Harbored Ambitions
How China's Port Investments Are Strategically Reshaping the Indo-Pacific

Devin Thorne & Ben Spevack
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C4ADS (www.c4ads.org) is a 501(c)(3) nonprofit organization dedicated to data-driven analysis and evidence-based reporting of conflict and security issues worldwide. We seek to alleviate the analytical burden carried by public sector institutions by applying manpower, depth, and rigor to questions of conflict and security.

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Executive Summary

Over the last decade, China has significantly increased its global investments, particularly in international and maritime infrastructure. Chinese firms have pledged billions of dollars to develop maritime ports and related projects across the Indo-Pacific Region since China announced its strategy to increase global trade connectivity through the Belt and Road Initiative (BRI). The BRI, China’s guiding foreign policy doctrine and one of the most ambitious economic initiatives in modern history, is portrayed by Chinese leaders as creating win-win economic development for all nations. Yet, some states question whether China’s infrastructure investments are driven by strategic interests.

This report evaluates China’s maritime infrastructure investment goals in the Indo-Pacific within the context of both policy from official documents and analyses from state- and Communist Party-affiliated publications. The authors find that Chinese analysts unofficially discussing port investments routinely prioritize China’s national security interests over the objective of mutually beneficial economic development, contradicting the position of official policy documents. Chinese analysts argue that the BRI’s Maritime Silk Road component can help ensure Beijing’s access to vital sea lines of communication. Port investments are viewed as vehicles with which China can cultivate political influence to constrain recipient countries and build dual-use infrastructure to facilitate Beijing’s long-range naval operations.

This report also analyzes a sample of 15 China-funded port projects to assess the behavior of the Chinese state and the Chinese companies involved using open-source data and, in some cases, on-the-ground investigation. The characteristics of China-funded commercial ports throughout the Indo-Pacific and the behavior of Chinese companies indicate that these investments are not principally driven by the concept of win-win development as Beijing claims. Rather, the investments appear to generate political influence, stealthily expand China’s military presence, and create an advantageous strategic environment in the region. These strategic characteristics and behaviors fall along dimensions that, together, constitute a useful analytical framework through which to assess Chinese infrastructure investments globally.

The framework consists of the following six dimensions:

- Strategic Location
- Financial Control
- Development Model
- Transparency and Benefit Distribution
- Communist Party Presence
- Profitability

Finally, this framework is applied to three case studies that more fully explore the actors, events, and agreements surrounding key and understudied BRI projects. In part, this analysis draws on documents never before released to the public. The selection of cases was based on geographic diversity, the project’s relative salience in BRI discussions, and the amount of existing literature.

- The BRI has visibly changed the strategic relationship between China and Pakistan. Increasing investments necessitate greater security for Chinese projects like the Port of Gwadar, which burdens both Beijing and Islamabad with growing concomitant costs.
- China-funded vanity projects have demonstrably constricted Sri Lankan sovereignty. Unprofitable, debt-heavy projects like Hambantota Port give China enduring leverage over Colombo’s foreign policy—leverage that Beijing has used to its benefit.
- In an apparent violation of Cambodian law, corporate obfuscation helped China broker a deal with Phnom Penh for 20% of Cambodia’s coastline. Consequences of the Koh Kong mega-development include economic losses, environmental degradation, and reported human rights abuses.
CHINESE PORT INVESTMENTS IN THE INDO-PACIFIC REGION

PORT OF GWADAR

UNPROFITABILITY: ✓
CHINESE COMMUNIST PARTY PRESENCE: ✓
LIMITED TRANSPARENCY / UNEQUAL BENEFITS: ✓ / ✓

The port is the flagship project in the China-Pakistan Economic Corridor, a $62bn USD logistics network that is changing the China-Pakistan security relationship. Pakistan has funded a Special Security Division of 15,000 troops to protect CPEC investments and China is negotiating directly with Pakistan-based insurgents. Overseas Port Holdings Company receives 91% of port profits and 85% of profits from an adjacent free trade zone.

KOH KONG NEW PORT

UNPROFITABILITY: ✓
CHINESE COMMUNIST PARTY PRESENCE: ✓
LIMITED TRANSPARENCY / UNEQUAL BENEFITS: ✓ / ✓

The port is part of Tianjin Union Development Group’s Cambodia-China Comprehensive Investment and Development Pilot Zone, an illegal 45,100-hectare land concession. The company has owned the land free-of-charge for the last decade per a secretly negotiated lease. Construction of tourist destinations and industrial infrastructure has led to accusations of environmental degradation and human rights abuses.

HAMBANTOTA PORT

UNPROFITABILITY: ✓
CHINESE COMMUNIST PARTY PRESENCE: ✓
LIMITED TRANSPARENCY / UNEQUAL BENEFITS: ✓ / ✓

China Merchants Port Holdings Company’s (CM Ports) lease over the port and an adjacent 15,000-hectare special economic zone was acquired in exchange for China’s write-off of 1.12bn USD Sri Lanka-held debt—just 15% of Sri Lanka’s 86bn USD Chinese debt. Despite public claims to the contrary, corporate records show that CM Ports owns a majority stake in both companies managing the port’s operation and security.
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Methodology

To understand the various interests driving Chinese investments in maritime facilities (i.e., ports and their attendant infrastructure) across the Indo-Pacific, this report compares relevant policy documents and research produced by Chinese analysts with the behavior of the Chinese government and Chinese companies in a sample of 15 port projects. For the purposes of this report, “Indo-Pacific” refers to an area including the Arabian Sea, the Laccadive Sea, the Bay of Bengal, the Andaman Sea, the Gulf of Thailand, and the South China Sea.

In Part One, the authors estimate Beijing’s motives by comparing official Chinese policy publications with unofficial—but authoritative—research produced by Chinese analysts on their country’s maritime investments, with specific attention to those writings that discuss both economic and strategic motivations. The goal is to assess the relationship between these drivers as well as the relative priority of one over the other.

• For official Chinese positions, this report focuses on assertions by Chinese statesmen and policy documents related to maritime security and investment. This includes Chinese white papers, speeches by Chinese President Xi Jinping, and documents concerning the Belt and Road Initiative (BRI), such as “Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road,” among other sources.

• For unofficial Chinese positions, this report examines books and articles produced by Chinese analysts that reflect their country’s internal discourse on the goals of maritime investments. The authors reviewed approximately 130 articles, prioritizing those published by key institutions linked to the Chinese state and Communist Party, as well as to foreign policy and military apparatus. These include China International Studies, Contemporary International Relations, and China Military Science, among others.

This report strives to accurately represent the rhetoric of Chinese statesmen, the meaning of policy, and the views of Chinese analysts as they appear across the reviewed documents and literature. However, the analyses here are qualitative. Chinese analysts do not speak for the state, but the authors believe that the research these analysts produce may nevertheless influence decision-makers who are responsible for advancing the BRI. As others have noted, analyses on the security dimensions of the BRI can effectively inform outside observers on the country’s internal debate precisely because there is no official policy linking the BRI to China’s national security.

In Part Two, the authors investigate a sample of 15 China-funded BRI port projects in the Indo-Pacific in the context of the country’s official policies and internal discourse to assess the actual behavior of the Chinese state and Chinese companies. For each port, the report uses a range of sources including corporate registries, company press releases and reports, Chinese state-run media, and local and western newspaper articles. Additionally, C4ADS researchers visited sites in the field, interviewed managers of the facilities, and observed the developments first-hand. Based on trends observed across the sample, the authors extrapolate an analytical framework through which to assess Chinese maritime investments in the Indo-Pacific, as well as the relationship between China’s infrastructure investment and geopolitical strategy.

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Finally, in Part Three, the authors present thorough assessments of three Chinese port projects to more fully explore how key behavioral trends manifest themselves on the ground. The following projects serve as case studies for this report:

- The Port of Gwadar, in Pakistan, because of its prominence in BRI analyses;
- Hambantota Port, in Sri Lanka, because of recent events surrounding China’s acquisition of the port; and
- A project in Koh Kong, Cambodia, because of its size and the scant prior analysis it has received.

The authors apply the analytical framework discussed in Part Two to these geographically diverse projects, finding that each exhibits multiple trends seen across the broader range of sample ports. Conclusions drawn from the case studies were further used to refine the framework.
Introduction

The year 2017 was a dynamic one for the People’s Republic of China (PRC) in the Indo-Pacific region. Under the banner of “win-win” economic development,\(^2\) China has rapidly expanded relations—through trade, investment, and diplomacy—across the region, leading to positive PRC involvement in humanitarian missions,\(^3\) cooperation on non-traditional security issues, and the provision of regional infrastructure.\(^4\) Since 2013, China has heralded its Belt and Road Initiative (BRI) as bringing economic opportunity to Asia and the Indo-Pacific through infrastructure investments aimed at increasing connectivity.\(^5\) Of equal interest to foreign observers is an escalating number of Chinese activities that are less congruent with Beijing’s stated message of peace and development, including People’s Liberation Army Navy (PLAN) live-fire exercises against simulated “enemy ships” in the Indian Ocean.\(^6\)

BRI port investments lie at the intersection of Beijing’s pledge to promote economic development and the increasing presence of China’s military in the Indo-Pacific.\(^7\) Since 2002, if not before,\(^8\) China has invested in ports stretching from the eastern coast of Africa to the South China Sea.\(^9\) On the one hand, China claims these infrastructure investments have the potential to bring economic revitalization to its partners; but on the other hand, world leaders are wary of China’s intentions surrounding port facilities that could, or that have, hosted PLAN vessels. Further, reports of steep interest rates and high equity stakes for Chinese companies cause some to question whether these projects are driven by a genuine desire to achieve win-win cooperation.\(^10\) When considered alongside the aforementioned increase in China’s military presence, many wonder: What is China’s motivation?

Questions surrounding China’s intentions now plague the BRI. It is not the first such infrastructure connectivity program, nor is it the only program currently being pursued in Asia. Indeed, the BRI has subsumed previous China-led infrastructure initiatives, and many BRI-branded projects existed long before the Initiative was proposed in its current form.\(^11\) Furthermore, Korea, Japan, and others have similar programs throughout the region.\(^12\) The BRI’s difference is its scale and ambition—current estimates suggest China will

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ultimately invest 1 trillion USD in maritime and overland transportation, energy, and logistics projects—and the speed with which Chinese companies have made or reshaped deals under the BRI banner. This observation, when considered alongside the more aggressive, concurrent activities described above, leaves foreign analysts wondering if the benign intentions China claims to hold are genuine, or whether Beijing is using its investments to reshape global geopolitics in its favor.

In her hallmark study of the drivers of the BRI’s development across Eurasia, Nadège Rolland draws on Chinese sources to argue that Beijing’s primary goal is to accumulate political and economic leverage created by Chinese-funded projects. With regard to maritime projects specifically, the oft-repeated “String of Pearls” theory has, since 2005, been used to suggest that China is investing in ports in friendly coastal states of the Indo-Pacific in order to create de facto overseas military bases for China’s military forces. However, a study conducted in 2014 by Dr. Christopher D. Yung and Ross Rustici questions whether this really is China’s unstated objective, finding that China-funded ports lack the infrastructure necessary to support a conventional war. Nevertheless, this finding does not rule out fears that China is attempting to use its commercial ports as logistical support points for long-range naval patrols defending its interests abroad.

This report addresses the above concerns by combining and comparing China’s official policies, China’s intentions as understood through the domestic publications of Chinese analysts, and a close examination of 15 BRI port investments. In this way, the authors clarify China’s priorities—benign and otherwise—and demonstrate Beijing’s primary goals for maritime investments in the Indo-Pacific. Their findings suggest China is neither pursuing geopolitical advantages merely as an afterthought to regional development nor pursuing regional military hegemony. Rather, Beijing is molding the Indo-Pacific to ensure its national security interests are adequately protected through the development of commercial ports that can facilitate long-range military patrols and investments that can generate political goodwill or—when necessary—coercive power.

On the Surface: The Belt and Road Initiative and China’s National Security Imperatives

The BRI was officially launched by President Xi Jinping in 2013. If it lives up to the rhetoric, the BRI will be the most ambitious economic development program in history. Indeed, in recent years, China has singlehandedly outspent the World Bank in providing loans to developing countries. Centered on infrastructure investments—ports, roads, rails, pipelines, and telecommunications networks—the BRI is described as a trillion-dollar program to physically integrate and connect 65% of the world’s population in over 60 countries in Europe, Africa, and Asia. In total, the BRI comprises six distinct “economic corridors” and three “blue economic passages.” The BRI is trumpeted by China as a “win-win” opportunity for all parties that does not serve Beijing’s geostrategic agenda. However, despite the rhetorical distinction between commercial benefit and national security in official public policies, the two interests are actually inseparable.

