China’s ‘String of Pearls’ exhibits The Dragon’s Great Game of Loans and Debts

“Whoever controls the Indian Ocean dominates Asia. The ocean is the key to seven seas. In the 21st century, the destiny of the world will be decided on its waters”, Alfred Thayer Mahan.

In the context of Chinese expansionism and the Belt and Road Initiative (BRI), these prophetic words contain an undeniable truth; the Indian Ocean has become a scene of potential international confrontation. A myriad of actors, each with their own interests and agendas to defend, are stationed in the Indian Ocean and one of the most influential of these actors is China, which has set a strategic foot in *‘India’s Ocean’*. Both China and India are rising Asian giants, which are progressively shifting the global economic centre of gravity towards themselves.

Throughout his brilliant career as a naval strategist, Mahan developed the concept of *‘sea power’*. Studying the expansionism of the British Empire and contrasting it with *‘land powers’* such as the French and Russian Empires, Mahan came to the conclusion that the command of the seas was the key to economic security and influence. His notable book, *The Influence of Sea Power Upon History (1660-1783)*, published in 1890, became a guide for the ambitious navies of the time; United States (US), Germany and Japan, and is still being studied by the Chinese and Indian navies today.

Mahan’s theory revolved around the correlation between a country’s economic power and its ability to secure relay points along maritime economic routes. China and its *‘string of pearls’* strategy represents this *Mahanian* line of thought, precisely because the purpose of this strategy is to establish relay points throughout the Indian Ocean in order to protect its maritime trade routes. China, which is not a littoral State of the Indian Ocean, has already invested billions of dollars in Pakistan, the Maldives, Sri Lanka and Myanmar, in order to develop maritime hubs that could ensure its imported supply of energy fuels and raw materials, as well as its exports towards Europe and Africa. If China succeeds in developing this, as it calls it, *‘infrastructural project’*, its strategic, and military presence, in the Indian Ocean will be secured.

Beijing justifies its actions in the Indian Ocean by explaining that these are strategic points of defence against piracy, as well as commercial relays for its growing trade route with Africa. However, China’s economic prowess in combination with its military modernisation plans have sparked concerns globally, and notably in India, whose naval officers and strategists are also avid readers of Mahan, that China’s commercial ports in the Indian Ocean could potentially be used for military purposes.

The stakes in the Indian Ocean

In order to understand why Mahan found the Indian Ocean of such strategic importance, one must first analyse its geography. The Indian Ocean is the third largest body of water on earth, covering approximately 70 million km^2. Unlike the Atlantic and Pacific, the Indian Ocean is a closed ocean, bordered by four continents and thus rendering its access very limited. Its multiple straits are its main access points: the Strait of Bab-el-Manheb connecting the Red Sea to the Gulf of Aden, the Strait of Hormuz connecting the Persian Gulf to the Gulf of Oman, the Strait of Malacca between Malaysia and Indonesia, and finally the Sunda Strait and Lombok Strait in Indonesia. Mahan referred to these straits as *"choke points"*. These narrow straits regulate the incoming and outgoing traffic, and historically have been used to cut off access to trade routes in times of war. For example, when the British Empire was the dominant power in the Indian Ocean, it held control over the Strait of Malacca and the Strait of Bab-el-Manheb. When Russia dispatched a fleet of warships in 1904, during the Russo-Japanese War, Britain prevented it from using the Suez Canal or any port in the Indian Ocean. The Russian fleet was then forced to go around the African continent and through the Indian Ocean. Weakened by the voyage and low on fuel supply and provisions, it subsequently lost the war.

Aside from strategic naval importance, the Indian Ocean has been used for trade for hundreds of years. It became the site of exchange between the East and the West; ancient and rich civilisations bordered its shores, and were able to maintain lucrative maritime trade routes, notably due to the regular and consistent monsoon winds that occur in the Indian Ocean. Today, the Indian Ocean Region (IOR), encompassed by East Africa, the Middle East, South Asia, South East Asia and Australia, is a multifaceted and complex scene. Like in Mahan's time, it is still being navigated for both commercial and military purposes, however the current geopolitical context has upped the stakes.

