

China's Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road

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Abstract

Over the past decade, China's presence in the Middle East and Indian Ocean has expanded significantly. While great attention has been paid to China's growing economic presence as part of Beijing's Belt and Road Initiative, in reality, China's activities in the region had been increasing well before the start of Xi Jinping's signature policy initiative. Moreover, this growth has occurred across a wide range of domains, including military, diplomatic, economic, and even informational.

How is China's presence in the Middle East and Western Indian Ocean evolving, and what does it mean for the United States and its equities in the region? This study examines China's growing presence in 23 states throughout the Middle East, East Africa, and Western Indian Ocean. It analyzes the drivers of China's growing presence in this region, as well as China's various diplomatic, informational, military, and economic domains. By doing so, this study seeks to move the discussion of China's growing global activities beyond discussions of Belt and Road, provide a more comprehensive understanding of how China's presence in the Middle East and Western Indian Ocean region is evolving, and improve our understanding of what these changes mean for the U.S. Navy and U.S. national security interests more broadly.

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Executive Summary

The Middle East and Western Indian Ocean

This study examines China's activities in maritime countries within the Middle East, Western Indian Ocean, and Africa's east coast. We refer to this group collectively as the Middle East and Western Indian Ocean region.

Drivers of China's presence in the region

We have identified the five drivers of China's growing presence in the Middle East and Western Indian Ocean:

- **Recognition of the region's global strategic importance:** Chinese security analysts, including analysts affiliated with the People's Liberation Army (PLA), have long acknowledged the region's importance as a vital nexus point connecting North America and Europe to Asia.
- **Access to important maritime chokepoints:** China relies heavily on access to seaborne energy imports and maritime trade, the majority of which transit maritime chokepoints located in the Middle East.
- **Supporting domestic economic growth:** China's economic presence in the region is intended to upgrade its domestic industries and reduce its overcapacity in certain industries.
- **Defending Chinese people and assets abroad:** The number of Chinese citizens and investments in the region has grown considerably. The Chinese military, particularly the PLA Navy, has been given a mandate to protect those interests.
- **Combating domestic terrorism:** China is also engaging countries in the region to deny China's domestic separatist groups access to foreign support and has signed bilateral agreements with many countries to increase security cooperation to combat terrorism.

Aspects of China's presence in the region

China's military diplomatic engagements support Chinese foreign policy in the region in a number of ways, including the following:

- *They help the PLA develop interpersonal ties:* Training opportunities in China for regional military personnel provide the PLA with opportunities to develop ties with current and future regional military leaders.
- *They help the PLA to develop institutional ties:* Arms sales, particularly when they support China as an alternative to the United States, have helped China establish institutional ties with regional militaries, particularly with Pakistan.
- *They demonstrate the benefits of China's military modernization:* Visits by the PLA Navy's *Peace Ark* and regional port visits in support of counterpiracy task force operations, allow China to showcase how PLA military modernization can benefit the region.
- *They provide opportunities for intelligence collection:* Engaging with foreign militaries provides China with opportunities to gain a better understanding of the region and its actors, including the U.S. Navy.

China has three core messages that it transmits regularly to countries in the Middle East and the Western Indian Ocean:

- *Economic development:* We can help you achieve your long-term goals
- *Stability:* Our presence in the region is a force for regional stability
- *Not the United States:* Our presence is benign and stabilizing.

The Chinese military—particularly its navy, the People's Liberation Army Navy (PLA Navy or PLAN)—is already active in the Middle East and Western Indian Ocean, and conducts a wide range of peacetime operations:

- *Protecting Chinese maritime trade:* China's navy has had a near continuous three-ship presence in the Gulf of Aden since 2008, conducting counterpiracy operations to protect its maritime trade.
- *Protecting Chinese assets and personnel:* China's military is tasked with protecting the country's growing interests and personnel in the region. It has done so in the past, evacuating roughly 800 personnel from Yemen in 2015.
- *Conducting "presence" operations in the region:* China seeks to make its naval deployments in the region, including its submarine deployments, routine.

The Chinese navy's ability to operate in the Middle East and Western Indian Ocean will likely increase in the near to medium term for three reasons:

- *China is deploying more modern ships:* Advanced PLA Navy ships, including advanced logistics ships, are coming online and may be deployed to the region.
- *China is leveraging its commercial fleet:* The PRC government has taken steps to leverage China's large commercial shipping fleet to support military operations.
- *China can utilize its base in Djibouti:* China's base is well positioned to act as a logistics center and possibly as a command-and-control hub.

Chinese state-owned firms have concessions to develop and operate in the following six ports. The concessions are shared with local partners and foreign companies in every port except Gwadar, where a Chinese firm is the sole operator:

- | | | |
|---------------------------|------------------------------|--------------------------------------|
| • Doraleh, Djibouti | • Port Said, Egypt | • Gwadar, Pakistan |
| • Colombo Port, Sri Lanka | • Hambantota Port, Sri Lanka | • Khalifa Port, United Arab Emirates |

Should Chinese firms seek to affect access to the ports listed above, they would most likely make use of the following:

- **Tools of influence:** debt owed to Chinese financial institutions, the lure of future Chinese investment and cash gifts
- **Targets of Influence:** national leaders, local officials, and port authorities.

At the same time, Chinese firms' efforts to influence port activities may run counter to the profit maximization interests of the following actors, who may attempt to constrain the behavior of Chinese actors:

- *Joint venture partners* who seek to maximize port throughput. They may object if their Chinese partners' activities negatively impact throughput.
- *International shipping alliances, notably the Ocean Alliance*, whose members include France's CMA CGM and Taiwan's Evergreen Line. Alliance members seek profitability through vessel-sharing arrangements and may object if these arrangements are overturned.

Possible future Chinese presence

Our research identifies five factors that may influence Chinese decision makers' considerations regarding where China might build a second base in the region:

- Strategic location
- Local support for PLA military presence
- Presence of Chinese state-owned firms
- Host-country reliance on Chinese capital
- Third-country attitudes toward China's military presence.

This study applies these factors to six different locations in the region where China might build its second overseas military facility:

- | | | |
|--------------|-------------|------------|
| • Pakistan | • Sri Lanka | • Maldives |
| • Seychelles | • Kenya | • Tanzania |

Implications

Recommendation #1: Prepare for a changing environment

First, the likelihood of PLA intervention in the region is increasing. This is particularly true in places with unstable political environments and increasing amounts of Chinese presence, including Kenya, Tanzania, Sudan, or Yemen, for example.

Second, the region is becoming more crowded and complex. As a result, the U.S. Navy will likely be forced to consider how it will respond in the event of encounters with the Chinese military or civilians in the region in order to avoid unintended escalation.

Recommendation #2: Understand China's regional activities to prepare an informed policy response

Understanding where China is focusing its efforts is the first step that will allow the U.S. Government to develop an appropriate policy response. By examining China's activities in the region, we have identified several focal points for China's presence:

- | | | |
|-------------|------------|------------------------|
| • Djibouti | • Kenya | • Pakistan |
| • Sri Lanka | • Tanzania | • United Arab Emirates |

Recommendation #3: Develop a three-pronged approach to countering China's messaging

With an understanding of the context of China's current outreach, the next step in crafting a U.S. policy approach in the region is to address the PRC's public messaging campaign. Below, we provide some suggestions to consider.

Continue to highlight the positive aspects of the U.S. presence in the region, particularly the benefits of the U.S. Navy's presence: Despite China's growing military engagement, the United States, particularly the U.S. Navy, remains far more active in the region than the PLA or the PLAN.

Moreover, despite the recent growth in China's military presence, only the USN, with its coalition of partners and allies, can safeguard the regions waterways, the safety and security of which are critical to maintaining global growth and stability.

Avoid giving countries in the region perception that the United States would like them to "choose sides" between China and the United States. Discussions with U.S. Navy (USN) personnel, and previous research on China's foreign policy elsewhere, has found that public statements of China's activities that are overly critical can be perceived as a scare tactic by countries in the region.

Highlight the United States' respect for national institutions and the rule of law: U.S. personnel should continue to highlight the United States' desire to develop long-term engagement plans with countries in this region on the basis of the rule of law.

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Glossary

AIP	Air-independent propulsion
AO	Area of operations
AOE	Fast combat support ship
AOR	Area of responsibility/underway replenishment ship
ASBM	Antiship ballistic missile
ASCM	Antiship cruise missile
ASW	Antisubmarine warfare
ASuW	Antisurface warfare
BRI	Belt and Road Initiative
C2	Command and control
CAC	Chengdu Aircraft Corporation
CASC	China Aerospace Science and Technology Corporation
CCP	Chinese Communist Party
CDB	China Development Bank
CDS	College of Defense Studies
CGTN	China Global Television Network
CHEC	China Harbour Engineering Company
CICT	Colombo International Container Terminal
CMC	Central Military Commission
CMG	China Merchants Group
COPHC	China Overseas Ports Holding Company
COSCO	China Ocean Shipping Corporation
CPEC	China-Pakistan Economic Corridor
CRBC	China Road & Bridge Corporation
CSPL	COSCO Shipping Ports (Limited)
DDG	Guided-missile destroyer
DIME	Diplomacy, information, military, economic
DPFZA	Djibouti Ports & Free Zones Authority
DWT	Dead weight tonnage
FDI	Foreign direct investment
FFG	Guided-missile frigate
GDP	Gross domestic product
GEN	General
GW	Gigawatts
HA/DR	Humanitarian assistance/disaster relief
IMCMEX	International Mine Countermeasures Exercise

IMF	International Monetary Fund
INDOPACOM	U.S. Indo-Pacific Command
IP-MCC	Indo-Pacific Maritime Coordination Cell
LCAC	Landing craft, air cushion
LHA	Landing helicopter assault ship
LPD	Landing platform dock ship
MDA	Maritime domain awareness
MFA	(PRC) Ministry of Foreign Affairs
MIC 2025	Made in China 2025
MOFCOM	(PRC) Ministry of Commerce
MOU	Memorandum of understanding
NAVCENT	U.S. Naval Forces Central Command
NDU	National Defense University
NEO	Noncombatant evacuation operation
OBOR/MSR	One Belt One Road/Maritime Silk Road
OOO	Overseas Operations Office
PACFLT	U.S. Pacific Fleet
PDSA	Port de Djibouti S.A.
PLA	People's Liberation Army
PLAN	PLA Navy
PLANMC	People's Liberation Army Marine Corps
PRC	People's Republic of China
RORO	Roll-on/roll-off
SAG	Surface action group
SCO	Shanghai Cooperation Organization
SCOL	Senior Colonel
SEZ	Special economic zone
SEZAD	Special Economic Zone Authority (Duqm, Oman)
SIPRI	Stockholm International Peace Research Institute
SLOC	Sea lines of communication
SOE	State-owned enterprise
SPLA	Sri Lanka Ports Authority
UAE	United Arab Emirates
UAV	Unmanned aerial vehicle
UNCTAD	United Nations Conference on Trade and Development
USN	U.S. Navy
VLS	Vertical launch system

Chapter 1. Introduction: China's Growing Presence in the Middle East and Western Indian Ocean

How is China's presence in the Middle East and Western Indian Ocean evolving, and what does it mean for the United States and its equities in the region?¹ Over the past decade, China's presence in the Middle East, the smaller island states in the Western Indian Ocean, and Africa's east coast has expanded significantly. Moreover, this expansion has taken place across the diplomatic, information, military, and economic domains (i.e., across the DIME). Nowhere has this been more clearly reflected than in Xi Jinping's signature Belt and Road Initiative (BRI). Announced in 2013, the BRI is a foreign policy initiative aimed in part at leveraging Chinese lending, foreign direct investment (FDI), and technical expertise, to construct infrastructure projects around the world.² These infrastructure projects aim to better connect trade paths across Europe and Central Asia as well as sea routes between Southeast Asia and Africa.

By the end of September 2017, China had signed cooperation agreements with 74 countries and international organizations.³ These projects include the construction of new roads, bridges, gas pipelines, electricity transmission lines, fiber optic cables, ports, railways, and power plants. While China has not published a comprehensive list of BRI projects, Chinese media reports indicate that state-owned enterprises (SOEs) have invested in nearly 1,700 projects related to the initiative since it was announced in 2013.⁴

¹ This study uses the phrase "Middle East and Western Indian Ocean" or simply "the region" to describe the U.S. Naval Forces Central Command (NAVCENT) maritime domain as well as countries bordering the NAVCENT maritime domain within the Indian Ocean region and south in East Africa. This area includes Djibouti, Eritrea, Kenya, the Maldives, Seychelles, Somalia, Sri Lanka, Sudan, and Tanzania. For additional detail, see the section in this chapter entitled "Defining the region of interest: the Middle East and Western Indian Ocean."

² "Silk Road 'Project of the Century,'" *The Standard*, May 15, 2015, <http://www.thestandard.com.hk/section-news.php?id=182837>.

³ Li Yang, "B&R by the Numbers: Public opinion positive on the future of Belt and Road," Belt and Road Portal, December 27, 2017, <https://eng.yidaiyilu.gov.cn/jcsj/dsjkydyl/41358.htm>.

⁴ Wu Gang, "SOEs Lead Infrastructure Push in 1,700 'Belt and Road' Projects," Caixin Global, May 9, 2017, <http://www.caixinglobal.com/2017-05-10/101088332.html>.

While China's BRI has received the vast majority of international media attention, China engages in a wide range of other activities throughout the region, many of which predate the start of BRI in 2013. For example, we have seen activities in the following areas:

Diplomatic: Since becoming General Secretary of the Chinese Communist Party (CCP) in fall 2012, Xi Jinping has visited the region seven times, including a trip to three countries in 2016 and a July 2018 visit to the United Arab Emirates.⁵

Information: In January 2016 before his visit to Iran, President Xi Jinping published a letter in Iranian newspapers stating that, "China is ready to deepen cooperation with Iran on building roads, railways, sea routes and the Internet and facilitate East-West connectivity in Asia."⁶

Military: In 2017, China officially opened its first overseas base in Djibouti. Located directly on the Bab el-Mandeb Strait, this base provides China with a permanent military facility along a critical waterway.⁷

Economic: China's cornerstone BRI investment project is currently unfolding in the Western Indian Ocean, specifically in Pakistan. Dubbed the China-Pakistan Economic Corridor (CPEC), this project aims to provide the government of Pakistan with more than US\$60 billion in lending and investment to finance power plants, roads, rails, and other infrastructure, including further development of the Pakistan port at Gwadar.⁸

Purpose of the study

This study examines China's growing presence in 23 countries in the Middle East, East Africa, and Western Indian Ocean. It analyzes aspects of China's growing presence in these countries across the diplomatic, information, economic, and military domains. By doing so, we seek to provide a more comprehensive view of China's activities in the

⁵ See for example Zhong Sheng, "Building China-UAE Community of Common Destiny in Joint 'One Belt One Road' Construction (*Dazao Zhong-A Gongjian Yidaiyilu Mingyun Gongtongti*; 打造中阿共建一带一路命运共同体)," *People's Daily*, July 22, 2018, http://paper.people.com.cn/rmrb/html/2018-07/22/nw.D110000renmrb_20180722_6-02.htm.

⁶ "Full Text of Chinese President's Signed Article on Iranian Newspaper," Ministry of the Foreign Affairs of the People's Republic of China, January 21, 2016, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1334040.shtml.

⁷ Erica Downs, Jeffrey Becker, and Patrick DeGategno, *China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base*, CNA DIM-2017-U-015308-Final, 2017.

⁸ Thomas S. Eder and Jacob Mardell, "The BRI in Pakistan: China's Flagship Economic Corridor," Mercator Institute for China Studies, September 18, 2018, <https://www.merics.org/en/bri-tracker/the-bri-in-pakistan>.

region and a better understanding of their potential impacts on U.S. equities in the region.

Specifically, we seek to answer the following questions with regard to China's growing presence in the Middle East and Western Indian Ocean region:

- What is driving China's efforts to increase its presence in this region?
- What is the scope of China's activities in this region across the DIME?
- What are the implications of this presence for the United States?

Defining the region of interest: the Middle East and Western Indian Ocean

China's activities in the region have the potential to affect U.S. Navy interests and equities, particularly those of U.S. Naval Forces Central Command (NAVCENT), whose area of operations (AO) includes parts of the Western Indian Ocean and the key maritime chokepoints in the Middle East. Moreover, China's activities along NAVCENT's periphery, in places such as Sri Lanka, Seychelles, the Maldives, and within African coastal states such as Kenya and Tanzania, have the potential to affect U.S. Navy and NAVCENT interests and equities as well. Therefore, the focus of this study includes not just countries within the NAVCENT AO, but also maritime countries along NAVCENT's periphery in the Western Indian Ocean and along Africa's east coast. We refer to this group throughout the study as "the Middle East and Western Indian Ocean region" or simply "the region." Specifically, this includes the following countries, which are also identified in Figure 1 and in Table 1 below.

Figure 1. The region of interest: The Middle East and Western Indian Ocean

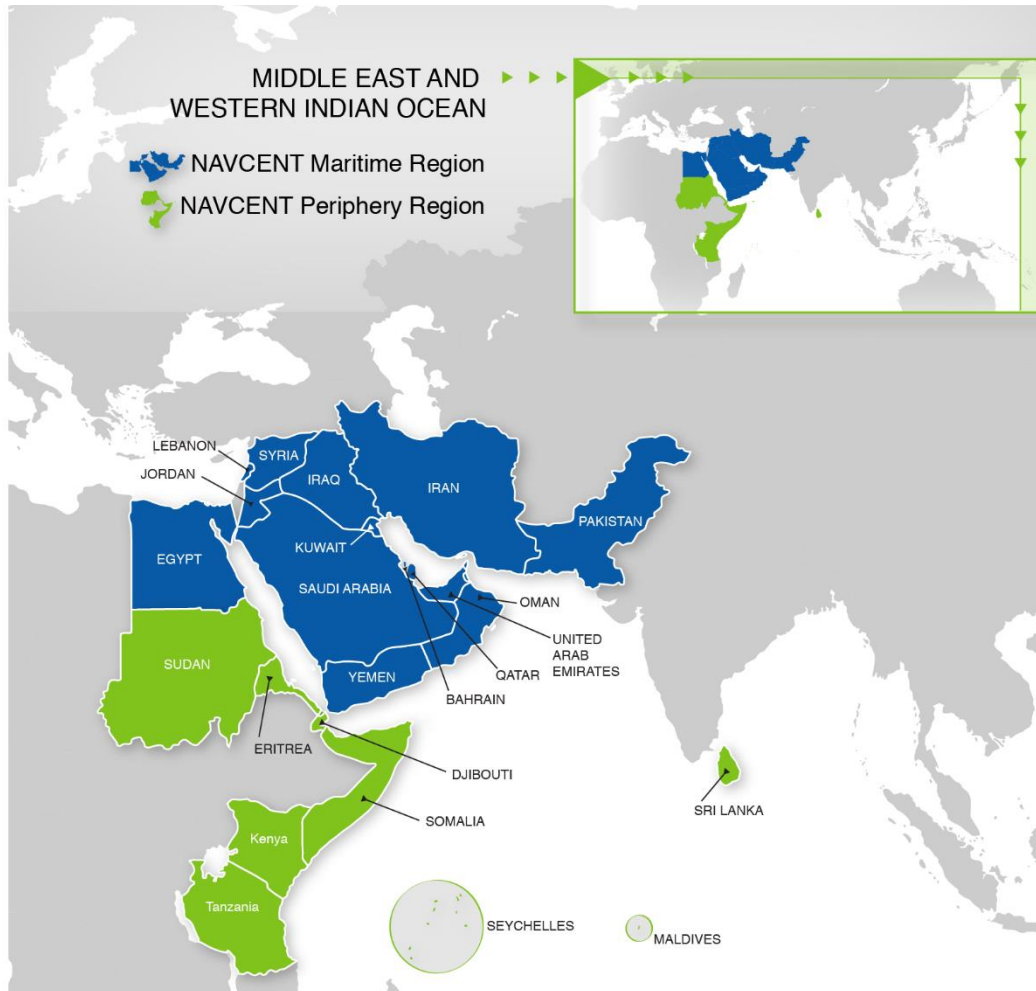


Table 1. Countries in the Middle East and Western Indian Ocean region

Bahrain	Djibouti	Egypt
Eritrea	Iran	Iraq
Jordan	Kenya	Kuwait
Lebanon	Maldives	Oman
Pakistan	Qatar	Saudi Arabia
Seychelles	Somalia	Sri Lanka
Sudan	Syria	Tanzania
United Arab Emirates	Yemen	

Outline of the study

The remainder of this study is as follows:

Chapter 2 examines the drivers of China's expanding presence in the region.

Chapters 3 through 6 examine China's growing presence in the region across the diplomatic, informational, military, and economic domains, respectively:

- **Chapter 3** examines China's diplomatic activities, focusing predominately on the military diplomatic activities of the PLA.
- Chapter 4 analyzes China's informational approach to the region examining the narrative it uses when explaining its activities to states in the region, and how it seeks to win public and elite support through this narrative.
- **Chapter 5** analyzes China's growing military presence in the region including the growing number of PLA assets operating in the region, the number and types of PLA operations taking place there, and the types of advanced weapons and platforms that the PLA is beginning to deploy and that may be used in the region in the near future.
- **Chapter 6** examines China's growing economic presence in the region, with a focus on its role in constructing, owning, and/or operating port infrastructure.
- **Chapter 7** looks at the possible future of China's military presence in the Middle East and Western Indian Ocean—specifically, the potential for the PLA to establish additional military facilities in the region.
- **Chapter 8** concludes by summarizing the findings of the study and recommending possible responses.

Chapter 2. The Importance of the Middle East and Western Indian Ocean to China

This chapter examines the importance of the Middle East and Western Indian Ocean to the PRC and those factors that are driving China's presence in the region. First, the chapter places the region in a global context as the key link connecting the Indo-Pacific to Europe and North America and discusses what this means for China's future development as a global power. Second, it examines the following specific drivers compelling China to expand its presence in the region:

- Recognizing the region's global strategic importance
- Maintaining China's access to maritime chokepoints and strategic sea lines of communication (SLOCs)
- Improving China's domestic economic security
- Defending China's growing assets and citizens in the region
- Combating foreign support for domestic terrorism.

Each of these is discussed in detail below.

The region's geostrategic importance

From a global strategic perspective, the Middle East and Western Indian Ocean region serves as a vital nexus point, allowing ships to transit from the Atlantic and Mediterranean to the Middle East and on to Asia in the shortest amount of time via the Suez Canal. Indeed, as the primary link between Europe and Asia, maintaining freedom of movement in the region is critical to the USN's ability to move forces from the Atlantic and Europe to Asia during any contingency. For example, USN ships transiting at a rate of 15 knots from Naples to Sasebo, Japan via the Suez Canal will arrive in roughly 23.5 days, versus 37.5 days if they transited via the Panama Canal, or 38.5 days if they transited via the Cape of Good Hope.⁹ Thus in any conflict scenario in the Indo-Asia Pacific, the Middle East serves as a vital hub, enabling USN forces in Europe

⁹ These travel times assume a distance of 8,550 n.mi. from Naples, Italy to Sasebo, Japan via the Suez Canal; 13,528 n.mi. via the Panama Canal; and 13,942 n.mi. via the Cape of Good Hope.

and the Mediterranean to flow into the INDOPACOM AOR in the shortest possible amount of time.

PLA analysts have long noted the importance of the Suez Canal to the speedy deployment of U.S. Navy assets from the Mediterranean to the Persian Gulf, describing it as a “critical American Sea Passage,” and crucial to America’s global strategy.¹⁰ Chinese security analysts have noted its importance as well. For example, when they advocate for an increased Chinese presence in the Indian Ocean, Chinese analysts frequently misquote U.S. naval officer and historian Alfred Thayer Mahan, saying, “Whoever controls the Indian Ocean will control Asia. This ocean is the key to the seven seas in the 21st Century. The destiny of the world will be decided on these waters.”¹¹ This use of Mahan by Chinese security analysts suggests their understanding of the importance of the region to any conflict in the Asia-Pacific.¹²

Maintaining access to maritime chokepoints and sea lines of communication

China views its continued access to sea lines of communication (SLOCs) as a critical national security priority. This was made clear in China’s 2015 national defense white paper, *China’s Military Strategy*, which stated:

¹⁰ Si Ping, “Critical American Sea Passages” (*Meiguo Haiyun Yanhou Quanzhan*; 美国海运咽喉全瞻), *Modern Navy* (1996); Hai Jingdong and Zhang Yingjie, “A Layout of United States Military Strategy” (*Meiguo Junshi Zhanlue Ruhe Moupian Buju*; 美国军事战略如何谋篇布局), *PLA Daily*, September 26, 2017, www.81.cn/jfjbmap/content/2017-09/26/content_188874.htm.

¹¹ Zhu Cuiping, “China’s Indian Ocean Strategy: Motivations, Challenges, and Responses” (*Zhongguo De Yindu Yang Zhanlue: Dongyin, Tiaozhan Yu Yingdui*; 中国的印度洋战略: 动因, 挑战与应对), *South Asian Studies*, no.3 (2012), niis.cass.cn/webpic/web/niss/upload/2012/11/d20121127133346517.pdf; Song Dexing and Bai Jun, “The World’s Oceans in the 21st Century—The Indian Ocean from the Perspective of Geopolitics” (“21 Shiji Zhi Yang” - Diyu Zhanlue Shijiao Xia Yindu Yang; “21 世纪之洋”——地缘战略视角下印度洋), *Cultural Latitudes*, 2011, <http://www.21bcr.com/a/shiye/shijieguan/2011/0329/2520.html>.

¹² It is important to note that this is a misquote: What A.T. Mahan actually said was, “Whoever rules the waves rules the world.” See “Chasing Ghosts: The Notion that Geography is Making an Unwelcome Comeback in Asia,” *The Economist*, June 11, 2009, <https://www.economist.com/asia/2009/06/11/chasing-ghosts>.

With the growth of China's national interests, its national security is more vulnerable to international and regional turmoil...and the security of overseas interests concerning energy and resources, *strategic sea lines of communication (SLOCs)*, as well as institutions, personnel, and assets abroad, has become an imminent issue.¹³

China's focus on maintaining access to key maritime SLOCs and chokepoints is particularly relevant to this region, which is home to three of the world's most critical maritime chokepoints (see Figure 2):

"It is necessary for China to develop a modern maritime military force structure commensurate with its national security and development interests, safeguard its national sovereignty and maritime rights and interests, protect the security of strategic SLOCs and overseas interests."

— PRC 2015 national defense white paper

Strait of Hormuz: Roughly 35 percent of all seaborne traded oil, or almost 20 percent of oil traded worldwide, flows through this strait located between Oman and Iran, according to the U.S. Energy Information Administration.¹⁴

Bab el-Mandeb Strait: Located between Yemen and Djibouti, the Bab el-Mandeb Strait is the gateway for ships passing through to the Suez Canal. It serves as the primary chokepoint on the southern end of the Red Sea, through which U.S. Navy forces pass from the European theater on to the Pacific. An estimated 4.8 million barrels per day (bpd) of crude oil and refined petroleum products flowed through this waterway in 2016, making up almost 5 percent of maritime oil trade that year.¹⁵

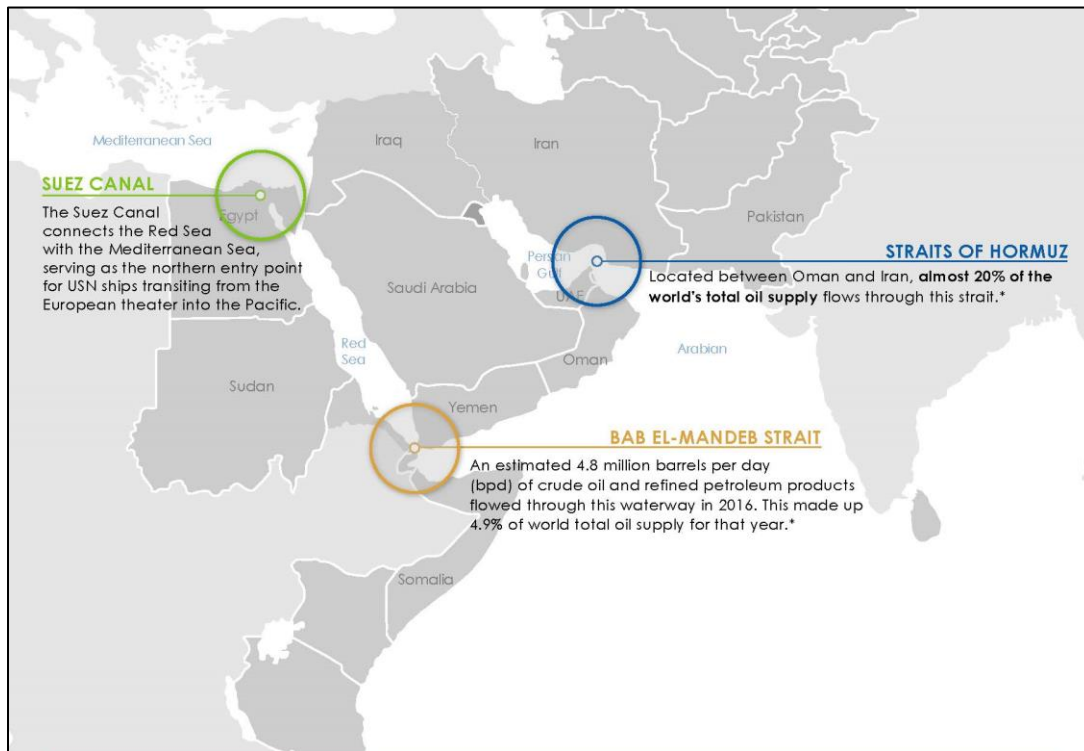
Suez Canal: The Suez Canal connects the Red Sea with the Mediterranean Sea, serving as the northern entry point for USN ships transiting from the European theater into the Pacific.

¹³ Information Office of the State Council of the People's Republic of China, "China's Military Strategy," Xinhua, May 26, 2015.

¹⁴ "World Oil Chokepoints," U.S. Energy Information Administration, July 17, 2017, https://www.eia.gov/beta/international/analysis_includes/special_topics/World_Oil_Transit_Chokepoints/wotc.pdf.

¹⁵ Ibid.

Figure 2. Three key maritime chokepoints in the region



Source: Data for this map derived from U.S. Energy Information Administration, "World Oil Chokepoints," U.S. Energy Information Administration, 17 July, 2017.
https://www.eia.gov/beta/international/analysis_includes/special_topics/World_Oil_Transit_Chokepoints/wotc.pdf.

Two factors in particular make access to these three chokepoints critical to China's national security interests:

- China's continued reliance on maritime trade to fuel its economic growth
- China's desire to enhance its oil security and its predicted continued reliance on seaborne energy imports for the foreseeable future.

The importance of maritime trade

China continues to rely on international trade as an important component of its economic growth. Roughly 20 percent of China's GDP is derived from the export of goods and services abroad.¹⁶ China now ranks as the world's largest trading nation,

¹⁶ "Exports of Goods and Services (% of GDP)," World Bank, 2017, <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=US&type=points&view=map>. For comparison, roughly 12 percent of U.S. GDP is derived from the export of goods and services.

with roughly 13 percent of all the world's exports and about 10 percent of the world's imports.¹⁷ Moreover, roughly 90 percent of all world trade is carried by sea; unsurprisingly, most Chinese sources state that a similar percentage of Chinese trade is seaborne as well.¹⁸

Senior Chinese government and military officials often highlight the importance of protecting China's trade routes and, much like the concerns with seaborne oil imports, Chinese concerns over the security of maritime trade predate the BRI. The desire to protect Chinese maritime shipping, for example, was cited as an important reason for the PLA Navy's decision to begin conducting counterpiracy operations in the Gulf of Aden in December 2008. Speaking in 2009, following that decision, the former head of China's International Cooperation Department in the PRC Ministry of Transportation stated that "warship escorts should be considered [in terms of long-term benefits].... If these far seas shipping companies are affected [by piracy] and shut down, [this] will produce an enormous loss in national tax revenues."¹⁹

In 2014, when speaking about the importance of BRI to China's future, the Chinese Communist Party (CCP) secretary of China's State Oceanic Administration noted the following:

Looking at the security of maritime transportation channels, our country's economy has already become an open economy highly dependent on the oceans. Ninety percent of our foreign trade volume is carried out via maritime transport and, as such, the security of maritime transportation channels is directly related to the sustainable development of our country's economy and society.²⁰

As maritime trade has become an increasingly important component of Chinese economic growth, maintaining access to maritime trade routes, such as those connecting China with markets in the Indian Ocean, the Middle East, and onward to Europe and North America, has become critical. Protecting maritime trade, for example, is cited by military academics at China's National Defense University (NDU)

¹⁷ "Country Profiles—China," World Trade Organization—Trade Profiles, 2017, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN>.

¹⁸ "Shipping and World Trade," International Chamber of Shipping, 2017, <http://www.ics-shipping.org/shipping-facts/shipping-and-world-trade>; Center for Strategic and International Studies, "How Much Trade Transits the South China Sea?" *ChinaPower*, August 2, 2017, <https://chinapower.csis.org/much-trade-transits-south-china-sea/>.

¹⁹ Quoted in Andrew S. Erickson and Austin M. Strange, *No Substitute for Experience: Chinese Antipiracy Operations in the Gulf of Aden*, China Maritime Studies Institute, U.S. Navy War College, 2013, 14.

²⁰ "Striving to Realize the Historical Leap from Being a Great Maritime Country to Being a Maritime Power (*Nuli Shixian Cong Haiyang Daguo Xiang Haiyang Qiangguo de Lishi Kuayue*; 努力实现从海洋大国向海洋强国的历史跨越)," China State Oceanic Administration, June 8, 2014, <http://www.soa.gov.cn>.

as an impetus for establishing a permanent military base in the region, which the PLA did in 2015–2016.²¹ Researchers at the Naval Research Institute, the PLA Navy’s top think tank, argue that “China’s far-seas lifeline (*yuanyang shengming xian*) is mostly concentrated in the route from the Malacca Strait, the Indian Ocean to the *Middle East and North Africa*,” and that maintaining China’s “seapower” (*haiquan*) in the region will be critical.²²

Enhancing China’s oil security

Access to maritime chokepoints in the region, most notably the Strait of Hormuz, are especially important to China because of its dependence on imported oil. China imported 8.4 million barrels per day (bpd) of crude oil in 2017, accounting for 71 percent of its oil consumption.²³ More than 90 percent of these oil imports were seaborne (including nearly half a million bpd of Russian crude), with the remainder coming overland from Russia and Kazakhstan.²⁴

Chinese concerns about dependence on seaborne oil imports predate the Belt and Road Initiative. China became a net importer of oil in 1993, and the country’s increasing reliance on oil imports heightened concerns about the vulnerability of China’s oil supplies to disruptions, both accidental and intentional, in the SLOCs. These anxieties manifested themselves in the “Malacca Dilemma,” a term reportedly coined by former Chinese president Hu Jintao.²⁵ The Malacca Dilemma reflects the fact that more than 80 percent of China’s crude oil imports pass through the Strait of Malacca, the world’s

²¹ “China Builds Overseas Bases for Peaceful Purposes,” *China Military Online*, December 10, 2015, http://english.chinamil.com.cn/news-channels/pla-daily-commentary/2015-12/10/content_6810560.htm.

²² Li Jian, Chen Wenwen, and Jin Jing, “Overall Situation of Sea Power in the Indian Ocean and the Expansion in the Indian Ocean of Chinese Sea Powers (*Yinduyang Haiquan Geju yu Zhongguo Haiquan de Yinduyang Kuozhan*; 印度洋海权格局与中国海权的印度洋扩展),” *Pacific Journal* 22, no. 5 (2014): 68–75, emphasis added.

²³ “Table of China December Data on Oil, Oil Product, LNG Imports,” Dow Jones Institutional News, January 25, 2018; Ma Shen, “China’s Apparent Consumption of Crude Oil Increased by 5.6% Year-On-Year to 578 Million Tons,” (2016 *Nian 1-12 Yue Zhongguo Yuanyou Biaoguan Xiaofeilian Tongbi Zeng 5.6% Zhi 5.78 yi Dun*; 2016 年 1-12 月中国原油表观消费量同比增 5.6%至 5.78 亿吨), *Sohu*, February 6, 2017, <https://m.sohu.com/n/480033898>.

²⁴ “Table of China: December Data on Oil, Oil Product, LNG Imports”; Nadia Rodova, “Analysis: China Buys 70% of ESPO Cargoes from Kozmino in 2016,” *Platts*, January 18, 2017, <https://www.platts.com/latest-news/oil/moscow/analysis-china-buys-70-of-russian-espo-cargoes-27753440>; “Refile—Factbox Russia-China Crude Oil Deals,” *Reuters*, February 19, 2014, <http://uk.reuters.com/article/china-russia-crude-idUKL3N0LI3K720140219>.

²⁵ Shi Hongtao, “Energy Security Runs Up Against the ‘Malacca Dilemma’; Will China, Japan and Korea Cooperate? (*Nengyuan Anquan Zaoyu ‘Maliuya Kunju’ ZhongRiHan Nengfou Xieshou*; 能源安全遭遇 ‘马六甲困局’ 中日韩能否携手),” *People’s Daily Online*, June 15, 2004, <http://www.people.com.cn/GB/guojiji/14549/2570978.html>.

second busiest maritime chokepoint.²⁶ Hu reportedly said that “some major powers are constantly encroaching upon and trying to control the Malacca Strait,” and called for measures to enhance China’s energy security.²⁷

China has attempted to reduce its dependence on seaborne oil imports through the construction of three overland oil pipelines from Kazakhstan, Russia, and Burma.²⁸ However, these pipelines have only marginally reduced China’s dependence on seaborne oil imports. First, the Burma-China oil pipeline does not decrease China’s seaborne oil imports because oil must travel by tanker to the mouth of the pipeline at the Burmese port of Kyaukphyu. Second, the combined capacity of the pipelines from Kazakhstan and Russia is 1,000,000 bpd, just 12 percent of China’s crude oil imports in 2017.²⁹

The Middle East will almost certainly remain an important oil supplier to China. As shown in Figure 3, countries in this region provided 44 percent of China’s crude oil imports in 2017.³⁰ The share of China’s oil imports supplied by these countries is unlikely to decline substantially because of the region’s oil resources, well-developed export infrastructure, and geographic proximity to China. However, oil exporters in the Middle East will likely face increasing competition for shares in China’s oil market from other exporters, including Brazil, Russia, and the United States.³¹

²⁶ U.S. Energy Information Administration, *World Oil Transit Chokepoints*, July 25, 2017, https://www.eia.gov/beta/international/analysis_includes/special_topics/World_Oil_Transit_Chokepoints/wotc.pdf.

²⁷ Shi Hongtao, “Energy Security Runs Up Against the ‘Malacca Dilemma.’”

