NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

DRIVERS BEHIND THE PRC'S PORT INVESTMENTS: CASES IN DARWIN AND SRI LANKA

by

Ryan W. Clifford

December 2017

Thesis Advisor:	Covell Meyskens
Second Reader:	Michael Glosny

Approved for public release. Distribution is unlimited.

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704–0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington, DC 20503.

1. AGENCY USE ONLY *(Leave blank)*	2. REPORT DATE December 2017	3. REPORT TYPE AND DATES COVERED Master's thesis

4. TITLE AND SUBTITLE DRIVERS BEHIND THE PRC'S PORT INVESTMENTS: CASES IN DARWIN AND SRI LANKA	5. FUNDING NUMBERS
6. AUTHOR(S) Ryan W. Clifford	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000	8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A	10. SPONSORING / MONITORING AGENCY REPORT NUMBER

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB number ____N/A____.

12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release. Distribution is unlimited.	12b. DISTRIBUTION CODE

13. ABSTRACT (maximum 200 words)

This thesis analyzes Chinese investment in the Northern Territory Government's Port of Darwin in Australia and the Port of Hambantota in Sri Lanka. It examines whether security concerns or economic objectives are driving Chinese, Australian, and Sri Lankan behavior. Through a detailed analysis of available policy statements and economic data, the thesis explores what each state seeks to gain from port development. The thesis shows that the People's Republic of China's primary reason for obtaining port leases in Darwin and Hambantota is to facilitate international trade and the growth of its domestic economy. Sri Lanka and Australia also are principally motivated by economic goals. They both lack sufficient domestic funds to accomplish their own large-scale port development goals, with Darwin modernizing the port and in Hambantota building the port. Australia and Sri Lanka view Chinese companies as picking up the bill and aiding in domestic economic development. In the case of Sri Lanka, it also favors Chinese investment in Hambantota because it considers an increasing Chinese presence in South Asia to be a useful counterbalance to growing Indian power in the region.

14. SUBJECT TERMS People's Republic of China, Australia, Sri Lanka, Darwin, Hambantota, ports, sea lines of communication, economic growth, sea routes, privatization, lease, China-Australia relations, China-Sri Lanka relations, economic, security, One Belt One Road, Maritime Silk Road, foreign direct investment	15. NUMBER OF PAGES 105
	16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	18. SECURITY CLASSIFICATION OF THIS PAGE	19. SECURITY CLASSIFICATION OF ABSTRACT	20. LIMITATION OF ABSTRACT
Unclassified	Unclassified	Unclassified	UU

NSN 7540–01-280-5500 Standard form 298 (Rev. 2–89) Prescribed by ANSI Std. 239–18

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release. Distribution is unlimited.

DRIVERS BEHIND THE PRC'S PORT INVESTMENTS: CASES IN DARWIN AND SRI LANKA

Ryan W. Clifford
Lieutenant, United States Navy
B.S., United States Naval Academy, 2011

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN SECURITY STUDIES
(FAR EAST, SOUTHEAST ASIA, THE PACIFIC)

from the

NAVAL POSTGRADUATE SCHOOL
December 2017

Approved by: Covell Meyskens
Thesis Advisor

Michael Glosny
Second Reader

Mohammed Hafez
Chair, Department of National Security Affairs

THIS PAGE INTENTIONALLY LEFT BLANK

ABSTRACT

This thesis analyzes Chinese investment in the Northern Territory Government's Port of Darwin in Australia and the Port of Hambantota in Sri Lanka. It examines whether security concerns or economic objectives are driving Chinese, Australian, and Sri Lankan behavior. Through a detailed analysis of available policy statements and economic data, the thesis explores what each state seeks to gain from port development. The thesis shows that the People's Republic of China's primary reason for obtaining port leases in Darwin and Hambantota is to facilitate international trade and the growth of its domestic economy. Sri Lanka and Australia also are principally motivated by economic goals. They both lack sufficient domestic funds to accomplish their own large-scale port development goals, with Darwin modernizing the port and in Hambantota building the port. Australia and Sri Lanka view Chinese companies as picking up the bill and aiding in domestic economic development. In the case of Sri Lanka, it also favors Chinese investment in Hambantota because it considers an increasing Chinese presence in South Asia to be a useful counterbalance to growing Indian power in the region.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I. INTRODUCTION....1
- A. MAJOR RESEARCH QUESTION....1
- B. SIGNIFICANCE OF THE RESEARCH QUESTION....2
- C. RESEARCH DESIGN....4
- D. LITERATURE REVIEW....5
  - 1. Chinese Security Drivers....5
  - 2. Chinese Economic Drivers....7
  - 3. Sri Lankan Drivers....9
  - 4. Australian Drivers....10

II. CHINESE DRIVERS....13
- A. CHAPTER INTRODUCTION....13
- B. ECONOMIC FOCUSED....14
- C. SECURITY FOCUSED....15
- D. SHORT BACKGROUND MSR PORTION OF OBOR....16
- E. ECONOMIC CONCERNS....18
  - 1. Facilitation of Economic Growth....18
  - 2. Market Access and Stability....19
  - 3. Imports and Developing State Utilization....21
  - 4. Sea Route Support....22
  - 5. Transitioning to New Growth Model....23
- F. POLICY CONCERNS....25
- G. SECURITY CONCERNS: ENERGY AND SEA ROUTE SECURITY....29
  - 1. Energy Security....29
  - 2. Sea Route Security....30
- H. CHAPTER CONCLUSION....31

III. SRI LANKAN DRIVERS....33
- A. CHAPTER INTRODUCTION....33
  - 1. Balancing or Bandwagoning?....34
  - 2. Contextualizing the Sri Lankan Security Concerns....35
  - 3. The Threat of India....36
  - 4. Sri Lanka Brings the PRC in to Balance: Four Threat Factors....37
  - 5. India's Rebuttal: India is not a Threat to Sri Lanka....54
  - 6. Sri Lanka Conclusion....56

IV. DARWIN DRIVERS 57
- **A. DARWIN INTRODUCTION 57**
- **B. AUSTRALIAN FEDERAL GOVERNMENTAL INDO-PACIFIC REASONING 57**
- **C. THE PRC'S INDO-PACIFIC GAZE 62**
- **D. AUSTRALIAN FEDERAL GOVERNMENT'S THOUGHTS TOWARD THE LEASE 63**
- **E. NORTHERN TERRITORY GOVERNMENTAL POSITION 63**
- **F. CHAPTER CONCLUSION 68**

V. CONCLUSION 71
- **A. CHINESE ECONOMIC DRIVER FINDINGS 71**
- **B. CHINESE SECURITY DRIVER FINDINGS 72**
- **C. SRI LANKAN DRIVERS TO LEASE HAMBANTOTA FINDINGS 74**
- **D. AUSTRALIAN DRIVERS TO LEASE DARWIN FINDINGS 75**
- **E. CONCLUDING CONJECTURES ON CHINESE REASONING FOR OVERSEAS PORTS 75**
- **F. A MORE SPECULATIVE CONJECTURE ON THE CHINESE REASONING FOR OVERSEAS PORTS 76**
- **G. CONCLUDING CONJECTURES ON SRI LANKAN REASONING FOR LEASING HAMBANTOTA 77**
- **H. CONCLUDING CONJECTURES ON AUSTRALIAN REASONING FOR LEASING DARWIN 78**
- **I. CONCLUSION 78**

LIST OF REFERENCES 81

INITIAL DISTRIBUTION LIST 87

LIST OF FIGURES

Figure 1. NT and Australia—Economic Growth 65

Figure 2. NT International Trade 65

Figure 3. State and Territory Real GSP 2015–2016.....67

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 1. Full Defense-Spending Estimates and Boundaries, 2005 42

Table 2. Full Defense-Spending Estimates and Boundaries, 2010 42

Table 3. Full Defense-Spending Market Exchange Rate and PPP-Adjusted.....44

Table 4. Simple Average MFN Applied Tariffs on International Trade Goods (Percent) from 2009 44

Table 5. Major Items Contributing to Combat Power in 2008 48

Table 6. 2015 Snapshot: Population and Economy 55

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CCP	Chinese Communist Party
EEZ	Economic Exclusion Zones
FDI	Foreign Direct Investment
FIRB	Foreign Investment Review Board
INSS	Institute for National Strategic Studies
IOR	Indian Ocean Region/
LNG	Liquefied natural gas
MSR	Maritime Silk Road
NT	Northern Territory
OBOR	One Belt One Road
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PRC	People's Republic of China
SLOC	Sea Lines of Communication
SOE	State Owned Enterprise
UNCLOS	United Nations Convention on the Law of the Seas

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGMENTS

I am very appreciative of the instruction I have received at the Naval Postgraduate School from all my professors, with particular thanks to Professors Barma, Glosny, Kapur, Malley, Meyskens, and Twomey in regard to bettering my understanding of the various Asian regions. Thank you, Carla, for our many sessions at the Graduate Writing Center. Thank you, Rebecca, for taking me through the final steps of this thesis as my thesis processor. Also, I offer a special thanks to Professors Meyskens and Glosny for guiding my study as my advisors and reviewing my convoluted drafts.

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

The People's Republic of China (PRC) has made significant port investments and increased their involvement in strategic locations in both Sri Lanka and Australia. What drivers have caused Chinese businesses to invest in ports in these two states, and what do all involved parties stand to gain? The government of the PRC is driven by both economic- and security-based drivers, and determining which drivers are the dominant motivators will provide a better understanding of the PRC's decision making in regards to the ports.

States' ventures in overseas ports can either be costly endeavors or wise long term investments. Chinese foreign direct investment (FDI) into overseas ports may pave the way for more than just Chinese businesses having access to new markets: securing raw resources requires port facilities to transport these materials to the PRC, and having ports available that are located along trade routes enables Chinese vessels to reach further. To maintain its high rate of economic growth, the government of the PRC will have to expand outward; these ports can serve not only as a project outside of the PRC to channel investments into but also as a conduit to different regions.

In addition to these economic drivers, security interests also seem to be motivating the government of the PRC to acquire access to overseas ports. There are non-commercial vessels from the People's Liberation Army Navy (PLAN), such as submarines, making port visits overseas.[1] With its military vessels frequenting certain ports, the PLAN is effectively engaging in actions very similar to what overseas basing accomplishes. These military vessels could benefit regional security; however, at the same time, military vessels transiting in another state's territorial waters are a serious matter. PRC entities have actively constructed facilities in these ports, with leases from both Sri Lanka and Darwin. These arrangements may suggest what the PRC will either give or receive from the host state. The activities of the military in these ports could be supporting actions intended to

[1] Sachin Parashari, "Sri Lanka Snubs India: Opens Port to Chinese Submarine Again," *Times of India*, November 2, 2014, http://timesofindia.indiatimes.com/india/Sri-Lanka-snubs-India-opens-port-to-Chinese-submarine-again/articleshow/45008757.cms.

increase the PRC's regional hegemonic power, influence seeking in regions where the PRC is now expanding, or balancing against already established powers.

The states that Chinese businesses are investing in will stand to benefit from having the PRC as a port costumer, and the increased commerce passing through their ports will boost their local economies. The PRC's presence in these ports, particularly in Sri Lanka, would add additional security, balancing perceived threats. Looking into what each states stands to gain, both economically and through increased security, will identify their motivations, and therefore why they are willing to lease their ports to Chinese businesses.

B. SIGNIFICANCE OF THE RESEARCH QUESTION

Due to the influence that the government of the PRC could exert via its presence at the ports in Darwin and Hambantota, it is important to determine whether the PRC is looking solely to increase the security of its own trade routes or if it has coercive intentions through the use, or threat, of force. A large portion of the world's international commerce flows through the waters around these ports, so any interruption in major commercial routes could have profound consequences for the economies in their respective regions, an interruption that would require use of alternative ports and maritime routes. If area access is denied or impeded, then these ports could be negatively impacted, and at the same time, if other routes are impeded that do not interfere with these ports, they could become significantly more important.

As the second largest economy in the world, actions that the PRC takes can have profound global economic ramifications. Actions at overseas ports are more observable than the internal actions within the state. The PRC's large investments in foreign ports have to be feasible and provide a return to the PRC on its investments. In the case of the Port of Hambantota, the PRC built the port for Sri Lanka, and now Sri Lanka is paying for the port by leasing it to a Chinese company. In Darwin, any construction of port facilities will be solely at the cost of the PRC; due to it leasing a section of the already constructed port. Darwin stands to benefit from any port modernization and improvements carried out by the

Chinese company there, and in turn, the PRC will have access to the Port of Darwin and the facilities in the port for the duration of the lease.[2]

Security is another concern that the government of the PRC has. Through presence at overseas ports, Chinese security assets could have a reduced response time to critical events that happen far away from the PRC that could impact it. At the same time, the PRC has moved up in economic standing in the world; its military is the largest in regards to personnel numbers and is a potential rival to the U.S. military.[3] This force, though, when only acting from the PRC itself, is limited at greater distances, by obtaining locations overseas for operational support functions, the Chinese military could be employed to a greater extent farther away from the mainland. These ports could facilitate providing escorts to their Chinese merchant ships at times of increased piracy incidents, or to prevent detention of Chinese flagged vessels by state or non-state actors.

Australia and Sri Lanka view this venture with the PRC as a business deal: states conduct business deals and agreements to gain capital and to help their economies prosper. The scale of this investment and the customer, the PRC, brings attention to it from other states. What the states that own the ports stand to gain could strengthen the relationship between the PRC and these states, causing relationships to build between them that could shift diplomatic balances in the region.

Determining the drivers for the government of the PRC's involvement at the ports of Darwin and Hambantota, and those of the host states as well, will shed light on the states' intentions in these dealings. Understanding whether the drivers are security, economics, or a combination of both will aid in the understanding of the PRC's current and possible future actions at these ports and in anticipating what new relationships the host states might have with the PRC.

---

[2] Michael Mahy, "International Relations 10: Darwin Port Privatisation," *Senate Estimates Brief*, no. 29 (April 2016): 60, 151, 159. http://www.defence.gov.au/FOI/Docs/Disclosures/361_1516_Documents.pdf.

[3] Jessica Dillinger, "29 Largest Armies in The World," *World Atlas*, last updated October 5, 2017, http://www.worldatlas.com/articles/29-largest-armies-in-the-world.html.

C. RESEARCH DESIGN

I examine two cases of Chinese involvement in two significant overseas ports, Darwin, Australia, and Hambantota, Sri Lanka, and analyze Chinese activities in these ports to understand what drivers the PRC has to maintain a presence at them. Likewise, I identify what drivers are present for the host states to have Chinese entities in their ports. It is necessary to identify and explain the different drivers that are present in both cases; evidence supporting the various drivers, both those ones motivating Chinese actions in these respective ports and those motivating the hosting states to allow the PRC's actions, are shown.

To explain why Chinese entities are present in these ports, various academics', military professionals', and economists' opinions on are examined. Particular attention is paid to the Indian perspective in the Hambantota case due to their proximity to Sri Lanka and their perception of Chinese actions at the port. Likewise, Sri Lanka's reasons for the PRC to be involved in their port are examined. In the Australian case of Darwin, the port lease is available and will be examined while also looking at the positions of the different levels of government involved. First, the Australian Federal Government's views on the port deal will be explained. Second the Northern Territory (NT) Government's reasoning for signing a port lease deal with a foreign company will be assessed. Also, the drivers for why Chinese businesses would want to lease the Port of Darwin are deduced.

Furthermore, Chinese announcements and explanations are reviewed to understand the reasoning provided by the Chinese themselves as to why they are conducting such actions. These explanations will be compared to their previous and follow-on activities to see if they align. Documents that pertain to doctrine, such as the various Chinese white papers, and also official governmental documents will be used to assess if the government of the PRC is progressing toward their state's goals.

At the end of this research, conclusions and conjectures will be made as to why the Chinese are present in these overseas ports and which are the dominant drivers propelling them to make these investments.

D. LITERATURE REVIEW

This section reviews literature focused on the potential drivers for Chinese involvement in overseas ports in Hambantota, Sri Lanka and Darwin, Australia; it will also examine the drivers for the hosting state's willingness to embark on allowing Chinese businesses into their ports in this capacity. Drivers are organized into two themes: economic- and security-based motivations. Literature will therefore be reviewed that concentrates on economic and security issues in relation to these port cases. Additional literature will be reviewed to provide insight into security Chinese operations and capabilities, either of activities by the military or law enforcement entities. Economic benefits to and goals of all parties' involvement in these ports in the short and long term will be looked at.

1. Chinese Security Drivers

The security issues break down into different levels of security, which different experts focus more so on than others. On the basic level of security is maritime security, which can be accomplished through civil law enforcement, maritime patrol, or military presence. Some of the missions that are accomplished at this level are protecting Chinese merchant vessels from piracy or escorting merchant ships through possible contested waters. The 2015 white papers, produced by the PRC state that the military plans to engage in more "civil-military integration" in order to "actively participate in the country's economic and social construction"; the economic construction directly allows for the People Liberation Army (PLA) to have direct involvement in economic endeavors that are civil-based.[4] This is a segue for the security to become more integrated into economic functions. More specifically, the government of the PRC intends to engage in "international maritime security dialogues and cooperation" in order to "safeguard the security of China's overseas interests."[5] Shaun Breslin highlights the PRC's view of the "new security concept

[4] State Council Information Office of the People's Republic of China, *Document: China's Military Strategy* (Beijing: State Council Information Office of the People's Republic of China, 2015), 6.

[5] "Document: China's Military Strategy," USNI News, May 26, 2015, https://news.usni.org/2015/05/26/document-chinas-military-strategy, 6, 17.

(xin anquan guan)" and how these "non-traditional threats" are now more relevant to Chinese security concerns.[6]

Some scholars suggest that the PRC is deploying or stationing military forces overseas to provide a military option for certain security concerns. As with maritime security, some of the same missions apply, such as anti-piracy operations or escorting merchant ships. What the military brings to the table, though, is increased capability and the possibility of escalation if the need arises. Countering pirates is one matter, but countering a belligerent state when that state may employ warships of their own is another matter. The military force is not there simply to engage, but to deter the situations that would require engagement. Gurpreet Khurana is of the mindset that the PRC is in Sri Lanka to assert itself in the Indian Ocean, and he believes India should hold dominance in this region. He discusses the government of the PRC's perceived strategy, labeling its engagement strategy as "wrapping" at first, and then re-labeling it with the more popular "String of Pearls" strategy terminology in the Indian Ocean Region (IOR).[7]

Moreover, by having forward-deployed naval assets, the government of the PRC would also have more options at its disposal to counter actions aimed against it that it might deemed hostile by India or other states. The government of the PRC would be able to back up diplomatic options with use or threat of force as necessary, something it could not do, for example, in the 1993 Yin He incident, as noted by Khurana.[8] In order to support such an option, available ports would be necessary to allow access by Chinese military vessels to provide security services. Sri Lanka's central location in the Indian Ocean, serves as an ideal spot for port access in the region. Kkurana asserts that the PRC's keeping their reasoning for their military's presence in a Sri Lankan port ambiguous allows their military vessels access to "foreign maritime zones" by default.[9]

---

[6] Shaun Breslin, "China and the Global Order: Signaling Threat or Friendship?" *International Affairs* 89, no. 3 (2013): 620.

[7] Gurpreet S. Khurana, *China's "String of Pearls" in the Indian Ocean and Its Security Implications* (London: Routledge, 2008), 1, 3.