“In Through the BRI, a peaceful, prosperous, open, innovative, and civilized road will be built.”

– Xi Jinping (习近平), CCP General Secretary and PRC President

China’s Economic Belt and Maritime Silk Road

In late 2013, CCP General Secretary and PRC President Xi Jinping proclaimed in a series of speeches that countries must “vigorously enhance practical cooperation and be good partners in win-win cooperation.” To initiate this vision, he called for the creation of a Silk Road Economic Belt (丝绸之路经济带) and 21st-Century Maritime Silk Road (21世纪海上丝绸之路). These programs were eventually combined into the BRI (一带一路倡议), which has since become China’s guiding foreign policy doctrine and which is now enshrined in the constitution of the Chinese Communist Party (CCP). The BRI’s announcement ushered in a new era of outbound Chinese investment to fund (at least) nine multinational economic corridors and maritime passages. In December 2014, Beijing announced the creation of the 40 billion USD Silk Road Fund. Of the initial 10 billion USD pay-in, 65% is drawn directly from China’s State Administration of Foreign Exchange.

new multinational development bank, the Asian Infrastructure Investment Bank, which has a total capital of 100 billion USD. China is providing 50% of this funding and has substantially more voting shares than the next largest contributor. All told, Beijing is anticipated to pay an estimated 1 trillion USD toward BRI projects.

The BRI’s Maritime Silk Road component is vital to understanding the context of China’s maritime investments in the Indo-Pacific. Seven of the 15 port projects examined in this report began in 2013 or later. The five remaining port projects were either revived or expanded after the BRI’s announcement. In Gwadar, Pakistan, Chittagong, Bangladesh, and Colombo, Sri Lanka, port deals expanded to include economic and industrial zones; and in 2015, China announced its intention to lease land near Djibouti for a military logistics base. Lastly, all 15 of the ports projects fall along the “China-Indian Ocean-Africa-Mediterranean Sea Blue Economic Passage” or the “China-Oceania-South Pacific Blue Economic Passage,” which are intended to

link land-based economic corridors via international shipping lanes. Thus, the characteristics of the ports and the behavior of their Chinese developers should be consistent with the goals described by the BRI’s policy documents. That is, the goal should be to create win-win economic opportunity and increase global connectivity.

Official BRI policy documents are available through a dedicated website managed by China’s Leading Group for Advancing the Development of the BRI (推进“一带一路”建设工作领导小组). The first such document, “Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road,” issued in 2015, states that “the Initiative will focus on... jointly building smooth, secure, and efficient transport routes connecting major sea ports along the Belt and Road.” It further advances the establishment of a port network through “friendship” and “sister” port agreements. The 2017 “Vision for Maritime Cooperation under the Belt and Road Initiative” builds on this idea by proposing “blue partnerships” (蓝色伙伴关系) in maritime resource exploitation, marine industries, ecological protection, and maritime security, while also establishing the three “blue economic passages” (蓝色经济为主线) listed above.

The BRI’s—and thus the Maritime Silk Road’s—official objectives are increased economic development through infrastructure and energy connectivity, “unimpeded trade, financial integration and people-to-people bonds.” Although President Xi Jinping and Chinese analysts alike acknowledge the security challenges stemming from infrastructure projects running through areas of “conflict, turbulence and crisis,” discussion of China’s geostrategic goals is largely absent from official policy documents and speeches. Indeed, the Chinese government rejects such analyses. In President Xi’s own words:

“We will not resort to outdated geopolitical maneuvering. What we hope to achieve is a new model of win-win cooperation.”

“We should foster a new type of international relations featuring win-win cooperation; and we should forge partnerships of dialogue with no confrontation and of friendship rather than alliance.”

“Work for win-win cooperation.... ‘The interests to be considered should be the interests of all’ “

Western discussions of the BRI’s strategic motivations frequently draw comparisons to the Marshall Plan.  

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America’s initiative to rebuild Europe’s economy during the Cold War as a strategic hedge against the Soviet Union.\textsuperscript{37} Such comparisons suggest that China is attempting to undermine or counter American influence in geopolitically important regions.\textsuperscript{38} However, Chinese Foreign Minister Wang Yi argues that such comparisons are fundamentally flawed:\textsuperscript{39}

“China’s ‘Belt and Road’ initiative is both much older and much younger than the Marshall Plan. Comparing one to the other would be like comparing apples and oranges. The ‘Belt and Road’ initiative is older because it embodies the spirit of the ancient Silk Road, which has a history of over 2,000 years and was used by the peoples of many countries for friendly exchange and commerce.... [It] is younger because it is born in the era of globalization. It is a product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with the outdated Cold War mentality.”

Even if the BRI is not meant to proactively create a positive strategic environment for Beijing, China’s 2017 white paper on “Asia-Pacific Security Cooperation” acknowledges that “security and development are closely linked and mutually complementary,” in that one facilitates the other. More to the point, increasing numbers of overseas Chinese companies and citizens, as well as growing amounts of overseas capital, necessitate that China be able to provide security. Indeed, China’s 2015 military strategy white paper notes that “the security of overseas interests... [including] institutions, personnel and assets abroad, has become an imminent issue.”\textsuperscript{40}

Foreign Minister Wang Yi further asserted, in 2016, that “how to protect China’s ever-expanding overseas interests is an urgent concern for Chinese diplomacy.”\textsuperscript{41} This dynamic, whereby infrastructure investments precipitate increasing levels of security demands, has developed in Pakistan since China assumed control of the Port of Gwadar in 2013. As the case study shows, the development of Gwadar and numerous other infrastructure projects has led to Beijing’s expanding involvement in Pakistan’s internal security environment.

While the BRI creates security liabilities abroad, the Initiative, particularly its Maritime Silk Road, also has the potential to serve China’s national security concerns in ways unacknowledged by official statements.

Chinese National Security Policy

Chinese national security imperatives are defined in relation to what Beijing calls “core interests” (核心利益). According to a 2011 government white paper, China’s core interests include “state sovereignty, national security, territorial integrity and national reunification, China’s political system... and the basic safeguards for ensuring sustainable economic and social development.”\textsuperscript{42}

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Preserving national security and economic development relies heavily on maritime trade routes. China’s economy still depends on the export of goods abroad and domestic fixed asset investments, despite ongoing efforts to rebalance the economy by increasing domestic consumer spending, innovation, and services.

At the same time, China relies on Indo-Pacific shipping lanes for energy imports. Almost 80% of China’s imported oil passed through the Indian Ocean and Malacca Strait into the South China Sea in 2016. China is also a net importer of coal, despite a domestic abundance of this resource. Thus, Beijing believes itself vulnerable to foreign interdiction of vital energy supply lines. The 2013 edition of The Science of Military Strategy, a book published by the Academy of Military Science and one believed to be directly informed by doctrinal Chinese military literature, highlights China’s feeling of maritime insecurity:

“Sea lines and channels have already become [China’s] economic and societal development ‘lifelines’ (生命线)... [which are neither] possessed by us, nor controlled by us; in case a maritime crisis or war were to happen, our maritime routes have the possibility of being cut off.”

[Map of Indo-Pacific Sea Lines of Communication and Critical Maritime Chokepoints]

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44 The CCP’s Third Plenum of the 18th Central Committee set these goals in November 2013.


The threat of foreign blockade in the Malacca Strait is particularly prominent in Beijing’s rhetoric. In 2003, former PRC President Hu Jintao noted that “some large countries are continually interfering in and attempting to control shipping through the Malacca Strait.” 49 China’s dependence on and vulnerability to this chokepoint has since become known as China’s “Malacca Dilemma” (马六甲困局). 50

Not surprisingly, the CCP prioritized China’s development of maritime capabilities by declaring a national objective of becoming a “strong maritime power” (海洋强国) in both the 18th and 19th Party Congress Reports of 2012 and 2017, respectively. 51 Becoming a “strong maritime power” means being able to “resolutely safeguard China’s maritime rights and interests,” 52 the responsibility of which falls to the PLAN. 53 Of these rights and interests, two have significant impact on the Indo-Pacific: preserving China’s access to vital shipping lanes, also known as sea lines of communication (SLOCs), and circumventing the Malacca Strait.

A Strong Maritime Power

Four pillars comprise China’s “strong maritime power” (海洋强国) concept: exploitation of maritime resources (fishing and energy), development of the marine economy (shipping and shipbuilding), protection of the marine environment, and defense of China’s rights and interests with regard to territorial claims and access to key SLOCs.

Beijing has already begun achieving its goals. Of greatest salience, China has realized prominence in global shipping, port management, and shipbuilding. In 2015, Chinese shipping companies carried nearly one fifth of all container traffic handled by the top 20 companies globally. Chinese investment is also found in two-thirds of the top 50 container ports. As of 2017, Chinese shipbuilders ranked first in the rate of completed construction, the volume of new orders, and the volume of holding orders.

Since 2015, the PLAN’s mission has increasingly expanded from the defense of China’s territorial waters—its “near seas” (近海)—to “open seas protection” (远海护卫) throughout the Indo-Pacific, including the sea lanes of the Indian Ocean. This mission has manifested itself in the PLAN’s increasing presence in the region. In 2017, the PLAN conducted three live-fire exercises in the Indian Ocean. Further, the PLAN docked its hospital ship in Sri Lanka for the first time. Continuing this new trend, PLAN warships have already conducted a long-distance patrol of the Indian Ocean in February 2018.
Below the Surface: Chinese Analysts View Maritime Investments Strategically

Officially, China strenuously rejects allegations that its strategic security interests drive the BRI. Chinese politicians, including PRC Foreign Minister Wang Yi, accuse such geopolitical analyses of adopting a “Cold War mentality” (冷战思维). Yet research from unofficial PRC state- and CCP-affiliated publications shows that Chinese analysts believe developing the BRI and achieving Chinese security are intimately linked. In fact, Chinese analysts—in both diplomatic and military publications—explicitly discuss using international assistance and the BRI as a pretext for pursuing China’s grand strategy. Many of these observers recognize that a network of maritime logistics hubs throughout the Indo-Pacific, including ports, has the potential to change the region’s strategic landscape, and several explicitly describe the role of infrastructure investment in Chinese grand strategy. Scholars from the PLAN’s Naval Research Institute do not speak on behalf of the state, but they do reflect the overarching ambitions found in China’s domestic discourse on this issue: “meticulously select locations, deploy discreetly, prioritize cooperation, and slowly infiltrate” (“精心选点、低调布局、合作为先、缓慢渗透”).

“Wherever there is Chinese business, warships will have a transportation support point.”

–Deng Xianwu (邓先武), commanding officer of a PLAN warship

Generating Political Influence from Investments

While a portion of Chinese research focuses solely on the Maritime Silk Road’s benefits, such as the provision of public goods, analysis that discusses both strategic and economic drivers regularly subordinates win-win economic development to China’s national security interests, especially interests related to energy security and access to key SLOCs. Chinese maritime investments in the Indo-Pacific, among other positive Chinese activities, such as anti-piracy missions, are often seen as avenues for creating the political influence necessary to achieve these security objectives while also deepening trade relations. In essence, many Chinese analysts see cooperation and public goods as facilitating an accumulation of soft and coercive power necessary to defend China’s “core interests.” Various opinions from the diplomatic, intelligence, and military communities have expressed similar opinions, of which representative excerpts are presented below.

