January 25, 2015.

¹⁵⁰ Tammen and Lemke point out that if China surpasses the US as the world's most powerful state without any substantial demands for change to the international system's organizing principles, according to the power transition theory, catastrophic war could be averted. But if China challenges the US holding deep-seated grievances against the West, its culture, and its imposed international rules and norms, there is a higher probability of war. See, Douglas Lemke and Ronald L. Tammen, "Power Transition Theory and the Rise of China," *International Interactions* 29(4), (2003): 269-271; Sorpong Peou, "Keeping the Rise of China in Check: A Review Essay," *Asian Politics & Policy* 4 (3), (2012): 425-436; In this review, Peou points out that according to Aaron Friedberg's book *Contest for Supremacy: China, America, and the struggle for mastery in Asia* shows that China and America are rivals for power.

¹⁵¹ Yoshihara, "China's 'Soft' Naval Power in the Indian Ocean."

¹⁵² Tony Capaccio, "China Making Air Force, Navy Upgrades, U.S. Officials Say," *Bloomberg Business*, January 30, 2014, <http://www.businessweek.com/news/2014-01-30/china-air-force-making-significant-upgrades-u-dot-s-dot-official-says>. Accessed January 25, 2015.

¹⁵³ HT Correspondents, "China makes inroads into Indian Ocean," *Hindustan Times*, December 13, 2011, <http://www.hindustantimes.com/News-Feed/India/China-makes-inroads-into-Indian-Ocean/Article1-781592.aspx>. Accessed January 25, 2015.

¹⁵⁴ Harsh V. Pant, "Chinese military bases are about more than just naval supplies and protecting trade routes," *Japan Times*, January 3, 2012, <http://www.japantimes.co.jp/text/eo20120103a1.html>. Accessed January 25, 2015.

¹⁵⁵ Jeremy Page, "As China Expands Its Navy, the U.S. Grows Wary," *The Wall Street Journal*, March 30, 2015, <http://www.wsj.com/articles/as-china-expands-its-navy-the-u-s-grows-wary-1427769002>. Accessed May 10, 2015.

¹⁵⁶ Yoshihara, "China's 'Soft' Naval Power in the Indian Ocean."

conducted naval operations across the globe.¹⁵⁷ Setting up naval facilities in major choke points not only ensures economic stability but also strengthens its strategic presence in the Indian Ocean.¹⁵⁸ They will also be made use of for this expanding reach of the People's Liberation Army- Navy (PLA-N).¹⁵⁹

Further, in mid 2011, China secured approval from the International Seabed Authority (ISA) to explore the southwestern Indian Ocean ridge for minerals, thus laying claim to the ocean's massive natural resources.¹⁶⁰ The disputes between China and Japan regarding islands claimed by Japan and skirmishes between China and Vietnam in the South China Sea also show China's increasing assertiveness in the Indian Ocean.¹⁶¹ China also has fighter jets stationed in Tibet, which have the capability to reach Indian airspace, posing a security threat to India.¹⁶² In March 2014, China also mapped the Indian Ocean seabed as part of its search mission for the missing Malaysian Airlines jet MH370.¹⁶³ All these activities show China's increasing role and involvement in the Indian Ocean region, which is of enormous importance to China as all its oil supplies and trade depend on this third largest ocean in the world.

China has a considerable presence across the Indian Ocean, spanning from ports in Gwadar, Hambantota, Chittagong and Kyauk Phyu and military infrastructure in Coco Island south of Myanmar.¹⁶⁴ In response to China's increasing presence in the Indian Ocean, India is also accelerating its presence and involvement in the region. India has invested in ports in Chabbahar in Iran, in close proximity to Pakistan's Gwadar port, a listening post in Seychelles, many ports along its western and eastern shores in the Indian subcontinent and

¹⁵⁷ Libya (2011), Dalian (2012), Dioyu/Senkaku Islands (2013), Philippine Sea (2013), Malacca Strait (2013), Sunda Strait (2014), Hawaii (2014), Spratly Island (2014) and Hainan (2015). See, Jeremy Page, "As China Expands Its Navy, the U.S. Grows Wary."

¹⁵⁸ Harsh V. Pant. "Chinese military bases are about more than just naval supplies and protecting trade routes."

¹⁵⁹ Shihar Aneez and Ranga Srilal, "Chinese submarine docks in Sri Lanka despite Indian concerns," Reuters, November 2, 2014, <http://in.reuters.com/article/2014/11/02/sri-lanka-china-submarine-idINKBN0IM0LU20141102>. Accessed May 10, 2015.

¹⁶⁰ Saurav Jha, "India, China in Race for the Bottom in Indian Ocean," *World Politics Review*, October 5, 2011, <http://www.worldpoliticsreview.com/articles/10235/india-china-in-race-for-the-bottom-in-indian-ocean>. Accessed January 25, 2015.

¹⁶¹ Ernest Z. Bower and Gregory B. Poling, "China-Vietnam Tensions High over Drilling Rig in Disputed Waters," Centre for Strategic and International Studies, May 7, 2014, <http://csis.org/publication/critical-questions-china-vietnam-tensions-high-over-drilling-rig-disputed-waters>. Accessed January 25, 2015.

¹⁶² Associated Press, "India, China jostle for influence in Indian Ocean," NBC News, June 8, 2008, http://www.msnbc.msn.com/id/25024945/ns/world_news-asia_pacific/t/india-china-jostle-influence-indian-ocean/#.Tzp2mGAdIZw. Accessed January 25, 2015.

¹⁶³ "MH370: Chinese navy ship to map seabed," *The Guardian*, May 19, 2014, <http://www.theguardian.com/world/2014/may/19/mh370-chinese-navy-ship-map-seabed>. Accessed January 25, 2015.

¹⁶⁴ "China developing runway, military infrastructure at Coco Islands; should India worry?" Daily Bhaskar.com, February 10, 2014, <http://daily.bhaskar.com/article/NAT-TOP-china-developing-runway-military-infrastructure-at-coco-islands-should-india-wor-4517525-NOR.html>. Accessed January 25, 2015.

also a port project in Sittwe in Myanmar, very close to the Chinese funded port in Kyauk Phyu.¹⁶⁵ In Sri Lanka, India has invested in refurbishing the Kankasanthurai port in the Northern part of the island.¹⁶⁶

Not only China and India, but also both the US and the UK are maintaining an active presence in the Indian Ocean region with the US Fifth Fleet being located in the region and a naval base located at Diego Garcia.¹⁶⁷ The UK also has numerous island territories in the Indian Ocean even today.¹⁶⁸ Therefore, while China may be the most proactive in expanding its presence in the Indian Ocean, the region is equally important to a number of other key players such as the US, UK, and India. Prof. Imtiaz Ahmed points out that many nations would like to have their naval forces in the Indian and Pacific Oceans. But, it is only a matter of resources because only a few countries have the resources to do so.¹⁶⁹ According to him, it is only now that China has the necessary resources to have naval outposts everywhere in the world. The Chinese are trying to maintain a presence as their trading ships go around the world.¹⁷⁰ Thus, it is important for China to have a strong presence along the strategic locations across the Indian Ocean region to protect their trade and commercial interests.

China also has many advantages in working together with these regional players. According to former brigadier Nadir Mir from Pakistan, Gwadar will be mutually beneficial for both China and Pakistan. While eastern China has the Pacific on the coast, western and central provinces are a huge, underdeveloped landmass. China's largest oil trade is with the Gulf and Africa. When they sail from Shanghai it takes 14,000km and a month long journey to reach their destination and they have to pass through the Strait of Malacca and the Indian Ocean. "But, from Pakistan to western China, it is only 1000km, so it is pure economics; the advantage of geography," says brigadier Mir. This is what Pakistan is offering to the Chinese and that is why Chinese government is also keen on investing in Gwadar because it is to their benefit. He notes that Chinese government is investing in these ports because they benefit.

¹⁶⁵ "India, Iran sign pact on developing Chabahar port; will give sea-land access route to Afghanistan," *The Economic Times*, May 6, 2015, http://articles.economictimes.indiatimes.com/2015-05-06/news/61865490_1_chabahar-port-multi-purpose-cargo-terminal-notwithstanding-us. Accessed May 10, 2015.

¹⁶⁶ (Retd.) Admiral Jayanath Colombage, interview.

¹⁶⁷ Chikaonyekanne, "Your Navy Operating Forward - Indian Ocean, Mediterranean Sea, Arabian Sea," NavyLive, May 20, 2014, <http://navylive.dodlive.mil/2014/05/20/your-navy-operating-forward-indian-ocean-mediterranean-sea-arabian-sea/>. Accessed January 25, 2015.

¹⁶⁸ *Indian Ocean Rising: Maritime Security and Policy Challenges*, ed. David Michel et al. (Washington D.C: Stimson, 2012) 9, http://www.stimson.org/images/uploads/research-pdfs/Book_IOR_2.pdf. Accessed December 3, 2014.

¹⁶⁹ Imtiaz Ahmed, Professor of International Relations, Dhaka University, Bangladesh, telephone interview with the author, March 1, 2015.

¹⁷⁰ Ibid.

But according to brigadier Mir, in the bargain Pakistan benefits even more because today China is an economy almost rivalling the United States and it is an expanding economy. China wants to export and needs to import oil. For exporting and importing, Pakistan provides a shorter route to China.¹⁷¹

While Pakistan is part of China's Silk Road Economic Belt, Sri Lanka is at the centre of its Maritime Silk Road of the 21st Century.¹⁷² Most recently, Pakistan, Sri Lanka and Bangladesh have extended support for China's latest venture the Asian Infrastructure Investment Bank (AIIB).¹⁷³ Both these initiatives are recent measures to expand China's presence in the Indian Ocean region, port construction and infrastructure building in particular.¹⁷⁴ Thus, it is not merely these South Asian countries, which have benefitted from their closer relations with China, but China itself considers these countries as friends and equal partners who are also important for strategic reasons.¹⁷⁵ Both Islamabad and Colombo perceive closer ties with China as a top priority and in return China has been generous with its support with economic, technical and military aid through the years. As Richard Rousseau points out, in Pakistan, some urge Political leaders to make China, not the US, their strongest ally in its foreign policy.¹⁷⁶ The ties between China and these South Asian countries are that of a development partnership, and also a way to maintain China's strategic, political and diplomatic goals, which benefit all parties involved.

In this Chapter I examined China's interest in South Asia and the importance of Pakistan, Sri Lanka and Bangladesh to China in light of its quest for natural resources and securing energy supply routes along the Indian Ocean. While these South Asian countries do

¹⁷¹ (Retd.) Brigadier Nadir Mir, interview.

¹⁷² "Xi Jinping Meets with Prime Minister Nawaz Sharif of Pakistan," Ministry of Foreign Affairs of the People's Republic of China, November 8, 2014,

http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1209091.shtml. Accessed November 20, 2014.

¹⁷³ Jincui Yu, "Pakistan welcomes AIIB announcement," *Global Times*, October 25, 2010,

<http://www.globaltimes.cn/content/888238.shtml>. Accessed May 10, 2015; "Sri Lanka signs MoU on

establishment of Asian Infrastructure Investment Bank in Beijing," *News.lk*, October 30, 2014;

"Bangladesh signs MoU to set up AIIB," *Dhaka Tribune*, October 24, 2014,

<http://www.dhakatribune.com/bangladesh/2014/oct/24/bangladesh-21-other-countries-sign-mou-set-aiib>.

Accessed May 10, 2015.

¹⁷⁴ "Asian Infrastructure Investment Bank," <http://www.aiibank.org/html/aboutus/AIIB/>. Accessed May 15, 2015.

¹⁷⁵ In 2013, China's Vice President Yuanchao stated that China will continue to strengthen relations with Sri Lanka and expand cooperation into new sectors in what he described as an equal partnership. See, "China calls Lanka 'Strategic cooperation partner,'" *Daily News*, May 31, 2013, <http://www.dailynews.lk/?q=political/china-calls-lanka-strategic-cooperation-partner#sthash.iK4lawok.dpuf>. Accessed June 4, 2015. Similarly, in April 2015, Mushahid Hussain Sayed, chairman of the Pakistan parliament's defense committee stated, "China treats us as a friend, an ally, a partner and above all an equal - not how the Americans and others do." See, Houreld and Zahra-Malik, "The China-Pakistan relationship is about to get \$46 billion stronger."

¹⁷⁶ Richard Rousseau, "How China and Pakistan Shift the Balance of Power in South Asia," *Diplomatic Courier*, May 14, 2014, <http://diplomaticourier.com/news/regions/asia/2193-how-china-and-pakistan-shift-the-balance-of-power-in-south-asia>. Accessed November 20, 2014.

not have large deposits of natural resources similar to many African states where China is engaged in resource extraction, it is the strategically significant locations of Pakistan, Sri Lanka and Bangladesh, which have stirred China's interest in these countries and their ports because securing the Sea Lines of Communication through which it transports oil, natural resources and finished goods is of utmost importance to China. In addition, these countries are also important to China for economic, political, and diplomatic reasons.

Chapter 3: CHINA AS AN ALTERNATIVE FUNDER

Over the last decade China has emerged as a net aid donor.¹⁷⁷ In South Asian countries such as Pakistan, Sri Lanka, and Bangladesh, China is not only one of the biggest development partners, but also an alternative to Western and multilateral organization funding by creating South-South cooperation.¹⁷⁸ There are a number of reasons which prompted these countries to reach out to China: China rarely interferes in internal affairs of these countries and does not impose conditionalities on human rights, democracy, or good governance attached to funding.¹⁷⁹ On the other hand, Western countries distanced themselves from Pakistan and Sri Lanka due to allegations of terrorism and war crimes respectively. Western donors have also been reluctant to invest in these high risk, large scale infrastructure projects in South Asia.¹⁸⁰ Sri Lanka attainment of middle-income status was also another reason for reaching out to China as an alternative funder as concessional funding from multilateral organizations became increasingly limited. Over the last decade, China has also emerged as an expert in construction and engineering which has also had an impact on these countries choosing China specifically for these port projects.¹⁸¹ In addition, government policies of Pakistan, Sri Lanka and Bangladesh towards strengthening ties with rising China were another cause for them to move closer to China as an alternative funder.¹⁸² In this Chapter, I will examine these diverse reasons for choosing China as an alternative development partner in light of China's investments in ports in Pakistan, Sri Lanka and Bangladesh.

3.1 Lack of conditionalities attached to Chinese investments

One key reason why many developing countries prefer Chinese development assistance is due to the manner in which China conducts its relations with other countries. The Chinese government believes that low-key communication and mutually beneficial

¹⁷⁷ Gregory T. Chin, "China as a 'net donor': tracking dollars and sense," *Cambridge Review of International Affairs* 25 (4), (2012): 579-603.

¹⁷⁸ Ibid.