[8] Ibid., 2.

[9] Ibid., 18.

2. Chinese Economic Drivers

The economic drivers to the PRC's presence in oversea ports encompasses many different spheres: growth facilitation, market access and stability, imports and developing state utilization, supporting of sea routes, transitioning to a new growth model for the PRC. The PRC has reason enough to have access and presence at overseas ports that tie in to its overseas economic interests. In USNI's publication, the government of the PRC repeatedly addresses the need to protect its "peaceful development," including external developments such as oversea port interests.[10] The PRC's 2015 white paper portrays the PRC's actions as a desire for active participation in the global community and a share in global economic prosperity, all while contributing to collective security. At the same time, it points out threats from non-state and state actors that create the need for its military to provide "external security," which would entail providing security to oversee port interests like Hambantota in Sri Lanka.[11]

Dealing with sea routes in the different regions and markets, the PRC must ensure that the flow of commerce to and from its mainland is not interrupted. Supporting the flow of commerce by controlling parts of overseas ports ensures commerce flows smoothly and has alternative sea routes in scenarios that would require. Having multiple port investments would further support the use of the sea routes Chinese merchant traffic currently uses as well as supporting alternate sea routes, in the event they should become necessary.

This line of reasoning finds support in the recent piece by Christopher D. Yung et al., who suggests that the PRC's action do not support the String of Pearls theory that has been utilized by other China experts to explain the government of the PRC's intentions and actions overseas.[12] Instead, the Institute for National Security Studies (INSS) report claims that the PRC is pursuing port investments for logistical reasons.[13] While they concede that there is some evidence that PRC interests in overseas ports could have dual economic and

---

[10] USNI News "Document: China's Military Strategy,", 2, 4, 5, 7, 8, 16.

[11] Ibid., 5.

[12] Christopher D. Yung et al., *Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century* (Washington, DC: Institute for National Strategic Studies, 2014), 2.

[13] Ibid., 2, 12.

military usages, they think that there is little evidence that the PRC is constructing bases for solely "major combat operations."[14] The pros and cons of each potential explanation by the INSS are laid out systematically to show what the PRC would stand to gain in each INSS proposed model that is presented concerning to its overseas port investments.[15]

Christopher J. Pehrson's paper agrees with the INSS's findings but seeks "to examine the nature of the People's Republic of China's evolving maritime power" and its implications.[16] Pehrson presents "peaceful development" as the PRC's "grand strategy" behind its in developing of overseas ports.[17] Pehrson's stance is similar to, but more forward than, the official stance of the Chinese government as outlined in their recent white papers.[18] Pehrson argues that the government of the PRC does in fact seek power in regions near the PRC and abroad, he also points out that the the government of the PRC's goal is to accumulate this power through securing sea lines of communication (SLOCs). Since sea routes are important to maritime commerce, and because maritime commerce is important to the PRC, secure sea routes are accordingly important to the PRC. Maritime commerce is an essential part of a large global economy, which the PRC desires to maintain and grow. These sea routes are the pathways through which maritime commerce flows. If they were to be restricted, or not supported properly, maritime commerce could be negatively impacted. The importance of maintaining the sea routes to support the flow of maritime commerce is vital to the PRC's economic development, and falls in line with Pehrson's view of Chinese grand strategy.

Other scholars highlight that the PRC's need for resources, particularly energy resources, is a driving force behind the PRC's sending tankers to the Middle East to bring back oil to meet the PRC's growing energy consumption needs. This is in line with the driver of acquiring imports. Malik suggests the development of the Hambantota port facilities by the PRC seems to support the notion that it is using more economic-based

---

[14] Ibid., 2.

[15] Ibid., 22, Table 2.

[16] Christopher J. Pehrson, *String of Pearls: Meeting the Challenge of China's Rising Power Across the Asian Littoral* (Carlisle, PA: Army War College, Strategic Studies Institute, 2006), 1.

[17] Ibid., 8–9.

[18] "Document: China's Military Strategy," *USNI News*, 8.

reasoning of trade and energy imports that is driving the investment there.[19] The SLOCs that Pehrson discussed are also vital for fulfilling the PRC's ever-growing energy needs. The gradual increase in of oil consumption as a percentage of overall energy consumption in the PRC shows the importance of having reliable sources of overseas oil for the PRC.[20] With energy supply by sea being "China's most viable mode of energy supply," as pointed out by Pehrson, the ports in Hambantota and Darwin are essential for continued means of keeping supply lines supported and open for transit. Pehrson cites Avery Goldstein's four factors concerning the peaceful development the PRC is pursuing, and insinuates that they are related to weaknesses of the PRC.[21] With this focus on what path the PRC is most likely to take, and what path is supported by the government of the PRC's actions, Pehrson makes for a compelling case that the economic route is how the government of the PRC is seeking power while keeping note of military activities.[22] The government of the PRC can also utilize the wording in United Nations Convention on the Law of the Sea (UNCLOS), and with this is able to effectively operate in waters near states like Indian. UNCLOS allows the PRC to operate in the economic exclusion zones (EEZs) of another state through citing they are in transit to a port like Sri Lanka's Hambantota Port, and with overlapping EEZs, they can reside in India's maritime zones with international impunity. This is in align with the purported String of Pearls strategy that allows for access to further regions through utilizing foreign ports. Khurana does touch on the topic of the PRC gaining access to extended regions and markets of IOR states that are further away as well as increasing the area of intake for resources to flow into the PRC. The PRC's need for resources from outside of its own state would be better fulfilled by these actions taken to acquire them.

3. Sri Lankan Drivers

There is also the reasoning in security issues of balancing against other states that may or have been hostile in the past. This is more apparent, or likely, in the case of Hambantota Port in Sri Lanka with Chinese business's presence there, considering the PRC

---

[19] Mohan Malik, *China and India: Great Power Rivals* (Boulder, CO: First Forum Press, 2011), 332.

[20] Pehrson, *String of Pearls*, 6.

[21] Ibid., 8–9.

[22] Ibid., 12.

and India have had border disputes in the past that have tempered relations between the two states. Sri Lanka's neighbor, and much larger state, India next door has at times been at odds with the PRC from their previous disputes. At the same time Sri Lanka and India have not always seen eye to eye, and with India being a much more dominate actor in that region, Sri Lanka aligning with the PRC gives it a backing from a more powerful state than itself. Still Sri Lanka may be only able to use the PRC's interests to shield itself and not use them to act on its behalf. This is still preferable to standing alone against India if the two states came to a disagreement. Sri Lanka maybe going the route of balancing, and since it is comparably smaller than the PRC and India, it could be survival seeking behavior that may help explain why it is open to Chinese presence in Hambantota.

The PRC's ongoing disputes with India are addressed also by Mohan Malik's explanation of the tension between the two states, and his book portrays the precarious situation that Sri Lanka is in with having a close neighbor that is opposed to the investments of another rival state into it. In Malik's words the PRC and India are "locked into a twenty-first-century version of the competitive Great Game" in the Indian Ocean, and this would imply that Sri Lanka is playing as a pivotal piece strategically located on the game board.[23] While Malik focuses on the disputes that are between the PRC and India, he incorporates the ones where Sri Lanka is involved. The disputes that Sri Lanka is involved in show how PRC's actions in Sri Lankan ports could be taken by rivals, such as India, as a potential threat to its own security. These actions and interpretations of actions presents the possibility of a security dilemma in the making. Any prepositioning of military vessels would be interpreted as posing a threat as the PRC has previously sold weapons to Sri Lanka as presented by Malik in his book.[24]

4. Australian Drivers

Though a lot of the focus of balancing centers on Sino-Indo relations in reference to Sri Lanka, there is also more of an economic focus in the Australian case, in addition Australian domestic governmental relationships are more predominate. David Scott asserts

[23] Malik, *China and India*, 361.

[24] Ibid., 42.

that a shift from the Asia-Pacific concept to a Indo-Pacific focus for Australia.[25] Australia has progressively moved toward placing greater emphasis on the Indo-Pacific. This process has been carried out over time by several Australian governments successively shaping the thought that Australia needs to view itself with the rest of Southeast Asia in the center of a region instead of straddling two separate ones. Various reports, papers, and statements have been put out that support this new way of thinking. Rory Medcalf's work suggests that the region that Australia is working in is significantly expanded to beyond its capability to patrol and enforce stability throughout, it is necessary for Australia to prioritize Southeast Asia as its primary subregion of the Indo-Pacific to contribute to security since it is a more manageable size and the closest in proximity to Australia.[26] All this discussion of the Indo-Pacific has drawn the attention of the PRC according to Medcalf[27] The discussion of the PRC in regards to the Indo-Pacific is as more states begin to think in an Indo-Pacific mindset this will increase the number of states the PRC has to deal with which will increase the factors that could affect the PRC and its growth.[28] The Indo-Pacific concept is emerging not only in literature, but in the governments of several states to include Australia and the PRC.

Understanding the tension, within Australia, between the Australian Federal Government and NT Government's concerns and the friction that it caused requires a review of both political statements and economic reports. From the Australia's white papers, it can be seen how they viewed some of their neighbors.[29] It seems that Australia's tone, according to John Lee, the tone from Australia toward the PRC has changed over the years.[30] Reviewing the actual port lease and Australia's Foreign Investment Review Board of it gives a very thorough assessment of the concerns Australia had and the benefits that it

---

[25] David Scott, "Australia's Embrace of the 'Indo-Pacific:' New Term, New Region, New Strategy?" *International Relations of the Asia-Pacific* 13, no. 3 (2013): 426.

[26] Rory Medcalf, "In Defence of the Indo-Pacific: Australia's New Strategic Map," *Australian Journal of International Affairs* 68, no. 4 (2014): 479.

[27] Ibid., 477.

[28] Ibid., 478.

[29] John Lee, "Australia's 2015 Defence White Paper: Seeking Strategic Opportunities in Southeast Asia to Help Manage China's Peaceful Rise," *Contemporary Southeast Asia* 35, no. 3 (2013): 395.

[30] Ibid., 400.

would receive that outweighed the cost of the concerns.[31] Both the World Bank and NT Government sources provide plenty of data for investments and economic data for the region. There is also the political commentary from the several Australian news sources that provide statements from Australian government officials.

Some balancing could be possible in the Australian case. David Shambaugh wrote a piece that deals with the challenges facing U.S.-Sino relations, and explains the variables that are influencing the relationship.[32] One of the five variables he discusses is "the behavior of regional countries," highlighting Australia as a key state.[33] With Australia now having both U.S. and Chinese interests in the Port of Darwin, it makes for a peculiar situation. The U.S. has had long standing ties with Australia and its relations with the PRC is growing. Michael Clarke's piece likewise focuses more on the U.S.-Australian relationship, but notes a major cause of contention in the relationship is the PRC.[34] At the same time the US-Australian relationship might be a reason for the PRC's slow approach with Australia, as Clarke proposes that the government of the PRC might be dissuaded from more assertive action based on this relationship.[35] It is under these circumstances that the PRC is growing its presence in the Port of Darwin in a cautious risk avoiding manner. This is why the PRC could be posed to take a more economic role in the region through its investment in Darwin if, as Clarke points out, the U.S. embarks on a more protectionist stance in the near future.[36]

---

[31] Mahy, "International Relations 10." 1.

[32] David Shambaugh, "Dealing with China: Tough Engagement and Managed Competition," *Asia Policy* 23 (January 2017): 4–12.

[33] Ibid., 11–12.

[34] Michael Clarke, "The U.S.-Australia Alliance in an Era of Change: Living Complacently," *Asia Policy* 23 (January 2017): 64.

[35] Ibid., 65.

[36] Ibid., 67.

II. CHINESE DRIVERS

A. CHAPTER INTRODUCTION

Chapter I introduced the complexities of Chinese business investments in two overseas ports, highlighting how determining the many economic and security drivers may reveal Chinese motivations. While economic gain is readily seen from the ports, the Chinese also benefit from the security side of having overseas port access. This chapter examines Chinese investment in the Port of Darwin in Australia and the Port of Hambantota in Sri Lanka, assessing whether security or economic concerns drive Chinese investment in these two ports.

In the case of Sri Lanka, a state owned enterprise (SOE) from the PRC was hired to build the port there for and by the Sri Lankan government. Now the company, Merchant Port Holdings, a SOE, has acquired the lease for the port. In the case of Australia, a private Chinese firm, Landbridge Group, has taken out a lease in the Port of Darwin through the NT Government. Chinese businesses have taken out these leases to fulfil the policies of the government of the PRC and to mitigate security concerns to Chinese shipping. The drivers for the ports, in turn, are the reason for the Maritime Silk Road (MSR). The MSR is the maritime portion of the One Belt One Road (OBOR) plan through which Chinese maritime commerce will transit.

Therefore, Chapter II analyzes Chinese drivers. First, the chapter gives an overview of economic then security focused concerns and the OBOR initiative. In order to determine the relative weight on the drivers between Chinese behavior, I compare official statements to reports on actions taken and find that Chinese businesses are funding port investments in Darwin and Hambantota due to five economic drivers and two related security drivers. The first economic driver for the port investments is the facilitation of economic growth, which is tied to all the other drivers. The second is market access and stability, this provides for markets for Chinese exports. The third, imports and developing state utilization, this is the inverse of the second focusing more on taking in imports and using other states inexpensive labor. The fourth is sea routes

support which provides for better access to international markets, which is similar to the second, but with the focus of reaching beyond the ports to states beyond. The last economic driver is supporting the transitioning to a new growth model for the PRC. The two dominate security drivers are energy security and sea route security. While these seven drivers are present in both the Port of Darwin and the Port of Hambantota at different levels, it is the first driver, growth facilitation, that is the primary motivator for the port investments. Lastly, as the seven total drivers show, economic pressures are the primary cause of Chinese investment, and, when security concerns do appear, they are subordinate to economic.

B. ECONOMIC FOCUSED

There are several economic advantages to having a foothold in these overseas ports for the government of the PRC. Market access through these ports could be a factor as well as utilizing them as trade hubs to attain or improve access to other markets. Resource obtainment, both from the host states and from the resources that flow through these ports, to include minerals and energy related resources such as oil, could be a factor. Securing and supporting trade routes in the regions of these ports is another possibility. The advantages are likely be a combination of these factors to varying degrees. If there are benefits to be had in owning a port that Chinese businesses now already have a lease on, it would be logical to think that the Chinese would utilize that benefit to the greatest extent possible.

The way the government of the PRC has interacted with the states that the overseas ports are in is important in how they are conducting their business relations overseas. Whether Chinese businesses directly worked with foreign states governments or with local areas within states will show what level these decisions are on at the locality. The actions being taken in the host states needs to be examined to determine the extent of Chinese involvement in the ports. This would include identifying private industries that are functioning in the ports from the PRC, as well as any entity directly influenced by the government of the PRC. Also the actions by the host state will show if the government is onboard with allowing the Chinese in, or if there is apprehension from

some source in the host state. Identifying the various actors in the business transactions will give a better understanding of what is actually going on in the host state between their government and Chinese entities, whether they are Chinese businesses or the government of the PRC.

The capital that is being utilize for these activities should determine which groups are invested, and to whom in terms of state and business the funds are going through. The type of exchange should be understood whether it is aide, loans, grants, or some other type of exchange. The flow of capital should be looked at as to whether the funds are state to state, or if there are entities in between that are handling funds such as private or state owned businesses. If private firms are the source of funds for the ventures then, the source of these funds should be known to determine if they are state-backed. If they are SOEs than it is known that the state is involve in the transactions with financing.[37] The capital being utilized is significant, being it is in the billions, that this should be possible to some extent. The source of the capital for the construction and leases is important.

C. SECURITY FOCUSED

These ports are fulfilling security requirements for the Chinese economy and serving a potential military purpose. The facilitates owned and operated by the Chinese businesses in these overseas ports are run by the Chinese themselves, who the identity of the personnel are may speak to who from the government of the PRC might be present, whether it is private companies or PLAN/CCP affiliated. If it is PLAN affiliated contractors, understanding what actions they are taking may shed light upon their purpose in the ports. The PLAN has been conducting deployments overseas in support of various activities, if these ports are facilitating these deployments, learning in what capacity they are supporting these deployments would give a window into the intent of the activity in these ports. Determining whether the port leases allow for PLAN to be present in the ports will show if there are military purposes for the ports.

The governmental stances by those involved, in terms of developments and relations, between the host states and the government of the PRC should be taken into

[37] Bruce J. Dickson, "Updating the China Model," *The Washington Quarterly* 34, no. 4 (2011): 42.

account in this assessment. The CCP has used the term peaceful development to describe some of their actions in overseas ventures, stressing the mutual benefit to the PRC and the host state together.[38] This terminology may be employed to avoid the appearance of an exploitive state taking advantageous actions in another state's regional domain. The government of the PRC may be sensitive to appearing as imperial states have in the past that have exercised power in other states' domains. This may be an image the government of the PRC is wanting to avoid considering its own history of exploitation by western imperial powers in the 19th and 20th centuries.[39]

Understanding the drivers of the government of the PRC actions in these ports through the lenses of supporting Chinese policy will elaborate on the official stances the government of the PRC has in regards to these overseas ventures and what intentions are present. The Focus of this paper is the drivers for the PRC to be involved in overseas ports; analyzing the cases of Hambantota, Sri Lanka and Darwin, Australia.

D. SHORT BACKGROUND MSR PORTION OF OBOR

The OBOR initiative is a huge endeavor that will, in the government of the PRC's hopes, boost its economy and sustain its economic growth.[40] President Xi Jinping understands that large initiatives are needed on scales not seen before in order to bring the PRC to a new stage of development, and has embarked on very ambitious economic endeavors in this project.[41] The OBOR is looking to be a multi-route plan over both land and sea to various locations throughout Eurasia and to Africa. The project is not solely state funded, and invites private business along with other states to participate.[42] The

---

[38] Wu Xinbo, "Not Backing Down: China Responds to the U.S. Rebalance to Asia," *Global Asia*, Vol. 7, no. 4 (2012): 19.

[39] Linda Jakobson and Dean Knox, *New Foreign Policy Actors in China* (SIPRI Policy Paper 26) (Stockholm: Stockholm International Peace Research Institute, 2010), 21.

[40] Matt Ferchen, "New Economic Statecraft Talk" (lecture, Naval Postgraduate School, Monterey, CA, May 17, 2017).

[41] Matt Ferchen *How New and Crafty is China's "New Economic Statecraft"* (Beijing: Carnegie-Tsinghua Center for Global Policy, Tsinghua University, 2016), 1–2.