The regional area of the Indian Ocean is estimated to not only contain 55% of the world's oil reserves, but also 40% of gas reserves, 60% of uranium, 80% of diamonds, and 40% of gold. Moreover, the littoral States of the Indian Ocean account for one third of the world's population. Thus, the demographic potential of the region cannot be neglected.

In the 21st century, the Indian Ocean is an ocean of hydrocarbons. In 2014, it was estimated that 10 of the States that border the Indian Ocean hold 65% of the world's oil reserves. Furthermore, the Indian Ocean has become a primary location for maritime oil transportation, as more than 80% of crude oil passes through the most important straits of the Indian Ocean. Every day, about 32.2 million barrels of oil and crude oil are transported through the Straits of Hormuz and Malacca. China alone, carries 85% of its oil imports across the Indian Ocean.

The Indian Ocean also contains an impressive number of shipping lines, also known as Sea Lines of Communication (SLOC). SLOCs are maritime passageways between ports and considering that today, over 90% of global trade is sea-borne, these SLOCs are of great geopolitical value as a nation that controls them can either open or cut off their access. As some of the most rapidly growing economies are located in Asia, the number of SLOCs in the Indian Ocean is expected to grow in the next few decades. 13 of the world's busiest ports are in Asia, and as production rises, the need for secure transit routes in the Indian Ocean is greater than ever.

These maritime transit routes are threatened by the active conflict zones that impede the progress and development of the IOR. Its littoral States are battlegrounds of more than a hundred conflicts, according to the Germany-based Heidelberg Institute for International Conflict Research. It has become heavily militarised, as multiple nations not only engage in these conflicts, but also seek to defend their economic interests from threats linked to conflict, such as piracy and terrorism, in the rest of the IOR. Spill-overs from these conflicts further jeopardize the fragile stability of the Indian Ocean. Some conflicts in East Africa have resulted in failed States, such as Somalia and Yemen, and the consequences of this reality pose worrying instabilities. These instabilities have seen a proliferation of piracy, not only in the waters surrounding Somalia and Yemen but also in the narrow Strait of Malacca, which threatens the 70,000 ships that cross the strait every year.

Aside from piracy, the region is marked with terrorist threats and organised crime. Thus, an international effort has been established in order to strengthen the security of SLOCs. Foreign military presence in the Indian Ocean includes military bases belonging to countries such as the US, France, The United Kingdom (UK), India and China. The US' escalating trade war and rocky relationship with China could translate into aggravating the economic rivalry in the Indian Ocean, notably for control of its SLOCs, which are some of the most strategic routes of communication in the world.

The multiplicity of various international actors in the Indian Ocean, each with their own military and economic agendas, has set the geopolitical stakes very high. A true balance of powers must be found, where actors are willing to cooperate in order to ensure peace and prosperity for all parties involved. Should a dominant power arise, and in so attain a monopoly over the strategic access points of the Indian Ocean, the risk of a global conflict in the region would be great.

If China's BRI proves to be successful, then it could become the said dominant power with the risks attached to this monopoly. As China is expected to become the world's first economic power by 2050 and is employing all means necessary in order to fulfil this projection, the concerns raised by India and other nations regarding China's presence in its own maritime backyard, are not completely unjustified.

A Brief Overview of The New Silk Roads

In 2013, Chinese President Xi Jinping announced the launch of a colossal infrastructure project: One Belt, One Road. The aim of this endeavour is to renew the original Silk Roads, which were abandoned in the 15th century, as a way to counter the economic stagnation that followed the 2008 subprime crisis. This global economic crisis was enlightening for China, as the country's leaders realised that it needed to be able to rely on a multitude of economic allies. As Chinese Premier Li Kejiang continues to emphasize: *"Today, no nation can survive alone"*. In that sense, this project is a spectacular way to revive the economy, the domestic consumption of the region and to use the interconnectivity of globalisation in favour of China.

The project was officially renamed the *"Belt and Road Initiative (BRI)"* in 2016 and was written into the constitution of the Chinese Communist Party, showing how dedicated Beijing is to developing the project as a way to ensure China's economic influence. Needless to say, this economic influence can quickly translate into political and military influence, especially when millions of dollars are invested into underdeveloped countries with corrupt or weak governance systems.