• China International Studies, published by a Ministry of Foreign Affairs think tank, featured a 2017 article arguing that China must build itself into a strong maritime power by deploying military, diplomatic, and economic approaches. The authors argue that Beijing’s goals would be to establish strategic advantage in East Asia’s near seas and to maintain an effective military presence in the Western Pacific and the northern portion of the Indian Ocean.
• On Maritime Strategic Access, which is co-authored by a PLAN Commodore, highlights that leveraging “military operations other than war”—including international maritime security cooperation—would increase trust between the militaries of China and relevant countries, while allowing China to build a naval presence around critical SLOCs without drawing excessive attention from the international community.\(^{59}\)

• An article published in 2017 by a journal of the China Institutes of Contemporary International Relations (CICIR), which is affiliated with the Ministry of State Security, emphasizes mutually beneficial regional cooperation in maritime construction, especially with regard to ports. Yet the article places its arguments firmly in the context of strategic considerations, particularly China’s “indisputable economic and security interests in the IO.”\(^{60}\)

• Contemporary World (当代世界), a journal of the CCP Central Committee’s International Department (ID), also published an article in 2017 advocating building a “China–Indian Ocean economic circle” (中国-印度洋经济圈) to promote synergistic development from the Middle East to China before “outside powers” (域外大国) were able to do so.\(^{61}\)

• International Strategic Analysis 2006/2007, a book from National Defense University—the principal training academy for China’s Central Military Commission—further notes that China has successfully used investment as a tool for enhancing its energy security. The book’s authors argue that Chinese investments have reinforced cooperative relationships with oil-exporting countries and specifically note the importance of the planned (and since completed) pipelines capable of transferring petroleum from the Indian Ocean through Myanmar and into China by land, thereby circumventing China’s “Malacca Dilemma.”\(^{62}\)

The consensus opinion of 50 scholars from over a dozen prominent Chinese government and university research institutes epitomizes such thinking. The 2015 consensus is titled “Seminar Summary of the ‘China Periphery Diplomacy of the Xi Jinping Era: New Ideas, New Concepts, New Measures,’” and it argues that China should “be decided [and] unyielding, seize opportunities [and] adjust pressure, take the initiative [and] expand westward” (有定力, 不动摇; 抓机遇, 调压; 主动推动; 向西扩展).\(^{63}\) To accomplish this and defend China’s “core interests,” these scholars argued that Beijing must cultivate “strategic support states” (战略支点国家) by building regional cooperation and providing regional public goods for the sake of “making relevant countries believe China’s benevolence.”\(^{64}\)

Researchers from the Chinese Academy of Social Sciences had previously defined the concept of “strategic support states” in 2014. They gave three guiding principles for selecting candidate countries, one of which is ensuring that “China has the ability and resources to guide the actions of the country so that they fit into [China’s] strategic needs.”\(^{65}\) While the researchers do not elaborate on the means by which China could guide

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other countries, Sri Lanka’s experience with Chinese investments shows how project finance can generate political influence that benefits Beijing’s strategic posture in the Indo-Pacific.

Although Chinese analysts do not explicitly discuss the coercive capacity of Chinese capital, infrastructure loans can lead the recipient country into a debt trap that severely limits policy options. This is particularly the case if the projects are backed by sovereign guarantees—whereby the recipient country backs the loan to mitigate risk to the investors. Should a project fail to generate revenue, the government must fulfill the debt obligations of the guarantee; failure to repay this foreign-held public debt has led to sovereign defaults in the past. Sovereign guarantees are relatively commonplace in infrastructure development. However, when applied to large-scale projects in recipient countries with high preexisting foreign-held debt-to-GDP ratios, these guarantees can sabotage a country’s economic development and endow its creditor with outsized leverage.

Ports as Platforms for Expanding Military Presence

Chinese analysts, particularly those with military backgrounds, describe port investments as discreetly enabling China to enhance its military presence in the Indo-Pacific. These analysts view regional military presence as vital for avoiding containment at the hands of foreign powers and defending China’s access to key SLOCs. They argue that commercial ports—especially those with developed industrial capacity—can significantly contribute to these goals and alter the strategic operating environment in China’s favor.

The highest-ranking PLAN authors tend to discuss China’s overseas naval activities in the context of international cooperation—in line with China’s official policy. PLAN Admiral Sun Jianguo (孙建国) argued in 2016 that “opening the Djibouti [military base]... will better support China’s military as it carries out escort missions, humanitarian missions, and other such tasks. It also has important implications for China more effectively fulfilling its international duties.” Yet, as discussed above, one PLAN Commodore emphasized that these activities also provide China with a pretense for establishing a naval presence around critical SLOCs without incurring the international community’s scrutiny.

Further, a deputy division commander from China’s East Sea Fleet has plainly stated that escort missions have the objective of protecting China’s national interests and preserving “strategic transportation channels.”

Major generals from the People’s Liberation Army (PLA), however, present China’s expansion into the Indo-Pacific as imperative for escaping alleged US-led containment. Such analyses argue that economic cooperation and port access through BRI projects, particularly at Gwadar in Pakistan and Kota Kinabalu in Malaysia, are the first of “two chess moves” to break out of US-led strategic containment and “once again enter a phase of toppling and reorganizing the international political and economic order.”

Another analysis by a PLA major general further argues that an anti-China network of alliances threatens Beijing’s access to vital SLOCs. According to this author, China should defend itself by creating deterrence.
through factors such as comprehensive national strength, maritime warfare capabilities, and even “people’s war at sea” (海上人民战争), a tactic that involves the use of civilian mariners and vessels to defend China’s maritime interests. The author further proposes that China adopt strategies from the Chinese game of Go (围棋), which emphasizes hiding intentions and encircling opponents.

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People’s War at Sea

Considered a “magic weapon” and guiding principle of China’s active defense strategy, the People’s War doctrine proposes mobilizing civilians to defend the country. Today, its influence is most readily seen in the South China Sea, where ostensibly civilian Chinese fishing vessels actively enforce China’s territorial claims.

However, the concept of waging a “people’s war at sea” could go beyond fishermen and trawlers. It suggests that China’s entire merchant marine—a country’s fleet of commercial vessels—can be used as an extension of military power. Indeed, a 2015 Chinese law dictates that all container, roll-on/roll-off, multipurpose, bulk carrier, and break-bulk vessels be built to military standards. China passed another law in 2016 creating a legal framework for the use of civilian assets to support military logistics operations and requiring all Chinese industries that conduct international transportation to provide supplies and aid to Chinese military vessels as needed.

Outside of the activities of China’s fishing fleet, there has already been at least one instance where Chinese industrial ships have participated in a military operation outside of wartime. In the summer of 2014, commercial ships were mobilized to defend a Chinese oil rig placed within Vietnam’s claimed exclusive economic zone. Roughly 30 Chinese industrial vessels not only defended the rig, but actively rammed Vietnamese vessels that approached it.

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Regarding the role of ports specifically, researchers from the PLAN’s Naval Research Institute recommended in 2014 that China build replenishment and logistics points at key ports to better enable PLAN protection of China’s energy supply lines. They suggested ports in the Bay of Bengal, at Dar es Salaam (Tanzania), Djibouti (Djibouti), Gwadar (Pakistan), Hambantota (Sri Lanka), Sittwe (Myanmar), and in the Seychelles as locations for such facilities.\textsuperscript{16} Since 2014, a Chinese military support base has been constructed in Djibouti.\textsuperscript{17} The majority Chinese-owned and operated port at Colombo in Sri Lanka has further received a PLAN submarine in port.\textsuperscript{17} Moreover, China holds a 99-year lease over Sri Lanka’s second port at Hambantota. In January 2018, reports surfaced that China also plans to construct a military base in Jiwani, Pakistan,\textsuperscript{18} just 37 miles (59.5 kilometers) from Gwadar.

A 2015 article from a journal run by China’s University of International Relations, a feeder school for China’s intelligence agencies,\textsuperscript{19} expresses a similar idea. The author of this article describes a concept of “first civilian, later military” (先民后军). Under this paradigm, commercial ports would be built with the goal of slowly developing them into “strategic support points” (战略支点) that can “assist China in defending maritime channel security and grasping key waterways.” The author writes:\textsuperscript{20}

“Use main ports as investment points, use local resources, establish an economic development zone, complete steel industry, shipbuilding industry, mineral processing industry... [and] make these ports gradually possess the capability for offering logistical support to Chinese vessels and become China’s strategic support points in Southeast Asia to create an advantageous external environment for China’s rise.”

Chinese media outlets reprinted this idea, with Xinhua publishing an article describing Kyaukpyu Deep-Sea Port in Myanmar, Port of Chittagong in Bangladesh, Colombo Harbour in Sri Lanka, Aden Port in Yemen, and ports in the Maldives as potential locations where the Chinese government could work to create industrial hubs to support military operations.\textsuperscript{21} Also, the original author of the “first civilian, later military” concept suggested the Port of Gwadar as a good testing ground for such a strategy. She described the Pakistani port as having the potential to both strengthen China’s far-seas warfighting capacity and provide fuel and supplies to the PLAN.\textsuperscript{22}

Chinese analysts do not see infrastructure investments and commercial port projects as simply creating win-win economic development in line with BRI policy. Instead, these activities, and the BRI by extension, are seen as components of a defensive strategy. Chinese analysts argue that such investments are a means of achieving China’s “core interests” and protecting its national security. This does not necessitate military hegemony over the Indo-Pacific. Rather, it entails ensuring Beijing’s access to vital SLOCs, mitigating the Malacca Dilemma, and preventing containment.

Facts on the Ground: Chinese Investment Behavior

Examining 15 BRI ports in the Indo-Pacific and the behavior of the Chinese companies involved reveals several characteristics that can be categorized into six dimensions:

- Strategic Location
- Financial Control
- Development Model
- Transparency and Benefit Distribution
- Communist Party Presence
- Profitability

Although none of the characteristics along these dimensions (e.g., complete financial control as opposed to no financial control) are independently indicative of geostrategic intent, they can be combined and layered to assess China’s intent. Taken together, the trends observed across these dimensions with regard to China’s port investments suggest that China’s projects are more influenced by security concerns similar to those found in the writings of Chinese analysts rather than the BRI’s economic rationales as espoused by Chinese officials. Moreover, the trends suggest that China may be using its port projects to reshape the regional operating environment in Beijing’s favor.

The following port projects comprise this report’s sample. Statistics in the following section are described in reference to 15 ports, with the 15th port being a composite of three failed projects. In each of the three failed port projects, one or more Chinese companies made a proposal that was ultimately rejected by the recipient country in favor of a proposal from third-party countries, namely India and Japan.

Sample Port Projects

<table>
<thead>
<tr>
<th>No.</th>
<th>Port</th>
<th>Port Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Port of Chittagong</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>2</td>
<td>Colombo Harbour</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>3</td>
<td>Koh Kong New Port</td>
<td>Cambodia</td>
</tr>
<tr>
<td>4</td>
<td>Darwin Port</td>
<td>Australia</td>
</tr>
<tr>
<td>5</td>
<td>Doraleh Multipurpose Port</td>
<td>Djibouti</td>
</tr>
<tr>
<td>6</td>
<td>Al Duqm Port &amp; Drydock</td>
<td>Oman</td>
</tr>
<tr>
<td>7</td>
<td>Port of Gwadar</td>
<td>Pakistan</td>
</tr>
<tr>
<td>8</td>
<td>Magampura Mahinda Rajapaksa Port (Hambantota Port)</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>9</td>
<td>Kuantan Port</td>
<td>Malaysia</td>
</tr>
<tr>
<td>10</td>
<td>Kyaukpyu Deep Sea Port</td>
<td>Myanmar</td>
</tr>
<tr>
<td>11</td>
<td>Melaka Gateway</td>
<td>Malaysia</td>
</tr>
<tr>
<td>12</td>
<td>Port of Muara</td>
<td>Brunei</td>
</tr>
<tr>
<td>13</td>
<td>Port of Payra</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>14</td>
<td>Port of Tanjun Priok</td>
<td>Indonesia</td>
</tr>
<tr>
<td>15</td>
<td>Port Klang/Sittwe Port/Sonadia Port</td>
<td>Malaysia/Myanmar/Bangladesh</td>
</tr>
</tbody>
</table>
Strategic Location

All 15 ports examined in this report, including the three failed projects, lie along SLOCs that are vital to China’s national security and economic development. Major commercial ports always fall along principal sea lanes, but China’s Indo-Pacific ports appear specifically placed to alleviate China’s key concerns over energy imports and potential blockades. As illustrated below, 10 of the 15 port projects surround the entrances to the South China Sea, with eight of them overlooking western approaches through the Bay of Bengal.

Recalling China’s “Malacca Dilemma,” two Chinese projects have been proposed in the Malacca Strait itself. One of these, a “Maritime City” on Carey Island south of Port Klang in Malaysia, fell through and ultimately went to an Indian developer. The other proposal, the Melaka Gateway, is currently under development by Chinese firms. Similarly, the Port of Tanjung Priok sits along the Sunda Strait between Java and Sumatra, Indonesia. Both the Malacca and Sunda Straits are key chokepoints along China’s shipping lanes.

Two ports include, or may eventually include, petroleum and LNG pipelines that connect inland China to the Indian Ocean, thus allowing a portion of China’s energy imports to bypass the Malacca Strait. Oil and liquefied natural gas pipelines completed by China National Petroleum Corporation (CNPC/中石油天然气集团公司) begin on Maday Island in Kyaukpyu, Myanmar, and stretch to Kunming in China’s Yunnan province and beyond. Chinese companies are developing three nearby ports—in Kyaukpyu as well as in Payra and Chittagong in Bangladesh. In a variation of the current project locations, China previously

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made unsuccessful bids to develop the Myanmar-China pipeline in Sittwe, Myanmar, and a port in Sondia, Bangladesh. Tentative plans for an oil pipeline extending from Gwadar, Pakistan, to China also exist, though they may never be realized due to high costs and Pakistan's unstable security environment.