¹⁷⁹ According to Gonzalez-Vicente, there are many exceptions to China's commitment to the principle of non-interference. It results in the empowerment of political elites at national levels that will eventually undermine supranational regulatory approaches and encourage state-based regional architectures. See, Ruben Gonzalez-Vicente, "The limits to China's non-interference foreign policy: pro-state interventionism and the rescaling of economic governance," *Australian Journal of International Affairs* 69(2), (2014): 205-223.

¹⁸⁰ This situation is similar to many African countries such as Congo, where Deborah Brautigam quotes an Africa specialist who says, "no one else is lining up to provide funding for developments in the Democratic Republic of Congo. A country like the DRC needs infrastructure. It can't attract much donor aid. Given these limitations the Chinese are filling a huge gap." See, Brautigam, *The dragon's gift*, 146.

¹⁸¹ Barboza, "In China, Projects to Make Great Wall Feel Small."

¹⁸² Jamal Afridi and Jayshree Bajoria, "China-Pakistan Relations," Council on Foreign Relations, July 6, 2010. <http://www.cfr.org/china/china-pakistan-relations/p10070#p3>. Accessed May 15, 2015.

dialogue, carried out on an equal footing, is more efficient than the US approach of distributing money and exerting pressure.¹⁸³ China also follows a policy of non-interference in other countries' internal affairs. In the case of Pakistan, this permits Pakistan to operate with considerable latitude regarding its policies towards India.¹⁸⁴ This may also be a key reason for Pakistan to reach out to China for loans and aid, as its monetary support does not come with strings attached, unlike the conditions imposed when obtaining a loan from a Western country.¹⁸⁵

Rorry Daniels has noted that China's policy of non-interference in other countries' internal affairs absolutely prevents it from seeking comprehensive solutions to security problems because China does not plan to resolve the root causes of violent extremism, poverty, inequality, corruption, or lacuna in public goods filled by extremist organizations in exchange for loyalty. It merely promises wealth from its investments that can be used by the governments as they wish.¹⁸⁶ This is in stark contrast to loans extended by multilateral agencies and Western countries. However, according to Gonzalez-Vicente, there are many exceptions to China's commitment to the principle of non-interference, but he argues that China's foreign policy of non-interference results in the empowerment of political elites at national levels that will eventually undermine supranational regulatory approaches and encourage state-based regional architectures.¹⁸⁷ It is this foreign policy of China that makes it a preferred alternative source of funding for large-scale projects such as Gwadar. Therefore, although China built and controls Gwadar, its adherence to a policy of non-interference in other countries' internal affairs allows Pakistan to operate with great freedom and latitude while also benefitting from the perks attached to having a major power such as China to support it. This will have an impact on regional politics as well because while Pakistan feels strengthened by China's support in its infrastructure, it is not actually checked by the power of China. If at all, Pakistan will be able to give the impression that due to China's interest in Pakistan, it will support Pakistan in many instances, thus signalling a strength that it may not actually possess. A recent PEW Research study conducted globally shows that China's strongest supporters are Pakistan and Bangladesh with 78% and 77% public support,

¹⁸³ Duchâtel, "The Terrorist Risk and China's Policy toward Pakistan," 552.

¹⁸⁴ Daniels, "Strategic competition in South Asia," 99.

¹⁸⁵ Deborah Brautigam cites Senegal's President Wade stating that China was not so demanding and China's approach to their needs is better adapted than the slow and sometimes patronizing approach of Europe. See, Brautigam, *The dragon's gift*, 135.

¹⁸⁶ Daniels, "Strategic competition in South Asia," 98.

¹⁸⁷ Gonzalez-Vicente, "The limits to China's non-interference foreign policy."

respectively.¹⁸⁸ This not only shows that governments perceive China as a favourable ally, but that there is popular support for China too. According to Jeffrey Sachs, the overwhelming feeling of African people towards China is gratitude for support.¹⁸⁹ “China gives fewer lectures and more practical help...the idea that aid should be heavily conditioned with political conditions was a mistake. The best way to end conflict is to end poverty.”¹⁹⁰ Sebastian Heilmann and Dirk Schmidt point out that when granting loans to countries in Africa or Latin America, China does not make decisions based on the political conditionality criteria, which are set by Western states and multilateral institutions.¹⁹¹ This is not limited to China’s relations with Africa or Latin America. Similarly many developing nations in South Asia, where China makes extensive investments in large-scale infrastructure, perceive China as a favourable lender.

It is the same in Sri Lanka and Bangladesh as well. In the case of Sri Lanka, non-traditional donors such as China, India, and also Russia, have been crucial allies of Sri Lanka in international and regional politics. Both China and India have extensively contributed to support post war development plans of the Sri Lankan government.¹⁹² These development partners do not follow the traditional development partner measures of effectiveness, which are driven by a desire for social justice, inclusiveness, transparency, and accountability.¹⁹³ In recent years, Sri Lanka has moved away from Western donors in favour of closer relations with states such as Iran, China and Pakistan, who would invest in the country economically without probing into democracy and human rights issues.¹⁹⁴

According to former Sri Lankan Foreign Secretary Palitha Kohona, Sri Lanka’s traditional donors such as the European Union, USA and Canada have receded to a corner and been replaced by countries in the East. The reasons for building closer ties with countries in the region such as China are because they are rich neighbours, and because they conduct

¹⁸⁸ “Global opposition to US surveillance and drones, but limited harm to America’s image –Many in Asia worry about conflict with China,” Pew Research Centre, July 14, 2014, <http://www.pewglobal.org/files/2014/07/2014-07-14-Balance-of-Power.pdf>. Accessed November 15, 2014.

¹⁸⁹ “China could help lift Africa from poverty-UN adviser,” Embassy of the Republic of China in the Republic of South Africa, August 16, 2006, <http://www.chinese-embassy.org.za/eng/zt/thirdeye/t269084.htm>. Accessed May 15, 2015.

¹⁹⁰ “China could help lift Africa from poverty-UN adviser,” Embassy of the Republic of China in the Republic of South Africa, August 16, 2006, <http://www.chinese-embassy.org.za/eng/zt/thirdeye/t269084.htm>. Accessed May 15, 2015.

¹⁹¹ Sebastian Heilmann and Dirk Schmidt, *China's foreign political and economic relations: an unconventional global power* (Lanham, Maryland: Rowman & Littlefield, 2014.) 36.

¹⁹² (Retd.) Admiral Jayanath Colombage, interview.

¹⁹³ Dhanusha Amarasinghe and Johann Rebert, *Dynamics and trends of foreign aid in Sri Lanka- Exploring space for context-sensitive aid delivery* (Sri Lanka: International Alert, 2013) 11.

¹⁹⁴ Ibid, 8.

themselves differently from Western countries.¹⁹⁵ According to him, “Asians don’t go around teaching each other how to behave...there are ways we deal with each other - perhaps a quiet chat, but not wagging the finger.”¹⁹⁶ His words clearly manifest one of the main reasons why not only Sri Lanka, but many other countries in the developing world prefer China as a development partner. Brigadier Nadir Mir from Pakistan expresses a similar view when he says, “Pakistan does not want to be told every two minutes what to do and what not to do, and who are your friends and who are not going to be your friends... Since the Chinese do not interfere in Pakistan’s politics they do not try to use their leverage. So they get more respect and that is why Chinese are (the) most respected people or nation in Pakistan...The non-interference of Pakistan is getting across the board support.”¹⁹⁷

When developing countries receive development loans from various international financial institutions they impose conditionalities which are generally expected to improve economic, political and social conditions of the recipient country. These measures could range from conditions on anti corruption measures, human rights and rule of law, to structural adjustments of a country’s economy such as budget discipline and trade liberalization.¹⁹⁸ For example, recently, the IMF advocated for reforms in Sri Lanka that included imposing additional economic burdens on citizens by increased prices for goods, high cost and low quality of public services delivered, higher taxes and lower wages, but these reforms were stalled.¹⁹⁹

According to the UN, governance is considered ‘good’ and ‘democratic’ to the degree in which a country’s institutions and processes are transparent.²⁰⁰ According to the British Overseas Development Administration (ODA), good governance consists of three key components as follows:

- Competence, which includes sound economic policies, effective use of resources, absence of corruption and avoidance of excessive military expenditure;
- Legitimacy and accountability which comprise of freedom of expression, political pluralism, broad participation in the development process; and

¹⁹⁵ Somini Sengupta, “Take Aid From China and Take a Pass on Human Rights,” *The New York Times*, March 9, 2008, <http://www.nytimes.com/2008/03/09/weekinreview/09sengupta.html?fta=y>. Accessed on November 15, 2014.

¹⁹⁶ Ibid.

¹⁹⁷ (Retd.) Brigadier Nadir Mir, interview.

¹⁹⁸ Brautigam, *The dragon's gift*, 149.

¹⁹⁹ Amarasinghe and Rebert, *Dynamics and trends of foreign aid in Sri Lanka* 8.

²⁰⁰ “Governance,” United Nations, <http://www.un.org/en/globalissues/governance/>. Accessed February 24, 2015.

- Respect for human rights and the rule of law.²⁰¹

These are issues that lie at the heart of sovereignty.²⁰² When any multilateral institution interferes with these aspects of a state, such state considers it as an interference in its internal affairs and sovereignty. At a meeting with Sri Lanka's former foreign Minister G. L. Peiris, Chinese Foreign Minister Wang Yi said that China backs the Sri Lankan government in safeguarding national independence, sovereignty and territorial integrity, and that China believes in 'the Sri Lankan people's wisdom and capacity to handle their own affairs.'²⁰³ He further mentioned that "China opposes some countries' interference in the internal affairs of Sri Lanka under the pretext of human rights issues" inferring to the US.²⁰⁴ China's lack of interference in the internal affairs of Sri Lanka was one of the main reasons why the then prevailing Sri Lankan government considered China as a favourable lender or a development partner.

Though there have been many arguments put forward by scholars such as Olav Stokke and Timothy Shaw that these conditionalities do not in fact affect sovereignty and what matters more is the legitimacy of the policy and the government, developing countries argue that conditionalities affect their internal affairs and state sovereignty.²⁰⁵ As Joseph Matthews, Director of the International Cooperation Department at the Asia Euro University in Phnom Penh puts it, China's policy of non-interference in the internal affairs of other countries, respect for sovereignty and territorial integrity, and co-existence with its neighbours have made China a favourable and reliable partner in the whole Asian region.²⁰⁶

However, China's non-interference also means they pay very little attention to the negative externalities that arise from its investments.²⁰⁷ According to Dr. Harsha de Silva, the Deputy Minister of Policy Planning and Economic Development of Sri Lanka, unlike the World Bank or IMF, the Chinese banks are giving loans with no regulations attached, and the former government was driven by its desire for quick cash without conditionality. If the

²⁰¹ Zormelo, "Is aid conditionality consistent with national sovereignty?," 10.

²⁰² Ibid.

²⁰³ "China backs Sri Lanka as US mulls resolution," *Xinhuanet*, February 11, 2014, http://news.xinhuanet.com/english/china/2014-02/11/c_133107146.htm. Accessed June 8, 2015.

²⁰⁴ Ibid.

²⁰⁵ Olav Stokke and Timothy M. Shaw, "Aid and Political Conditionality," *Development and Change* 28(2), (1997): 383.

²⁰⁶ "Overseas scholars highly commend Chinese premier's Myanmar trip," *Xinhuanet*, November 16, 2014, http://news.xinhuanet.com/english/china/2014-11/16/c_133792298.htm. Accessed December 2, 2014.

²⁰⁷ Madison Condon, "China in Africa: What the policy of non intervention adds to the western development dilemma," *PRAXIS the Fletcher Journal of Human Security* 27, (2012): 5-25.

previous Sri Lankan government were to adhere to the conditions of the IMF or World Bank, many of the loans would not have been approved.²⁰⁸

One of the main reasons why the Bangladesh government reaches out to Chinese funding is also due to lack of conditionality. According to Prof. Imtiaz Ahmed of the Dhaka University, one advantage of China compared with World Bank and other multilateral organisations is that China is less keen on domestic politics and human rights issues. China would probably be more flexible on transparency. Prof. Ahmed points out that overall, political parties or governments who are less transparent and “members who are trying to get extra funds in their pockets” find China or Russia “easy going” compared to multilateral organisations. He notes that multilateral organisations are very strict on issues such as human rights, governance, and corruption, which is difficult for governments. But since China does not link politics with economics, any government would know that they could survive whatever they do, but that probably would be very difficult with multilateral organisations, particularly World Bank and IMF, says Prof. Ahmed.²⁰⁹

Prof. Ahmed also points out that when multilateral organizations fund large scale projects, they insist on transparency, and governments have to abide by various guidelines on governance, to which Bangladesh and some developing countries find very difficult to adhere. Therefore, he states that in the case of big loans, with short-term interest rates, if the terms are favourable despite Chinese loan interest rates being high, those loans are more workable.

3.2 Western countries moving away from Sri Lanka

In the case of Sri Lanka, there is another reason for the Sri Lankan government to reach out to China. Ever since the end of the war in 2009, many Western countries continued to criticize Sri Lanka’s military campaign to defeat the LTTE. It was clearly manifested through reduction of foreign aid and arms sales. Even during the war, there were many sanctions against Sri Lanka regarding the procuring of arms.²¹⁰ Many Western countries made numerous demands for a permanent ceasefire and recommencement of negotiations with the LTTE even at the last stages of the war. In addition, there were also attempts to obstruct and delay the multi-billion dollar International Monetary Fund bailout package at the

²⁰⁸ Dinouk Colombage, “Sri Lanka's surging cash reliance on China,” Aljazeera, August 26, 2014, <http://www.aljazeera.com/indepth/features/2014/08/sri-lanka-economy-reliance-china-infrastructure-20148256345589851.html>. Accessed March 10, 2015.

²⁰⁹ Prof. Imtiaz Ahmed, interview.

²¹⁰ (Retd.) Admiral Jayanath Colombage, interview.

end of the civil war.²¹¹ Soon after the war, a number of Western nations started accusing Sri Lanka of committing war crimes and insisted on pursuing war crimes investigations. The European Union withdrew its GSP+ trade concession, which had great repercussions on Sri Lanka's export-based economy that heavily relies on exporting garments. All these diverse measures adopted by the US and a number of other European countries made a significant impact on the relations between Sri Lanka and the West, and eroded its confidence in the West and ultimately pushing Sri Lanka away from Western countries.²¹² As a result, Sri Lanka's foreign policy increasingly moved away from the US-led Western states towards strengthening relations with China, India, Iran, Libya, Russia, Saudi Arabia and other countries that have been traditionally associated with the Non-Aligned Movement.²¹³ Despite Sri Lanka moving away from the west, it did not result in drying up of funds for its post war development projects because Sri Lanka found reliable alternatives in non-traditional development partners. According to Commodore Jayaratne, it was not only Chinese companies who were engaged in port projects. For example, the Colombo South breakwater was built by Hyundai, a Korean company who are engaged in a number of port projects from the Middle East to South Asia.²¹⁴

The Rajapaksa government adopted a decidedly pro-China policy due to the developments at the end of the war and China made considerable investments and exercised influence in Sri Lanka.²¹⁵ Between 1971-2004, China provided Sri Lanka a total of US\$362 million during the 30-year period. In contrast, from 2005 to 2013 over only eight years, its development assistance to Sri Lanka amounted to US\$5,664 million. It amounts to 94% of the total aid provided from China to Sri Lanka.²¹⁶ Between 2005 and 2012, China provided US\$4.8 billion as assistance to Sri Lanka, out of which 2% was grants and the other 98% was soft loans. The government of Sri Lanka secures financial assistance mainly from the Exim Bank of China, in addition to China Development Bank (CDB) and Industrial and Commercial Bank of China (ICBC) for priority development projects in Sri Lanka.²¹⁷ As of

²¹¹ "The Strategic Importance of Sri Lanka to Australia," Asia Pacific Defence Reporter, June 1, 2010, <http://www.asiapacificdefencereporter.com/articles/53/The-Strategic-Importance-of-Sri-Lanka-to-Australia>. Accessed May 15, 2015.