The BRI draws a land road, known as the *'Silk Road Economic Belt'*, connecting China's western provinces to Europe through Central Asia. In addition, a maritime route named *'The 21st Century Maritime Road'* is being developed from the South China Sea to the Mediterranean, through the Indian

Ocean (hence the name Belt and Road). This project, on paper, presents a global vision of the world, yet it would be globalising under Chinese policy, and thus impose the influence and power of the Chinese State.

The project, sometimes referred to as the *"Chinese Marshall Plan"* in the Western world, is the largest infrastructure project since 1948. It involves around 4.7 billion people and more than 65 countries, which in all produce approximately 40% of the global GDP. While no precise estimate of the funds required to accomplish the BRI has been published, it is predicted that the cost of the BRI could go up to $ 1.3 trillion by 2027. China is obviously the primary provider of these funds and in addition to national financial institutions such as the Import-Export Bank of China and the China Development Bank, China has created two new institutions to fund BRI projects: the Chinese state-owned *Silk Road Fund* and the international *Asian Infrastructure Investment Bank*.

When analysing Beijing's motivation to undergo such an endeavour, two factors stand out as the catalysts that pushed China into undertaking this *"Great Leap Outwards"*. Firstly, by creating a market in the neighbouring developing Central Asian countries and beyond, Chinese overproduction is reduced as it can rapidly be exported through the new land routes. Secondly, China's national production of energy fuels is not nearly high enough to sustain its growing economy. Thus, the country is dependent on its imports of foreign energy fuels; creating direct corridors from the Middle East to the western provinces of Xinjiang and Yunnan would guarantee the secure supply of energy fuels and raw materials. This last point is crucial for China, as it became the largest importer of crude oil in 2017. Knowing that 80% of the world's oil trade passes through choke points in the Indian Ocean, China's interest in the region is quickly understood. The strategic importance of its corridors ensures China's provision in energy fuels, which in turn ensures the continuation of its industries.

Terrestrial infrastructure and connectivity projects are clustered along six corridors which all start in China: a China-Kazakhstan-Russia Corridor, a China-Middle East Corridor, a China-Pakistan Corridor (which has escalated tensions between India and China, as this corridor cuts through the disputed territory of Gilgit Baltistan, which is legally an elemental part of Jammu & Kashmir), a China-Mongolia-Russia Corridor, a Bangladesh-China-India-Myanmar Corridor, and finally a China-South East Asia Corridor. The creation of these pathways makes it possible to develop not only the economy of western-most Chinese provinces, but also the economies of the countries crossed by these different routes.

China has presented itself as a financial saviour, capable of providing an alternative economic narrative to the one that has been established by the Western world and its institutions like the World Bank and International Monetary Fund. However, its opaque engagements with less developed countries in Asia and Africa and its exploitation of the resources of these countries, have led to the growing opinion that China is practicing a form of neo-colonialism.

Chinese Presence in the Indian Ocean

In 2017, China officially opened its first (and as of this date, only) overseas military base in Djibouti. However, as Beijing proceeds with the development and construction of ports in the Indian Ocean under the flag of its BRI, concerns have arisen that this string of commercial ports could be used for military purposes. The term *'String of Pearls'* was first used in an internal report for the American

Department of Defense in 2004, to describe China's naval expansion and the proliferation of Chinese ports in the Indian Ocean.

China's so-called *"pearls"* in the Indian Ocean include, Hambantota Port in Sri Lanka, Gwadar Port in Pakistan, Kyauk Pyu Port in Myanmar, Chittagong Port in Bangladesh, and infrastructure projects in the Maldives. These strategic locations are of paramount importance for the development of the 21st Century Maritime Road, as they ensure that China maintains control over their import route of crude oil from the Middle East.

India has voiced concerns over China's motivations in the Indian Ocean. From New Delhi's standpoint, these ports could become obstacles for India's own growing trade, and for its naval ambitions. Although China is not a littoral State of the Indian Ocean, its presence and influence has grown in the region owing to its investments and development projects in South Asia and East Africa.