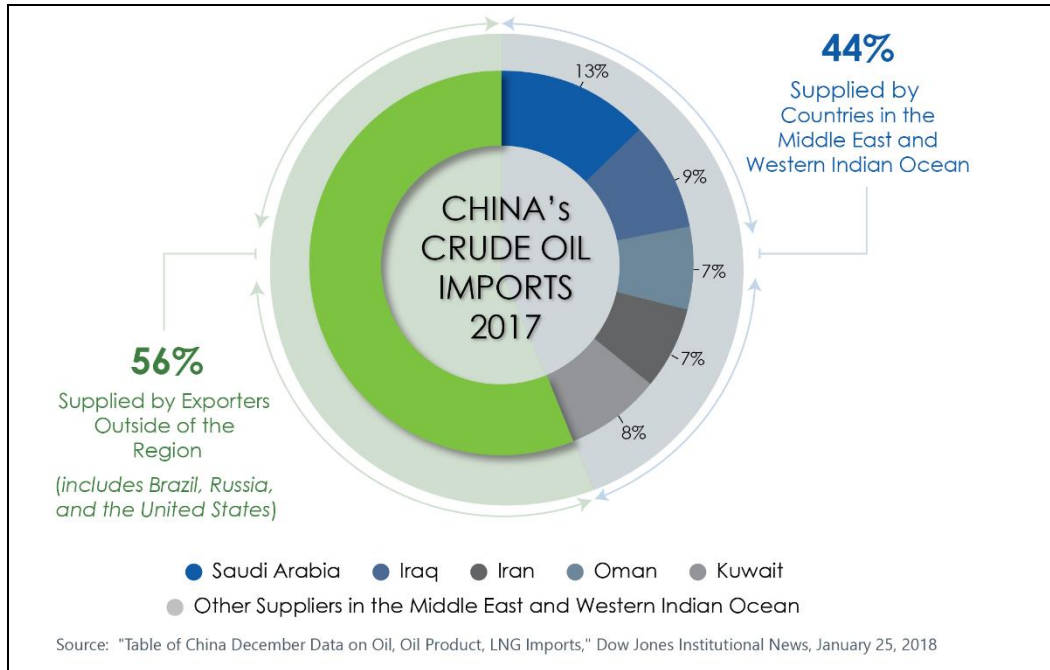
²⁸ Fang Xiangliang and Coco Feng, “China-Myanmar Oil Pipeline Starts Pumping,” *Caixin*, April 12, 2017, <https://www.caixinglobal.com/2017-04-12/101077621.html>; “China, Russia Oil Pipeline Starts Operation,” *Xinhua*, January 1, 2011, http://www.china.org/business/2011-01/01/content_21657410.htm; “Sino-Kazakhstan Crude Pipeline Starts Formal Operation,” *China Oil, Gas & Petrochemicals*, August 7, 2006.

²⁹ “The Second Line of the China-Russia Crude Oil Pipeline is Fully Laid; After It Goes Into Operation, the Amount of Oil Delivered Will Double From 15 To 30 Million Tons Per Year,” (*ZhongE Yuanyou Guandao Erxian Gongcheng Quanxian Guantong; Touchan Hou ZhongE Yuanyou Nian Shusong Liang Jiang Cong 1500 Wan Fanbei 30 Wan Dun*; 中俄原油管道二线工程全线贯通 投产后中俄原油年输油量将从 1500 万吨翻倍至 3000 万吨), *The Observer*, July 13, 2017, http://www.guancha.cn/Industry/2017_07_13_417938.shtml; Matthew J. Sagers, *Step by Step, the Kazakhstan-China Oil Pipeline Becomes a Major Oil Export Conduit*, IHS Energy, 2016, 10; “Table of China December Data on Oil, Oil Product, LNG Imports,” Dow Jones Institutional News, January 25, 2018.

³⁰ “Table of China December Data on Oil, Oil Product, LNG Imports,” Dow Jones Institutional News, January 25, 2018.

³¹ Conversation with oil industry analyst, October 20, 2017.

Figure 3. China's crude oil imports in 2017: Middle East vs. elsewhere



Source: Data for this map derived from "Table of China December Data on Oil, Oil Product, LNG Imports," Dow Jones Institutional News, January 25, 2018.

Consequently, access to the Strait of Hormuz is highly likely to remain a priority for China.

Improving China's domestic economic security

China's primary national security concerns are domestic, and perhaps none is more important to the continued rule of the Chinese Communist Party (CCP) than the health and growth of the economy. President Xi Jinping clearly identified the importance of continued economic growth to political stability in November 2017 during his work report to the 19th Party Congress:

To deliver on the two centenary goals, realize the Chinese Dream of national rejuvenation, and steadily improve our people's lives, *we must continue to pursue development as the Party's top priority* in governance; we must unleash and develop productive forces, continue

reforms to develop the socialist market economy, and promote sustained and sound economic growth.³²

China's expanding presence in the Middle East and Western Indian Ocean, particularly its expanding economic presence, is intended to support China's domestic economic strategy in two ways:

- By helping China upgrade its domestic industrial capabilities
- By helping reduce China's domestic overcapacity.

Upgrading industry

China is seeking to become a manufacturing superpower. One tactic that Chinese firms have adopted in striving for this goal is to promote the use of Chinese manufacturing standards abroad. By increasing the prevalence of Chinese standards in global industrial manufacturing, Chinese firms hope to increase demand for Chinese products that adhere to these standards, thus increasing international market share and influence for Chinese firms.

China aims to become an advanced manufacturing superpower akin to Germany by the middle of the 21st century, shifting from a manufacturer and exporter of lower-value-added products (such as rail cars) to higher-value-added products (such as an entire high-speed railway) across a range of industries.³³ To this end, the Chinese government has devised a three-stage plan for vaulting China into the ranks of the world's leading manufacturing powers by 2049. The goals for the first stage are detailed in China's "Made in China 2025" (MIC 2025) initiative, which covers the period 2016–2025.³⁴ MIC 2025 identifies 10 priority industries as critical to economic growth

³² Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era, Delivered at the 19th National Congress of the Communist Party of China," Xinhua, October 18, 2017, http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf, emphasis added. The "two centenary goals" refer to the goal of doubling China's 2010 per capita GDP by the 100 year anniversary of the CCP in 2021, and achieving a "strong, democratic, civilized, harmonious, and modern socialist country" by the 100th anniversary of the founding of the PRC in 2049.

³³ For a discussion of this shift in the rail sector, see Yicai Global, "From Equipment to a Complete Set of Technical Standards, China's High-Speed Rail Accelerates Going Abroad (*Cong Chanpin Shebei Dao Quantao Jishu Biaozhun, Zhongguo Gaotie Jiakuai Zouchuqu*; 从产品设备到全套技术标准, 中国高铁加快走出去)," Yicai Global, November 2, 2017, <http://www.yicai.com/news/5363812.html>.

³⁴ State Council of the People's Republic of China, "Made in China 2025 (*Zhongguo Zhizao 2025*; 中国制造 2025)," Central People's Government of the People's Republic of China, May 8, 2015, http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm; European Union Chamber of Commerce in China, *China Manufacturing 2025: Putting Industrial Policy Ahead of Market*

and competitiveness in the 21st century, including advanced rail and power-generation equipment, exports of which feature prominently in the BRI.

Beijing views the international activities of Chinese companies as having a role to play in transforming China into an advanced manufacturing superpower. Specifically, Chinese firms can help China join the ranks of the world's leading manufacturing powers by promoting the greater international use of Chinese standards, including industrial standards such as rail gauges.³⁵ The more widely Chinese standards are used abroad, the greater the demand will be outside of China for Chinese products compatible with these standards, thus increasing the international market share of Chinese firms.³⁶

Marketing Chinese standards in the Middle East and Western Indian Ocean

The Chinese government expects that emerging economies, especially those that are part of the BRI, are likely to be willing to accept Chinese standards. This is probably because many developing countries lack energy, transportation, and other forms of infrastructure.³⁷ As a result, there is "room" for Chinese firms to create new markets for Chinese goods by building infrastructure according to Chinese standards and providing loans to purchase the goods and services needed to complete these projects from China.³⁸

China has been targeting many countries in the Middle East and Western Indian Ocean in attempting to convince them to accept Chinese industrial standards. The Ethiopia-

Forces, 2017, <http://www.europeanchamber.com.cn/en/china-manufacturing-2025>; Jost Wübbeke et al., *Made in China 2025: The Making of a High-Tech Superpower and Consequences for Industrial Countries*, Mercator Institute for China Studies, 2016, <https://www.merics.org/en/merics-analysis/papers-on-china/made-in-china-2025/>.

³⁵ State Council of the People's Republic of China, "Notice of the General Office of the State Council on Issuing the Plan for the Development of the National Standardization System (2016-2020) (*Guowuyuan Bangongting Guanyu Yinfā Guojia Biaozhunhua Tixi Jianshe Fazhan Guihua (2016-2020 Nian) de Tongzhi*; 国务院办公厅关于印发国家标准化体系建设发展规划 (2016-2020 年) 的通知)," Central Government of the People's Republic of China, December 2017, http://www.gov.cn/zhengce/content/2015-12/30/content_10523.htm; Lin Chunyan, "Li Keqiang Visits Guangdong and Mentions Chinese Equipment 'Going Out' Again (*Li Keqiang Kaocha Guangdong Zai ti Zhongguo Zhuangbei 'Zouchuqu'*)," 李克强考察广东 再提中国装备'走出去'," Yicai Global, July 1, 2015, <http://www.yicai.com/news/4060518.htm>.

³⁶ Shu Yinbiao, "Accelerate Chinese Standards 'Going Out' and Help Build 'One Belt, One Road' (*Jiakuai Zhongguo Biaozhun 'Zouchuqu' Zhuli 'Yidai Yilu' Jianshe*; 加快中国标准'走出去'助力'一带一路'建设)," *People's Daily*, May 3, 2017, http://paper.people.com.cn/rmrb/html/2017-05/03/nw.D110000renmrb.20170503_2-10.htm. (The author is the chairman of State Grid Corporation, a central state-owned enterprise.)

³⁷ Ibid.

³⁸ Telephone conversation with expert on China's economy, November 2, 2017.

Djibouti Railway, for example, is the poster child for success in this effort, showing how the Chinese government wants to internationalize Chinese standards and generate demand for higher-value-added products. The new rail line from Addis Ababa to Djibouti, for example, is celebrated in China for being the first overseas electrified railway to be built outside of China using a complete set of Chinese standards, technology, and equipment.³⁹

One goal of the Chinese companies that developed the Ethiopia-Djibouti Railway— and a goal of the Chinese government—is to attract more business through the “demonstration effect” of the project. According to an executive of one of the companies that built the railway, “the technology standards, engineering quality, and speed at which the Ethiopia-Djibouti Railway was constructed will provide valuable references for other Africa countries in their own railway endeavor.”⁴⁰

Reducing overcapacity

China suffers from overcapacity in at least 10 industries, including ones associated with infrastructure investment, such as cement and steel.⁴¹ The country built up large production capacity in these industries in the late 2000s, notably in response to the fiscal stimulus program Beijing implemented during the global financial crisis in 2008.⁴² However, as China's economy slows, and the drivers of China's economic growth shift from fixed asset investment toward the service sector, China no longer needs all of this production capacity. The country's steel industry is a case in point. In 2016, China's steel production capacity was 1.1 billion tons, while its steel production, the largest in the world, was 808.4 million tons.⁴³ The 292 million tons of unused Chinese steel production capacity was larger than the output of the world's second, third, and fourth largest steel producers combined (Japan, India, and the United States).⁴⁴

³⁹ “Spotlight: Africa's First Electrified Railway Embraces Full Chinese Standards,” Xinhua, October 6, 2016, http://news.xinhuanet.com/english/2016-10/06/c_135733876.htm.

⁴⁰ Ibid.

⁴¹ International Monetary Fund, *People's Republic of China: 2017 Article IV Consultation—Staff Report*, IMF Country Report No. 17/247, 2017, 18, <https://www.imf.org/en/publications/CR/Issues/2017/08/15/People-s-Republic-of-China-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-45170>.

⁴² Peter Cai, *Understanding China's Belt and Road Initiative*, Lowy Institute, 2017, <https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>.

⁴³ International Monetary Fund, *People's Republic of China: 2017 Article IV Consultation—Staff Report*, 18; World Steel Association, *World Steel in Figures 2017*, 9, <https://www.worldsteel.org/en/dam/jcr:0474d208-9108-4927-ace8-4ac544c5df8/World+Steel+in+Figures+2017.pdf>.

⁴⁴ World Steel Association, *World Steel in Figures 2017*, 9.

Table 2. Selected Chinese industries with overcapacity

Aluminum	Chemicals	Coal-fired Power	Plated Glass	Solar Power
Cement	Coal	Paper	Shipbuilding	Steel

Source: International Monetary Fund, *People's Republic of China: 2017 Article IV Consultation—Staff Report*, IMF Country Report No. 17/247, 18.

Beijing has already taken steps to encourage Chinese firms in industries facing overcapacity to find new markets abroad, illustrating how much they view this issue as a danger to continued economic growth. For example, in October 2013 the State Council issued the “Guiding Opinion of the State Council on Resolving Serious Production Overcapacity Conflicts,” which specifically calls on Chinese firms to actively undertake major infrastructure and industrial projects abroad to drive the export of Chinese technologies, equipment, products, standards, and services.⁴⁵ In addition, the State Council recommended establishing production facilities in neighboring and emerging economies.⁴⁶

Coal-fired power generation equipment is one sector suffering from overcapacity where Chinese firms are likely to be successful in tapping into new sources of demand overseas, such as Pakistan. While the outlook for manufacturers of that equipment in China is grim, the prospects for finding new customers abroad is brighter, and Pakistan is a case in point. Chinese firms are building new power plants in Pakistan as part of the China-Pakistan Economic Corridor (CPEC) that is expected to help close Pakistan's power-generation deficit. The International Monetary Fund estimates that 15 planned CPEC energy projects will add an additional 8.6 gigawatts (GW) on installed capacity over the next seven to nine years, which could eliminate Pakistan's 2016 electricity deficit and even provide it with a surplus of capacity as early as the end of 2018.⁴⁷

The participation of Chinese firms in power-generation projects in Pakistan is also benefitting China's domestic power industry, especially companies involved in coal-fired power generation. For example, PowerChina, a subsidiary of the Chinese state-run China Power Construction Corporation, built the Port Qasim power plant near Karachi. PowerChina's general manager has stated that not only is the project driving the group's output, but even more important, is facilitating the export of Chinese

⁴⁵ State Council of the People's Republic of China, “Guiding Opinions of the State Council on Resolving Serious Production Overcapacity Conflicts” (*Guowuyuan Guanyu Huaqie Channeng Yanzhong Guosheng Maodun de Zhidao Yijian*; 国务院关于化解产能严重过剩矛盾的指导意见), The Central Government of the People's Republic of China, October 6, 2013, http://www.gov.cn/zwqk/2013-10/15/content_2507143.htm.

⁴⁶ “Guiding Opinions of the State Council on Resolving Serious Production Overcapacity Conflicts.”

⁴⁷ International Monetary Fund, *Pakistan: 2017 Article IV Consultation—Staff Report*, IMF Country Report No. 17/212, 2017, 36, <https://www.imf.org/~media/Files/Publications/CR/2017/cr17212.ashx>.

equipment, technology, and standards.⁴⁸ Similarly, the general manager of the Qasim Power Company, a joint venture between PowerChina and a Qatari firm, told reporters that PowerChina invested \$266 million in the project, but has earned \$1.37 *billion* from planning, equipment manufacturing, construction, and consulting related to the project.⁴⁹

Defending China's people and assets abroad

China has a growing number of assets and citizens abroad, including in the Middle East and Western Indian Ocean region. The growth of China's commercial and personnel interests in the region has created an incentive for the PLA to expand China's footprint there in order to protect those interests.

China first began encouraging its businesses to invest abroad as early as 1999, with the implementation of the "Go Out strategy" initiated under Hu Jintao (*zou chuqu zhanlue*; 走出去 战略).⁵⁰ Since then, China's overseas economic interests have greatly expanded. According to China's Ministry of Commerce (MOFCOM), China's outward FDI stock, which was roughly \$532 billion in 2012, more than doubled to almost \$1.1 trillion by 2015. During this same time period, MOFCOM also reports that China's FDI stock in the region grew from around \$11 billion to around \$22 billion.

Additionally, China's actual FDI stock in these countries is undoubtedly higher than the figures reported by MOFCOM because of the large volume of Chinese FDI that passes through Hong Kong, the Cayman Islands, the British Virgin Islands, Luxembourg, and Macao en route to other destinations. For example, MOFCOM reports that 71 percent of China's FDI stock in 2015 was in these five countries, with Hong Kong alone accounting for 61 percent of the total. However, these countries are very likely not the final destination for all of this investment.⁵¹

⁴⁸ "PowerChina Construction Moves Quickly to Build Pakistan's Qasim Power Station (*Zhongguo Dianjian Touzi Jianshe Bajisitan Kaximu Dianzhan Zoumao*; 中国电建投资建设巴基斯坦卡西姆电站走笔)," China Electricity Council, February 16, 2016, <http://www.cec.org.cn/zdlhuiyuandongtai/qita/2016-02-15/148984.html>.

⁴⁹ Ibid.

⁵⁰ "Implement the 'Going Out' Strategy Even Better" (*Genghao de Shishi 'Zouchuqu' Zuozhan*; 更好地实施"走出去"战略)," Central Government of the People's Republic of China, March 15, 2006, http://www.gov.cn/node_11140/2006-03/15/content_227686.htm.

⁵¹ For more on the issue of transit countries, see David Dollar, "United States-China Two-way Direct Investment: Opportunities and Challenges," *Journal of Asian Economics* 50 (June 2017), <https://www.sciencedirect.com/science/article/pii/S1049007817300830>.

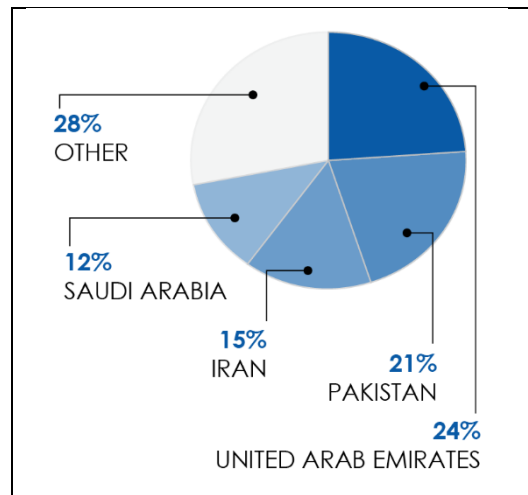
Much of China's foreign direct investment in the Middle East and Western Indian Ocean is concentrated in four countries: the United Arab Emirates, Iran, Pakistan, and Saudi Arabia (see Figure 4).

As China's investments abroad have increased, so too has the number of Chinese citizens living and working abroad. The Chinese government does not publish statistics on the total number of those citizens, though one study by the British-based think tank International Institute for Strategic Studies estimates that at least five million Chinese citizens were working or living abroad by 2014.⁵²

The Chinese government does, however, publish statistics regarding the number of Chinese citizens working abroad on what it refers to as officially registered contracted foreign projects (*duiwai chengbao gongcheng hetong*; 对外承包工程合同) or labor service cooperation agreements (*duiwai laowu hezuo*; 对外劳务合作) that have been registered with the Chinese government. By 2016, more than 475,000 PRC citizens were living abroad and working on these types of projects.⁵³

Within the Middle East and Western Indian Ocean, China has more than 100,000 citizens working on these officially registered projects. Moreover, some of the largest groups of registered Chinese workers in the world are located in this region. According to the 2016 Chinese National Bureau of Statistics, Saudi Arabia has more officially registered Chinese workers in the country (29,423) than any other country outside Asia, with the exception of Algeria (29,931). Other large populations of PRC citizens working on officially registered projects in the region include Iraq (12,541), Pakistan (11,863), Kuwait (4,374), and Sri Lanka (2,971).⁵⁴

Figure 4. China's FDI in the region, 2015



Source: Data derived from 2015 Statistical Bulletin of China's Outward Foreign Direct Investment, 138–142.

⁵² See Jonas Parello-Plesner and Mathieu Duchatel, *China's Strong Arm: Protecting Citizens and Assets Abroad*, (London: Routledge, 2015), 25.

⁵³ "Number of Dispatched Labor of Contracted Projects," National Bureau of Statistics of China (国家统计局), various years, <http://www.stats.gov.cn/english/>; "Number of Dispatched Labor of Labor Services [sic]," National Bureau of Statistics of China, various years, <http://data.stats.gov.cn/easyquery.htm?cn=C01>.

⁵⁴ Ibid.

These numbers, however, reflect only a fraction of the Chinese citizen population living and working in these countries. For example, in 2016, China's ambassador to the UAE told local media that more than 200,000 Chinese citizens were in the UAE working, studying, or doing business.⁵⁵ According to officials in Pakistan's planning and interior ministries, China has 60,000 citizens in Pakistan as of 2018, roughly a three-fold increase from 2013.⁵⁶

As Chinese citizens and investments move into the region, the PLA has been tasked with safeguarding them. As early as 2004, then-president Hu Jintao made defending China's overseas interests one of the PLA's "New Historic Missions."⁵⁷ As noted above, China's 2015 defense white paper explicitly linked China's national interests with the protection of China's overseas interests, calling upon the PLA Navy to protect those interests as part of the navy's new "far-seas protection" naval strategy.

Combating domestic terrorism

China's Belt and Road Initiative and its growing presence and engagement with this region more broadly also appears to be a tool to aid in combating domestic terrorist threats. Specifically, China appears to be using economic and political leverage obtained through economic engagement to pressure countries to cooperate with the PRC in order to deny China's domestic terrorist and separatist groups access to funding, training, and other support from abroad.

China's domestic terrorist concerns have traditionally focused on combating what the state refers to as the "three evils": terrorism, extremism, and separatism. Geographically, this effort has concentrated primarily on China's Uighur population, an ethnic minority group located in the country's Xinjiang Uighur Autonomous Region in the Northwest, which has long clashed with the PRC government over restrictions on religious and cultural practices. Over the past few years, particularly since 2008–2009, Chinese public security organs have become increasingly concerned with the

⁵⁵ Binsal Abdul Kader, "Chinese Community in UAE Grows Fourfold in 10 Years," *Gulf News*, August 10, 2016, <https://gulfnews.com/news/uae/society/chinese-community-in-uae-grows-fourfold-in-10-years-1.1877034>.

⁵⁶ Afshan Subohi, "Chinese Influence Outpaces Influx," *Dawn*, January 22, 2018, <https://www.dawn.com/news/1384511>.

⁵⁷ Daniel Hartnett, "The PLA's Domestic and Foreign Activities and Orientation," testimony before the U.S.-China Economic and Security Review Commission hearing on "China's Military and Security Activities Abroad," March 4, 2009, <https://www.uscc.gov/sites/default/files/3.4.09Hartnett.pdf>.

activities of an active Uighur separatist movement that seeks to establish a future independent state of East Turkestan or “Uighurstan” in Xinjiang.⁵⁸

Historically, China has sought to combat foreign support for domestic separatist activities by focusing on Central Asian states, as Uighur minority populations are located throughout Central and Southwestern Asia, including Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkey, and Beijing remains concerned that China-based Uighurs may receive support from sympathetic groups in those countries. China continues these efforts and has even expanded them, establishing a security presence in Afghanistan, for example, in part to protect Uighur separatists from crossing over the border into Xinjiang.⁵⁹

China has also grown increasingly concerned that those same domestic organizations may be receiving support from countries in the Middle East and Western Indian Ocean region, including Syria and Pakistan. As early as 2012, a former director of the PLA’s NDU claimed that Chinese Uighurs were traveling to Syria to fight against the Syrian government and receive training in order to return to China to conduct terrorist activities.⁶⁰ In 2013, former Pakistani foreign minister Khurshid Mahmud Kasuri was quoted in the Chinese newspaper *Global Times* as saying that it was “no secret” that “Xinjiang extremists” were living in Pakistan’s tribal areas.⁶¹ In June 2017, a Chinese couple (both PRC citizens) was abducted from the city of Quetta and killed by members of the Islamic State.⁶² In February 2018, Chen Zhu, a senior executive working for China Ocean Shipping (COSCO) in Pakistan, was killed in the city of Karachi.⁶³

While Chinese government and military officials do not normally describe BRI as a tool to combat terrorism, some Chinese analysts affiliated with the government have

⁵⁸ Edward Wong, “Riots in Western China Amid Ethnic Tension,” *New York Times*, July 5, 2009, <https://www.nytimes.com/2009/07/06/world/asia/06china.html>; John Sudworth, “China’s Hidden Camps: What’s Happened to the Banished Uighurs of Xinjiang?” BBC News, October 24, 2018, https://www.bbc.co.uk/news/resources/1dt-sh/China_hidden_camps.

⁵⁹ Kemel Toktomushev, “China’s Military Base in Afghanistan,” *The Diplomat*, January 18, 2018, <https://thediplomat.com/2018/01/chinas-military-base-in-afghanistan/>.

⁶⁰ Jin Yinan, “American Wants to Overthrow the Bashar Regime or Throw It Into Chaos,” China National Radio, November 1, 2012, http://mil.cnr.cn/jmhdd/gfsk/wgf/201211/t20121101_511278541.html.

⁶¹ “ETIM Once Purchased Ingredients for Manufacturing Explosives and Poisons in an Attempt to Disrupt Beijing Olympics,” *Global Times*, September 21, 2013, <http://mil.huanqiu.com/china/2013-11/4583776.html>; Murray Scot Tanner, *China’s Response to Terrorism*, CNA IRM-2016-U-013542-Final, 2016, 86, https://www.cna.org/cna_files/pdf/IRM-2016-U-013542-Final.pdf.

⁶² Drazen Jorgic, “Pakistan Says Chinese Killed by Islamic State Were Preachers,” Reuters, June 14, 2017, <https://www.reuters.com/article/pakistan-china/pakistan-says-chinese-killed-by-islamic-state-were-preachers-idUSKBN1931DE>.

⁶³ Syed Raza Hassan, “Senior Chinese Shipping Executive Shot Dead in Pakistan,” Reuters, February 5, 2018, <https://www.reuters.com/article/us-pakistan-china-shooting/senior-chinese-shipping-executive-shot-dead-in-pakistan-idUSKBN1FP1UK>.

indeed done so. For example, the authors of *The Belt and Road Initiative and China's Investment Security*, published in 2016 under the direction of MOFCOM and Beijing International Studies University, argue that combating terrorism is one of the BRI's "strategically significant" (*zhanlue yiyi*; 战略意义) aspects. According to the authors, cooperation between China and Belt and Road countries will "squeeze terrorism's operating space (*shengcun kongjian*; 生存空间) by increasing economic exchange and [increasing] counterterrorism exchange with countries in Central Asia, [therefore] constraining the resources available to terrorism."⁶⁴

According to Ding Gang, a senior editor at the state-run *People's Daily*,

as the Belt and Road project keeps advancing and attracting an increasing number of countries and enterprises, common interests will help build up mutual trust, which constitutes the foundation for the fight against terrorism. In this way the countries involved [in Belt and Road] will think of ways to deal with terrorists because "my problem is your problem as well."⁶⁵

Many of the bilateral agreements China has signed with countries in the Middle East and Western Indian Ocean contain clauses in which both countries agree to increase security cooperation, specifically in order to combat terrorism. For example:

- **Egypt:** In January 2016, China and Egypt issued a "five-year outline" agreeing to "jointly combat terrorism and extremism with maximum cooperation in information exchange, evidence collection, and arrest and repatriation of suspects." The countries also vowed to "strengthen cooperation in capturing and punishing members of terrorism organizations in the two countries and stem the financial sources of terrorism."⁶⁶
- **Iran:** In a March 2017 joint statement, China and Iran stated that "both parties believe that strengthening exchanges between the military and defense departments of the two countries will lay the foundation for stability and security," and they agreed to cooperate "through the training of personnel and counterterrorism, intelligence sharing, equipment, and technology."⁶⁷

⁶⁴ Cao Weidong (ed.), *Report of the Belt and Road Initiative and China's Investment Safety (2015-2016)* (Beijing: Social Sciences Academic Press, 2016), 2.

⁶⁵ Ding Gang, "Belt and Road Plays Key Role in Joint Terror Fight," *Global Times*, December 7, 2017, <http://www.globaltimes.cn/content/1056042.shtml>.

⁶⁶ "China, Egypt Oppose Linking Terrorism with Specific Nations, Religions," Xinhua, January 22, 2016, www.xinhuanet.com/english/2016-01/22/c_135033234.htm.

⁶⁷ PRC Ministry of Foreign Affairs, "Joint Statement between the People's Republic of China and the Islamic Republic of Iran on Establishing a Comprehensive and Strategic Partnership," January 23, 2016.

- **Qatar:** In March 2017, China and Qatar signed a joint statement in which they promised to “strengthen the exchanges and cooperation between the two countries on law enforcement and antiterrorism...establish a long-term security cooperation mechanism, strengthen intelligence and information exchange, and carry out technical cooperation and personnel training.”⁶⁸
- **Saudi Arabia:** In January 2016, Saudi Arabia and China signed a joint statement on establishing a strategic partnership. In the statement, both sides agreed to “strengthen security cooperation in this field [terrorism].”⁶⁹
- **United Arab Emirates:** In July 2018, following Xi’s visit to the UAE, the two countries signed 13 separate Memorandums of Understanding (MOUs) across a wide range of issues, including military and law enforcement, security, and counterterrorism issues. These agreements provide the opportunity to expand future cooperation between the two countries on issues such as counterterrorism training, arms sales, combined counterterrorism operations, or information sharing and technology transfer.⁷⁰

While ostensibly focused on counterterrorism, such relationships could provide China with a starting point to develop more comprehensive bilateral security relationships with these countries in the future.

Conclusion

This chapter has sought to identify and analyze the drivers that have provided the impetus for China’s growing presence in the Middle East and Western Indian Ocean.

As illustrated above, many of these drivers predate the announcement of China’s BRI initiative in 2013. For example, the growth in China’s investments and personnel abroad and the need to maintain access to SLOCs in order to safeguard economic and energy security were evident in China’s foreign policy well before 2013.

Xi Jinping’s Belt and Road Initiative, however, appears to have given China’s desire to establish a presence in the region a greater sense of political urgency, as these drivers have been sanctioned as the impetus for BRI by Xi Jinping, a strong leader who has a firm grasp on the direction of China’s policy. This suggests that these drivers, now

⁶⁸ PRC Ministry of Foreign Affairs, “Joint Statement of the People’s Republic of China and Qatar on Establishing a Strategic Partnership,” March 16, 2017.

⁶⁹ PRC Ministry of Foreign Affairs, “Joint Statement of the People’s Republic of China and the Kingdom of Saudi Arabia on Establishing a Comprehensive Strategic Partnership,” January 19, 2016.

⁷⁰ See for example, “UAE, China Co-sign 13 Agreements, MoUs,” Saudi Press Agency, July 20, 2018, <https://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=1786788>.

sanctioned by Xi, will continue to influence China's foreign policy direction in the near term, and that China's presence in the Middle East and Western Indian Ocean will likely continue to grow as a result.

Chapter 3. Diplomacy and Military Diplomacy

This chapter examines China's diplomacy in the Middle East and Western Indian Ocean, focusing predominately on the military diplomatic initiatives taken by the PLA. China's military diplomatic outreach in the region has been very active during Xi Jinping's tenure, providing the party-state with another set of tools to advance the country's regional objectives. Specifically, our research suggests that China's military diplomacy in the region supports the following objectives:

- Advancing broader Chinese foreign policy goals
- Developing interpersonal ties with senior and rising regional military leaders
- Developing institutional ties between the PLA and regional militaries
- Demonstrating the benefits of China's military modernization
- Improving partner capacity and interoperability
- Improving intelligence collection.

Each of these is discussed in detail below.

Advancing Chinese foreign policy goals

Perhaps most broadly, China's diplomacy in the region supports the state's broader foreign policy goals. This is reflected, for example, in the outcomes of visits to the region by senior Chinese government and military personnel, including Xi Jinping, who serves as both the head of the Chinese Communist Party and the senior figure of the Chinese military.

Visits by Xi Jinping

Analysis of Xi's foreign visits since becoming party secretary in 2013 suggests that under his tenure, China has indeed prioritized its relations with multiple countries in the Middle East and Indian Ocean littoral states. In that time, for example, Xi has made seven trips to the region (see Table 3).

Table 3. Visits by Xi Jinping to countries in the region

Year	Trips to the region	Total overseas trips	Countries visited
2013	1	17	Tanzania
2014	2	20	Maldives, Sri Lanka
2015	1	15	Pakistan
2016	3	15	Egypt, Iran, Saudi Arabia
2017	0	8	
2018	1	13	United Arab Emirates;

An examination of Xi's visits to the region suggests that he has used these trips to advance China's regional foreign policy goals in the following ways:

Promoting cooperation in combating terrorism:

China has long been concerned with domestic separatist groups receiving support from Central Asia. However, Xi's trips to Egypt, Pakistan, the UAE, and elsewhere in part reflect China's efforts to curb support in the region for Chinese domestic insurgent groups. For example, while in Egypt, Xi discussed with Egyptian president Abdel Fattah al-Sisi the need to "redouble our common efforts in various bilateral and international areas to combat the danger of terrorism and extremism," according to the Egyptian president.⁷¹ While speaking to Pakistan's parliament in 2015, Xi stated that "China will assist Pakistan in strengthening its capacity for fighting terrorism and ensuring security, and work with Pakistan to tackle rising nontraditional security threats so as to provide a reliable security guarantee for bilateral economic cooperation and common development."⁷²

Xi Jinping's call for a "1+2+3" pattern of BRI cooperation with Arab states

During his 2016 talk to the Arab League in Cairo, Xi called for a "1+2+3 cooperative pattern" with the Arab world:

- (1) energy cooperation as the "principal"
- (2) infrastructure construction and trade and investment facilitation as the "two wings"
- (3) three major high-tech fields: nuclear power, space satellite, and new energy

⁷¹ Lin Noueihed and Ali Abdelaty, "China's Xi Visits Egypt, Offers Financial, Political Support, Reuters, January 20, 2016, <https://www.reuters.com/article/us-egypt-china-idUSKCN0UZ05L>.

⁷² "Full Text of President Xi Jinping's Speech to the Parliament in Pakistan, Foreign Ministry of the People's Republic of China," Institute of Strategic Studies, Islamabad, April 21, 2015, http://issi.org.pk/wp-content/uploads/2015/07/Pak-China_Year_of_Friendly_Exchange_Doc-1.docx.pdf.

Promoting China's Belt and Road Initiative: In 2016, during Xi's trip to Saudi Arabia, Egypt, and Iran, he frequently touted the potential benefits of collaborating with China on the Belt and Road Initiative.

- During talks with Egyptian president Abdel-Fattah al-Sisi, for example, Xi suggested that the two countries coordinate their development strategies, cooperate on infrastructure construction and production capacity, and "turn Egypt into a hub under the Belt and Road Initiative."⁷³
- While in Saudi Arabia, Xi attended the opening of the Chinese-invested Yasref oil refinery, China's largest investment in Saudi Arabia.⁷⁴
- Xi's trip to Iran, the first for a Chinese leader in 14 years, included an agreement by the country to increase bilateral trade by \$600 billion over the next decade.⁷⁵

Demonstrating China's friendship toward counties in the region: Some of Xi's trips to the region have been highly symbolic and appear designed to demonstrate how much China values the friendship of countries in the region. For example:

- In March 2013, upon becoming CCP general secretary and PRC president, Xi made a visit to Tanzania. This was his second foreign state visit since becoming president (after a trip to Russia) and his first visit to Africa. During his visit, Xi gave a speech entitled "Remaining Reliable Friends and Faithful Partners Forever." In the speech, Xi noted China's long history of engagement with African states and China's support for African anti-colonialism and independence.⁷⁶

Developing support for possible future expansion of China's military presence in the region: While this goal has not been stated explicitly, it is important to note that two of the countries in the region that Xi has visited, the Maldives and Sri Lanka, have relatively small economies. Both are geo-strategically significant, however, and both

⁷³ Xinhua, "Xi Proposes to Build Egypt into Pivot of Belt and Road," *China Daily*, January 21, 2016, http://www.chinadaily.com.cn/world/2016xivisitmiddleeast/2016-01/21/content_23189470.htm.

⁷⁴ "Xi Jinping and King Salman bin Abdulaziz Al Saud of Saudi Arabia Together Attend the Launch Ceremony of the Yasref Oil Refinery," Ministry of Foreign Affairs of the People's Republic of China, January 21, 2016, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdstajylxgsfw/t1333960.shtml.

⁷⁵ Zhou Xin, "China, Iran Opens 'New Chapter' in Bilateral Ties as President Xi Jinping visits Tehran as Peacemaker, Power Broker and Major Buyer of Oil," *South China Morning Post*, January 24, 2016, <http://www.scmp.com/news/china/diplomacy-defence/article/1904328/china-iran-opens-new-chapter-bilateral-ties-president>.

⁷⁶ Ministry of Foreign Affairs, "Xi Jinping Delivers a Speech at the Julius Nyerere International Convention Center in Tanzania, Stressing China and Africa Will Always Remain Reliable Friends and Faithful Partners," Ministry of Foreign Affairs of the People's Republic of China, March 25, 2013, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpcfl_665694/t1025803.shtml.

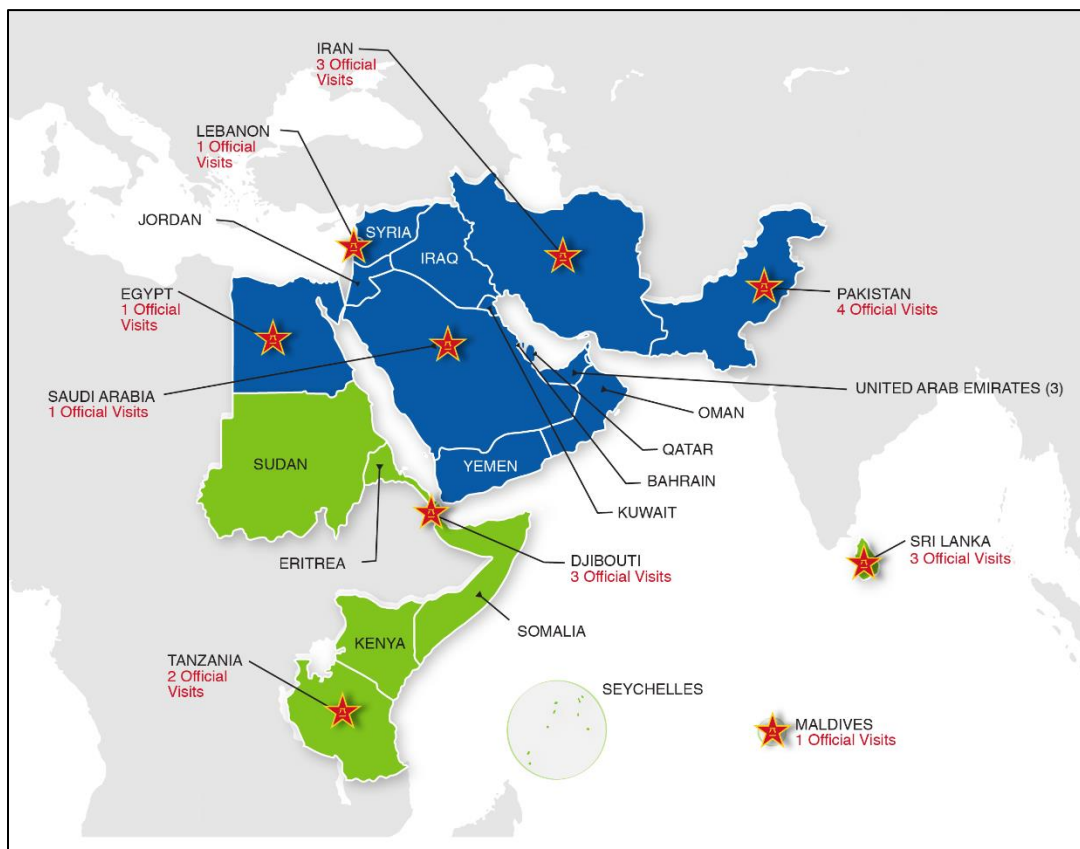
have been mentioned in Chinese military writings as possible locations for future PLA military facilities.