²¹² Ibid.

²¹³ Ibid.

²¹⁴ Commodore Y.N. Jayaratne, Sri Lanka, e-mail interview with the author, February 15, 2015.

²¹⁵ Nitin A. Gokhale, "China, India and the Sri Lanka Elections," *The Diplomat*, January 5, 2015, <http://thediplomat.com/2015/01/china-india-and-the-sri-lanka-elections/>. Accessed February 6, 2015.

²¹⁶ Global Partnership towards development (Sri Lanka: External Resources Department of the Ministry of Finance and Planning, 2013) 78.

²¹⁷ Ibid.

2013, 26% of Chinese investments in Sri Lanka were in the ports sector.²¹⁸ All these indicate Sri Lanka's heavy reliance on China for development aid, and it is partly due to lack of funding from the traditional Western donors and development agencies.

3.3 Lack of Western funding

According to Najam Rafique, Director of the Institute of Strategic Studies, Islamabad, initially Pakistan was interested in American and British assistance for the development of Gwadar. However, due to American concerns and reservations regarding Iran and its nuclear programme, the American government was not interested in any development projects in Gwadar. Following the American disinterest, Pakistan reached out to the next possible best option, China, which immediately expressed its willingness, particularly because of the lure of connectivity offered by Gwadar through Xinjiang.²¹⁹ Dr. Ahmad Rashid Malik, a Senior Research Fellow at the Institute of Strategic Studies Islamabad also points out that no other country except China has shown any interest in developing the Gwadar port.²²⁰

Even in the case of Bangladesh, one of the main reasons behind its government to reach out to China for funding was because of lack of Western or multilateral funding for infrastructure projects. According to Md. Rezaul Karim, Chairman, Shippers' Council of Bangladesh, the Bangladeshi government has requested assistance from countries such as Netherlands, UK, France, USA, and even multilateral organizations such as ADB and the World Bank. However, they have not responded to these calls.²²¹

Admiral Jayanath Colombage points out that Western countries did not fund these projects also because the US economy was not doing well. According to him, the US has been slow to come out of the recession and the EU is doing even worse since it cannot even absorb the burden of Turkey or Greece. "When your own economy is down you cannot give economic aid to another country," he says.²²² On the other hand, Commodore Y. N. Jayarathna of Sri Lanka points out that, the Sri Lankan government reached out to China, because India shunned becoming involved with the development of Sri Lankan ports. According to Commodore Jayaratne, "it is important to note that India will never want us to develop the ports, especially when they are engaging to develop mega ports in Kerala and in

²¹⁸ Ibid, 80.

²¹⁹ Najam Rafique, interview.

²²⁰ Dr. Ahmad Rashid Malik, Senior Research Fellow, The Institute of Strategic Studies Islamabad, e-mail interview with the author, February 11, 2015.

²²¹ Md. Rezaul Karim, Chairman, Shippers' Council of Bangladesh, e-mail interview with the author, February 17, 2015.

²²² (Retd.) Admiral Jayanath Colombage, interview.

Tuticorin with Singapore's assistance." According to him, a good example of Indian reluctance to fully support development of harbours in Sri Lanka is the Kankasanthurai Port (KKS) in the northern part of the island. He notes that after the 2004 tsunami, when the Sri Lankan government wanted to rebuild the KKS harbour, the Netherlands extended prompt assistance. But, when the Netherlands was about to commence work, India intervened and offered assistance at their own cost. The government very diplomatically manoeuvred from the Dutch and gave the Indians the offer and it is yet to be finished even after 10 years! The Indians claim that they are working on it on a phase-wise plan, but apart from the hydrographic surveys and wreck removals, nothing has happened on the ground. "We cannot ask (the) Dutch to come back (nor do) we have the money to complete the balance on our own," says Commodore Jayarathna. This example clearly shows the dilemmas faced by developing states in financing and building their crucial infrastructure and how China fits in with their prompt, timely assistance.

However, some critics argue that the Chinese have made use of Colombo's fears of isolation and granted concessional loans.²²³ Some fear that the Sri Lankan government will be unable to repay such large loans in time, giving the Chinese an opportunity to turn part of the loan into equity, making them part owners of vital projects and installations.²²⁴ With the change in governments in Sri Lanka in early 2015, many believe that the new government will adopt a decidedly pro-India and pro-west foreign policy and move away from China and its investments. The actions of the new government with official visits to India and the West clearly indicate its foreign policy leanings. Further, the government of President Maithreepala Sirisena has been re-evaluating many projects funded by Chinese companies as well. However, according to Prof. Harsh Pant, the change of government will not necessarily weaken Sino-Sri Lanka ties because China's role is firmly embedded in Sri Lanka both in terms of economics as well as geopolitics.²²⁵ While this is true for many projects to which the previous government has committed, the new approaches that the new government will take will determine whether the country will benefit from the massive investments made by China or not. For example, investments made in the Hambantota port in its initial phases will not reap any benefit if the future phases are abandoned, thus resulting in an incomplete project.

²²³ Gokhale, "China, India and the Sri Lanka Elections."

²²⁴ Ibid.

²²⁵ Harsh V. Pant, "Even with a change of regime in Colombo, China's sway will continue to grow in Sri Lanka," *Japan Times*, January 18, 2015, <http://www.japantimes.co.jp/opinion/2015/01/18/commentary/world-commentary/even-with-a-change-of-regime-in-colombo-chinas-sway-will-continue-to-grow-in-sri-lanka/#.VQdVNWZill8>. Accessed February 10, 2015.

3.4 Sri Lanka reaching middle-income status

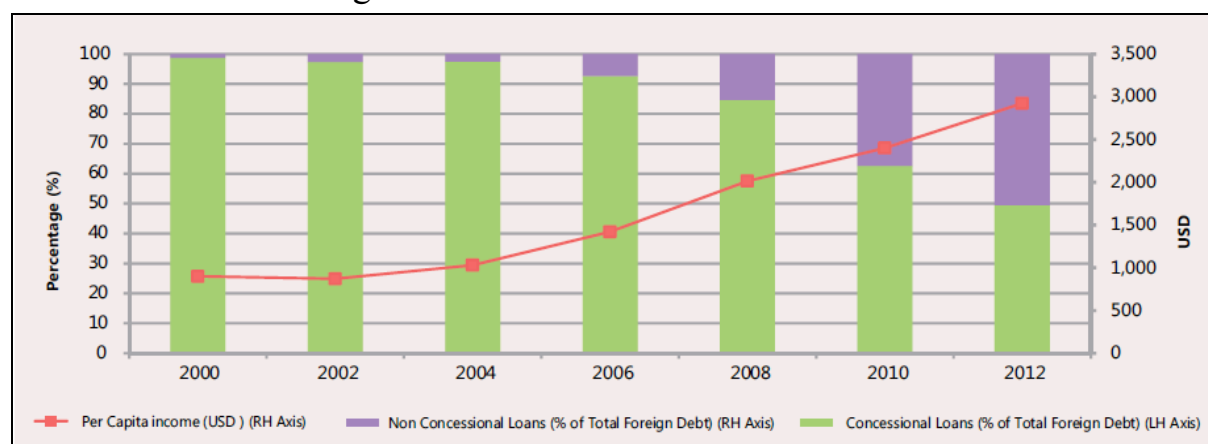


Figure 3: Reduction of concessional financing along with increase of per capita income²²⁶

The graduation of Sri Lanka to the status of a middle-income country, with a per capita income of US\$2,923 in 2012, has closed the doors to many avenues for obtaining concessional loans and pushed the country to find alternative sources of funding.²²⁷ European donors no longer provide concessional loans but lend through export-import banks, where markets guide their terms. Funds from some UN agencies such as the World Food Programme (WFP) are also no longer accessible unless in exceptional circumstances such as natural disasters. Concessional funding from the ADB's Asian Development Fund (ADF) and the World Bank's International Development Association (IDA) is also on the decline.²²⁸ While the World Bank, for example, sees the need for a set of behavioural and structural changes such as realigning public spending and policy in line with Sri Lanka's middle-income status, the situation seems to lead to the government exploring other borrowing opportunities without such conditions, and reducing the level of engagement with traditional donors.²²⁹ In such a setting, China has become a crucial donor, lender and an investor.

According to the report of the External Resources Department of the Ministry of Finance and Planning of Sri Lanka titled *Global Partnership Towards Development*, external financing arrangement in recent years consists of concessional credit from IDA, ADB, Japan, China, India, Korea, Saudi Arabia, Kuwait and the OPEC Fund for International

²²⁶ Global Partnership towards development, 5.

²²⁷ Amarasinghe and Rebert, *Dynamics and trends of foreign aid in Sri Lanka*, 11.

²²⁸ Ibid.

²²⁹ Ibid.

Development (OFID).²³⁰ When Sri Lanka became an upper middle-income country, the government had to resort to non-concessional borrowings such as export credit, commercial credit and also tapping into international capital markets to finance viable development projects.²³¹ While the Sri Lankan government had set a goal to maintain a public investment to GDP ratio of around 6% during 2002-2013, inadequate private financing led the government to bridge the investment gap to realize the country's development goals. The concessional financing that the country has enjoyed over the last several decades was on the decline and as such, Sri Lanka only had access to a limited range of concessional funding from IDA, ADB, the UN agencies, selected bilateral development partners and dedicated development funds.²³² The report also points out that nevertheless, major bilateral partners including China, India, Japan, Middle East and multilateral partners including the World Bank and the ADB will continue to perform as major development partners during the next five years in terms of their continued assistance and ongoing projects.²³³

Another aspect is that foreign financing raised by the government for development projects is appraised not only on its financial terms, but also by examining the purpose for which such foreign financing is used and their return overtime to ensure that they create a more revenue-generating asset base.²³⁴ The underlying principle is that the assets created or services produced through these projects should be able to generate adequate economic returns to meet the debt service obligations arising from that particular borrowing.²³⁵ Therefore, another reason for the island nation to reach out to China for development aid could be due to lack of multilateral organization and Western funding for the Hambantota port project.

3.5 The changing foreign policy of Sri Lanka

In addition to Western countries and multilateral organizations moving away for diverse reasons, ever since the Mahinda Rajapaksa government came into power in 2005, Sri Lanka distanced itself from its traditional funding partners such as ADB, IMF, the World Bank and such multilateral organizations and Western countries. During the nine-year tenure of President Rajapaksa, the Sri Lankan foreign policy clearly shifted away from the West and inched closer to China. The *Mahinda Chintana* policy of the government provided the basis

²³⁰ Global Partnership towards development, 3.

²³¹ Ibid.

²³² Ibid, 5.

²³³ Ibid, 4.

²³⁴ Ibid, 6.

²³⁵ Ibid, 10.

for all development activity.²³⁶ While continuing to be a non-aligned nation, the government increasingly sought funding from non-traditional partners such as China and India as they are not at odds with Sri Lankan government's domestic and foreign policy. This was partly because 'Western based' processes of aid disbursement, effectiveness and engagement were seen as being out of sync with ground realities and Asian cultural norms in Sri Lanka.²³⁷ Non-traditional donors such as China do not follow the same type of traditional development partner measures of effectiveness, which are driven by the desire for social justice, inclusiveness, transparency and accountability.²³⁸ This has resulted in the government preferring loans and assistance from these non-traditional donors rather than traditional donors such as Western countries and diverse multilateral organizations.

3.6 China's willingness to invest

Another reason behind the perception of China as a favourable lender is that China is 'forthcoming' with their development support and even willing to fund high-risk investments. China's Ministry of Commerce and the Exim Bank have a mandate to strengthen China's economy that extends development aid through these projects.²³⁹ This approach is closely linked to the twin objectives of securing resources such as oil and minerals for China's consumption and for expanding markets for China's growing manufactured goods. According to the Exim Bank's financing model of "resources for infrastructure" repayment of the loan for infrastructure development could be made in terms of natural resources.²⁴⁰ Large Chinese companies could outbid many other construction companies by promising substantial aid and investments because they have the backing of the Chinese government and financial institutions.²⁴¹ Another advantage that China has is their lower labour costs and a pool of Chinese labourers.²⁴² According to Prof. Imtiaz Ahmed, China remains important largely

²³⁶ Mahinda Chinthana is the socio- political, and economic development agenda of the Mahinda Rajapaksa government. The policy was released as the election mandate of President Rajapaksa in 2005. Mahinda Chinthana- Vision for the future was released when Rajapaksa sought a second mandate. See, Sri Lanka-The Emerging Wonder of Asia-Mahinda Chinthana- Vision for the future, (Sri Lanka: Department of National Planning, 2010), <http://www.president.gov.lk/pdfs/MahindaChinthanaEnglish.pdf>. Accessed December 4, 2014; See also, Mahinda Chinthana,

http://www.asiantribune.com/sites/asiantribune.com/files/Mahinda_Chinthana.pdf. Accessed on June 8, 2015.

²³⁷ Amarasinghe and Rebert, *Dynamics and trends of foreign aid in Sri Lanka*, 11.

²³⁸ Ibid.

²³⁹ Brautigam, *The dragon's gift*, 11.

²⁴⁰ "China in Africa," Institute of Developing Economies- Japan External Trade Organization, http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html. Accessed May 8, 2015.

²⁴¹ Patrick Develtere, *How Do We Help? the Free Market of Development Aid*, (Leuven: Leuven University Press, 2012) 43.

²⁴² Chris Alden, *China in Africa*, (London: Zed Books, 2007) 13.

<http://search.ebscohost.com/login.aspx?direct=true&scope=site&db=nlebk&db=nlabk&AN=621417>.

because it has surplus money and other countries do not have such large funds. Referring to India's displeasure at involving China to fund the proposed Sonadia island port in Bangladesh, he says, "Indians may make all the noise, but China has financial resources. When it comes to funds, the way in which they [China] can give, I doubt other countries can give."²⁴³ He further points out that China also does not mix politics with economy or culture and refers to this approach of keeping politics separate from economic, cultural and other relations as a 'yin and yang' approach.²⁴⁴ According to him, Bangladesh and China have been able to have successful relations partly because China does not mix separate aspects of bilateral relations.