[42] Nick McKenzie and Richard Baker, "Chinese Government Trade Bank May Get Mortgage over Australian Port," *The Sydney Morning Herald*, June 7, 2017, http://www.smh.com.au/national/chinese-government-trade-bank-may-get-mortgage-over-australian-port-20170607-gwmm6h.html.

private businesses seem to be heavily Chinese based, as it is the preference of the government of the PRC that the OBOR benefits the PRC foremost. The other states' in the area the MSR runs through that are involved appear mostly to be allowing the Chinese presence in their territory with agreed upon compensation to the state, such as Sri Lanka and Darwin.[43]

The maritime aspect of the OBOR initiative has been labeled by some as the MSR of the OBOR endeavor.[44] What the government of the PRC is looking for when it comes to states for its plans for the maritime part of the OBOR is places that can be utilized to not only support it, but to become economic hubs for the PRC as well in a "win-win" relationship through trade.[45] It is hoped by the government of the PRC that they will gain influence as well through soft power.[46] These places along the length of the MSR can provide port facilities to be used by the ships that transit to and from the PRC. Ports need to be secure in the states they are in, and available for usage without the availability of said port being subject to access denial from the host state. While these ports are in the sovereign territory of another state the businesses that hold the leases on them are Chinese and subject for the most part to the laws of the host state. For Chinese vessels to have legal grounds for un-impeded access to these ports requires written agreements between the host state and Chinese businesses in the form of port leases. If a state were to become on bad terms with the PRC then it could possibly attempt to deny access to Chinese shipping, but with a lease agreement present that puts another defense in place for the Chinese to retain access to a port. These leases act as legal agreements between the states, and business entities, to maintain the access to the ports overseas for commerce in times of cooperation and in times when diplomatic disagreements may attempt to interfere with economic interests. When Chinese businesses control the ports in other

---

43 "Lanka, China Sign $1.1 BN Hambantota Port Deal," The Hindu Business Line, July 29, 2017, http://www.thehindubusinessline.com/news/world/lanka-china-sign-11-bn-hambantota-port-deal/article9793535.ece.

44 Zhu Li, "The Maritime Silk Road and India: The Challenge of Overcoming Cognitive Divergence," *Asia Policy* 22 (July 2016): 20.

45 Harry Harding, "Has the U.S. China Policy Failed," *The Washington Quarterly* 38, no. 3 (2015): 103.

46 Ferchen *How New and Crafty*, 8.

states through these port leases than the government of the PRC may have the ability to support the OBOR initiative in other states with less non-Chinese entities involved in decisions. The leases are for multi-decade terms, and were made with the anticipation that Chinese shipping would be utilizing these ports for a long time. Chinese businesses have understood by direction of the government of the PRC through the OBOR initiative that this is a long term endeavor. From understanding the intent of the PRC the Chinese businesses have acted accordingly, and pursued multi-decade termed leases for overseas ports through the governments of where the ports reside.

E. ECONOMIC CONCERNS

The purpose of the MSR portion of the OBOR serves as part of the solutions to many of the economic concerns the government of the PRC has. The MSR serves to maintain growth from the start of the project, during, after major parts are completed. The purpose of the MSR is to reach and gain access to new markets, gain access to materials and consumables, and have alternative sea routes to not be dependent on a too few sea routes to accomplish the government of the PRC's aims. The government of the PRC's aims are economic growth that is sustainable through being balanced in a stable international environment.[47] The MSR serves as a multifaceted problem-solving endeavor with many solutions that will ease the PRC's economic concerns.

1. Facilitation of Economic Growth

By employing numerous Chinese to plan and construct the facilities needed for the MSR portion of the OBOR, and using its infrastructure building capacity, the government of the PRC will facilitate growth within the PRC and outward toward its investments to bring more capital toward the PRC. The PRC's excess capacity to build infrastructure can only build internally inside to a certain extent before saturation

[47] Timothy R. Heath, "China's Evolving Approach to Economic Diplomacy," *Asia Policy* 22 (July 2016): 170.

occurs.[48] By constructing port facilities overseas in multi-billion dollar projects the government of the PRC has found an outlet for its infrastructure building capacity to continue to facilitate its economic growth. Labor from the PRC can be utilized outside of the state to ensure employment of its populace, and maintain appeasement of its populace through employment. Even when the building of Chinese overseas ports is completed, Chinese businesses, after demonstrating its ability to build ports in other states, may find employment by other states to build their ports. Before a Chinese businesses held the lease for the Port of Hambantota, it had built the port for the Sri Lankan government for their own use, and not as a Chinese owned port. Through demonstrating competence in port building the Chinese may be building more ports than just their own. All of this leads to more Chinese being employed and in turn aiding the Chinese economy.

2. Market Access and Stability

Market access will be improved once the MSR is properly established and supported with overseas ports that are guaranteed to be available to Chinese shipping. Better access to existing markets will be available to Chinese commerce which will facilitate their economic needs. The ports will provide a better interface to the existing markets in the host states where they are present. This new port infrastructure will increase the export capacity that other states can receive from the PRC to new levels that will be higher than before these ports were built up.

These ports will act as regional hubs for which Chinese shipping can gain access to regions located around these ports. With Darwin, the South Pacific is sandwiched between that port and the PRC. With Hambantota the port acts as a point to depart for the Middle East and all of the east coast of Africa in the IOR.[49] In addition to the better access to the host states' markets the ports are located in better access to the neighboring states in the region will be gained.

---

[48] World Bank and Development Research Center of the State Council, the People's Republic of China, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society* (Washington, DC: World Bank and Development Research Center of the State Council, the People's Republic of China), 116, 149.

[49] John W. Garver, "Diverging Perceptions of China's Emergence as an Indian Ocean Power," *Asia Policy*, no. 22 (July 2016): 56.

Looking further than the hosting states or their surrounding regions the ports will enable Chinese shipping to reach far beyond these. Ports leased by Chinese Companies along the MSR will support long-range Chinese shipping to further regions. Besides the host states that the ports are located at, the shipping will have far greater range with these ports as refueling options at various points along the sea routes. The ports will serve the purpose of a support station for shipping that will transit to the furthest markets from the PRC. Through control of the ports the sea routes they support can be influenced in an advantageous way for Chinese shipping. As the MSR becomes supported with overseas ports that will be available to Chinese shipping, better access to existing markets will be available to Chinese commerce for their economic needs.

Along with better access to different markets preferential treatment may be had by Chinese shipping. With control of the ports the Chinese shipping can be given priority over rival shipping from other states to some extent. This could be done overtly or subtly depending on the government of the PRC's directives they make known to the Chinese businesses. It is most likely if they were to give priority to Chinese shipping it would be done subtly so as not to rise the ire of another state that could cause trouble for Chinese businesses. The government of the PRC's stance is that they desire a stable region along the MSR in order to prosper, and discontented states along the route could cause trouble.[50] It is less likely that they would carry out any action in the ports that would have perceived adverse effects to the host state's commercial shipping so as to not warrant unfavorable opinion of the local populace. If the local populace were to be dissatisfied as a result of Chinese presence and ownership of local ports, then this sentiment could be conveyed to the government and in turn jeopardize the Chinese leases.[51] The government of the PRC wants the area the MSR is in to be stable and the states in it to prosper in order for Chinese shipping to be benefited.

---

[50] Heath, "China's Evolving Approach," 184.

[51] Rasika Jayakody, "Government Pushing for a Buy-Back Clause in Hambantota Port Agreement," *The Sunday Obsever* (Colombo), February 21, 2017.

3. Imports and Developing State Utilization

Not only will the PRC be able to export at greater capacity through the ports to the host states, and to further markets from these ports, but they will also be able to import at a greater capacity. As the PRC develops more and more, it requires increased outside inputs for certain exports, that the Chinese produce, than can be generated internally. The population of the PRC will also require increased levels of consumables goods to support its own consumption rates among its populace. Having ports overseas will facilitate the inward flow of products and resources from host states and further markets from those ports. Consumption of energy resources in the form of oil has surpassed what the PRC produces internally. The PRC has been a net importer of oil since 1993.[52] Shipping lanes that run by the port of Hambantota provided more than two thirds of the PRC's oil consumption requirements around 2013.[53] The two thirds amount is double what the PRC's entire net oil importing was after 2004 when they were importing just one third of their oil consumption.[54] This is a dramatic increase in oil consumption in just under a decade. As the government of the PRC continues to develop it will need greater inflows of resources into its state to meet its needs, and the MSR supported by its Chinese leased overseas ports will facilitate this increased inflow of resources and consumables.

Focusing more on consumables than the raw resources, the PRC will eventually transition off of solely manufacturing and outsource to developing states for its low cost manufacturing. This is when outsourcing becomes more profitable than producing goods internally. As standards of living in the PRC continues to rise certain low-tech manufacturing jobs will be more profitable for Chinese businesses to utilize developing states, as they become more stable, to manufacture goods consumed within the PRC. This is the same as has been done by U.S. companies, exporting jobs to make a greater profit.

---

[52] Lim Tai Taiwei, *Oil in China: From Self-Reliance to Internationalization*, Series on Contemporary China, Vol. 18 (Singapore: World Scientific Publishing Company, 2009), 107–121.

[53] Iram Khalid, "Indian Ocean: Global and Regional Strategies," *Journal of Political Studies* 20, no. 2 (2013): 28.

[54] Loren Brandt, "International Dimensions of China's Long Boom," in *China's Rise and the Balance of Influence in Asia*, William W. Keller and Thomas G. Rawski (Pittsburgh: University of Pittsburgh Press, 2007), 36, 215.

If the PRC can either become the recipient of these goods, or the intermediary for these goods traveling to another state, then Chinese businesses will reap the profit margins on these goods.

4. Sea Route Support

With the government of the PRC having access to their own overseas ports will work twofold in supporting sea routes for use by the Chinese economy. One of the ports will support already established sea routes for Chinese vessels that already transit the routes. Vessels that may have required a stop along the routes that are already established will be guaranteed a safe and available port of call that they may dock at. This will increase the Chinese shipping along these already establish routes. Second, these ports will support alternate sea routes to the ones already established. Established sea routes are used mostly because they are the most efficient and direct routes to destinations. There are two reasons for alternative routes that necessitate their use by shipping rather than the primary sea routes. The first reason would be as more destinations become stable enough to do business with and are identified as potential places for new markets or sources of resources, new routes to get to those locations quicker will be needed if they are not already along established routes. The later reason for alternate routes is to have another access to locations already frequented if the primary sea route becomes unfeasible to transit. There could be several possibilities as to why this would happen. If the route goes through a chokepoint that is heavily congested to the point of reaching transit capacity, this would make it riskier for than regular passage. With chokepoints there is the possibility of a regional state, or non-state actor, attempting to effect shipping along that route for their own gain or attempt at a goal that could have negative impact on Chinese shipping whether or not that is their intention. Being affected by a regional state, or non-state actor, is a vulnerability. Then there is the fact that certain larger ships cannot transit all chokepoints due to the depth of the water through certain sea routes. This is true with Chinamax ships, which have a draft of 24 meters, if they were to transit the Malacca Strait. Malaccamax ships are designed to be 14.5 meters for the 25 meter depth of the

Malacca Strait.[55] People that are not experienced in maritime travel may believe that a 24-meter draft vessel would not have issue with a 25-meter depth body of water, but they would negate the fluid dynamics that results in squat cause by the Bernoulli's principle. Regardless, certain ships are too large and must navigate other sea routes to their destination. The Chinese overseas ports will support Chinese shipping along already established sea routes and alternate sea routes as they become necessary.

Economic growth after the completion of the ports, this time not through expenditures by the state or by Chinese private businesses, but through the avenue of more access to international markets will be an important aspect of the MSR. The MSR is a substantial part of the OBOR project in terms of trade that will flow through it. The states that have control, or at least better access, to sea routes will benefit greatly from the maritime commerce that makes up the majority of international trade. As the world markets become increasingly interconnected even more than they are now, those states in a position early on to benefit will see an increase in returns correlating to the increase in world commerce. The true growth from the OBOR project is not in the building of it, but in the commerce that will eventually flow through it. With the MSR portion of the OBOR having the largest potential for growth, as maritime commerce continues to have over commerce that travels over land, the Chinese overseas ports are a necessary feature to support the MSR which will benefit the Chinese economy.

5. Transitioning to New Growth Model

These ports will support the government of the PRC's desired transition from their old growth model to a newer growth model that they have been transitioning to. While the government of the PRC is still heavily still relying on the old growth model of exports produce from "direct labor" and investments in the form of loans, the ports will still be profitable for these functions.[56] With exports still being a dominate feature to the PRC's market economy the ports will provide both a point of departure from the sea into

---

[55] "Ship Sizes," Maritime Connector, accessed October 15, 2017, http://maritime-connector.com/wiki/ship-sizes/.

[56] Greg Linden, *Who Captures Value in a Global Innovation System? The Case of Apple's iPod* (Irvine, CA: Personal Computing Industry Center, 2007), 9.

host states' markets, and aide in a leap pad for reaching further markets for Chinese exports. Loans are necessary for the different ports, and provide for the financing of the construction.[57] As long as the ports turn profitable the businesses, whether they are SOEs or Chinese private businesses, depending on the port, should be able to pay back the loans they have taken out.

The new growth model, which the government of the PRC is transitioning to, can benefit and be supported by the construction of the Chinese overseas ports. In the new growth model the focus is on domestic consumption, transitioning to service from manufacturing, and increased innovation.[58] The Chinese overseas ports will facilitate each of these three aspects of the new growth model the government of the PRC is pursuing.

Now while domestic consumption of products produced in the PRC by the Chinese may face competition from outside competitors that will import into the PRC via these ports it can still benefit. If the Chinese become better at manufacturing goods, due to having increased export capability due to these ports, than the product quantity in the PRC would become higher and with surplus goods becoming cheaper and more affordable. Likewise, with increased exports, greater capital flows into the PRC in return for those exports would increase the capital available in the PRC and support the rise in the standard of living as each household has more access to available revenue that is now within the state. With increases in standard of living, the Chinese population can increase their own domestic consumption of these improved Chinese goods. Besides increased quantities, quality will be forced to increase as these ports provide for greater access in and out of the PRC, exposing it more to world markets, this will expose them to more competition from abroad. In turn more competition to businesses will require businesses to increase the quality of their products to remain competitive. With increase quantities and better quality of Chinese produced goods, coupled with support in increases of the

[57] Dickson, "Updating the China Model," 42.

[58] Michael Glosny, "Political Economy of China" (lecture, Naval Postgraduate School, Monterey, CA, September 7, 2017).

standard of living domestic consumption of products produced in the PRC by the Chinese should benefit from the effect of the Chinese overseas ports increasing trade.

Even though the Chinese overseas ports will facilitate both exports and imports, they will also begin to allow for the Chinese to enter into more service industry work besides aiding manufacturing. Ports are extremely complex entities that deal with a high amount of inputs, and must be efficient in order to function properly and be profitable. Both the Port of Darwin and the Port of Hambantota are administered by Chinese businesses. The employees are Chinese, performing service work through administering and running the port operations develops the service work skill sets of Chinese employed at these ports.[59] The need for innovation will facilitate the developing the skill sets required for running ports overseas. While Chinese have run ports along their own coasts, operating ports overseas opens up a new areas of overseas port work that is not a great leap from operating their own ports back in the PRC, but is still a different area when working a port in a foreign state. If the Chinese become proficient in operating overseas ports they may not only export their services to overseas ports they are leasing, but could export their services to administer other ports they are not the primary owners of. The administration of Chinese overseas ports will assist in the PRC transitioning into more service industry work and spur technical innovation.

F. POLICY CONCERNS

The government of the PRC desires through its actions in the MSR to become a model of economic growth in a politically heavily regulated system.[60] The government of the PRC's policy aims are in place to better the state and its people, by reaching overseas it is interacting more with other states which may cause friction. To convey to other states, and its own citizens, a controlled image of how it would like to be viewed narratives such as; harmonious society, scientific development concept, and well-off

---

[59] "Sri Lanka Signs Hambantota Port Deal with China," *Al Jazeera*, July 29, 2017, http://www.aljazeera.com/news/2017/07/sri-lanka-signs-hambantota-port-deal-china-170729073859204.html.

[60] David Scott, "India-China Relations: Norms, Perceptions and Geo-politics," *New South Asian Security: Six Core Relations Underpinning Regional Security*, ed. Chris Ogden (Greater Noida, India: Rakmo Press, 2016), 24.

society have been used.[61] Employment is a major concern of ensuring people have jobs to avoid a mass of unemployed individuals that could quickly become dissatisfied and cause problems. Having a thriving economy by spurring on economic growth will also add to the satisfaction of the Chinese people, which will help calm any possible discontent in the PRC. The MSR, supported by the overseas ports, will help mitigate the government of the PRC's policy concerns through multifaceted solutions that the project will provide.

The steps explained by then Chinese President Hu Jintao in 2004 at the Boao Forum for Asia are supported by constructing overseas ports for the MSR project that is now underway.[62] The five steps that he presented in his speech at this conference were

1. Enhancing friendship and political trust and good-neighborliness.
2. Expanding and deepening bilateral economic cooperation.
3. Accelerating regional economic integration.
4. Promoting cultural interaction and personnel exchanges.
5. Facilitating security dialogue and military-to-military exchanges.[63]

With economic development being the top stated priority at that time these steps facilitate its attainment.[64] All the steps listed relate to having better relations, and the attendees at the conference held in Hainan, China, were business and political leaders from a host of Asian states, such as Cambodia, Pakistan, Malaysia, Japan, the Republic of Korea, India, Singapore, and Kazakhstan, and several out of the region states, including Czechoslovakia, the United States, Mexico, Australia, and New Zealand.[65] Economic development requires better relations with other states. The MSR supports the steps to better relations to attain the top priority of economic development as outlined by Hu Jintao.

---

[61] James Mulvenon "Chairman Hu and the PLA's 'New Historic Missions,'" *China Leadership Monitor*, no. 27 (2009): 6.

[62] Hu Jintao, "Full Text of Hu Jintao's Speech at BFA Annual Conference 2004," China Through A Lens, April 24, 2004, http://www.china.org.cn/english/features/93897.htm.

[63] Ibid.

[64] Ibid.

[65] Wang Qian and Tang Fuchun, "All is Ready for Boao Forum 2004," China Through A Lens, April 19 2004, http://www.china.org.cn/english/2004/Apr/93412.htm.

Hu Jintao also outlined several narratives that were in addition to the ones supported by his predecessors he wanted to support. The three narratives he wanted to see established were first a "harmonious world," second a "scientific development concept," and lastly a "well-off society."[66] The first narratives may be a stretch for the link to the ports, but the third being a well-off society is very clear. Overseas ports support a harmonious society by making or attempting to make the PRC into the center of the economic world again as it had been in the past. With the PRC dominate, they can attain what could be a benevolent leadership position of influence over world affairs. Now the harmonious society refers more to the internal society of the PRC, but if the world or at least the regions around the PRC are peaceful that would facilitate the government of the PRC attaining a harmonious society. Scientific development concept is another narrative that though not clearly related could still benefit from the ports and is connected through this. All areas in the PRC require improved scientific development, from the military to the civil and economic sectors.[67] To advance more scientific develop needs to come from anywhere the PRC can make it, this would include the ports. The ports that Chinese agents build overseas can improve both Chinese port building skills and technology, and will take scientific advancements in construction materials used and systems utilized to operate the ports. Also these ports provide a means for more information and products to flow into the PRC, resulting in more exchange that will in turn bring outside ideas that the PRC may apply to its scientific development. The narrative that is the easiest to link to the ports is the well-off society narrative. The overseas ports that the PRC controls will aide in bringing more wealth into the PRC through increased trade. Jobs will be created not only to construct the ports, but to run them as well. With increases in trade, there will not only be a greater flow of capital, but more jobs will be created in manufacturing and services to support the manufacturing. Hu Jintao's narratives are supported by constructing overseas ports for the MSR project.

---

[66] Zheng Wang, "The Chinese Dream: Concept and Context," *Journal of Chinese Political Science* 19 (December 2013): 7.

[67] Mulvenon "Chairman Hu and the PLA's 'New Historic Missions,'" 6.