Visits by senior PLA personnel

Like Xi's visits, senior PLA personnel often use their conversations with regional counterparts to voice support for China's larger strategic goals, including the BRI. At other times, senior PLA personnel appear to be using their trips through the region as a way to establish a foundation for good relations. We identified 19 visits from senior PLA personnel to countries in the region between 2013 and 2016 (see Figure 5).⁷⁷

⁷⁷ Data for this section on PLA senior visits are drawn from Kenneth Allen, Phillip C. Saunders, and John Chen, "Chinese Military Diplomacy, 2003–2016: Trends and Implications," *China Strategic Perspectives* 11 (2017), <http://ndupress.ndu.edu/Media/News/Article/1249864/chinese-military-diplomacy-20032016-trends-and-implications/>. The authors define "senior officer" as PLA personnel in leadership positions in the Central Military Commission, four general departments, military regions, National Defense University, and the Academy of Military Sciences.

Figure 5. PLA senior officer visits in the Middle East and Western Indian Ocean region, 2013–2016



Source: Data derived from Allen, Saunders, and Chen, “Chinese Military Diplomacy, 2003–2016: Trends and Implications.”

During this time, senior PLA personnel have regularly visited Pakistan (four times), and Iran (three times), China’s two longest-standing partners in the region. They have also visited countries where China either currently has a base or has discussed locating a base in the future. These locations include Djibouti, where the PLA’s first overseas base is located (three visits), as well as Sri Lanka (three visits) and Tanzania (two visits); the latter two have been mentioned as a possible location for future PLA facilities.

Information on the content of senior PLA personnel meetings is limited. However, the information that is available suggests that, much like Xi Jinping’s trips throughout the region, trips by senior PLA personnel are designed to support China’s broader foreign policy goals. Specifically, meetings appear designed to serve two purposes in particular:

Voice support for China’s Belt and Road Initiative: Sometimes, senior PLA leaders use meetings with their regional counterparts to further China’s broader narrative in the

region, noting how the BRI provides opportunities for mutual benefit and mutual development. For example:

- Chinese media reporting on a March 2017 meeting between GEN Fan Changlong (Vice-Chairman of the PLA Central Military Commission) and Pakistan's Chief of the Army Staff GEN Qamar Javed Bajwa highlighted GEN Fan's stressing the importance of CPEC as "the flagship project of 'One Belt, One Road' initiative" and said that he [Fan] "hoped that both sides would make joint efforts to develop the CPEC into a landmark project connecting regional countries and realizing common development."⁷⁸
- During his meeting with the UAE defense minister in Beijing, PRC defense minister GEN Chang Wanquan noted that "China hopes to work with the UAE to take the opportunity of the Belt and Road initiative to deepen mutually beneficial cooperation and realize win-win development."⁷⁹

Conclude concrete agreements: Some meetings do conclude specific agreements between China and the host country, although details of those discussion are rarely made available.

- In 2016 following a visit to Tehran by PRC defense minister GEN Chang, Iranian media reported that China and Iran had concluded a defense agreement to improve counterterrorism and military training cooperation.⁸⁰
- In February 2014, GEN Chang traveled to Djibouti to meet with President Ismail Omar Guelleh, during which time the two reportedly came to an agreement to allow the PLAN greater access to Djiboutian ports.
- In November 2015, another senior PLA officer, GEN Fang Fenghui, the Director of the PLA General Staff Department, traveled to Djibouti, apparently to finalize the agreement to allow China to establish a base on Djiboutian soil. The agreement between the two countries was officially acknowledged by the PRC Foreign Ministry two weeks later.⁸¹

⁷⁸ Zhang Tao, ed., "Senior Military Leader Meets with Pakistani Chief of Army Staff," China Military Online, March 17, 2017, www.eng.chinamil.com.cn/view/2017-03/17/content_7529355.htm.

⁷⁹ Huang Panyue, "Chinese and UAE Defense Ministers Hold Talks in Beijing," China Military Online, May 18, 2017, http://eng.chinamil.com.cn/view/2017-05/18/content_7608042.htm.

⁸⁰ "Iran, China Sign Defense Cooperation Deal," *The Tehran Times*, November 14, 2016, <http://www.tehrantimes.com/news/408324/Iran-China-sign-defense-cooperation-deal>.

⁸¹ "Djibouti President Meets with Chinese Defense Minister," *PLA Daily*, February 26, 2014, http://eng.mod.gov.cn/DefenseNews/2014-02/26/content_4492914.htm; Downs et al., *China's Military Support Facility in Djibouti*, 24.

Developing interpersonal ties with senior and rising regional military leaders

Some of China's military diplomatic initiatives in the region also provide opportunities for Chinese military personnel to establish personal ties and friendly relations, with both current military leaders in the region and the next generation of leaders. While Chinese military personnel may have opportunities to interact and develop ties with foreign militaries during port visits or bilateral military exercises, establishing such interpersonal relations appears to be a particularly high priority when China provides training to foreign military personnel within China.

Training regional military personnel in China

China does not provide statistics on the number of foreign military personnel receiving training in China, or the number of countries in the Middle East and Western Indian Ocean participating in China's training programs. Reporting from official Chinese sources, however, does indicate that those numbers have been increasing. In 2000, for example, China's defense white paper noted that "nearly 1,000 military personnel from Africa, Latin America and Europe, and other Asian countries" had come to China for training.⁸² By 2007–2008, however, China's defense white paper noted that "some 4,000 foreign military personnel" had come to China for training.⁸³

Much of this training for foreign military personnel is conducted at the PLA National Defense University's College of Defense Studies (CDS). Documentation on the university's website notes that it has established formal relations with national defense universities in seven countries, naming Australia, South Korea, and the United States specifically.⁸⁴ According to the college's website, the institution "provide(s) international advanced professional military training and...defense-related exchanges, with participants from more than 160 countries in five continents."⁸⁵

⁸² Information Office of the State Council of the People's Republic of China, *China's National Defense in 2000*, October 2000, <https://fas.org/nuke/guide/china/doctrine/cnd0010/china-001016wp.htm>.

⁸³ Information Office of the State Council of the People's Republic of China, "China's National Defense in 2008," January 2009, http://www.china.org.cn/government/whitepaper/node_7060059.htm.

⁸⁴ Chu Zhenjiang and Luo Jinmu, "National Defense University Strengthens Strategic Cooperation with Several Countries' Well-known Academic Institutions (*Guofang Daxue yu Duoguo Mingxiao Jiaqiang Zhanlue Hezuo*; 国防大学与多国名校加强战略合作)," *PLA Daily*, May 12, 2014.

⁸⁵ "International College of Defense Studies, NDU, PLA, China," Function & Mission, http://www.cdsndu.org/html_en/to_xygk_orderNo=2251&superOrderNo=2250.html.

Anecdotally, we have identified instances of personnel from countries throughout the region receiving training in China at the college (see Table 4).

Table 4. Countries in the Middle East and Western Indian Ocean region receiving foreign military training at the PLA College of Defense Studies

Djibouti	Pakistan
Egypt	Saudi Arabia
Eritrea	Somalia
Iran	Sri Lanka
Jordan	Sudan
Kenya	Tanzania
Oman	

Source: International College of Defense Studies, NDU, PLA, China, various pages, <http://www.cdsndu.org>.

China's training programs promote interpersonal ties with regional military personnel in a number of ways. The website for China's College of Defense Studies notes, for example, that its month-long course for lieutenants and lieutenant colonels provides opportunities "to strengthen contact and trust among young officers from different countries through exchange of views."⁸⁶ When foreign alumni of Chinese military training programs are promoted to senior ranks, they are often invited back to China in the hopes that they might develop warm feelings toward China. This was the case in October 2016, when SCOL Xu Hui, the school's commandant, made a point of paying a courtesy call on Air Marshal Kapila Jayampathy, who had recently been promoted to commander of the Sri Lankan Air Force. Air Marshal Jayampathy was a graduate of the CDS.⁸⁷

Other times, having mid-professional or senior military officers living in China can provide opportunities to foster good will unexpectedly. In March 2017, the college posted on its website a heartfelt letter of thanks written to the college by Pakistani Brigadier General Muhammad Zill e Husnain, thanking the facility and staff of the

⁸⁶ National Defense University, "Courses," College of Defence Studies, NDU, PLA, China, http://www.cdsndu.org/html_en/to_columnContent_orderNo=2402&superOrderNo=2400.html.

⁸⁷ "Commandant Senior Col Xu Hui Calls on CDS Graduate of Sri Lanka," International College of Defense Studies, NDU, PLA, China, October 14, 2016, http://www.cdsndu.org/html_en/to_articleContent_article.id=40288a8556065bc90157f4e8915c04f6.html.

college for arranging his return home following the untimely deaths of his younger brother and father-in-law.⁸⁸

Such personal experiences may go a long way in helping the Chinese military develop strong personal relations with individual senior officers in the region.

Developing institutional ties between the PLA and regional militaries

Other military diplomatic activities provide opportunities for China to develop institutional relations between the PLA and counterparts in the Middle East and Western Indian Ocean. One way China has been able to do this is through the strategic use of arms sales.

“The support rendered by the CDS authorities has further strengthened my impression about Chinese rich traditions and brotherly relationship amongst two Iron Brothers.

“I am sure the great gesture exhibited by the CDS leadership and administration will be remembered for a long time by me/my family and will find a special place in our hearts.”

— Brigadier General
Muhammad Zill e Husnain
letter of thanks to CDS

In 2015, China overtook Germany as the world’s third largest arms exporter, according to the Stockholm International Peace Research Institute (SIPRI).⁸⁹ Since Xi Jinping first came to power in 2013, about 40 percent of China’s arms sales worldwide have been to countries in this region, with the vast majority (35 percent) going to Pakistan.

China’s growing relationship with Djibouti, culminating in the establishment of the PLA’s first overseas military base, provides an excellent example illustrating how arms sales can support the promotion of institutional ties with militaries in the region. China used arms sales as part of a larger military diplomatic outreach initiative to Djibouti in the years immediately preceding China’s agreement to establish an overseas base. According to SIPRI’s arms transfer database, China had no registered arm sales or arms transfers to Djibouti before 2013.

In 2013, however, China arranged for the transfer of an MA60 transport aircraft to the Djibouti Air Force.⁹⁰ In 2014, the PLA agreed to provide the Djibouti military with five

⁸⁸ “A Letter of Thank [sic] from Pakistan Course Participant, Brigadier Muhammad,” International College of Defense Studies, NDU, PLA, China, March 10, 2017, http://www.cdsndu.org/html_en/to_articleContent_article.id=40288a8558991b2d015ad54e4b8206f7.html.

⁸⁹ Aude Fleurant et al., “Trends in International Arms Transfers, 2015,” SIPRI Fact Sheet, February 2016, <https://www.sipri.org/sites/default/files/SIPRIFS1602.pdf>.

⁹⁰ Stockholm International Peace Research Institute (SIPRI), *Arms Transfer Database*, 2014, <http://www.sipri.org/databases/armstransfers>. Gabe Collins and Andrew Erikson, “Djibouti

Norinco-made WMA-301 armored fire-support vehicles, which were delivered in time to put on display during the country's 27 June independence day parade that year.⁹¹ While not sufficient on their own, these arms sales appear to have contributed to the development of a strong China-Djibouti military relationship that would eventually pave the way for the establishment of China's first overseas base.

Developing institutional ties through arms sales

China has at times also acted as an alternative to the United States for selling arms to countries where the U.S. limits such sales. This was the case with regard to Thailand following the military coup in 2014. As discussed below, China appears to have done the same with Sri Lanka in the mid-2000s and is currently doing so with Pakistan, as the United States has limited its military assistance to that country.

Sri Lanka: Throughout the 1990s and 2000s, China was one of Sri Lanka's primary suppliers of arms, providing between one-quarter and one-third of Sri Lanka's relatively small amounts of arms purchases during this time. In 2007, however, the United States suspended its military aid to Sri Lanka as a result of the Sri Lankan government's human rights violations during its civil war.⁹² In response, China provided \$37 million in ammunition and ordnance to the Sri Lankan military that year.⁹³ In 2008, China provided six F-7 jet fighters, anti-aircraft guns, and radar systems to Sri Lankan forces.⁹⁴ China also provided diplomatic cover to the Sri Lankan government by blocking UN Security Council discussions of human rights violations committed by government troops during the civil war.⁹⁵

Likely to Become China's First Indian Ocean Outpost," *China Signpost*, July 11, 2015, <http://www.chinasignpost.com/2015/07/11/djibouti-likely-to-become-chinas-first-indian-ocean-outpost/>.

⁹¹ Collins and Erikson, "Djibouti Likely to Become China's First Indian Ocean Outpost."

⁹² U.S. Department of State, "Sri Lanka," 2007 Country Reports on Human Rights Practices, U.S. Department of State, March 11, 2007, <https://www.state.gov/j/drl/rls/hrrpt/2007/100620.htm>.

⁹³ Peter Popham, "How Beijing Won Sri Lanka's Civil War," *The Independent*, May 22, 2010, <https://theindependent.co.uk/news/world/asia/how-beijing-won-sri-lankas-civil-war-1980492.html>.

⁹⁴ Ibid.; Jeff M. Smith, "China's Investments in Sri Lanka," *Foreign Affairs*, May 23, 2016, <https://www.foreignaffairs.com/articles/china/2016-05-23/chinas-investments-sri-lanka>; Costas Paris, "U.S. Watchdog Seeks Assurances on Planned Shipping Alliance; Federal Maritime Commission Expresses Concerns About Whether Container Companies Would Aim to Jointly Negotiate Prices," *Wall Street Journal*, August 31, 2016, <https://www.wsj.com/articles/u-s-watchdog-seeks-assurances-on-planned-shipping-alliance-1472646898>.

⁹⁵ "UN Split on Lankan Issue: U.S. Backing Move for Security Council Briefing; China, Russia Against," *The Sunday Times* (Colombo), March 22, 2009, http://www.sundaytimes.lk/090322/News/sundaytimesnews_01.html.

Pakistan: Roughly 86 percent of China’s arms sales in this region go to Pakistan, China’s long-standing partner. Pakistan in turn has relied on China for the vast majority of its arms purchases since at least the beginning of Xi’s tenure. Roughly 70 percent of all Pakistan’s arms purchases from 2013 to 2017 were from China.⁹⁶ This coincided with a corresponding decline in Pakistan’s arms purchases from the United States (see Figure 6).

Figure 6. China and the United States: arms sales to Pakistan
1955-2017 (rolling five-year averages)



Source: Kiran Stacey, “Pakistan Shuns U.S. for Chinese High-Tech Weapons,” *Financial Times*, 18 April, 2018, <https://www.ft.com/content/8dbce0a0-3713-11e8-8b98-2f31af407cc8>.

Chinese arms sales to Pakistan have been useful in bolstering the military relationship between the two countries. Historically, Pakistan has been China’s strongest partner in the region—its “Iron Brother.”⁹⁷ The strength of that relationship has been built partly on China’s strong support to the Pakistani military in the form of arms sales and defense technology transfers. China has been instrumental in supporting the Pakistani defense industry, helping develop the nation’s ballistic missile and nuclear weapons

⁹⁶ SIPRI, *Arms Transfer Database*.

⁹⁷ “Pakistan Iron Brother Gets Popular Among Chinese Youth: Ambassador Sun Weidong,” *The Nation*, October 4, 2017, <https://nation.com.pk/04-Oct-2017/pakistan-iron-brother-gets-popular-among-chinese-youth-ambassador-sun-weidong>.

program.⁹⁸ China's Chengdu Aircraft Corporation (CAC) and the Pakistan Aeronautical Complex (PAC) also jointly developed the JF-17 Thunder fighter aircraft, an increasingly important component of the Pakistan Air Force.⁹⁹

Pakistan clearly places a high value on this aspect of its relationship with China. For example, between 2009 and 2013, China delivered four F-22P Zulfikar-class frigates, with the fourth and final ship being constructed in Pakistan at a cost of \$500–\$750 million.¹⁰⁰ China also provided the Pakistan Navy with Z9EC antisubmarine helicopters for embarking aboard those F-22P frigates. Speaking at the ceremony to incorporate the helicopters into the Pakistan Navy, then chief of the Pakistan Naval Staff Admiral Bashir noted that

Pakistan enjoys time-tested, multidimensional, and deep-rooted relations with China. These relations have grown deeper and stronger in all spheres of defence and economic cooperation. F-22P and Z9EC projects are clear manifestations of these bonds of friendship.¹⁰¹

At other times, China has been able to develop institutional ties to countries in the region by selling specific weapon systems that the United States has refused to provide, such as the sale of unmanned aerial vehicles (UAVs) to countries with questionable human rights records. Examples of this behavior include aspects of China's arms sales to Saudi Arabia and Iran.

Saudi Arabia: Although Saudi Arabia relies on the United States and the United Kingdom for most of its arms purchases, it is becoming an increasingly important market for the sale and manufacture of Chinese drones. In 2016, the United States led a group of 48 countries in issuing a joint declaration on the sale of armed UAVs, and has refused to sell them to countries with a record of human rights abuses, including Saudi Arabia.¹⁰² China has filled that void, providing an export version of its Wing

⁹⁸ Lisa Curtis, *China's Military and Security Relationship with Pakistan*, Heritage Foundation, May 26, 2009, <https://www.heritage.org/testimony/chinas-military-and-security-relationship-pakistan>.

⁹⁹ Abheet Singh Sethi, "China Behind Pak's Growing Confidence, Supplies 63% of Islamabad's Arms Need," *Hindustan Times*, September 30, 2016, <https://www.hindustantimes.com/india-news/china-behind-pak-s-growing-confidence-supplies-63-of-islamabad-s-arms-need/story-fnqRQYRHRRU73kDxmllLdL.html>.

¹⁰⁰ SIPRI Arms Transfers Database, Stockholm International Peace Research Institute, March 12, 2018, <https://www.sipri.org/databases/armstransfers>.

¹⁰¹ "Pakistan Navy Inducts Advanced Chinese Anti-Submarine Helicopters," Khudi.pk, November 8, 2010, <https://khudi.wordpress.com/2010/11/08/pakistan-navy-inducts-advanced-chinese-anti-submarine-helicopters/>.

¹⁰² U.S. Department of State, "Joint Declaration for the Export and Subsequent Use of Armed or Strike-Enabled Unmanned Aerial Vehicles (UAVs)," U.S. Department of State, October 28, 2016, <https://2009-2017.state.gov/r/pa/prs/ps/2016/10/262811.htm>; Jeremy Paige, "Unable to Buy U.S. Military Drones, Allies Place Orders with China," *Wall Street Journal*, July 17, 2017,

Loong II UAV to Saudi Arabia, the UAE, and Egypt, as well as to Uzbekistan, Kazakhstan, Turkmenistan, and others.¹⁰³

Moreover, as part of the March 2017 agreement between China and Saudi Arabia, the state-owned China Aerospace Science and Technology Corporation (CASC) agreed to build a factory in Saudi Arabia to manufacture its CH-4 Caihong (“Rainbow”) drone, a large fixed-wing asset similar to the U.S. MQ-9 Reaper.¹⁰⁴

Iran: China has a long history of positive relations with the Iranian military, providing arms when many developed countries restricted or banned their sale to Iran. China also provided the nuclear technology, machinery, and training necessary for Iran to develop its nuclear weapons program throughout the 1990s, and has provided Iran with the training and technology to develop its own indigenous missile systems. For example, it sold Iran short-range missile systems, long-range missiles, and antiship cruise missiles, as well as the technology to develop them domestically.¹⁰⁵

Evidence suggests that China may be continuing to provide missile and missile technology to Iran without such transfers showing up in the formal registry. For example, in 2006 a Chinese national named Li Fangwei set up an array of companies in China to facilitate the transfer of proliferation-sensitive goods—including advanced metals for missile warheads, components for gas centrifuges and uranium enrichment, and gyroscopes for missile guidance systems—to companies linked to Iran’s missile and nuclear programs.¹⁰⁶ In 2009, the United States filed charges against Li and his

<https://www.wsj.com/articles/unable-to-buy-u-s-military-drones-allies-place-orders-with-china-1500301716>.

¹⁰³ Franz-Stefan Gady, “China Scores Biggest Military Export Order for Killer Drones,” *The Diplomat*, March 2, 2017, <https://thediplomat.com/2017/03/china-scores-biggest-military-export-order-for-killer-drones/>.

¹⁰⁴ Minnie Chan, “Chinese Drone Factory in Saudi Arabia First in Middle East,” *South China Morning Post*, March 26, 2017, <https://www.scmp.com/news/china/diplomacy-defence/article/2081869/chinese-drone-factory-saudi-arabia-first-middle-east>.

¹⁰⁵ Scott W. Harold and Alireza Nader, *China and Iran: Economic, Political, and Military Relations*, RAND, OP-351-CMEPP, 2012, 5–10, https://www.rand.org/pubs/occasional_papers/OP351.html.

¹⁰⁶ Project Alpha, “Li Fang Wei and LIMMT,” King’s College London, September 22, 2014, <https://projectalpha.eu/li-fang-wei-and-limmt-2/>; “Most Wanted—Li Fangwei,” Federal Bureau of Investigation, 2018, <https://www.fbi.gov/wanted/counterintelligence/li-fangwei>. While no universal definition of *proliferation-sensitive goods* exists, the term is generally used to encompass materials, technology, or knowhow associated with the development of nuclear, biological, or chemical weapons programs. For example, technologies associated with uranium enrichment are essential to both civilian and military uses of nuclear technology. The movement of these goods is regulated by various export control regimes such as the Nuclear Suppliers Group and the Missile Technology Control Regime. For additional information on proliferation-sensitive goods, see Dai Tamada and Philippe Achilleas, *Theory and Practice of Export Control: Balancing International Security and International Economic Relations* (Singapore: Springer, 2017), 5.

Dalian-based LIMMT trading company.¹⁰⁷ Former U.S. nonproliferation officials refer to Li Fangwei as the most serious proliferator since Pakistan's A.Q. Khan.¹⁰⁸ Although the United States announced a \$5 million reward for Li's capture, Chinese authorities have still not arrested him.¹⁰⁹

More recently, in 2012 the *Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions* (the Section 721 report of the FY1997 Intelligence Authorization Act) stated that entities in the PRC continued to supply missile-related items to Iran and likely supplied key components necessary for Iran's production of ballistic missiles.¹¹⁰

Developing institutional ties through bilateral exercises

China also seeks to develop institutional ties and build trust with militaries in the region by conducting bilateral military exercises. China's bilateral exercise activity in the region has been relatively limited, compared to the number of military exercises it conducts with countries closer to home. For example, from 2013 to 2016 we identified only 18 bilateral military exercises that China conducted in the Middle East and Western Indian Ocean, compared to 27 with Indo-Pacific countries.¹¹¹

Most of China's bilateral exercises (12 of 18) were conducted with Pakistan, China's closest ally in the region. These exercises have been evenly split between the PLA Navy, PLA Air Force, and PLA ground forces, with each service being involved in four separate exercises. During bilateral naval exercises, the two sides have conducted joint maneuvers at sea, the landing of helicopters on each other's ships, as well as live-fire and air-defense exercises.¹¹²

¹⁰⁷ Project Alpha, "Li Fang Wei and LIMMT"; Jeff Stein, "How China Helped Iran Go Nuclear," *Newsweek*, July 14, 2015, www.newsweek.com/2015/07/31/iran-nuclear-deal-china-karl-lee-353591.html.

¹⁰⁸ Stein, "How China Helped Iran Go Nuclear."

¹⁰⁹ "Li Fangwei Charged in Manhattan Court with Using a Web of Front Companies to Evade U.S. Sanctions," U.S. Department of Justice, April 29, 2014, <https://www.justice.gov/usao-sdny/pr/li-fangwei-charged-manhattan-federal-court-using-web-front-companies-evade-us-sanctions>.

¹¹⁰ Shirley A. Kan, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, Congressional Research Service, Report RL31555, 2015, 18, <https://fas.org/sgp/crs/nuke/RL31555.pdf>.

¹¹¹ Unless otherwise noted, data for this section analyzing China's bilateral and multilateral military exercises are derived from Allen, Saunders, and Chen, "Chinese Military Diplomacy."

¹¹² See for example Huang Panyue, "China, Pakistan to Hold Joint Naval Drill in Arabian Sea," *China Military Online*, June 13, 2017, http://english.chinamil.com.cn/view/2017-06/13/content_7637523.htm.

Additionally, the PLA has conducted bilateral exercises with Egypt, Saudi Arabia, Sri Lanka, and Tanzania:

- **Egypt:** In 2015, the PLA Navy Chinese frigate *Yiyang* and the Egyptian frigate *Toshka* conducted basic maneuver drills as part of the PLA Navy's 20th Escort Task Force's port visit to the city of Alexandria.¹¹³
- **Saudi Arabia:** In 2016, roughly 50 special forces personnel (25 each from China and Saudi Arabia) took part in the first-ever joint counterterrorism exercise between the two countries.¹¹⁴
- **Sri Lanka:** In 2015, 43 PLA personnel and an unknown number of participants from the Sri Lankan army's commando regiment and special forces took part in Exercise Silk Route 2015, the first bilateral exercise between the two countries.¹¹⁵ China has also participated in Sri Lanka's Cormorant Strike, a multilateral exercise involving special forces and amphibious operations.¹¹⁶
- **Tanzania:** In 2014, a small contingent of fewer than 100 PLA Navy marines conducted Beyond 2014, a month-long counterterrorism exercise in Dar es Salaam with the Tanzanian People's Defense Force.¹¹⁷

China's bilateral exercises in this region are relatively small compared to those in INDOPACOM, often involving fewer than 100 personnel. However, like China's arms sales, some of these exercises appear to be designed primarily to improve military-to-military ties. For example, China's 2014 exercise between the Tanzanian and PLAN marines involved fewer than 100 Chinese personnel and focused on relatively rudimentary activities, such as "overcoming language barriers." Despite this, however, Major General Rogastian Laswai, the commander of the Tanzanian Navy, noted that

¹¹³ Zhang Tao, "Chinese, Egyptian Navies Conduct Joint Maritime Drill in Mediterranean," China Military Online, September 9, 2015, http://english.chinamil.com.cn/news-channels/photo-reports/2015-09/09/content_6674132.htm.

¹¹⁴ "China Holds First Anti-Terror Drills with Saudi Arabia," Reuters, October 27, 2016, <https://www.reuters.com/article/us-china-saudi-security/china-holds-first-anti-terror-drills-with-saudi-arabia-idUSKCN12R0FD>.

¹¹⁵ Sri Lanka Ministry of Defence, "Exercise- Silk Route 2015 Concludes," Ministry of Defence, Democratic Socialist Republic of Sri Lanka, July 14, 2015, http://www.defence.lk/new.asp?fname=Exercise_Silk_Route_2015_concludes_20150714_02.

¹¹⁶ Sri Lanka Ministry of Defence, "Cormorant Strike Annual Joint Military Exercise," Ministry of Defence, Democratic Socialist Republic of Sri Lanka, http://www.defence.lk/com_str/index.html.

¹¹⁷ "Marines of China and Tanzania Conduct Joint Military Training," China Military Online, October 17, 2014, http://eng.mod.gov.cn/MilitaryExchanges/2014-10/17/content_4544667.htm.

the exercise “was a milestone in improving relations and cooperation between the two countries.”¹¹⁸

Demonstrating the benefits of China’s military modernization

The growing number of PLA Navy ships and other military assets in the Middle East and Western Indian Ocean also provides China with opportunities to demonstrate how its military modernization can benefit the region. This is most clearly illustrated by examining the PLA Navy’s port visits, including military medical visits conducted by the PLA Navy hospital ship *Peace Ark*.

PLA Navy port visits

Chinese naval leaders have long been aware of the PLAN’s unique capacity to support the country’s diplomatic efforts. As noted by former PLA Navy deputy commander Vice Admiral Chen Mingshan in 1993:

Navies possess many specific characteristics that differ from those of the other armed forces. The navy has international capabilities of free navigation on the high seas, and in peacetime it can cruise the world’s seas, even conducting limited operations outside the territorial waters of hostile countries...but even more important is its peacetime, national foreign policy role.¹¹⁹

China also has a long history of conducting port visits in this region. The service’s first overseas port visits, conducted in 1985, involved the destroyer *Hefei* and supply ship *Fengchang* traveling along the South Asian coast to visit Pakistan, Bangladesh, and Sri Lanka.¹²⁰ Routine visits to the region by China’s navy, however, began only in 2008 with the start of the PLAN’s Gulf of Aden escort operations. Since that time, however, we have identified more than one hundred PLA Navy port visits conducted in this region (see Figure 7).

¹¹⁸ “China and Tanzania Conclude Historic Naval Exercise,” Defence Web, November 18, 2014, http://www.defenceweb.co.za/index.php?option=com_content&view=article&id=37029:china-and-tanzania-conclude-historic-naval-exercise.

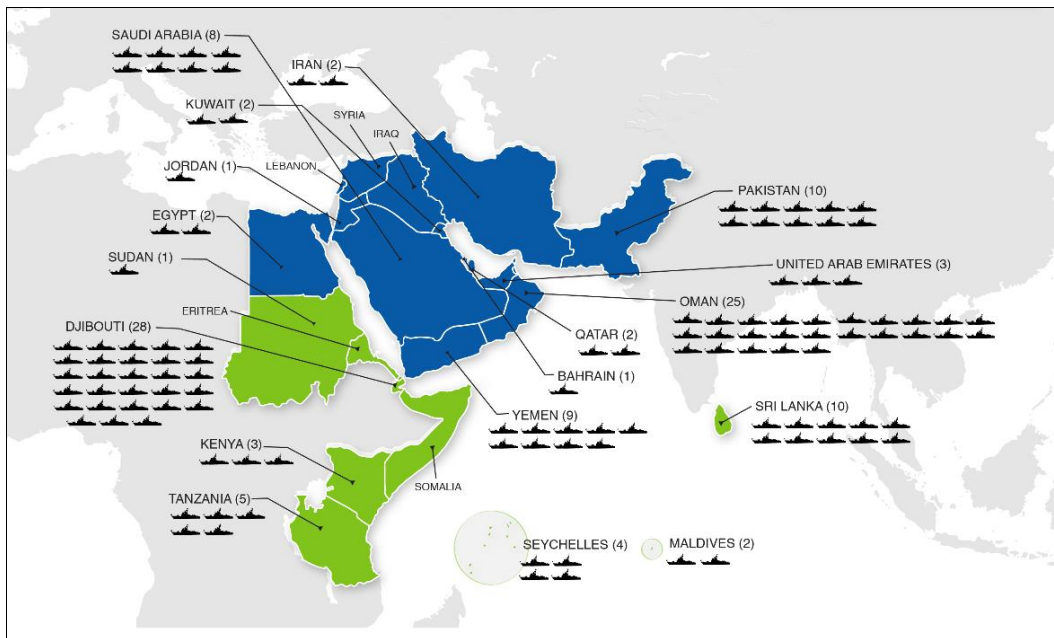
¹¹⁹ Gordon Jacob, “Chinese Naval Developments Post-Gulf War,” *Jane’s Intelligence Review* 5, no. 2 (February 1, 1993): 81.

¹²⁰ Wu Chen Quan Xiaoshu, Lin Jianyang, “Chinese Navy Sails Onto World Stage,” Embassy of the People’s Republic of China in the United Kingdom of Great Britain and Northern Ireland, October 23, 2009, <http://www.fmprc.gov.cn/ce/ceuk/eng/xnyfgk/t622220.htm>.

Djibouti has been one of the PLAN's most frequent destinations. Since 2008, we have identified more PLAN ships conducting port visits to Djibouti (28) than to any other country in the region. PLA Navy ships have also frequently visited Oman (25 visits), as well as the Pakistani port of Karachi (10 visits). Figure 7 shows China's top destinations for port visits in the region from 2009 to 2017. China's navy has sought to use its port visits in the region to demonstrate the benefits of its modernization primarily in three ways.

They highlight China's contribution to protecting free trade through port visits in support of counterpiracy. Many of China's port visits in the region are conducted in support of China's Gulf of Aden counterpiracy operations, which PLA personnel routinely argue are conducted for the good of the international community.¹²¹ For example, all 25 of the port visits to Oman that we identified from 2008 to 2017 were conducted by ships participating in Gulf of Aden operations. Most PLAN port visits to Djibouti that we identified were conducted by counterpiracy task force ships.

Figure 7. PLA Navy port visits in the Middle East, East Africa, and Western Indian Ocean, 2008–2017



Source: Data derived from CNA dataset on PLA Military Diplomacy; Kenneth Allen, Phillip C. Saunders, and John Chen, *Chinese Military Diplomacy, 2003–2016: Trends and Implications*, China Strategic Perspectives 11.

¹²¹ Andrew S. Erikson and Austin M. Strange, "China's Blue Soft Power," *Naval War College Review* 68, no. 1 (2015).

They provide medical services through China’s “Harmonious Mission” operations. Since 2010, the PLA Navy has also been conducting military medical missions worldwide through its “Harmonious Mission” (*hexie shiming*; 和谐使命) series of military medical missions involving the PLA Navy hospital ship *Peace Ark*. These missions provide free medical services to local personnel, as well as local military and government officials. As part of these operations, *Peace Ark* has visited Djibouti (2010), Maldives (2013), and Djibouti and Tanzania (2017).

Analysts affiliated with the Chinese government have argued explicitly that *Peace Ark*’s medical service missions are useful in developing China’s regional influence or “soft power.”¹²² When writing about the *Peace Ark*’s 2013 visit to the Maldives for example, deputy director of the Institute of International Studies Shen Dingli noted that “the Chinese military constantly provided the public goods [in a] timely [fashion], not only showcasing China’s ‘soft power,’ but also its ‘warm power.’”¹²³

This sentiment is also shared by countries that have received PLA assistance during times of crisis. In late 2014, for example, the PLA provided roughly 800 tons of fresh drinking water and financial assistance to the Maldives following a fire that damaged the country’s desalinization plant.¹²⁴ Speaking after the incident, the Maldives minister of defense expressed his thanks to the PLAN, stating that “the fresh water supply aid fully reflected the deep friendship between the two countries.” The head of the Maldives legislature also stated that the “people of Maldives will never forget the helping hand from China at such a critical moment.”¹²⁵

“Through these programs [during the PLAN port visit] CNS Harbin and the Chinese Embassy in Seychelles hope to convey to Seychelles the good will of Chinese people and Chinese Army, further improve mutual understanding and trust between the two countries, especially the two armies, and strengthen cooperation to maintain peace and stability of the region.”

— Chinese Embassy in Seychelles during PLAN port visit, 2013

They establish goodwill and promote military ties. China also uses port visits throughout the region to foster goodwill and develop or improve ties with the host

¹²² “Chinese Military Showcases ‘Warm Power’ by Taking More International Responsibilities,” *PLA Daily*, January 8, 2015.

¹²³ *Ibid.* The term *warm power* may have been coined by Shen to describe the creation of feelings of goodwill toward China as a result of these types of missions. We have been unable to identify any additional usage of the term.

¹²⁴ “Maldives Thanks Chinese Navy For Fresh Water Supply,” China Military Online, December 17, 2014, http://eng.mod.gov.cn/DefenseNews/2014-12/17/content_4558436.htm.

¹²⁵ *Ibid.*; Zhang Tao, “China Sends Fresh Water to Maldives,” Xinhua, December 7, 2014, http://eng.mod.gov.cn/DefenseNews/2014-12/07/content_4556064.htm.

country. For example, during the PLAN's June 2017 visit to Muscat, RADM Shen Hao, the commanding officer of the three-ship task force conducting the visit, noted in his welcome ceremony speech that the two navies would "further strengthen pragmatic exchange and cooperation, enhance mutual trust and friendship, and work together to maintain regional stability and world peace."¹²⁶ During a 2013 visit to the Seychelles, *Harbin* (DDG 112) held a public "open ship" day and a deck reception for Seychelles military and government personnel. Some ship personnel from *Harbin* also visited a local orphanage, while others participated in the Seychelles National Day parade.¹²⁷

Perhaps the clearest recent example of China's port visits being used to promote goodwill was the PLA Navy's "One Belt One Road" Task Force. In April 2017, a three-ship PLA Navy task force (TF 150)—consisting of *Changchun* (DDG 150), *Jinzhou* (FFG 532), and the supply ship *Chaohu* (890)—began a worldwide voyage, visiting 20 countries in six months (see Table 5).¹²⁸

Table 5. Port visits conducted by the PLA Navy's OBOR/MSR Task Force

Philippines	Italy	Vietnam	Thailand
Malaysia	Turkey	Greece	Djibouti
Myanmar	Saudi Arabia	Tanzania	Iran
Sri Lanka	Bangladesh	Maldives	Cambodia
Pakistan	Indonesia	Brunei	Oman

Source: Li Jiayao, "Chinese Ocean-Going Naval Task Group Ends Visits to 20 Countries," China Military Online, http://english.chinamil.com.cn/view/2017-10/16/content_7788876.htm.

China's military diplomacy is still limited compared to the United States

While the growth of China's port visits and other military diplomatic efforts in the region is impressive, we must place it in context. The U.S. Navy, particularly U.S. Naval Forces Central Command (NAVCENT), continue to be much more active throughout the region, conducting more port visits and exercises than the PLAN, despite the latter's rapid growth in the past decade. For example, while Chinese naval vessels have conducted about 25 port visits to Oman during the past ten years, the U.S. Navy visited

¹²⁶ "Chinese Ocean-Going Naval Fleet Visits Oman," *SeaWaves*, June 20, 2017, <http://seawaves.com/2017/06/20/chinese-ocean-going-naval-fleet-visits-oman/>.

¹²⁷ "Chinese Navy Ship *Harbin* Arrives in Seychelles for a Five-Day Visit," Embassy of the People's Republic of China in the Republic of the Seychelles, June 17, 2013, <http://sc.china-embassy.org/eng/zxhd/t1050929.htm>.

¹²⁸ Li Jiayao, "Chinese Ocean-Going Naval Task Group Ends Visits to 20 Countries," China Military Online, October 16, 2017, http://english.chinamil.com.cn/view/2017-10/16/content_7788876.htm.

that country almost as many times (23 port visits) in just a three-year period, from 2015 to 2017.¹²⁹

Moreover, the U.S. Navy continues to conduct a wide range of exercises with partner militaries across the region. This includes the International Mine Countermeasures Exercise (IMCMEX), the world's largest maritime exercise, with more than 30 participating nations in 2016.¹³⁰ From 2016 to 2017 alone, the U.S. Navy, Marine Corps, and Coast Guard conducted at least four separate engagements with Omani forces, including urban operations, mine countermeasures exercises, NEOs, and VBSS exchanges.¹³¹ The number of regional exercises, combined with the large number of port visits and other military diplomatic engagements conducted by NAVCENT, continues to surpass the number of engagements conducted by the PLA Navy by a wide margin.