Further, China has a reputation for investing in countries with higher political risk. True to this perception, China-funded infrastructure projects in South Asia are high-risk ventures in which no other multilateral organization or Western donor country wants to be involved in.²⁴⁵ China's financial institutions have taken bold steps towards taking on these high-risk ventures. According to Pakistan's Brigadier Nadir Mir, China is forthcoming and supportive. They are building not only Gwadar but other parts as well; at the time of writing they have invested over US\$42 million in many projects including Gwadar. China has been a friend and a supporter of Pakistan, and the loans that China extends are not loans in the real sense because even if they are initially given as loans, over a period of time they actually become a grant or aid. "So it is not loans like the loans that Pakistan is getting with the IMF... That's the beauty of the Pakistan-China relationship," Mir says.²⁴⁶

Gwadar port in Pakistan is located in rural Balochistan, which is the least developed region in the country. Until China built this port, the region did not even have a proper road that connected it to Karachi.²⁴⁷ With the Baloch separatist movement, the region is further unstable, making massive investments in the region extremely high-risk ventures. Similarly, Hambantota in Sri Lanka is a rural region as well as the hometown of former President Mahinda Rajapaksa. Though the region used to be a sleepy fishing hamlet until a decade ago, since he assumed power, the government has made many large investments in the region. In a

²⁴³ Prof. Imtiaz Ahmed, interview.

²⁴⁴ Ibid.

²⁴⁵ Jiann-jong Guo, Guo-chen Wang, and Chien-hung Tung, "Do China's Outward Direct Investors Prefer Countries with High Political Risk? An International and Empirical Comparison," *China & World Economy*, 22(6), (2014): 22-43; Pang Xun, "A Look Ahead to Emerging International Financial Institutions," Carnegie-Tsinghua Center for Global Policy, March 4, 2015, <http://carnegietsinghua.org/2015/03/04/look-ahead-to-emerging-international-financial-institutions>. Accessed May 15, 2015.

²⁴⁶ (Retd.) Brigadier Nadir Mir, interview.

²⁴⁷ Nadir Mir, *Gwadar on the global chessboard: Pakistan's identity, history and culture*, (Lahore: Ferozsons, 2010) 29.

2010 interview with Singapore's Straits Times, former President Rajapaksa said, "...take Hambantota port. It was offered to India first. I was desperate for development work. But ultimately the Chinese agreed to build it."²⁴⁸ His words also suggest that China takes on the risky projects that no one else would invest in. However, with limited economic activity and human resources, the development and prosperity expected from these massive development projects will take many years to come.

Further, President Rajapaksa's words above also show that it is in fact these countries that reach out to China to invest in infrastructure projects. When one looks at China's relations with Pakistan, Sri Lanka and Bangladesh, we can see that the leaders of these countries actively seek investments from China. With periodic high level visits, they place great importance on maintaining their good relations with this rising Asian giant.²⁴⁹ As Brigadier Nadir Mir puts it, "China is forthcoming" with its investments and loans, and ever so willing to make use of opportunities to engage in development activities in the region.²⁵⁰ His words indicate China's voracious appetite for infrastructure development in particular. In South Asia, most of China's involvement is in much needed infrastructure development. They indicate South Asian governments' acting with agency to reach their political and development goals and also influencing the balance of power in the region.

Responding to the question why Pakistan reached out to China for developing infrastructure, a senior officer of Gwadar points out that Pakistan and China have strong friendship ties. Pakistan can depend on China and the Chinese have always been supportive of Pakistan during adverse situations. According to him, this is why Pakistan has decided to rely on China; they are time-tested friends.²⁵¹ His view is supported at the highest level of state as well. During the visit of Pakistani Prime Minister Nawaz Sharif in November 2014, Chinese President Xi Jinping pointed out that China and Pakistan are 'iron friends' and all-weather partners of strategic cooperation. Prime Minister Nawaz Sherif pledged that Pakistan hopes to actively participate in the construction of the "One Belt- One Road," which refers to

²⁴⁸ Velloor, "A Man Who Loves His Country. "

²⁴⁹ According to the Embassy of Pakistan in China, from 2009 there have been more than nine visits to China by the President of Pakistan, most of them during the tenure of President Asif Ali Zardari, and more than five visits by the Prime Minister. Besides those visits of the President and Prime Minister of Pakistan to China, a number of other high level visits including those of Chairman Senate, Speaker and Deputy Speaker National Assembly; a number of Ministerial delegations, Chairman Benazir Income Support Programme and delegations from different political parties from Pakistan have visited China. Chinese Prime Minister visited Pakistan twice and most recently Chinese President visited Pakistan in April 2015. See, "High level visits," Embassy of Islamic Republic of Pakistan Beijing, China, http://www.pakbj.org.pk/High_Level_Visits. Accessed May 10, 2015; Haider, Mateen and Irfan Haider, "Economic corridor in focus as Pakistan, China sign 51 MoUs," *Dawn*, April 20, 2015, <http://www.dawn.com/news/1177109>. Accessed May 10, 2015.

²⁵⁰ (Retd.) Brigadier Nadir Mir, interview.

²⁵¹ A senior government official in Gwadar, e-mail interview with the author, January 23, 2015.

the overland links between China and Pakistan, and strengthen cooperation with China in the field of infrastructure construction such as power, roads and ports.²⁵² Contrary to arguments that support the string of pearls theory, they are not helpless pawns in China's great game in the Indian Ocean.²⁵³

3.7 China's expertise in infrastructure development

In any country, when authorities determine the source of foreign financing, they carefully assess the advantages of engaging different lending institutions in different economic sectors and development projects. In the process of working with potential sources of financing, they take into consideration the cost of borrowing, past experience, systems and procedures, conditionality and technical expertise of the respective lenders.²⁵⁴ In the ports sector, China has a major advantage due to its expertise in building ports and such large infrastructure.²⁵⁵

According to Sean van Dort, the Chairman of Sri Lanka Shippers' Council, Chinese workers have a solid knowledge of construction and their productivity is higher than that of Sri Lankan labourers. He points out that unlike in other South Asian countries, Sri Lankan labour is not cheap and local experts in construction have already left for other countries and regions such as the Middle East. Further, thirty years of conflict have taken away the knowledge of construction and today, the young people in Sri Lanka do not like to work as labourers. He notes that for large-scale projects such as ports there should be workers with experience, which China provides. Furthermore, he says that with regard to Chinese investments, "it is a complete package that they offer."²⁵⁶

Md. Rezaul Karim, Chairman of the Shippers' Council of Bangladesh states that when looking for investors for the Chittagong and the proposed Sonadia island port, the Bangladeshi government explored different donors and found China to be the best option to build such a mega project. He says that China is technically sound and has experience. These factors led to acceptable offer for the government of Bangladesh.²⁵⁷ In addition to China's expertise in this field, a senior customs officer in Gwadar, Pakistan points out that, unlike the

²⁵² "Xi Jinping Meets with Prime Minister Nawaz Sharif of Pakistan," Ministry of Foreign Affairs of the People's Republic of China, November 8, 2014, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1209091.shtml. Accessed November 20, 2014.

²⁵³ Charitha Ratwatte, "Necklace of islands: A battle for influence," *DailyFT*, February 14, 2012, <http://www.ft.lk/2012/02/14/necklace-of-islands-a-battle-for-influence/>. Accessed November 20, 2014.

²⁵⁴ Global Partnership towards development, 11.

²⁵⁵ Barboza, "In China, Projects to Make Great Wall Feel Small,"

²⁵⁶ Sean van Dort, Chairman, Sri Lanka Shippers' Council, telephone interview with the author, January 18, 2015.

²⁵⁷ Md. Rezaul Karim, interview.

previous operators of Gwadar Port (Port of Singapore Authority), Chinese operators will be less pressured from other regional and global players. From the perspective of Pakistanis, this is also a good reason to have Chinese investment.²⁵⁸

Not only Chinese expertise, but also their effectiveness is another reason for Chinese contractors to be preferred by many governments. Commodore Jayaratne vouches that he “personally saw how the Chinese workers were committing to their job on schedule when Chinese contractors built the road segment from Kadawata to Kiribathgoda in Sri Lanka.”²⁵⁹ Sean van Dort also supports this view when he says, “the productivity of the Chinese labour is higher. If there are two Sri Lankans working there are five people supervising them. But when Chinese are working, even if there are ten people working, there are no supervisors.” For developing countries that are striving to accelerate their crucial infrastructure, it is important to have contractors who deliver projects on time and Chinese companies and investors provide these timely services. It is yet another reason for these governments to choose China over other investors.

Therefore, Pakistan, Sri Lanka and Bangladesh consider China as an alternative development partner to multilateral organizations and Western countries, which are the traditional donors and development partners of these countries. China’s lack of interest in interfering with internal affairs of other states and lack of conditionalities on human rights, democracy and good governance attached to Chinese funding are some of the main reasons for these developing nations to consider China as a preferred alternative. Another cause for China to gain prominence as an infrastructure investor is because in recent times Western countries distanced themselves from Pakistan and Sri Lanka due to terrorism and alleged war crimes, which eventually resulted in these countries’ increasingly close relationship to China. Further, when Sri Lanka reached middle-income status, access to multilateral funding sources became even more limited. This was another reason for reaching out to China as an alternative source of funding. On the other hand, many developed nations such as the US and European countries lack both interest and resources to invest in these large scale infrastructure projects in South Asia. Over the last decade China has also emerged as an expert in port construction, which has also had an impact on these countries choosing China specifically for these port projects.²⁶⁰ Government policies of Pakistan, Sri Lanka and Bangladesh to strengthen ties with rising China were another cause for regarding China as an

²⁵⁸ A senior government officer in Gwadar, Pakistan, telephone interview with the author on February 2, 2015.

²⁵⁹ Commodore Y. N. Jayaratne, interview.

²⁶⁰ Brautigam, *The dragon's gift*, 133.

alternative funder. Based on all these factors, Pakistan, Sri Lanka, and Bangladesh consider China as an alternative and a favourable development partner.

Chapter 4: CHINA AS A COUNTERBALANCE TO EXTERNAL INFLUENCES

In this Chapter, I examine another reason for countries in South Asia to reach out to China for funding their infrastructure projects. While China is perceived as a favourable alternative financier for large scale projects, that is not the only reason for these countries to approach China and to try to maintain closer ties with this emerging super power. Many relatively smaller powers in South Asia perceive China as a way to balance the influence of India in the region and other international actors such as the UN.²⁶¹

India has long seen itself as the natural leader in the Indian Ocean region and wants to ensure that this namesake ocean remains India's Ocean.²⁶² However, many countries both within and outside the region consider that the Indian Ocean is not only India's backyard but also a region to which both littoral states and outside powers have a claim.²⁶³ This is specially the case with China, because as discussed in Chapter 2 of this thesis, China conducts its international trade in the Indian Ocean. David Brewster points out that some consider an Indian sphere of control in the region as essential for India to become a global power and notes that while India officially rejects territorial ambitions or any aspirations on regional hegemony, India has long had ambitions to be the dominant power in the region.²⁶⁴ Brigadier Nadir Mir says, "India has hegemonic ambitions", but David Brewster points out that while India's neighbours are resentful of Indian hegemony, they also tend to be more or less discreet in dealing with India's presumptions and generally prudent in the extent of their security relationships.²⁶⁵ A high-ranking official in Sri Lanka says, "we have a love-hate relationship with India," and these words sum up the perception of India by many of its neighbours.

India is the biggest country in South Asia in terms of population, geography, military, economic and political capability. Countries such as Bangladesh and Pakistan were part of India prior to independence. During the British Raj, the relationship between Delhi and its

²⁶¹ Mahinda Werake, "The China Factor in South Asia: Myths and realities" in *Security Dilemma of a Small State- Part One- Sri Lanka in the South Asian context*, ed. P.V.J. Jayasekera (New Delhi. South Asian Publishers, 1992) 389.

²⁶² David Brewster, *India's ocean: the story of India's bid for regional leadership*, (New York: Routledge, 2014) 1.

²⁶³ Harsh V. Pant, "India in the Indian Ocean: Growing Mismatch Between Ambitions and Capabilities," *Pacific Affairs* 82 (2), (2009).

²⁶⁴ Brewster, *India's Ocean*, 11.

²⁶⁵ Ibid, 27.

periphery or smaller states were perceived as one of suzerainty.²⁶⁶ During the colonial era, New Delhi directly governed India's current neighbours Pakistan and Bangladesh while Sri Lanka was separately administered by Britain in a manner consistent with New Delhi's interests.²⁶⁷ Therefore, India believes that it can exhort power on its neighbours which were previously part of India, as well as over other smaller states such as Sri Lanka and Maldives. As a result, independent India continues to expect that the neighbouring states would continue to act in a manner that is consistent with the interests of New Delhi and not form strategic attachments with potentially hostile states.²⁶⁸ This is particularly true in the case of China, as whenever China enters into agreements with India's neighbours, such as Pakistan, Sri Lanka or Bangladesh, India perceives it as a threat to their national interest and as a part of a Chinese plan to contain India.²⁶⁹ Brewster writes that links between China and India's other South Asian neighbours such as Bangladesh, Nepal, Pakistan and Sri Lanka, whether economic, political or defence-related, are often seen in New Delhi as illegitimate and aimed at India.²⁷⁰ He also points out that India's attempts to assert regional hegemony based on what is known as India's "Monroe Doctrine" have long faced resistance from its neighbours. He notes the main features of this Monroe Doctrine as follows:

- India has no intention of interfering in the internal conflict of a South Asian country and it strongly opposes intervention by any other.
- India will not tolerate external intervention in a conflict situation in any other South Asian country, if the intervention has any implicit or explicit anti-Indian implication.
- No South Asian government should therefore ask for external assistance with an anti-Indian bias from any country.
- If a South Asian country genuinely needs help to deal with a serious internal conflict situation or an intolerable threat to a government legitimately established, it should ask for help from a number of neighbouring countries, including India.
- The exclusion of India from such a contingency will be considered to be an anti Indian move on the part of the government concerned.²⁷¹

According to C. Raja Mohan, a strategic affairs editor of the Indian Express, New Delhi prevented its neighbouring countries from granting military bases and facilities to great

²⁶⁶ Ibid, 25.

²⁶⁷ Ibid.

²⁶⁸ Ibid, 26.

²⁶⁹ David Brewster, "Sri Lanka tilts to Beijing," East Asia Forum, November 26, 2014, <http://www.eastasiaforum.org/2014/11/26/sri-lanka-tilts-to-beijing/>. Accessed May 10, 2015.

²⁷⁰ Brewster, *India's Ocean*, 29.