**Development Model**

Under the BRI framework, Beijing encourages Chinese businesses to participate in the development of industrial parks and economic zones in recipient countries. For ports, such guidelines appear to promote what Chinese media and official BRI documents call the “Ports-Park-City” (PPC) model of development. This approach encourages Chinese companies to build out from a port to create transportation channels, an industrial park, a logistics park, and free-trade and manufacturing zones. Fourteen of the 15 ports include one or more of the infrastructure projects described by this model, but only Kyaukpyu and Djibouti are explicitly referred to as PPC projects. In one location—Al Duqm in Oman—China does not appear to be investing in the port directly, but is funding the 10 billion USD Sino-Oman Industrial City.

- In Tanjung Priok, Indonesia, the state-owned Guangxi State Farms Group has partially completed the China-Indonesia Economic and Trade Cooperation Zone, a project begun in 2013.
- In Colombo, Sri Lanka, the 15 billion USD Colombo International Financial City (formerly Colombo Port City)—the largest BRI project in country—lies adjacent to the eponymous port.
- In Payra, Bangladesh, multiple Chinese state-owned firms and a China-Bangladesh joint venture have signed agreements in excess of 1.56 billion USD to build an eco-friendly power plant, housing, education, and healthcare facilities.

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91 These are Koh Kong, Cambodia; Gwadar, Pakistan, Colombo and Hambantota, Sri Lanka; Chittagong, Bangladesh; and the Melaka Gateway, Malaysia.


Harbored Ambitions

The PPC model ties China’s maritime interests even more closely to the economic development of recipient countries and increases interdependence between these countries and China. It also allows Chinese industries to expand into overseas markets and modernize local industrial capacity to support China’s maritime activities. Though never explicitly stated, this model could also be adapted to lay the groundwork for the “first civilian, later military” strategy discussed earlier. Building up dual-use infrastructure and industrial capacity, such as for metallurgical and shipbuilding industries, around key ports would augment the logistical utility of commercial ports in the event of a military operation.

Such civil-military cooperation was on display when the PLAN warship Changbaishan (长白山) docked at Laem Chabang port in Thailand in 2016. Chinese businesses in Thailand conducted all of the preparation work—berth choice, equipment unloading, and replenishment of the ship’s fresh water supply. A general manager from one participating company referenced China’s National Defense Transportation law, stating that Chinese companies have organized employee training sessions to learn about both the concept of national defense transportation and how to service China’s warships. Changbaishan’s commanding officer added that “wherever there is Chinese business, warships will have a transportation support point (交通保障点).”

The cooptation of commercial ports for “strategic support points” or “transportation support points” and China’s overseas military basing strategy are not mutually exclusive. China built the Djibouti Logistics Support Base near Doraleh Multipurpose Port, and there are rumors that China plans to build a military base near Gwadar. Bases are permanent facilities for PLA or PLAN troops at vital strategic locations, whereas commercial ports following the PPC model could extend logistical support widely throughout the region and facilitate long-range patrols.

Communist Party Presence

The Chinese state and CCP are present in the development of 13 of the 15 sample ports, ensuring political intervention is always possible. This presence comes in two forms: state-owned enterprises (SOE) and the CCP’s United Front Work Department. Such presence gives China greater potential control over the development of projects and better access to information from the port and recipient countries.

SOEs are involved in 12 of China’s port projects. Of these, nine involve a direct relationship between SOEs and the host government, only two feature relationships between SOEs and private companies from the host

country, and only two feature relationships between SOEs and private companies from third-party countries. There is only one project, located in Koh Kong, Cambodia, that appears wholly developed by a private firm. Although it must be acknowledged that SOEs may comprise the majority of Chinese companies with the expertise and resources needed to conduct port construction and expansion projects, SOE involvement nevertheless inherently gives the Chinese state, and by extension the CCP, increased control over these projects. The Chinese state—either at the national or provincial level—is the ultimate beneficial owner of these enterprises, and many SOEs are led by political appointees. Thus, company decisions are much more vulnerable to political influences than those of wholly private companies.

**State-Owned Enterprise Involvement**

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Merchants Group (招商局集团有限公司)</td>
<td>5</td>
</tr>
<tr>
<td>China Harbour Engineering Company (中国港湾工程有限责任公司)</td>
<td>3</td>
</tr>
<tr>
<td>Guangxi Beibu Gulf International Port Group (广西北部湾国际港务集团)</td>
<td>2</td>
</tr>
<tr>
<td>China State Construction Engineering Construction Corp. (中国建筑集团有限公司)</td>
<td>2</td>
</tr>
</tbody>
</table>

Most common SOEs among the sample of 14 successful port projects, SOEs overlap on some projects

When private companies do have a role in Chinese projects, they often have ties to the United Front, which leads the Party’s efforts to build alliances overseas. Five private companies, both Chinese and foreign-owned, are each participating in at least one of the 15 ports in the sample. Of these private companies, the United Front is visible in three of the firms or their projects.

- In Australia’s Port Darwin, Ye Cheng (叶成), chairman of the privately-held Landbridge Group (岚桥集团), is a member of the 12th Chinese People’s Political Consultative Conference (中国人民政治协商会议), a prominent United Front body within China.
- In Cambodia’s Koh Kong province, members of United Front organizations, including the Chinese People’s Political Consultative Congress and the All-China Federation of Industry and Commerce, have visited China’s development and obtained reports from project managers, particularly since the BRI’s announcement.
- In Malaysia’s Kyaukpyu port project, Dhanin Chearavanont (谢国民), chairman of the Thailand-based Charoen Pokphand Group (CP Group), has participated in United Front organizations such as the China Overseas Chinese Entrepreneurs Association (中国侨商投资企业协会) and the Thai-Chinese Friendship Association (泰中友好协会).}

112 中国侨商投资企业协会访问团走读泰国正大集团 [China Overseas Chinese Entrepreneurs Association Visits Thailand’s Charoen
The involvement of the United Front means that, although these companies are private, the CCP nevertheless possesses both a source of information on operations and a means to influence company decisions that impact China's strategic concerns.

Financial Control

Chinese companies regularly seek to maintain long-term financial control over their investments in Indo-Pacific ports. One method for achieving this is obtaining equity in the ports or their management companies. Another method is negotiating leases in order to own, and in many cases operate, the ports for extended periods of time. Chinese companies hold equity in or leases over a total of 10 out of 15 sample ports, ensuring that neither China's role in these projects nor its leverage end with the construction or expansion.

Chinese companies are known to hold equity stakes in at least nine of the 15 sample ports (or their management companies), though this information could not be found for all ports. Of the nine ports with a confirmed Chinese equity stake, Chinese companies own a majority share in six.

Equity Stakes in Sample Port Projects

<table>
<thead>
<tr>
<th>Port</th>
<th>Current Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombo Harbour, Sri Lanka</td>
<td>85</td>
</tr>
<tr>
<td>Koh Kong New Port, Cambodia</td>
<td>100</td>
</tr>
<tr>
<td>Darwin Port, Australia</td>
<td>80</td>
</tr>
<tr>
<td>Doraleh Multipurpose Port, Djibouti</td>
<td>23.5*</td>
</tr>
<tr>
<td>Hambantota Port, Sri Lanka</td>
<td>70</td>
</tr>
<tr>
<td>Kuantan Port, Malaysia</td>
<td>40</td>
</tr>
<tr>
<td>Kyaukpyu Deep Sea Port/ Maday Islands Pipelines, Myanmar</td>
<td>70/50.9</td>
</tr>
<tr>
<td>Melaka Gateway, Malaysia</td>
<td>49</td>
</tr>
<tr>
<td>Port of Muara, Brunei</td>
<td>51</td>
</tr>
</tbody>
</table>

*Denotes Chinese-held stake in port management company rather than the port itself

Equity, however, is not fixed. Chinese companies have gained and lost equity as a result of shifting economic and political circumstances. For instance, China Merchants Group (中国招商局) started with a 55% share in


The potential for change in equity may, in part, drive China’s pursuit of long-term leases. China has worked to acquire leases for at least nine of the 15 Indo-Pacific ports. However, these leases do not necessarily grant China the freedom to act without regard for the host country. That is, the leases do not represent the acquisition of sovereign territory. For example, China’s 99-year lease agreement for its development in Koh Kong province, Cambodia, only explicitly grants commercial rights to the developer and its partners.\footnote{Contract for Leasing Location in Kiri Sakor and Botum Sarkor Districts of Koh Kong Province. (2008, May 9). Kingdom of Cambodia} In other cases, host governments have denied strategic requests from China despite lease agreements. For instance, after a change in government, Sri Lankan officials refused to allow a Chinese submarine to dock at Hambantota in early 2018, even though China holds a 99-year lease over the port.\footnote{Sri Lanka Refuses Port Call for Chinese Submarine after Indian Leader Modi’s Visit. (2017, May 12). South China Morning Post. Retrieved from: http://www.scmp.com/news/asia/diplomacy/article/2094093/sri-lanka-refuses-port-call-chinese-submarine-after-indian} Commenting on China’s acquisition of Darwin, Australian Trade Minister Andrew Robb has stated that “The fact of the matter is [the Department of Defense] has step-in rights, so if something happens for whatever reason and they want to take control of the port, they can.”
Harbored Ambitions

Lease Terms for Sample Port Projects

<table>
<thead>
<tr>
<th>Port</th>
<th>Lease Term (Years)</th>
<th>Current Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombo Harbour, Sri Lanka</td>
<td>35</td>
<td>85</td>
</tr>
<tr>
<td>Koh Kong New Port, Cambodia</td>
<td>99</td>
<td>100</td>
</tr>
<tr>
<td>Darwin Port, Australia</td>
<td>99</td>
<td>80</td>
</tr>
<tr>
<td>Doraleh Multipurpose Port/Logistics Support Base, Djibouti</td>
<td>Unk/10*</td>
<td>23.5/ Unk</td>
</tr>
<tr>
<td>Port of Gwadar, Pakistan</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Hambantota Port, Sri Lanka</td>
<td>99</td>
<td>70</td>
</tr>
<tr>
<td>Kuantan Port, Malaysia</td>
<td>99</td>
<td>49</td>
</tr>
<tr>
<td>Melaka Gateway, Malaysia</td>
<td>99</td>
<td>49</td>
</tr>
<tr>
<td>Port of Maura, Brunei</td>
<td>60</td>
<td>57</td>
</tr>
<tr>
<td>Kyaukpyu Deep Sea Port/ Maday Islands Pipelines, Myanmar</td>
<td>None</td>
<td>70/50.9</td>
</tr>
</tbody>
</table>

*Extendable for an additional 10 years
**Extendable for an additional 30 years
***Does not include freehold status of reclaimed, man-made islands, which China could hold in perpetuity

Financial Control Totals

<table>
<thead>
<tr>
<th>Port</th>
<th>Lease Term (Years)</th>
<th>Current Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombo Harbour, Sri Lanka</td>
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<td>None</td>
<td>70/50.9</td>
</tr>
</tbody>
</table>

Transparency and Benefit Distribution

The agreements around all 15 ports examined in this report were highly opaque, with limited detail on the companies involved, the status of negotiations, the terms of deals (including financial arrangements), the organizational structures of projects, and the progress of development. Information was incomplete on two or


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more of the above metrics for each of the 15 ports in the sample. In some cases, such as Tanjun Priok, as many as four out of five Chinese investors have not yet been publicly identified. Indeed, initial data from CSIS' Reconnecting Asia infrastructure investment database suggests that limited transparency is a characteristic of Chinese investment more generally. Comparing projects funded by the China Development Bank and those funded by multilateral development banks indicates that information on Chinese projects tends to be sparse, especially before projects are completed.

Limited transparency not only obstructs researchers; it can also blind policymakers in recipient countries. In 2017, the governor of the State Bank of Pakistan went on record claiming, “I don’t know out of the $46 billion [in Chinese infrastructure funding] how much is debt, how much is equity, and how much is kind.” Without complete information on the involved parties, ownership structures, and repayment terms, policymakers may be misguided as to the long-term implications of the infrastructure projects to which they agree.