Employing Chinese workers in the building projects, such as the ports themselves, and in the operation of overseas ports will ensure the Chinese people have jobs contributing to their satisfaction. Planning and constructing the facilities needed for the MSR portion of the OBOR, the ports, will facilitate growth within the PRC and outward by creating more jobs. Constructing port facilities overseas in multi-billion dollar projects, the PRC has found an outlet for its labor surplus to avoid discontent from an unemployed labor force. This ties into long standing policies of trying to make the populace content through economic means to prevent dissatisfaction.[68] Labor from the PRC can be utilized outside of the state to ensure employment of its populace and maintain satisfaction of its populace through employment, to minimize a domestic unrest.

When the MSR is established and supported with overseas ports that are guaranteed to be available for Chinese shipping the government of the PRC will have increased contact with other states in regions they are located in. Besides the states that are in the region the overseas ports are located at, the government of the PRC will have increased connection to the host state that the port is located at. With this increased contact the Chinese may be able to leverage the ports diplomatically. With control of the ports Chinese shipping can be given priority over other shipping, but Chinese may also extend this privilege to favored states. The reverse of this would be if Chinese had a state that was not cooperating in some matter diplomatically, the government of the PRC could restrict access to that state's shipping at the overseas ports it controls. The sea lanes around these areas could soon become dominated by Chinese shipping, and states that have Chinese favor. Though it is unlikely that the Chinese would use the ports for economic agitation of another state due to the risk of a similar repercussions, the option is there. The overseas ports will increase the strength of the influence they have in regions they are in. The regions that the government of the PRC will have better access to are with the South Pacific that is sandwiched between the Port of Darwin and the PRC itself. With Hambantota the port acts as a central point in the IOR and gives better access to the

[68] Qimao Chen, "New Approaches in China's Foreign Policy: The Post-Cold War Era," *Asian Survey* 33, no. 3 (1993): 241.

Middle East and all of the east coast of Africa.[69] The increased contact with other states through the overseas ports in both the host states, and the states in the region the ports are located at will increase the government of the PRC's influence in those regional spheres.

G. SECURITY CONCERNS: ENERGY AND SEA ROUTE SECURITY

There are various security concerns the government of the PRC has that are mitigated by the access to overseas ports. Energy security for the PRC has become more important as they are now a net importer of oil. Economic security to ensure that the Chinese economy is supported to prevent domestic unrest. The sea routes that Chinese vessels can utilize is a concern heavily tied into economics where issues like the Malacca dilemma are identified challenges the Chinese must be faced. The various security concerns that are present will be mitigated now by the leased Chinese overseas ports.

1. Energy Security

The PRC's energy consumption continues to increase and maintaining the flow of energy resources, such as oil, is vital to their energy security. Overseas ports will ensure that the sea routes are supported to continue the flow of oil toward the PRC. Various estimates put the PRC's oil imports at over half of its consumption. Shipping lanes that run through the IOR provide more than two thirds of the PRC's oil consumption requirements by some estimates.[70] While some estimates put the two thirds figure have that amount being reached by 2020 and "increasing to 72% by 2040."[71] Either way the PRC will be needing to import greater quantities of oil if it is going to satisfy its energy needs. The government of the PRC is seeking to maintain its energy security by "looking for new pathways and energy source which are safer and beneficial for its economy."[72] In looking for pathways for energy resources the PRC will be utilizing its overseas ports to support these energy resource needs.

---

[69] Garver, "Diverging Perceptions of China's Emergence," 56.

[70] Khalid, "Indian Ocean," 28.

[71] Malcolm Davis, "China's 'Malacca Dilemma' and the Future of the PLA," *CPI: Analysis*, November 21, 2014, https://cpianalysis.org/2014/11/21/chinas-malacca-dilemma-and-the-future-of-the-pla/, 1.

[72] Ibid., 26.

2. Sea Route Security

The sea routes that Chinese shipping traverses are used by many other states' shipping and are subject to risks. There are non-state actors such as the threat of piracy to contend with that can beleaguer shipping. State actors of another government may try to imposed a blockade or restrict shipping of states they are at odds with. There are also the simply capacity limits of various chokepoints of well used sea routes that ever increasing shipping is being pushed through. The sea routes that Chinese shipping uses will need to be supported or other sea routes will be necessary, both solutions will require overseas ports.

Oversea ports will support already established sea routes for Chinese vessels that already transit these routes. The ports can act as hubs for security assets to be deployed to patrol the section of the routes they are located at. Vessels that may have required a stop along the routes that are already established will be guaranteed a safe and available port that they may dock at. This will alleviate the need to stop at ports that are less secure that might not meet Chinese standards of security, since the Chinese will be able to set the level of security at the ports it controls. An issue though with who is providing the security may be a problem however in determining whether it will be Chinese security assets or the host state providing the security. The government of the PRC is willing to provide the security along section of sea routes, which oversea ports would facilitate, such as offering assistance "to improve the safety and security of merchant traffic transiting the Straits of Malacca."[73] As member of the UN Security Council the government of the PRC has made it known that "keeping international peace and security" are core issues that it supports.[74] However, terms written into lease agreements may make it difficult to station security assets at the Chinese oversea ports, such as the Port of Hambantota, where the Sri Lankan government is weary of the Chinese using the port for any function that may resemble military overseas basing.[75] Since the Port of

[73] Vijay Sakhuja, *Asian Maritime Power in the 21st Century: Strategic Transactions China, India and Southeast Asia* (Singapore: ISEAS Yusof Ishak Institute, 2011), 193.

[74] Ibid., 182.

[75] "Sri Lanka Signs Hambantota Port Deal," *Al Jazeera*; "Sri Lanka Signs Deal on Hambantota Port with China," BBC, July 29 2017, http://www.bbc.com/news/world-asia-40761732.

Hambantota lease is not available, the actual wording of the agreement is not known when it comes to what security assets are allow in the port. A way around this would be to put security ships that are considered none military in these overseas ports as a way around this or have repair facilities that could repair military vessels on port calls.[76] The Chinese oversea ports can support a more stable security environment along already established sea routes that Chinese shipping transits.

Having Chinese overseas ports will support alternate sea routes for Chinese shipping that may be too large for some areas. Established sea routes are the most efficient and direct course to destinations and have long established ports to support them, but there are other lesser used routes that have to be used that can accommodate larger vessels. These lesser used routes are not as well supported due to having less maritime traffic transiting them that would necessitate ports already being established along those routes. Certain larger ships cannot transit all sea routes due to the depth of the water through certain areas forcing them to at times use the lesser used routes. Chinamax ships have a draft of 24 meters, and cannot transit areas like the long established sea route of the Malacca Strait, unlike the Malaccamax ships that have a draft of 14.5 meters for the 25 meter depth of the Malacca Strait.[77] Having Chinese overseas ports will aide in ships that transit the less used routes by ensuring there are facilities to support the larger ships.

H. CHAPTER CONCLUSION

Economic and security drivers for Chinese overseas ports are the drivers for Chinese businesses to be present in overseas ports, particularly in the cases of the Port of Hambantota in Sri Lanka and the Port of Darwin in Australia. Chinese businesses have taken out these leases to fulfill the policies of the government of the PRC. The leased ports do mitigate security concerns, but they are related to supporting the growing Chinese economy, such as protecting Chinese shipping, rather than military aspirations

[76] Virginia Marantidou, "Revisiting China's 'String of Pearls' Strategy: Places 'with Chinese Characteristics' and their Security Implications," *Issues & Insights*, 14, no. 7 (2014): 13, 14, https://www.files.ethz.ch/isn/182061/140624_issuesinsights_vol14no7.pdf.

[77] "Ship Sizes," Maritime Connector.

for the time being. The government of the PRC has stated their intention to continue their economic growth through various steps and supporting narratives in conjunction with "win-win" type relations with other states to facilitate this growth.[78] While they benefit from the security aspect, the PRC benefits most from economic gains from both leases. The next two chapters will give the perspective of Australia and Sri Lanka, and explain the reasoning of the host states for leasing the ports to Chinese businesses.

[78] Jintao, "Full Text of Hu Jintao's Speech."

III. SRI LANKAN DRIVERS

A. CHAPTER INTRODUCTION

Because lease agreements are not one-sided affairs, Chapter II explained the government of the PRC's reasoning for acquiring the overseas port leases to fulfil their stated goals of economic development and increase security to support it. The host states also have reasons for wanting to lease their ports to Chinese companies. Chapter III examines what Sri Lanka stands to gain from leasing these ports to help identify the host state's drivers for allowing Chinese companies space in their territory. The chapter offers understanding of the situation and shows how other parties, besides the leaseholder, stand to improve their position.

Why would Sri Lanka align with the PRC? Does it serve its interests in its current situation, and does its neighbor India play a role in its decision to allow a Chinese company to hold a long term port lease on one of its major ports? Looking at what could motivate Sri Lanka to invite the PRC to construct and then lease the Port of Hambantota, the level of threat posed by India to Sri Lanka should be evaluated as a potential driver of its actions. In developing, and then leasing, the Port of Hambantota, Sri Lanka has engaged in a venture with the PRC likely to protect itself from its neighbor, India. Assessing Sri Lanka's motivations against Stephen Walt's factors in threat assessment may offer an explanation as to why having the PRC present in Sri Lanka would counter such a threat. Alliance formation can alleviate the pressure of the threat posed by another state, and the source of alliance ranges from balancing to bandwagoning, according to Walt. States engage in balancing against threatening states by aligning against the biggest threat to themselves.[79] States engage in bandwagoning against a threat by aligning with the biggest perceived threat to void it.[80] The chapter therefore assesses Sri Lanka's actions as to whether it is balancing or bandwagoning, as described by Walt. Assessing India's behavior using Walt's four factors (aggregate power, proximity, offensive

[79] Stephen M. Walt, "Alliance Formation and the Balance of World Power," *International Security*, 9, no. 4 (1985): 9.

[80] Ibid.

capability, and offensive intentions) may give insight into the reasoning for Sri Lanka engaging with the PRC in the case of the Port of Hambantota. Looking at the same factors for the PRC will assess how having Chinese present will counter the threat of India for Sri Lanka. The chapter argues that Sri Lanka is engaged in balancing. Sri Lanka views India as a threat to itself, and it is using the PRC to balance against that threat.

First, the chapter examines how Sri Lanka is balancing, explaining Sri Lanka's current standing and recent events. Then the chapter outlines the threat of India utilizing Stephen Walt's method of threat assessment to determine the level of threat that motivates Sri Lanka's actions. The chapter considers India's current aggregate power in terms of its resources: population, industry, defense funding, economic capability, and technology. It then examines the proximity of India to Sri Lanka, including aspects of projection and tyranny of distance. Then it reviews the offensive capability of the military strengths and potential of India before assessing last factor, offensive intentions, from different points of view, including state actions. This part of the chapter presents, parallel to these factors, the government of the PRC's analogue to these potential threats in the same terms. Finally, the chapter concludes with a rebuttal justifying India's actions, and it includes both Sri Lanka's and PRC's stances.

1. Balancing or Bandwagoning?

Sri Lanka is balancing against India by aligning with the PRC. States engage in balancing against threatening states by aligning the most serious threat to themselves.[81] Sri Lanka views India as the primary threat to its security and sovereignty and views aligning with the PRC as a way to alleviate this threat. The construction of the Port of Hambantota shows that Sri Lanka is willing to allow the PRC to be present in Sri Lanka, both economically in trade and in security through allowing Chinese vessels preferred use of the port. Sri Lanka and the PRC are also set to sign a free trade agreement later in 2017, further strengthening their ties. Aligning with the PRC could counteracts the threats that Sri Lanka faces from India through appropriate balancing.

[81] Walt, "Alliance Formation and the Balance," 9.

2. Contextualizing the Sri Lankan Security Concerns

Sri Lanka has gone through several changes and significant events that have made the state what it is today. Sri Lanka acquired its independence in 1948 directly from the British, and was not a breakaway state like in the Mountbatten Plan. The state held good standing as stable early on: the economy had a substantial tea exports, literacy rates and per capita income were above average for the region.[82] However, Sri Lanka had a myriad of setbacks socially, politically, and economically.

The society in Sri Lanka has had several upheavals, including the 1971 Marxist insurrection lead by the Janathā Vimukthi Peramuṇa group. Ethnic tensions between the majority Sinhalese and minority Tamils further exacerbated conflict in Sri Lankan society. In politics, the Bandaranaikes' came to power and conflict escalated from policy blunders that Sirimavo Bandaranaikes initiated. Societal and political tensions came to a breaking point and a civil war erupted when the Tamils, being oppressed, rose up against the mainly Sinhalese occupied government in 1983. The economy suffered during this time due to instability from war and the nationalization of businesses. Outside investors were not willing to put money into a country that was engaged in a civil war, and weary of governments nationalizing businesses, leaving investors at a loss. Sri Lanka's setbacks socially, politically, and economically hampered the state during its development.

Sri Lanka's fortunes though have turned for the better in the recent decades. The civil war has ended and with it the instability that negatively hurt the economy. Growth rates boomed following the civil war at 8–9 percent growth and have steadied out at 5–5.5 percent in recent years.[83] FDI has increased as the state has become stable, and tourism too has increased with the threat of war gone boosting the economy.[84] Funds coming into the state have helped with reducing poverty and increasing employment.[85] Unexpected setbacks still occur, as in the 2004 Indian Ocean Earthquake and tsunami,

---

[82] Peter A. Coclanis, "Asia's Next Tigers? Burma, the Philippines, and Sri Lanka," *World Affairs*, 175, no. 6(2013): 70.

[83] Ibid., 72.

[84] Ibid., 74.

[85] Ibid., 73.

killing thirty five thousand, displacing over half a million people, and costing Sri Lanka two billion dollars in losses.[86] With such disasters, outside funds are necessary to rebuild and grow businesses, and certain groups and states have invested more than others into Sri Lanka. The PRC has been a states that has invested sums of capital into Sri Lanka. The Sri Lanka government has acted quickly with the government of the PRC to secure agreements and deals with the much larger state. Having a presidential system instead of a parliamentary system has allowed for quicker action to take place in the matters of state, but some critics believe it may led to authoritarian rule.[87] The state of Sri Lanka is still developing, though it has had bumps in its history as an independent state, it is progressing with help from states like the PRC.

3. The Threat of India

The PRC being invested in Sri Lanka has come to the attention of Sri Lanka's more powerful neighbor India. The PRC and India have not always had a good relationship, though they both share the experience of being a subjected by Western powers during the time of colonialism. The two have had several disputes over territory that stem from the time when they were both subjugated by colonial powers. An example of a colonial era dispute would be the Simla Convention where the Indian government held onto land taken from the Chinese during British rule.[88] With this and other disagreements wedged between the two states acting amicably toward each other, land disputes such as the Chinese occupation of Aksai Chin plateau, the annexation of Tibet by the PRC, India's 40,000 sq km claim in the PRC, and the PRC's 92,000 sq km claim in India have encouraged both states to retaliate against the other.[89] There has been attempts at meeting and resolving differences, such as the 2005 "Political Parameters and Guiding Principles for the Settlement of the India-China Boundary Question" and the 2013 "The Defense Cooperation Agreement," but both states have continuing mistrust of

---

[86] Ibid., 72.

[87] Ameer Ali, "The Sri Lankan Ethnic Morass and China-India Geopolitical Manoeuvres," *Economic and Political Weekly* 46, no. 34(2011): 44.

[88] Scott, "India-China Relations," 20.

[89] Ibid., 19, 20, 21.

the other.[90] The government of the PRC sees partnering with Sri Lanka as a logical step in its "Maritime Silk Road," and has constructed the Port of Hambantota, at the request of the Sri Lanka government, which it will be paid for by Sri Lanka and have access too.[91] India is concerned that Chinese presence in the Port of Hambantota is an intrusion in its sphere of influence, and that Chinese investments in Sri Lanka are a source of concern.

4. Sri Lanka Brings the PRC in to Balance: Four Threat Factors

Sri Lanka has allowed the PRC into its state by building and then leasing the Port of Hambantota. Sri Lanka's reasoning for aligning with the PRC in this respect can be interpreted as balancing against India. Balancing or bandwagoning by a state with another state can be seen as a result of a perceived threat by a state and how it chooses to mitigate that threat.[92] Balancing is done when states alley together against the principle source threat they are facing.[93] States bandwagon with other states they perceive a threat by aligning with with them.[94] Stephen Walt devised four factors that go into determination of the level of threat that is perceived by a state from another state.[95] The first is aggregate power of a state, "The greater a state's total resources (i.e., population, industrial and military capability, technological prowess, etc.), the greater a potential threat it can pose to others."[96] The second is proximity of states to one another "the ability to project power declines with distance, states that are nearby pose a greater threat than those that are far away."[97] The third is the offensive capability of a state "the immediate threat that such capabilities pose may lead states to balance by allying with others."[98] Finally, the last factor in determining the level of threat faced by a state from

---

[90] Ibid., 26, 27.

[91] Li, "The Maritime Silk Road and India," 21.

[92] Walt, "Alliance Formation and the Balance," 4, 8, 9.

[93] Ibid., 4.

[94] Ibid.

[95] Ibid., 9.

[96] Ibid.

[97] Ibid., 10.

[98] Ibid., 11.

another is the offensive intentions of the threatening state.[99] Balancing can result from a perceived aggressive intentions "states that appear aggressive are likely to provoke others to balance against them."[100] The intentions of another state is the most difficult factor to determine. States can give official statements, engage in signaling, and can make gestures for the intent they want to conveyed, whether it is true or not. However, another state has to interpret the other. Statements might not be believed and viewed as insincere or misleading. Signaling may be missed by the intended recipient of the of the intent the signaling was supposed to convey. Gestures may not translate into another culture in another state the way it was intended. All this means is communication is difficult in regards to intent, and it is more complicated when deception may be involved. Using the four factors developed by Walt and applying them to states can be used to determine the threat faced by Sri Lanka and what can affectively mitigate the threat.

a. Aggregate Power

Looking at the first factor aggregate power in terms of its resources: population, industry, defense funding, economic capability, and technology the three states can be compare to see how it affects the threat level of Sri Lanka. In the first aspect of aggregate power, being population, India dwarfs Sri Lanka's population, in 2015 the World Health Organization (WHO) calculated Sri Lanka's population to be 20.7 million whereas India's was calculated to be 1.3 billion in 2015.[101] India's population is 67.6 times the size of Sri Lanka's. The PRC's population however, is still larger for the time being than that of India's, in 2015 the WHO calculated their population at 1.4 billion. India will one day pass the PRC in terms of population. India's growth rate is 1.55, whereas the PRC's is .66, with a 1.55 compared to .66 in terms of population growth rate, India will pass the PRC in population.[102] The birthrate of India is one of the main reasons the growth rate is

---

[99] Ibid., 9.

[100] Ibid., 12.

[101] "Sri Lanka," World Health Organization, accessed October 15, 2017, http://www.who.int/countries/lka/en/.