Improving partner capacity and interoperability

While it could be argued that China's arms sales inherently improve partner capacity, Pakistan has a special standing in the region in that some arms sales to Pakistan appear to improve both Pakistan's military capabilities, and its ability to operate with the PLA. This is particularly notable in the case of the sale of Chinese S-20 attack submarines, the export variant of the Type-041 YUAN-class submarine. In 2016, the China Shipbuilding Industry Corporation confirmed its intent to build and export eight S-20 attack submarines to Pakistan at a cost of roughly \$5 billion.¹³² The deal was reportedly approved by then-Pakistani prime minister Nawaz Sharif in early April 2015, immediately before President Xi Jinping's first-ever visit to Pakistan later that

¹²⁹ This total includes six port visits in 2015, nine in 2016, and eight in 2017. Data for these port visits were collected from the U.S. Navy's website "America's Navy," <http://www.navy.mil/>.

¹³⁰ U.S. Naval Forces Central Command Public Affairs, "World's Largest Maritime Exercise Underway in Middle East," America's Navy, April 4, 2016, http://www.navy.mil/submit/display.asp?story_id=93996.

¹³¹ See for example, U.S. Naval Forces Central Command Public Affairs, "Navy-Marine Corps Conduct First Non-Combatant Evacuation Exercise in Oman," America's Navy, September 22, 2016, http://www.navy.mil/submit/display.asp?story_id=96811; Corbin J. Shea, "US, Oman, Bahrain, UAE Participate in VBSS Exchange," America's Navy, October 6, 2016, http://www.navy.mil/submit/display.asp?story_id=97055; 11th Marine Expeditionary Unit Public Affairs, "Oman, U.S. Speak a Common Language: Tactics," America's Navy, March 16, 2017, http://www.navy.mil/submit/display.asp?story_id=99358; Kevin Steinberg, "US, Oman, France, UK Commence Exercise Khunjar Haad," America's Navy, February 23, 2017, http://www.navy.mil/submit/display.asp?story_id=99017.

¹³² Gabriel Dominguez, "China Confirms Plans to Export Eight Submarines to Pakistan," *Jane's Defence Weekly*, October 18, 2016, <https://janes.ihs.com/Janes/Display/jdw63493-jdw-2016>.

month.¹³³ During President Xi's visit, Prime Minister Sharif noted in his speech to a joint session of the Pakistani parliament that "our defence ties [with China] are strong, and they are poised to become stronger in the years to come."¹³⁴

The YUAN-class submarine is one of China's most modern, conventionally powered submarines. According to public reports, the export version of this submarine does not come equipped with an air-independent propulsion (AIP) system, which would allow the submarine to stay submerged for longer periods of time. However, foreign analysts have speculated that Pakistan may be able to acquire this technology from China, thus improving the effectiveness of its new submarine fleet.¹³⁵

China's sale of YUAN-class submarines may also improve its own submarine capabilities in the region by providing PLA Navy submarines with a location that has experience in conducting logistical support operations for the YUAN class. Were Pakistan to successfully deploy these submarines from Karachi, the Pakistan Navy would, over time, gain experience in conducting all the necessary logistics operations required for Chinese submarines from that location. Given the strong relationship between China and Pakistan, it is not unreasonable to assume that the Pakistani government would give the PLA Navy access to these facilities, thus providing a proven support facility to PLAN submarines in the region.

Improving partner capacity and interoperability through bilateral exercises

China also appears to have improved partner capacity and interoperability with the PLA when it conducted bilateral exercises with Pakistan and, to a lesser extent, with Saudi Arabia as well.

Pakistan: Building trust is often cited as a goal for any bilateral exercise conducted by the PLA. However, in 2017 China and Pakistan conducted Shaheen ("Eagle"), an annual exercise between the two countries' air forces. According to Chinese media reports, the exercise included more operationally advanced activities, which are unusual in China's bilateral exercises with other countries in the region, including live-fire target practice for fighter planes, night warfare, and close support operations. The exercise

¹³³ "Pakistan PM Approves Deal to Buy Eight Chinese Submarines: Official," Reuters, April 1, 2015, <https://www.reuters.com/article/us-china-pakistan/pakistan-pm-approves-deal-to-buy-eight-chinese-submarines-official-idUSKBN0MT05M20150402>.

¹³⁴ "Full Text of PM Nawaz Speech at Joint Session of Parliament During Xi Jinping Visit," *Dawn*, April 21, 2015, <https://www.dawn.com/news/1177312>.

¹³⁵ Benjamin David Baker, "Revealed: Why China Is Selling Submarines to Pakistan?" *The Diplomat*, September 28, 2015, <https://thediplomat.com/2015/09/revealed-why-china-is-selling-submarines-to-pakistan/>; Gurpreet Singh Khurana, "China's Yuan-class Submarine Visits Karachi: An Assessment," Center for International Maritime Security (CIMSEC), July 28, 2015, <http://cimsec.org/chinas-yuan-class-submarine-visits-karachi-assessment/17627>.

also employed the JF-17, a joint product of Chinese and Pakistani state-owned companies, and is used by both air forces. Moreover, during the exercise, a Pakistani fighter pilot was given an opportunity to fly a Chinese J-11B fighter and engage in sorties in that aircraft as part of the exercise.¹³⁶ Employing relatively advanced aircraft used by both sides and providing Pakistani pilots access to Chinese aircraft during the exercise suggest a desire to improve both Pakistan's capacity and the level of interoperability between the two countries.

Saudi Arabia: On a much smaller scale (only 25 personnel from each side), China's 2016 counterterrorism exercise with the Saudi military appeared to be designed specifically to improve the capability of both sides to work together to combat terrorism. As described in the previous chapter, China has become increasingly concerned with the terrorist threat to Chinese assets and personnel emerging from the Middle East, and Chinese leaders view the PRC's engagement with the region as a way to combat that threat. When discussing the exercise, China's *People's Daily* stated specifically that "the training program aims to enhance the capability of the two militaries in combating terrorism and unconventional security threats."¹³⁷

Improving intelligence collection

Finally, PLA diplomatic activities provide more opportunities for the PLA to improve its knowledge and understanding of the region and its actors, including the United States. Visits to ports in the region, for example, provide the PLA Navy with firsthand knowledge of the nature and characteristics of the facilities that are available. Bilateral military exercises provide opportunities to improve China's knowledge of the operational capacities of its regional partners, while training programs that bring regional personnel to China provide opportunities not only to develop interpersonal ties, but also to cultivate potential informational sources for future exploitation.

Conclusion

To summarize, this chapter has sought to demonstrate how China's diplomatic activities—in particular, its military diplomacy—advance its policy goals in the region in the following ways:

¹³⁶ Huang Panyue, "China and Pakistan Demonstrate Alliance, Flex Muscles During Joint Exercise," Sputnik News, September 30, 2017, http://eng.chinamil.com.cn/view/2017-09/30/content_7774880.htm.

¹³⁷ Zhang Tao, "China, Saudi Arabia Hold First Joint Anti-Terrorism Drill," People's Daily Online, October 27, 2017, http://english.chinamil.com.cn/view/2016-10/27/content_7329354.htm.

- **They support Chinese foreign policy goals:** Senior Chinese government and military personnel, including Xi Jinping, use their trips in the region to voice support for China's larger strategic goals, including the BRI, while establishing the foundation of good relations required for future collaboration.
- **They help the PLA develop interpersonal ties:** Training opportunities in China provide the PLA with opportunities to develop ties with current and future regional military leaders.
- **They help the PLA develop institutional ties:** China appears to have been most successful at developing institutional ties in the region through the sale of weapons, by acting as an alternative to the United States for arms sales, or by providing ties that cannot be acquired elsewhere (such as through its sale of drones). Many of China's bilateral military exercises in the region also appear designed to improve military-to-military ties.
- **They demonstrate the benefits of China's military modernization:** Military medical missions by the PLA Navy's *Peace Ark*, as well as regional port visits in support of counterpiracy task force operations, allow the PLA to showcase how military modernization benefits the region.
- **They improve interoperability:** Some arms sales, such as China's sale of submarines to Pakistan, as well as certain bilateral exercises, such as the China-Pakistan bilateral air exercise Shaheen or the counterterrorism exercises with Saudi Arabia, can improve partner capacity. Certain arms sales such as the sale of Chinese submarines to Pakistan can possibly facilitate future interoperability, as the Pakistan Navy begins to operate some of the same assets used by the PLA.
- **They provide opportunities for intelligence collection:** Finally, engaging with foreign militaries in a wide variety of ways provides China with opportunities to gain a better understanding of the region and its actors, including, potentially, the U.S. and U.S. Navy.

Chapter 4. Informational Engagement

The Chinese party-state has a clear narrative about its growing presence in the Middle East and Western Indian Ocean region. The primary component of this narrative—and the one Chinese officials speak about the most—is that China can provide countries in the region with a new option for diversifying their international trade and sources of foreign capital. As China’s special envoy to the Middle East stated in 2016 on the eve of President Xi Jinping’s visit to Egypt, Iran, and Saudi Arabia, China can provide states in the region “with a new possibility and choice.”¹³⁸

The present chapter examines this narrative by analyzing China’s informational engagement with countries in the region. First, the chapter identifies the key actors and organizations, as well as the mechanisms through which China distributes its message. Second, the chapter describes in detail the messages that China seeks to convey to states in this region, which are tailored to resonate with different audiences across the region. This discussion draws particularly on China’s informational engagement with Djibouti, Egypt, Oman, and Saudi Arabia.

Chinese leaders, starting with president Xi Jinping himself, have explicitly stated that China stands ready to help countries in the region achieve their long-term economic goals. They promote the Belt and Road Initiative (BRI), Xi’s signature foreign policy initiative, as sufficiently flexible to be a means to whatever economic ends countries in the region are pursuing, from diversifying their economies away from oil to becoming commercial hubs. Chinese officials stress that the BRI is not solely about advancing Chinese interests in the region, but that it is an international public good as well. Moreover, they stress that economic development can have the knock-on effect of greater regional stability.

As we demonstrate in detail below, Chinese officials also portray China’s military presence in the region as providing an international public good. While they are much more reticent on this subject than China’s economic presence, China’s leaders nonetheless want to make sure they control the narrative about what China’s military is doing in the Middle East and Western Indian Ocean region, especially in Djibouti, the site of China’s first overseas base. Their main message is that the facility in Djibouti will be used for peacetime operations that contribute to regional security and—unlike the U.S. base there—will not be used for power projection.

¹³⁸ “Interview: Xi’s Visit to Boost Bilateral Ties, Deepen Cooperation Between China, Egypt: Special Envoy,” Xinhua, January 19, 2016, http://www.xinhuanet.com/english/2016-01/19/c_135025101.htm.

More broadly, Beijing pointedly makes the case that it is a different kind of outside power than the United States. While Chinese officials rarely mention the United States by name, the list of activities that they have told countries in the region China will not engage in are all references to specific actions taken by the United States, such as taking sides in disputes and promoting democracy. As shown below, the bottom line for Beijing is that, in contrast to the United States, China is a friend to everyone, is in the region primarily to foster economic development, and will not start wars, get embroiled in regional disputes, or interfere in the domestic affairs of states in the region.

China's narrative: voices and vehicles

The most authoritative Chinese voices explaining China's presence in the Middle East and Western Indian Ocean region to countries in the region are Chinese officials themselves. This section examines how China's presence is discussed by senior Chinese leaders, including President Xi Jinping, Premier Li Keqiang, Foreign Minister Wang Yi and State Councillor Yang Jiechi. It also examines the messages sent by China's vice foreign minister, special envoy to the Middle East, spokesmen for the Ministry of Foreign Affairs and the Ministry of Defense, and executives of central state-owned enterprises. (See Chapter 3 for a discussion of China's military diplomacy in the region.)

Chinese officials use a variety of tools to communicate with countries in the region. These tools include speeches, remarks to foreign counterparts in diplomatic engagements or telephone calls, press conferences, interviews with Chinese and foreign media, and signed commentaries published in foreign media. Table 6 provides examples of how Chinese officials have employed each of these tools to explain China's presence in the Middle East and Western Indian Ocean region to countries in the region, all of which are referenced in the remainder of the chapter.

Table 6. Vehicles used for signaling to the Middle East and Western Indian Ocean region

Vehicle	Example from the region
Speeches	Xi Jinping's speech at the Arab League headquarters
Remarks to foreign counterparts	Xi Jinping's telephone call with King Salman of Saudi Arabia
Press conferences	Chinese Foreign Minister's joint press conference with Jordan's foreign minister, routine press conferences held by China's Ministry of Foreign Affairs
Commentaries in foreign media	Xi Jinping's signed letters in newspapers in Egypt, Iran, Pakistan, and Saudi Arabia
Interviews with foreign media	Omani newspaper's interview with China's ambassador to Oman
Interviews with authoritative Chinese media directed at foreign audiences	China's official news agency's interview with China's special envoy to the Middle East

The Chinese party-state uses a handful of state-run media outlets to convey to foreign audiences the way it wants them to view China's presence in the region. Indeed, the letter President Xi Jinping sent to China Global Television Network (CGTN) to congratulate the broadcaster on its launch on 31 December 2016 said, "CGTN should tell stories about China well and spread China's voice well; enable the world to see a multidimensional and colorful China; present China as a builder of world peace, a contributor to global development, and an upholder of international order."¹³⁹ CGTN and the other media outlets listed below are the ones most likely to be used by Beijing to convey to foreign audiences abroad what Beijing wants them to know about China's activities abroad.

Xinhua is China's official news agency and largest newsgathering organization, providing content for other Chinese media outlets.¹⁴⁰ Xinhua releases content in Arabic, Chinese, English, French, Japanese, Portuguese, Russian, and Spanish.¹⁴¹ It has 180 foreign bureaus and seven regional offices, including one in Cairo.¹⁴²

People's Daily is the official daily newspaper of the Central Committee of the Chinese Communist Party. It is widely regarded as the "mouthpiece of the party." The paper

¹³⁹ "President Xi Urges New Media Outlet to 'Tell China Stories Well,'" CCTV, December 31, 2016, <http://english.cctv.com/2016/12/31/ARTIdvXHYPQnQ35nWBGttZg161231.shtml>.

¹⁴⁰ "Xinhua President Pledges 'More Intelligent, Precise' News Service," Xinhua, January 23, 2018, http://www.xinhuanet.com/english/2018-01/23/c_136917615.htm; Central Intelligence Agency, "The Chinese Media: More Autonomous and Diverse—Within Limits," Center for the Study of Intelligence, http://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/books-and-monographs/the-chinese-media-more-autonomous-and-diverse-within-limits/copy_of_1.htm.

¹⁴¹ "Xinhua President Pledges 'More Intelligent, Precise' News Service."

¹⁴² Vivian Wang, "How Chinese Media is Going Global," World Economic Forum, August 10, 2015, <https://www.weforum.org/agenda/2015/08/how-chinese-media-is-going-global/>.

provides content in nine languages—Arabic, Chinese, English, French, German, Korean, Portuguese, Spanish, and Russian.¹⁴³

China Daily is China's official English-language newspaper. It is also available in Chinese and French. *China Daily* published editions for Africa, the Asia-Pacific, China, Europe, and the United States, with editorial focuses that vary by region. Much of *China Daily's* content on meetings between senior Chinese officials and their foreign counterparts is provided by Xinhua.

China Global Television Network (CGTN), which launched on 31 December 2016, is China's official international television network. It is operated by China Central Television, the flagship network of China's state-controlled TV system. CGTN broadcasts in Arabic, English, French, Spanish, and Russian. It has production centers in Washington, DC and Nairobi, and is finalizing plans to establish one in London.¹⁴⁴

China's messages

China has three core messages to countries in the Middle East and Western Indian Ocean region:

- We can get you where you want to go economically
- We are a force for regional stability
- We are not the United States.

We can get you where you want to go economically

Beijing's central message to countries in the region is that China can help them realize their long-term economic goals. Chinese officials portray China as a reliable economic partner that can provide countries in the region with the capital, technology, infrastructure and equipment needed for greater prosperity. Notably, the officials are careful not to portray China as taking the lead in promoting economic engagement in the region. Instead, they merely state that China "is willing to cooperate" with countries in the region, leaving it up to other countries to decide whether to pursue closer economic ties with China. For example, President Xi Jinping published a letter in an Iranian newspaper before his visit to Tehran in January 2016, stating that "China is

¹⁴³ "About Us," People's Daily Online, <http://en.people.cn/102840/7560415.html>.

¹⁴⁴ "About Us," China Global Television, https://www.cgtn.com/home/info/about_us.do.

ready to deepen cooperation with Iran on building roads, railways, sea routes and the Internet and facilitate East-West connectivity in Asia.”¹⁴⁵

The BRI figures prominently in Chinese communications about the role China can play in helping countries in the region advance their economic agendas. Chinese officials have been quick to identify synergies between the BRI and the development strategies of regional countries. This message is consistent with one of the Chinese leadership’s main talking points about the BRI: that it is a vehicle for realizing not only Chinese economic objectives, but also those of other countries. As President Xi Jinping himself has stated, “the building [of BRI] should not only set sight on our country’s own development but also make our country’s development as an opportunity to let more countries ride on our country’s express development train and help them realize their development goals.”¹⁴⁶

Xi has also instructed Chinese leaders to do their part to persuade foreign countries that the BRI is designed to promote not only China’s economic objectives, but also their own. During a Politburo study session he chaired on 29 April 2016, Xi told the participants that “[t]here is a need to attach importance to doing a good job in public opinion guidance work, tell the One Belt One Road story well and spread well the “One Belt One Road” voice through various ways, and create an excellent public opinion environment for One Belt One Road building.”¹⁴⁷

Chinese officials—and even Chinese business executives—are heeding Xi’s advice. They have tailored their messages about the benefits of BRI and China’s own development experience to resonate with different countries. They explain how China’s efforts to forge greater regional connectivity furthers the specific objectives of countries in the Middle East and Western Indian Ocean region, such as Djibouti’s ambition to become a regional commercial hub, Egypt’s efforts to rebuild its economy in the aftermath of the revolution that ousted former president Hosni Mubarak, and the plans of countries such as Oman and Saudi Arabia to diversify their economies away from oil.

Djibouti

The first example of how China’s messengers are telling different countries different stories about how China can help them achieve their long-term economic goals is Djibouti. The main message delivered by Chinese officials and executives to Djibouti

¹⁴⁵ “Full Text of Chinese President’s Signed Article on Iranian Newspaper.”

¹⁴⁶ “Xi Jinping Stresses at 31st Collective Study Session of the CPC Central Committee Political Bureau the Need to Borrow from Historical Experience to Create Cooperative Ideas and Let ‘One Belt, One Road’-Building Promote Various Countries’ Common Development,” Xinhua, April 30, 2016.

¹⁴⁷ Ibid.

is that they are willing to draw on China's own development experience and provide capital to help Djibouti transform itself into a regional commercial and logistics center.

Djibouti's long-term development strategy, "Djibouti Vision 2035," aims to transform the small Horn of Africa nation into a commercial and logistics hub for East Africa, while also transiting it into a middle-income country.¹⁴⁸ The government of Djibouti maintains that because Djibouti is a resource-poor economy, its development depends on taking greater advantage of its strategic location along major shipping routes through the development of transport infrastructure.¹⁴⁹ "Djibouti Vision 2035" calls for the construction of ports, airports, a railway from Ethiopia, free-trade zones, and a water pipeline. Chinese firms are building and financing many of these projects.¹⁵⁰

China's leaders have told Djibouti's president, Ismail Omar Guelleh, that they are willing to help advance "Djibouti Vision 2035." When Guelleh visited Beijing in November 2017, Xi told him that China welcomes Djibouti's participation in BRI and is ready to advance cooperation on a number of infrastructure projects already involving Chinese firms, including railways, ports, water supply, and a liquefied natural gas (LNG) pipeline, as well as building a free-trade area.¹⁵¹ Premier Li Keqiang elaborated on Xi's offer, telling Guelleh that China is willing to work with Djibouti to "make use of each other's advantages to foster economic cooperation and to build a regional hub of trade and logistics."¹⁵²

In addition, China Merchants Group (CMG), part-owner of Djibouti's Doraleh Multipurpose Port and a developer of the Djibouti International Free Trade Zone, presents itself as a credible partner that is working to make Djibouti's vision of becoming a regional commercial hub a reality. The company has devoted considerable effort to persuading the government of Djibouti that its experience of building a port city in China can help Djibouti achieve its long-term economic goals. Specifically, CMG plans to replicate in Djibouti—and other overseas port projects in which it is involved—the "Port-Park-City" model it used to transform Shekou, China, from a sleepy fishing village into a commercial center through the development of not only a port but also an industrial park and a city. According to Li Xiaopeng, the president of CMG,

¹⁴⁸ Alexei Kireyev, *Djibouti's Quest for Inclusive Growth*, IMF Working Paper WP/17/270, December 2017, 5, <https://www.imf.org/en/Publications/WP/Issues/2017/12/05/Djiboutis-Quest-for-Inclusive-Growth-45443>.

¹⁴⁹ International Monetary Fund, "For Djibouti, Infrastructure Paves Way to Regional Hub," International Monetary Fund, April 6, 2017, <http://www.imf.org/en/News/Articles/2017/03/29/NAO33117-For-Djibouti-Infrastructure-Investment-Paves-Way-to-Regional-Hub>.

¹⁵⁰ Kireyev, *Djibouti's Quest for Inclusive Growth*, 5.

¹⁵¹ "China, Djibouti Agree to Establish Strategic Partnership," Xinhua, November 23, 2017, http://www.xinhuanet.com/english/2017-11/23/c_136774764.htm.

¹⁵² Zhao Lei and Zhou Jin, "Live-fire Exercises Conducted by PLA Base in Djibouti," *China Daily*, November 25, 2017, http://www.chinadaily.com.cn/china/2017-11/25/content_34966883.htm.

“[m]aking full use of Djibouti’s geographical advantages, we are in the process of making the country the “Shekou of East Africa”—a hub for regional shipping, logistics and trade.”¹⁵³ Moreover, CMG has stated that it can build new Shekous much faster than it developed the original one. Zhang Lin, deputy general manager of China Merchants Shekou Industrial Zone Holdings, has said that, “Shekou took more than 30 years to build into a mature community with a vigorous economy and livable environment. But now, with our experience, this can be replicated in some five years in foreign ports.”¹⁵⁴

Soon after CMG began developing Doraleh Multipurpose Port in 2013, the company invited Djibouti’s president to visit Shekou so he could see firsthand what CMG was aiming to create in Djibouti.¹⁵⁵ The trip reportedly had its desired effect: CMG general manager Li Jianhong revealed in December 2017 that President Guelleh was so happy with what he saw that after he returned to Djibouti, he began laying the groundwork for importing the Shekou model.¹⁵⁶

Egypt

The second example of how China is tailoring its message about how it can help countries in the region advance their economic agendas is Egypt. China’s messengers conveyed to the Egyptian president their willingness to support the megaprojects he deems critical to revitalizing the Egyptian economy.

Egyptian president Abdel-Fattah al-Sisi came to power in June 2013 committed to rebuilding Egypt’s economy, and China’s leaders have offered to assist him in this endeavor. The political instability following the revolution that ousted President Hosni Mubarak drove away foreign investors and tourists, leaving the Egyptian economy in shambles.¹⁵⁷ The suspected bombing of a Russian airplane shortly after takeoff from

¹⁵³ Deng Yanzi, “CMG Wants to Make African Port of Djibouti ‘New Shekou,’” *China Daily*, March 7, 2017, http://usa.chinadaily.com.cn/business/2017-03/07/content_28455417.htm.

¹⁵⁴ Luo Wangshu, “China Merchants Group Looks to Promote ‘Shekou Model,’” *China Daily*, June 16, 2017, http://www.chinadaily.com.cn/china/2017-06/16/content_29775474.htm.

¹⁵⁵ Gao Jianghong, “‘Shekou Model 4.0’ Arrives in Djibouti, China Merchants ‘Flying Geese’ Model Goes Abroad (‘Shekou Moshi 4.0’ Luodi Jibuti; Zhaoshangju Yanxing Chuhai; “蛇口模式 4.0” 落地吉布提 招商局雁形出海),” 21st Century Business Herald, (*21 Shiji Jingji Daobao*; 21 世纪经济导报), July 5, 2017, http://epaper.21jingji.com/html/2017-07/05/content_65726.htm.

¹⁵⁶ “China Merchants’ Li Jianhong: ‘Shekou Model’ Goes Abroad and Has Great Success (Zhaoshangju Li Jianhong: ‘Shekou Moshi’ Zouchuqu Qudele Jida Chengjiu; 招商局李建红: “蛇口模式”走出去取得了极大成就),” Sina Finance (*Xinlang Caijing*; 新浪财经), December 11, 2017, <https://finance.sina.cn/2017-12-11/detail-ifypemf6366240.d.html?wm=4015>.

¹⁵⁷ Edmund Bower, “Poverty in Egypt: How the Turbulence of the Arab Spring Revolution Has Led the Country to Economic Ruin,” *The Independent*, March 7, 2018, http://www.independent.co.uk/news/long_reads/poverty-egypt-arab-spring-president-abdel-fateh-el-sisi-a8239966.html.

the resort of Sharm el-Shaikh in 2015 inflicted additional economic pain by devastating Egypt's tourism industry, a main source of foreign currency.¹⁵⁸

The centerpiece of President al-Sisi's initial efforts was the megaproject favored by previous Egyptian leaders—the expansion of the Suez Canal and the development of the canal region, aided by foreign investment, into a transportation and commercial hub.¹⁵⁹ The “New Suez Canal,” a channel that runs parallel to the original canal, opened in August 2015.¹⁶⁰ Sisi's government told the Egyptian public that the expansion of the canal is intended to add \$100 million a year to the economy, create a million jobs, and bolster the confidence of the Egyptian people.¹⁶¹

President al-Sisi has also championed a second megaproject, which has yet to get off the ground—the construction of a new capital city east of Cairo. Al-Sisi has envisioned that the government, parliament, presidential palace, supreme court, central bank, and 6.5 million people will relocate to the new capital. The project, like the expansion of the Suez Canal and development of the surrounding region, is intended to attract foreign investment, aid economic recovery, and restore national pride.¹⁶²

China's leaders, starting with President Xi Jinping himself, have offered to assist with Egypt's economic revival. Xi stated in his meeting with al-Sisi in September 2017 that China firmly supports Egypt's efforts to speed up development and is willing to “march forward hand in hand with Egypt on the road of respective reform and development and of realizing national rejuvenation.”¹⁶³

China's willingness to help Egypt rebuild its economy includes support for al-Sisi's megaprojects. During Xi's trip to Egypt in January 2016, he stated that China is willing to participate in the development of the Suez Canal Economic Zone and new

¹⁵⁸ Nawal Sayed, “All You Need to Know About Russian Flights Resumption to Egypt,” *Egypt Today*, December 19, 2017, <https://www.egypttoday.com/Article/2/37491/All-you-need-to-know-about-Russian-flights-resumption-to>.

¹⁵⁹ David D. Kirkpatrick, “Egypt's President Leads Celebration of 'New' Suez Canal,” *New York Times*, August 5, 2015, <https://www.nytimes.com/2015/08/06/world/middleeast/egypt-president-abdel-fattah-sisi-new-suez-canal.html>; Heba Saleh, “Sisi Bolsters Nationalist Appeal with \$8bn Suez Canal Investment,” *Financial Times*, September 1, 2014, <https://www.ft.com/content/ad0abac4-31ac-11e4-b377-00144feabdc0>.

¹⁶⁰ Kirkpatrick, “Egypt's President Leads Celebration of 'New' Suez Canal.”

¹⁶¹ David D. Kirkpatrick and Mayy El Sheikh, “Suez Upgrade May Not Ease Egypt's Economic Journey,” *New York Times*, August 7, 2015, <https://www.nytimes.com/2015/08/07/world/middleeast/suez-canal-channel-egypt.html>.

¹⁶² “Thinking Big; Egypt's Economy,” *The Economist*, March 21, 2015, 40-41; Heba Saleh, “Egypt's President Sets Sights on Megacity to Rival Cairo,” *Financial Times*, December 17, 2017, <https://www.ft.com/content/bc7619b4-d518-11e7-8c9a-d9c0a5c8d5c9>.

¹⁶³ Ministry of Foreign Affairs, “Xi Jinping Meets with President Abdel-Fattah al-Sisi of Egypt,” Ministry of Foreign Affairs of the People's Republic of China, September 5, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1490845.shtml.

administrative capital.¹⁶⁴ Xi attended an inauguration ceremony for the launch of the second phase of the zone, which China's TEDA Group is helping to develop. Xi highlighted the ways in which the project will boost economic growth and employment, saying that it will "bring to Egypt over 100 companies in such sectors as textile, garment, oil equipment, motorcycle, and solar energy, and create more than 10,000 jobs for Egypt."¹⁶⁵

However, the extent of China's role in building a new administrative capital is less certain. As of December 2018, talks between the Egyptian authorities and a Chinese company, China Fortune Land Development Co., had broken down. As a result, most of the work constructing the new capital is being done by Egyptians, with one Chinese firm developing the business district.¹⁶⁶

Oman

The third example of how China tailors its message to states in the region is Oman. China's messengers have communicated to Oman that China can assist the country in diversifying the drivers of its economic growth beyond oil.

The Sultanate of Oman is seeking to diversify Oman's economy away from oil to boost its medium- and long-term economic growth prospects. Oil is the mainstay of the Omani economy. However, lower oil prices since mid-2014 contributed to the contraction of the Omani economy in 2015 and 2016 and a large fiscal deficit.¹⁶⁷ As a result of this contraction, Muscat is seeking to put the country on a more sustainable growth path by developing other sectors of the economy. According to the government, "economic diversification is considered a strategic objective which will lead to economic growth in light of global economic conditions. This focus creates an obligation to shift from a commodity-based economy—namely, oil and its derivatives—to an economy focusing on growth in other sectors to propel economic development."¹⁶⁸ Sectors identified by the government for development include manufacturing, transport and logistics, tourism, fisheries, and mining.¹⁶⁹

¹⁶⁴ "China, Egypt Agree to Boost Cooperation Under Belt and Road Initiative," Xinhua, January 22, 2016, http://www.xinhuanet.com/english/2016-001/22/c_135033384.htm.

¹⁶⁵ *Ibid.*

¹⁶⁶ Mirettte Magdy, "China's \$20 Billion New Egypt Capital Project Talks Fall Through," Bloomberg, December 16, 2018, <https://www.bloomberg.com/news/articles/2018-12-16/china-s-20-billion-new-egypt-capital-project-talks-fall-through>.

¹⁶⁷ Central Bank of Oman, *Annual Report 2016*, June 2017, 6, 9, <http://www.cbo-oman.org/annual/AnnualReport2016English.pdf>.

¹⁶⁸ Government of Oman, *The National Program for Enhancing Economic Diversification (TANFEEDH) Handbook*, July 2017, 13, <http://tanfeedh.gov.om/TANFEED-HAND-BOOK-2017-en.pdf>.

¹⁶⁹ *Ibid.*, 18.

Oman's strategy for economic diversification involves taking advantage of its strategic location outside the Persian Gulf on major international shipping routes to transform itself into a global logistics hub.¹⁷⁰ To this end, the country is revamping its ports infrastructure. A key component of these efforts is the expansion of Duqm port, which China's Asian Infrastructure Investment Bank has identified as "a critical facility for the logistics sector needed to support the economic diversification of Oman."¹⁷¹

China's ambassador to Oman, Yu Fulong, has repeatedly made the case that China's BRI can facilitate Oman's economic diversification. In 2015, he noted that "over the past 30-plus years, China has developed a host of competitive industries and with the help of the Belt and Road Initiative, Oman can harness these strengths so as to promote a diversified economic development."¹⁷² In a 2017 interview with the *Times of Oman*, Yu elaborated on his argument that China is well positioned to play a role in Oman's economic transformation:

What Oman needs is what China can offer: infrastructure is needed in huge capacity in terms of roads, ports and railways. For example, we Chinese have designed a railway that can travel at up to speeds of 350 kilometers per hour, and this travels across a track that is one of the longest in the world. If Oman needs technology like this to develop its manufacturing industries and its economy, China can offer this to them. We offer our equipment and our scientific research to Oman.¹⁷³

Yu has also reaffirmed China's role as a willing partner in the development of Duqm, where a consortium of companies from China's Ningxia Autonomous Region is constructing the China-Oman Industrial Park. He told the chairman of the management committee of the Duqm Special Economic Zone Authority that the Chinese are willing to work together with the Omanis to make the industrial park a model BRI project.¹⁷⁴

¹⁷⁰ Meghan O'Toole, "Oman Moves Closer to a Post-Oil Economy," Al Jazeera, December 9, 2017, <http://www.aljazeera.com/news/2017/12/oman-moves-closer-post-oil-economy-171208124924210.html>; "Oman—Market Overview," export.gov, August 2, 2017, <https://www.export.gov/article?id=Oman-Market-Overview>.

¹⁷¹ Asian Infrastructure Investment Bank, *Project Document of the Asian Infrastructure Investment Bank: Sultanate of Oman—Duqm Port Commercial Terminal and Operational Zone Development Project*, PD 0013-OMN, 2016, 7, https://www.aiib.org/en/projects/approved/2016/_download/duqm-port-commercial/document/20161213051938915.pdf.

¹⁷² "Oman Wants to Be China's Key Partner in Belt and Road Initiative, China Envoy," Xinhua, July 1, 2015, http://www.xinhuanet.com/english/2015-07/01/c_134373592.htm.

¹⁷³ Gautam Viswanathan, "Oman's Location a Big Positive for Economy: Chinese Ambassador," *Times of Oman*, November 5, 2017, <http://timesofoman.com/article/121191>.

¹⁷⁴ Ministry of Foreign Affairs, "Ambassador to Oman Yu Fulong Met with Chairman of the Duqm Special Economic Zone Authority (*Zhu Aman Dashi yu Fulong Huijian Dukumu Jingji Tequ Guanweihui Zhuxi*; 驻阿曼大使于福龙会见阿曼杜库姆经济特区管委会主席)," Ministry of Foreign Affairs of the People's Republic of China (*Zhonghua Renmin Gongheguo Waijiaobu*; 中华人民共和国外交部),

Saudi Arabia

The fourth example of how China is messaging that it is willing to assist states in the region to achieve their long-term economic goals is Saudi Arabia. Specifically, China's messengers have communicated to the Saudis that China is willing to play a role in Riyadh's efforts to diversify Saudi Arabia's economy away from oil.

"Vision 2030" is Saudi Arabia's latest plan to diversify its economy away from oil. The Saudi government launched "Vision 2030" in April 2016 in response to the lower crude oil prices since mid-2014, which the regime fears may lead to substantial declines in standards of living and destabilize the Saudi monarchy.¹⁷⁵ According to Crown Prince Mohammed bin Salman, the chief architect and champion of *Vision 2030*, "I think by 2020, if oil stops we can survive. We need it, we need it, but I think in 2020 we can live without oil."¹⁷⁶ "Vision 2030" calls for reducing Saudi Arabia's dependence on oil in myriad ways, including developing the country's mining, renewable energy, industrial equipment, and military equipment.¹⁷⁷ These initiatives will be partially funded by the centerpiece of "Vision 2030," the partial privatization of the Saudi national oil company, Saudi Aramco.¹⁷⁸

Chinese officials and executives have conveyed to the Saudis their willingness to play a role in the regime's ambitious transformation plan. Xi Jinping told Saudi King Salman in November 2017 that China is willing to work with Saudi Arabia to advance the strategic integration of the BRI and "Vision 2030."¹⁷⁹ Meanwhile, Li Huaxin, China's ambassador to Saudi Arabia, has announced that China will collaborate extensively with Saudi Arabia in non-oil sectors, including infrastructure, manufacturing, and finance.¹⁸⁰ Space Lee, vice president of Public Affairs and Communications for Huawei Middle East, has also aligned Huawei's activities in Saudi Arabia with *Vision 2030*. At

国 外 交 部), September 21, 2016, http://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676259/1206x2_676279/t1399366.shtml.

¹⁷⁵ Karen Elliott House, *Saudi Arabia in Transition: From Defense to Offense, But How to Score?*, Belfer Center for Science and International Affairs, July 2017, 2, <https://www.belfercenter.org/sites/default/files/files/publication/SA%20Transition%20-%20web.pdf>.

¹⁷⁶ Samia Nakhoul, William Maclean, and Marwa Rashad, "Saudi Prince Unveils Sweeping Plans to End 'Addiction' to Oil," Reuters, April 25, 2016, <https://www.reuters.com/article/us-saudi-economy/saudi-prince-unveils-sweeping-plans-to-end-addiction-to-oil-idUSKCN0XM1CD>.

¹⁷⁷ Council of Economic and Development Affairs of Saudi Arabia, *Vision 2030*, April 2016, http://vision2030.gov.sa/sites/default/files/report/Saudi_Vision2030_EN_2017.pdf.

¹⁷⁸ House, *Saudi Arabia in Transition*, 24-27.

¹⁷⁹ "Xi Commits Unwavering Cooperation in Phone Call with Saudi King," People's Daily Online, November 17, 2017, <http://en.people.cn/n3/2017/1117/c9000-9293710.html>.

¹⁸⁰ "A Powerful Saudi-Chinese Partnership," The Oil & Gas Year, February 8, 2018, <http://www.theoilandgasyear.com/articles/a-powerful-saudi-chinese-partnership/>.

the inauguration of the Huawei Customer Solution & Integration Experience Center in Riyadh, he stated that “this launch confirms our commitment to the Saudi people and supports the Kingdom’s 2030 vision, which places great emphasis on innovation in the ICT [information and communications technology] sector.”¹⁸¹

China has also sought to reassure Saudi Arabia that it is a reliable oil customer in light of Saudi Arabia’s decreasing share of China’s crude oil imports. Saudi Arabia’s share of China’s crude imports has fallen from 19.9 percent in 2012 to 12.6 percent in 2017.¹⁸² Meanwhile, Russia displaced Saudi Arabia as China’s largest crude oil supplier on an annual basis in 2016, a position it maintained in 2017.¹⁸³ (Saudi Arabia occupied this position every year from 2001 to 2015, except for 2007.) This loss of market share has been an unwelcome development for Saudi Aramco, because Asia is the company’s most important market and, within Asia, China is the company’s largest customer.¹⁸⁴

Moreover, Saudi Aramco is frustrated that a deal for the company to acquire a stake in a PetroChina refinery in China’s Yunnan Province has not been finalized, despite signing an MOU in 2011.¹⁸⁵ Investing in refineries abroad is a strategy Aramco is pursuing to lock in demand for its crude oil.¹⁸⁶ According to Saudi Arabia’s Energy Minister, Khalid al-Falih, the goal of investing in refineries in China “is that not only the Kingdom will be China’s largest crude exporter but the largest in-market investor.”¹⁸⁷

Against this backdrop, China has sought to reassure Saudi Arabia that it can count on China as an oil customer. When King Salman visited Beijing in March 2017, Xi told him

¹⁸¹ David Ndichu, “Huawei Extends Innovation Centre Network Into KSA,” ITP.net, July 31, 2017, <http://www.itp.net/614020-huawei-extends-innovation-centre-network-into-ksa>.