Limited transparency can reduce the accountability of a project, its development, and the parties involved, potentially leading to malpractice. In December 2007, allegations emerged that China Harbour Engineering Company had bribed members of the Bangladesh government to receive favorable conditions regarding the development of Chittagong. Corruption can undermine the long-term commercial viability of the port and create unequal conditions that favor Beijing over the recipient country. Indeed, with over one third of the BRI participant countries vulnerable to debt distress, unfavorable deals can put a country at economic disadvantage, endowing China with outsized leverage over its “partner.” Though there are other considerations, revenue is the most straightforward metric of whether a specific project is creating equal win-win economic opportunity. Based on the limited data available, primarily drawn from this report’s three case studies, it seems that deals unequally favoring Beijing are not uncommon.

The most prominent example of inequitable revenue sharing is Gwadar, where despite a strong Sino-Pakistani strategic alliance since the 1950s, the Chinese company that controls the port’s operations reportedly receives 91% of the port’s profits according to a “Build-Own-Operate” (BOT) agreement. How Colombo Harbour’s revenue is divided is unclear, but Hambantota is operated by a Chinese state-owned enterprise according to a 35-year “Supply-Operate-Transfer” (SOT) agreement, whereby it likely receives 100% of the revenue. Such uneven revenue splits are not uncommon for BOT and SOT agreements; yet Chinese companies in both Gwadar and Hambantota also impose high interest rate loans on the recipient governments, making

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these projects particularly onerous. Further, opaque deals also increase the likelihood that the scope of a project will expand beyond an acceptable (or even legal) limit without sparking public resistance. This is seen in the Cambodia case study, where China’s land concession is over three times larger than the limit set by Cambodian law. Further, in both Hambantota and Cambodia limited transparency extends beyond a project’s news coverage, as Chinese companies appear to have obfuscated corporate ownership.

**Profitability**

That China’s investments in Indo-Pacific ports may be driven more by Beijing’s national security interests than its claimed desire to encourage development in the region is best underscored by the real or projected unprofitability of several of China’s port projects. Admittedly, an accurate comparison of China’s ports based on profitability is difficult. This is because the projects are in various stages of development—complete, just opened, or losing money—or are expansions of or investments in existing international ports. Of the 15 sample ports, six are arguably or potentially profitable, including Darwin Port in Australia, Doraleh Multipurpose Port in Djibouti, and the Port of Tanjun Priok in Indonesia. The current or future profitability of five ports in the sample is unclear due to missing statistics or the port’s unfinished status. Overall, the data suggests that China prefers profitable investments but that financial returns are not a key motivator for Chinese companies in every case. Indeed, three notable examples of unprofitability suggest this is so.

- A 2016 World Bank study found that a new port on Malaysia’s west coast is unnecessary since existing facilities have not reached capacity. However, Chinese companies have still signed an 8 billion USD investment agreement for the Melaka Gateway project within the Strait of Malacca while also unsuccessfully attempting to expand to nearby Port Klang.
- In Sri Lanka, traffic at the Chinese-constructed Hambantota port was so light that, in 2012, the government began offering concessions to all vehicle shipments routing through Hambantota Port rather than Colombo. Even with this intervention, according to port records shown to C4ADS, Hambantota averaged fewer than three port calls per month between January 2015 and December 2017. By 2017, just five years after it began operations, Hambantota had allegedly lost 300 million USD. That same year, the government was allegedly considering shifting vehicle clearances back to Colombo because of Hambantota’s heavy transportation costs. This did not deter China Merchant’s Group from acquiring the lease and committing itself to the construction of a free trade zone.

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133 These statistics are based on allegedly complete, original port records made available to C4ADS. However, articles citing SLPA statistics allege that Hambantota received 76 vessels in the first eight months of 2014, Hambantota Port Sees Increase in Ship Traffic This Year. (2013, August 26). Mirror Business. Retrieved from: http://www.dailymirror.lk/34342/hambantota-port-sees-increase-in-ship-traffic-this-year


Harbored Ambitions

• In Pakistan, China purchased Gwadar from the Port of Singapore Authority, which was abandoning the project after six years (2007–2013) due to security concerns that undermined development of the port into a commercially viable shipping hub. As of December 2017, Gwadar continued to lack basic infrastructure, including roads and storage facilities necessary for the port to handle a significant volume of cargo. Monthly vessel traffic allegedly does not exceed four ships. Recent aerial photography shown to C4ADS, coupled with satellite imagery collected from 2006 to 2017, suggests the port has never seen significant levels of container traffic, relying instead on transshipments rather than import or export routes.

In many cases, China may be taking the long view, ostensibly believing—or hoping—that its ports will eventually become commercially viable, thus meriting even more investment. This is particularly the case in Pakistan, where China has already begun investing to improve the port’s infrastructure. In 2017, China announced it would provide an interest-free loan for a road connecting the port to Pakistan’s network of highways. Further, the company developing Gwadar, China Overseas Port Holding Co., Ltd. (中国海外港口股东有限公司), has announced an initial investment of 270 million USD toward constructing free trade, special economic, and industrial zones complete with roads, power systems, water supply, sewage treatment, and drainage systems. Plans are also underway to construct Gwadar International Airport with a 230 million USD grant from China. In February 2018, the state-owned China Ocean Shipping (Group) Company (COSCO/ 中国远洋海运集团有限公司) announced a new daily shipping route that includes Gwadar—the first container cargo line to include Gwadar.

140 Satellite imagery retrieved from TerraServer.
Harbored Ambitions

The Analytic Framework

- Strategic Location
- Financial Control
- Development Model
- Transparency and Benefit Distribution
- Communist Party Presence
- Profitability

The trends derived from the sample of port projects are observed on a spectrum—some projects feature strong Communist Party involvement and arguably high profitability while others feature relatively little financial control but a very skewed distribution of benefits. Thus, these trends can be grouped into six neutral analytical dimensions that can be assessed when investigating China’s investments. In isolation, no single dimension can conclusively indicate geostrategic intent, regardless of the degree to which it is seen (e.g., total Communist Party control versus no Party involvement). Yet, characteristics at the extremes of these dimensions can be classified in relation to how they may facilitate or reveal China’s strategic ambitions, allowing the dimensions to be layered and facilitating an assessment of China’s intent.

The classifications include:

- **Strategic Utility** – consisting of characteristics at the extreme end of the Strategic Location and Development Model dimensions that enable Chinese naval assets to bolster their presence and influence in the region. These are borne out in a particularly strategic location, such as the Strait of Malacca, and in a development model with dual-use infrastructure, such as the PPC model.

- **Control Scheme** – consisting of characteristics at the extreme end of the Communist Party Presence and Financial Control dimensions that enable China to maintain firm control over its port projects. These are borne out in strong Communist Party influence and significant financial control over a project.

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Harbored Ambitions

- **Latent Indicators** – consisting of characteristics at the extreme end of the Transparency and Benefit Distribution and Profitability dimensions that are seemingly at odds with the BRI’s stated objectives and that suggest ulterior motivations may exist. These are borne out in highly limited transparency and unequal benefits, as well as marked unprofitability.

In this way, the framework helps contextualize the development of Chinese-funded port projects, and it facilitates future studies of China’s maritime investments globally. Projects that skew toward the extremes described above—which the authors call Strategic Characteristics—appear to create, in the language of one Chinese analyst, an “advantageous external environment for China’s rise.” Thus, it reveals, through the actions of Chinese companies, discrepancies between the BRI’s slogan of “win-win” development and China’s priorities in practice.

### Analytical Framework

<table>
<thead>
<tr>
<th>Analytical Dimensions</th>
<th>Strategic Characteristics</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Location</td>
<td>Strategic Location</td>
<td>Strategic Utility</td>
</tr>
<tr>
<td>Development Model</td>
<td>Dual-Use Development Model</td>
<td>Strategic Utility</td>
</tr>
<tr>
<td>Communist Party Presence</td>
<td>Communist Party Presence</td>
<td>Control Scheme</td>
</tr>
<tr>
<td>Financial Control</td>
<td>Financial Control</td>
<td>Control Scheme</td>
</tr>
<tr>
<td>Transparency and Benefit Distribution</td>
<td>Limited Transparency and Unequal Benefits</td>
<td>Latent Indicator</td>
</tr>
<tr>
<td>Profitability</td>
<td>Unprofitability</td>
<td>Latent Indicator</td>
</tr>
</tbody>
</table>

The use of state-owned enterprises and private companies with informal Communist Party ties ensures Beijing always has an avenue to assert political influence over important projects. Long-term financial control through equity and leases provides China with a means of creating leverage from its investments even after projects are constructed. Industrial hubs in strategic locations could help the PLAN safeguard China’s financial assets and personnel abroad by facilitating long range PLAN activity.

<table>
<thead>
<tr>
<th>Analytic Dimension</th>
<th>Strategic Location</th>
<th>Development Model</th>
<th>CCP Presence</th>
<th>Financial Control</th>
<th>Transparency</th>
<th>Benefit Distribution</th>
<th>Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port</td>
<td>Strategic Utility</td>
<td>Strategic Utility</td>
<td>Control Scheme</td>
<td>Control Scheme</td>
<td>Limited Indicator</td>
<td>Limited Indicator</td>
<td>Latent Indicator</td>
</tr>
</tbody>
</table>

| Port               | Port of Chittagong, Bangladesh | Colombo Harbour, Sri Lanka | Koh Kong New Port, Cambodia | Darwin Port, Australia | Doraleh Multipurpose Port, Djibouti | Al Duqm Port & Drydock, Oman | Port of Gwadar, Pakistan | Hambantota Port, Sri Lanka | Kuantan Port, Malaysia | Kyaikpyu Deep Sea Port, Myanmar | Melaka Gateway, Malaysia | Port of Muara, Brunei | Port of Payra, Bangladesh | Port of Tanjung Priok, Indonesia | Port Klang, Malaysia | Sriwe Port, Myanmar | Sondia Port, Bangladesh |
|--------------------|-----------------------------|---------------------------|-----------------------------|----------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
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<table>
<thead>
<tr>
<th>Failed Port Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ports</td>
</tr>
</tbody>
</table>

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Case Studies: Deep Dive Profiles

To supplement the broad survey of 15 port projects above, this section presents in-depth studies of three key ports to identify how the trends are manifested in practice, as well as to assess whether these projects advance officially stated BRI objectives. The authors selected Gwadar, Pakistan, Hambantota, Sri Lanka, and Koh Kong province, Cambodia, based on their geographic diversity and prominence (or lack thereof) in Maritime Silk Road and BRI discussions. Evaluating each of these according to the framework presented previously, the authors find that the way these dimensions are manifested by the ports strongly suggests a harboring of geostrategic intent. Moreover, these case studies contextualize the behavior of China and Chinese companies in port infrastructure investments with regard to the strategic concerns discussed by Chinese policy and analysts.

The major theme of each case study is summarized below:

- The announcement of the BRI coincided with a marked shift in China’s behavior in Pakistan. Increasing Chinese investment in the Port of Gwadar and related infrastructure projects has precipitated an expansion of Beijing’s involvement in Pakistan’s domestic security, highlighting the inherent connection between national security and BRI investments. Moreover, regional neighbors are wary of the potential for an overseas Chinese naval base.

- China’s investment in Hambantota Port, Sri Lanka illustrates the concept of “strategic support states” as proposed by Chinese analysts. Through repeated investments in vanity projects for the recipient administration, China has accumulated substantial financial leverage over Sri Lanka. It has seemingly used this leverage to facilitate transfers of equity, PLAN visits, and land concessions. Moreover, this leverage has restricted Sri Lanka’s policy options.

- An opaque deal brokered with the Cambodian government appears to violate local law in leasing 20% of Cambodia’s coastline to a private Chinese company. While the development in Koh Kong province has the potential to advance China’s domestic and international interests, it has come at the expense of the local population, the environment, and potential future income for Cambodia.
Pakistan: Security Dilemmas and Sunk Costs

The announcement of the BRI coincides with increasing amounts of Chinese investment in and implementation of the PPC model at Gwadar, which is perceived by neighboring countries as a precursor to a Chinese overseas naval base. For Pakistan, rising debt is imperiling the country’s long-term economic viability. For China, sunk costs in infrastructure assets and personnel on the ground are drawing Beijing deeper into Pakistan’s internal security concerns.