The narrative prevalent regarding this growing economic influence, is that China is engaging in *"debt-trap"* diplomacy to export its infrastructure-development industry at a very high price. The cautionary tale of Sri Lanka's Hambantota Port is a prime example of this *"debt-trap"* diplomacy.

The construction of the $ 1.5 billion Hambantota deep-sea port in Sri Lanka was funded almost entirely by China. When it was opened in 2010, it was seen as a beneficial investment by Sri Lanka, which suffered greatly from more than 25 years of civil war and was eager to develop its industries and economy. However, the port was unable to attract the maritime traffic needed to kick-start profit, which would in turn be used to pay back the Chinese loans plus high interest rates. Eventually in July 2017, Sri Lanka formally signed away Hambantota's commercial activities to the state-owned China Merchants Ports Holdings on a 99-year lease. In order to satisfy Sri Lankan opposition groups (which protested the original plan to give China Merchants Port Holdings an 80% stake), the deal was redrawn, and China Merchants Port Holdings now holds a 70% stake in the joint venture, the rest being owned by the state-run Sri Lanka Ports Authority.

This event raised alarms in other countries where China is heavily investing, and it was seen by Western powers as a violation of Sri Lanka's sovereignty and the concern that China would use Hambantota as a military facility, was raised by the US, Japan and India. However, Sri Lanka has strictly denied this claim, stating that a clause in the agreement with China prevents the latter from using Hambantota for any military activities, while Sri Lanka itself relocated its naval base from Galle to Hambantota in 2018.

The statements from both Beijing and Colombo have done little to appease the scepticism of foreign nations concerning China's growing developments abroad, which was only reinforced following the asset seizure that was seen in Sri Lanka. However, a study conducted by the New York based consulting firm, Rhodium Group, found that Sri Lanka was the only example of asset seizure following Chinese investments. The study confirmed that China is more inclined to either defer payments or completely forgive debts for Belt and Road infrastructure projects. This is part of Beijing's "*win-win*" policy, which claims that it will satisfy the interests of all countries involved diplomatically and economically. President Xi has continuously sought to assuage the *"debt-trap"* diplomacy claims and has promised to promote high financial standards in deal making. However, the lack of transparency surrounding

Beijing's deals made in the context of the BRI continue to attract mistrust and doubt from Western nations.

Whether China forgives debts or seizes assets, one thing remains clear: China is gaining almost unrivalled influence in the IOR. If China continues to seize assets, it would lose the appeal of its established foreign development program, which is attractive to developing countries, notably because – as mentioned above – China provides an alternative to the Western world and the Bretton Woods Institutions. While Europe and the US struggle with internal politics, China is at the ready end to seize new investment possibilities, especially since the funds China is willing and able to provide, by far surpass those of Western powers.

As will be explained in the case studies below, Beijing's strategy in Pakistan, Bangladesh, Myanmar and the Maldives follows a similar pattern – China will lend money to develop much needed infrastructure, which the debtor nation is eager to accept, yet China will provide a Chinese state-owned contractor, a Chinese workforce, and a Chinese majority shareholder. The debtor nation is not likely to see a share of the profit for a prolonged time; first, millions (if not billions) of US dollars will have to be repaid and so far, most of these projects are either still in the works or, if completed, are not providing the financial turnout that was promised.

Pakistan

Gwadar Port in Pakistan is a key element of the $64 billion China Pakistan Economic Corridor (CPEC). It is located in the southern province of Balochistan, where a separatist movement has previously targeted Chinese projects, interests and Chinese nationals. The separatist movement rejects Beijing's presence in the province and has protested Chinese exploitation of Balochistan's resources. Furthermore, the movement has accused the Pakistani government of carrying out a genocide against the Baloch minority, and has conducted attacks against Pakistani authorities in retaliation. In addition, the CPEC is burdened with legal issues surrounding the building of this corridor with regard to the disputed territories of Gilgit Baltistan and Pakistan Administered Jammu & Kashmir. In the disputed territory of Gilgit Baltistan (part of Jammu & Kashmir), the local residents are concerned about the land grabbing, demographic shift and environmental pollution, which the CPEC inflicts to the region. Although the Pakistani government claims that the multibillion megaproject will bring economic prosperity to the area, the indigenous people remain sceptic since they further perceive the endeavour as a threat to their unique culture, as the majority of them are Shia Muslims, unlike the majority of Pakistanis, who are Sunni Muslims.