²⁷¹ Ibid, 25.

powers.²⁷² It is also this attitude that India has adopted towards its neighbours which make personnel such as retired Brigadier Hafiz from Bangladesh state “while India considers the security of the smaller nations to be integral to her own, they perceive India as their principal source of insecurity.”²⁷³ The perception of India from the point of view of neighbouring countries is aptly captured when Brigadier Nadir Mir from Pakistan says, “the problem in the SAARC is the shark, and the shark of course is India.”²⁷⁴

Ever since India’s independence from the British, it has had border disputes with its neighbours such as China (1962), Pakistan (1947, 1965, 1971, 1999), Bangladesh (Teen Bigha corridor) and Nepal (Kalapani area, 1962 and 1997).²⁷⁵ Its fisheries dispute with Sri Lanka is a continuing diplomatic row between the two countries. India also conducted several military interventions in its neighbouring countries: Bangladesh in 1971,²⁷⁶ Sri Lanka in 1971 and from 1983-90 when India sent the Indian Peace Keeping Forces to Sri Lanka, which not only failed to put down the fire in the north but also ignited the south.²⁷⁷ Brewster points out that India justified these interventions as being in response to imagined or real fears about the influence of what is regarded as outside forces or protecting Indian ethnic minorities. India’s belief in its special regional role was strongly reinforced by its successful military intervention in East Pakistan (Bangladesh).²⁷⁸ This was seen as proof that India could use force to order the strategic affairs of South Asia even in the face of US opposition. However, India’s disastrous intervention in Sri Lanka in the 1980s changed this perception.²⁷⁹ India’s intervention in Sri Lanka and the image of India as a regional bully pushed New Delhi to try to demonstrate greater awareness of local political sensitivities and greater self-restraint in its dealings with its neighbours.²⁸⁰ However, when one looks at present day South Asia in light of India’s reactions to Chinese investments in ports in its neighbouring countries one could see that India still wields a considerable amount of power on its neighbours. One of the instances that clearly manifests India’s influence on its neighbours was the case of the proposed Sonadia Island port project in Bangladesh. In January 2015, Bangladesh’s Planning

²⁷² C. Raja Mohan, “The return of the Raj- India should be America’s key strategic partner in 21st-century Asia,” *The American Interest*, May 1, 2010, <http://www.the-american-interest.com/2010/05/01/the-return-of-the-raj/>. Accessed April 4, 2015.

²⁷³ Brewster, *India’s Ocean*, 27.

²⁷⁴ (Retd.) Brigadier Nadir Mir, interview.

²⁷⁵ Gupta and Sharma, *Contested coastlines*, 149.

²⁷⁶ Gupta and Sharma, *Contested coastlines*, 149.

²⁷⁷ Gamini Keerawella, “Indian Intervention in Sri Lanka,” in *Security Dilemma of a Small State –a Part two- Internal crisis and external intervention in Sri Lanka*, ed. Mahinda Werake et al. (Sri Lanka: Institute for International Studies, 1995).

²⁷⁸ Brewster, *India’s Ocean*, 28.

²⁷⁹ Ibid.

²⁸⁰ Ibid.

Minister A.H.M. Mustafa Kamal stated that the Bangladeshi government was rethinking about the proposed Sonadia deep sea port project and added that some countries, including India and the United States, are against the Chinese involvement, and the Bangladeshi government does not want to displease any of these influential countries.²⁸¹ But, according to China, international relationships of India's neighbours are exclusively for them to decide and it is not acceptable for India to place limits on their relationships.²⁸² China often acts in contradiction of India's Monroe Doctrine, but at the same time it also pays some heed to India's sensitivities.²⁸³ Admiral Arun Prakash, the former Indian chief of Naval staff is of the view that appropriate counter to China's encirclement of India is to build India's own relations, particularly in its neighbourhood, on the basis of its national interests and magnanimity towards smaller neighbours.²⁸⁴ But the Indian government is yet to heed this advice.

4.1 Fears of encirclement

A closer look at South Asia as well as Asia in general reveals that one of the biggest fears for many countries in the region is strategic encirclement. India fears encirclement by China, while Pakistan fears encirclement by India.²⁸⁵ On the other hand, China fears encirclement by the US, based on the close relations that US has with Japan, Taiwan, South Korea and also its military presence in Afghanistan.²⁸⁶ In South Asia, foreign policy and actions of countries such as India and Pakistan are based on this fear of strategic encirclement. When countries in South Asia reach out to China to fund their infrastructure projects, sometimes they are also driven by the fact that closer ties with China will be a way to balance power with India. This is particularly true, in the case of Pakistan, which has deep-rooted problems with neighbouring India.

4.2 Sino-Pakistan relations as a way of balancing power in the region

According to Brigadier Nadir Mir, Pakistan has been trying to balance India from its inception. "Is Pakistan coming too close to China to balance India? Of course it is...we are

²⁸¹ Kayes Soheli, "Sonadia deep sea port plan may be dumped," *Dhaka Tribune*, January 11, 2015, <http://www.dhakatribune.com/business/2015/jan/11/sonadia-deep-sea-port-plan-may-be-dumped>. Accessed April 4, 2015.

²⁸² J. W. Garver, "China and South Asia," *The ANNALS of the American Academy of Political and Social Science* 519(1), (1992): 67-85.72.

²⁸³ Brewster, *India's Ocean*, 27.

²⁸⁴ Admiral Arun Prakash, "China and the Indian Ocean Region," *Indian Defence Review*, December 15, 2010, <http://www.indiandefencereview.com/news/china-and-the-indian-ocean-region/0/>, Accessed March 31, 2015.

²⁸⁵ Mohan Malik, "India Balances China," *Asian Politics & Policy* 4(3), (2012): 345-376.

²⁸⁶ Daniels, "Strategic competition in South Asia," 93.

getting close to China because it is mutually beneficial,” he says. Mir points out that what Pakistan needs is peace in this region for Pakistan, for China, for India and for everybody.²⁸⁷ In the case of India and Pakistan, the two countries have a history of deep mutual distrust dating back to independence from the British. They have fought three wars with each other over the disputed Kashmir region.²⁸⁸ Pakistan worries that India’s investments in diplomatic and military installations in Afghanistan, coupled with a continued US military presence, are a deliberate plan to constrain the world’s only Muslim power armed with nuclear weapons.²⁸⁹ Asifa Jahangir points out that Pakistan’s strategic imbalance of power against India pushes Pakistan towards China and *vice versa*.²⁹⁰

Sangit Sarita Dwivedi explains Pakistan’s interest in attracting Chinese investments by citing Kenneth Waltz. She points out that according to Waltz, states in the international system have one of two ways of dealing with their perceived aggressors: they can balance against such aggressors, either with their own capabilities, which is called an internal balancing, or join like-minded states against the aggressor, which is known as external balancing.²⁹¹ In her article she tests the validity of this ‘balance of threat’ theory to explore threat perceptions of Pakistan and the strategy that Pakistan has developed to cope with security threats.²⁹² She discusses the manner in which Pakistan actively reaches out to China for investments and resorted to an active alliance with China to increase its competency.²⁹³

Even though the Sino-Pakistani relationship evolved on the back of a joint concern about India, the level of importance attached to this aim was vastly different for Pakistan and for China. In the case of Pakistan, achieving parity, if not superiority over India, in conventional and non-conventional weapons is undoubtedly an overriding aim.²⁹⁴ However, at present there is no clearly definable balance of power arrangement in the Indian Ocean region.²⁹⁵ Therefore, China’s investments in Gwadar may allow Pakistan to be more

²⁸⁷ Mir refers to Zbigniew Brzezinski, who stated that India is geopolitically contained by Chinese-Pakistani cooperation. See, Zbigniew Brzezinski, “A Geostrategy for Eurasia,” *Foreign Affairs*, September 1997, <https://www.foreignaffairs.com/articles/asia/1997-09-01/geostrategy-eurasia>. Accessed June8, 2015.

²⁸⁸ Daniels, “Strategic competition in South Asia,” 94.

²⁸⁹ Ibid.

²⁹⁰ Asifa Jahangir, Changing dynamics of South Asian balance-of-power, *Journal of South Asian Studies* 1(1), (2013), 50-58, 54.

²⁹¹ (Waltz, 1979: 168) as cited in Sangit Sarita Dwivedi, “Exploring Strategies and Implications of an Opportunistic Alliance: A Case Study of Pakistan and China,” *Asian Journal of Political Science* 21(3), (2014): 306–327, 308.

²⁹² Dwivedi, “Exploring Strategies and Implications of an Opportunistic Alliance,” 306.

²⁹³ Ibid 327.

²⁹⁴ Jacob, “China-Pakistan Relations,” 218.

²⁹⁵ Daniels, “Strategic competition in South Asia,” 93.

aggressive towards India.²⁹⁶ This will contain India, and both Pakistan and China are keen to prevent India from becoming a regional hegemony.

In response to China's funding of a deepwater port in Pakistan, India funded Chabahar port in Iran. India's development of an air base in Tajikistan has further deepened Pakistan's fears of strategic encirclement.²⁹⁷ In the future, if Gwadar acts as a Chinese Naval Base, or as a Pakistan-China cooperative base, it would be enough to check India's progress in the Indian Ocean.²⁹⁸ It is important from a military perspective as well because it will contain not only the Indian Influence but also US power over the Indian Ocean.²⁹⁹ India is not the only concern for both Pakistan and China. Both countries are keeping an eye on the US involvement in the region as well. Increased relations between the US and India, such as 2005 US-India Civil Nuclear Co-operation Agreement, military cooperation and increased technological transfers have made Pakistan seek similar relations with Beijing.³⁰⁰

4.3 Protecting against Indian aggression

Andrew Small points out that the Pakistani military has a continued desire to act as a counterbalance to India.³⁰¹ Gwadar is not merely a port that promotes trade; it also serves a considerable strategic purpose and has a key role to play in maintaining the balance of power in the region. Some argue that the primary motive behind the Gwadar Port is strategic rather than economic.³⁰² While building a port in Gwadar has been a long felt desire for Pakistan, it was especially so after the Indian navy blockaded Karachi port during the war in 1971.³⁰³ Therefore, Gwadar was built to meet a strategic need: the requirement that Pakistan has an alternative port to Karachi. Pakistan's two existing ports, Karachi and Bin Qasim, are located in close proximity to India, and in case of a conflict, India can easily block these ports.³⁰⁴ During the Kargil conflict in 1999, India threatened to blockade the Karachi port. Therefore, building Gwadar was also a way to have a port that India cannot block as it is

²⁹⁶ Ibid, 99.

²⁹⁷ Ibid, 94

²⁹⁸ Farooq Yousaf, "Gwadar Port: Chinese Acquisition, Indian Concerns and Its Future Prospects", *Spotlight South Asia* 10 (2013).

²⁹⁹ Farooq, "Gwadar Port."

³⁰⁰ Duchâtel, "The Terrorist Risk and China's Policy toward Pakistan," 545.

³⁰¹ Gabriel Domínguez, "The Sino-Pakistani axis: Asia's 'little understood' relationship," January 15, 2015, <http://dw.de/p/1ELCq>. Accessed February 23, 2015.

³⁰² Azmat Budhani and Hussain Bux Mallah, "Mega Projects in Balochistan," Collective for Social Science Research (2007) 15, http://www.researchcollective.org/Documents/Mega_Projects_in_Balochistan.pdf. Accessed July 11, 2014.

³⁰³ Ziad Haider, "Baluchis, Beijing, and Pakistan's Gwadar Port," *Georgetown Journal of International Affairs*, (2005): 95-103, 98.

³⁰⁴ Budhani and Mallah. "Mega Projects in Balochistan," 7.

located so far away from the Indian subcontinent.³⁰⁵ Pakistan uses its relations not only with China, but also with Central Asia to encourage its neighbours to deny India a base from which it can pressure or even destabilize Pakistan.³⁰⁶

On the other hand, some point out that India is no longer the central concern in the Sino-Pakistani relationship, but New Delhi's capacity to play the game-changer in relationship has increased over time.³⁰⁷ Compared to Pakistan, India has become a bigger and a more important economic partner for China, but Pakistan is keen on continuing to attract Chinese investments to Pakistan to keep China involved in Pakistan to protect itself from possible Indian aggression.³⁰⁸ Chinese investors have also expressed their intention to build an industrial park in Gwadar.³⁰⁹ This kind of Chinese involvement in the region is what the Pakistan government and its pro-China intellectuals would like to see. Pakistani scholars urge the Pakistan government to attract Chinese investments for projects in the Gwadar region so that it can act as an indispensable trade conduit for Western China.³¹⁰ This persuasion to get China more involved in the region's investment is not merely based on a trade interest. It will also give China, a major power in the region, to have an interest in the security and stability in the region. The very Chinese presence and interest in the region will act as a deterrent against clashes between India and Pakistan. According to Najam Rafique, closer ties with China will allow Pakistan to approach China for military and other hardware it would not get from other countries such as the US and Europe, which in turn keeps the balance of deterrence *vis à vis* India.³¹¹

4.4 China as a powerful friend at international for a

Not only regarding balancing power against India, China has also been a formidable friend to these countries by supporting them in diverse international fora. In 2012, China was strongly against the United States backed UN Human Rights Council Resolution against Sri

³⁰⁵ Ibid.

³⁰⁶ C. Christine Fair, "Pakistan's Relations with Central Asia: Is Past Prologue?," *Journal of Strategic Studies*, 31(2), (2008); 201-227, 202.

³⁰⁷ Jacob, "China-Pakistan Relations," 217.

³⁰⁸ Inayat Kaleem, "Pakistan's Gwadar Port- Prospects of Economic Revival and inter regional prosperity," *SASSI Research Report* 24, (London: South Asian Strategic Stability Institute, 2009) 11.

³⁰⁹ "Chinese investors ready to build Industrial Park in Gwadar," *Daily Times*, July 19, 2014, <http://www.dailytimes.com.pk/business/19-Jul-2014/chinese-investors-ready-to-build-industrial-park-in-gwadar>. Accessed July 25, 2014.

³¹⁰ Kaleem, "Pakistan's Gwadar Port" 11.

³¹¹ Najam Rafique, interview.

Lanka.³¹² Supporting Sri Lanka against the UNHRC resolution, the former Chinese Foreign Ministry spokesperson Hong Lei stated that China opposes “using a country-specific human rights resolution to impose pressure” and China believes that the Sri Lankan government and people are capable of handling their own affairs.³¹³ Even prior to the UNHRC resolution, China extended considerable support to Sri Lanka to fight the LTTE. According to Admiral Colombage, military, trade and cultural connections between China and Sri Lanka improved during the last five years compared to previous periods.³¹⁴ India’s retired Colonel Hariharan writes that China helped Sri Lanka during the war when Sri Lanka was “let down by friends.”³¹⁵ China provided arms and ammunitions to Sri Lanka and this Chinese assistance has been widely appreciated by the former President Rajapaksa and most of the Sri Lankans, who were disappointed with India, which they expected would support them.³¹⁶

Not only with regard to the war, a senior lecturer at the Kotalawela Defence University of Sri Lanka points out that China supported Sri Lanka’s entry to the ASEAN Regional Forum (ARF) in 2007. China also supported Sri Lanka to become a dialogue partner at the Shanghai Cooperation Organisation (SCO), and Sri Lanka became a dialogue partner in 2009. At present, Sri Lanka is trying to become an observer in the SCO and China has pledged to support Sri Lanka’s candidacy for Observer status in the SCO.³¹⁷ As discussed in Chapter 2, Sri Lanka and Pakistan helped China join numerous international organizations as well. In that sense, the relations between the countries are also based on mutual support.