¹⁸² Takeo Kumagi, Gawoon Philip Vahn, and James Leech, “Analysis: Saudi Crude Gains Ground in Japan Amid Faltering Asian Market Share,” Platts, February 13, 2018, <https://www.platts.com/latest-news/oil/tokyo/analysis-saudi-crude-gains-ground-in-japan-amid-27915233>; “Table of China December Data on Oil, Oil Product, LNG Imports,” Dow Jones Global Equities News, January 21, 2013.

¹⁸³ Oceana Zhou, “China Data Resend: Crude Imports from Russia Surge 24% in 2016 to be Top Supplier,” Platts Commodity News, January 24, 2017.

¹⁸⁴ Brian Spegele, Summer Said, and Mayumi Negishi, “Saudi King’s Asia Expedition Enters Crucial Phase,” *Wall Street Journal*, March 13, 2017, <https://www.wsj.com/articles/saudi-kings-asia-expedition-enters-crucial-phase-1489421342>.

¹⁸⁵ Tom Greider, “PetroChina, Saudi Aramco Sign MOU on Oil Refinery in Yunnan, China,” IHS Global Insight Daily Analysis, March 22, 2011; Conversation with Middle East oil expert, February 2, 2018.

¹⁸⁶ “Saudi Arabia Aims to Regain Status as China’s Biggest Oil Supplier,” *Arabian Business*, November 23, 2017, <http://www.arabianbusiness.com/industries/energy/384200-saudi-arabia-aims-to-regain-status-as-chinas-biggest-oil-supplier>.

¹⁸⁷ “Saudi Aramco to Sign China’s Yunnan Refinery Deal in 6 Months—Falih,” Reuters, August 23, 2017, <https://www.reuters.com/article/saudi-china-oil/saudi-aramco-to-sign-chinas-yunnan-refinery-deal-in-6-months-falih-idUSL8N1L94F3>.

that China is a stable and reliable market for Saudi Arabia's crude exports.¹⁸⁸ In addition, the joint statement released by China and Saudi Arabia said "both countries are willing to raise their level of cooperation in the oil sector, including supplying Saudi oil to the continuously growing Chinese market."¹⁸⁹

We are a force for regional stability

The Chinese government also portrays China's economic activities in the Middle East as a source of regional stability. Chinese leaders, including President Xi, Foreign Minister Wang, and China's special envoy on Middle East affairs, Gong Xiaosheng, all speak from the same set of talking points on this issue. During his speech at the Arab League's headquarters in January 2016, Xi stated that "turmoil in the Middle East stems from a lack of development."¹⁹⁰ Foreign Minister Wang reiterated this point in Jordan in June 2017. Meanwhile, Special Envoy Gong has explicitly addressed the role that China can play in fostering stability.¹⁹¹ In an interview with Xinhua in Cairo in April 2015, Gong stated, "I think the Belt and Road Initiative is highly likely to become China's most significant contribution to the Middle East peace process because it will provide the economic solution the region needs."¹⁹²

Chinese officials and official Chinese media also portray China's military presence in the region, notably the Chinese navy's base in Djibouti, as promoting regional stability. China's communications with the outside world about its military facility emphasize how it enhances China's ability to contribute to a variety of international public goods, including antipiracy patrols, noncombatant evacuations, humanitarian assistance, and the joint maintenance of international strategic seaways' security.¹⁹³ Indeed, during a

¹⁸⁸ An Baijie, "China, Saudi Arabia Deepen Ties," *China Daily*, March 17, 2017, http://m.chinadaily.com.cn/en/2017-03/17/content_28586508.htm.

¹⁸⁹ "Beijing, Saudi Arabia Agree to More Oil Cooperation, Exports to China," Reuters, March 18, 2017, <https://www.reuters.com/article/us-china-saudi/beijing-saudi-arabia-agree-to-more-oil-cooperation-exports-to-china-idUSKBN16P055>.

¹⁹⁰ "President Xi's Speech at Arab League Headquarters: Full Text," *China Daily*, January 22, 2016, http://www.chinadaily.com/world/2016xivisitmiddleeast/2016-01/22/content_23191229.htm.

¹⁹¹ Ministry of Foreign Affairs, "Wang Yi Talks about China's Stance on the Middle East Issue (*Wang Yi tan Zhongguo zai Zhongdong Wenti Shang de Lichang*; 王毅谈中国在中东问题上的立场)," Ministry of Foreign Affairs of the People's Republic of China, June 22, 2017, <http://www.fmprc.gov.cn/web/wjzbzd/t1472510.shtml>.

¹⁹² "Interview: Chinese Envoy Says Belt and Road Initiative to Promote Middle East Peace Process," Xinhua, April 15, 2017, http://www.xinhuanet.com/english/2017-04/15/c_136210888.htm.

¹⁹³ Wu Dengfeng, "Ceremony Held in Zhanjiang, Guangdong for the Establishment of China's Base in Djibouti and the Dispatch of Troops (*Wo jun Zhu Jibuti Baozhang Jidi Chengli ji Budui Chuzheng Yishi Zai Guangdong Zhanjiang Juxing*; 我军驻吉布提保障基地成立暨部队出征仪式在广东湛江)," Xinhua, July 12, 2017, http://news.xinhuanet.com/mrdx/2017-07/12/c_136437161.htm.

teleconference in November 2017, President Xi himself instructed Chinese soldiers stationed in Djibouti to gain a good reputation and to contribute to regional peace and stability.¹⁹⁴ Officials from China's Ministry of Foreign Affairs have also stated that the base will enhance China's ability to contribute to the security of stability in the Horn of Africa and beyond.¹⁹⁵ One MFA spokesperson, Hua Chunying, has said that the base "is what is needed by China to better fulfill international obligations and safeguard regional peace and stability, which serves the interests of all, including the U.S."¹⁹⁶

China's narrative about its military presence in Djibouti also makes the case that China's base in Djibouti is merely a logistics hub for peacetime missions by arguing that it will not be used for power projection. This point is often made by contrasting the purpose of China's base with that of the United States. As a commentary in China's English-language media noted after the deployment of Chinese marines to the base in July 2017, "[unlike] the military base of the United States in Djibouti, where more than 4,000 U.S. Marines and F-16 fighters are deployed, China's facility in Djibouti is mainly for logistics and maintenance purposes."¹⁹⁷ Other articles published in English-language media have underscored this message by asserting that the Djibouti base will not be used in competition with other major powers.¹⁹⁸ Moreover, a spokesman for China's Ministry of Defense has stated that the base has nothing to do with military expansion, and that "China is resolute in going down the path of peaceful development and having a defensive defense policy."¹⁹⁹

We are not the United States

China's leaders also stress that China's broader role in the Middle East in no way resembles that of the United States. To be sure, they never explicitly contrast China's

¹⁹⁴ Zhao Lei and Zhou Jin, "Live-fire Exercises Conducted by PLA Base in Djibouti."

¹⁹⁵ An Baijie, "China, Djibouti Agree on Cooperation," *China Daily*, November 24, 2017, http://www.chinadaily.com.cn/china/2017-11/24/content_34922597.htm; Ministry of Foreign Affairs, "Foreign Ministry Spokesperson Geng Shuang's Regular Press Conference on July 12, 2017," Ministry of Foreign Affairs of the People's Republic of China, July 12, 2017, http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1477422.shtml.

¹⁹⁶ Ministry of Foreign Affairs, "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on June 8, 2016," Ministry of Foreign Affairs of the People's Republic of China, June 8, 2016, http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1468850.shtml.

¹⁹⁷ "Naval Base a Boon to World," *China Daily*, July 14, 2017, http://europe.chinadaily.com/opinion/2017_07/14/content_30110167.htm.

¹⁹⁸ "Commentary: China's Djibouti Base Not For Military Expansion," Xinhua, July 13, 2017, http://www.xinhuanet.com/english/2017-07/13/c_136441371.htm; "PLA Djibouti Base Must Be Viewed Objectively," *Global Times*, July 13, 2017, <http://www.globaltimes.cn/content/1056127.shtml>.

¹⁹⁹ Ben Blanchard, "China Military Says 'Not Heard' of Other Base Plans After Djibouti," Reuters, November 30, 2016, <https://www.reuters.com/article/us-china-defence-djibouti/china-military-says-not-heard-of-other-base-plans-after-djibouti-idUSKBN13POW8>.

approach to the Middle East with that of the United States. However, statements by Chinese leaders about all the things they are not doing—and will not do—in the Middle East make clear that they want countries in the region to view China as a more benign and less destabilizing outside power than the U.S. In short, China's messengers have created a narrative that portrays the U.S. as engaging in a variety of actions in the region that they deem to be destabilizing, such as carving out spheres of influence, filling power vacuums, and developing client states.

President Xi Jinping and Foreign Minister Wang Yi have made the case that China's role in the Middle East is distinct from that of the United States by generating a list of activities in which China will not engage. In his January 2016 speech at the Arab League headquarters in Cairo, Xi said that China will not advance its interests in the region through proxies, spheres of influence, or the filling of power vacuums: "Instead of looking for a proxy in the Middle East, we promote peace talks; instead of seeking any sphere of influence, we call on all parties to join the circle of friends for the Belt and Road Initiative; instead of attempting to fill the 'vacuum,' we build a cooperative partnership network for win-win outcomes."²⁰⁰

Wang added to the list in a joint press conference with Jordan's minister of foreign affairs in June 2017. He stated that China will not pursue geopolitical interests, and will not be partial to any party. Wang also noted China's disdain for regime change, saying that, "forcibly advancing regime change and landscape changes of regional countries from outside will only escalate existing conflicts and turmoil, and add more chaos to the region."²⁰¹

Although Xi and Wang did not state that the United States has done all of the things they contend China will not do in the Middle East, the policies they say China refrains from are all policies that have been pursued by the United States. For example, Xi's statement that China will not "seek spheres of influence" is probably a reference to the U.S. development of client states, notably Egypt. Similarly, Wang's rejection of regime change is likely a reference to U.S. support for the overthrow of various governments in the region, including the Taliban in Afghanistan in 2001, Saddam Hussein in Iraq in 2003, and Muammar Gaddafi in Libya in 2011.

Chinese officials have also distinguished their approach to the Middle East from that of the United States by repeatedly reassuring countries in the region that China will not interfere in their domestic affairs by promoting human rights and democracy. Instead, Beijing will steadfastly support countries in choosing the development path that best suits their national conditions.²⁰² The importance of this message to China is

²⁰⁰ "President Xi's Speech at Arab League Headquarters."

²⁰¹ "Wang Yi Talks about China's Stance on the Middle East Issue."

²⁰² "Full Text of Chinese President's Signed Article on Egyptian Newspaper," Ministry of Foreign Affairs of the People's Republic of China, January 20, 2016, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1333118.shtml; "Wang Yi Talks

reflected by the fact that numerous senior officials, including Xi Jinping himself, have delivered it. As Xi stated in his speech at the Arab League headquarters, “the key to choosing a right path is to make sure that it suits national conditions. There is more than just one path leading to modernization....When exploring economic development paths, one will get nowhere by blindly copying others.”²⁰³ While Xi’s message was explicitly economic, his audience may have also heard a political message: as long as their systems of government are stable and working for them, China will not complain about or criticize them. Although the Trump administration has not pressured Egypt and other countries in the Middle East on human rights and democratization to the extent that previous U.S. administrations have done, the fact that Chinese officials continue to stress their respect for countries in the region to choose their own development paths suggests that Beijing suspects that future U.S. presidents might choose to place greater emphasis on these issues.

Conclusion

Chinese officials and even corporate executives consistently tell the same story to states in the Middle East and Western Indian Ocean region. They have developed a positive and appealing narrative about China’s presence in the region. They portray China as an alternative to more established outside powers in the region for countries looking to diversify their economic relationships and as a promoter of stability.

Their primary message is that China can help countries in the region achieve their long-term economic goals. They tailor their talking points to demonstrate how increased economic engagement with China can contribute to the economic agendas of states in the Middle East and Western Indian Ocean region. Whether national governments want to diversify their economies away from oil or become regional commercial hubs, Chinese officials and executives explain how China can contribute to these endeavors if it is invited to do so.

Chinese officials also portray China as a force for stability in the region. They assert that economic development—which China stands ready to assist with—is an antidote to the political turmoil found in many countries in the Middle East and Western Indian Ocean region. They also fold into this discussion China’s first overseas military base in Djibouti. While they are decidedly less eager to discuss China’s military presence in the region than its economic presence, they apparently do not want the U.S. and other

about China’s Stance on the Middle East Issue”; Ministry of Foreign Affairs, “President Abdel Fattah al-Sisi of Egypt Meets with Yang Jiechi,” Ministry of Foreign Affairs of the People’s Republic of China, June 2, 2015, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/xybfs_663590/xwlb_663592/t1269897.shtml.

²⁰³ “President Xi’s Speech at Arab League Headquarters.”

Western countries to control the narrative about China's base in Djibouti. Consequently, Chinese officials and authoritative media stress that the base will be used only for peacetime missions and not for power projection.

Finally, Chinese officials and authoritative media distinguish their presence in the region from that of the U.S. They do this explicitly when discussing the base in Djibouti. Otherwise, they emphasize how they do not and will not engage in certain activities they regard as counterproductive to peace and stability, all of which are references to things the U.S. has done.

Chapter 5. Military Presence

China's military presence in the Middle East and Western Indian Ocean has grown significantly, from virtually no presence in the early 2000s to an almost constant presence two decades later.

The Chinese military, particularly the PLA Navy, is already active in the region, conducting a wide range of peacetime operations while also preparing for possible future combat operations in the region.

Our analysis suggests that the PLAN's ability to conduct operations will continue to improve. This is largely a result of the following four factors:

"The [PLA Navy] submarine force must not only go to the Pacific Ocean, it should also go to the Indian Ocean, and later it will even need to go to the Atlantic and Arctic oceans."

— Hu et al., "Several Thoughts on Advancing the Submarine Force to the Ocean"

- More advanced PLA Navy assets are coming online that could be deployed to the region, including advanced logistics ships designed for far-seas operations
- The PRC government has taken steps to leverage China's growing commercial shipping fleet as an asset in support of operations farther abroad, including those in the Middle East and Western Indian Ocean.
- China's base in Djibouti is well positioned to support PLAN operations in the region as a logistics and possibly a regional C2 hub.
- China is also taking steps to position the PLA within the region through the establishment of additional military facilities. This factor will be discussed in detail in Chapter 7.

PLA Navy operations in the region

China's growing and varied interests in the Middle East and Western Indian Ocean have required the PLA Navy to develop the capacity to conduct a wide range of operations. Indeed, the PLAN is already conducting the following:

Protecting Chinese maritime trade, especially near critical chokepoints: Protecting China's maritime trade has been an important driver in promoting the development of PLAN overseas missions since 2009, when China began sending PLA Navy ships to the Gulf of Aden. When making the initial announcement in 2008, PRC government

officials noted that Chinese-owned or invested ships made over 1,200 transits through the region in 2008, 80 of which had been attacked by pirates, “caus[ing] huge losses to Chinese companies.”²⁰⁴

Since that time, China’s navy has had a three-ship surface action group (SAG) in the Gulf of Aden almost constantly. According to the *PLA Daily*, the PLA’s official newspaper, the PLAN has dispatched 83 vessels and roughly 22,000 personnel to the Gulf to participate in these operations, escorted more than 6,400 commercial shipping vessels, helped more than 60 ships in peril, and “checked or drove away” more than 3,000 ships suspected of piracy.²⁰⁵ In April 2018, China sent its 29th Escort Task Force, a three-ship SAG consisting of the PLAN JIANGKAI II-class frigates *Binzhou* (FFG 515) and *Xuzhou* (FFG 530), and the Type 903 FUCHI-class supply ship *Qiandaohu* (886).²⁰⁶

Protecting Chinese assets and personnel: Since at least 2004, China’s military has been tasked with protecting the country’s growing interests and personnel abroad.²⁰⁷ The PLAN has already taken action to protect Chinese citizens in the region. In 2015, the PLA Navy’s 19th Counterpiracy Escort Flotilla was re-tasked from its normal Gulf of Aden operations to evacuate personnel from Yemen.²⁰⁸ The task force evacuated 570 Chinese citizens on 29 March and another 225 foreign nationals in a follow-on operation on 2 April. All were transported to Djibouti for flights home.²⁰⁹ While this

²⁰⁴ Shi Hua and Zhang Beixin, “Chinese Navy Will Protect Ships Free of Charge (*Zhongguo Haijun Somaili Huhang bu Shoufei*; 中国海军索马里护航不收费),” *Global Times*, December 24, 2008, <http://world.huanqiu.com/roll/2008-12/322933.html>.

²⁰⁵ Zhang Tao, “PLA Navy Embodies China’s Responsibility in Escort Missions at Gulf of Aden,” China Military Online, July 12, 2017, http://english.chinamil.com.cn/view/2017-07/12/content_7672998.htm.

²⁰⁶ Meng Jie, “China Sends New Naval Fleet for Escort Mission,” Xinhua, April 5, 2017, http://english.chinamil.com.cn/view/2017-07/13/content_7674964.htm; Li Jiayao, “Chinese Naval Escort Taskforces Conduct Mission Handover,” China Military Online, May 2, 2018, http://eng.chinamil.com.cn/view/2018-05/02/content_8021582.htm. Of note, according to these same reports, the PLAN ships also had embarked dozens of PLA special operations personnel.

²⁰⁷ See Daniel Hartnett, “The PLA’s Domestic and Foreign Activities and Orientation,” testimony before the U.S.-China Economic and Security Review Commission hearing on “China’s Military and Security Activities Abroad,” March 4, 2009, <https://www.uscc.gov/sites/default/files/3.4.09Hartnett.pdf>.

²⁰⁸ Ben Blanchard and Megha Rajagopalan, “China Evacuates Foreign Nationals From Yemen in Unprecedented Move,” Reuters, April 3, 2015, <https://www.reuters.com/article/us-yemen-security-china/china-evacuates-foreign-nationals-from-yemen-in-unprecedented-move-idUSKBN0MU09M20150403>.

²⁰⁹ Eddie Linczer, “Yemen Evacuation Demonstrates China’s Growing Far-Seas Naval Capabilities,” AEIdeas, American Enterprise Institute, <https://www.aei.org/publication/yemen-evacuation-demonstrates-chinas-growing-far-seas-naval-capabilities/>; Christopher Yung, “China’s Expeditionary and Power Projection Capabilities Trajectory: Lessons from Recent Expeditionary Operations,” testimony before the U.S.-China Economic and Security Review Commission hearing on “Developments in China’s Military Force Projection and Expeditionary Capabilities,” January 21, 2016, [http://www.uscc.gov/sites/default/files/USCC Testimony 2016_Yung.pdf](http://www.uscc.gov/sites/default/files/USCC%20Testimony%202016_Yung.pdf).

was far fewer than the roughly 35,000 Chinese citizens evacuated from Libya in 2011, the PLAN was largely uninvolved in that operation, providing only “support and protection” to civilian assets.²¹⁰

Conducting HA/DR operations and contributing to China’s military diplomacy: The PLAN has played an important role in China’s HA/DR and military diplomatic efforts in the region, conducting port visits and combined maritime exercises with regional navies and conducting military medical goodwill missions to Djibouti, Kenya, and Tanzania in 2010; Pakistan in 2013; and Djibouti, Sri Lanka, and Tanzania in 2017.

Conducting “presence” operations in the region: Chinese naval personnel have also clearly stated that they seek to make China’s naval activities in the far seas, including naval activities in the Indian Ocean, a routine occurrence. For example, a 2017 *PLA Daily* article noted that, “during these five years, PLAN’s usage of forces [in the Indian Ocean and Western Pacific] have slowly diversified, going into further seas, and normalized.”²¹¹ Another *PLA Daily* article in 2018 noted that a PLAN task force conducted far-seas training in the Indian Ocean, which “was a routine arrangement in the annual training schedule of the PLA Navy.”²¹²

²¹⁰ “Expert Interpretation: Chinese Naval Vessels Berthed at a Foreign Port Directly Evacuate Chinese Citizens for the First Time (*Zhongguo Haijun Jianting Shouci Kaopo Waiguo Gangkou Zhijie Cheli Zhongguo Gongmin Renwu*; 专家解读: 中国海军舰艇首次靠泊外国港口直接执行撤离中国公民任务),” Xinhua, March 30, 2015, http://www.xinhuanet.com/world/2015-03/30/c_1114812252.htm.

²¹¹ Report by Li Tang and Chen Guoquan: “In the Far and Wide Ocean, Witness the Jointing Development of PLAN,” *PLA Daily Online*, June 22, 2017.

²¹² Huang Panyue, “PLA Fleet Returns to Homeport from Far-Seas Training,” *China Military Online*, February 26, 2018, http://english.chinamil.com.cn/view/2018-02/26/content_7952635.htm.

Command and control of PLA overseas operations

Little is known about the command and control structure of Chinese overseas operations. On paper, PLA operations abroad are coordinated by the Overseas Operations Office (OOO, *haiwai xingdongchu*; 海外行动处), an office under the PLA Operations Department of the Central Military Commission.

Little is known about this organization. A March 2016 newspaper report for example cites other Chinese media reports as saying the organization is “responsible for directing and coordinating actions carried out by Chinese troops overseas. Its establishment can enhance rapid overseas response capabilities of the Chinese military.”

There is some evidence, however, to suggest that the OOO’s authority remains limited. For example, the office is led by a Senior Colonel (currently Senior Colonel Tan Zhiwei (谭志伟), which is roughly equivalent to an O-7, and the office itself is of equal (not greater) rank to the PLA Navy Operations Department.

Transiting through the region to conduct operations elsewhere: The PLA Navy has also been engaging in an increasing number of activities worldwide, requiring PLAN ships to transit through the Middle East and Indian Ocean, thus increasing the number of PLAN ships operating in the region at any given time. For example:

- In 2015, following the conclusion of its counterpiracy operations, the PLAN’s 18th Gulf of Aden task force transited the Suez Canal to conduct port visits and bilateral exercises in Greece, Germany, and elsewhere in Europe.²¹³
- In mid-May 2015, a three-ship PLAN SAG consisting of the frigates *Linyi* and *Weifang*, and the Type 903 AOR *Weishanhu*, transited through the region to meet with the Russian navy in the eastern Mediterranean Sea to participate in Joint-Sea 2015, the PLAN’s first naval exercise in European waters.
- In September 2017, the Type 052D destroyer *Hefei*, Type 54A Frigate *Yuncheng*, and supply ship *Luomahu* transited through the region to meet the Russia navy in the Baltic Sea to participate in Joint Sea 2017.²¹⁴

²¹³ “China, Greece Hold Joint Naval Drill,” China Military Online, February 25, 2015, http://eng.mod.gov.cn/DefenseNews/2015-02/25/content_4571522_2.htm.

²¹⁴ Sha Yangbo and Ceng Xingjian, “PLA Navy 174 Formation Successfully Arrives in Sanya (*Zhongguo Haijun 174 Jianting Biandui Shunli Dida Sanya*; 中国海军 174 舰艇编队顺利抵达三亚),” Xinhua, September 25, 2017, http://news.xinhuanet.com/politics/2017-09/25/c_1121720690.htm.

China's growing far-seas force structure and force structure requirements

To execute the operations described above, the PLA Navy has over the past two decades developed a diverse mixture of surface, subsurface, and air platforms fielding an array of advanced weapons, sensors, and other capabilities. Moreover, China's diplomatic outreach and economic statecraft in the region have also undoubtedly helped increase the PLA's access to port facilities in the region.

Moreover, the following trends suggests that the PLAN capacity to operate in the Middle East and Western Indian Ocean will only continue to grow:

- More advanced PLA Navy assets, including more advanced logistics ships, are coming online, and these assets could be deployed to Middle East and Western Indian Ocean.
- The PRC government has taken steps to leverage China's growing commercial shipping fleet to support far-seas operations
- China's base in Djibouti is well positioned to support PLAN operations in the region as a logistics facility and possibly a regional C2 hub.

The section below analyzes each of these factors in detail. First, it examines which PLA Navy ships have already operated in the Middle East and Western Indian Ocean and which ships are coming online that could be deployed to the region in the future. Second, it examines how the PLAN is being positioned to better leverage China's civilian commercial fleet. Third, the chapter analyzes how China's base in Djibouti can support the PLAN's growing operations in the region.

Surface combatants: destroyers, frigates, cruisers

PLAN surface vessels have been operating in the region since 2008. However, naval experts have argued that in order to operate in a combat role in the Middle East and Western Indian Ocean region, and possibly serve in a carrier strike group in the region, the PLAN would require multimission destroyers, frigates, and cruisers that could provide area air defense, as well as antisurface and subsurface defense.²¹⁵

²¹⁵ Rear Admiral Michael McDevitt, *Becoming a Great "Maritime Power": A Chinese Dream*, CNA, June 2016, 40–42, https://www.cna.org/cna_files/pdf/IRM-2016-U-013646.pdf; Zhang Junshe, "The New-model Destroyer Propels Our Navy's Advance Deeply into Blue Waters (*Xinxing Quzhuojian Zhu Wohaijun Zouxianq Shenlan*; 新型驱逐舰助我海军走向深蓝)," China Military Online, June 7, 2014, http://www.chinamil.com.cn/jfjbmap/content/2014-06/07/content_78114.htm.

PLAN destroyers and frigates operating in the region: To date, the following PLAN ships with these capabilities have been operating in the Middle East and Western Indian Ocean region:

Type 54A (JIANGKAI II class) guided-missile frigate: This is China's latest multimission frigate currently in operation. It is capable of antisurface warfare (ASuW), antisubmarine warfare (ASW), and anti-air warfare (AAW) missions.²¹⁶ The workhorses of the PLAN fleet, these frigates are expected to become key components in future Chinese carrier strike groups.²¹⁷ Many of China's naval operations in the region have been conducted by JIANGKAI II frigates, including roughly 40 percent of the ships in Gulf of Aden counterpiracy operations.²¹⁸

JIANGKAI II frigates can carry at least one helicopter and feature advanced sensors, air defenses, and medium-range strike capabilities. This includes the PLA Navy's most widely deployed antiship cruise missile (ASCM), the CH-SS-N-6 (or YJ-83), with a subsonic speed of Mach 0.9 and a maximum range of roughly 100 n.mi.²¹⁹ JIANGKAI II also features the Yu-8, a VLS-launched missile with a range of roughly 16–38 n.mi.²²⁰ As of February 2018, the PLAN had 26 JIANGKAI II frigates in service.²²¹

Type 52C (LUYANG II class) and earlier destroyers: The Type 52C is a multimission destroyer, featuring the PLA Navy's first indigenously developed VLS-launched surface-to-air missile (SAM), the CSA-N-(HHQ-9).²²² The Type 52C also features the CH-SS-N-9 "Scupper" (YJ-62) ASCM, a subsonic surface-launched ASCM with a maximum range of roughly 150 n.mi. and counter-countermeasures, including antijamming measures.²²³ It also features the PLA Navy's first phased-array radar, the

²¹⁶ "Type 054A (Jiangkai II) Class Frigate," Naval Technology, <https://www.naval-technology.com/projects/type-054a-jiangkai-ii-class-frigate/>.

²¹⁷ See for example Andrew Tate, "Liaoning Carrier Group Reaches Initial Operational Capability," *Janes Defence Weekly*, June 4, 2018, <https://www.janes.com/article/80610/liaoning-carrier-group-reaches-initial-operational-capability>.

²¹⁸ McDevitt, *Becoming a Great "Maritime Power": A Chinese Dream*, 42.

²¹⁹ "CSS-N-4 'Sardine' (YJ-8/YJ-8A/C-801); CSS-N-8 'Saccade' (YJ-82/YJ-83/C-802/C-802A/Noor/Ghader)," IHS, May 15, 2015, 9.

²²⁰ Lyle J. Goldstein, "China's New Missile-Torpedo May Curb U.S. Submarine Power," *The National Interest*, August 16, 2016, <https://nationalinterest.org/feature/its-missile-its-torpedo-its-chinas-new-anti-submarine-weapon-17374>.

²²¹ Gabriel Dominguez, "PLAN Inducts Type 054A Frigate Into North Sea Fleet," *Jane's Defence Weekly*, January 15, 2018, <https://www.janes.com/article/77048/plan-inducts-type-054a-frigate-into-north-sea-fleet>.

²²² "Luyang-II Class/Type 052C Destroyer," Naval Technology, <https://www.naval-technology.com/projects/luyangclassmissilede/>.

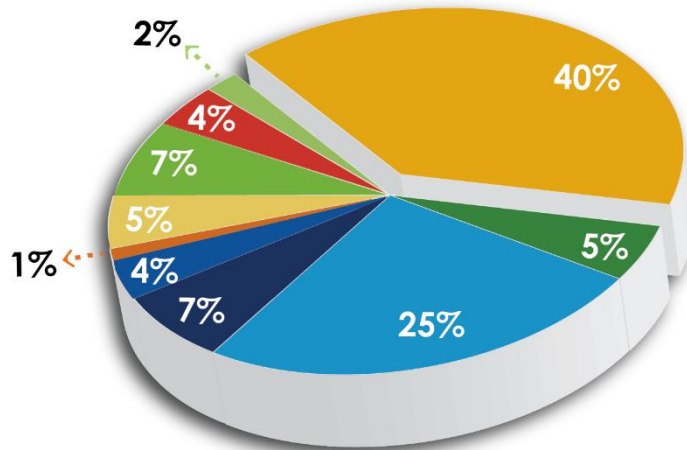
²²³ "YJ-62 (C-602)," IHS, May 17, 2016.

Type 346 Dragon Eye.²²⁴ LUYANG II-class destroyers have made up roughly 7 percent of all China's Gulf of Aden counterpiracy task force ships.

Additionally, older Chinese destroyers, such as the Type 52B LUYANG I DDG and the Type 52 LUHU DD, have participated in counterpiracy operations in the region, though they have participated in fewer in recent years.

Figure 8 provides a breakdown of the types of ships that have participated in the first 28 Gulf of Aden counterpiracy escort operations.

Figure 8. PLAN ship types participating in Gulf of Aden escort operations



PLA NAVY SHIPS PARTICIPATING IN THE **GULF OF ADEN** ESCORT OPERATIONS



Destroyers and frigates that may operate in the region in the future: As the ships described above continue to operate in the Middle East and Western Indian Ocean, the

²²⁴ "Type 052C Luyang-II Class," SinoDefence.com, September 3, 2017, <http://sinodefence.com/type-052c-luyang-ii-class/>.

PLA Navy is also in the process of upgrading its fleet with the following more advanced ships, which may also eventually be deployed in the region:

The Type 052D (LUYANG III) destroyer: This is the PLA Navy's latest multimission destroyer in operation, reflecting Chinese efforts to develop a more flexible surface force.²²⁵ Dubbed "China's AEGIS," these destroyers can embark at least one helicopter and feature advanced sensors, air defenses, and long-range strike capabilities.

LUYANG IIIs are capable of ASuW, ASW, and AAW missions, and are expected to become key components in future carrier strike groups. The LUYANG III is also equipped with a Type 346 "Dragon Eye" phased array radar, a 64-cell vertical launch system (VLS), and modern long-range anti-air missiles, providing the ability to deal with multiple air targets simultaneously.²²⁶

LUYANG III's strike capabilities include China's longest-range ASCM, the surface variant of the CH-SS-N-13 Mod 1 "Shredder" (or YJ-18). The YJ-18 is both a submarine- and a surface vessel-launched ASCM, with a terminal speed of Mach 3 and a maximum range of 290 n.mi., which is almost three times the range of China's most commonly field ASCM.²²⁷ As such, YJ-18 likely alters the defensive measures U.S. ships must observe when operating within range of a PLAN surface ship bearing YJ-18s.

LUYANG III DDGs have been less active in the Middle East and Western Indian Ocean than China's earlier-version DDGs, although that may change as more come online. In July 2017 for example, the LUYANG III DDG *Hefei* transited through the region on its way to the Mediterranean Sea and on to the Baltic Sea to participate in the Joint Sea exercise with the Russian navy.²²⁸ According to the British military publishing group Jane's, the PLA Navy will have an estimated 17 LUYANG III-class destroyers in service by 2019.²²⁹

Type 55 RENHAI CG: An advanced 11,000-mton guided-missile cruiser, the Type 55 RENHAI CG is reportedly the largest warship launched from an Asian shipyard since World War II.²³⁰ It is capable of supporting ASuW and ASW, and may be used in these

²²⁵ *The PLA Navy: New Capabilities and Missions for the 21st Century*, Office of Naval Intelligence, 2015, 10, <https://fas.org/nuke/guide/china/plan-2015.pdf>.

²²⁶ McDevitt, *Becoming a Great "Maritime Power": A Chinese Dream*, 42.

²²⁷ "YJ-18 (Yong Ji-18) IHS, May 19, 2016, 2.

²²⁸ Franz-Stefan Gady, "Chinese Navy Conducts Live-Fire Drill in Mediterranean Sea," *The Diplomat*, July 13, 2017, <https://thediplomat.com/2017/07/chinese-navy-conducts-live-fire-drill-in-mediterranean-sea/>.

²²⁹ "Luyang III (Type 052D) Class," *Jane's Fighting Ships*, February 23, 2018, https://janes.ihs.com/Janes/Display/jfs_b684-jfs-.

²³⁰ International Institute for Strategic Studies, "Chapter Six: Asia," *The Military Balance* 118, no. 1 (2018), 232.

roles as part of one of the PLAN's developing carrier strike groups.²³¹ These ships have not yet joined the fleet, with two in the fitting out phase getting ready to conduct sea trials, and at least four others in construction as of 2018.

Amphibious ships

Like the rest of the PLA Navy, China's PLAN Marine Corps (PLANMC) has been tasked with conducting out-of-area operations as well. Since 2008, the PLANMC has participated in China's Gulf of Aden operations and a NEO in Yemen, and is stationed in China's base in Djibouti.²³²

PLAN personnel have also stated that the PLANMC needs to be ready to conduct amphibious landing operations and be able to transport marines abroad to conduct combat operations. Given China's growing commercial interests and Chinese citizens located in the Middle East and Western Indian Ocean region, it is not unreasonable to conclude that the PLANMC may be required to conduct additional operations in the region in the future.

However, in order to successfully execute these missions, PLAN personnel have argued that the PLAN requires more and more capable amphibious ships. Speaking in 2016, a PLA Navy Senior Captain at the Naval Research Institute (NRI), the navy's top think tank, flatly stated that

it is necessary to develop large amphibious ships for transporting Marine forces, raise the duration, tonnage, and speed of the ships, improve the capability of rapidly ferrying Marines to perform combat tasks, [and] enhance the Marine force's capabilities of amphibious landing operations and whole-territory operations and capabilities of performing diversified tasks."²³³

PLAN Amphibious ships currently operating in the region: PLAN landing platform dock (LPD) ships have made up about 4 percent of China's Gulf of Aden operations since 2008.

²³¹ Liu Zhen, "Five Things to Know About China's Home-Built Type 055 Destroyer, Guardian of the Next-Generation Aircraft Carrier," *South China Morning Post*, August 5, 2018, <https://www.scmp.com/news/china/diplomacy-defence/article/2158059/five-things-know-about-home-built-destroyer-will-guard>.

²³² Li Dapeng, "What New Breakthroughs Were Made in the 'Joint Sea-2015' Sino-Russian Joint Exercise ('Haishang Lianhe - 2015' Zhongguo Lianyan Shixianle naxie xin Tupo ; 海上联合-2015"中俄联演实现了哪些新突破)," *China Youth Daily*, October 9, 2015.

²³³ Guo Yuandan, "PLA Navy Commander's Third Visit to Marines, Importance Goes without Saying (*Zhongguo Haijun Siling Santan Haijun Zhanlundai Zhongshi Buyan Eryu*; 中国海军司令三探海军陆战队重视不言而喻)," *Global Times*, January 26, 2016.

Type 071 YUZHAO LPD: Many of China's LPDs operating in the region have been of this type. The YUZHAO LPD is an 18,500-mton vessel intended for conducting amphibious landing, delivery of PLAN marines, amphibious assault, HA/DR, and counterpiracy operations. It can accommodate up to four Type 726 YUYI LCACs, 35-45 vehicles, and up to 800 troops. Each LPD can also accommodate up to four medium-lift helicopters, such as China's Harbin Z-8.²³⁴ In July 2017, *Jingangshan* (LPD 999) was one of two ships that ferried the first contingent of PLAN marines to China's base in Djibouti.²³⁵ The PLAN launched its sixth YUZHAO in January 2018.²³⁶

Future amphibious ships that may operate in the region:

Type 075 LHA: In spring 2017, it was reported that China may be constructing its first Type 075 LHA, an amphibious assault ship reportedly 800 feet long and displacing 40,000 tons, which is comparable in size to the USN's Wasp-class LHA, and slightly smaller than the USN's America-class amphibious assault ship. The Type 075 reportedly will be capable of carrying roughly 35 helicopters.²³⁷

Aircraft carriers and carrier strike groups

Chinese researchers have discussed the importance of developing aircraft carriers for multiple reasons, including improving the PLA Navy's ability to operate farther from China's shores, provide PLAN ships operating in the far seas a robust defense against air-based threats, and act as a symbol of China's growing naval prowess.²³⁸

China currently has one aircraft carrier, the refurbished Ukrainian carrier, *Liaoning*, while the first domestically built carrier, the Type 001A, has begun sea trials.²³⁹ Public reports also indicate that China is constructing a third aircraft carrier and intends to build nuclear-powered carriers in the future.²⁴⁰

²³⁴ "China Expanding Its Amphibious Force," *IHS Jane's Defence Weekly*, April 7, 2017, http://eng.chinamil.com.cn/view/2017-04/07/content_7554135.htm.

²³⁵ Liu Xin, "Chinese Navy Ships Head to Djibouti," *Global Times*, July 13, 2017, <http://www.globaltimes.cn/content/1056129.shtml>.

²³⁶ Ridzwan Rahmat, "China Launches Sixth Type 071 LPD," *Jane's 360*, January 22, 2018, <http://www.janes.com/article/77214/china-launches-sixth-type-071-lpd>.

²³⁷ Christopher Diamond, "China's Navy is Building Its Biggest Amphibious Assault Vessel Ever," *Defense News*, April 5, 2017, <https://www.defensenews.com/digital-show-dailies/sas/2017/04/05/chinas-navy-is-building-its-biggest-amphibious-assault-vessel-ever/>.

²³⁸ Li Jie, "China's Aircraft Carrier Poised to Sail Further," *Global Times*, January 15, 2017, <http://www.globaltimes.cn/content/1028895.shtml>.

²³⁹ "Update: Support Ship for Type 001A's Sea Trials Arrives in Dalian," *Jane's Defence Weekly*, January 23, 2018, http://janes.ihs.com/Janes/Display/FG_723947-JDW.

²⁴⁰ Andrew Tate, "China Signals Intent to Build Nuclear-Powered Aircraft Carriers," *Jane's Defence Weekly*, March 5, 2018, http://janes.ihs.com/Janes/Display/FG_756954-JDW; Minnie Chan,

It is important to note that when discussing aircraft carrier operations in the far seas, Chinese analysts typically discuss the possibility of carrier operations in the Western Pacific rather than the Middle East and Indian Ocean.²⁴¹ This may change in the future, however, as the PLA Navy's carrier capabilities continue to develop.