[102] Charles Wolf Jr. et al., *China and India, 2025: A Comparative Assessment* (Santa Monica, CA: National Defense Research Institute, RAND Corporation, 2011), xiii.

so high in India, with a 2.5 birthrate calculated in 2013, India has a high birthrate.[103] The 2013 birthrate was larger than not only the PRC's, which stood at 1.7, but also that of Sri Lanka's, which stood at 2.3.[104] At these rates it is expected that India will pass the PRC's population in 2025.[105] The point of the population being a significant aspect to the factor of aggregate power is apparent in the relationship between Sri Lanka and India. In Sri Lanka's civil war against the Tamil Tigers the Sri Lankan-Tamils were the minority in Sri Lanka. In India the Tamils are a minority as well, but with a number of 60 million Indian-Tamils.[106] With three times the number of Indian-Tamils than there are Sri Lankans, this can be seen as a point of concern for the Sri Lankans during their civil war. The Tamil diaspora was a major power base for the Tamil insurgents organized under the LTTE in Sri Lanka, and with India's permissive behavior allowing the Tamils residing in India to support the insurgency in Sri Lanka, it is seen as a sour point in Indo-Sri Lankan relations.[107]

The next aspect of aggregate power is industrial capability. India's exports of heavy industry manufacturing such as steel and iron production is far greater than that of Sri Lanka. With the population much higher in India than Sri Lanka, as stated, India has a much larger labor market to meet these industries' needs. India also has a more "skill-intensive" labor force than Sri Lanka.[108] Iron and steel production are under the category of "capital-intensive and skill-intensive" industry, and India is proficient in this area.[109] Though India has a larger industrial base than Sri Lanka, the PRC's again beats India in this aspect. The PRC is currently the leading producer of steel in the world, meeting its needs, it is a net exporter of steel to world markets. India has "relatively smaller exports

---

[103] World Health Organization, "Sri Lanka."

[104] Ibid.

[105] Wolf Jr. et al., *China and India, 2025*, 33.

[106] Ali, "The Sri Lankan Ethnic Morass," 42.

[107] Lionel Beehner, "What Sri Lanka Can Teach Us about COIN," *Small Wars Journal*, August 27, 2010, http://smallwarsjournal.com/jrnl/art/what-sri-lanka-can-teach-us-about-coin.

[108] George J. Gilboy and Eric Heginbotham, *Chinese and Indian Strategic Behavior: Growing Power and Alarm* (New York: Cambridge University Press, 2012), 215.

[109] Ibid.

from labor-intensive sectors such as light manufacturing" than the PRC does.[110] India a greater industrial capability than Sri Lanka, but the PRC has a greater industrial capability than India and does not look like they will be overtaken in this aspect.

Military capability is the next aspect of aggregate power and is a direct result of the amount of military spending by a host state. In this aspect it should be understood that India's military spending dwarfs that of Sri Lanka's, and that Sri Lanka could not hope to spend as much as India on its military. It is for this reason that India's military will be compare to the PRC to assess how Sri Lanka's allying with the PRC could counter the overwhelming force of India's military. The aspect of offensive capability will compare the military of both India and the PRC, focusing on systems and operations that military spending provides for.

The PRC has out spent India in terms of total capital invested in defense over the course of several decades.[111] The importance of this is that if India were to match the PRC's current budget for defense spending India would not catch up militarily with India due to the PRC already having a much larger lead. India could not hope to even match the PRC's current spending on defense, due to it being a multiple higher than that of India. Using the 2009 defense spending figures India spent the equivalent of $34.4 billion while the PRC spent the equivalent of $110.1 billon, over three times the amount India spent.[112] India is already spending a greater percentage of their GDP than the PRC, and is still at a significant figure below the PRC. In order for India to overtake the PRC in military power they would have to spend more on defense than the PRC, not for a year or a decade, but for several decades in order to match the PRC. Even then India would have to continue spending that hypothetical amount to pass and stay ahead of the PRC, if they want to match the PRC they would need to spend enough to catch up over several decades then even though they could reduce the amount spent to match the PRC, the percentage of their GDP spent on defense would have to be many times that of the PRC, if the respective economies of each stayed the same relative size to each other. The

[110] Ibid.

[111] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 102.

[112] Wolf Jr. et al., *China and India, 2025*, 92.

PRC's economy however, is growing faster than India's, so even this difference is percentage of GDP spending will not support India catching up with Chinese militarily. From 1980 to 2010, a 30 year period, both the PRC and India had similar growth rates in percentage of GDP for their defense budgets.[113] With the PRC growing their defense budget at an average of a 4.6 percent increase from the year before, and India growing theirs at a slightly higher growth rate of 5.4 percentage more than the previous year.[114] Still with the amount of spending based off a percentage of the total GDP of the state, the PRC was spending actually more than India, and increasing the amount spent at a greater rate. Over a period of thirty years it is not only the difference each state is spending, but the cumulative difference over this period that makes the difference in militaries so significant. With Sri Lanka siding with the greater power they could hope to be protected well.

It should be understood that whatever numbers that are available for the reported defense spending is from the states themselves, it is reasonable to assume that the numbers are not entirely accurate. With certain areas of spending such as nuclear weapons, defense related space activity, and intelligence not being included to begin with are a testament to what is not being included.[115] Going further, things like weapon imports and funding of certain paramilitary groups are not reported as well.[116] Therefore, all numbers can only be estimates, and the only relative certainty is that the official reported number given by both governments is not the actual amount. George J. Gilboy and Eric Heginbotham defense spending estimates are based on available data, see Tables 1 and 2.

---

[113] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 102.

[114] Ibid.

[115] Ibid., 114.

[116] Ibid.

Table 1. Full Defense-Spending Estimates and Boundaries, 2005[117]

(in billions, except as noted)			
	Lower Boundary	Baseline Estimate Full Defense Spending	Upper Boundary
India			
Rupees	817	1,057.80	1233.7
USD	18.5	23.9	27.9
Share of GDP (%)	2.29	2.9	3.45
China			
Yuan	247.4	364.8	383.7
USD	30.2	44.6	46.9
Share of GDP (%)	1.34	1.98	2.07

Note: Nuclear weapons, space, and intelligence programs not included.

Table 2. Full Defense-Spending Estimates and Boundaries, 2010[118]

(in billions, except as noted)			
	Lower Boundary	Baseline Estimate Full Defense Spending	Upper Boundary
India			
Rupees	1,515.80	2,139.60	2,550.30
USD	30.6	43.2	51.5
Share of GDP (%)	2.14	3.02	3.6
China			
Yuan	532.1	768.2	859.2
USD	78.5	113.3	126.7
Share of GDP (%)	1.37	1.97	2.21

Note: Nuclear weapons, space, and intelligence programs not included

From Gilboy and Heginbotham's findings "notional full defense spending appears to be about 1.3 to 1.6 times officially reported defense budgets" in both the PRC and India.[119]

[117] Adapted from Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 114.

[118] Adapted from Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 114.

[119] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 119.

The defense spending is what purchases military capability, and to have the capital for sufficient defense spending the economy must be strong enough to provide it. Economic capability is a driving force in the factor of aggregate power. Sri economy is again dwarfed by India's in terms of GDP, with India's economy being 25 times the size of Sri Lanka in terms of GDP in 2015.[120] However, the PRC's economy was 4 times the size of India's in 2010 and has grown significantly since then.[121] While India's economy is growing, the PRC's is growing faster. the PRC's economy in 2015 became 5 times the size of India's in terms of GPP as opposed to 4 times larger just 5 years earlier.[122] the PRC's economy has been larger than that of India's for some time, but with the PRC's snapshot of a window of growth rate (CAGR) at 10.5 to India's 7.4 percent over the period of 2000 to 2010 for instance, it is not likely that India will overtake the PRC's economy anytime soon.[123] Looking further back at a 30 year span the CAGR of the PRC was 10.1 to India's 6.2 percent from 1980 to 2010.[124] Even with the percent difference reducing by almost a percent (0.8), the PRC's CAGR is higher than that of India's. The sustained difference over the years has a significant cumulative effect in terms of capital available. Purchasing power parity (PPP) should be taken into account when analyzing the budgets of the PRC and India, as Gilboy and Heginbotham do in their table "Full Defense-Spending Market Exchange Rate and PPP-adjusted (in billions)," see Table 3.[125]

---

[120] "2015 Snapshot: Population and Economy," World Bank, http://data.worldbank.org/data-catalog/, table.

[121] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 211.

[122] "2015 Snapshot: Population and Economy," World Bank.

[123] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 102.

[124] Ibid.

[125] Ibid., 129.

Table 3. Full Defense-Spending Market Exchange Rate and PPP-Adjusted[126]

(in billions)				
	2005		2010	
	MER USD	PPP USD	MER USD	PPP USD
China	44.6	69.3	113.3	138.2
India	23.9	45.4	43.2	88.4

There are many aspects of the PPP that need to be taken into account and Gilboy and Heginbotham explains how PPP can be misapplied and in turn can be misleading. They point to the U.S. as a common violator of misleading by misapplying PPP in its assessments.[127] Tariffs are also a part of the economic capability aspect. The PRC's tariffs are lower than that of India, making them more receptive to trade, see Table 4.[128]

Table 4. Simple Average MFN Applied Tariffs on International Trade Goods (Percent) from 2009[129]

(in percentages)				
	Total	Agricultural	Nonagricultural	WTO Member Since
China	9.6	15.6	8.7	2001
India	12.9	31.8	10.1	1995

This is advantageous for Sri Lanka then to conduct business more so with the PRC than India, in that they will not have as high of tariffs placed on goods they may export from their state to the PRC. Gilboy and Heginbotham illustrate the difference in tariffs in their table "Simple Average MFN Applied Tariffs on International Trade Goods."[130] If Sri Lanka and the PRC sign a free trade agreement (FTA) then the tariffs

[126] Adapted from Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 129.

[127] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 123.

[128] Ibid., 220.

[129] Adapted from Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 120.

[130] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 221.

would be even less for Sri Lanka to sell their products in Chinese markets. The economic capability is an important aspect of aggregate power.

Technological prowess is the last aspect of aggregate power. As mentioned in industrial capability, India's focus is on capital-intensive and skill-intensive exports.[131] The government of the PRC's focus though is on capital-intensive and labor-intensive exports.[132] The PRC is "highly integrated with the global manufacturing and technology supply chains" that have been assisted by its policies that have "encouraged foreign direct investment and export processing."[133] Thanks to this the PRC has enjoyed staying current with new developments in many of the consumer technological fields. India has done this as well, but not to the same extent as the PRC who exports more than India does. Technological prowess can be understood best by any advantage in technology can increases efficiency at various levels and can increase outputs while decreasing inputs. It is uncertain what technological advances will have the greatest benefit in the long term, but they can be and typically are force multipliers.

In terms of aggregate power; population, industry, defense funding, economic capability, and technology, Sri Lanka is at a significant disadvantage, but having Chinese present in the Port of Hambantota can compensate for this. Sri Lanka did not have the capability to build the Port of Hambantota on its own, by outsourcing the work to the Chinese they were able to use the industrial capacity of a great power state to accomplish what they could not. Now that China Merchant Port Holdings is leasing the majority share of the port Sri Lanka has been able to utilize the PRC's economic capability. This has opened up the possibility for improvements in areas of the economy in Sri Lanka, and they may be able to raise their technological standing by having a more developed state's enterprise present in their own state. While the government of the PRC is invested in Sri Lanka it is reasonable that they would want to provide security to protect their investment in their port they are leasing, effectively being a net security provider for Sri Lanka. Sri Lanka will benefit from the PRC's dominating aggregate power.

---

[131] Ibid., 215.

[132] Ibid.

[133] Ibid.

b. Proximity

Proximity is the easiest to evaluate and understand of the factors going into the level of threat, but is a very important factor all its own. Power projection by a state can be intensified if the distance to another state is relatively small. The body of water separating India and Sri Lanka is the Palk Strait, which is about 30 to 50 miles wide, a relatively small distance between states. Power projection could be reduced if another state is present in an allied state. A threat from a proximate power could create a "sphere of influence" by the threat over the state feeling threatened. The geographic proximity of Sri Lanka is "so close to India so as to lose its insular character."[134] Sri Lanka can balanced against if it views them as the principle threat in order not to be held captive in its sphere of influence.[135] With the PRC and India sharing a border with India they are neighbors, and "neighbors of neighbors are friends" possibly for Sri Lanka.[136] Sri Lanka, even though it is relatively close to India, holds geographic proximity with the PRC and India.[137] However, with the PLAN having to travel a significant distance by sea to reach Sri Lanka, the "tyranny of distance" could hobble the PRC's capabilities in the IOR.[138] Proximity is an import factor in determining the level of threat posed by India to Sri Lanka.

With China Merchant Port Holdings leasing the Port of Hambantota, the PRC's distance in terms of presence is effectively zero since they would be physically present in the state of Sri Lanka. While stated previously that the state of the PRC is farther than India to Sri Lanka, Chinese shipping has increased over the years and having the Port of Hambantota being a Chinese overseas port would draw more of that maritime traffic there effectively creating a Chinese enclave. The Port of Hambantota changes the factor of proximity to favor the PRC over India toward Sri Lanka.

---

[134] Ali, "The Sri Lankan Ethnic Morass," 39.

[135] Walt, "Alliance Formation and the Balance," 4, 11.

[136] Ibid., 4, 10.

[137] Scott, "India-China Relations," 26.

[138] Garver, "Diverging Perceptions of China's Emergence," 56.

c. Offensive Capability

Large offensive capabilities provoke alliances, understanding the capabilities the PRC and India can lead to understanding the actions of Sri Lanka.[139] The factor of offensive capability is important in determining the level of threat posed by an adversarial state, but it is also important in determining which allay can be of most benefit. Balancing with another state is done if one's allies are able to provide assistance quickly enough to counter a threat.[140] Having the ally present within a hosting ally state would allow for rapid response, such as with Chinese vessels being in the Port of Hambantota. Evaluating both India and the PRC's offensive capabilities will show how threatening India is to Sri Lanka and at the same time show how the PRC can counter India in this respect.

India has been active participating in a rage of operations. India as noted earlier spends a sizable amount on defense, but the amount it spends on its military is enough that it is in the top ten states in military spending.[141] India is spending more of a percentage of their GDP on defense than the PRC is, but what is it funding?[142] Early on in India's post-independence years K. M. Panikkar gave the advice in India to "embark on a policy of large scale naval expansion" which would solidify and establish its power in the IOR.[143] India is increasing military spending in modernization of its forces.[144] India by holding a span of several naval exercises is attempting to demonstrate that it is holds dominance in the India Ocean region. Over the years these exercises have included: VARUNA with France, MALABAR with U.S. and Japan, INDRA with Russia, KONKAN with the United Kingdom, and Sahyog-Kaijin with Japan. India can also be

---

[139] Walt, "Alliance Formation and the Balance," 11.

[140] Ibid.

[141] Pavan Nair, "An Evaluation of India's Defence Expenditure," *Economic and Political Weekly* 44, no. 51 (2009): 41.

[142] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, xix.

[143] Ali, "The Sri Lankan Ethnic Morass," 40.

[144] Government of India, Ministry of Defence, "Procurement Procedure for Categories under 'Buy,' and 'Buy and Make' Schemes," in *Defence Procurement Procedure: 2016* (New Delhi: Ministry of Defence, 2016, http://www.spsmilitaryyearbook.com/glimpse/, 24.

seen participating in strategic countering outside of the Indian Ocean by engaging with Vietnam in the South China Sea.[145] These activities and operations are in line with moving toward doctrines that are operational with the focus on offensive action, and more offensive than the PRC's.[146]

India has a vastly larger and more advanced military than Sri Lanka does. India possesses a military that in 2008 had over one million personnel as shown from a Table 5 taken from one of India's "Defence Yearbooks."[147]

Table 5. Major Items Contributing to Combat Power in 2008[148]

Item	India	Pakistan	Ratio
Active Manpower	1.288 million	0.619 million	~ 2:1
Tanks	4,059	2,461	1.65:1
Guns	4,500	1,629	2.75:1
Combat Aircraft	565	360	~1.6:1
Ships & Submarines	26 & 16	6 & 8	3:01

Arming these forces India has, as recently as 2009, was importing about 70 percent of its weapon systems.[149] Due to this amount of weapon imports India has taken it has been reasonably accessible to know a majority of the conventional weaponry India has on hand. India has since 2011 however, initiated a "Make in India" initiative aimed at increasing the in-state production of defense related equipment to a minimum goal of 40 percent of all equipment purchased for defense use.[150] Leading up to the 2011 decision it was stated that the "Associated Chambers of Commerce and Industry of India, the Indian domestic defense market under the private sector is expected to grow at nearly 30 percent

[145] Khalid, "Indian Ocean,"25.

[146] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, xix.

[147] Nair, "An Evaluation of India's Defence Expenditure," 44.

[148] Adapted from Nair, "An Evaluation of India's Defence Expenditure," 44.

[149] Ibid., 42.

[150] Government of India, Ministry of Defence, "Procurement Procedure," 1.

and could exceed US$700 million by 2010," according to Vijay Sakhuja.[151] As more production and purchasing of defense equipment, particularly armament, could make it possibly harder to track in the future as India acquires more of its equipment domestically. India's large and advanced military outmatches Sri Lanka, but the PRC's is a different matter.

India is known to also possess nuclear weapons, which is notable. What is worth mentioning in that context though is India's "unwillingness to join established international nonproliferation regimes," making their actions slightly less predictable.[152] Due India's nuclear arsenal being funded by three government organizations: the Department of Atomic Energy, the Department of Space, the Defense and Development Organization, India cannot accurately state what it is spending on its nuclear arsenal.[153] It is more likely that it is convoluted and could be reported, but it is understandable that India would rather keep this information secret to maintain a reasonable degree of strategic ambiguity.

The PRC's military is a formidable force in the world. The PRC spends enough on its military that it is in the top two states in terms of military spending.[154] While the PRC is not spending as large of percentage of its GDP on defense as India is, the total amount of capital that it is spending, while still a smaller percentage of its GDP than India, is more than what India is spending.[155] While the PRC only spends about 2 percent of its GDP on defense compared to India's 3 percent, which is 50 percent more spending of India's GDP on defense than the PRC, due to the PRC's robust GDP it spends over twice as much as India on defense according to its official released budget.[156] This spending does not even take into account nuclear weapons, space capabilities, and

---

[151] Sakhuja, *Asian Maritime Power*, 243.

[152] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 10.

[153] Nair, "An Evaluation of India's Defence Expenditure," 41.

[154] Ibid.

[155] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, xix.

[156] Ibid., 98.

intelligence programs for both India and the PRC.[157] These are not small exclusions from the budget, and taken into account could balloon to what is actually being spent, but by the PRC even more so. the PRC's nuclear program is older than that of India's by over a decade. The PRC also possesses not only atomic bombs, but has demonstrated the use of a hydrogen bomb. India may have hydrogen bombs, but the PRC does have them for a fact. As for the PRC's space capabilities, they have an entire branch of their military, the Strategic Support Force, which was established in 2015. These differences illustrate that the PRC outmatches India significantly, and shows how if Sri Lanka had stronger ties that they could hope to balance India through their relationship with the PRC. PLA's arsenal includes a vast number of systems, various platforms, extremely potent missiles, shore- and sea-based anti-ship missiles, capable air-defense systems, and the ability to launch preemptive first strikes with long-range precision missiles.[158] These types of weapons are in align with moving toward doctrines that are operational with the focus on offensive action, but not as offensive as India's.[159] Sri Lanka may be outmatched by India militarily, but the PRC would be a significant counter to India in terms of offensive capability.

With the PLAN forces having the potential to be present in the Port of Hambantota, Sri Lanka could fall under the PRC's security umbrella if the government of the PRC decided to provide it. The PRC would reasonably see fit to protect their investment in the Port of Hambantota, and their robust offensive capability would allow for this. Sri Lanka has made clear that they do not want a Chinese base in Hambantota and PRC officials have assuredly stated that is not their intent. However, it is a possibility that could be necessary if Sri Lanka were to face perceived overwhelming pressure from their neighbor India.