Similarly, after the assassination of Osama Bin Laden, China was the only powerful country that openly supported Pakistan for having its territorial integrity violated. China not only openly expressed its support to Pakistan, but also delivered 50 new JF-17 Thunder multi-functional fighter jets and promised to provide Pakistan with combat aircrafts with stealth technology.³¹⁸ Thus, with its increasing power, China is becoming a very useful and a powerful friend with whom these countries like to maintain closer ties. All these close ties with China and these South Asian countries are based on long standing and time tested

³¹² Gary Cameron, “China backs Sri Lanka over U.S. rights complaint,” Reuters, January 22, 2014, <http://www.reuters.com/article/2014/02/11/us-china-srilanka-idUSBREA1A0TI20140211>. Accessed January 10, 2015.

³¹³ Ananth Krishnan, “China backs Sri Lanka on UNHRC Resolution,” *The Hindu*, March 23, 2012, <http://www.thehindu.com/news/international/china-backs-sri-lanka-on-unhrc-resolution/article3088478.ece>. Accessed November 15, 2014.

³¹⁴ (Retd.) Admiral Jayanath Colombage, interview.

³¹⁵ R. Hariharan, “China’s Strategic Presence In Sri Lanka,” *Colombo Telegraph*, September 1, 2013,

³¹⁶ Ibid.

³¹⁷ A Senior lecturer at the Kotalawela Defence University, Sri Lanka, interview with the author, November 27, 2014.

³¹⁸ Rousseau, “How China and Pakistan Shift the Balance of Power in South Asia.”

friendships that China has nurtured with these countries through decades. China's relations with Pakistan and Sri Lanka span more than 60 years and often China has been an "all-weather friend" to Pakistan.³¹⁹ China has also described Pakistan to be a "most reliable friend."³²⁰

In the case of Bangladesh, according to Prof. Imtiaz Ahmed of the Dhaka University, when Bangladesh came into being, China was supporting Pakistan and when China entered the UN, the first veto China cast was against Bangladesh's entry to the UN. But from thereon, relations have developed to an extent that today there is hardly any anti-Chinese sentiment in Bangladesh. On the other hand, there is a large number of anti-Indian Bangladeshis despite India having actually helped Bangladesh in 1971, says Prof. Ahmed. He notes that the foreign policy of China is very different from India, which is the reason behind the favourable outlook people have towards China.

It is also interesting to note how some have pointed out that Sri Lanka in particular was making use of the strategic rivalry between China and India and playing them off against each other to gain many benefits from both China and India.³²¹ President Mahinda Rajapaksa visited China seven times during his nine years in office, which suggests the closer links that his government had with China.³²² China and India are Sri Lanka's biggest trade partners, donors and investors. Similar to China, since 2008 Indian development assistance to Sri Lanka has significantly increased and more than 50% of its investments in SAARC countries are located in Sri Lanka.³²³

Nilanthi Samaranayaka of the Centre for Naval Analysis, points out that in the case of Pakistan's reaching out to China, there is an element of balancing power with India, but it is not the case in Sri Lanka or Bangladesh. She states that former Sri Lankan president Mahinda Rajapaksa went out of his way to consult with the Indian government and not to antagonize India in its dealings with China. She also points out that countries in South Asia reaching out to China also signalled to India to not take its neighbours for granted, because by helping its neighbours India itself will benefit.³²⁴ Najam Rafique points out that Chinese investments in

³¹⁹ Feigenbaum, "China's Pakistan Conundrum."

³²⁰ "China says Pakistan 'most reliable friend', vows to 'help in all respects'," *Dawn*, January 26, 2015, <http://www.dawn.com/news/1159585>. Accessed April 4, 2015.

³²¹ "Rajapaksa played India Vs China game, says new Lanka PM Wickremasinghe," *Deccan Herald*. January 17, 2015, <http://www.deccanherald.com/content/454020/rajapaksa-played-india-vs-china.html>. Accessed May 10, 2015.

³²² Bastians and Harris, "Chinese Leader Visits Sri Lanka, Challenging India's Sway."

³²³ Amarasinghe and Rebert, *Dynamics and trends of foreign aid in Sri Lanka*, 14.

³²⁴ Nilanthi Samaranayake, Research Analyst, CNA Corporation, telephone interview with author, February 12, 2015.

India far exceed those in Pakistan, and China is looking at a US\$100 billion trade with India over the next decade. Thus, it is also important to note that for China, India with its emerging middle class and expanding economy is also as important as its neighbours if not more. Though there is a view that having a good relationship with China may not go well with India and *vice versa*, scholars argue that it is a twentieth century, Cold War based of understanding of international relations.³²⁵

I argue that these South Asian countries, Pakistan in particular, reach out to China as a way to counterbalance other influences on them. India is one of the largest hegemonic influences in the region, and its neighbours have had diverse conflicts and disputes with India. Therefore, for Pakistan, which has a continuing border dispute with India, getting closer to China, which is another large power in the region, is a way to balance power with India. For Sri Lanka, a smaller nation, India is a huge influence, but where India fails to support Sri Lanka, China has willingly stepped in. One of the finest examples of China's support for Sri Lanka in international fora was demonstrated when China voted in favour of Sri Lanka at the UN Human Rights Council regarding war crimes allegations. For Bangladesh, getting closer to China is a way to snub Western countries that have failed to support its development activities. Thus, it is clear that these South Asian countries have their own reasons based on politics, strategy and national interest in strengthening ties by inviting Chinese investments in ports in their countries.

³²⁵ Prof. Imtiaz Ahmed points out that international relations as a subject has matured and gone beyond the cold war mentality. Now with the age of globalization, even India is actually cultivating a large relationship with China. It is one of the largest trading partners of China. Therefore, this very idea having relations with China may not go well with China is an old school view. See also, Prashant Kumar Singh, "China-Bangladesh Relations," *China Report* 46(3), (2010): 267-283.

Chapter 5: ACHIEVING LOCAL DEVELOPMENT GOALS

In addition to obtaining ready funding from China and the need to get closer to an emerging great power, another reason for these South Asian countries to reach out to China to fund these large port projects is to meet their local development goals. Port related infrastructure plays a key role in all three countries because their growing economies have made it necessary to expand capacities at existing ports and China is a willing investor in this significant sector. Not only does China fund them, but also allows these countries considerable latitude to do as they please with the funds.

5.1 Development as a solution to separatism

According to Brigadier Nadir Mir, once Gwadar is developed, not only China and Pakistan, but also Central Asia, Western China and Southern Russia, regions which do not have access to the sea, will benefit. By joining many regions of the world, Gwadar would be able to connect those regions and develop Pakistan through increased economic activity, which is a win-win for all parties concerned. Central Asia is landlocked and they will depend on the Gwadar port. Brigadier Mir believes that it will also be good for states such as the US because in case the Gulf is destabilised and its choke points are blocked, and Gwadar can be an alternative.

Gwadar connects three important parts of the world: Middle East with oil, central Asia with natural resources and South Asia with great potential for growth.³²⁶ It is also expected to ultimately connect landlocked Central Asia and western provinces of China. It will also connect China with the Middle East on a shorter route.³²⁷ The region also has large natural gas resources which the Pakistani government would like to tap and perhaps later to find a market in China.³²⁸

According to Najam Rafique, a scheme to link the port to the Chinese Xinjiang province includes not only laying down gas and oil pipelines, but also a network of road and rail links that would increase the volume of trade between China and Pakistan, and beyond the Persian Gulf region to the Middle East and Europe. To reap full benefits of the port, the construction of free trade zones with national and international business centres is in full

³²⁶ (Retd.) Brigadier Nadir Mir, interview.

³²⁷ Budhani and Mallah. "Mega Projects in Balochistan," 7.

³²⁸ Faisal Chaudhry, "The Political Economy of Energy in Pakistan: Perspectives from Balochistan's Natural Gas Fields and the Port City of Gwadar" in *Globalization, development and security in Asia-The political economy of energy*, ed. Zhiqun Zhu et al., (Singapore: World Scientific, 2014), https://www.academia.edu/7199087/The_Political_Economy_of_Energy_in_Pakistan_Perspectives_from_Balochistans_Natural_Gas_Fields_and_the_Port_City_of_Gwadar. Accessed June 9, 2015.

swing. Such zones will provide great incentives to businessmen and industries to use this port as a transportation conduit for their products. Moreover, with the completion of the M8 motorway by June 2015 a distance of 400km will be saved for shipping containers to directly go to the northern parts of the country from Gwadar by skipping Karachi. These development projects make Balochistan pivotal for the economic stability of Pakistan.³²⁹

In addition to Gwadar port, China will also make a number of multimillion-dollar projects in the region including construction of a refinery with a processing capacity of 60,000 barrels of crude oil per day. This oil refinery could transform Gwadar into a transit terminal for Iranian and African crude oil imports.³³⁰ Due to the strategic location of Pakistan, in the long term there is also potential to build a pipeline connecting not only Pakistan and China, but also Pakistan to Iran and China, thus reducing China's reliance on Anglo American naval superiority and also cutting down more than 14,000km tanker route in the Southern Indian Ocean region.³³¹

Mathias Hartpence examines the nature of Chinese investment in Pakistan and discusses projects such as Gwadar Port and the upgrading of the Karakoram Highway.³³² He argues that they have both commercial and possible geostrategic facets and while deepening and broadening Sino-Pakistani trade, they have also led China to become economically integrated with South Asia.³³³ Thus, it can be seen that these Chinese investments in infrastructure in Pakistan will result in linking the region as a whole.

However, given the realities of the region and the expanding presence of its rival India in Central Asia, Pakistan may avoid publicly embracing a Central Asia strategy.³³⁴ But Pakistan has no viable option but to remain engaged with the region especially considering that Pakistan seeks enhanced commercial access to hydrocarbon and hydro-electric resources in the region.³³⁵

Gwadar also faces competition from other regional ports both big and small. Some scholars have compared Gwadar's relative location advantage over Dubai, which is approximately 50 nautical miles from Gwadar. A ship will take about 30 hours more than Gwadar one way, with extra running expenses of about US\$100,000 for a 20,000 ton ship, on

³²⁹ Najam Rafique.

³³⁰ Syed Fazl-E-Haider, "Development Of Gwadar Port In Progress," *Pakistan & Gulf Economist*, January 5, 2014.

³³¹ Ibid.

³³² Hartpence, "The Economic Dimension of Sino-Pakistani Relations," 581.

³³³ Ibid.

³³⁴ Fair, "Pakistan's Relations with Central Asia," 203.

³³⁵ Ibid.

a return trip notwithstanding the extra time and insurance for entering the strait of Hormuz.³³⁶ However, despite its geostrategic advantage it will take many years for Gwadar to reap benefits from its location and surpass Dubai.

On the other hand, India has funded a similar deep-water port in Iran, in Chabahar, but international isolation of Iran hampers port operation.³³⁷ Therefore, even though Chabahar is in fact closer to the Strait of Hormuz and other Middle Eastern countries, the lack of ability to engage in international trade has come in the way of Chabahar port project from achieving its goals. For Gwadar, Chabahar's handicap is to its benefit. Thus, Gwadar will give Pakistan an edge over India in the Central Asian markets. According to Brigadier Nadir Mir, Pakistan has an advantage though not of size, but by being linked to different regions. Gwadar links to West Asia, including Iran, the Gulf, Saudi Arabia, UAE and even Turkey. So from Gwadar it is possible to export many things because Gwadar is close to the Arab Gulf states. He says that while Gwadar is going to link Pakistan to China it will also link Pakistan to the Gulf. In time it will link to Russia. So it is a multi-regional and links up with many regions. However, to make use of its geographic location and to carry out all these plans, it is important that the government of Pakistan strengthen its relations with other neighbouring countries, particularly those in Central Asia and South Asia and the Middle East if it plans to have strong economic ties with these nations in the long run.³³⁸

5.2 Gwadar as a regional hub port

Western China, Central Asia as well as Northwestern India will have a shorter route to the Indian Ocean through Gwadar. Thus, it has an advantageous position as a transshipment hub as opposed to Dubai.³³⁹ Gwadar can serve as a regional hub port for Pakistan, Iran, the Gulf States, and East Africa, and if rail and road projects are carried out the way they are planned, it can also serve Western China and Central Asia.³⁴⁰ Gwadar also enhances Pakistan's strategic value in the region extending from the Persian Gulf through the Indian Ocean to Southeast Asia and the Far East. Its advantageous location at the mouth of the Gulf and at the opposite end of the strategic choke point of the Strait of Hormuz and the gulf of Oman makes it an ideal hub port.

³³⁶ A.M. Malik, "Gwadar: bright prospects," *Dawn*, June 10, 2005 as cited in Kaleem, "Pakistan's Gwadar Port," 5.

³³⁷ Kaleem, "Pakistan's Gwadar Port," 6.

³³⁸ *Ibid*, 11

³³⁹ Afridi, "Gwadar as future economic hub."

³⁴⁰ Mary Burdman, "Pakistan's Gwadar port is a potential great port," *EIR* 28(44), November 16, 2001; 16-19, 16.

5.3 Development as a solution for instability

The Pakistani government claims that with mega projects such as Gwadar, it will free the people of Balochistan from the clutches of tribal leaders, which will diminish support for the military secessionist movement in the region.³⁴¹ Pakistani scholars in particular have examined the manner in which Gwadar will be a regional port connecting countries in the Central Asian Region and the Middle East and argue that potentially large volumes of trade in oil from the Middle East and natural gas and minerals from Central Asia would pave the way to economic development and prosperity of the region.

According to Gwadar Port Authority Chairman Dr. Dostain Jamaldini, the China Pakistan Economic Corridor (CPEC) would benefit Naseerabad, Mekran and Kalat region in Balochistan while North, West Sindh, South Punjab, Khaiber Pakhtunkhwa and Gilgit Baltistan would also get huge benefits from the CPEC.³⁴² Further, the construction of the port has spurred other major infrastructure projects in the area. They include the 675 mile Mekran Coastal Highway and the Gwadar-Turbat road (188 km) connecting Gwadar with its own major cities and Karachi with several ports along the coast including Ormara, Pasni, Gadar and it is expected to be extended to the Iranian border in the future.³⁴³

Not only within the region, but as a result of the Gwadar Port project, China is also investing in many other infrastructure projects in Pakistan such as the above mentioned coastal highway connecting Gwadar with Karachi, an overhaul of the Karakoram highway in northwest Pakistan. Plans are also in place to continue developing Pakistan's country-wide highway system under the Pakistan Motorway project.³⁴⁴ In the long run, Gwadar will also encompass conversion facilities to allow for the movement of natural gas as a part of plans for a termination point for the Turkmenistan-Afghanistan-Pakistan (TAP) natural gas pipeline.³⁴⁵

The civil aviation authority of Pakistan has allocated 3000 acres of land for Gwadar International Airport, which will be built 26km away from the existing airport in Pasni. This airport will be given international status and operate under the open sky policy.³⁴⁶ Pakistan

³⁴¹ Henry Chu, "Deepwater port - Gwadar port on Iran border, holds promise for, both, Pakistan and China", *News India Times*, April 13, 2007.