Submarines

While analysts have viewed China's submarine force as playing a larger role in the seas closer to home, the PLA Navy continues to develop a fleet of nuclear-powered attack submarines that could be used in the Middle East and Western Indian Ocean to collect intelligence or harass U.S. or allied vessels in the event of a conflict.

PLAN submarines operating in the region:

Type 93A SHANG II SSN: This submarine has conducted transits through the Indian Ocean and over the past few years has made port visits to both Pakistan and Sri Lanka.²⁴² It is capable of carrying the submarine-launched variant of China's "Shredder" (YJ-18) ASCM. The sub-launched YJ-18 provides the SHANG II with a significantly longer-range antisurface capability compared to the YJ-18's predecessor, the YJ-82.

Future submarines that may operate in the region:

Type 039A YUAN SSP: In the future, the PLA Navy may operate its Type 039A YUAN SSP, which features China's first operational air-independent propulsion (AIP) system, which allows the YUAN to remain submerged for up to two weeks at a time, making it more difficult to detect.²⁴³ The YUAN can carry the submarine-launched variant of the CH-SS-N-13 Mod 1 "Shredder" (YJ-18) ASCM, which provides the YUAN with a significantly longer-range antisurface capability.

"China Has Started Building Its Third Aircraft Carrier, Military Sources Say," *South China Morning Post*, January 4, 2018, <http://www.scmp.com/news/china/diplomacy-defence/article/2126883/china-has-started-building-its-third-aircraft-carrier>.

²⁴¹ "China's Aircraft Carrier Poised to Sail Further."

²⁴² Zachary Keck, "Watch Out, India: China Just Sent First-Ever Submarine to Pakistan," *The National Interest*, June 29, 2015, <http://nationalinterest.org/blog/the-buzz/watch-out-india-china-just-sent-first-ever-submarine-13212>; Shihar Aneez and Ranga Sirilal, "Chinese Submarine Docks in Sri Lanka Despite Indian Concerns," Reuters, November 2, 2014, <http://in.reuters.com/article/2014/11/02/sri-lanka-china-submarine-idINKBN0IM0LU20141102>.

²⁴³ Christopher P. Carlson, "Inside the Design of China's Yuan-class Submarine," *USNI News*, August 31, 2015, <https://news.usni.org/2015/08/31/essay-inside-the-design-of-chinas-yuan-class-submarine>.

Multimodal logistics support ships

The PLA Navy is deploying more advanced logistics ships capable of conducting long-range operations, which could improve its capabilities in the region as well.

PLAN logistics ships currently operating in the region:

Type 903/A FUCHI AOR: This is currently the PLA Navy's only major auxiliary capable of replenishing its ships in the Middle East and Western Indian Ocean. The PLAN has eight of these ships, each fitted with four replenishment-at-sea (RAS) stations, two on each side—one for transferring liquids and the other for dry goods.²⁴⁴ These ships are a core component of any PLAN flotilla operating outside China's littoral. They have been used extensively in support of China's Gulf of Aden counterpiracy operations.

PLAN logistics ships that may operate in NAVCENT in the future:

Type 901 FUYU AOE: In 2016, China launched its first Type 901 FUYU AOE fast combat support ship, a 40,000-ton supply ship capable of providing both aviation and ship fuel simultaneously.

With a top speed of roughly 25 knots, the Type 901 is capable of keeping up with China's *Liaoning* aircraft carrier and would likely be used to resupply China's emerging carrier strike group operating in the Pacific.²⁴⁵ However, as more Type 901 resupply ships come online, they could see use in the Middle East and Western Indian Ocean as well.

Leveraging civilian commercial ships to support PLAN operations

PLAN forces will also likely seek support from China's growing dual-use merchant marine fleet to augment their sustainment capabilities in the region. The PLAN has also taken the following steps to ensure that China's civilian commercial ships will be positioned to support military operations:

- First, the Chinese government has been developing regulations requiring certain civilian vessels, including roll on/roll off (RORO) vessels, tankers, and container

²⁴⁴ Jane's Information Group, "Fuchi (Type 903/903A) Class," Jane's IHS Markit, February 23, 2018, https://janes.ihs.com/Janes/Display/jfs_5720-jfs_.

²⁴⁵ "China Commissions New Naval Supply Ship," *South China Morning Post*, August 1, 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2105010/china-commissions-new-naval-supply-ship>. Xu Daojiang and Li Wei, "Hulun Nur Ship Enters Service, Addresses Final 'Shortcoming' in China's Carrier Battle Group," *China Youth Daily*, September 14, 2017.

ships, to be built to military specifications, facilitating their future use by the navy with fewer if any modifications.²⁴⁶

- Second, the PRC government in September 2016 enacted the National Defense Transportation Law to strengthen civilian-military integration. The law improves the process for military requisition of civilian transportation assets during wartime, natural disasters, emergencies, or “special circumstances,” both domestically and overseas.²⁴⁷ Specifically, Article 38 of the law states that Chinese enterprises and agencies stationed abroad must provide shipping, aviation, vehicle, and personnel support for military actions in the protection of China’s overseas interests, international rescue, and maritime escorts.²⁴⁸

Moreover, the enormous size of China’s commercial fleet suggests that ships will very likely be available to support operations in the Middle East and Western Indian Ocean. According to the United Nations Conference on Trade and Development, (UNCTAD), China’s merchant marine fleet, made up of all seagoing merchant vessels of 1,000 gross tons (GT) and above, surpassed 165 million dead weight tonnage (DWT) in 2017.²⁴⁹ If one combines both China’s and Hong Kong’s commercial shipping, China’s merchant marine fleet becomes the world’s third largest (259 million DWT), behind only Greece and Japan.²⁵⁰ This includes over 800 oilers, over 2,200 bulk carriers, and over 600 container ships.²⁵¹

These factors suggest that the PLA Navy may be able to supplement its sustainment needs in the region by seeking the support of China’s growing dual-use civilian merchant fleet.

²⁴⁶ “Military-Civilian Integration Builds Gateway to Winning Battles (*Junmin Ronghe Gouzhu Daying Tongtu*; 军民融合构筑打赢通途),” *Vanguard News*, April 24, 2012.

²⁴⁷ Qu Baichun, Liao Pengfei, and Gao Zhiwen, “Military and Civilian Integration Accelerates the Development of Strategic Delivery Capabilities (*Junmin Ronghe Jiakuai Tuijin Zhanlue Tousong Nengli Jianshe*; 军民融合加快推进战略投送能力建设),” *PLA Daily*, September 5, 2016, http://www.81.cn/jfjbmap/content/2016-09/05/content_155683.htm.

²⁴⁸ “People’s Republic of China National Defense Transportation Law (*Zhonghua Renmin Gonghe Guo Guofang Jiaotong fa*; 中花人民共和国国防交通法) (Adopted at the 22nd Meeting of the Standing Committee of the Twelfth National People’s Congress on September 3, 2016), *Xinhua*, September 3, 2016.

²⁴⁹ United Nations Conference on Trade and Development, “Merchant Fleet by Country of Beneficial Ownership, Annual, 2014-2017,” UNCTAD STAT, 2018, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=80100>.

²⁵⁰ *Ibid.*

²⁵¹ *Ibid.*

Djibouti: China's first overseas base

Finally, China's only overseas base, located in Djibouti, should be well positioned to support future PLAN operations in the region. Since establishing the base in August 2017, China's garrison in Djibouti has held at least four separate training events:

- A live-fire exercise in September 2017²⁵²
- A second live-fire exercise in November 2017²⁵³
- A base-wide mobilization exercise dubbed "Fierce Lion" (*Xiongshi* 雄狮) on 9 January 2018, during which the entire garrison participated in a fully armed cross-country march.²⁵⁴
- A third live-fire exercise in mid-May 2018, which Chinese media described as "a live-fire exercise designed to make troops more combat-ready for counterterrorism operations."²⁵⁵

Unofficial reports note that by fall 2017, the base had established storage capacity for fuel, weapons, and equipment, as well as maintenance facilities for commercial and military ships and helicopters.²⁵⁶ Satellite imagery of the base also has identified roughly 23,000 square meters of underground construction, creating space for unobserved activity and the storage of additional equipment.

Regarding maritime facilities, the Doraleh Multipurpose Port, adjacent to the base, has six total berths, one of which is dedicated exclusively to the Chinese navy's use.²⁵⁷ The berths can accommodate all but the largest ships in the PLA Navy fleet. Chinese media reports also indicate that the base is building a pier located directly on the base,

²⁵² Minnie Chan, "Live Fire Show of Force by Troops From China's First Overseas Military Base," *South China Morning Post*, September 25, 2017, <https://www.scmp.com/news/china/diplomacy-defence/article/2112780/live-fire-show-force-troops-chinas-first-overseas>.

²⁵³ "Focus Today" (*Jinri Guanzhu*; 今日关注) CCTV-4 (Beijing), November 27, 2017, <http://tv.cctv.com/lm/jrgz/>.

²⁵⁴ "Military Report" (*Junshi Baodao*; 军事报道), CCTV-7 (Beijing), January 10, 2018, <http://tv.cctv.com/lm/jsbd/>.

²⁵⁵ Li Yan, "Claims China Turning Djibouti Into Military Foothold 'Groundless,'" *Global Times*, May 17, 2018, <http://www.globaltimes.cn/content/1102599.shtml>.

²⁵⁶ Andrew Jacobs and Jane Perlez, "U.S. Wary of Its New Neighbor in Djibouti: A Chinese Naval Base," *New York Times*, February 25, 2017, <https://www.nytimes.com/2017/02/25/world/africa/us-djibouti-chinese-naval-base.html>.

²⁵⁷ "Exclusive Aerial Photography of Construction of China's Naval Port at Djibouti: Office Building Has Begun to Take Shape (*Dujia Hangpai Jibuti Zhongguo Jungang Jianshe: Bangonglou yi Chu ju Guimo*; 独家航拍吉布提中国军港建设: 办公楼已初具规模)," Phoenix Television, March 8, 2016, http://news.ifeng.com/a/20160308/47735918_0.shtml.

allowing the PLA Navy to service additional ships and bypass the Doraleh Multipurpose Port.²⁵⁸

Potential missions for China's first overseas base

In general, China's base in Djibouti increases the PLA Navy's capacity to maintain a larger overall presence in the region, providing a dedicated source of food, fuel, and maintenance for PLAN ships, and thus allowing more PLA Navy ships to stay on station in the region for longer periods of time. Moreover, it is positioned near the critical Babel-Mandab chokepoint, through which most ships transiting from Europe to Asia must pass. China also has growing economic interests in Ethiopia and elsewhere in the Horn of Africa; Djibouti serves as Ethiopia's primary deep-water port. New Chinese-built infrastructure, such as the Djibouti-Ethiopia railway, could provide China with greater access to this region.²⁵⁹ The base therefore is well positioned to support the following types of missions:

- Counterpiracy
- Intelligence collection and surveillance
- Peacekeeping
- Counterterrorism operations
- Chinese peacekeeping and NEOs.

Additionally, as a secure military facility run exclusively by the PLA, China's base in Djibouti is also well positioned to act as a potential regional C2 hub for PLA assets operating in the region. While there has been no evidence of the base currently playing such a role, it is not unreasonable to consider that, given their location, base personnel could receive information collected by Chinese assets throughout the Middle East and Western Indian Ocean, analyze it, and redistribute it to Chinese assets in the region to provide a more complete operating picture.

²⁵⁸ Minnie Chan, "China Plans to Build Djibouti Facility to Allow Naval Flotilla to Dock at First Overseas Base," *South China Morning Post*, September 27, 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2112926/china-plans-build-djibouti-facility-allow-naval>.

²⁵⁹ Downs et al., *China's Military Support Facility in Djibouti*, 29-32.

Conclusion

China's navy is already conducting a wide range of noncombat operations throughout the Middle East and Western Indian Ocean, and some evidence suggests that it is also working toward increasing its ability to conduct combat operations in the region as well, such as maintaining access to key SLOCs in times of crisis or conflict. Moreover, three factors in particular strongly indicate that the PLAN's capacity to operate in the region is very likely going to improve with time. First, the PLAN continues to modernize its fleet, deploying a larger number of new platforms with more advanced weapons systems. As older ships that have operated in the region begin to be decommissioned, it is likely that these newer ships will start to take their place.

Second, China has one of the largest commercial shipping fleets in the world, and has been taking steps to ensure that it is available to support the PLAN when necessary, requiring shipbuilders to build civilian vessels to military specifications, and even including civilian ships in PLA Navy training exercises.

Third, as the PLA Navy gains experience operating its base in Djibouti, the location should serve as a useful secure regional logistics facility. Moreover, the fact that it is run solely by the PLA means that it could serve as a local operations center, improving the PLAN's situational awareness when operating in the region. Combined, these factors suggest that China's naval operations in the Middle East and Western Indian Ocean region will continue to grow more capable, even as they are likely to grow more numerous.

Chapter 6. Economic Presence: China's Role in Regional Ports

This chapter examines one aspect of China's economic presence in the region: the rise of Chinese companies as builders, owners, and operators of terminals and other infrastructure in ports in the Middle East and Western Indian Ocean. The chapter first details the roles played by Chinese firms in regional ports and introduces the companies involved in building, owning and operating port infrastructure. It then examines some of the ways in which Chinese actors might influence the operation of ports in the region.

Roles of Chinese entities in overseas ports

Chinese companies build, own, and operate ports in the Middle East and Western Indian Ocean. Chinese contractors, notably China Harbour Engineering Company (CHEC) and China Road & Bridge Corporation (CRBC), have been building infrastructure in the region for decades.²⁶⁰ China's terminal operators arrived in the region later. COSCO Shipping Ports became the first Chinese firm to invest in a terminal in the region in 2007, when it bought into the concession that operates Egypt's Suez Canal Container Terminal.²⁶¹ In 2011, China Merchants Port Holdings (CMPH) secured its first concession in the region to build and operate the Colombo International Container Terminal in Sri Lanka.²⁶²

²⁶⁰ China Road & Bridge Corporation, "History," China Road & Bridge Corporation, <http://www.crbc.com/site/crbcEN/history/index.html?id=d6cc50be-6584-4bd7-9beb-bd9327080751>; Xia Luoia, "Strive to Create More Glory in Gwadar—Interview with China Harbour Engineering Corporation General Manager Lin Yichong (*Lizheng Guadaer zai Chuang Huanghui - Zhuanfang Zhongguo Gangwan Gongcheng Youxian Zeren Gongsi Zongjingli*; 力争在瓜达尔再创辉煌 - 专访中国港湾工程有限责任公司总经理)," China International Contractors Association (*Zhongguo duiwai chengbao gongcheng shanghui*; 中国对外承包工程商会), 2015, <http://www.chinca.org/IEAService/info/20150716091930>.

²⁶¹ "HK-listed COSCO Pacific Completes Buy of 20 Pct of Suez Canal Container Terminal," Xinhua Finance Network News, November 7, 2007, <http://portnews.ru/news/7436/>.

²⁶² "RPT—Sri Lanka in \$500 Mln Port Deal with China Merchants," Reuters, August 16, 2011, <https://www.reuters.com/article/srilanka-port-china/rpt-sri-lanka-in-500-mln-port-deal-with-china-merchants-idUSL3E7JG2YH20110816>.

Builders

Chinese firms provide services for the construction of new ports and the upgrading of existing port infrastructure, including dredging and building quay walls and terminals. They have built—or are building—terminals and other facilities for numerous ports in the region (see Appendix A). In some cases, Chinese firms win contracts through tenders. In other cases, Chinese companies secure contracts to provide equipment and services because the Export-Import Bank of China (China Eximbank) or China Development Bank (CDB) provide loans that require buying and hiring from China.

The upgrade of Tanzania's Port of Dar-es-Salaam is one example of a project where a Chinese company won a construction contract through a tender. The World Bank, which is providing around \$345 million to improve the effectiveness and efficiency of the Port of Dar-es-Salaam, has been awarding contracts through open procurement processes.²⁶³ CHEC won a contract to design and build a roll-on/roll-off (RORO) terminal and to deepen and strengthen berths 1-7 for \$154 million.²⁶⁴

The construction of Djibouti's Doraleh Multipurpose Port is an example of a project where Chinese companies won contracts because China Eximbank helped finance the project. Specifically, China Eximbank provided a preferential export buyer's credit to the CMPH-Djibouti Ports and Free Zones Authority joint venture that developed the port.²⁶⁵ An export buyer's credit is a loan provided to overseas borrowers to purchase Chinese products, technologies, and services.²⁶⁶ Chinese firms that probably benefited from this loan include China State Construction Engineering Corporation, which built the port, and Shanghai Zhenhua, which supplied cranes.²⁶⁷

²⁶³ World Bank, "Dar es Salaam Maritime Gateway Project: Fact Sheet," World Bank, July 2, 2017, 2017, www.worldbank.org/en/country/tanzania/brief/dar-es-salaam-maritime-gateway-project-fact-sheet; World Bank, "Procurement Notices—Dar es Salaam Maritime Gateway Project," World Bank, 2014, <http://projects.worldbank.org/procurement/noticeoverview?id=OP00029170&lang=en&print=Y>.

²⁶⁴ "Tanzania Signs \$154 Million Contract with Chinese Firm to Expand Main Port," *Reuters*, June 10, 2017, <https://www.reuters.com/article/us-tanzania-ports/tanzania-signs-154-million-contract-with-chinese-firm-to-expand-main-port-idUSKBN1910RU>; "Tanzania Inks Deal to Expand Dar es Salaam Port," *World Maritime News*, 2017, <https://worldmaritimenews.com/archives/222503/tanzania-inks-deal-to-expand-dar-es-salaam-port/>.

²⁶⁵ China Merchants Group, "Djibouti Project (*Jibuti Xiangmu: Xing Gang Zhi lu, Shuzi Zai Tiaodong*; 吉布提项目：兴港之路，数字在跳动)," China Merchants Group, February 7, 2017, www.cmhk.com/main/a/2017/b07/a32755_32845.shtml.

²⁶⁶ Export-Import Bank of China, "Export Buyers' Credit," http://english.eximbank.gov.cn/tm/en-TCN/index_672.html.

²⁶⁷ Gao Jianghong, "'Shekou Model 4.0' Arrives in Djibouti, China Merchants 'Flying Geese' Model Goes Abroad."

Some of the construction contracts awarded to Chinese firms involve designing port infrastructure. For example, as stated above, CHEC's contract for the upgrade of the Port of Dar-es-Salaam involves designing a roll-on/roll-off terminal. Similarly, CHEC's contract for Gwadar port in Pakistan involved not only construction, but also design.²⁶⁸

While commercial, Chinese firms' maritime infrastructure activity may have potential security benefits. For example, Chinese firms that design the port infrastructure may have the opportunity to incorporate features that make infrastructure compatible with Chinese navy ships. For example, the Chinese firm could conceivably work with China's navy to design infrastructure to ensure that any Chinese naval vessels that call on the port will have access to electricity with appropriate voltage, access to water through the appropriate fresh water hook-ups, and other features that will facilitate repair and resupply for PLA Navy ships.²⁶⁹

Key construction companies

The main Chinese actors engaged in the construction of ports in the Middle East and Western Indian Ocean region are state-owned entities. They are all subsidiaries of the 96 companies owned by the State-owned Assets Supervision and Administration Commission (SASAC) under the State Council.²⁷⁰ China's port builders in the region also rank among the world's largest construction companies. According to *Engineering News-Record's* list of the top 250 international contractors in 2017 (which ranks companies by construction revenue generated outside of each company's home country), China Communications Construction Company, the parent company of CHEC and CRBC, ranked third, and China State Construction Engineering Corporation, ranked 11th.²⁷¹ Below are some of the key Chinese SOE construction firms involved in maritime infrastructure building in the region:

²⁶⁸ CHEC decided against using a UK firm's design for the port and instead came up with a new blueprint for the port using Chinese standards. According to a former chairman of CHEC, Gwadar marked a turning point in the company's history. Previously, Western firms designed ports and Chinese firms built them. Gwadar allowed CHEC to showcase its technologies to the world. See Li Qiangzi, "China Harbour Engineering Chairman: Gwadar Port Let China Engineering Go Global (*Zhonggang Dongshizhang: Guadaer Gang Rang Zhongguo Gongcheng Zou Shijie*; 中港董事长：瓜达尔港让中国工程走向世界)," Phoenix Online, September 27, 2011, http://news.ifeng.com/shendu/sjbl/detail_2011_09/27/9505763_0.shtml.

²⁶⁹ Conversation with naval expert, April 16, 2018.

²⁷⁰ State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, "Central Enterprises Directory (*Yangqi Minglu*; 央企名录)," State-Owned Assets Supervision and Administration Commission, December 29, 2017, <http://www.sasac.gov.cn/n25880315/n2641579/n2641645/index.html>.

²⁷¹ "ENR's 2017 Top 250 International Contractors," Engineering News-Record, August, 2017, <https://www.enr.com/toplists/2017-Top-250-International-Contractors-1>.

China Harbour Engineering Company (CHEC) is a subsidiary of China Communications Construction Group, which is managed by SASAC.²⁷² The core businesses of CHEC include marine engineering, dredging and reclamation, and the construction of roads and bridges, railways, and airports.²⁷³ CHEC has been active overseas for more than 30 years. By 2018, the company had established more than 90 offices globally and had business in more than 100 countries and regions.²⁷⁴

China Road & Bridge Corporation (CRBC) is a subsidiary of China Communications Construction Group, which is managed by SASAC.²⁷⁵ The company grew out of the foreign aid office of the Ministry of Transportation, which began working overseas in 1958.²⁷⁶ CRBC is involved in the development and operation of roads, bridges, ports, railways, airports, tunnels, real estate, and industrial park projects.²⁷⁷ It has offices in nearly 60 countries and regions.²⁷⁸

China State Construction Engineering Corporation Limited (CSCEC) is a subsidiary of China State Construction Engineering Corporation, which is managed by SASAC.²⁷⁹

²⁷² “China Harbour,” China Harbour Engineering Company Ltd., <http://www.chec.bj.cn/tabid/40/>; State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, “List of Central Enterprises (*Yangqi Minglu*; 央企名录),” State-owned Asset Supervision and Administration Commission of the State Council, December 29, 2017, <http://www.sasac.gov.cn/n2588035/n2641579/n2641645/index.html>.

²⁷³ China Harbour Engineering Company Ltd., “About Us,” China Harbour Engineering Company Ltd., <http://www.chec.bj.cn/tabid/861/Default.aspx>.

²⁷⁴ Yang Haixia, Zhangmei, and Pei Andi, “The Modernization of African Ports Is Just Getting Started: An Interview with China Harbour Engineering Company Limited Party Secretary and Chairman Lin Yichong (*Feizhou Gangkou de Xiandaihua Cai Ganggang Kaishi: Zhuanfang Zhongguo Gangwan Gongcheng Youxian Gongsi Dangwei Shuji, Dongshizhang Lin Yichong*; 非洲港口的现代化才刚刚开始: 专访中国港湾工程有限责任公司党委书记, 董事长林舫),” *China Investment*, no. 8 (2018).

²⁷⁵ “History,” China Road & Bridge Corporation, <http://www.crbc.com/site/crbcEN/history/index.html?id=d6cc50be-6584-4bd7-9beb-bd9327080751>; “List of Central Enterprises.”

²⁷⁶ Ibid.

²⁷⁷ “Products & Services,” China Road & Bridge Corporation, <http://www.crbc.com/site/crbcEN/airport/index.htm?id=570e2bf6-b830-4fd4-80d9-1c51e2336193>.

²⁷⁸ “Where We Serve,” China Road & Bridge Corporation, <http://www.crbc.com/site/crbcEN/ww/index.html?id=1e3af7c7-499f-8881-b2f81c45b8f5>.

²⁷⁹ China State Construction Engineering Corporation Limited, *Summary of Annual Report 2017*, 7, <http://english.cscec.com/Relation58/InvestorRelations/201807/020180706641784929692.pdf>.

CSCEC is China's largest construction and real estate conglomerate.²⁸⁰ It develops infrastructure such as railways, highways, bridges, tunnels, airports, and ports.²⁸¹

Key financiers

The construction of terminals and other port infrastructure by Chinese firms is sometimes supported by China Development Bank and the Export-Import Bank of China.

China Development Bank (CDB) is a state-owned policy bank directly under the State Council that lends money in support of China's long-term economic strategies.²⁸² Established in 1994, CDB's mission is to fund the development of domestic infrastructure, basic and pillar industries, urbanization, and the overseas investments of Chinese companies.²⁸³ Although most of CDB's business is domestic, CDB describes itself as "the largest Chinese bank for foreign investment and financing cooperation, long-term lending, and bond issuance."²⁸⁴ At the end of 2016, the balance of CDB's international loan portfolio was equivalent to \$277.9 billion.²⁸⁵

The Export-Import Bank of China (China Eximbank) is also a state-owned policy bank directly under the State Council that lends in support of national interests.²⁸⁶ China Eximbank's services include financing for overseas project contracting, outbound investment, and the purchase of Chinese goods and services.²⁸⁷ It is the only bank designated by the Chinese government to offer government concessional loans and preferential export buyers' credit (credit provided to foreign companies to buy Chinese products, technologies, and services).²⁸⁸ At the end of 2016, China Eximbank's outstanding loans were \$364.4 billion.²⁸⁹

²⁸⁰ "CSCEC at a Glance," China State Construction Engineering Corporation Limited, <http://english.cscec.com/CSCEC58/CSCECataGlance/>.

²⁸¹ Ibid.

²⁸² "About CDB," China Development Bank, http://www.cdb.com.cn/English/gykh_512/khjj/; China Development Bank, 2016 *Annual Report*, 6, 15, <http://www.cdb.com.cn/English/bgxz/ndbg/ndbg2016/>.

²⁸³ "Our Mission," China Development Bank, <http://www.cdb.com.cn/English/qywh/khsm/>.

²⁸⁴ "About CDB."

²⁸⁵ China Development Bank, 2016 *Annual Report*.

²⁸⁶ "Profile," Export-Import Bank of China, http://english.eximbank.gov.cn/tm/en-TCN/index_617.html.

²⁸⁷ "Business," Export-Import Bank of China, http://english.eximbank.gov.cn/tm/en-TCN/index_635.html.

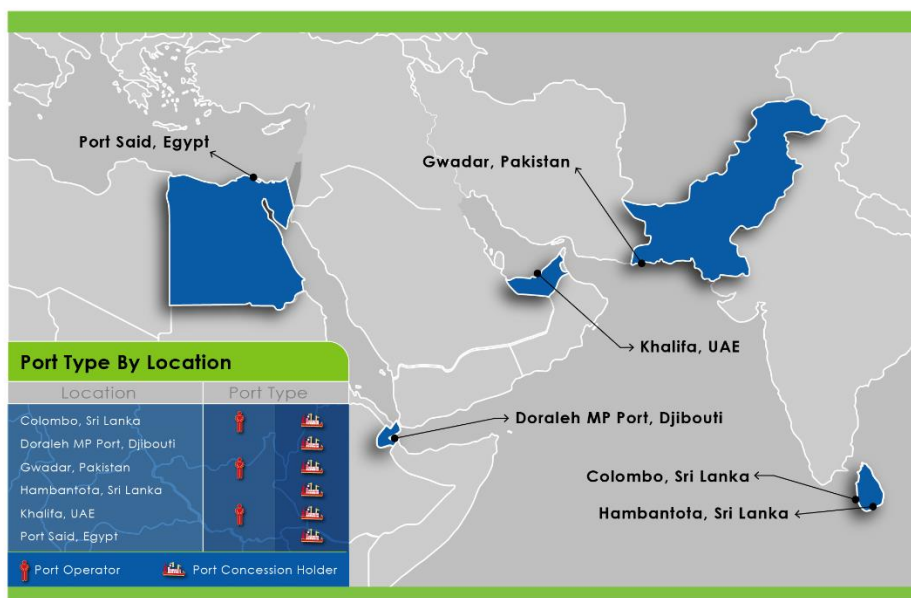
²⁸⁸ "Preferential Facilities," Export-Import Bank of China, http://english.eximbank.gov.cn/tm/en-TCN/index_640.html.

²⁸⁹ 2016 *Annual Report*, <http://english.eximbank.gov.cn/upload/accessory/20175/2017531315427099615.pdf>.

Owners

Chinese companies own stakes in joint ventures that operate terminals and other facilities in ports around the world, including six in the Middle East and Western Indian Ocean region (see figure 12). The government (often the port authority) owns the land and core port infrastructure and leases parts of the port to Chinese companies—or joint ventures that are partly owned by Chinese companies—via concession agreements.²⁹⁰ A port concession is a contract in which a port authority transfers operating rights to a private company, the concessionaire, to build, finance, own, and operate a facility and return it to the state within a specified period of time.²⁹¹ Sometimes a port authority is also a shareholder in the concessionaire.²⁹²

Figure 9. Regional ports operated and owned by Chinese firms



Sources: See section in References entitled “Sources of Information on Chinese Port Development.”

The lengths of concession agreements vary (see Table 7). A typical concession used to be for 30 years. However, a number of companies have longer concessions, especially

²⁹⁰ Telephone conversation with senior shipping consultant, July 11, 2018; Joseph Botham, “Concession Choices,” *Port Strategy* (2014), <http://hfw.com/downloads/HFW-Port-Strategy-Concession-choices-Article-July-2014.pdf>.

²⁹¹ Botham, “Concession Choices.”

²⁹² Alex Kyriakoulis, “Global Overview,” in Alex Kyriakoulis (ed.), *Ports & Terminals 2016* (London: Gideon Robertson, 2015), <http://sites-hfw.vuturvx.com/9/1320/uploads/getting-the-deal-through-ports-and-terminals-2016-hfw-chapters.pdf>.

for ports where a large amount of capital is required to develop new terminals and other infrastructure.²⁹³ For example, at the port of Hambantota in Sri Lanka, a joint venture between CMPH and the SPLA has a 99-year concession to operate the terminal and the exclusive economic and industrial zone.²⁹⁴

²⁹³ Telephone conversation with international shipping consultant, July 11, 2018.

²⁹⁴ China Merchants Port Holdings Company Limited, *Potential Discloseable Transaction Concession Agreement in Relation to Hambantota Port, Sri Lanka*, Hong Kong Stock Exchange, July 25, 2017, <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0725/LTN20170725444.Pdf>.

Table 7. Summary of China's presence in regional ports

Country	Port	Terminal	Operator	Concession Parties	Share (%)	Concession Length (years)
Djibouti	Djibouti	Doraleh Multipurpose Port	Port de Djibouti SA	CMPH/DPFZA	100	99
Egypt	Port Said	Suez Canal Container Terminal	APM Terminals	APM Terminals COSCO Shipping Ports Suez Canal Authority Egyptian Private Sector Nat'l Bank of Egypt	55 20 10.3 9.7 5	49
Pakistan	Gwadar	All	COPHC	COPHC	100	40
Sri Lanka	Colombo	Colombo Int'l Container Terminal	CMPH	CMPH Sri Lanka Ports Authority	85 10	99
Sri Lanka	Hambantota	All	MPMC	CMPH Sri Lanka Ports Authority	85 10	35
United Arab Emirates	Khalifa	Khalifa Port Container Terminal 2	COSCO Shipping Ports	COSCO Shipping Ports AD Ports	90 10	35

Sources: See sources for Figure 8.

CMPH = China Merchants Port Holdings

DPFZA = Djibouti Ports & Free Zones Authority

COPHC – China Overseas Ports Holding Company

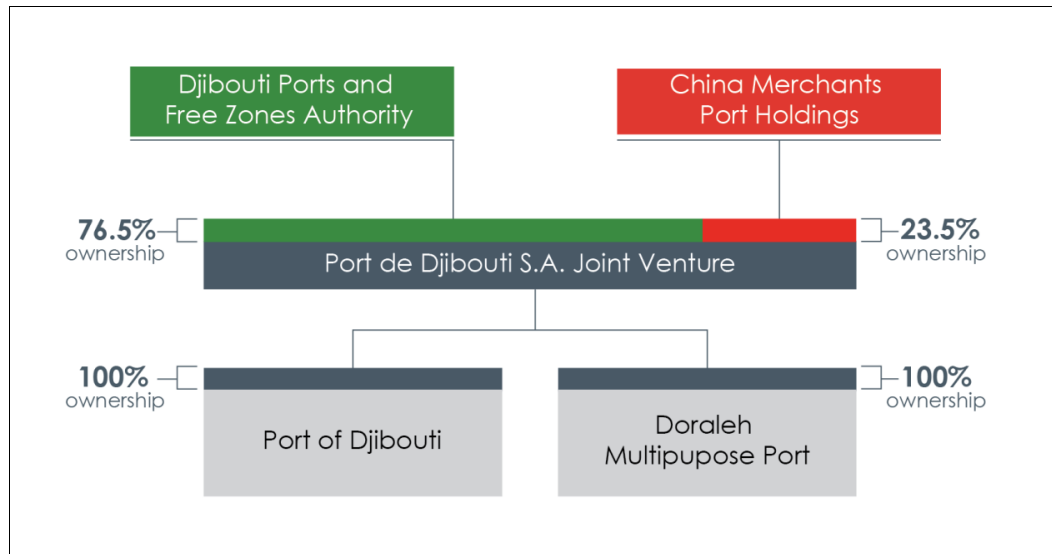
MPMC = MPMC Limited, a wholly owned subsidiary of Sri Lanka Ports Authority

In the case of Djibouti, CMPH and the government of Djibouti have a concession-like agreement. In 2013, CMPH completed the acquisition of a 23.5 percent stake in Port de Djibouti S.A. (PDSA). The remaining 66.5 percent of PDSA is held by the Djibouti Port and Free Zones Authority (DPFZA). The assets owned by PDSA include the Doraleh Multipurpose Port and the Port of Djibouti (see Figure 13).²⁹⁵ (PDSA also held a 66.66 percent stake in the Doraleh Container Terminal until September 2018, when the government of Djibouti nationalized all of PDSA's shares in the Doraleh Container Terminal as part of its long running dispute with the United Arab Emirates' DP

²⁹⁵ China Merchants Holdings, "Acquisition of 23.5% Interests in Joint Venture in Djibouti, Voluntary Announcement," Hong Kong Stock Exchange, 2012, <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/1230/LTN20121230025.pdf>.

World.²⁹⁶) According to a reputable Chinese business publication, the joint venture will be in effect for 99 years.²⁹⁷

Figure 10. China Merchants-Djibouti Ports & Free Zones Authority joint venture



Sources: Data derived from China Merchants Port Holdings Company Limited, "Djibouti," <http://www.cmport.com.hk/EnTouch/business/infor.aspx?id=10006221>; Downs, et al., *China's Military Support Facility in Djibouti*, 11.

Key concession holders

The three Chinese firms engaged in the ownership and operation of ports in the Middle East and Western Indian Ocean region are state-owned entities. China Merchants Port Holdings and COSCO Shipping Ports are both subsidiaries of the 96 companies owned by the State-owned Assets Supervision and Administration Commission (SASAC) under the State Council, with the exception of one company.²⁹⁸ The third company, China Overseas Ports Holding Company (COPHC), is described by authoritative Chinese

²⁹⁶ Government of Djibouti, "The Government of Djibouti Announces the Nationalization of the Shares Held by Port of Djibouti, S.A. in Doraleh Container Terminal," September 10, 2018, https://mma.prnewswire.com/media/741771/State_of_Djibouti_full_release.pdf.

²⁹⁷ Gao Jianghong, "Shekou Model 4.0' Arrives in Djibouti."

²⁹⁸ State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, "Central Enterprises Directory (*Yangqi Minglu*; 央企名录)," State-Owned Assets Supervision and Administration Commission, December 29, 2017, <http://www.sasac.gov.cn/n25880315/n2641579/n2641645/index.html>.

media as “state-owned,” but we are unable to confirm which part of the Chinese government is the ultimate owner.²⁹⁹

China Merchants Port Holdings (CMPH) is a subsidiary of China Merchants Group, which is managed by SASAC. China Merchants Group is a conglomerate involved in transportation (including ports, shipping, and logistics), finance, and real estate.³⁰⁰ CMPH was the world’s sixth largest terminal operator by twenty-foot equivalent unit (TEU) in 2016.³⁰¹ (A TEU is used to measure a ship’s cargo carrying capacity. The dimensions of one TEU are equal to that of a 20-foot shipping container.³⁰²) The company has a presence in 21 ports in 15 countries.³⁰³ CMPH is seeking to implement overseas the “Port-Park-City” development model it pioneered in Shenzhen, China; that model aims to integrate the development of a port with that of an industrial park and a surrounding city.³⁰⁴

COSCO Shipping Ports is a subsidiary of China COSCO Shipping Corporation, Ltd., which is managed by SASAC.³⁰⁵ It was the world’s fifth largest terminal operator by TEU in 2016.³⁰⁶ COSCO Shipping Ports has equity investments in companies that operate 13 terminals located in 11 countries.³⁰⁷ It aims to build a global network of terminals in which it holds controlling stakes.³⁰⁸

²⁹⁹ Zheng Xin, “Zhuhai Port Scores Big with Deal in Pakistan,” *China Daily*, October 30, 2015, http://usa.chinadaily.com.cn/epaper/2015-10/30/content_22326165.htm.

³⁰⁰ China Merchants Group, “Business Sectors,” China Merchants Group Website, <http://www.cmhk.com/en/ins/>.

³⁰¹ Tim Power, “The Rise of Chinese Global Terminal Operators,” Drewry, July 12, 2017, https://www.drewry.co.uk/AcuCustom/Sitename/DAM/008/Rise_of_Chinese_Global_Terminal_Operators.pdf.

³⁰² For more details see, “What us a TEU?” Dedola Global Logistics, October 13, 2011, <https://dedola.com/2011/10/what-is-a-teu/>.

³⁰³ China Merchants Port Holdings, *Annual Report 2017*, April 2018, <http://www.cmport.com.hk/UpFiles/bpic/2018-04/20180426042934273.pdf>; China Merchants Port Holdings Company Limited, “CMPort Completes its Acquisition of the Port of Newcastle in Australia Achieving a Full Coverage of the Six Continents,” China Merchants Port Holdings Company Limited, June 14, 2018, <http://www.cmport.com.hk/enTouch/news/Detail.aspx?id=10007652>.

³⁰⁴ Deng Yanzi, “CMG Wants to Make African Port of Djibouti 'New Shekou.'”

³⁰⁵ “Central Enterprises Directory”; COSCO Shipping Ports Limited, *Annual Report 2017*, 2, 2017, <http://doc.irasia.com/listco/hk/coscoship/annual/2017/ar2017.pdf>.

³⁰⁶ Power, “The Rise of Chinese Global Terminal Operators.”

³⁰⁷ COSCO Shipping Ports Limited, *Annual Report 2017*, 19.

³⁰⁸ *Ibid.*, 2.

China Overseas Ports Holding Company (COPHC) is routinely described as a Chinese state-owned firm.³⁰⁹ There is, however, no publicly available information about which part of the Chinese government owns the company. Moreover, documents that COPHC-Pakistan has submitted to the Securities and Exchange Commission of Pakistan have listed its parent company's address as a single room in a Hong Kong office building that is used as a mailing address for at least four other companies.³¹⁰

Operators

Chinese companies currently operate terminals at two ports in the Middle East and Western Indian Ocean: Gwadar Port in Pakistan and the Colombo International Container Terminal in Sri Lanka. COSCO Shipping Ports will operate Khalifa Port Container Terminal 2 after construction is complete.