Gwadar Port is the third commercial port of Pakistan after Karachi and Qasim, while the latter two ports handle 95% of Pakistan's sea-born trade, their capacities are fully exploited, and Gwadar is next in line to sustain and handle sea-trade. However, it first has to develop its infrastructure and facilities. For this, Pakistan's long-standing ally, China, has supplied the funds and contractors. The state-run China Overseas Port Holding Company (COPHC) is in charge of the development work and handling operations. In order to recuperate part of China's multi-billion loans to Pakistan, COPHC has obtained a 40-year Build-Operate-Transfer agreement. This means that COPHC will benefit from 91% of revenue collection from terminal and marine operations, on top of an 85% share from gross revenue of free zone operations. The remainder will go to Gwadar Port Authority.

Moreover, China has announced plans to build a second overseas naval base in Pakistan, close to Gwadar Port. Considering that the Gwadar Port is located in the Arabian Sea, close to the Strait of Hormuz, and the naval base in Djibouti is located by the Strait of Bab-el-Manheb, this implies that China could have a permanent military presence in two of the choke points of the Indian Ocean. Djibouti's strategic location has been a focal point for counter-terrorism and counter-piracy operations. The threat from non-State actors in the Red Sea and the Gulf of Aden combined with the heavy commercial traffic that passes through these points requires the presence of military forces in order to ensure stability and security. Djibouti's geostrategic situation has given it great values in the eyes of some of the strongest militaries in the world. It comes as no surprise that Djibouti is not only home to a Chinese naval base, but also to a multitude of other military bases belonging to the US, France, the UK, Italy, Japan and Saudi Arabia. This aggregation of foreign military bases establishes a balance of power, which in turn prevents a monopoly in Djibouti and the Strait of Bab-el-Manheb by a single dominant power.

Myanmar

Similarly to Pakistan, the China-backed projects in Myanmar are also located in an unstable province: Rakhine State, home to the Rohingya minority, which has been victim of ethnic cleansing and displacement policies since 2015. However, the Rakhine State provides yet another strategic location for the development of the Maritime Road. As it is situated on the coast of the Bay of Bengal, it could provide a terminal for a SLOC. China's aim in developing maritime infrastructure in the deep-sea Kyauk Pyu Port is to turn it into a major hub and entry point for an oil and gas pipeline, which could provide an alternative route to the Malacca Strait for the provision of energy fuels and a land corridor could then link Kyauk Pyu Port to China's own Yunnan Province.

Kyauk Pyu Port is part of a plan to create a special economic zone that is estimated to cost approximately $ 10 billion. China's Citic Group is at the head of the project and has demanded a 70-85% stake in the port, which in itself would cost approximately $ 7.3 billion. The Myanmar authorities are unlikely to ask for more than a 30% stake, as it would risk opposition from the Chinese group. Furthermore, the infrastructure project falls in line with Myanmar's plan to revive the economy in the underdeveloped Rakhine State; China has offered to invest, something which Western institutions may not be ready to do considering the ongoing Rohingya crisis.

Bangladesh

Bangladesh's main port city, Chittagong, has also captured Beijing's attention. In 2018, China announced the construction of an industrial park, estimated to cost approximately $ 10 billion. Just like in Sri Lanka, Pakistan and Myanmar, the Chittagong Port *"pearl"* will be the product of a joint venture in which a Chinese State-owned company, in this case China Harbour Engineering Company, will be the main shareholder (70%). Bangladesh is among the world's 15 fastest growing economies, notably due to its textile industry. However, as it does not have the adequate maritime infrastructure to sustain its booming export sector, China's proposal to build the industrial park in Chittagong is perceived to be a win-win situation.

Maldives

While China has not planned to construct a port in the Maldives, it has so far developed other infrastructure projects. In August 2018, China's main infrastructure project in the Maldives was inaugurated: a $ 200 million, 2.1 km bridge linking the capital with the airport island. The bridge, which is the first inter-island bridge in an archipelago of more than 1,200 islands, was originally known as the *China-Maldives Friendship Bridge*, but was officially named *Sinamalé Bridge*.