---

[157] Ibid., 114.

[158] Garver, "Diverging Perceptions of China's Emergence," 57.

[159] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, xix.

d. Offensive Intentions

Offensive intention is the last factor of determining threat level and the most difficult to assess accurately. India has a "propensity to use force," this makes Sri Lanka uneasy knowing that if India did not get their way then there is the possibility that after diplomatic avenues did not pan out in India's favor that they might be likely to use force.[160] This would be more likely if Sri Lanka were alone without allies. India has taken actions that appear aggressive to Sri Lanka, and "states that appear aggressive are likely to provoke others to balance against them."[161] India seeks dominance in South Asia and the Indian Ocean, this is key to their strategy as a regional power. "Indian indeed harbors the hegemonic intentions" through use of its military.[162] India's plan is to gain regional power through various means, including becoming the net security provider in the region.[163] India has great desire to emerge as a world power and its aspirations have been described as unlimited and insatiable.[164] India is expanding its naval capabilities to expand its strategic space.[165] The military exercises that India has participated in the IOR, as mentioned earlier, are enhancing maritime security relationships.[166] Statements by Indian state officials have given a window to how India views the IOR and states in it, such as Indian Foreign Secretary Mr. Rao's statement:

> India and Indian Ocean are inseparable. In the midst of third largest ocean in the world, India's location is in many ways her destiny. That is just not a statement regarding a fact of geography but of deeper civilizational, historical, cultural, economic and political linkage that have been forged between India and the Ocean bears its name. Apart from the Monsoon, the Indian link, in its broadest sense, is a single common thread that is visible in the Indian Ocean region.[167]

---

[160] Ibid., xviii.

[161] Walt, "Alliance Formation and the Balance," 12.

[162] Khalid, "Indian Ocean," 24.

[163] Ibid.

[164] Ibid., 23, 24.

[165] Ibid., 23.

[166] Ibid.

[167] Ibid.

Statements like this are a good example of India's intentions to exert control over neighbors.[168] India early on had some nationalists that had imperialistic intentions, and sought to expand and even embark on a program of colonization.[169] Sri Lanka was seen as a potential colony by India if India ever did engage in colonization activities. Indian through their actions have shown intentions "to play an active role in both regional and subregional grouping and policies."[170] India has rejected forums where it is viewed as an equal to other states in the IOR rather than as a dominate player, which "vividly shows its designs of playing as single dominating unit over other regional actors."[171]

Actions of a state give more to go off of in assessing offensive intentions of a state. The Tamil threat from India gives examples of when Sri Lanka has been directly threatened by India. India dropped 22 tons of relief supplies in 1987, on the Jaffna Peninsula, which aided the Tamils during the Sri Lankan offensive, code named "Operation Liberation."[172] The president of Sri Lanka at the time called the action the "seventeenth invasion of Sri Lanka."[173] During this time in Sri Lanka's civil war 7,000 IPKF soldiers arrived from India, as "peacekeepers," showed Sri Lanka that India was prepared to use its military on its shore. This was concerning for Sri Lankan leadership, in that India wanted to intervene in a domestic conflict of Sri Lanka's.[174] While the "peacekeepers" were in Sri Lanka however, they armed and trained two militias in Sri Lanka when they were supposed to be engaging in peace keeping operations.[175] It was also purported that India funded and equipped Muslim armed groups in Sri Lanka's Eastern Province to prolong the conflict there.[176] Only after Sri Lanka started to engage with the PRC did India stop supporting the Tamils who then collapsed without the covert

---

[168] Ibid.

[169] Ali, "The Sri Lankan Ethnic Morass," 40.

[170] Khalid, "Indian Ocean," 23.

[171] Ibid.

[172] Ali, "The Sri Lankan Ethnic Morass," 41.

[173] Ibid.

[174] Ibid.

[175] Ibid., 42.

[176] Ibid.

support of the Indian government.[177] Providing training to the Tamil rebel groups in India and arming them is clearly offensive intentions toward Sri Lanka on the part of India.

While the offensive intentions posed by India are the focus in determining the threat level against Sri Lanka, it is also important to know the PRC's intentions and how they might counter-act India's. Like India, the PRC has displayed a "propensity to use force."[178] If the PRC was facing the potential to be engaged it is said that they "would strike boldly and forcefully at the very beginning of a conflict."[179] The PRC believes in "self-defensive virtue and necessity of substantial military power," which are desired qualities of a state seeking a strong ally.[180] Sri Lanka sees the PRC's intentions toward itself as peaceful believing "China is looking for new pathways and energy source which are safer and beneficial for its economy," that having access to the Port of Hambantota would assist in.[181] This has been conveyed by the government of the PRC engaging in "diplomatic and aid efforts," to gain influence in the region.[182] It has been stated about the Port of Hambantota that "the purpose behind this investment is to provide security and back up to the shipping lanes," that the PRC is using.[183] The government of the PRC has conveyed clear intentions to Sri Lanka that it is interested in economics, but is willing to provide military assistance as well. the PRC has demonstrated this intent by "provision of critical weapon systems during Tamil Tiger insurgency," which helped Sri Lanka and at the same time "were viewed with great concerns by the Indian authorities."[184] the PRC's intent toward Sri Lanka is viewed as favorable by Sri Lanka, and with suspicion by India.

---

[177] Ibid.

[178] Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, xviii.

[179] Garver, "Diverging Perceptions of China's Emergence," 58.

[180] Ibid., 60.

[181] Khalid, "Indian Ocean," 26.

[182] Ibid.

[183] Ibid., 27–28.

[184] Ibid., 28.

Offensive intention is the most difficult to understand due to intent being not always conveyed properly or misunderstood by its intended audience. Sri Lanka can utilize the presence of Chinese in Hambantota to better understand Indian intentions. Through increase contact with other states Sri Lanka will better its diplomatic confidence and capability, this could indirectly help with better understanding Indian intentions and likewise conveying to India their own intentions to defend their own sovereign state.

5. India's Rebuttal: India is not a Threat to Sri Lanka

India does not like what is going on in the IOR, with regards to the PRC's actions, especially with Sri Lanka. India sees the PRC as encroaching on India's sphere of influence when the PRC makes agreements with Sri Lanka, while not involving India. India does not want, what it views as, outside powers exerting hegemonic control in the IOR. This aversion to intervention includes both Western Powers and the PRC. India wants to be the hegemonic power in the Indian Ocean.[185] India views itself as being a norm based state, with good relations with Sri Lanka.[186] India would like to cite its peaceful intervention in the civil war of Sri Lanka in 1987, and deployment of its peace keeping force, as grounds for its good intentions toward Sri Lanka.[187] India has even held a joint military exercise with Sri Lanka with SLINEX, showing that there is cooperation between the two states militarily.[188] India's economy is 25 times larger than that of Sri Lanka, in terms of GDP. Sri Lanka, in India's reasoning, should align with India as a junior partner to a more prosperous state.[189] In India's view Sri Lanka should work more to partnering with itself, and the PRC is an interloper in the IOR.

The government of the PRC is quick to make their stance known on matters with Sri Lanka. From the government of the PRC's released "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" report, they believe they are being clear that they are economic focused only in their interactions with

---

[185] Ibid., 24.

[186] Scott, "India-China Relations," 29.

[187] Khalid, "Indian Ocean," 28.

[188] Ibid.

[189] "2015 Snapshot: Population and Economy," World Bank.

Sri Lanka.[190] The government of the PRC has been attempting to not be identified as a threat through using "public diplomacy norm laden terms" such as: Peaceful Rise, Peaceful Development, Democratization of International Relations, Harmonious World, and Responsible Great Power.[191] The government of the PRC has also been using Indian concepts to not be identified as a threat such as: Universal Peace, Universal Love, and Vasudhaiva Kutumbakum (the world being one family).[192] In how the government of the PRC wants their view of the situation to be seen is that they are only interested in peaceful mutual development, and that India is over reacting.

Sri Lanka's stance on the matter is one of survival. The state requires FDI to meet its developmental goals. The PRC is growing to be the world's biggest economy, aligning with them will allow Sri Lanka to share in the prosperity. India's economy is larger than that of Sri Lanka's, see Table 6, and if it is only economic reasoning to be engaged in aligning with one state then Sri Lanka could align with India. However, even with India's GDP begin 25 times that of Sri Lanka's in 2015, The PRC's is 5 times the size of India's and growing faster, see Table 6. Therefore, if it is only for economic reasoning, as stated by Sri Lanka, then it would make sense to align more so with the PRC than India as a way to grow even more with a prosperous alley.

Table 6. 2015 Snapshot: Population and Economy[193]

	Sri Lanka	India	China
Population (billion persons)	0.02097	1.311	1.371
GDP (billion current USD)	82.33	2073.46	10864.7
GDP (per capita (current USD)	3,926.17	1,581.59	7924.65

[190] Li, "The Maritime Silk Road and India," 20.

[191] Scott, "India-China Relations," 29.

[192] Ibid.

[193] Adapted from "2015 Snapshot: Population and Economy," World Bank; Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 212.

However, Sri Lanka is trading with both India and the PRC, and not completely devoted to either state. Sri Lanka is concerned with its own development and will choose partners that best meets its needs.

6. Sri Lanka Conclusion

Sri Lanka now has a modern port built by the PRC, and through leasing it to China Merchant Port Holdings has found a source of income to pay for it as well. Whatever political moves or strategic plans are in the works, the situation is the Port of Hambantota has to be paid for and Sri Lanka cannot afford to spend $361 million on its own port.[194] By leasing Hambantota to China Merchants Ports Holdings, Sri Lanka has found a way to pay for a new port and bring economic development to the state.

Sri Lanka is, at the same time, engaged in balancing with the PRC against India and views India as a larger threat. Through looking at Stephen Walt's four factors of threat assessment the chapter finds that India poses a real and significant threat to Sri Lanka. Through looking at how the PRC, as brought in as a partner to Sri Lanka, through the same factors Sri Lanka has mitigated India's threat by utilizing the PRC to balance. India does not approve of the PRC's actions toward Sri Lanka and is wary of the given mutual development explanation. The Port of Hambantota is a physical representation of the relationship evolving between Sri Lanka and the PRC, in view of the worried gaze of India.

[194] "Sri Lanka Signs Hambantota Port Deal with China," *Al Jazeera*.

IV. DARWIN DRIVERS

A. DARWIN INTRODUCTION

Unlike the case of Sri Lanka's Port of Hambantota, Darwin appears to be leased to the Chinese company Landbridge for solely economic reasons, without the need for a security provider. This reasoning has not stopped government officials in Canberra, in the Australian Federal Government, from expressing their concerns that there are security implications that need to be addressed. The NT though, of in which Darwin is the capital, has been needing investment to support its economic development. With repeated pleas to the Australian Federal Government for funds not being answered to the satisfaction of the government officials in Darwin, the NT has decided to turn to FDI to secure capital for development. With a Chinese company eager to fill this gap in capital, the Port of Darwin has been effectively leased to a private Chinese company, much to the chagrin of those in the Australian Federal Government in the south.

This chapter will explain the positions of both the Australian Federal Government and the NT Government. What interests of both state government and local government align shows that there is some alignment between different bodies of government in Australia. The contention is seen mostly from the perception the Australian Federal Government has of how the NT Government proceeded with the lease. This friction from contention illustrates that the NT Government was willing to overcome internal opposition in Australia to make the port deal happen; in the NT's view the cost was worth the benefit.

B. AUSTRALIAN FEDERAL GOVERNMENTAL INDO-PACIFIC REASONING

The Australian Federal Government understands that it is going to have to deal with other neighboring states and organizations. It wants to have control over its state's government interaction with other states and organizations in the surrounding area and has begun to look at a different concept of how to define that area. Australia had been primarily focused on the Asia Pacific region, with the IOR as an afterthought. However,

the Australian Federal Government has come to realize that it is better to look at the two regions as a continuous region, the Indo-Pacific. With this change in concept, the Australian Federal Government understands it needs partners in this much larger area, but it wants to maintain control and have a consistent message.

The NT Government's actions in Darwin seem to be in line with the Australian Federal Government's new way of thought but have caused agitation. The Australian Federal Government wants other states to see it as having its central government that is in control, with its smaller local governments being on the same page when it comes to interacting with other states. This is especially true on the level of leasing its northern port to a foreign company. The Australian Federal Government has received the review of the lease from the Foreign Investment Review Board (FIRB), but the unexpected actions of the NT Government to proceed without proper notification of what was transpiring still ruffled officials in the Australian Federal Government. It seems that things have checked out so far with the port lease and it the NT Government's economic interests of bringing in outside investment are in line with the Australian Federal Government's economic interests. Though there was some trepidation, the Australian Federal Government's concerns have been answered for now. How the situation got to this point with requires understanding of the new Australian thought in regards to its maritime plans and its interactions with states in the region.

The shift from the Asia-Pacific concept to an Indo-Pacific focus for Australia is a major change in the Australian Federal Government thought.[195] With the Australian state surrounded on all sides by water, it has significant maritime potential, yet it is lacking in capability, both militarily and economically, relative to the size of the Indo-Pacific to exert influence.[196] Incremental moves have been made over Australia's recent previous governments toward rethinking its economic, security, diplomatic, and geopolitical interests in terms of the Indo-Pacific construct.[197] This re-centering puts Australia in the

[195] Scott, "Australia's Embrace," 426.

[196] Ibid., 433.

[197] Medcalf, "In Defence of the Indo-Pacific," 471.

center region of the Indo-Pacific and makes it a potential focal point for commerce in the area.

The Australian Federal Government has not been oblivious to other Indo-Pacific competitors, and understand that the big three; the PRC, the US, and India, have more resources at their disposal. Furthermore, there are the Association of Southeast Asian Nations (ASEAN) member states directly north of Australia to compete with. This understanding of by the Australian Federal Government that they are lacking capabilities and resources maybe driving them to seek collaborations on projects and cooperation in maritime activities in the region. Australia may even desire to attempt to influence states or organizations in the region. "How ASEAN and Australia could cooperate to develop the role of ASEAN's dialogues" is important, since the proximity of the states means that one affects the other in various ways.[198] As Australia and ASEAN have learned to work together on shared interests, they have experienced both progress and agitation at each other over core interests, stemming from security and economics. Working to find solutions to these issues has taken years and has unfolded incrementally over the changing governments of the states involved. The Australian Federal Government may want to open up to looking toward states other than ASEAN member states to cooperate with.[199]

With the Australian Federal Government progressively moving toward placing greater emphasis on the Indo-Pacific, they are progressing incrementally. This process has been carried out over time by several Australian governments successively shaping the idea that Australia needs to view itself within the center of a region instead of straddling two separate ones. With the region that Australia is working in significantly expanded to beyond its capability to patrol and enforce stability throughout, it is necessary for Australia to prioritize Southeast Asia as its primary sub region of the Indo-

[198] Frank Frost, "From the 'Asia Pacific Community' to the Fortieth Anniversary Summit and Beyond (2007–2015)," in *Engaging the Neighbour: Australia and ASEAN Since 1974* (Canberra: Australian National University Press, 2016), 185.

[199] Ibid., 162.

Pacific to contribute to security since it is a more manageable size and the closest in proximity to the state.[200]

With this understanding of the need to prioritize Southeast Asia, Australia has increased its cooperation, through meetings, with the predominate states and organizations in Southeast Asia that it has pre-existing relationships with, including ASEAN.[201] Signs of progress between the Australian Federal Government and ASEAN occurred more with effort from Australia, and which was being reciprocated at various levels. For example the Regional Comprehensive Economic Partnership negotiations and the ASEAN Defence Ministers' Meeting Plus Eight were meetings that Australia has built off of to increase its multi-lateral bonds with ASEAN member states.[202] Trade relations have advanced; with an ASEAN Free Trade Area established, the ASEAN Australia New Zealand Free Trade Agreement came into effect as well, and extensive tariff reductions have occurred.[203] Australia had also been a member of the ASEAN Regional along with other non-ASEAN states of the Indo-Pacific community for some time.[204] All these are signs that the bonds between ASEAN member states and Australia have been strengthening.

While the Australian Federal Government made progress with some of its neighbors, there was friction between it and the other states in the region. Some of the resistance was from ASEAN, with its member states not wanting to alter their existing institutions for Australia but strengthen them instead.[205] This was precluding working with states outside of ASEAN in other capacities that were not through the ARF or other meetings that allowed non-ASEAN members to attend.[206] Certain issues raised tensions, with migration to Australia being a point of contention.[207] Australia had caused friction

---

[200] Medcalf, "In Defence of the Indo-Pacific," 479.

[201] Frost, "From the 'Asia Pacific Community,'" 162.

[202] Ibid., 145.

[203] Ibid., 148–149.

[204] Medcalf, "In Defence of the Indo-Pacific," 475.

[205] Frost, "From the 'Asia Pacific Community,'" 152–153.

[206] Ibid., 152.

[207] Ibid., 172–174.

from previous published white papers that leaned toward a "risk-management approach."[208] Even though these and other issues caused friction as progress was made, progress did occur and moved relations forward.

Australia was moving toward the center of the Indo-Pacific concept. The Australian Federal Government had re-evaluated its way of planning by putting itself near the center of the Indo-Pacific region concept as opposed to the rim as in previous regional concepts, such as the Asia-Pacific or the IOR. The IOR and Asia-Pacific were fused into a much larger region now known as the Indo-Pacific. This greatly expanded region invited more world actors into interacting with Australia; this Indo-Pacific idea also greatly complicates the the Australian Federal Government's choices as more different actors interact in the region and define their relationships with one another.

Other states in the Indo-Pacific region besides Australia have begun to shift to the concept of the Indo-Pacific region concept and make changes to individual states' levels of planning.[209] The US, India, and the PRC have all vested interests in the area and are closely following the developments in the area. There is greater pressure to interact with the states in the region, bringing states into meetings more than before. This has led to Australia having more opportunities to interact with other states on various levels. Some states are having trepidation and concerns over the developments of the region as well.

The Australian Federal Government's Indo-Pacific mode of thought places it into a center spot in a larger region and brings new challenges. Australia's limited resources and capabilities when compared to other major actors in this Indo-Pacific region puts challenges before the state. This lack of assets that would be associated with large state powers could give Australia reason to bandwagon with its neighbors to compensate. There is the possibility for security cooperation between ASEAN and Australia due to the limited military capability of both.[210] This cooperation with ASEAN in a security seeking relationship could be similar in the beginning to what Australia has with India

[208] Lee, "Australia's 2015 Defence White Paper," 395.

[209] Medcalf, "In Defence of the Indo-Pacific," 475.