Gwadar Port, Pakistan

In 2013, COPHC took over the Port of Singapore Authority's (PSA) concession to operate Gwadar. PSA signed a 40-year concession agreement in 2007. According to the Gwadar Port Authority, COPHC also has a 40-year concession.³¹¹ COPHC does not have a local partner, which may reflect a lack of local companies with operating expertise.³¹²

Colombo International Container Terminal (CICT), Sri Lanka

CMPH and the Sri Lanka Ports Authority (SPLA) own Colombo International Container Terminals, a joint venture that has a 35-year concession to operate CICT.³¹³ China Merchants owns 85 percent of the joint venture, and SPLA owns 15 percent.³¹⁴ CMPH is probably in charge of long-term development and strategic operations, given that the CEO of Colombo International Container Terminals is Jack Huang, deputy general

³⁰⁹ See for example, James Kynge et al., "How China Rules The Waves," *Financial Times*, January 17, 2017, <https://ig.ft.com/sites/china-ports>; Xin, "Zhuhai Port Scores Big with Deal in Pakistan."

³¹⁰ "The Mysterious China Overseas Ports Holding Company," *Business Recorder*, February 19, 2018, <https://www.brecorder.com/2018/02/19/399768/the-mysterious-china-overseas-ports-holding-company/>.

³¹¹ Ministry of Ports & Shipping and Gwadar Port Authority, "Gwadar Port & CPEC: A Presentation to Parliamentary Committee on CPEC," National Assembly of Pakistan, November 28, 2015, <http://www.na.gov.pk/cpec/sites/default/files/presentations/Parliamentary%20Committee%20on%20CPECNew.pdf>.

³¹² Email with ports industry expert, August 7, 2018.

³¹³ Sri Lanka Ports Authority, "Agreements Signed to Construct Colombo Port Expansion Project's South Container Terminal," Sri Lanka Ports Authority, November 9, 2011, http://portcom.slpa.lk/news_events_324.asp.

³¹⁴ China Merchants Port Holdings Company Limited, "Colombo International Container Terminals Limited (CICT)."

manager (international) of China Merchants Holdings (International) Co., Ltd, and that seven out of 10 board members are Chinese.³¹⁵

Khalifa Port Container Terminal 2, United Arab Emirates

COSCO Shipping Ports began operating Khalifa Port Container Terminal 2 in December 2018.³¹⁶ According to an executive with the Chinese company, it is the first overseas “greenfield” (new) project controlled by COSCO Shipping Ports.³¹⁷ In 2016, CSPL, a subsidiary of COSCO Shipping Ports, signed a 35-year concession agreement with Abu Dhabi Ports, a state-owned company that functions as a port authority for the United Arab Emirates,³¹⁸ for the right to develop, manage, and operate Khalifa Port Container Terminal 2.³¹⁹ Abu Dhabi Ports subsequently acquired a 10 percent stake in CSPL.³²⁰

The role of a terminal operator entails purchasing and maintaining cranes and other container ship handling equipment, hiring labor, managing customer relations, and running the day-to-day terminal operations. The activity of container terminals is confined to loading and discharging container ships and moving containers to road and rail for transport to the hinterland. Labor is likely to be local, though some managers from foreign companies may be parties to the concession agreement.³²¹

In ports where Chinese companies are not terminal operators, they may nonetheless have considerable influence over the ports’ long-term operations if they are providing development plans and the capital to finance them. This appears to be the case with two ports in the Middle East and Indian Ocean—Djibouti and Hambantota. Both ports

³¹⁵ Colombo International Container Terminals, “Management/Executive Committee,” <http://www.cict.lk/management-executive-committee.php>; “Jack Huang—Director/CEO—Colombo International Container Terminals,” LinkedIn, <https://hk.linkedin.com/in/jack-huang-906b3617>; Colombo International Container Terminals, “Board of Directors,” <http://www.cict.lk/directors.php>.

³¹⁶ “COSCO, Abu Dhabi Ports Open New Terminal at Khalifa Port,” World Maritime News, December 10, 2018, <https://worldmaritimenews.com/archives/266410/cosco-abu-dhabi-ports-open-terminal-at-khalifa-port/>

³¹⁷ Milton Stuards, “COSCO Shipping Ports and Abu Dhabi Ports Witness Groundbreaking at Khalifa Port and Sign New CFS Agreement,” Vessel Finder, November 6, 2017, <https://www.vesselfinder.com/news/10683-COSCO-Shipping-Ports-and-AbuDhabi-Ports-witness-ground-breaking-at-Khalifa-Port-and-sign-new-CFS-agreement>.

³¹⁸ “ADPC to Manage and Operate Zayed Port from 2014,” *World Maritime News*, December 30, 2013, <https://worldmaritimenews.com/archives/100949/adpc-to-operate-zayed-port-from-2014/>.

³¹⁹ COSCO Shipping Ports Limited, “Discloseable Transaction: Concession Agreement in Relation to Khalifa Port Container Terminal 2,” Hong Kong Stock Exchange, September 28, 2016, <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0928/LTN20160928374.pdf>.

³²⁰ *Ibid.*, 19; COSCO Shipping Ports Limited, *Annual Report 2017*.

³²¹ Telephone conversation with senior shipping consultant, July 11, 2018.

are operated by their countries' port authorities.³²² However, CMPH is applying the "Port-Park-City" development model to the ports of Djibouti (it used this model in order to transform Shekou from a sleepy fishing village to a commercial hub).³²³ The company also aims to turn Hambantota into a major hub.³²⁴ Moreover, CMPH is mobilizing financing for both projects from its own coffers and those of other Chinese entities, including China Eximbank.³²⁵

In contrast, COSCO Shipping Ports probably has limited influence over the future of the Suez Canal Container Terminal in Port Said, Egypt. This terminal is operated by its majority shareholder, Netherlands-based APM Terminals.³²⁶ According to an industry analyst, APM Terminals is in charge of not only day-to-day operations, but also the longer-term development of the terminal by virtue of the fact that it is a very capable terminal operator and owns 55 percent of the joint project with the concession to operate the terminal.³²⁷

How might China influence port operations?

The emergence of Chinese companies as global port terminal operators has raised questions about the implications for the U.S. Navy's access to facilities run by Chinese firms. This issue received heightened attention after the government of Djibouti announced on 22 February 2018 that it was terminating the concession of the United Arab Emirates' DP World to operate the Doraleh Container Terminal (DCT) and took control of the facility, the latest move in a dispute dating back to at least 2012.³²⁸ In a hearing of the U.S. House Armed Services Committee on 6 March 2018, General

³²² S.A. Port de Djibouti, "General Manager Message," Port de Djibouti, S.A., <http://www.portdedjibouti.com/general-manager-message/>; Sri Lanka Ports Authority, "MRMR Port," Sri Lanka Ports Authority, <http://www.slpa.lk/port-colombo/about-mrrm>.

³²³ "Deng Yanzi, 'CMG Wants to Make African Port of Djibouti 'New Shekou'."

³²⁴ Bandula Sirimanna, "CMPH to Make Hambantota Port Operational Soon," *The Sunday Times* (Colombo), October 1, 2017, <http://www.sundaytimes.lk/171001/business-times/cmph-to-make-hambantota-port-operational-soon-261454.html>.

³²⁵ China Merchants Holdings, "Acquisition of 23.5% Interests in Joint Venture in Djibouti"; China Merchants Port Holdings Company Limited, "Update on Disclosable Transaction: Concession Agreement in Relation to Hambantota Port, Sri Lanka," China Merchants Port Holdings, December 8, 2017, www.cmport.com.hk/UpFiles/bpic/20171208063230273.pdf; Gao Jianghong, "'Shekou Model 4.0' Arrives in Djibouti."

³²⁶ Suez Canal Container Terminal, "General Information," Suez Canal Container Terminal, <https://scct.com.eg/general-information/>.

³²⁷ Email with ports industry expert, August 7, 2018.

³²⁸ "London Court Rules DP World Djibouti Contract 'Valid and Binding'—Dubai Government," Reuters, August 2, 2018, <https://uk.reuters.com/article/uk-emirates-dp-wrld-djibouti/london-court-rules-dp-world-djibouti-contract-valid-and-binding-dubai-government-idUKKBN1KN1Cl>.

Thomas Waldhauser, head of U.S. Africa Command, spelled out his concerns that a Chinese company would gain control of DCT and limit the USN's access to the port:

If the Chinese took over that port, the consequences could be significant if there were some restrictions on our ability to use that, because obviously the supplies that come in not only take care of Camp Lemonnier and other places inside the continent, it is a huge activity there....Moreover, our U.S. Navy ships come in and out of there to refuel and whatnot. There could be some consequences, that is why it is important to watch this.³²⁹

As of this writing, the DCT is in Djiboutian hands. On March 9, 2018, the government announced that it had created a new public entity, whose sole shareholder is the state of Djibouti, to take over the activities of the DCT.³³⁰ Four days earlier, on March 5, 2018, the new entity signed an agreement with Singapore-based Pacific International Lines Pte Ltd. to boost traffic at DCT.³³¹ Although the government of Dubai announced on August 2, 2018 that the London Court of International Arbitration had ruled that DP World's concession agreement for the DCT remained "valid and binding," the government of Djibouti rejected the court's decision.³³²

Moreover, after General Waldhauser made his remarks, the government of Djibouti moved quickly to reassure the United States that it had no plans to grant a Chinese firm a concession to operate DCT:

- On March 14, 2018, Djibouti's inspector general, Hassan Issa Sultan, who oversees infrastructure for President Guelleh, told Reuters, "There is no China option and no secret plans for the Doraleh Container Terminal. The port is now 100 percent managed by the state."³³³

³²⁹ Travis J. Tritten, "China May Try to Control Key US Military Port in Africa, General Says," *Washington Examiner*, March 6, 2018, <https://washingtonexaminer.com/china-may-try-to-control-key-us-military-port-in-africa-general-says>.

³³⁰ "Press Release: The New Ambitions of the Doraleh Container Terminal," Permanent Mission of the Republic of Djibouti to the United Nations, March 9, 2018, <https://www.un.int/news/press-release-new-ambitions-doraleh-container-terminal>.

³³¹ Nizar Manek, "Djibouti Sees China Involvement in Port as No Threat to U.S.," *Bloomberg*, March 14, 2018, <https://www.bloomberg.com/news/articles/2018-03-14/djibouti-sees-chinese-involvement-in-port-as-no-threat-to-u-s>.

³³² "London Court Rules DP World Djibouti Contract 'Valid and Binding'—Dubai Government"; "Djibouti Gov't Rejects London Court Doraleh Decision," *World Maritime News*, August 6, 2018, <https://worldmaritimenews.com/archives/258384/djibouti-govt-rejects-london-court-doraleh-decision/>.

³³³ Maggie Fick, "Djibouti Says Its Container Port to Remain in State Hands," *Reuters*, March 14, 2018, <https://www.reuters.com/article/us-djibouti-port/djibouti-says-its-container-port-to-remain-in-state-hands-idUSKCN1GQ11B>.

- In an interview with Bloomberg published on March 14, 2018, Djibouti's finance minister, Ilyas Dawaleh, said that "it would be 'ridiculous' to imagine that China could restrict or deny access to Doraleh" as result of a deal Djibouti struck with Pacific International Lines Pte Ltd.³³⁴ (The fact that the Singaporean firm works with Chinese state-owned enterprises, including China Merchants, appears to have generated concern that it would facilitate China's influence over the operations of DCT.³³⁵)

Nonetheless, the prospect of a Chinese company operating a port used by the USN does raise the issue of how China might go about limiting the USN's access to the port.

Potential targets of Chinese influence

If Beijing wanted to restrict the access of the USN to a port with a Chinese terminal operator, Chinese officials might seek to influence different actors in national and local governments in the country where the port is located. These actors would include national leaders, the port authority, and local officials.

National leaders and their families

Chinese officials and business executives would likely try to influence senior leaders. In particular, they would likely seek to influence heads of state who appreciate the role China played in building their infrastructure, especially after overtures to other countries were rebuffed. One example is Ismail Omar Guelleh, the president of Djibouti, who views China as his country's only long-term development partner.³³⁶ Another example is Mahinda Rajapaksa, the former president of Sri Lanka, who sought financing from India for the development of a port in his hometown of Hambantota before turning to China.³³⁷

The Chinese might also target family members of national leaders, especially if they also occupy leadership positions. Here, the example of Djibouti is instructive. President Guelleh's daughter, Haibado Guelleh, is the president's top economic adviser and a Chinese speaker. She is responsible for implementing Djibouti's long-term

³³⁴ "Djibouti Sees China Involvement in Port as No Threat to U.S."

³³⁵ Ibid.; "Djibouti Welcomes China's Involvement in Port Development," Xinhua, March 16, 2018, http://www.xinhuanet.com/english/2018-03-16/c_137043630.htm.

³³⁶ "Ismail Omar Guelleh: Nobody Other Than the Chinese Offers a Long-term Partnership in Djibouti (Ismail Omar Guelleh: Personne d'autre que les Chinois n'offre un partenariat a long terme a Djibouti)," *Jeune Afrique*, April 4, 2017, <http://www.jeuneafrique.com/mag/421096/politique/ismail-omar-guelleh-personne-dautre-chinois-noffre-partenariat-a-long-terme-a-djibouti/>.

³³⁷ Jamie Tarabay, "With Sri Lankan Port Acquisition, China Adds Another 'Pearl' to its 'String,'" CNN, February 4, 2018, <https://www.cnn.com/2018/02/03/asia/china-sri-lanka-string-of-pearls-intl/index.html>.

development plan, “Vision 2035,” and likely negotiates Chinese debt-financed infrastructure projects.³³⁸ Also, President Guelleh’s half-brother, Saad Omar Guelleh, is the director general of Port de Djibouti PDSA, a major source of income for the country and the presidency.³³⁹

Port authorities

Port authorities are also likely targets of Chinese influence. In general, a port authority decides who enters and exits a port. It controls the pilots and tugs that assist large ships when entering and leaving a port, allocates ships to berths, and is responsible for port storage. In short, port authorities know when ships, including USN vessels, arrive at port, where they dock, what they carry, where they store cargo, and when that cargo gets picked up.³⁴⁰

Chinese officials might be able to obtain such information through relationships that state-owned Chinese port terminal operators have with port authorities. For example, COSCO Shipping Ports and AD Ports, a company established by the Abu Dhabi government, are stakeholders in a joint venture company that has a concession to build operate and manage the Khalifa Port Container Terminal 2 in the United Arab Emirates.³⁴¹ AD Ports is the port authority for 10 ports, including Port Khalifa.³⁴²

Similarly, as mentioned above, joint venture companies owned by CMPH and SPLA have concessions for the development and operation of the Colombo International Container Terminal and the Hambantota Port. In both joint ventures, SPLA holds a 15 percent stake, and CMPH holds 85 percent.³⁴³ However, the government of Sri Lanka awarded the concession for Hambantota Port to CMPH under a two-company tier structure, illustrated in Figure 11, due to concerns over whether the deal would

³³⁸ “Djibouti Legislative Elections,” IHS Markit, March 8, 2018, <https://ihsmarkit.com/research-analysis/Djibouti-legislative-elections.html>.

³³⁹ “Ismail Omar Guelleh Governs Family-style with Kadra, Naguib, Saad and Co,” *Africa Intelligence*, June 18, 2015, <https://www.africaintelligence.com/ion/insiders/djibouti/2015/06/19?ismail-omar-guelleh-governs-family-style-with-kadra-naguib-saad-and-co/108078596-be1>; “General Manager Message.”

³⁴⁰ Conversation with logistics experts, August 1, 2018.

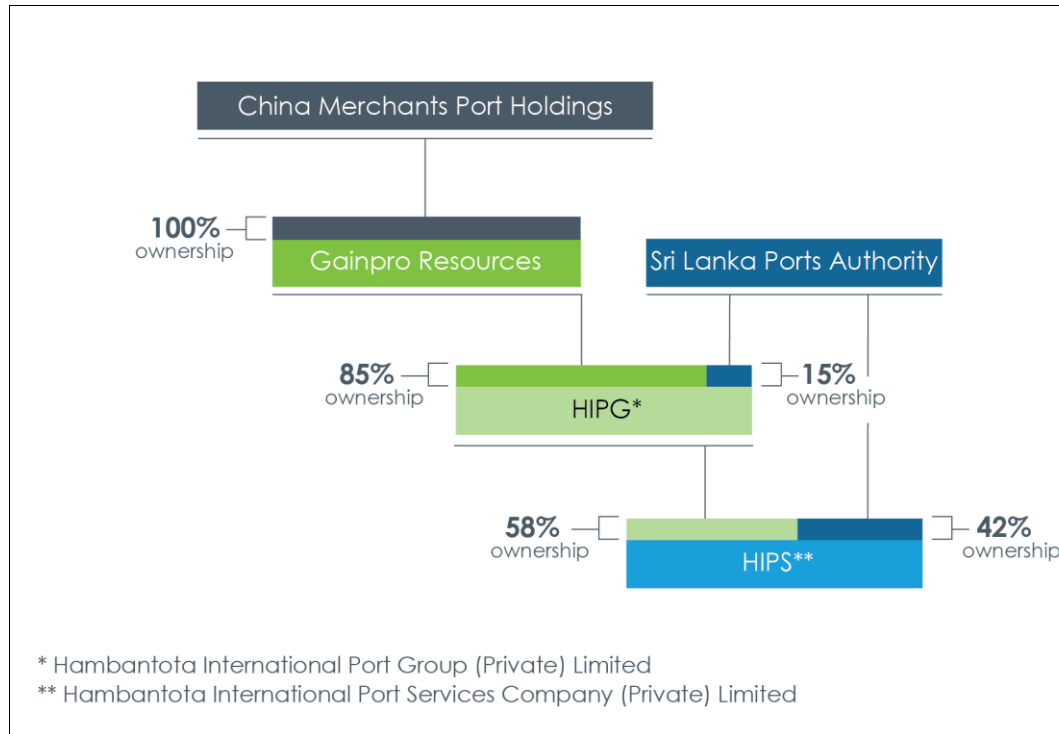
³⁴¹ COSCO Shipping Ports Limited, *Concession Agreement In Relation to Khalifa Port Container Terminal 2*.

³⁴² Abu Dhabi Digital Government, “Abu Dhabi Ports,” Abu Dhabi Digital Government, <https://www.abudhabi.ae/portal/public/en/departments/adports>; “ADPC to Manage and Operate Zayed Port from 2014.”

³⁴³ China Merchants Port Holdings Company Limited, “Acquisition of 30% Interests in Joint Venture in Sri Lanka,” Stock Exchange of Hong Kong, January 26, 2012, <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0126/LTN20120126230.pdf>; “Update on Discloseable Transaction: Concession Agreement in Relation to Hambantota Port, Sri Lanka.”

compromise Sri Lanka's national security.³⁴⁴ CMPH holds a majority stake in the Hambantota International Port Group, which will run terminal operations and the exclusive economic and industrial zone. SPLA holds a majority stake in the Hambantota International Port Group Services Co., which oversees security operations.³⁴⁵

Figure 11. China Merchants–Sri Lanka Ports Authority joint venture



Source: Data derived from China Merchants Port Holdings Company Limited, "Update on Disclosable Transaction: Concession Agreement in Relation to Hambantota Port, Sri Lanka," Hong Kong Stock Exchange, December 8, 2017, <http://www.hkexnews/SEHK/2017/1208/LTN20171208835.pdf>.

Local leaders

Local government officials may also be targets of influence. One local official to watch is the chairman of the Special Economic Zone Authority in Duqm, Oman (SEZAD). Private Chinese companies are helping build the Duqm Special Economic Zone, of

³⁴⁴ Savantha De Saram and Jivan Goonetillike, "Sri Lanka," in Alex Kyriakoulis (ed.), *Ports & Terminals* 2018 (London: Gideon Robertson, 2017), <http://www.desaram.com/content/uploads/2017/11/P2018Sri-Lanka.pdf>.

³⁴⁵ Ibid.

which the Port of Duqm is a part (see text box).³⁴⁶ However, at this time, no Chinese firms are involved in the operation of the Port of Duqm. As of July 2015, a joint venture between the government of Oman and a Belgian consortium is managing the port for 28 years.³⁴⁷

What are Chinese companies doing in Duqm?

Private Chinese companies are helping the government of Oman transform Duqm from a fishing village to a commercial and logistics hub as part of its efforts to diversify Oman's economy away from oil and natural gas, which account for 60 percent of its exports.³⁴⁸ Muscat plans to develop other industries, including logistics services, warehousing, mineral exports, and value-added sectors of the oil industry. To this end, Muscat has established several special economic zones (SEZs), including one at Duqm.³⁴⁹

In May 2016, Oman Wanfang, a consortium of private Chinese companies from China's Ningxia Autonomous Region, agreed to develop the China-Oman Industrial Park within the Duqm SEZ, which the head of the SEZ authority in Duqm said will attract \$10 billion of investment by 2022.³⁵⁰ As of April 2017, Chinese companies had signed initial agreements for 10 projects worth \$3.1 billion, including a methanol venture, a five-star hotel, and a plant to produce high-mobility special utility vehicles.³⁵¹ Oman Wanfang plans to develop 25 new projects, which would bring the total number of projects in the industrial park to 35.³⁵²

³⁴⁶ "The Special Economic Zone of Duqm," Port of Duqm, <https://www.portduqm.com/About/The-Special-Economic-Zone-of-Duqm.html>.

³⁴⁷ "Overview," Port of Duqm, <https://www.portduqm.com/About/Port-of-Duqm.html>.

³⁴⁸ Asian Infrastructure Investment Bank, *Duqm Port Commercial Terminal and Operational Zone Development Project*.

³⁴⁹ Ibid.

³⁵⁰ "Oman-China Deal for \$10-bn Industrial City," *Oman Daily Observer*, May 23, 2016; A.E. James, "Chinese Firms Commit \$3.1 Billion Investment in Duqm Free Zone," *Times of Oman*, April 22, 2017, [http://timesofoman.com/article/107373/Oman/Chinese-firms-commit-\\$31billion-investment-in-Duqm-free-zone](http://timesofoman.com/article/107373/Oman/Chinese-firms-commit-$31billion-investment-in-Duqm-free-zone).

³⁵¹ A.E. James, "Chinese Firms to Set Up 25 Projects in Duqm Free Zone," *Times of Oman*, October 2, 2017, <http://timesofoman.com/article/118465/Business/Chinese-firms-to-set-up-25-projects-in-Duqm-free-zone>.

³⁵² "Oman Wanfang Plans 25 New Projects in Duqm," *Times of Oman*, August 12, 2017, <https://timesofoman.com/article/114777>.

Potential sources of Chinese influence

Beijing has a track record of using economic tools to advance political objectives.³⁵³ Consequently, China might deploy such tools in the Middle East and Western Indian Ocean region to influence national and local leaders with authority over and access to ports. Potential sources of influence include the provision of capital through loans, investments, and cash gifts.

Loans

Beijing may use debt owed to Chinese financial institutions by borrowers in the region as a bargaining chip to advance its interests. China has emerged as a major creditor to emerging economies, lending \$40 billion annually through China Eximbank and China Development Bank.³⁵⁴ Eight countries in the Middle East and Western Indian Ocean region rank among China's top 20 borrowers for the period 2012–2014, with Pakistan at the top of the list (see Table 8).³⁵⁵ Countries in the region have borrowed money from China to finance activities including infrastructure development, government operations, and debt payments. Recent examples include:

- In August 2017, the government of Oman borrowed \$3.55 billion from Chinese banks to cover its budget deficit for the fiscal year.³⁵⁶
- In May 2018, the government Sri Lanka accepted a \$1 billion loan from a syndicate of banks led by China Development Bank to repay loans maturing in 2018.³⁵⁷

³⁵³ Peter Harrell, Elizabeth Rosenberg, and Edoardo Saravalle, *China's Use of Coercive Economic Measures*, Center for a New American Security, June 11, 2018, <https://www.cnas.org/publications/reports/chinas-use-of-coercive-economic-measures>; Evan A. Feigenbaum, "Is Coercion the New Normal in China's Economic Statecraft?," *Marco Polo*, July 15, 2017, <https://marcopolo.org/coercion-new-normal-chinas-economic-statecraft/>.

³⁵⁴ Dollar, "United States-China Two-way Direct Investment: Opportunities and Challenges."

³⁵⁵ *Ibid.*

³⁵⁶ "Oman Signs Loans with Chinese Banks," Economist Intelligence Unit, August 17, 2017, <http://country.eiu.com/article.aspx?articleid=1675787351&Country=Oman&topic=Economy&subtopic=Forecast&subsubtopic=Fiscal+policy+outlook%E2%80%A6>; "Oman Signs \$3.5B Loan Agreement with Chinese Financial Institutions," *Times of Oman*, August 2, 2017, <https://timesofoman.com/article/114121>.

³⁵⁷ Shihar Aneez, "Sri Lanka Accepts \$1 Billion, Eight-Year Syndicated Loan from China Development Bank," Reuters, May 25, 2018, <https://in.reuters.com/article/sri-lanka-china-loan/sri-lanka-accepts-1-billion-eight-year-syndicated-loan-from-china-development-bank-idINKCN11Q2FT>.

- In May 2018, the Chinese government approved a \$1.1 billion loan from China Eximbank to Sri Lanka for construction of a highway (Phase I of the central expressway).³⁵⁸
- In June 2018, the government of Pakistan received a \$1 billion loan to boost the country's foreign currency reserves. This loan reportedly brought China's total lending to Pakistan's finance ministry to more than \$5 billion during the financial year 2017–2018.³⁵⁹

Table 8. Top borrowers from China, 2012–2014

Country	Average Annual Borrowing, 2012-2014 (USD Billion)
Pakistan	4.16
Laos	2.74
Ethiopia	1.85
Venezuela	1.82
Angola	1.65
Belarus	1.48
Sri Lanka	1.45
Kenya	1.29
Cote D'Ivoire	1.25
Ecuador	1.19
Ukraine	1.02
Cambodia	0.95
Nigeria	0.94
Argentina	0.92
Indonesia	0.91
Tanzania	0.86
Kazakhstan	0.85
Sudan	0.74
South Africa	0.73
Iran	0.71

Source: David Dollar, "Is China's Development Finance a Challenge to the International Order?" Brookings Institution, October 2017, https://www.brookings.edu/wp-content/uploads/2017/11/fp_20171109_china_development-finance.pdf.

Several countries in the region may have trouble servicing their debts to China. According to a study published by the Center for Global Development in March 2018, 13 countries in the region are at risk of debt distress as a result of additional borrowing

³⁵⁸ "China Approves \$1 Bln Loan for Sri Lanka Highway—Sri Lanka PM's Office," Reuters, May 14, 2018, <https://www.reuters.com/article/sri-lanka-china-loan/china-approves-1-bln-loan-for-sri-lanka-highway-sri-lanka-pms-office-idUSL3N1SL5ID>; "China's Envoy to Sri Lanka Approves 1 Billion US Dollar Loan Facility for Construction of First Phase Expressway," Sri Lankan Government News, May 15, 2018.

³⁵⁹ "China Lends \$1 Billion to Pakistan to Boost Plummeting FX Reserves—Sources," Reuters, June 30, 2018, <https://www.reuters.com/article/us-pakistan-china-loans/china-lends-1-billion-to-pakistan-to-boost-plummeting-fx-reserves-sources-idUSKBN1JQ0TV>.

from China (see Appendix B). Within this group of 13, three are at high risk of debt distress: Djibouti, the Maldives, and Pakistan (see Figure 12).³⁶⁰

China has used various ways of dealing with borrowers who can't repay their loans.³⁶¹ These include loan forgiveness, loan restructuring, providing new loans so borrowers can avoid default, and debt-for-equity swaps, in which Chinese firms acquire equity stakes in infrastructure projects that Chinese banks helped finance. While this last method has figured prominently in discussions of China's "debt trap diplomacy," acquiring equity stakes in overseas assets appears to be a new Chinese tool for managing bilateral debt problems. We are aware of only two examples.

The first is the port of Hambantota in Sri Lanka. The Sri Lankan government's proposal to use debt-for-equity swaps to reduce its debt burden set the stage for CMG to purchase an 85 percent stake in the concession that operates Hambantota port.³⁶² The second example is the Ethiopia-Djibouti Railway. When Djibouti could not come up with its share of the funding for the railway, it sold a 10 percent stake in the joint venture that manages the railway to a Chinese company.³⁶³ However, as experts from the Center for Global Development have noted, China restructured or waived loans by taking control of assets in the borrowing country on 84 occasions between 2003 and 2017.³⁶⁴ Nonetheless, China's history of providing debt relief in different ways on a case-by-case basis and the fact that Sri Lanka's debt problems did set the stage for CMG obtaining a concession to operate Hambantota port suggest that Beijing might be willing to offer debt relief in exchange for greater influence on overseas ports where Chinese firms operate terminals.

³⁶⁰ John Hurley, Scott Morris, and Gailyn Portelance, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, Center for Global Development Policy Paper 121, March 2018, <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>.

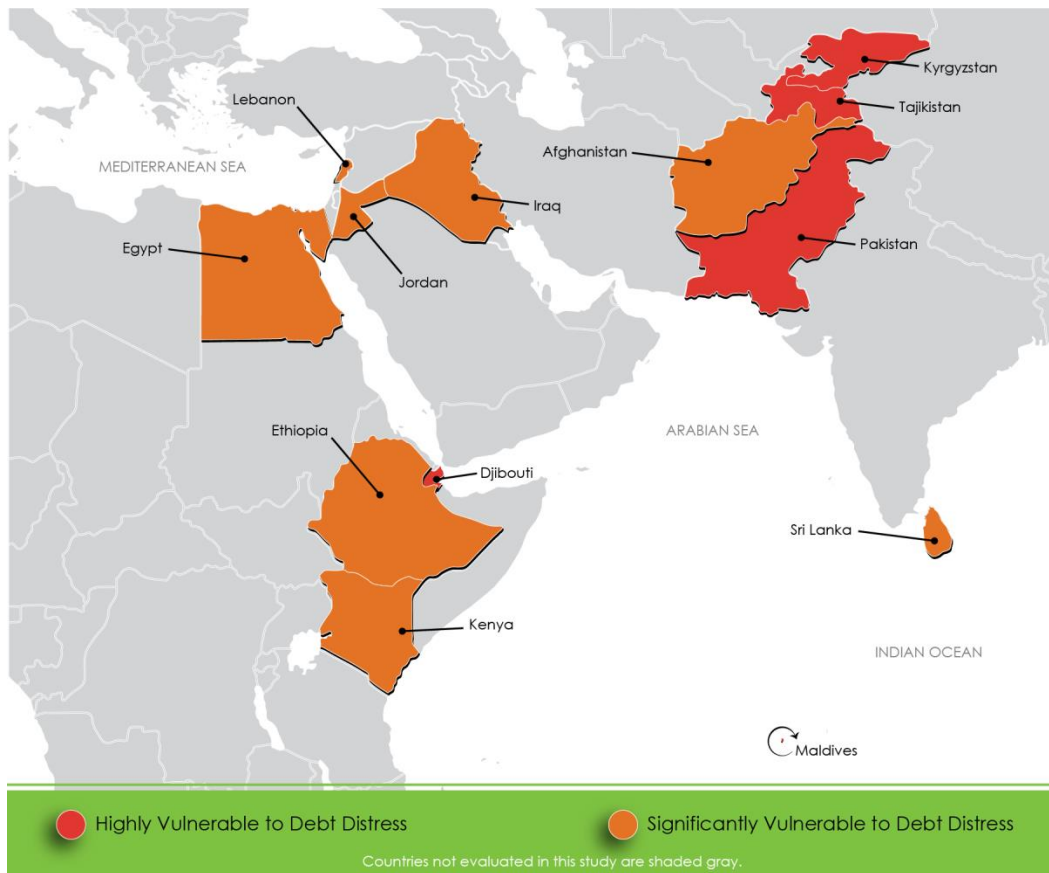
³⁶¹ Ibid.

³⁶² For Sri Lanka's proposal of debt-for-equity swaps, see Ben Blanchard, "Sri Lanka Requests Equity Swap for Some of Its \$8 bln China Debt," Reuters, April 9, 2016, <https://www.reuters.com/article/china-sri-lanka/sri-lanka-requests-equity-swap-for-some-of-its-8-bln-china-debt-idUSL3N17B1BR>

³⁶³ Zhang Yuxue, "Why is Africa's First Transnational Electrified Railway Using a Complete Set of 'Chinese Standards'?" (*Feizhou diyi tiao kuaquo dianqihua tielu weihe yong quantao 'Zhongguo biaojun'?*; 非洲第一条跨国电气化铁路为何采用全套'中国标准?'), *Caijing* (财经), October 21, 2016, http://www.caijingmobile.com/top/2016/10/21/288773_2_4.html.

³⁶⁴ W. Gyude Moore, "The Language of 'Debt-Trap Diplomacy' Reflects Western Anxieties, Not African Realities," Quartz, September 17, 2018, <https://qz.com/1391770/the-anxious-chorus-around-chinese-debt-trap-diplomacy-doesnt-reflect-african-realities/>; Hurley, et al., *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, 29–32.

Figure 12. Countries in the region at risk of debt distress



Source: Data derived from John Hurley, Scott Morris, and Gailyn Portelance, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, Center for Global Development Policy Paper 121, March 2018, <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>.

Investment

China may also use the lure of Chinese foreign direct investment to influence officials abroad. This tool is likely to be more effective when directed at officials in countries where capital is scarce, such as Djibouti, Ethiopia, and the Maldives (all of which are net capital importers). Conversely, it is likely to be less effective in countries where capital is more plentiful, such as Kuwait, Qatar, and the United Arab Emirates, all of which are net capital exporters.³⁶⁵

³⁶⁵ United Nations Conference on Trade and Development, *World Investment Report 2018: Investment and New Industrial Policies*, 2018, 184–187, http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

Cash gifts

Chinese officials and executives might also try to influence the relevant individuals with gifts of cash. CHEC is a case in point. The company has a history of channeling money to government officials and their families in countries where it is doing or attempting to do business:

- In 2009, the World Bank barred China Communications Construction Company and all of its subsidiaries, including CHEC, from engaging in any road and bridge projects financed by the World Bank from 12 January 2009 to 12 January 2017 for engaging in fraud while working on a World Bank-funded road project in the Philippines.³⁶⁶
- Before the January 2015 presidential elections in Sri Lanka, at least \$7.6 million moved from CHEC's account at Standard Bank to affiliates of Mahinda Rajapaksa's presidential campaign (which Rajapaksa lost).³⁶⁷ While campaign contributions are not illegal, funding for a political party from a foreign entity does constitute external interference in local affairs and could bring about charges of money laundering.³⁶⁸
- In January 2018, Bangladesh's finance minister, Abul Muhith, said that CHEC had been blacklisted for offering bribes to government officials. According to Muhith, CHEC offered the bribes after it secured a contract to expand a highway: "They have already got the contract. I think [they offered a bribe] only to please [officials] so that they [the company] can misappropriate money."³⁶⁹

Meanwhile, in 2012, CMPH's joint venture with the Sri Lanka Ports Authority (Colombo International Container Terminals) donated nearly 20 million rupees to a foundation run by Pushpa Rajapaksa, the wife of Basil Rajapaksa, who is the younger brother of former president Mahinda Rajapaksa. CICT said the donation was for housing for the poor, but that it did not supervise what was done with the cash.³⁷⁰

³⁶⁶ World Bank, "World Bank Applies 2009 Debarment to China Communications Construction Company Limited for Fraud in Philippines Road Project," World Bank, July 29, 2011, <http://www.worldbank.org/en/news/press-release/2011/07/29/world-bank-applies-2009-debarment-to-china-communications-construction-company-limited-for-fraud-in-philippines-roads-project>.

³⁶⁷ Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

³⁶⁸ "Chinese Firm in Sri Lanka Admits to Funding Rajapaksa Foundation," *Economynext*, July 12, 2018, https://economynext.com/Chinese_firm_in_Sri_Lanka_admits_funding_Rajapaksa_family_foundation-3-11200.html.

³⁶⁹ "No Job for China Harbour in Future," *The Daily Star*, January 17, 2018, <https://www.thedailystar.net/frontpage/no-job-china-harbour-future-1520917>.

³⁷⁰ "Chinese Firm in Sri Lanka Admits to Funding Rajapaksa Foundation."

Potential constraints on Chinese influence

Attempts by Chinese terminal operators to negatively influence the USN's access to a terminal in the region would not be without cost, and at least two factors may constrain Chinese companies from seeking to do so:

- Other investors in that terminal
- Members of any shipping alliances operating in that terminal.

Both types of actors have an interest in efficient operations that maximize profits and are unlikely to condone any activities that prioritize Beijing's political objectives over their own commercial objectives.

Joint venture partners

Chinese port terminal operators might be constrained by the financial interests of other parties they have partnered with to operate terminals. For example, the parties to the joint venture that operates the Suez Canal Container Terminal in Egypt's Port Said include the Dutch firm APM Terminals (the majority stakeholder), the Suez Canal Authority, the National Bank of Egypt, and private Egyptian investors.³⁷¹ These firms and individuals, especially those such as APM Terminals, whose shareholders are seeking to maximize returns on their investments, are unlikely to support activities that detract from the profitability of a terminal.³⁷²

Shipping alliances

Chinese port terminal operators that belong to shipping alliances are likely to be constrained by other members of the alliance. For example, COSCO Shipping belongs to the Ocean Alliance, whose other members are France's CMA CGM, Taiwan's Evergreen Line, and Hong Kong's Orient Overseas International Limited, which is now being acquired by COSCO Shipping.³⁷³ The alliance is aimed at improving operational efficiency and profitability by sharing vessels and port calls, and by chartering space on each other's ships along east-west shipping routes.³⁷⁴ These arrangements allow members to mitigate overcapacity and avoid financial losses from less-than-full

³⁷¹ APM Terminals, "About Us: Port Said," APM Terminals, <http://www.apmterminals.com/en/europe/port-said/about-us>.

³⁷² Telephone conversation with senior shipping consultant, July 2018.

³⁷³ CMA CGM, "Ocean Alliance Powered by CMA CGM," CMA CGM, <https://www.cma-cgm.com/static/Communication/Attachments/CMA%20CGM%20OCEAN%20ALLIANCE%20OFFER%20DAY%20TWO%20v2%20OLD.pdf>.

³⁷⁴ Paris, "U.S. Watchdog Seeks Assurances on Planned Shipping Alliance."

ships.³⁷⁵ According to one industry consultant, CMA CGM is quite powerful within the alliance, and COSCO Shipping is unlikely to be able to decide to call or not call on a specific port or deviate from the schedule for a particular loop without the approval of CMA CGM.³⁷⁶

Unlike COSCO Shipping, China Merchants Group is not a member of one of the “big three” shipping alliances (the other two are “The Alliance” and “2M”³⁷⁷). This is because China Merchants Group does not operate a container fleet; the company’s shipping subsidiary, China Merchants Energy Shipping, provides a full range of energy transportation services.³⁷⁸ In contrast, COSCO Shipping was the world’s fourth largest shipping company as of March 2018 based on the TEU capacity of its fleet and the number of its container ships.³⁷⁹

Conclusion

This chapter examined the role of Chinese firms in ports in the Middle East and Western Indian Ocean. It identified the main Chinese actors and their roles as builders, owners, and operators of terminals. The chapter also provided a framework for thinking about how China might be able to influence port operations in ways that would undermine USN interests, such as limiting the access of USN ships to ports, by identifying potential categories of individuals China would seek to influence in target countries, potential sources of Chinese influence over those individuals, and potential constraints on China’s influence.