Months before the inauguration of the Sinamalé Bridge, China and the Maldives signed a Free Trade Agreement (FTA), accompanied by a Memorandum of Understanding that would bring the Maldives into the BRI fold. However, opponents of the FTA warned that the Maldives could fall victim to a *"debt-trap"*, as more than 70% of the Maldives' foreign debt is owned by China. While the FTA would open up a Chinese market for the Maldives' fishing industry and the Maldives' tourism industry to Chinese investors, it risks looming the Maldives deeper and deeper in debt. As of late 2018, the Maldives owed China $ 1.4 billion.

As discussed in EFSAS Commentary 05-10-2018, in September 2018, the Maldivian elections took an unfortunate turn for Chinese interests in the Maldives. Ibrahim Mohamed Solih won the elections and ousted the China-friendly Abdullah Yameen. Solih is expected to steer from the pro-Beijing policies installed by Yameen and renew ties with India. Interestingly, India pledged $ 1.4 billion in aid to the Maldives, the exact amount owed to China. This financial aid takes the form of budgetary support (currency swap and concessional lines of credit). While the Finance Minister of the Maldives has stated that there is no relation between the country's debt to China and India's financial aid, it was surely a move on New Delhi's part to mark the end of the pro-Beijing era in the Maldives and consolidate its influence in the Maldives.

Conclusion

China's game of loans in South Asia is perceived as many things: an alternative development opportunity, a *"debt-trap"*, a neo-colonialist policy and worse. No matter which opinion is voiced, an absolute certainty is that China has demonstrated an ability to shape its own future, on its own terms. The 21st Century Maritime Silk Road is very much underway, and China is attempting to ensure its long-lasting prosperity through its loans and development strategy. However, due to the size of the loans, and the poor economic situation of the countries that have to pay it back, China has made sure that these South Asian nations will remain in its debt for a long time. Beijing will maintain an upper hand and will be able to demand concessions vis-á-vis sovereignty of these countries. For how long will Sri Lanka remain the only example of assets seizure? The lack of transparency that surrounds the exact conditions of Beijing's deal-making process and the fact that China is running such a global project almost unilaterally are additional reasons for mistrust.

In the context of an emerging multipolar world, it however seems unlikely that China will be able to establish total dominance in the Indian Ocean. While its economic prowess has gained China a foothold in the region, India is unlikely to see its sphere of influence fall so easily into Beijing's hands. In 2018, India surpassed China and became the world's fastest growing economy and is projected to become the world's second largest economy by 2050. Thus, India is attempting to ensure its own SLOCs, and its influence in South Asia, and currently the country is trying to employ every mean necessary to do so. Furthermore, India holds its own naval ambitions in what it considers *"India's Ocean"* and is seeking to fully assert its strategic position in the centre of the Indian Ocean. Thus, its military and naval capacities are expected to further advance, as it will have to maintain a defensive stance against China's expansionist designs in the Indian Ocean.

The tug-of-war for influence between India and China is not likely to end soon. As both countries' economies continue to grow, so do their ambitions to use their economic edge to consolidate their soft power in South Asia. Yet, they are not the only actors involved in the complexity of the Indian Ocean's great game. On an international scale, the countries involved in the mass volume of trade transported through the Indian Ocean are likely to jump not the fray, as they cannot afford to lose the Indian Ocean to a single dominant power – whether China or India.

Military speaking, the presence of some of the most powerful naval fleets in the world renders a monopoly of the Indian Ocean improbable. The uneasy balance of powers brought about by this conglomerate of international forces must not tilt in favour of one, as a physical confrontation in the Indian Ocean could launch a series of devastating events. In the current geopolitical climate, China's *'String of Pearls'* and India's reaction to Chinese expansionism in the Indian Ocean reflects what Mahan predicted; as the 21st century Maritime Silk Road unfolds, slowly but surely, so does the destiny of the world.

The destiny of the States which have been lured into *The Dragon's fire of loans and debts,* however, looks grim for the economy, sovereignty and citizens of these countries.

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