The Location of the Port of Gwadar at the Gateway to Middle Eastern Oil Supplies

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Location</td>
<td>The port is located at the mouth of the Gulf of Oman, the gateway between Middle Eastern oil reserves and Indian Ocean shipping lanes.</td>
</tr>
<tr>
<td>Development Model</td>
<td>Gwadar is being built into an “industrial powerhouse,” with planned manufacturing facilities, a free trade zone, and an LNG terminal.</td>
</tr>
<tr>
<td>Communist Party Presence</td>
<td>Gwadar is operated by state-owned China Overseas Ports Holding Co., Ltd.</td>
</tr>
<tr>
<td>Financial Control</td>
<td>China Overseas Ports Holding Co., Ltd. holds a 40-year lease over the port.</td>
</tr>
<tr>
<td>Transparency and Benefit Distribution</td>
<td>Pakistan’s State Bank does not know how much of Chinese funding for Gwadar and related projects is in loans, and China keeps 91% of the port’s profits.</td>
</tr>
<tr>
<td>Profitability</td>
<td>The port is unprofitable, averaging just 1.5 ships a month, with the first-ever container ship calling on Gwadar in March 2018.</td>
</tr>
</tbody>
</table>
Commitments and Sunk Costs

Although the Port of Gwadar is over a decade old, it is still underdeveloped and unprofitable. Construction began in 2002 with a 198 million USD loan from the China EXIM Bank, and it was completed in 2007, at which point the Port of Singapore Authority (PSA) assumed control of the port’s operations. For six years, China took a largely backseat role while PSA and the Pakistani government struggled with the port’s development, with no meaningful additions to port infrastructure during this time. PSA abandoned the project in 2013, due in part to Pakistan’s worsening internal security environment. Regardless, China quickly picked up the port’s operation and has committed over 270 million USD to rehabilitate the port. Still, commercial activity at the Gwadar port is well below its potential. An analysis of ship AIS data and satellite imagery data analyzed by C4ADS suggests the port relies primarily on transshipments rather than import or export routes, with only an estimated 200 ships calling on the port between 2008 and 2017—just 1.5 ships per month. Gwadar Port Authority Chairman Dostain Jamaldini confirmed as much in March 2017, stating that “We receive one or two ships in 15 days.” Eleven years after PSA began operations, and five years after China took control, Gwadar’s first-ever container shipment arrived on March 7, 2018.

Despite Gwadar’s continual under-performance, the CCP has long envisioned the port as the end-point on a route stretching from Gwadar to China’s western provinces, a corridor that would shorten China’s energy routes by almost 10,000 miles and bypass the Malacca Strait. Shipments from the Pakistani coast to Kashgar in China that previously took a month would be completed in 10 days, and the port’s strategic location outside of the Gulf of Oman serves as a gateway between Middle Eastern sources of oil and Indo-Pacific sea lanes, thus alleviating the Malacca Dilemma if a proposed oil pipeline were ever built. The corridor also serves another of Beijing’s goals—to bring economic development to inland China, which is, in Beijing’s view,
increasingly plagued by extremism and threats of separatism.\textsuperscript{161}

Soon after the announcement of the BRI, and despite ongoing unrest in Pakistan, China’s commitment to Gwadar began rapidly expanding. In 2013, the state-owned China Overseas Port Holding Company (COPHC) (中国海外港口股东有限公司) took over the port from PSA.\textsuperscript{162} In 2014, China formally articulated its intent to fund the China-Pakistan Economic Corridor (CPEC) (中国-巴基斯坦经济走廊). Touted as a 62 billion USD initiative, CPEC aims to transform the hinterland between China and Pakistan into the envisioned logistics route from Kashgar to Gwadar with a network of industrial grids, energy projects, and highways.\textsuperscript{163}
With these goals in mind, China is attempting to develop the Port of Gwadar into an “industrial powerhouse” in line with China’s Ports-Parks-Cities (PPC) model, according to the port’s master plan as shown to C4ADS. In addition to expanding the wharf from two to three 200-meter berths at 14.5 meters deep, the master plan anticipates widening the peninsula to accommodate an increasing volume of containers and cargo, establishing an LNG terminal, and constructing chemical facilities, a 2,620-hectare industrial zone, steel mills, and refineries. Chinese companies have also proposed building a 300mw coal-based power plant and international airport. Phase I of a free trade zone is already open. The berthing and terminal upgrades at the port are being funded by a Chinese government concessional loan, while the airport is being financed with a 230 million USD grant.

However, there remain major structural impediments to the success of CPEC and, by extension, Gwadar. At present, the road from China to Pakistan begins with the Karakoram Highway, one of the world’s most dangerous mountain passes and a route that is regularly closed for snow during several months each year. Much of trade then passes through areas of sovereign territorial disputes and insurgency. In Balochistan, where Gwadar is located, attacks by militants on CPEC projects are estimated to have killed 44 workers and injured over 100 from 2014 to 2016. Once goods finally arrive at Pakistani ports, they typically incur higher dock charges and longer wait times than they would at regional competitors.

Images of Gwadar’s Master Plan as Shown to C4ADS

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42
Yet Chinese resolve to develop the corridor appears firm. According to Zhao Lijian, Deputy Chief of Mission at the Chinese Embassy in Pakistan, China has invested approximately 18.5 billion USD throughout Pakistan as of October 2017. According to one report, 71,000 Chinese nationals visited Pakistan in 2016, a 41% increase over 2015, and the Federation of Pakistan Chambers of Commerce and Industry estimates that roughly 250,000 Chinese expatriates arrive in Pakistan each year for work. These ongoing investments, the increasing numbers of Chinese citizens, and other interests on the ground are pushing Beijing to take an increasingly direct role in Pakistan’s internal security. As Chinese Foreign Minister Wang Yi’s aforementioned statement noted, “How to protect China’s ever-expanding overseas interests is an urgent concern for Chinese diplomacy.” Thus, Chinese officials have quietly parlayed directly with insurgent groups in Balochistan and along the China-Pakistan border to persuade militants to lay down their arms and engage in negotiations with the Pakistani government.

India, for its part, views Gwadar as a precursor to expanded Chinese naval presence in the Indian Ocean, a view shared by the US Department of Defense (DOD). A 2017 DOD report to the US Congress specifically noted Pakistan as a partner with whom “China most likely will seek to establish additional military bases.” In 2018, unverified reports of this expansion surfaced. China is rumored to be constructing a permanent air force and naval base in Jiwani, Pakistan, near Gwadar, while observers have noted that Gwadar itself could serve many of the PLAN’s maritime logistics needs. China has officially denied any military intentions driving CPEC and Gwadar. Nevertheless, the Chinese military’s presence in Pakistan is increasing. Under the stated objective of helping secure Gwadar’s security, China has officially stated that it is in the process of increasing its marine forces from 20,000 to 100,000 troops, in part to facilitate overseas rotations to Gwadar. Indian military officials have also reported increasing Chinese port visits. Since the first PLAN submarine deployment into the Indian Ocean in 2013 and the first Pakistani port visit in 2015, there have...
been repeated PLAN submarine and surface vessel visits to Pakistan, albeit to date only at Karachi.

Unequal Benefits

CPEC is widely described as a model of the BRI’s win-win outcomes, but actual transparency and specificity regarding CPEC-related investments is highly limited. If completed as planned, CPEC’s productivity would be equivalent to 17% of Pakistan’s 2015 gross GDP, and as many as 700,000 jobs would be created. As a result, Pakistan could see economic growth of 2.5%. Yet this is highly speculative as few credible studies have been conducted on the structures and economics of CPEC deals. The State Bank of Pakistan’s governor has publicly called on CPEC to be more transparent, saying, “I don’t know out of the $46 billion how much is debt, how much is equity, and how much is kind.” Assessing the relative costs and benefits is thus complicated, but the available evidence suggests CPEC projects, including Gwadar, disproportionately favor China while unfavorably burdening Pakistan in the long term.

COPHC began a 40-year lease over the Gwadar Port in April 2017. The state-owned enterprise enjoys 91% of Gwadar’s revenue through a Build-Own-Operate (BOT) Model, as well as 85% of the profits generated

Aerial Photo of Gwadar on October 4, 2017, Showing an Almost Empty Yard

by the management of the adjacent free trade zone.\textsuperscript{187} The Gwadar Port Authority will receive the remaining 9\%.\textsuperscript{188} Further, COPHC enjoys a 23-year exemption on all income and dividend taxes.\textsuperscript{189} Similar exemptions have been granted for a range of other CPEC projects and Chinese state-owned enterprises in Pakistan, as revealed in testimony to the Pakistani Senate in early 2017.\textsuperscript{190} The costs of protection are also rising. In 2016, Pakistan created a “Special Security Division” of 150,000 troops whose sole mandate is to defend 34 CPEC projects, with a dedicated Maritime Security Force focused on Gwadar.\textsuperscript{191}

Moreover, the majority of Chinese financing comes in the form of loans—not grants or direct investments, meaning that even if those loans were only “partially executed,” Pakistan would be “indebted to China as never before.”\textsuperscript{192} Even at Gwadar the berthing and terminal upgrades at the port are being funded by Chinese government loans.\textsuperscript{193} Indeed, as much as 80% of CPEC investments will likely require Chinese financing, for which interest rates are likely to be high. A recent study noted that interest rates on CPEC investments may run as high as 5\%. Even this amount could push Pakistan’s public-debt ratio over 70\%, threatening the country’s long-term macroeconomic wellbeing.\textsuperscript{194} Yet in Gwadar, the terms may be even steeper. Pakistan’s federal minister for ports and shipping testified in November 2017 in the Pakistani Senate that loans for Gwadar, the associated free trade zone, and all communications infrastructure could rise to as high as 16

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{Pakistan_ID_Card.png}
\caption{Pakistan ID Card Issued to a Chinese National\textsuperscript{192}}
\end{figure}

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billion USD, at interest rates of over 13%.\footnote{196}

The extent to which these projects will, in the interim, stimulate local employment and investment is also uncertain. According to some reports in local media, Pakistan is allegedly only considering bids for CPEC construction projects that come from Chinese state-owned enterprises,\footnote{197} firms which, some Pakistani economists note, rarely subcontract with local partners.\footnote{198} Similarly, the job markets for Baloch locals on CPEC projects is reported to be relatively limited, ostensibly because they lack skills.\footnote{199} Instead, Chinese businesses allegedly rely on Chinese workers, whose growing numbers are exacerbating already tense sociopolitical divides in Balochistan.


Sri Lanka: Debt Traps and Democracy

China’s strategically located Hambantota Port and other unprofitable infrastructure investments in Sri Lanka illustrate the concept of creating “strategic support states,” which some Chinese analysts propose. China appears to have established substantial financial leverage over Sri Lanka through investment in alleged vanity projects. In turn, this leverage has seemingly been used to repeatedly extract benefits for Beijing, including transfers of equity, PLAN visits, and land acquisitions. Further, this leverage has persisted through elections, restricting Sri Lanka’s ability to set new policy.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Location</td>
<td>Hambantota Port lies directly along one of the world’s busiest shipping lanes in the Indian Ocean.</td>
</tr>
<tr>
<td>Development Model</td>
<td>In negotiating the port’s handover in 2017, China took an additional 15,000 hectares to develop a free trade zone.</td>
</tr>
<tr>
<td>Communist Party Presence</td>
<td>The port is owned by China Merchants Port Holdings Co., Ltd., a wholly-owned subsidiary of one of China’s largest and oldest state-owned enterprises.</td>
</tr>
<tr>
<td>Financial Control</td>
<td>China Merchants Port Holdings Co., Ltd. owns a 70% stake in Hambantota and holds a 99-year lease over the port and the free trade zone.</td>
</tr>
<tr>
<td>Transparency and Benefit Distribution</td>
<td>Ostensibly, Hambantota’s security is owned by a Sri Lankan entity, but corporate records reveal that China is in fact a majority owner of the company.</td>
</tr>
<tr>
<td>Profitability</td>
<td>Hambantota had lost 300 million USD by 2017 and import costs are still too high to be commercially viable.</td>
</tr>
</tbody>
</table>
Unequal Terms

Magampura Mahinda Rajapaksa Port—Hambantota Port’s formal name—was promised to be a world-class hub that would transform Sri Lanka’s economy. However, the port’s commercial performance has remained weak for nearly a decade. In 2010, the government of Sri Lanka began offering concessions to vessels transporting vehicles in order to route them through Hambantota instead of Colombo and thus boost traffic. Yet by 2017, Hambantota had allegedly lost 300 million USD. In the same year, the president of the Vehicle Importers’ Association of Sri Lanka announced that vehicle imports might switch from Hambantota back to Colombo, citing reduced transport costs. The majority of profits that were generated likely went to China, according to documents indicating that the port’s operator, China’s state-owned China Merchants Port Holdings Co., Ltd. (CM Ports), operates the port under a Supply-Operate-Transfer (SOT) model. Chinese control over the port grew further still in November 2016, when Sri Lanka announced that it would allow CMG to purchase a 99-year lease on the port in exchange for writing off 1.2 billion USD of Sri Lanka’s total 1.5 billion USD debt incurred from Chinese loans. Still, 95% of Sri Lanka’s net government revenue goes to service foreign debt. While Chinese-owned debt comprises only one eighth of total public debt, one third of Sri Lanka’s debt service payments go to China. Despite efforts to rebalance away from China, the country’s two largest port facilities are under 99-year leases to one Chinese company: CM Ports.