[210] Ibid., 478–479.

engagement in the Indian Ocean Naval Symposium and the Indian Ocean Rim Association, Australia does engage with ASEAN already through the ASEAN Defense Ministers Meeting Plus Eight.[211] With Southeast Asia being at the center of the Indo-Pacific concept, and Australia being near this center, Australia will continue to engage great powers like India, the PRC, and the U.S. to seek beneficial partners to work with.[212]

C. THE PRC'S INDO-PACIFIC GAZE

All this discussion of the Indo-Pacific has drawn the attention of the PRC.[213] The government of the PRC is understandably concerned because they operate throughout this maritime region, and any hints from statements or reports in regards to the Indo-Pacific that my not favor or may run against Chinese interests are viewed as a possible threat to the PRC. Hence the possible ire that could have arisen when the Australian Federal Government called into question the port lease NT conducted with the PRC. There is also a number of other issues in the Indo-Pacific that could affect the PRC as their presence in the region grows as they continue their rise. The government of the PRC does not want anything interfering with its growth or with its plans in regards to the MSR. As more states begin to think in an Indo-Pacific mindset, this will increase the number of states the PRC has to deal with, which has increased the factors that could affect the PRC and its growth.[214] This should encourage the Australian Federal Government to embark on a positive relationship with its biggest trading partner to enhance its position with the PRC in an inclusive manner so as to avoid being at odds with the state while it may be having possible anxiety.[215] It seems that the Australian Federal Government's tone toward the PRC has softened, from viewing the PRC as a threat in 2009 to welcoming their rise in 2013.[216] Though the Australian Federal

---

[211] Ibid., 480.

[212] Frost, "From the 'Asia Pacific Community,'" 179.

[213] Medcalf, "In Defence of the Indo-Pacific," 477.

[214] Ibid., 478.

[215] Ibid., 480.

[216] Lee, "Australia's 2015 Defence White Paper," 400.

Government still wishes to control, or at least have some oversight, over interactions on the level of major business dealings that invite significant Chinese presence into the state.

D. AUSTRALIAN FEDERAL GOVERNMENT'S THOUGHTS TOWARD THE LEASE

The Australian Federal Government's agitation and subsequent review of the NT's lease agreement with a Chinese company is in line with the central authority wanting to control larger Australian interactions with other Indo-Pacific states, especially the PRC. The current party in power in the Australian Federal Government was cautious to proceed, given they were not sure of the Chinese business's intentions and had concerns.[217] With the NT conducting business with a Chinese company for the port lease of Darwin for a long duration, it seems logical that they would refer the lease to be reviewed by the state's FIRB in 2015.[218] The FIRB produced its report on the matter in April of 2016; key issues were addressed, such as the Australian Defense Force's continued access to the port while it was being run by the Chinese company.[219] The report found that while there were "both positive and negative decisions" in regards to the port lease, the agreement was in line with seeking FDI into the state.[220] The Australian Federal Government understands that its individual states and territories in Australia require investment to grow their economies, but it wishes to maintain some oversight on large FDI from its Indo-Pacific neighbor, especially more powerful ones like the PRC.

E. NORTHERN TERRITORY GOVERNMENTAL POSITION

The NT Government, located in Darwin, wants to bring in needed investment into the NT through legitimate means. Darwin requires FDI to fulfill its investment needs that the Australian Federal Government has not satisfied. With the private Chinese company, Landbridge, offering to fulfill NT Government's investment needs, it seems the NT has found a source to satisfy its investment needs. Taking in investment from an out of state

---

[217] Geoff Wade, "Landbridge, Darwin and the PRC," *The Strategist*, November 9, 2015, https://www.aspistrategist.org.au/landbridge-darwin-and-the-prc/.

[218] Ibid.

[219] Mahy, "International Relations 10," 1.

[220] Ibid., 4.

source appears to be in line with the Australian Federal Government's governmental policy of encouraging in FDI. With the lease and intent of the investor being questioned by the Australian Federal Government, however, the NT Government has made the case that Landbridge's intentions are only economical. The NT Government will benefit from the needed outside investment and wants the lease deal to be seen as in turn benefitting the whole of Australia, as well as being in line with the Australian Federal Governmental policy.

There is trouble in the NT's economy that must be addressed. The pace of economic growth rate in the NT is expected grow at slower than 1 percent, see Figure 1.[221] This is largely due to a continued fall in the private investments that had been fueling the economy; a new source of investment capital must therefore be identified.[222] While exports are still a viable facet of the economy, the Port of Darwin is the primary means of getting these exports to the international markets for the NT. The customers for the NT's major exports overseas, primarily the PRC and Japan, receive "liquefied natural gas (LNG), live animals, and mineral ores and concentrates" from the region.[223] With improved port facilities, the economy could stand to benefit in the local area around the Port of Darwin from forecasted increases in international trade and exports, see Figure 2. With the majority of the businesses in the NT located in the vicinity of Darwin, the majority of the NT's population could possibly be positively impacted by bringing in renewed outside investment to the area.[224]

---

[221] Northern Territory Government, Department of Trade, Business, and Innovation, *Northern Territory Economy Quick Facts* (Darwin City, Australia: Northern Territory Government, Department of Trade, Business, and Innovation, 2017), 3https://business.nt.gov.au/__data/assets/pdf_file/0009/426429/economy-quick-facts-quarter-201703.pdf, 3.

[222] Ibid.

[223] Ibid., 4.

[224] Ibid., 9.

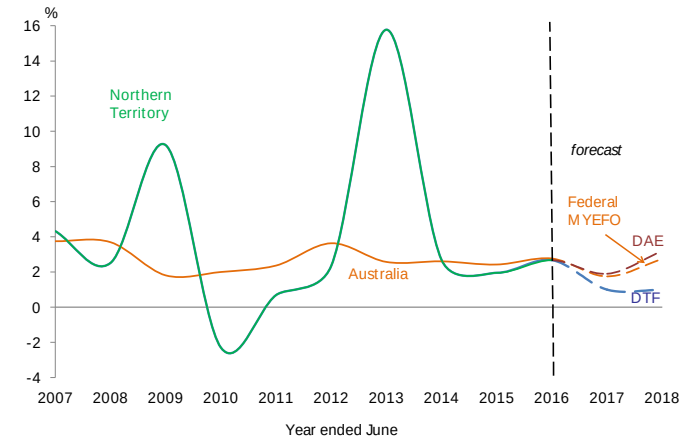

Figure 1. NT and Australia—Economic Growth[225]

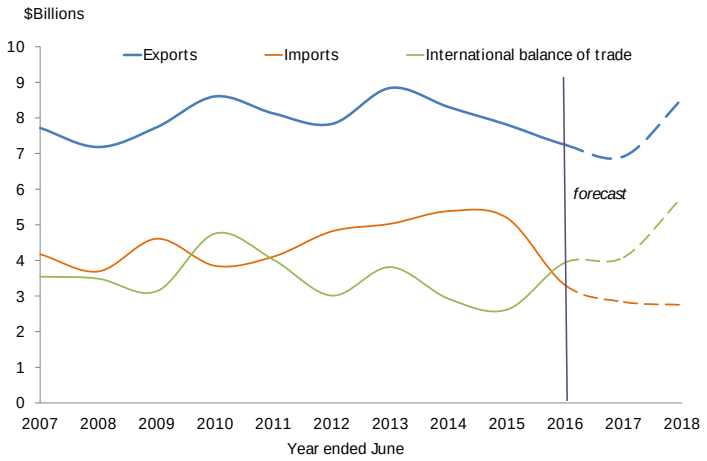

Figure 2. NT International Trade[226]

Investments of capital are in short supply in the NT, and in order to develop the local economy, the NT Government needs to secure capital for this purpose. It is not the prerogative of the NT Government whether the investment capital comes from domestic sources in Australia or from international sources. The funds for investment have not been made available from the Australian Federal Government, despite repeated requests

[225] Source: Northern Territory Government, *Northern Territory Economy*, 3.

[226] Source: Northern Territory Government, *Northern Territory Economy*, 3.

from the NT Government.[227] This has necessitated looking outside of Australia for sources of capital to assist in developing the local economy; FDI is the solution.

The Australian Federal Government will not provide the funds requested by the NT Government due to economic constraints and priorities elsewhere. With Australia's 2015 GDP at 1.345 trillion and the NT only contributing 1.4 percent of that, the Australian Federal Government views the NT as not showing that they are worth additional revenue to be steered their way, see Figure 3 for reference.[228] In addition, the funds requested by Darwin for port modernizations and upgrades seem to exceed what the Australian Federal Government can reasonably provide given the current fiscal status of Australia. The port lease that the NT Government signed with Landbridge is in the amount of $506 million, an amount that the Australian Federal Government would have a difficult time allotting to the territory for the port.[229] The Australian Federal Government is unwilling to provide capital to the NT Government for investments into the Port of Darwin at this time.

---

[227] Ben Smee and Christopher A. Walsh, *Crocs in the Cabinet* (Sydney: Hachette Australia, 2016), quoted in Ben Smee and Christopher A. Walsh, "How the Sale of Darwin Port to the Chinese Sparked a Geopolitical Brawl," *Australia News*, December 17, 2016, https://www.theguardian.com/australia-news/2016/dec/18/how-the-sale-of-darwin-port-to-the-chinese-sparked-a-geopolitical-brawl.

[228] World Bank, "Country Fact Sheet, Australia," accessed November 21, 2017, https://data.worldbank.org/country/australia; Northern Territory Government, *Northern Territory Economy*, 1.

[229] Wade, "Landbridge, Darwin and the PRC."

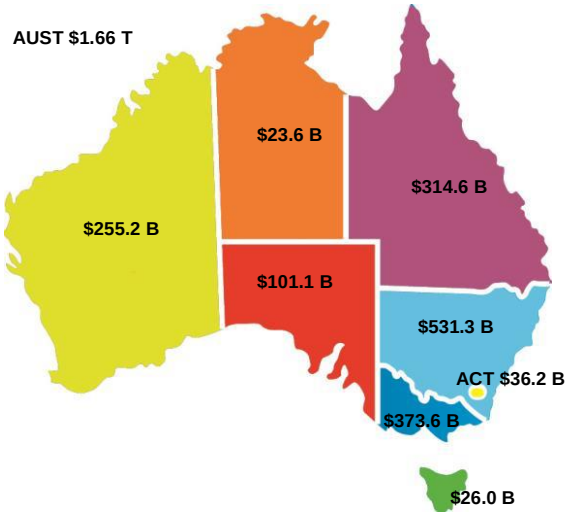

Figure 3. State and Territory Real GSP 2015–2016[230]

Landbridge is willing and able to provide the needed FDI to the Port of Darwin in exchange for winning the bid on the lease for the port. The private Chinese company has managed to secure the funds in order to pay for the lease through large loans taken out primarily through the Chinese state owned bank, Export-Import Bank.[231] Through providing the desired FDI to Darwin, the NT Government has found the source of capital the Australian Federal Government was not willing to provide to help develop the local economy.

Seeking FDI is not something new for Australia, and the NT Government's actions seem to be in line with that of the Australian Federal Government's policy. Australia has had a history of dealing with other states, like the UK and the U.S. as major trading partners. As time has progressed, Australia's major trading partners have shifted, and now Australia's largest trading partner, in terms of imports and exports, is the PRC.[232] The Australian Federal Government has been looking to deal economically with states in Asia, like becoming more accustomed with dealing with associations like ASEAN and its members. There were two previous Australian ports that were privatized,

[230] Source: Northern Territory Government, *Northern Territory Economy*, 3.

[231] McKenzie and Baker, "Chinese Government Trade Bank."

[232] Lee, "Australia's 2015 Defence White Paper," 396.

Adelaide and Brisbane, setting a precedent for port leasing to private companies in Australia.[233] With the NT Government leasing the Port of Darwin to Landbridge, a Chinese company, this appears to be in line with the current trend and policy of the Australian Federal Government.

With the extensive review of the port lease in the Senate Estimate Brief, done by the FIRB, the case has been presented that Landbridge's intentions are only economical and that security concerns should not be an issue.[234] The findings from the port lease review state that the Australian Defense Force's capability at the port is unaffected; and it had no concerns.[235] Other warships have utilized the Port of Darwin in the past, and will continue to do so, to include the U.S. flagged warships.[236] Any frustration that the Australian Federal Government has expressed seems more directed to the NT Government proceeding with the lease of their asset, being the port, as they see fit.

The lease of the Port of Darwin is for economic reasons. Investments of capital are needed in the NT to develop the local economy. Without the Australian Federal Government providing the requested funds the NT Government has had to look elsewhere. With Landbridge winning the bid for the lease on the Port of Darwin, they will be providing the capital the NT Government needs. After an extensive review of the port lease by the FIRB, Landbridge's intentions are seen as only economical and not interfering with the Australian Defense Force's operations there. The port lease will benefit the NT and in turn benefit the whole of Australia, and is viewed to be line with the Australian Federal Government's current policy.

F. CHAPTER CONCLUSION

Through understanding both the Australian Federal Government and the NT Government interest align and the source of friction between the to bodies of government the Australian side to the port lease can be understood. The economic interests align

[233] Mahy, "International Relations 10," 138.

[234] Ibid., 6.

[235] Ibid., 5–6, 169, 173.

[236] Ibid., 6, 8, 64.

between the Australian Federal Government and the NT Government in that FDI is wanted. The source of friction is from the Australian Federal Government's perception of NT Government's actions as proceeded with the lease. The Australian Federal Government had security concerns as well that were addressed from the FIRB's report relating the assessment of the AFD. This friction from contention illustrates the NT Government's willingness to overcome friction to make lease the port to the winning bid, Landbridge. The NT Government viewed the cost of friction worth the economic benefit of the lease.

As in Chapter III, Chapter IV comes to a similar point, it is the granters of the lease that are standing to make economic gains for their regions by leasing to the Chinese companies. Economic development appears to be the prime driver for both port leases from the host's side. With the Port of Darwin there is no security driver noticeably present for which the host state would benefit from having a Chinese business present. The Australian Federal Government and NT Government seem to be at odds over how the Port of Darwin was leased to a private Chinese company, but from reviewing the lease it appears that economic interests are being met.

THIS PAGE INTENTIONALLY LEFT BLANK

V. CONCLUSION

A. CHINESE ECONOMIC DRIVER FINDINGS

As the PRC continues to reach outward economically it is setting up overseas infrastructure in the form of ports. The government of the PRC does not want its growth to slow, which is already on the decline from the period of double digit growth in its catch-up phase.[237] Ports are an important part of the MSR portion of the OBOR initiative, supported by the PRC. Being present in these overseas ports addresses and alleviates some of the PRC's economic concerns. The five economic drivers for the port investments; facilitation of economic growth, market access and stability, imports and developing state utilization, sea routes support, and transitioning to a new growth model. The ports serve to maintain growth from the start of the project and after major parts are completed.

Through the PRC's actions the five economic drivers for the port investments are identified. The PRC needs an outlet for investment to facilitate growth, it is relying on big construction projects. Through these projects the PRC is exporting its excess capacity abroad. Investing in these ports will provide economic returns. The ports act as conduits for exporting capacity into states and to increase the states reached with the assistance of having these ports available. As the PRC's consumption levels increase it has been importing more and requires resources and commodities to satiate its needs. Oil being an example of increase need for importation with the PRC being a net importer of oil since 1993.[238] Chinese businesses have been investing outside the PRC in developing states to place FDI. More Chinese businesses transition off of solely manufacturing and outsource to developing states for its low cost manufacturing. The PRC's economic reach will increase and they will gain access to new markets. Materials and consumables will flow at increased rates with the support of these ports. Alternative routes will be more accessible so Chinese shipping will not be too dependent on a few routes to accomplish

[237] David Hoffman and Andrew Polk, *The Long Soft Fall in Chinese Growth: Business Realities, Risks and Opportunities* (New York: The Conference Board, 2014), 26.

[238] Taiwei, *Oil in China*, 107–121.

the government of the PRC's aims. While the PRC's previous growth model will be supported by the ports, the ports will also help the PRC transition to a new growth model with increases in service industry growth that is not as reliant on manufacturing solely. The MSR will create jobs and increase capital flow into the PRC if it is supported properly. In creating this support, the Chinese overseas ports, for the MSR, the government of the PRC will increase its skill in conducting business and interactions in other states. Economic drivers are the fundamental reason for the PRC to move businesses to acquire overseas ports, and both the Port Hambantota and the Port Darwin will serve Chinese economic interests for years to come.

B. CHINESE SECURITY DRIVER FINDINGS

As the PRC continues to increase its reach it is setting up overseas ports to support its policy aims and mitigate security concerns. The OBOR initiative has a maritime component, the MSR, and that component must be supported by Chinese overseas port. The government of the PRC's policy aims are in place to better the state and its people through the economic benefit the MSR will bring.

All maritime traffic transiting the most direct route from the Middle East region to the PRC has to pass by the southern tip of India. Sri Lanka's position at the southern tip of India is an ideal location for port facilities to support the Middle East–East Asia trade route. The Indian ocean is a large body of water that a significant amount of the world's commerce travels through. One of the primary reasons for this route's importance is to maintain the flow of Middle Eastern oil to the PRC, which is now a net importer of oil. The Port of Hambantota can assist tanker ships transporting fuel to the PRC by providing repair facilities to ships transiting this route to reduce time spent off of the route.

A reason for the government of the PRC's involvement in the oversea ports is to secure the sea routes for resources to flow into the PRC and protect trade routes for exports to flow from the PRC to overseas markets. Securing access to overseas ports through leases with governments, and also building ports for host states, are practical ways of accomplishing the government of the PRC's economic goals without drawing the ire of other states in the respected regions.

In addition to repairs, any resupply that is necessary along the route of repair items, food, or other essentials would be available via the Port of Hambantota. Also the cost of a port visit to Hambantota instead of Singapore would be significantly less. The cost of renting anchorages or reserving berthing space for ships is dependent on the port. The higher the traffic results in the demand for space increasing, and the cost goes up. Besides the cost as well a port visit to the Port of Hambantota would be simple and less risky navigational wise than to one of the larger and busier ports. There would also be less delays in transiting in and out of such a port compared to others that are along the route due to less traffic.

Making the transition from the Indian Ocean to the South China Sea, the most direct route is through the Strait of Malacca. For maritime routes the most direct course is used to save time and fuel, and therefore capital. However, if a certain route becomes not as desirable due to risks posed by it, whether it is security related, high traffic, navigational hazards, or a combination of these factors, an alternate route, usually the second most direct route, is taken. Such as with the Malacca Straights, if that route is not an acceptable route due to one or more of these concerns the next alternative is to travel south to the Sunda Strait, with Indonesia allowing for inherent right of safe passage through their waters. However, unlikely though, if there was a risk of Indonesia using access to the Sunda Strait as a diplomatic bargaining tool than another route would need to be taken. Though this scenario unlikely, states have violated certain maritime laws in the past to serve their own purposes. Going around Indonesia completely would take a route that would pass through the Timor Sea, and by Australia. If a vessel chooses not to utilize the Malacca Straits, it is unlikely they would use the Sunda Strait if there was a concern about navigational hazards since the Sunda Strait is more dangerous than the Straits of Malacca. A logical reason though to take the Timor Sea route has to deal with the size of the ships transiting the waters. There is a term called Malacca-max that refers to the maximum size a vessel can be and transit the Straits of Malacca. Any vessel larger than this would need to take the more southern route through the Timor Sea, such as a Chinamax ship. The Sunda Straits have an even shallower depth than the Straits of Malacca, so if depth is a factor concerning using the Strait of Malacca then Sunda Strait

would be out of the question. Having ports, such as the Port of Darwin, that would be available for support of these ships along the route from the Indian Ocean to the South China Sea would assist in their passage. The Port of Darwin is a modern port that is equipped to meet the needs of container ships and tankers transiting this route. In addition to supporting the maritime route as a waypoint, the destination of Australia is an important trading partner to be linked to for a market to export to.