³⁴² "Chinese investors ready to build Industrial Park in Gwadar," *Daily Times*, July 19, 2014. <http://www.dailytimes.com.pk/business/19-Jul-2014/chinese-investors-ready-to-build-industrial-park-in-gwadar>. Accessed July 25, 2014.

³⁴³ Dr. Noor Ul Haq, "China -Pakistan Relations- A Profile of Friendship," IPRI fact file, 29 October 2005 as cited in Kaleem, "Pakistan's Gwadar Port" 4.

³⁴⁴ Daniels, "Strategic competition in South Asia," 95.

³⁴⁵ Narbaev, "the Trans-Afghan gas pipeline," *Central Asia's Affairs* 1(2004) as cited in Kaleem, "Pakistan's Gwadar Port" 5.

³⁴⁶ Kaleem, "Pakistan's Gwadar Port," 5.

also believes that Gwadar has the potential to become an ideal place for a facility for repair and maintenance of bigger local and foreign ships and vessels. The country also has many emerging opportunities in shipbuilding, and engine and equipment manufacturing.³⁴⁷

According to the Pakistani government, Gwadar Port and many other infrastructure projects will bring economic benefits to people of Balochistan.³⁴⁸ The official rationale for building the Gwadar Port is that it will be commercially and strategically significant in the development of the region and the country. The port is also expected to handle additional traffic generated by increased trade and commerce.³⁴⁹ Pakistan also has an optimistic view that prosperity that would result from these developments would take away support for the military secessionist movement in the Balochistan region.³⁵⁰ Gwadar Port is expected to boost the local economy, generating billions of dollars in revenue and providing at least two million jobs.³⁵¹

Despite these developments, the opposition and critics of these projects point out that they are a cover for colonization and militarisation of the region and dispossession of people.³⁵² Critics also claim that, despite the propaganda by the government about its economic benefits to people of Balochistan, the primary motive behind the Gwadar Port is rather strategic than economic.³⁵³

5.4 Exclusion of Baloch people

Balochs are the fiercest opponents of the Gwadar port. Baloch people feel that the government (which they refer to as “Pakistan”) will reap benefits from the project and they will not benefit. In 2006, Balochi militants killed 3 Chinese engineers working at Gwadar, in 2004 another attack killed three Beijing contractors. An interview with Sardar Akhtar Mengal, Former Chief Minister of Balochistan and the leader of Pakistan’s Balochistan National Party-Mengal (BNP-M) show that contrary to what many believe to be an anti Chinese sentiment, their opposition to the Gwadar Port project is based on the fear of becoming a minority in their own land.³⁵⁴ “We want our area developed, and our people to

³⁴⁷ Syed Fazl-E-Haider, “Development Of Gwadar Port In Progress.”

³⁴⁸ Budhani and Mallah. “Mega Projects in Balochistan.”

³⁴⁹ Ibid.

³⁵⁰ Chu, “Deepwater port.”

³⁵¹ Daniels, “Strategic competition in South Asia,” 95.

³⁵² Budhani and Mallah. “Mega Projects in Balochistan,” 15.

³⁵³ Ibid.

³⁵⁴ Sardar Akhtar Mengal, Former Chief Minister of Balochistan and the leader of Pakistan’s Balochistan National Party-Mengal (BNP-M), telephone interview with the author, February 2, 2015.

benefit but in return if we lose our identity and turn into a minority, nobody will accept this deal,” says Akhtar Mengal.³⁵⁵

Historically, Balochistan has received neglectful treatment from the federal government based in Islamabad, which has resulted in Balochistan being the most backward and under develop region in Pakistan.³⁵⁶ Sardhar Akhtar Mengal cites one example to illustrate this point. Balochistan produces most of Pakistan’s gas, about a billion cubic feet per day (45% of total production) from the main gas field at Sui but nine out of ten houses in Balochistan do not have gas.³⁵⁷ According to him, even though natural gas was discovered in Balochistan in 1958, even today in 2015, only 2% of that gas is given to Balochistan. Thus, the lived reality of people of Balochistan is in stark contrast to Pakistani government’s propaganda on development and economic prosperity. One of the criticisms of the Gwadar Port is that development of this port has not included the local people and it has come at the cost of local people.

On the other hand, a senior government official in Gwadar states that the majority of locals support this port project as an economic opportunity. But he alludes to the concerns of Sardar Akhtar Mengal and states that nationalist political parties are afraid of demographic change in the Balochistan province in general and Gwadar in particular. They argue that Balochistan is the largest province of Pakistan in terms of area and it has 43% of the total land of Pakistan, but its population is only around 4% of the country. Therefore, after development of Gwadar, an influx of population from other parts of country will outnumber locals and these Baloch nationalistic parties demand constitutional guarantees to safeguard their interests.³⁵⁸

With regard to how the project will benefit people of the country, another senior government officer points out that as far as advantages to Balochistan are concerned, it will pave way for economic opportunities and development. As a result of this project, employment opportunities will be created. After completion of the Gwadar-Rathodero Highway, Gwadar will be connected to the whole of Pakistan through a well-connected road network. But there are also disadvantages. The interest and interference of other countries may make this area a war zone for different conflicting regional and global powers.

³⁵⁵ Ibid.

³⁵⁶ Mir, *Gwadar on the global chessboard*, 29.

³⁵⁷ Hugh Barnes, “A vision of the future,” *New Statesman*, April 30, 2007, 32-33.
<http://www.newstatesman.com/middle-east/2007/04/pakistan-china-port-iran-india>. Accessed on January 10, 2015.

³⁵⁸ A senior government officer in Gwadar, Pakistan, interview.

According to him, the biggest challenge to achieve Gwadar port's full potential is to involve local people and counter foreign influence in the shape of Baloch militant organizations.³⁵⁹

Another concern is that the Gwadar Port will be a federal entity, controlled by federal agencies and its revenues will accrue to the federal government rather than the province.³⁶⁰ Some argue that since port operations have been granted to a foreign company for a long term, it will in fact exclude even the federal government from reaping benefits of this port.³⁶¹ However, it is important to keep in mind is that without loans and foreign aid, it is impossible for Pakistan to build this type of large-scale infrastructure. Therefore, the unenviable decision that its government has to make is to agree to the terms offered by China.

The limited way in which Gwadar Port project has thus far increased economic activity in the region is by increasing land prices. There have been many reports that this new port has pushed up the land prices in the Gwadar region.³⁶² There have also been many instances of land grabbing and exclusion of the local community, which indicate that local people will be negatively affected by the project rather than benefit from it.³⁶³ It is yet another way in which the poor and the marginalised have been disenfranchised. The main beneficiaries have been those with connections to the government.³⁶⁴ As a result, people of the region are against the port project and this growing insecurity in the region affects China's 'all weather friendship' with Pakistan as well as its investments.³⁶⁵

Balochistan also has large underground and coast reserves of petroleum, gas, coal, and minerals, including uranium.³⁶⁶ Therefore, Baloch people are also concerned that both China and the Pakistani government will exploit these resources to the detriment of locals. Scholars who are studying the region have pointed out that Islamabad needs to integrate long-alienated segments of Baloch population, which will reduce internal threats to the port and other infrastructure projects funded by Chinese in particular. It has also been suggested that Baloch people should be given a sense of ownership of these projects in the region.³⁶⁷ However, until now the government has not taken concrete steps to involve people of the

³⁵⁹ A senior government officer in Gwadar, interview.

³⁶⁰ Budhani and Mallah, "Mega Projects in Balochistan," 9.

³⁶¹ Ibid.

³⁶² Chu, "Deepwater port."

³⁶³ Budhani and Mallah, "Mega Projects in Balochistan," 9.

³⁶⁴ Ibid, 15.

³⁶⁵ Duchâtel, "The Terrorist Risk and China's Policy toward Pakistan," 545.

³⁶⁶ Burdman, "Pakistan's Gwadar port is a potential great port," 19.

³⁶⁷ Kaleem, "Pakistan's Gwadar Port," 11.

region and the various claims of corruption related to land acquisition only further erode the confidence and interest of the people.³⁶⁸

However, at present Gwadar Port can only function as a transit hub because the region has not been economically integrated into the rest of the provinces or the country as a whole. Further, most resources such as labour, capital, markets, raw material are all located far away from Gwadar.³⁶⁹ As there is very little industry in Balochistan to take advantage of the new infrastructure such as the port and the airport, analysts believe that it will take years until the economic benefits of these investments actually reach the people of the region.³⁷⁰ Therefore, it will take a very long time until Gwadar can achieve its full potential. Despite all these drawbacks, retired Colonel F. Maqbool Afridi argues that the biggest beneficiary will be the Balochistan province if the port functions the way it is envisaged.³⁷¹ Thus, the success of this massive investment lies in the hands of the government, which will have to take note of local concerns and address them to engage people and obtain their support for this project.

On the other hand, there are those who discuss security issues in the Balochistan region such as the separatist threat posed by Baloch nationalist groups, their attacks on Chinese workers in the region and point out that the infrastructure development in the Balochistan region has not brought any prosperity to its people. They point out that it is only a handful of influential people and the central government in Islamabad who actually benefit from these massive projects at the cost of Baloch people. Thus, despite Pakistan government's propaganda that Gwadar will bring economic prosperity and stability in the region, the reality of Balochistan's actual development seems to be a different kind of a story.

5.5 Post-war development in Sri Lanka

In 2005, before Sri Lanka's former President Mahinda Rajapaksa came into power, his election manifesto "*Mahinda Chinthana*" (Mahinda Vision) stated, "I am determined to make our country the centre of the Asian Silk Route once again taking advantage of its unique geographical location. I intend to develop it into a navigation, aviation trading and commercial centre linking the east and the West."³⁷² His election manifesto envisaged Sri Lanka to emerge as five key economic hubs: a maritime hub, a knowledge hub, an aviation

³⁶⁸ Ibid.

³⁶⁹ Budhani and Mallah, "Mega Projects in Balochistan," 7.

³⁷⁰ Chu, "Deepwater port."

³⁷¹ Afridi, "Gwadar as future economic hub," 42-60.

³⁷² *Mahinda Chinthana*, 66.

hub, a commercial hub and also a power and energy hub, capitalising on the country's strategic geographical location in the Indian Ocean.³⁷³

According to the former Navy Commander of Sri Lanka Admiral Jayanath Colombage, the maritime hub was given a priority because the possibility of Sri Lanka becoming a maritime hub was higher.³⁷⁴ In 2009, Sri Lanka had just come out of a three decade long conflict and the government was keen to make use of the post war dividend and catch up on 30 years of lost development by putting in place much needed infrastructure and improving the economy. Being an island nation, building and expanding ports was a priority and an integral part of Sri Lanka's development plan.³⁷⁵

Rohan Masakorala, points out that these were not new projects; the Colombo South harbour project was due in 1996. He says that it was supposed to start in 2000, but when the government changed, the next government planned it for 2004. The Colombo south harbour has always been a necessity for Colombo, but it was unduly delayed because the 1994 government of Sri Lanka focused on building a port in Oluwil because of a political decision and that took away the focus from Colombo. Colombo could not handle the largest vessels by 1996. Therefore, port expansion plan was a long felt need. The need for Hambantota was also there for about 20-25 years. The Rajapaksa government only expedited these projects with Chinese funding, says Masakorala.³⁷⁶

Another reason for building the Hambantota port was to develop rural Sri Lanka. Hambantota was a rural fishing hamlet in Sri Lanka, but it was also the hometown of President Rajapaksa. While there was a need to build a port in the Southern coast of the island, Hambantota became a priority partly due to the President's affiliation with the region.

5.6 The importance of Hambantota to Sri Lanka

According to Commodor Y. N. Jayaratne, in improving regional connectivity of South Asia, Sri Lankan ports offer many opportunities. The fact that Sri Lanka is situated almost at the mid-point of the primary entry points to the Indian Ocean; Bab El Mandeb from the west and Malacca from the east, Sri Lanka offers deep-water ports at the least diversions. These ports are accessible at any time of the day and year, thanks to the low variations of tides. Thus, the turnaround time is faster and efficient. As the shipping industry is evolving to seek cost efficient measures, it is looking at mega carriers to transfer more containers and

³⁷³ Ibid.

³⁷⁴ (Retd.) Admiral Jayanath Colombage, interview.

³⁷⁵ Ellis, "Sri Lanka's Next Battle."

³⁷⁶ Rohan Masakorala, interview.

thereby to bring the unit cost down. These ships are wider and deeper enough to berth at few 'hub' ports, and depend on the feeders to connect 'hubs' with regional ports.³⁷⁷ Ports in Sri Lanka are expected to be hub ports to which the largest ships in the world could call, and to provide feeder services to both the east and west coast of India and the rest of the region.

However, a source close to the Sri Lanka Ports Authority points out that Hambantota port was built with the intention of using it as an oil bunkering port and that there was no feasibility to have a commercial port in Hambantota. According to him, no sensible donor agency such as ADB, World Bank, or JICA is prepared to finance a project of this nature, which has no long-term project sustainability. He explains the Chinese interest in it based on having no risk. He says that the Chinese were prepared to engage their labour, their machinery and financing and Sri Lanka was committed to payback the loan. Instead of lending at concessionary rates, they were lending at higher interest rates, therefore, it would be beneficial to the Chinese because there was no risk for China in it.³⁷⁸

According to him, business prospects are not very positive for Hambantota because for a viable port there has to be sufficient cargo. But if industries are put in place, Hambantota may be able to operate a port. He points out that China can still take advantage of proposing an industrial zone where they will potentially violate all the laws. If the port does not generate enough revenue, the government will be hard pressed to pay back the loan and will play into the hands of the Chinese. However, he also notes that even though Chinese companies are notorious for flouting laws, they adhered to all the laws during the construction of the Hambantota port.³⁷⁹

The new Sri Lankan government that came into power in January 2015 is expected to adopt a different policy towards China. As soon as it came to power, the new government reviewed a key agreement that the previous government entered into with China to build a port city.³⁸⁰ Though they temporarily stalled the project, later they decided to proceed with it. This shows China's determination to secure access to a network of coastal installations across

³⁷⁷ Commodore Y. N. Jayaratne, interview.

³⁷⁸ A source close to the Sri Lanka Ports Authority, telephone interview with the author, March 31, 2015.

³⁷⁹ Ibid.