CM Port’s lease agreement, which included an additional 15,000 hectares to develop a free trade zone near Hambantota—potentially in line with China’s “Ports-Parks-Cities” model—sparked public outcry. Critics argued that conceding the country’s two largest ports to a Chinese state-owned enterprise undermined Sri Lanka’s sovereignty and threatened its national security.

To temper public anger, both the Chinese and Sri Lankan governments proposed that while CM Ports would own the port, Sri Lankan sovereignty would be protected by delegating port management and security to newly created joint ventures between Sri Lanka Ports Authority (SPLA) and a third-party, private Chinese company. On the surface, CM Ports does not have control of either joint venture, fulfilling the stated goal...
of allowing relatively independent port management to continue. Hambantota International Port Group (HIPG) now controls the operation of the port and its terminals, while Hambantota International Port Services (HIPS) manages the security—the latter is ostensibly controlled by the Sri Lanka Ports Authority (SPLA).

However, corporate records show that this arrangement is not entirely what it appears to be. SPLA’s Chinese partner in both HIPG and HIPS is Gainpro Resources. Gainpro, registered in the British Virgin Islands, holds an 85% stake in HIPG, which controls port operations, and a 49.3% stake in HIPS, the port’s security provider. Although ostensibly an independent entity, the Panama Papers reveal that Gainpro Resources is
actually a subsidiary of CM Ports. Furthermore, 8.7% of the capital put up by SPLA for its 50.7% stake in HIPS will come from HIPG, which is majority-owned by Gainpro Resources and, by extension, CM Ports. When this dilution is taken into account, a Chinese state-owned enterprise owns a majority stake in both the operating (85%) and security (53.4%) companies of Hambantota Port.

This acquisition was the latest in a series of agreements that appear to have leveraged Chinese debt to enhance China’s footprint in the Indo-Pacific.

**Investing to Generate Political Influence**

In 2005, Beijing began pursuing a relationship with Sri Lanka’s newly elected president, Mahinda Rajapaksa. To cultivate this relationship, China provided the Rajapaksa administration with ammunition, fighter jets, ordnance, and anti-aircraft guns, thereby contributing to a decades-old civil war that ended with Rajapaksa’s victory and at least 20,000 civilians dead. In addition to arms sales, China began financing a number of infrastructure projects in Sri Lanka, including Hambantota port. Subsequent Chinese projects in Hambantota district—Rajapaksa’s home—including the Mattala Rajapaksa International Airport, the Magampura Mahinda Rajapaksa International Convention Center, and the Mahinda Rajapaksa International Cricket Stadium, China further funded the construction of the Colombo International Container Terminal and the Colombo International Financial City. All told, between 2005 and 2012, China is reported to have provided 4.761 billion USD in loans to Sri Lanka. Between 2012 and 2014, it pledged an additional 2.18 billion USD. Many of these ventures, particularly those named in honor of the president, have been described as vanity projects rather than legitimate sources of economic development for Sri Lanka.

China’s influence in Sri Lanka, alongside its investments, seemingly resulted in a number of geostrategic wins for Beijing through 2014. In September, the Sri Lanka Ports Authority conceded operating rights to four of the seven berths at Hambantota to China Merchants Holding and China Communication Construction Company in a 35-year lease, along with a sizable tract of land for the Colombo Port City. These transfers coincided with port visits by the Chinese navy: In the same month as these agreements, a Chinese nuclear-powered submarine and the warship Changxing Dao made port calls at Colombo. The visit alarmed India, which was not informed ahead of time, but Sri Lanka nevertheless allowed another Chinese nuclear-
powered submarine, Changzheng-2, and Changxing Duo to dock at Colombo on October 31 of the same year.\textsuperscript{220}

Additionally, various agreements surrounding China’s infrastructure projects in Sri Lanka were repeatedly revised in China’s favor. In 2013, the Sri Lankan Minister of Ports and Highways informed his parliament—in an apparent fait accompli—that the interest rate on outstanding loans from the construction of Mattala Airport would increase from 1.3 to 6.3%.\textsuperscript{222} The following year, Sri Lanka agreed to the aforementioned deal with China Merchants Holding and China Communication Construction Company for berth operating rights at Hambantota.\textsuperscript{223} Local media alleged that since negotiations for the deal had continued until the day before the agreement was signed, it was impossible that the Sri Lankan Cabinet had properly vetted the agreement prior to signing.\textsuperscript{224} Instead, local media contend that the contract was a backroom deal between Rajapaksa and Beijing, in which Sri Lanka conceded the berths in exchange for more favorable repayment terms on other loans owed to China.\textsuperscript{225}

\textbf{Chinese Debt Constricts Sri Lankan Policy}

Chinese debt ultimately helped bring down the Rajapaksa administration. While Rajapaksa relied on Chinese capital to construct alleged vanity projects, disparate opposition groups united to accuse his administration of embezzling money, calling for a new president with a new foreign policy.\textsuperscript{226} In an unexpected result, opposition candidate Maithripala Sirisena won the 2015 national election after campaigning on a platform

\begin{itemize}
  \item \textsuperscript{221} Tarabay, J. (2018, February 4). With Sri Lankan Port Acquisition, China Adds Another 'Pearl' to its 'String.' CNN. Retrieved from: https://www.cnn.com/2018/02/03/asia/china-sri-lanka-string-of-pearls-intl/index.html
\end{itemize}
of “rebalancing” Sri Lanka away from China and toward India and the West. The new president wasted no time making good on that promise.

A week after taking office, Sirisena suspended China's Colombo Port City project and launched an investigation into corruption in the original bidding process. In response to diplomatic pressure from India, he canceled a deal to buy Chinese and Pakistani fighter jets. He also ordered an inquiry into allegations that China Harbour Engineering Company (CHEC) extended over 2 million USD to Rajapaksa in an attempt to sway the election in his favor. However, by 2015, Sri Lanka’s foreign reserves were falling, the rupee had been devalued, and foreign debt was rising, with annual payments rising above 2 million USD.

This predicament was in part due to the aforementioned Chinese infrastructure projects. Even today, few appear economically viable, let alone profitable. Hambantota’s light port traffic and low returns on investment were already noted above. Mattala Rajapaksa International Airport allegedly receives just seven passengers a day and is labeled by critics as the “world’s emptiest airport.” Additionally, China Communication Construction Company began demanding 143 million USD in compensation for losses sustained from their stalled Colombo Port City contract. All told, Sri Lanka’s total foreign-owned debt totaled over 60 billion USD in 2016, approximately 8 billion USD of which was owned by China. In this context, the Sirisena administration reengaged with Beijing.

In March 2016, Sri Lankan Prime Minister Ranil Wickremesinghe visited China and announced that the construction of Colombo Port City would resume. China Communication and Construction Company subsequently dropped its claim for compensation of losses during the project’s suspension. Sri Lanka then entreated the Chinese government to forgive a portion of the debt in exchange for equity in either Hambantota Port or Mattala Airport. Beijing refused. Instead, China offered a list of Chinese companies that would be qualified to accept such a trade, including CM Ports—the direct subsidiary of one of China's

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largest state-owned enterprises. Thus, CM Ports, and its parent, China Merchants Group, were ultimately the beneficiaries of Chinese-owned debt in Sri Lanka, taking control of the Port of Hambantota in January 2018.

Soon after, in January 2018, CM Ports, through Gainpro Resources, would take majority control of the Hambantota Port for 1.12 billion USD. While sizable, this is still only 15% of Sri Lanka’s total Chinese-owned debt, with the remainder constituting 8.5% of Sri Lanka’s 2016 GDP. If Sri Lanka is unable to overcome its debt burden, China will likely continue to extract benefits commensurate with its leverage.

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Harbored Ambitions

Cambodia: Limited Transparency and Hidden Costs

China’s large land concession in Koh Kong province, Cambodia, emphasizes the potential consequences of the limited transparency found in many of China’s Indo-Pacific infrastructure investments. Although Cambodia could benefit from the industrial development proposed for the concession, the deal has precipitated alleged human rights abuses and economic losses. Moreover, the deal underlying the concession seemingly violates Cambodian law and corporate records reveal how the Chinese developer may have attempted to obscure negotiations.

The Locations of China’s Koh Kong Concession and Proposed Thai Canals for Bypassing the Malacca Strait

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>Strategic Location</td>
<td>The Koh Kong Pilot Zone is located in the Gulf of Thailand, directly opposite the proposed locations of the Thai Canal.</td>
</tr>
<tr>
<td>Development Model</td>
<td>China is developing manufacturing, logistical, medical, cultural, and tourist infrastructure within the Pilot Zone.</td>
</tr>
<tr>
<td>Communist Party Presence</td>
<td>The Pilot Zone is sponsored by the current head of the BRI Leading Group, and, since 2013, delegations from the United Front have supervised the project’s development.</td>
</tr>
<tr>
<td>Financial Control</td>
<td>The private Chinese developer is entitled to 100% of the Pilot Zone’s profits according to a 99-year lease.</td>
</tr>
<tr>
<td>Transparency and Benefit Distribution</td>
<td>The development’s lease was negotiated in secret and China paid just 1 million USD for 20% of Cambodia’s coastline.</td>
</tr>
<tr>
<td>Profitability</td>
<td>The Pilot Zone is not complete and its potential profitability is unclear.</td>
</tr>
</tbody>
</table>
Located on the Gulf of Thailand in Koh Kong province, China’s 36,000-hectare concession—an area over three times the apparent legal limit—was originally envisioned as an international tourism hub. However, plans for the project expanded to include industrial, commercial, and logistics infrastructure as the BRI came to guide Chinese doctrine. In 2015, Cambodian Prime Minister Hun Sen rebranded the project “The Cambodia-China Comprehensive Investment and Development Pilot Zone” (柬埔寨综合投资开发试验区). The following year, the Prime Minister and Chinese President Xi Jinping reportedly recognized the Pilot Zone as an important strategic manufacturing project of the BRI.

Today, the Pilot Zone’s master plan imagines building a nearly complete economy, with medical treatment centers, condominiums, resorts and hotels, manufacturing facilities, a deep-water port, and an international airport. Since 2009, a number of infrastructure and commercial projects have been completed in an effort to transform this piece of Koh Kong province into a location that could support increasing amounts of industrial activity in line with the “Port-Parks-City” (前港-中区-后城) model. Among the completed projects are a four-lane highway that connects rural Koh Kong and the coast with National Highway 48; at least one of four planned 30 kw thermal power plants; two large manmade lakes serving as water reservoirs; one resort, and a golf course. Additionally, Phase I construction of Koh Kong New Port, a proposed 10,000-ton deep-water port, is already underway, though guards interviewed at the site by C4ADS allege that construction stalled in 2017.

From its outset, the Pilot Zone exemplified the secrecy that shrouds many of China’s infrastructure projects throughout the Indo-Pacific region. There is scant information on how the deal was struck. Local media
reports (in English, Chinese, or Khmer) covering the deal’s formative years prior to 2008 are almost nonexistent. Although some Cambodian outlets ran articles in 2009 and 2010—a year after the deal went into effect—regarding political opposition and local protests stemming from mass evictions undertaken prior to construction, it was not until 2011 that significant news coverage appeared.

The only hints as to how a Chinese company secured the deal are found in the original lease and in Cambodia’s corporate registry. On May 9, 2008, a company named Union Development Group Co., Ltd. (herein referred to as Cambodia UDG) signed a 99-year lease for the land. At the time, Cambodia UDG was registered as a Cambodian enterprise chaired by a Cambodian national, but this was not always the case. Cambodia UDG was foreign-owned when it was first established, and its status in the corporate registry was only amended to reflect domestic Cambodian ownership on June 28, 2007—a year before the lease was signed.

Image of Koh Kong New Port Retrieved from the Pilot Zone’s Website

The resolution is accessible through Global Witness’ Cambodia Corporates Database, which is a clone of the Cambodian business registry as it appeared in 2016. Company resolutions no longer appear in Cambodia’s current business registry. Images of the resolutions from the Cambodia Corporates Database have been provided in this report.