C. SRI LANKAN DRIVERS TO LEASE HAMBANTOTA FINDINGS

Sri Lanka is engaged in balancing with the PRC against India, and views India as a larger threat to itself. Through looking at the four factors of in determining the level of threat faced by Sri Lanka from India, it can be seen that in Sri Lanka's perspective that India poses a real and significant threat to Sri Lanka. Through looking at how the PRC, as brought in as an ally to Sri Lanka, through the same factors would mitigate threat of India toward Sri Lanka. India does not approve of PRC's actions toward Sri Lanka, but the government of the PRC is staying with the explanation that it is only seeking mutual development through its relationship with Sri Lanka. The Port of Hambantota is a physical representation of the relationship evolving between Sri Lanka and the PRC, in view of the worried gaze of India.

The perceived level of threat Sri Lanka is experiencing is in line with Stephen Walt's work on the reasoning behind why states engage in balancing or bandwagoning. The threat level that Sri Lanka is experiencing from Indian fits the four factors that Walt used in his theory to determine the level of threat experienced by a state. It is the level of threat that motivates a state to choose to align with other states to mitigate this threat. India is more powerful than Sri Lanka, is the nearest state to Sri Lanka, has a larger military, and it has a more capable military than Sri Lanka. The most ambiguous thing to determine is the intent of another state, and Sri Lanka may not want to leave it to chance to trust its neighbor when it has other options, such as utilizing the PRC to balance.

The underlining economic view of the Port of Hambantota is that it had to be paid for and Sri Lanka cannot afford to spend $361 million on its own port.[239] Through

[239] Sri Lanka Signs Hambantota Port Deal with China, *Al Jazeera*.

leasing Hambantota to China Merchants Ports Holdings, Sri Lanka has found a way to pay for a new port and bring economic development to the state.

D. AUSTRALIAN DRIVERS TO LEASE DARWIN FINDINGS

For Australia it is actually the Darwin government in the NT, and not the Australian Federal Government that made the lease deal with the Chinese company, Landbridge. Darwin needs FDI and Landbridge's investment into its port is the answer to the needs of the NT. Australia's largest trading partner is the PRC and this investment is in line with continuing this trend in Australia's economy. There is the suspicion from the Australian Federal Government of the government of the PRC's intentions with regards to the Port of Darwin. From the extensive governmental review of the port lease by the FIRB, it is of economic benefit to the NT to do business with Landbridge to attain the much needed FDI that will support Darwin's economic growth. With the terms of the lease being thoroughly reviewed, concerns are mitigated of the Australian Federal Government toward Darwin's dealings with Landbridge.

E. CONCLUDING CONJECTURES ON CHINESE REASONING FOR OVERSEAS PORTS

By facilitating economic growth the government of the PRC is legitimizing itself in its population's view, if they did not take on these activities then they could risk losing a source of legitimization, being the state sponsored provision of economic prosperity that is inherent in a socialist state system.[240] Chinese economic reasoning for overseas ports provide benefits for the Chinese economy and helps the government of the PRC attain its goals. The ports assist in gaining influence in Sri Lanka through debts owned by the hosting state for port construction. This explanation holds true for the work done in Sri Lanka, but not in the same way for Australia. In Australia, the PRC is leasing part of the port already built for its own use, but still gains influence through leasing the port and becoming a relied on source of investment for the NT.

[240] 5th National People's Congress, "The Constitution of the People's Republic of China," accessed April 29, 2017, http://www.npc.gov.cn/englishnpc/Constitution/node_2825.htm, Article 55.

At the same time the government of the PRC is moving toward its goal of facilitation of economic growth, various security concerns will be mitigated through the presence of Chinese overseas ports for Chinese shipping. The PRC's ever-growing energy consumption has made energy security to be a priority for the government of the PRC. The security of the sea routes will need assets on hand in the regions the Chinese merchant shipping passes through. The mitigation of these security concerns will require port access in the regions along these shipping lanes, and having Chinese overseas ports will facilitate this. The Port of Hambantota is located in the middle of the IOR, and will facilitate Chinese shipping already using sea routes in that region.

The Port of Hambantota will also help the PRC have more vessels venturing farther with guaranteed port access along long sea routes. The Port of Darwin will help expand the MSR and will facilitate the use of other sea routes than the ones using the Malacca Strait. Eventually much larger ships will transit this area and be required to take the southern routes that support their deeper drafts.

The policy and security drivers are important drivers for the government of the PRC to move businesses to acquire overseas ports, and both the Port of Hambantota and the Port of Darwin will serve to fulfil the policies of the government of the PRC and to mitigate security concerns to Chinese shipping in these regions. The purpose of the security drivers is to support and protect economic interests, therefore economic reasoning is the primary focus of the PRC, with all economic drivers related to the central driver of facilitating economic growth. For now, Chinese actions are in line with official Chinese statements that they wish to engage in "win-win" economic relationships with other states.[241]

F. A MORE SPECULATIVE CONJECTURE ON THE CHINESE REASONING FOR OVERSEAS PORTS

The oversea ports that Chinese businesses have leased have a security benefit for the MSR. These ports can be used as support for security assets to protect its interests overseas, especially its economic interests. By having overseas port access available for

[241] Jintao, "Full Text of Hu Jintao's Speech."

these security assets, such as PLAN, the PRC has an extended reach with its forces. As of now the PLAN is not permanently stationed in these ports, but if they were in the future they would allow the government of the PRC to have forward deployed or stationed overseas the military forces would allow military options for greater diplomatic flexibility. This would allow for greater security for Chinese overseas assets, and the ability for the government of the PRC to exercise power projection in area's outside of their immediate reach. The PRC could be assuming the role of a net security provider for the Indo-Pacific region that the MSR runs through.

More hawkish views of Chinese actions would rather have them seen as expanding influence and attempting to disrupt state balances within certain regions. In the IOR in particular Indian sources tend to view any increase in Chinese presence as threatening to perceived Indian dominance in the region.[242] From the PRC's actions it seems they are primarily concerned with mutually benefiting in economic involvement with states within the region that are open to engaging with Chinese businesses. Even some views from U.S. sources have labeled the PRC's actions as in line with a "String of Pearls" type strategy seem to support the notion that Chinese actions are more aggressive than what is taking place.[243]

G. CONCLUDING CONJECTURES ON SRI LANKAN REASONING FOR LEASING HAMBANTOTA

Having Chinese vessels present in the Port of Hambantota, and having Chinese businesses invested in the port, gives the government of the PRC a vested interest in Sri Lanka. Sri Lanka benefits in a security capacity from the PRC by being able to balance against its neighbor, India. India has in recent years strengthened its naval power while building defense connections with states such as the U.S., Japan, and Vietnam.[244] These actions are in line with India's intention to be the dominant regional power in the Indian ocean. If Sri Lanka wishes to not be potentially subjugated by Indian through pressure exerted by its neighbor, it cannot do this alone. Through having stronger ties with the

[242] Khurana, *China's "String of Pearls,"* 1.

[243] Pehrson, *String of Pearls*, 11.

[244] Li, "The Maritime Silk Road and India," 23.

PRC Sri Lanka is more secure, effectively balancing against the perceived threat India poses.

While security is important Sri Lanka needs FDI in order to develop. It currently does not possess the capacity and industry to build adequate port facilities independent of foreign assistance. Through allowing Chinese SOE to build and develop the Port of Hambantota, Sri Lanka is acquiring an advanced port that it could not build on its own. Furthermore, Chinese shipping utilizing the port will provide an economic boost to the Sri Lankan economy through providing services to visiting vessels from the PRC in various port service capacities. Even though Sri Lanka benefits from a security standpoint of having the PRC present, their primary driver is economic, without the Chinese the port would not be possible.

H. CONCLUDING CONJECTURES ON AUSTRALIAN REASONING FOR LEASING DARWIN

The reasoning given for the port lease by the NT Government is economic; it is a business deal between the governments. Darwin has sought needed FDI to develop and grow its economy. It cannot rely on private investments that have been declining to facilitate its economic growth.[245] The Chinese lease of port facilities fills this investment shortage. Besides the capital the government in Darwin directly receives from the lease agreement, the increase in Chinese vessels to the port will give a boost to the economy of Darwin. While the Australian Federal Government had suspicions of the PRC's intentions, through thorough internal reviews of the port lease the same conclusion, that it is to the greater benefit economically to proceed with the lease, has overcome the friction, between the NT Government and the Australian Federal Government, to lease to Landbridge.

I. CONCLUSION

The economic drivers are the predominate drivers in Chinese businesses acquiring overseas port leases in support of the MSR portion of the OBOR, and for the most part it

[245] Northern Territory Government, *Northern Territory Economy*, 3.

is. The government of the PRC does not want to disturb the international community in a way that would make it unstable, that would not be in line with a desired stable international environment to grow in. However, the government of the PRC's growth is going to cause change as it moves outside its borders. In order to prevent negative or unwanted reactions from the international community it is doing so through economic means and attempting to appease those it is engaging with by providing "win-win" interactions, which includes its port leases in other states.

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF REFERENCES

Al Jazeera. "Sri Lanka Signs Hambantota Port Deal with China." July 29, 2017. http://www.aljazeera.com/news/2017/07/sri-lanka-signs-hambantota-port-deal-china-170729073859204.html.

Ali, Ameer. "The Sri Lankan Ethnic Morass and China-India Geopolitical Manoeuvres." *Economic and Political Weekly* 46, no. 34(2011): 39–45.

BBC. "Sri Lanka Signs Deal on Hambantota Port with China." July 29 2017. http://www.bbc.com/news/world-asia-40761732.

Beehner, Lionel. "What Sri Lanka Can Teach Us about COIN." *Small Wars Journal*, August 27, 2010. http://smallwarsjournal.com/jrnl/art/what-sri-lanka-can-teach-us-about-coin.

Breslin, Shaun. "China and the Global Order: Signaling Threat or Friendship?" *International Affairs* 89, no. 3 (2013): 615–634.

Brandt, Loren. "International Dimensions of China's Long Boom." In *China's Rise and the Balance of Influence in Asia*, edited by William W. Keller and Thomas G. Rawski, 15–46. Pittsburgh: University of Pittsburgh Press, 2007.

Chen, Qimao. "New Approaches in China's Foreign Policy: The Post-Cold War Era." *Asian Survey* 33, no. 3 (1993): 237–251.

Clarke, Michael. "The U.S.-Australia Alliance in an Era of Change: Living Complacently." *Asia Policy* 23 (January 2017): 63–69.

Coclanis, Peter A. "Asia's Next Tigers? Burma, the Philippines, and Sri Lanka." *World Affairs*, 175, no. 6(2013): 69–74.

Davis, Malcolm. "China's 'Malacca Dilemma' and the Future of the PLA." *CPI: Analysis*, November 21, 2014, https://cpianalysis.org/2014/11/21/chinas-malacca-dilemma-and-the-future-of-the-pla/.

Dickson, Bruce J. "Updating the China Model." *The Washington Quarterly* 34, no. 4 (2011): 39–58.

Dillinger, Jessica. "29 Largest Armies in The World." *World Atlas*. Last updated October 5, 2017. http://www.worldatlas.com/articles/29-largest-armies-in-the-world.html.

Ferchen, Matt. *How New and Crafty is China's "New Economic Statecraft."* Beijing: Carnegie-Tsinghua Center for Global Policy, Tsinghua University, 2016.

Frank Frost. “From the ‘Asia Pacific Community’ to the Fortieth Anniversary Summit and Beyond (2007–2015).” In *Engaging the Neighbour: Australia and ASEAN Since 1974*, 145–185. Canberra: Australian National University Press, 2016.

Garver, John W. “Diverging Perceptions of China’s Emergence as an Indian Ocean Power.” *Asia Policy*, no. 22 (July 2016): 56–60.

Gilboy, George J., and Eric Heginbotham. *Chinese and Indian Strategic Behavior: Growing Power and Alarm*. New York: Cambridge University Press, 2012.

Government of India, Ministry of Defence. “Procurement Procedure for Categories under ‘Buy,’ and ‘Buy and Make’ Schemes.” In *Defence Procurement Procedure: 2016*. New Delhi: Ministry of Defence, 2016. http://www.spsmilitaryyearbook.com/glimpse/.

Heath, Timothy R. “China’s Evolving Approach to Economic Diplomacy.” *Asia Policy* 22 (July 2016): 157–191.

Harding, Harry. “Has the U.S. China Policy Failed.” *The Washington Quarterly* 38, no. 3 (2015): 95–122.

The Hindu Business Line. “Lanka, China Sign $1.1 BN Hambantota Port Deal.” July 29, 2017. http://www.thehindubusinessline.com/news/world/lanka-china-sign-11-bn-hambantota-port-deal/article9793535.ece.

Hoffman, David, and Andrew Polk. *The Long Soft Fall in Chinese Growth: Business Realities, Risks and Opportunities*. New York: The Conference Board, 2014.

Jakobson, Linda, and Dean Knox. *New Foreign Policy Actors in China* (SIPRI Policy Paper 26). Stockholm: Stockholm International Peace Research Institute, 2010.

Jayakody, Rasika. “Government Pushing for a Buy-Back Clause in Hambantota Port Agreement.” *The Sunday Obsever* (Colombo), February 21, 2017.

Jintao, Hu. “Full Text of Hu Jintao’s Speech at BFA Annual Conference 2004.” China through a Lens. April 24, 2004. http://www.china.org.cn/english/features/93897.htm.

Khalid, Iram. “Indian Ocean: Global and Regional Strategies.” *Journal of Political Studies* 20, no. 2 (2013): 21–36.

Khurana, Gurpreet S. *China’s “String of Pearls” in the Indian Ocean and Its Security Implications*. London: Routledge, 2008.

Lee, John. “Australia’s 2015 Defence White Paper: Seeking Strategic Opportunities in Southeast Asia to Help Manage China’s Peaceful Rise.” *Contemporary Southeast Asia* 35, no. 3 (2013): 395–422.

Li, Zhu. “The Maritime Silk Road and India: The Challenge of Overcoming Cognitive Divergence.” *Asia Policy* 22 (July 2016): 20–26.

Linden, Greg. *Who Captures Value in a Global Innovation System? The Case of Apple’s iPod*. Irvine, CA: Personal Computing Industry Center, 2007.

Mahy, Michael. “International Relations 10: Darwin Port Privatisation.” *Senate Estimates Brief*, no. 29 (April 2016). http://www.defence.gov.au/FOI/Docs/Disclosures/361_1516_Documents.pdf.

Malik, Mohan. *China and India: Great Power Rivals*. Boulder, CO: First Forum Press, 2011.

Marantidou, Virginia. “Revisiting China’s ‘String of Pearls’ Strategy: Places ‘with Chinese Characteristics’ and their Security Implications.” *Issues & Insights*, 14, no. 7 (2014). https://www.files.ethz.ch/isn/182061/140624_issuesinsights_vol14no7.pdf.

McKenzie, Nick, and Richard Baker. “Chinese Government Trade Bank May Get Mortgage over Australian Port.” *The Sydney Morning Herald*, June 7, 2017. http://www.smh.com.au/national/chinese-government-trade-bank-may-get-mortgage-over-australian-port-20170607-gwmm6h.html.

Medcalf, Rory. “In Defence of the Indo-Pacific: Australia’s New Strategic Map.” *Australian Journal of International Affairs* 68, no. 4 (2014): 470–483.

Mulvenon James. “Chairman Hu and the PLA’s ‘New Historic Missions,’” *China Leadership Monitor*, no. 27 (2009): 1–11.

Nair, Pavan. “An Evaluation of India’s Defence Expenditure.” *Economic and Political Weekly* 44, no. 51 (2009): 40–46.

Northern Territory Government, Department of Trade, Business, and Innovation. *Northern Territory Economy Quick Facts*. Darwin City, Australia: Northern Territory Government, Department of Trade, Business, and Innovation, 2017. 3https://business.nt.gov.au/__data/assets/pdf_file/0009/426429/economy-quick-facts-quarter-201703.pdf.

Parashari, Sachin. “Sri Lanka Snubs India: Opens Port to Chinese Submarine Again.” *Times of India*, November 2, 2014, http://timesofindia.indiatimes.com/india/Sri-Lanka-snubs-India-opens-port-to-Chinese-submarine-again/articleshow/45008757.cms.

Pehrson, Christopher J. *String of Pearls: Meeting the Challenge of China’s Rising Power Across the Asian Littoral*. Carlisle, PA: Army War College, Strategic Studies Institute, 2006.

Qian, Wang, and Tang Fuchun. “All is Ready for Boao Forum 2004.” China through a Lens, April 19 2004. http://www.china.org.cn/english/2004/Apr/93412.htm.

Sakhuja, Vijay. *Asian Maritime Power in the 21st Century: Strategic Transactions China, India and Southeast Asia* (Singapore: ISEAS Yusof Ishak Institute, 2011.

Scott, David. “Australia’s Embrace of the ‘Indo-Pacific:’ New Term, New Region, New Strategy?” *International Relations of the Asia-Pacific* 13, no. 3 (2013): 426–448.

———. “India-China Relations: Norms, Perceptions and Geo-politics.” *New South Asian Security: Six Core Relations Underpinning Regional Security*, edited by Chris Ogden, 425–448. Greater Noida, India: Rakmo Press, 2016.

Shambaugh, David. “Dealing with China: Tough Engagement and Managed Competition.” *Asia Policy* 23 (January 2017): 4–12.

Smee, Ben and Christopher A. Walsh. “How the Sale of Darwin Port to the Chinese Sparked a Geopolitical Brawl.” *Australia News*, December 17, 2016. https://www.theguardian.com/australia-news/2016/dec/18/how-the-sale-of-darwin-port-to-the-chinese-sparked-a-geopolitical-brawl.

State Council Information Office of the People’s Republic of China. *Document: China’s Military Strategy*. Beijing: State Council Information Office of the People’s Republic of China, 2015.

Taiwei, Lim Tai. *Oil in China: From Self-Reliance to Internationalization*. Series on Contemporary China, Vol. 18. Singapore: World Scientific Publishing Company, 2009.

Wade, Geoff. “Landbridge, Darwin and the PRC.” *The Strategist*, November 9, 2015. https://www.aspistrategist.org.au/landbridge-darwin-and-the-prc/.

Walt, Stephen M. “Alliance Formation and the Balance of World Power.” *International Security*, 9, no. 4 (1985): 3–43.

Wolf, Jr., Charles, Siddhartha Dalal, Julie DaVanzo, Eric V. Larson, Alisher Akhmedjonov, Harun Dogo, Meilinda Huang, and Silvia Montoya. *China and India, 2025: A Comparative Assessment*. Santa Monica, CA: National Defense Research Institute, RAND Corporation, 2011.

World Bank and Development Research Center of the State Council, the People’s Republic of China. *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. Washington, DC: World Bank and Development Research Center of the State Council, the People’s Republic of China.

Xinbo, Wu. “Not Backing Down: China Responds to the U.S. Rebalance to Asia.” *Global Asia*, 7, no. 4 (2012): 18–21.

Wang, Zheng. “The Chinese Dream: Concept and Context.” *Journal of Chinese Political Science* 19 (December 2013): 1–13.

Yung, Christopher D., Ross Rustici, Scott Devary, and Jenny Lin. *Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century* (Washington, DC: Institute for National Strategic Studies, 2014).

THIS PAGE INTENTIONALLY LEFT BLANK

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
   Ft. Belvoir, Virginia

2. Dudley Knox Library
   Naval Postgraduate School
   Monterey, California