³⁸⁰ Bruce Einhorn and Anusha Ondaatjie, "China gets spurned in Sri Lanka," Bloomberg Business, May 7, 2015, <http://www.bloomberg.com/news/articles/2015-05-07/in-sri-lanka-china-s-foreign-policy-meets-rare-setback>. Accessed May 10, 2015.

the Indian Ocean region.³⁸¹ But, as the current government strengthens ties with India and the US, it will definitely affect China's influence in Sri Lanka.³⁸²

5.7 The contribution of Chittagong to Bangladesh's economy

According to Md. Rezaul Karim, Chairman, Shippers' Council of Bangladesh, the contribution of Chittagong Port to shipping industry is enormous and it contributes 33% of the GDP to economy. It is functioning at its highest capacity and handles 92% of seaborne trade of the country, particularly container and general cargo. Being a feeder port, the Chittagong Port handles ships from Singapore (60%), Colombo (10%) and Malaysia (30%), it handles 92% of Bangladesh's seaborne trade, particularly container and general cargo.³⁸³ He points out that in order to cater to the need of regional connectivity and faster growth of seaborne traffic, the Bangladeshi government has decided to build the Sonadia deep-sea port. It is expected to handle larger ships that have 20-30 metre draft, which will result in a higher container and cargo at less cost. He also points out that the need to improve port facilities at Chittagong has become imperative with the increasing creation of employment opportunities and trade and commerce to achieve the stable 6-7% GDP in the years to come. He points out that Russia, India and China (RIC) is going ahead to face future challenges together to stabilize the economy and peace in the region. Bangladesh is also enhancing its efficiency as a partner for development.

All three countries, Pakistan, Sri Lanka, and Bangladesh adhere to the 2005 Paris Declaration on aid effectiveness, which lays down principles on development aid.³⁸⁴ Among the five principles laid down in this declaration, one of the key principles is that "developing countries set their own development strategies, improve their institutions and tackle corruption."³⁸⁵ True to this declaration, Sri Lanka, Pakistan and Bangladesh set their own development strategies including the decision to build these ports with Chinese aid because they are best aware of the local needs.

³⁸¹ Keith Johnson, "China, Sri Lanka, and the Maritime Great Game," *Foreign Policy*, February 12, 2015, <http://foreignpolicy.com/2015/02/12/china-sri-lanka-and-the-maritime-great-game-silk-road-xi-port/> accessed on May 10, 2015.

³⁸² Kadir Pethiyagoda, "India v. China in Sri Lanka—Lessons for rising powers," Brookings, May 1, 2015, <http://www.brookings.edu/blogs/order-from-chaos/posts/2015/05/01-china-india-sri-lanka-pethiyagoda>. Accessed May 10, 2015.

³⁸³ Md. Rezaul Karim, interview.

³⁸⁴ "Countries, Territories and Organisations Adhering to the Paris Declaration and AAA," OECD.org, <http://www.oecd.org/dac/effectiveness/countriesterritoriesandorganisationsadheringtotheparisdeclarationandaaa.htm>. Accessed January 15, 2015.

³⁸⁵ "Paris Declaration on aid effectiveness: Five principles for Smart Aid," OECD.org, <http://www.oecd.org/dac/effectiveness/45827300.pdf>. Accessed January 15, 2015.

Based on all these factors, I argue that Pakistan, Sri Lanka and Bangladesh use these Chinese funded port projects to achieve their local development agenda. The Pakistani government claims that the Gwadar Port will provide a solution to its separatist issues and terrorism by bringing in prosperity to some of the most rural areas of the country. In Sri Lanka, Hambantota port project is expected to develop a rural southern region and accelerating the growth of the country's economy by increasing its imports and exports and by catching up on three decades of lost development. Chinese funding was necessary for the then President Rajapaksa to deliver the promises he made to the public and to achieve his vision for Sri Lanka and to make it a maritime hub. For Bangladesh too, the development of its Chittagong port is part of its plans for economic development, increasing regional connectivity and becoming an important player in regional transport and trade.

Based on all these arguments, I contend that governments in Pakistan, Sri Lanka, and Bangladesh reach out to China based on their interests, local politics and strategic goals irrespective of the feasibility and success or lack thereof to achieve the expected outcomes. Therefore, even though they allow China to invest millions of dollars in infrastructure projects on their soil, these countries are not powerless pawns of China's great game in the Indian Ocean region, but potent international actors, making decisions based on their own agenda.

Conclusion

Based on the foregoing discussion, I argue that there are a number of strategic, political and economic reasons for China to be interested in the Indian Ocean region and South Asia in particular. While China may or may not have long-term strategic goals to build naval bases in the Indian Ocean region, it is evident that China is interested in maintaining its presence in the Indian Ocean region because of its strategic, economic, political and diplomatic importance. Pakistan is important for China to link its landlocked western regions to the Indian Ocean, and to gain access to the Central Asian countries. Sri Lanka is important to have a strong foothold in the region and as a mid-point in the Indian Ocean where its vessels can refuel and crews can rest and recuperate. Bangladesh is similarly important for China to link regions such as Yunnan province to the Indian Ocean.

These port projects in South Asia provide China an alternative to the Malacca Strait. Further, they also provide Chinese companies opportunities to engage in large-scale investments and earn revenue for a number of years or decades. They also provide employment opportunities to Chinese labourers and business to export Chinese machinery to be used in these projects. These investments also boost China's soft power strategies by creating a presence in these countries and being a catalyst for development. The growing economies in these countries provide markets for China's manufactured goods. China is also gathering supporters and friends who will stand by its side due to these intricately linked economic, trade, cultural and diplomatic relations. It is based on all those interests that China is making large-scale investments in maritime infrastructure in these South Asian states. Thus, while countries in South Asia benefit from close ties with China, it is part of China's soft power strategy to engage with these countries.

Reaching out to support the developing nations is part of its long-term strategy to maintain a foothold in the Indian Ocean, which is the lifeline of its economy. To legitimize its investments in maritime infrastructure, which outsiders called the "string of pearls," China came up with the 21st century Maritime Silk Road initiative. It was followed by the One Belt-One Road initiative to improve connectivity between China and East Asia, Central Asia, South Asia and Europe through highways, railroads, pipelines, power, fibre and other networks.³⁸⁶ Most recently, China established the Asian Infrastructure Investment Bank

³⁸⁶ Jeffrey D. Sachs, "China's new global leadership," Project Syndicate, November 21, 2014, <http://www.project-syndicate.org/commentary/china-global-leadership-by-jeffrey-d-sachs-2014-11>. Accessed on June 8, 2015.

(AIIB), with the support of 57 countries.³⁸⁷ It is a multilateral organization, which will fund infrastructure projects such as roads, rail, ports and energy in many Asian countries and it will enable countries in the region to improve their infrastructure while China can strengthen its economic and geopolitical leadership.³⁸⁸ China has taken a bold step by stepping outside of the established US-centric multilateral funding agency system and creating a bank led by China to fund diverse infrastructure projects in the region. However, the AIIB is also a strategy for China to legitimize its involvement in building infrastructure across the world and expand its reach beyond the periphery. Further, it could also be a way to move away from the Washington based banks and their Western norms and adopt a new set of norms based on Eastern values and China's own experiences both as an investor and a developing country.

Considering that China is a rapidly rising global power, developing nations are keen to have closer ties with it. With the West and international organizations moving away from financially supporting these developing countries, China is willing to fill that gap. "The whole world is now looking at China. China is important to the whole world, so there is no reason why Bangladesh should not cultivate an important relationship with China," says Prof. Imtiaz Ahmed.³⁸⁹ Some critics point out that countries such as Sri Lanka had no option but to depend on Chinese loans, which is one reason for the Sri Lankan government to move closer to China.³⁹⁰ However, there are also a number of factors such as non-interference, lack of conditionalities, China's expertise and effectiveness in infrastructure development, and its continued good relations that work in its favour.

While the governments of Sri Lanka, Pakistan, and Bangladesh enjoy closer ties with China, there are many critics against Chinese involvement in these countries as well. They point out that high interest rates, strict commercial conditions and the alleged lack of respect for laws or environment are some of the biggest drawbacks of Chinese financing. They also argue that some of the typical conditions attached to Chinese loans include Chinese companies to be project contractors and at least 50% of material, equipment, technology or services to be sourced from China.³⁹¹ For example, loans extended by the Chinese

³⁸⁷ "Prospective founding members," <http://www.aiibank.org/>. Accessed June 8, 2015.

³⁸⁸ Sachs. "China's new global leadership."

³⁸⁹ Prof. Imtiaz Ahmed.

³⁹⁰ Gokhale, "China, India and the Sri Lanka Elections."

³⁹¹ Bandula Sirimanna, "Chinese and Indian companies dominate Sri Lanka's mega project business," *The Sunday Times*. September 5, 2010. <http://www.sundaytimes.lk/100905/BusinessTimes/bt21.html>. Accessed on February 21, 2015.

government owned Chinese Exim Bank are mainly to purchase Chinese products and services and to use Chinese labour and raw material.³⁹²

According to Commodore Jayaratne, agreement conditions of Chinese investments were never disclosed to the public or officials, and this has had a negative effect as lack of transparency led to many controversies and corruption.³⁹³ According to a government officer in Gwadar, technical expertise, technology and skilled labourers of China are used when needed.³⁹⁴ However, contrary to this view on Chinese tied-aid Brigadier Nadir Mir points out that in the case of Pakistan, it is not cost effective for China to bring in its own labour as Pakistan boasts large pools of cheap labour and only foreign experts (not limited to Chinese) are brought from abroad for its Chinese funded projects.³⁹⁵ In Sri Lanka, Chairman of the Sri Lanka Shippers' Council, Sean van Dort says, "beggars are not choosers. We did not have the money to develop and we did not have the expertise to develop. We had not built a port in the last 100 odd years... we could have bargained much better terms (with the Chinese investors) but in that particular time, we needed to see fast development."³⁹⁶ Prof. Imtiaz Ahmed points out that no other country would be able to give some of the instruments that are required to build these infrastructure projects. He notes that the "Chinese are very particular about timing and speed, and workers came, built and left. They are not interested in settling down in the country and they do not dabble with the local people." A senior lecturer at the General Sir John Kotelawala Defence University of Sri Lanka points out that even though there are media reports that Chinese labourers work at the construction sites of their investments, once the projects are completed locals will get employment opportunities at the ports.³⁹⁷

Speaking of China's lack of involvement in good governance, alleviating corruption and such other social issues in the way that multilateral institutions do, Prof. Imtiaz Ahmed points out that if there is a need for crucial infrastructure, people will not wait for all governance issues to settle down before moving ahead. This is the attitude of many people and governments as well because corruption and other governance issues have to be tackled while improving infrastructure. Many developed countries have been through issues related to governance, human rights and corruption and all that is part of the process of

³⁹² "Who benefits from Chinese loans to Sri Lanka?," Tamil Guardian, November 21, 2010, <http://tamilguardian.com/article.asp?articleid=2847>. Accessed November 24, 2014.

³⁹³ Commodore Y.N. Jayaratne, interview.

³⁹⁴ A senior government officer in Gwadar, interview.

³⁹⁵ (Retd.) Brigadier Nadir Mir, interview.

³⁹⁶ Sean van Dort, interview.

³⁹⁷ A senior lecturer of the General Sir John Kotelawala Defence University, Sri Lanka, interview.

development.³⁹⁸

With regard to achieving local development goals and agenda, all three countries, Sri Lanka, Pakistan, and Bangladesh, heavily depend on Chinese funds to finance these large infrastructure projects. Despite the potential to make substantial contributions to the economies of these countries, most of these projects are facing numerous issues such as backlash from the local people in the case of Gwadar, corruption allegations and lack of commercial viability in the case of Hambantota, constant unrest of union workers in Chittagong affecting its efficiency, etc. Infrastructure projects are long-term projects, which often takes many years to actually reap the intended benefits of the projects. Sometimes, it is also required to invest more on other related facilities to make these projects profitable. In the case of Gwadar, it will need more investments to put in place an economic zone and a road network to connect it to other regions, but in the long term, if the plans are properly executed Gwadar will be a strategically important and profitable port. It is the same in the case of Sri Lanka, where the Hambantota port was built as a bunkering facility to refuel and provide supplies to the ships that ply the main east-west shipping route. Governments or people should not be discouraged by short-term setbacks or inability to reap immediate benefits from these projects because infrastructure projects are planned keeping in mind the long-term goals and potential. But it is also important to implement long-term plans and not abandon projects.

From the perspective of these South Asian countries, there are indeed advantages of approaching China to fund these projects because it is a time-tested friend of Pakistan and Sri Lanka. In the case of Pakistan, the geographical proximity as neighbours has also created a strong political and security bond between the two countries. China's economic involvement in projects in South Asia would automatically give them opportunity to ask for Chinese help in assisting to settle political differences in the region as well. Many believe that Chinese assistance come with no strings attached other than economic gains.

There are indeed disadvantages of reaching out to China as well. The US, India and other countries have expressed concern that China may use these ports as naval bases. There is also the possibility for these countries to come under pressure from other multilateral organizations who can be pressured by the US to impose strict conditionalities on issues such as inability of Pakistan to contain terrorist activities, concerns over its nuclear programme and in the case of Sri Lanka, sanctions based on alleged human rights violations.

³⁹⁸ Prof. Imtiaz Ahmed, interview.

However, these governments have reached out to China after analysing the costs and benefits of doing so. Unlike what many consider to be China using these South Asian countries as pawns in their game in the Indian Ocean, these countries are in fact making use of China's recently emerging global leader status to their benefit. In that sense, these countries are acting with agency to secure their interests.

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GENERAL

- Ms. Nilanthi Samaranayake, Analyst, Centre for Naval Analysis, Virginia, USA

BANGLADESH

- Mr. Md. Rezaul Karim, Chairman, Shippers' Council of Bangladesh
- Prof. Imtiaz Ahmed, Professor in International Relations, Dhaka University, Bangladesh

PAKISTAN

- (Retd.) Brigadier Nadir Mir, Military official and public intellectual involved in the Gwadar Portproject
- A government official in Gwadar
- A senior government official in Gwadar
- A senior official of the Pakistan National Shipping Corporation
- Dr. Ahmed Rashid Malik, Senior Research Fellow, Institute of Strategic Studies Islamabad
- Dr. Dostain Jamaldini, Chairman, Gwadar PortAuthority
- Mr. Najam Rafique, Director, The Institute of Strategic Studies, Islamabad
- Mr. Sardar Akhtar Mengal, Former Chief Minister of Balochistan/ Leader, Balochistan National Party (BNP-M)

SRI LANKA

- (Retd.) Admiral Jayanath Colombage, Chairman, Ceylon Shipping Corporation/ Former Navy Commander, Sri Lanka
- A senior Lecturer at the General Sir John Kotalawala Defence University, Sri Lanka
- A source close to the Sri Lanka Ports Authority
- Commodore Y.N. Jayaratne
- Mr. J. Charitha Ratwatte, Managing Director, Sri Lanka Business Development Centre
- Mr. Rohan Masakorale, Former Secretary General, The Asian Shippers Council
- Mr. Sean Van Dort, Chairman, Sri Lanka Shippers' Council