255 This is based on openly available information accessed online. The contents of local print publications at the time of the deal could not be assessed.
256 This image is included in a slideshow of the Pilot Zone on the development’s website. The slideshow also includes images of Sihanoukville Autonomous Port, though the Pilot Zone’s developers are not known to be involved in that port. Union Group. (n.d.). Retrieved from: http://www.union-groupcompany.com/index.php/Cn/Cms/Xmjz/info/id/450
258 The resolution is accessible through Global Witness’ Cambodia Corporates Database, which is a clone of the Cambodian business registry as it appeared in 2016. Company resolutions no longer appear in Cambodia’s current business registry. Images of the resolutions from the Cambodia Corporates Database have been provided in this report.
Cambodia UDG’s true ownership became more apparent following a pair of amendments to Cambodia’s corporate records. By 2011, just over three years after the lease went into effect, Cambodia UDG was owned and operated by Chinese entities. First, the company issued 1 million USD in shares, all of which were purchased by the company’s Chinese counterpart, Tianjin Union Development Co., Ltd. (天津优联投资发展集团有限公司) (herein referred to as Tianjin UDG). Second, a Chinese national, Li Zhixuan (李致选), was installed as the company’s chairman.
Li Zhixuan’s Signature on the Original Pilot Zone Lease Agreement
The Pilot Zone was Tianjin UDG’s project from the beginning. Not only do Tianjin UDG’s current marketing materials admit that it has always owned the Pilot Zone, Li Zhixuan, Cambodia UDG’s eventual chairman, personally signed the original lease on Cambodia UDG’s behalf. Moreover, weeks after the deal was signed, Tianjin UDG’s then-executive director, Li Zhiqiang, met with Prime Minister Hun Sen to discuss the project. Today, it is difficult to distinguish between Tianjin UDG and Cambodia UDG. There is only one UDG website for either company, and it is dedicated to the Pilot Zone’s development while emphasizing UDG’s Chinese roots.

It is not entirely clear why Tianjin UDG went to such lengths to obscure its involvement in the 36,000-hectare Pilot Zone, the size of which seems to violate Cambodian law. Article 59 of Cambodia’s 2001 Land Law states that “Land concessions areas shall not be more than 10,000 hectares.... The issuance of land concession titles on several places relating to surface areas that are greater than those authorized [above] in favor of one specific person or several legal entities controlled by the same natural persons is prohibited.” Tianjin UDG’s 36,000-hectare Pilot Zone clearly violates this statute. Moreover, UDG (taken as one company) was reportedly granted an additional 9,100-hectare expansion to its concession in 2011 in order to construct a hydroelectric dam. Not only did the deal apparently contravene Cambodian law, but it required a royal decree to convert portions of Cambodia’s Botum Sakor National Park into land that could be granted to a private company. One possibility as to why Tianjin UDG obfuscated its involvement in the deal is that the company may have been attempting to make their concession more palatable for the Cambodian public. In any case, the secret was not kept long and early news reports describe Cambodia UDG as Chinese-owned.

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261 The Union Development Group website is accessible at: http://www.union-groupcompany.com
The Pilot Zone’s Value Proposition

As in the case of other Chinese investment projects run by private companies, the Chinese state Communist Party (CCP) supported the Pilot Zone’s development. The 12 billion USD project was backed in the early stages by Tianjin’s then-Party Secretary Zhang Gaoli (张高丽), who is now chairman of the Leading Group for Advancing the Development of the BRI (推进“一带一路”建设工作领导小组). Although political support is assumed to have continued between the project’s inception and the BRI’s announcement in 2013, there were very few—if any—official visits to the Pilot Zone by Chinese government delegates. However, since September 2015, just under a year before the Pilot Zone was reportedly recognized as an official BRI project, high-level state and CCP representatives have visited the project and UDG’s (taken as one company) offices at least seven times.

Of these seven official visits, three involved delegates from organs of the United Front Work Department—the CCP’s overseas alliance development arm. These include two delegations from the United Front’s core organ, the Chinese People’s Consultative Conference (CPPCC), in September and December 2015.

Wang Qiming (王钦敏), Deputy Chairman of the Chinese People’s Political Consultative Conference and Chairman of the All-China Federation of Industry and Labor, Surveys Development at the Pilot Zone (Eighth from the Right; September 2015)


Harbored Ambitions

Official Chinese support for the Pilot Zone is understandable. Geopolitically, the Pilot Zone is among many investments that induce Cambodian support for China regionally, particularly within ASEAN. Economically, Chinese firms are creating new markets for the exploitation of cheap labor as costs rise at home. Of the Pilot Zone’s plans for manufacturing facilities, there is an emphasis on agricultural output, which addresses China’s food insecurity. Militarily, Geoff Wade of Australian National University alleges that Koh Kong New Port will be large enough to potentially host China’s frigates and destroyers, though there is no concrete indication that China plans to establish a base in Koh Kong or use the proposed port as a place of forward deployment. Still, the Pilot Zone’s planned hospitals and recreational areas could theoretically host People’s Liberation Army Navy crews on patrol in the Gulf of Thailand and on the eastern side of the Malacca Strait. Its proposed future industrial capacity could also theoretically provide logistical support to Chinese warships in line with strategies proposed by China’s analysts.

Moreover, the Pilot Zone’s advantages would increase significantly if the highly speculative Thai Canal (shown in the map at the top of this case study) were completed in the future. The proposed canal would circumvent China’s Malacca Dilemma and cut approximately three days from the time required to ship through the Malacca Strait. In addition to facilitating exports and imports between the Indian Ocean and southeast Asia, Koh Kong New Port could provide PLAN ships swifter access to the Indian Ocean and allow Beijing’s navy to monitor these new sea lanes. Notably, the Chinese ambassador to Thailand reportedly asserted that the Thai Canal is part of China’s vision for the BRI.

Certainly, Cambodia may also benefit from the Pilot Zone’s development and proposed Thai canal. Indeed, despite the corporate maneuvers described above, the Pilot Zone appears, in terms of benefits, to be one of the most equitable infrastructure projects in the Indo-Pacific. However, analyzing the agreement struck between UDG and Hun Sen’s administration suggests the development nevertheless favors Chinese interests over those of local Cambodians.

By drawing tourists to rural Koh Kong and improving the province’s industrial infrastructure as described earlier, the project promises to bring economic growth to the underdeveloped province and to strengthen the competitiveness of Cambodia’s agricultural exports via a proposed deep-water port. Having purchased the

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land itself, the Cambodian government is entitled to a leasing fee for the duration of the contract. Further, UDG and its partners will theoretically pay taxes on their activities within the zone, creating another source of revenue for the government once the projects are complete.

Yet the Pilot Zone’s promise stands in stark contrast to the structure of the deal and the costs to Cambodians. Per the terms of the contract, UDG is allowed to develop the Pilot Zone for 10 years completely free of charge, with the option to extend this grace period for up to three additional years. To date, the only money that has been paid for the concession is a 1 million USD deposit to the Cambodian Development Council in 2008. Beginning in 2018, at the end of the initial grace period, UDG will begin leasing the land for 1 million USD per year, a figure that will increase by 200,000 USD every five years. In essence, Hun Sen’s administration has valued the 36,000-hectare concession at less than 30 USD per hectare. Moreover, the concession, which constitutes 20% of the Khmer coastline, potentially impedes Cambodia’s ability to profit from coastal industries such as fisheries, shipbuilding, and tourism as the country develops. Instead, Cambodians will receive only the taxes on such profits.

www.facebook.com/Cambodiancargoports/photos/a.6573674350719.1073741827.655867154494676/699522636795794/?type=3&theater

Beyond financial matters, much of the Pilot Zone is located within Botum Sakor National Park, which has allegedly led to greater logging and deforestation in one of Cambodia’s main biodiversity hotspots. The Pilot Zone has further been plagued by accusations of human rights abuses. According to local and international news media, over 1,000 families have been evicted since development began in 2009. It was originally agreed that UDG would pay affected families for their land and provide new housing for them, but many of those families—whose income is largely dependent on fishing—claim that the company has failed to provide promised compensation. Indeed, many of these families have reportedly moved out of UDG-provided homes, unable as they were to reestablish their livelihoods due to restricted ocean access and poor farming conditions. Families that refuse to relocate have allegedly been harassed, had their belongings burned, and

been forcefully removed. Today, 46 families remain on UDG’s land. These families allege that in January 2018 a company representative led security and military personnel in destroying their homes and crops.
Conclusion

China’s Belt and Road Initiative (BRI) is a dynamic foreign policy doctrine that is driving Chinese infrastructure investment around the world and, if completed as planned, will likely shape the global economy for many decades to come. On the surface, the only objective of Chinese President Xi Jinping’s hallmark Initiative is to increase infrastructure connectivity within Asia and beyond so as to facilitate “win-win” economic development and prosperity. Officially, then, China’s maritime infrastructure investments are intended to serve these benign—even altruistic—goals. BRI policy documents do not indicate any strategic agenda, and Chinese officials routinely disavow Western geostrategic analyses of the BRI, claiming that Western analysts possess a “Cold War” mentality.

Yet, below the surface, and specifically regarding maritime investments, unofficial research on the BRI produced by Chinese analysts contradicts the benign narrative of official policy. Chinese analysts routinely prioritize securing China’s “core interests” over fostering economic development in the Indo-Pacific. Chinese analysts suggest that investments in ports and related industrial infrastructure can be used to build political influence and create “strategic support states.” Ports are further described as potential “strategic support points” through which China can develop logistics hubs that support expanded military presence. Thus, Chinese analysts suggest China can preserve its access to vital SLOCs, circumvent the Malacca Dilemma, and overcome perceived containment by foreign powers.

On the ground, examining the characteristics of China-funded ports and the behavior of Chinese companies—including corporate obfuscation—indicates China’s investments may not be principally driven by the concept of win-win development. Maritime infrastructure investment is inherently dual-use and is capable of furthering both legitimate business activities and military operations. The strategic characteristics of six analytical dimensions that are exhibited across China’s Indo-Pacific investments—having strategic location, a dual-use development model, notable Communist Party presence, significant financial control, limited transparency and unequal benefits, and several marked examples of unprofitability—suggest that Beijing is actively seeking to leverage the geopolitical capacity of its port projects, as discussed by Chinese analysts. Beijing’s port investments yield strategic advantages, exhibit common control schemes, and manifest latent indicators of ulterior motives. As evaluated through this report’s analytical framework, the investments described above are both serving China’s national security interests and altering the strategic operating environment of the United States and its allies.

Port projects in the Indo-Pacific fall along just a few of the BRI’s of nine economic pathways. However, it is the authors’ hope that the analytical framework outlined above can be adapted and applied to Chinese-funded projects around the world. Several additional examples are listed below, though the authors are confident others exist.

• In 2016, the state-owned China Ocean Shipping Company (COSCO) acquired a 67% stake in the strategically located Greek Port of Piraeus.292 By providing Greece with a much-needed infusion of capital, China made significant inroads toward creating a strategic support state and reliable advocate in Europe.293 According to one Chinese official, the investment could also directly support Chinese naval logistics: “We could use the Chinese navy and take the evacuees [of overseas crises] to our own port at Piraeus.”294

In 2016, Landbridge Group—the same PLA- and United Front-affiliated company that is developing the Port of Darwin—acquired control of the Margarita Island Port in Panama for approximately 1 billion USD. The company plans to contract with China Communications Construction Company to modernize the port’s facilities and build a new logistics park. The port is strategically located in the Colón Free Zone, through which over 11 billion USD worth of goods are shipped each year.

One year after the deal, Panama broke off diplomatic relations with Taiwan.

In 2015, the Argentinian parliament approved a satellite observatory base operated by China Satellite Launch and Tracking Control General (CLTC)—a unit of the PLA’s General Armaments Department—though construction of the facility had begun two years earlier. The contract grants China a 50-year, tax-exempt lease over 200 hectares of land in Neuquén and allegedly stipulates that Chinese employees will be governed by Chinese law. China has denied the military utility of the station, but journalists, elected officials, and even Neuquén’s mayor have been barred from entering the facility.

By better discerning the motives and implications of these and other investments, states and communities can more accurately weigh the benefits and costs of Chinese capital that may ultimately affect their long-term welfare. If states do not heed the lessons of the Indo-Pacific, China will continue to pursue a security strategy that utilizes infrastructure investments to generate political influence, stealthily expand Beijing’s military presence, and create an advantageous strategic environment.