³⁷⁵ Greg Knowler, “Container Shipping’s New Ocean Alliance is Born,” *The Journal of Commerce Online* (2016).

³⁷⁶ Telephone conversation with senior shipping consultant, July 11, 2018.

³⁷⁷ “Understanding the New Ocean Carrier Alliances,” *Logistics+*, February 11, 2018, <https://www.logisticsplus.net/understanding-the-new-ocean-carrier-alliances/>.

³⁷⁸ “About Us,” China Merchants Energy Shipping Co., Ltd., <http://www.cmenergyshipping.com/en/about/index.html>.

³⁷⁹ “Top 10 Biggest Shipping Companies in the World,” *The Maritime Post*, March 12, 2018, <http://www.themaritimepost.com/top-10-biggest-shipping-companies-world/>. *The Maritime Post* based its rankings on data from Alphaliner, which tracks the capacity of the world shipping fleets.

Chapter 7. Future PLA Presence

As described above, China has sought to overcome the logistical and other challenges of operating in the far seas by developing a modern and varied force structure. Yet there are limitations to what such a force structure can do operating so far from China's homeports, and there is growing evidence to indicate that China is considering other locations for additional overseas bases. For example, as noted in *Barracks Culture*, a magazine published by the CMC Political Work Department, "after emerging as a maritime great power, China needs to make up [for lost time], and it is naturally very important to have overseas bases thousands of miles away."³⁸⁰ Writing in the official journal of the CCP party school in 2016, ADM Sun Jianguo instructed the PLA to "steadily advance overseas base construction."³⁸¹ Also speaking in 2016, China's foreign minister, Wang Yi, noted that China was "willing to try to carry out the construction of infrastructure facilities and logistic capacity in the regions where China's interest is involved."³⁸²

Given the growing personnel and investment in the region, as well as the critical importance to Chinese trade and energy security, "where China's interest are involved" would certainly include this region. With this in mind, this chapter examines possible factors that may affect Chinese decision making on future bases in the region and applies those factors to the following locations:

- Maldives
- Pakistan
- Seychelles
- Sri Lanka
- The East African coast (Kenya and Tanzania)
- United Arab Emirates

³⁸⁰ Wen Yuanhao, "Djibouti Support Base (*Jibuti Baozhang Jidi*; 吉布提保障基地)," *Culture (Junying Wenhua Tiandi*; 军营文化天地), no. 8 (2017): 19.

³⁸¹ Sun Jianguo, "Take China's Contributions to Leading World Peaceful Development and Win-Win Cooperation as Wisdom—Deepen Study of Chairman Xi Jinping's Thoughts on the Mankind's Common Destiny (*Wei Yiling Shijie Heping Fazhan Hezuo Gongying Gongxian Zhongguo Zhihui—Shenru Xuexi Xi Jinping Zhuxi Renlei Mingyun Gongtongti Zhongyao Sixiang*, 为引领世界和平发展合作共赢贡献中国智慧 - 深入学习习近平主席人类命运共同体重要思想)," *Seeking Truth* (2016), http://www.qstheory.cn/dukan/qs/2016-04/15/c_1118595597.htm.

³⁸² "Foreign Minister Wang Yi Meets the Press," Ministry of Foreign Affairs, March 9, 2016, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1346238.shtml.

Factors that may affect future PLA overseas basing

While it is impossible to know for certain, analysis of China's current base in Djibouti, as well as writings by Chinese military and government personnel on the subject, suggest that the following factors may influence future Chinese decisions about foreign basing.

A country's geostrategic importance: Simply stated, logic dictates that the PLA will want to build a presence in areas that will be useful. Djibouti, for example, occupies a key geostrategic position on the Bab el-Mandeb Strait. Its proximity to East Africa also means that it can act as a gateway to China's growing investments and expatriate community in the Horn of Africa. Future Chinese bases in the region will likely have similar strategic utility.

"We will gradually construct a highly capable and efficient overseas base support system that plays a sustainable role in the projection of national strength and the maintenance of regional security on the following line of thinking: 'connecting points and lines, controlling the throat, relying on cities, and focusing on the long term.'"

—Lecturers at PLA
Navy Command
Academy

A country's support for China's military presence: Any future base location would undoubtedly have to have support from—at least—the country's political and economic elite. In the case of Djibouti, China appears to have consciously cultivated that support years before signing the base agreement through Chinese investments and the PLA's expanded military diplomatic efforts. Over the past few years, China appears to have made similar efforts in cultivating political leaders in countries such as Sri Lanka, the Maldives, and other locations that have been mentioned as possible future base locations.³⁸³

A country's reliance on Chinese capital: It would be extremely impolitic for a Chinese military or government official to state that China should build bases in countries that are heavily indebted to China. However, analysts consider Djibouti to be highly vulnerable to debt distress, and many of the other locations frequently mentioned in Chinese writings as possible base locations, such as Sri Lanka, the Maldives, and Pakistan, are also heavily indebted to China. While not stated explicitly, this economic leverage may provide China with added ammunition when negotiating base

³⁸³ See for example, "China, Sri Lanka Vow to Strengthen Defense Ties," Xinhua, July 24, 2018, www.xinhuanet.com/english/2018-07/24/c_137345307.htm; "China and Maldives Sign the Free Trade Agreement, Ministry of Commerce of the People's Republic of China, December 8, 2017, <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201712/20171202683630.shtml>.

agreements, as China could threaten to withdraw funding for economic projects or refuse to continue servicing loans, creating a domestic financial crisis.

Third-country attitudes on China's military presence: Writings by Chinese military analysts often note the importance of countering the perception that China is aggressively expanding. As noted by researchers at the PLA Navy's think tank, India, and India's perception of China's naval activities in the region, are both important factors that China must take into consideration."³⁸⁴ Because of this, "the expansion of China's sea power into the Indian Oceana must first do basic work, with patience and calm" in order to "reduce the suspicion and hostility of India."³⁸⁵

The section below briefly applies these five factors to the following locations, which have been discussed by both Chinese and western analysts as possible locations for future Chinese military facilities.

- Maldives
- Pakistan
- Seychelles
- Sri Lanka
- The East African coast (Kenya and Tanzania)

Maldives

Strategic location

An archipelago of roughly 1,200 coral islands, most of which are uninhabited, the Maldives occupy an important geostrategic location. Its northernmost islands are located just roughly 300 miles south-southwest of the Indian province of Kerala on India's southwest coast, and roughly 500 miles from Diego Garcia. Moreover, from Thiladhunmathi Atoll in the north to Addu Attol in the south, the Maldives stretches roughly 500 miles from north to south, creating a 500-mile-long north-south barrier bisecting the Arabian Sea and the Bay of Bengal.

³⁸⁴ Li Jian, Chen Wenwen, and Jin Jing, "Overall Situation of Sea Power in the Indian Ocean and the Expansion in the Indian Ocean of Chinese Sea Powers (*Yinduyang Haiquan Geju yu Zhongguo Haiquan de Yinduyang kuozhan*; 印度洋海权格局与中国海权的印度洋扩展)," *Pacific Journal* 22, no. 5 (2014), 75.

³⁸⁵ Li Jian et al., "Overall Situation of Sea Power in the Indian Ocean and the Expansion in the Indian Ocean of Chinese Sea Powers," 75.

Support for PLA military presence

There is some indication that the Maldives government may be amenable to some level of PLA military presence in the country. However, this positive reception has been dependent on relations with the ruling elite and thus could change rapidly.

Historically, China and the Maldives have not been particularly close. It was not until 2011 that the PRC established an embassy in the Maldives.³⁸⁶ Since that time, however, relations between the two countries have expanded considerably. For 30 years, from 1978 to 2008, the Maldives was ruled by President Maumoon Abdul Gayoom, who was finally ousted in 2008 after the country's first democratic election, which brought to power President Mohamed Nasheed. In February 2012, however, President Nasheed was forced to resign following three weeks of protests over his decision to employ the military to arrest the country's senior criminal court judge on corruption charges.

While the Maldives had maintained close relations with India under Nasheed, this began to change under President Waheed. In November 2012, the Maldives government canceled a contract with the Indian firm GMR Infrastructure to update the airport in the capital, Male. Instead, the government awarded the contract to the Chinese firm Beijing Urban Construction Group.³⁸⁷

In 2013, Waheed was succeeded by President Abdulla Yameen. Under his leadership in 2015, the government revised the constitution to allow foreigners to own land in the country, despite concerns from the opposition party that this could subject the Maldives to additional Chinese influence.³⁸⁸ For example, Eva Abdulla, an opposition member of parliament, stated specifically that, "recent bilateral visits [by Chinese officials] and diplomatic actions clearly suggest this is sweetener for China."³⁸⁹ In 2017, the Maldives and China signed a free-trade agreement during President Yameen's four-day visit to Beijing.³⁹⁰

³⁸⁶ "Chinese Embassy in Maldives Holds Opening Ceremony," Foreign Ministry of the People's Republic of China, November 9, 2011; Sudha Ramachandran, "The China-Maldives Connection," *The Diplomat*, January 25, 2018, <https://thediplomat.com/2018/01/the-china-maldives-connection/>.

³⁸⁷ Daniel Bosley, "Maldives Gives Airport Contract to Chinese Firm During Xi's Visit," Reuters, September 15, 2014, <https://in.reuters.com/article/china-maldives/maldives-gives-airport-contract-to-chinese-firm-during-xis-visit-idINKBN0HA1TS20140915>.

³⁸⁸ "Maldives Allows Foreign Ownership of Land Despite Opposition Concern," Reuters, July 23, 2015, <https://www.reuters.com/article/maldives-land-foreigners/maldives-allows-foreign-ownership-of-land-despite-opposition-concern-idUSL3N1024IL20150723>.

³⁸⁹ *Ibid.*

³⁹⁰ "China and Maldives Sign the Free Trade Agreement," Ministry of Commerce of the People's Republic of China.

Chinese SOE presence

Though we have not identified Chinese firms involved in the construction of maritime infrastructure in the Maldives at present, Chinese SOEs are involved in many infrastructure projects in the country writ large, including the following:

- CCCC Second Harbor Engineering Company, a subsidiary of the SOE China Communications Construction Company (CCCC), is constructing the “China-Maldives Friendship Bridge, a bridge connecting the capital city of Male to the island of Hulhulemale, where Maldives’ airport is located. The bridge project was launched in 2015, funded through concessional loans and grants from the Chinese government, and was completed in summer 2018.³⁹¹
- Beijing Urban Construction Group is currently building a new runway, a new seaplane terminal, and a new VIP complex within the Velana International Airport.³⁹² These are all part of an \$800 million project designed to upgrade the Maldives’ international airport, which is being funded primarily through foreign loans.³⁹³
- China Construction Third Engineering Bureau Company, a subsidiary of the state-owned China State Construction Engineering Corporation, is currently building 7,000 units of low-income housing on the reclaimed island of Hulhumale, just south of the capital of Male.³⁹⁴

Indebtedness to China

The Maldives are heavily indebted, with a forecasted debt-to-GDP ratio of roughly 109 percent by the end of 2018, and considered to be at a high risk of debt distress by the World Bank and IMF.³⁹⁵ (According to researchers at the Center for Global Development, a debt-to-GDP ratio that is above 50-60 percent and rising is a red flag

³⁹¹ “US\$200 Million Bridge to be Completed in July,” Maldives Independent, December 21, 2017, <http://maldivesindependent.com/politics/us200-million-bridge-to-be-completed-in-july-134682>.

³⁹² “China’s BUCG to Develop VIP Complex of Maldives Main Airport,” Mihaaru, January 30, 2018, <http://en.mihaaru.com/chinas-bucg-to-develop-vip-complex-of-maldives-main-airport/>.

³⁹³ “President Launches US\$400m Airport Runway Project,” Maldives Independent, February 27, 2017, <http://maldivesindependent.com/business/president-launches-us400m-airport-runway-project-129040>.

³⁹⁴ “Chinese Company Starts Building Housing Project in Maldives,” Xinhua, November 21, 2017, http://www.chinadaily.com.cn/business/2017-11/21/content_34813210.htm.

³⁹⁵ Hurley, et al., *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, 16.

for debt distress.³⁹⁶) As noted in the previous chapter, research at the Center for Global Development has assessed that the Maldives is in high risk of debt distress, primarily due to Chinese lending, as the PRC is heavily involved in the financing for most of the Maldives' ongoing infrastructure projects.

Third-country attitudes on China's military presence

India's efforts to improve relations with the Maldives have had mixed results, and relations between the two countries remain strained. This strain appears to stem directly from President Yameen's efforts to undermine the presidential elections that took place in September 2018, as a result of which Yameen was ousted from government. On February 5, 2018, Yameen declared a state of emergency. Security forces arrested two of the country's five national-level judges, sealed parliament, and also arrested two members of the opposition party. While Mohamed Nasheed, the country's first-ever elected president and leader of the opposition movement, has asked India to intervene militarily, India has taken no such action.³⁹⁷ Tensions between the two countries, however, has manifested in other ways. For example, in February 2018, Maldives declined to participate in an Indian-led biennial military exercise and returned one of two naval helicopters New Delhi had gifted to the Maldives.³⁹⁸

Pakistan (Gwadar)

Strategic location

A deep-water commercial port in the western Pakistani province of Baluchistan, near the Iranian border, Gwadar is located only about 350 miles from the Strait of Hormuz, a critical maritime chokepoint through which transits a great deal of Chinese trade and oil imports. Moreover, the Chinese and Pakistani governments have discussed the construction of additional infrastructure ties, including road and rail, between the Chinese city of Kashgar in western Xinjiang and the port of Gwadar. These ties could potentially provide China with a means to access the Indian Ocean without having to transit the Malacca Strait and other strategic maritime chokepoints. While a road

³⁹⁶ Ibid, 11.

³⁹⁷ Nayma Qayum, "The Crisis in the Maldives, Explained," *Washington Post*, February 12, 2018, https://www.washingtonpost.com/news/monkey-cage/wp/2018/02/12/how-is-trade-with-china-related-to-the-state-of-emergency-in-maldives-heres-what-you-need-to-know/?utm_term=.b3a5728993ed.

³⁹⁸ "Maldives Returns Helicopter Gifted by India: A Look at How Ties Between the Two Nations Have Deteriorated in 2018," *First Post*, April 4, 2018, <https://www.firstpost.com/india/maldives-returns-helicopter-gifted-by-india-a-look-at-how-ties-between-the-two-nations-have-deteriorated-in-2018-4417923.html>.

linking the two cities has been completed, the railways project remains in the planning stages.³⁹⁹

Support for PLA military presence

Evidence suggests that the Pakistani government is likely amenable to a Chinese military presence in Gwadar, although this presence may stop short of a full-fledged base such as what the PLA has established in Djibouti. Pakistan and China have discussed building a naval base at Gwadar since at least 2011. In May of that year, Pakistani defense minister Chaudhary Ahmed Mukhtar stated, “we have asked our Chinese brothers to please build a naval base at Gwadar” in reporting the outcome of a visit by Prime Minister Yusuf Raza Gilani to China.⁴⁰⁰

More recently, multiple reports have emerged indicating potential plans to build a base either at Gwadar or Jiwani, a smaller port just a short distance west of Gwadar.⁴⁰¹ One report cited a military analyst at the Chinese Knowfar Institute for Strategic and Defence Studies as saying that a naval facility near Gwadar would be used to maintain and provide logistic services to naval vessels patrolling the Gulf of Aden, or escorting Chinese oil tankers in the Indian Ocean. It also cited an unnamed source close to the PLA that the base would be similar to the current facility in Djibouti.⁴⁰² However, China has denied all reports that it intends to establish a military base in Pakistan.⁴⁰³

³⁹⁹ “Monographic Study on Transport Planning 2014-2030,” CPEC China-Pakistan Economic Corridor, <http://cpec.gov.pk/map-single/2>.

⁴⁰⁰ Farhan Bokhari, “Pakistan Turns to China for Naval Base,” *Financial Times*, May 22, 2011, <https://www.ft.com/content/3914bd36-8467-11e0-afcb-00144feabdc0>.

⁴⁰¹ Minnie Chan, “First Djibouti...Now Pakistan Port Earmarked for a Chinese Overseas Naval Base, Sources Say,” *South China Morning Post*, January 5, 2018, <http://www.scmp.com/news/china/diplomacy-defence/article/2127040/first-djibouti-now-pakistan-port-earmarked-chinese>; Wajid S. Khan, “China May Soon Establish Naval Base in U.S. Ally Pakistan,” NBC News, June 18, 2017, <https://www.nbcnews.com/news/china/china-may-soon-establish-naval-base-u-s-ally-pakistan-n770991>; Bill Gertz, “China Plans Pakistan Military Base at Jiwani,” *Washington Times*, January 3, 2018, <https://www.washingtontimes.com/news/2018/jan/3/china-plans-pakistan-military-base-at-jiwani/>; Larry Sellin, “Don’t Be Alarmed But China Could Be Building A Military Base in Pakistan,” *The Daily Caller*, January 1, 2018, <http://dailycaller.com/2018/01/01/dont-be-alarmed-but-china-could-be-building-a-military-base-in-pakistan/>.

⁴⁰² Chan, “First Djibouti...Now Pakistan Port Earmarked for a Chinese Overseas Naval Base, Sources Say.”

⁴⁰³ “China Denies Plans to Set Up Military Base in Pakistan,” *Economic Times*, January 9, 2018, <https://www.economictimes.indiatimes.com/news/china-denies-plans-to-set-up-military-base-in-pakistan/articleshow/62427995.cms>.

Chinese SOE presence

Chinese SOEs are heavily involved in almost every facet of operations in the port at Gwadar and have an extensive presence throughout Pakistan. China Harbor Engineering Company, for example, built the port at Gwadar, and it has been operated by Chinese Overseas Ports Holdings since 2013.

The China Airport Construction Group Engineering Company is also participating in the construction of the “New Gwadar International Airport,” roughly 26 kilometers east of Gwadar City. The airport is estimated to cost roughly \$230 million and is financed largely by a Chinese government grant.⁴⁰⁴ According to the Pakistan government’s official CPEC website, construction is scheduled to begin in 2018, while unofficial sources noted a planned completion date in late 2019–2020.⁴⁰⁵

Reliance on Chinese capital

Pakistan remains highly indebted to Chinese firms, partly as a result of CPEC infrastructure programs. By October 2018, the government announced that the country had an overall debt and liability burden of roughly \$215 billion, with \$95 billion of that held externally.⁴⁰⁶

Pakistan’s reliance on China for military and economic support may help to overcome any concerns over sovereignty that often arise when providing basing rights to a foreign military.

Third-country attitudes towards China’s military presence

In general, evidence suggests that India appears to have accepted a PLA presence in Gwadar as a likely possibility and has focused more on responding to that outcome rather than deterring it.

Recent official statements from the Indian government regarding China’s activities in Gwadar have been relatively cautious. For example, during the 2018 Indian External Affairs Minister’s annual press conference, when asked about Gwadar, the current

⁴⁰⁴ “New Gwadar International Airport,” CPEC China-Pakistan Economic Corridor, CAPA Center for Aviation, New Gwadar Airport, August 3, 2018, <https://centreforaviation.com/data/profiles/newairports/new-gwadar-airport>.

⁴⁰⁵ “New Gwadar International Airport.”

⁴⁰⁶ Maria Abi-Habib, “China’s ‘Belt and Road’ Plan in Pakistan Takes a Military Turn,” *New York Times*, December 19, 2018, <https://www.nytimes.com/2018/12/19/world/asia/pakistan-china-belt-road-military.html>.

foreign minister noted only that the Indian government does not make foreign policy “as a reaction to a country... nor do we make it under pressure.”⁴⁰⁷

Others outside the Indian government have been more direct in describing the threat that a PLA base in Gwadar would pose to India. Writing an op-ed in the *Indian Express*, Arun Prakash, the former chief of Indian Navy, notes that “having inaugurated its first Indian Ocean base in Djibouti, and invested in strategically located ports such as Gwadar and Hambantota, the PLAN is now well positioned to mount expeditionary operations at India's doorstep.”⁴⁰⁸

Indian subject matters experts (SMEs) gave the impression that China's establishment of a military facility in Gwadar is a foregone conclusion, which India can do little to deter.⁴⁰⁹ However, these same experts believe that India “needs to be prepared for contingencies” with regard to China's eventual military presence in Gwadar and develop a response.⁴¹⁰ In that context, one Indian SME noted his desire to see a larger USN presence in the Indian Ocean.⁴¹¹ Other sources, including commentary in the Indian media, view India's growing economic cooperation with Iran, particularly the development of the port of Chabahar, as India's response to Gwadar and CPEC more broadly.⁴¹²

Seychelles

A military presence in the Seychelles would provide the PLA with a number of strategic benefits. For example, located on the southern end of the central Indian Ocean, the Seychelles could serve as a useful waypoint to China's base in Djibouti. It also lies about 1,000 miles east of Mombasa and Dar es Salaam, potentially providing China with a stopping point on the way to its growing personnel and investments in East

⁴⁰⁷ “Annual Press Conference by EAM on completion of 4 Years of Government (Translation),” Ministry of External Affairs of the Government of India, May 28, 2018, http://www.mea.gov.in/media-briefings.htm?dtl/29927/Annual_Press_Conference_by_EAM_on_completion_of_4_Years_of_Government_Translation_May_28_2018.

⁴⁰⁸ Arun Prakash, “Abandoned at Sea,” *The Indian Express*, June 5, 2018, <https://indianexpress.com/article/opinion/columns/indian-navy-maritime-strategy-china-military-national-security-5203959/>.

⁴⁰⁹ Interview with subject matter experts, June 2018.

⁴¹⁰ *Ibid.*

⁴¹¹ *Ibid.*

⁴¹² See for example, Anilesh S. Mahajan, “India's Chabahar vs China's Gwadar: New Delhi Plays Tic-Tac-Toe With Beijing,” *Business Today*, December 3, 2017, <https://www.businesstoday.in/magazine/top-story/india-spread-its-influence-asia-counter-china-deendayal-port-trust-chabahar-port-china-pakistan-economic-corridor-india-china-relation-india-pakistan/story/263807.html>.

Africa. Additionally, should China's access to the northern Indian Ocean become threatened, the Seychelles could possibly serve as a useful waypoint as Chinese military or commercial vessels make their way around the Cape of Good Hope.

Support for PLA military presence

The government of the Seychelles appears extremely hesitant to allow any foreign military presence on Seychelles territory. Rumors have surfaced since at least 2011 of China's seeking to establish a military presence in the country, while India has engaged in serious discussions with the Seychelles government about establishing a base in the country on at least two separate occasions. None of these efforts for either country, however, has come to fruition.

As early as 2011, and likely before China had decided upon Djibouti as the location for its first overseas base, Chinese media had reported that the Seychelles government had offered to allow PLA Navy counterpiracy task force ships to refuel and resupply from the Seychelles on a regular basis.⁴¹³

However, since at least 2015, the Indian government has been in talks with the Seychelles to sign a base agreement of their own. Talks between the Indian and Seychelles governments picked up again in 2018, as it was reported that they had signed a 20-year agreement, initially negotiated in 2015, to allow India to construct a military facility on Assumption Island.⁴¹⁴ According to media reports, the agreement would allow India to deploy troops to the island and train Seychelles' personnel.⁴¹⁵ However, in June 2018, the Seychelles government pulled its offer to the Indians, and talks are once again on hold.⁴¹⁶

Chinese SOE presence

China's SOE presence is less robust than some of the other potential locations examined in this chapter. For example, we did not find any examples of Chinese state

⁴¹³ Li Xiaokun and Li Lianxing, "Navy Looks at Offer from Seychelles," *China Daily*, December 13, 2011, http://www.chinadaily.com.cn/china/2011-12/13/content_14254395.htm.

⁴¹⁴ Betyemie Bonnelame, "Seychelles, India Sign New Version of Assumption Island Military Deal," *Seychelles News Agency*, January 28, 2018, <http://www.seychellesnewsagency.com/articles/8595/Seychelles%2C+India+sign+new+version+of+Assumption+Island+military+deal>.

⁴¹⁵ "India's Plan to Build Military Base in Seychelles' Assumption Island Stirs Controversy," *First Post*, March 3, 2018, <https://www.firstpost.com/world/indias-plan-to-build-military-base-in-seychelles-assumption-island-stirs-controversy-4374401.html>.

⁴¹⁶ Rahul Bedi, "Seychelles Withdraws Offer to India for Military Base," *Jane's Defence Weekly*, June 18, 2018, <https://www.janes.com/article/81147/seychelles-withdraws-offer-to-india-for-military-base>.

firms involved in maritime infrastructure projects in the Seychelles. Over the past few years, however, Chinese firms have been involved in infrastructure and other construction projects while providing financial assistance to the Seychelles government. For example, in 2016, as part of a bilateral economic and technical agreement between the two countries, the Chinese government provided a grant in the amount of roughly \$15 million to the Seychelles Broadcasting Corporation to build a new broadcasting facility and purchase new equipment.⁴¹⁷

The Chinese government has funded other projects as well. In 2014, the PRC provided roughly \$4 million for the renovation of the Anse Royal Hospital.⁴¹⁸ In 2013, it provided roughly \$6 million in funding to build the new judiciary building (the Palais des Justices), which houses the Supreme Court and the Court of Appeal of the Seychelles.⁴¹⁹

Reliance on Chinese capital

In the late 2000s, Seychelles was one of the most indebted countries in the world, with net national external debt at roughly 150 percent of GDP in 2011.⁴²⁰ By 2017, however, the country had cut that number by more than half, to roughly 70 percent, and is projected to decline to roughly 50 percent by 2020.⁴²¹ Thus while still highly susceptible to external economic shocks, Seychelles' debt situation has improved considerably.

Moreover, though data is limited, Seychelles does not appear to be heavily indebted to China, likely due at least in part to the limited Chinese involvement in construction of infrastructure projects in the country. In 2011, the PRC rescheduled a large portion of

⁴¹⁷ "Chinese Grant to Help Seychelles Broadcasting Corp Build New Premises, Purchase Equipment," Seychelles News Agency, August 4, 2016, <http://www.seychellesnewsagency.com/articles/5690/Chinese+grant+to+help+Seychelles+Broadcasting+Corp+build+new+premises%2C+purchase+equipment>.

⁴¹⁸ "Seychelles: Opening of a New Hospital of Anse Royale, Mahe, Financed by China," *Indian Ocean Times*, https://en.indian-ocean-times.com/Seychelles-Opening-of-a-new-hospital-of-Anse-Royale-Mahe-financed-by-China_a1503.html.

⁴¹⁹ "Palais de Justice Opens," State House: Office of the President of the Republic of Seychelles, June 18, 2013, http://www.statehouse.gov.sc/news.php?news_id=2126.

⁴²⁰ "Study Finds Seychelles to be World's Most Indebted Country," *The Economist*, September 11, 2013, http://country.eiu.com/article.aspx?articleid=1440944728&Country=Seychelles&topic=Economy&subtopi_6.

⁴²¹ "Overview," The World Bank in Seychelles, October 12, 2017, <http://www.worldbank.org/en/country/seychelles/overview>.

Seychelles' debt owed to China, allowing it to pay its roughly 44 million in debt over a period of 20 years, with a grace period of ten years.⁴²²

Third-country attitudes towards China's military presence

India appears to be actively seeking to thwart China's efforts to establish any military foothold in Seychelles, as indicated by its continued efforts to establish its own base on Assumption Island. The Seychelles government's apparent opposition to any country establishing a military presence on Seychelles territory suggests that China may also have a difficult time convincing the country to allow it to create such a presence. Mover, India-Seychelles relations appear to remain positive, despite India's base setback. In July 2018, the president of Seychelles, Danny Faure, noted that Seychelles will remain a "faithful friend" and partner to India. Faure made these comments during a ceremony celebrating India's gift of a Dornier aircraft, which will improve the country's maritime surveillance capabilities. This is the second Dornier aircraft the Indian government has provided Seychelles, having gifted one in 2013.⁴²³

Sri Lanka

Strategic location

Sri Lanka lies roughly halfway between the Suez Canal and the Strait of Malacca, making it an ideal stopping point on the voyage between these two critical maritime chokepoints. It is also positioned along Indian Ocean sea-lanes critical to the free movement of trade and global energy supplies throughout the region. Finally, Sri Lanka lies directly on India's border and provides access to the Indian Ocean's marginal seas: the Arabian Sea, the Gulf of Mannar, Palk Bay, and the Bay of Bengal.⁴²⁴ Given this location, any future Chinese military facility on the island could be of great use in supporting PLA operations in the Western Indian Ocean.

⁴²² Hurley et al., *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, 31.

⁴²³ "Seychelles Will Remain a 'Faithful Friend' and Partner to India: President Danny Faure," *Times of India*, June 27, 2018, <https://timesofindia.indiatimes.com/india/seychelles-will-remain-a-faithful-friend-and-partner-to-india-president-danny-faure/articleshow/64747154.cms>.

⁴²⁴ "Sri Lanka's Critical Sea Lanes," Stratfor, August 26, 2013, <https://worldview.stratfor.com/article/sri-lankas-critical-sea-lanes>.

Support for PLA military presence

China-Sri Lankan military relations have been close for over a decade. As described in Chapter 3, China provided crucial diplomatic cover and military assistance to Sri Lanka's armed forces immediately prior to the conclusion of the country's civil war. Since the conclusion of the Sri Lankan civil war, the two militaries regularly participate in bilateral exercises, including Exercise Silk Route in 2015.⁴²⁵ The PLAN has also conducted multiple visits to Sri Lankan ports, including visits by a Chinese submarine to Colombo Port in 2014.⁴²⁶ China is also a major investor in Sri Lankan transportation infrastructure, owning approximately 12 percent of the country's sovereign debt.⁴²⁷

However, much of the previous goodwill between the Chinese and Sri Lankan governments is attributable to the administration of Mahinda Rajapaksa, the president of Sri Lanka from 2005 to 2015. The former president has been accused of accepting bribes and kickbacks from Chinese SOEs engaged in infrastructure projects, including the port and airport projects in his hometown of Hambantota.⁴²⁸ The post-Rajapaksa Sri Lankan government has been more leery of China's overtures to the country, and there are no indications that Sri Lanka is prepared to grant China a military base or logistics facility on its territory similar to what China enjoys in Djibouti.

More specifically, there are several pieces of evidence to suggest that support for a permanent PLA presence among the current Sri Lankan government is low.

- The concession agreement between the Sri Lankan government and China Merchants for the Hambantota port alone sparked multiple violent protests in Sri Lanka due to concerns over a loss of sovereignty.⁴²⁹
- The current Sri Lankan government has also explicitly stated that it is sensitive to Indian security concerns regarding China's naval presence in the Indian

⁴²⁵ Popham, "How Beijing Won Sri Lanka's Civil War;" "China's Investments in Sri Lanka."

⁴²⁶ "PLA Navy Submarine Visits Sri Lanka," China Military Online, September 24, 2014, eng.chinamil.com.cn/news-channel/china-military-news/2014-09/24/content_6152669.htm; Atul Aneja, "China Says Its Submarine Docked in Sri Lanka 'For Replenishment'," *The Hindu*, November 28, 2014, www.thehindu.com/news/international/world/china-says-its-submarine-docked-in-sri-lanka-for-replenishment/article6643129.ece.

⁴²⁷ Kai Schultz, "Sri Lanka, Struggling with Debt, Hands a Major Port to China," *New York Times*, December 12, 2017, <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>; Tharushan Fernando, "Failed Large-Scale Projects Has Sunk the Nation into Further Debt," *News First*, July 30, 2016, <https://www.newsfirst.lk/2016/07/failed-large-projects-sink-nation-debt/>; Yogita Limaye, "Sri Lanka: A Country Trapped in Debt," BBC News, May 26, 2017, <http://www.bbc.com/news/business-40044113>.

⁴²⁸ "Rajapaksa Comeback Bid Checked by Sri Lanka Bribery Probe," Reuters, July 24, 2015, <https://www.reuters.com/article/us-sri-lanka-rajapaksa/rajapaksa-comeback-bid-checked-by-sri-lanka-bribery-probe-idUSKCN0PY1PK20150724>.

⁴²⁹ *The Economist*, "Deep Water: Sri Lankans Protest Against Chinese Investment."

Ocean.⁴³⁰ Sri Lanka has also refused multiple Chinese requests for a submarine port visit, and has not hosted a PLA Navy submarine since 2014.⁴³¹

- The current Sri Lankan prime minister and defense minister have explicitly stated that the facility at Hambantota will not be used to host foreign naval vessels.⁴³²
- When the Sri Lankan Cabinet of Ministers approved the concession agreement in July 2017, it released a statement noting that the Sri Lankan government would prevent the utilization of the Port of Hambantota for military purposes.

The Sri Lankan government's position against a Chinese military facility on Sri Lankan soil may lessen, however, should an administration with a more favorable approach to China return to power. Moreover, China could still potentially send commercial logistics ships to obtain parts, fuel, or supplies in Hambantota or Colombo, and then meet up with a passing PLA Navy task group to conduct replenishment operations. Doing so would not violate the Sri Lankan government's position against the PLAN's use of the port facilities.

Chinese SOE presence

China's state-owned firms are heavily involved in Sri Lanka's maritime infrastructure in both Hambantota and Colombo. For example, in January 2008 China Harbour Engineering Corporation and Sinohydro Corporation commenced construction of a port, as well as an international airport, convention center, and a 35,000-seat cricket stadium in Hambantota.⁴³³ In 2017, China Merchants Port Holdings purchased an 85

⁴³⁰ "Sri Lanka Rejects Chinese Request for Submarine Visit: Sources," Reuters, May 11, 2017, <https://www.reuters.com/article/us-sri-lanka-china-submarine/sri-lanka-rejects-chinese-request-for-submarine-visit-sources-idUSKBN1871P9>.

⁴³¹ "Sri Lanka Rejects China's Request to Dock Submarine in Colombo: Strategic Realignment or a One-off?" *First Post*, May 12, 2017, <https://www.firstpost.com/world/sri-lanka-rejects-chinas-request-to-dock-submarine-in-colombo-strategic-realignment-or-a-one-off-3439450.html>; Reuters, "Sri Lanka Rejects Chinese Request for Submarine Visit: Sources"; Ananth Krishnan, "Sri Lanka Says Will Not Allow Repeat of Chinese Submarine Visits," *India Today*, February 28, 2015, <http://indiatoday.intoday.in/story/sri-lanka-says-will-not-allow-repeat-of-chinese-submarine-visits/1/421571.html>; Atul Aneja, "Sri Lanka to Bar Chinese Submarines From Docking in its Waters," *The Hindu*, February 28, 2015.

⁴³² "Hambantota Port Won't Be Used As Military Base: Lankan Official," *Business Standard (India)*, February 27, 2018, http://www.businessstandard.com/article/pti-stories/hambantota-port-won-t-be-used-as-military-base-lankan-official-118022701058_1.html; "Hambantota Port Will Not Be Used As Military Base: CDS," *Daily Mirror* (Colombo), February 27, 2018, <http://www.dailymirror.lk/article/Hambantota-port-will-not-be-used-as-military-base-Army-146514>.

⁴³³ "Sale of Hambantota Port—A Fair Deal?," *Daily FT*, November 16, 2016, <http://www.ft.lk/article/580215/Sale-of-Hambantota-Port>; Halik Azeez, "China Holds Sway at

percent stake in the concession that will develop and operate the port at Hambantota for 99 years. China Merchants Port Holdings also holds an 85 percent stake in the concession that operates the Colombo International Container Terminal at Colombo, the country's largest and busiest port.

Reliance on Chinese capital

Thus far, Chinese development projects, particularly the facilities at Hambantota, have failed to achieve a high degree of commercial success, inhibiting the government's ability to service its growing debt. The international airport has been derisively referred to as the "world's emptiest," while the port has posted continuous losses upward of \$147 million a year since 2014 due to a lack of shipping traffic.⁴³⁴ This lack of revenue from these large-scale infrastructure projects has severely constrained the Sri Lankan government's ability to repay the loans it used to finance these projects. Sri Lankan and Western media sources state that over 95 percent of government revenues are dedicated to paying back international loans.⁴³⁵ In 2016, Sri Lankan officials noted that the country's outstanding debt to state-controlled Chinese firms had reached more than \$8 billion.⁴³⁶ This represents approximately 12 percent of the country's nearly \$65 billion external debt load.⁴³⁷

Third-country attitudes toward China's military presence

Unsurprisingly, the Indian government harbors significant concerns about the potential for China to have a military presence in Sri Lanka, immediately off the Indian coast.

- Following China Merchant Port Holdings' acquisition of an 85 percent stake in the joint venture that holds the concession to operate the port at Hambantota, the Indian government presented Sri Lanka with a proposal to "operate,

Hambantota," *The Sunday Leader*, April 7, 2010, <http://www.thesundayleader.lk/2010/07/04/china-holds-sway-at-hambantota/>.

⁴³⁴ Brook Larmer, "What the World's Emptiest International Airport Says About China's Influence," *The New York Times Magazine*, September 13, 2017, <https://www.nytimes.com/2017/09/13/magazine/what-the-worlds-emptiest-international-airport-says-about-chinas-influence.html>; "Sri Lanka's Hambantota Loses Rs18.8bn A Year," *Economynext*, November 11, 2016, <http://www.economynext.com/Sri-Lanka-s-Hambantota-port-loses-Rs18.8bn-a-year-3-6606.html>.

⁴³⁵ Fernando, "Failed Large-Scale Projects Has Sunk the Nation into Further Debt"; Limaye, "Sri Lanka: A Country Trapped in Debt."

⁴³⁶ Schultz, "Sri Lanka, Struggling with Debt, Hands a Major Port to China."

⁴³⁷ *Ibid.*

manage, maintain, and develop” the Hambantota airport through a joint venture in which India would own roughly 70 percent of the airport’s equity for a 40-year period.⁴³⁸

- In a March 2018 statement to parliament, Indian foreign secretary Vijay Gokhale noted that China’s maritime infrastructure projects in the region were of growing concern, stating that, “they [China] are making headway in infrastructure projects in our neighborhood.”⁴³⁹
- In May 2018, Army Chief General Bipin Rawat conducted a four-day visit to Sri Lanka, while the Indian Army plans to establish a training center for the Sri Lankan Army Signals Corps in the Sri Lankan city of Kandy.⁴⁴⁰

The East African coast (Kenya and Tanzania)

Strategic location

There are multiple economic and strategic reasons that could make either Kenya or Tanzania an attractive location for a future PLA military facility:

- China has provided roughly \$24 billion in lending to countries along the African east coast, largely to fund resource extraction and construction projects. This includes roughly \$5 billion to Kenya and \$3 billion to Tanzania. China also has a growing number of citizens and direct investment in this region as well.⁴⁴¹
- The largest recipient of Chinese lending in Africa is Ethiopia, which has received more than \$14 billion in Chinese lending.⁴⁴² Ethiopia has no coastline. However, China’s base in Djibouti, and the Djibouti-Ethiopia railroad can help to provide access to that landlocked country. Having a military facility in Kenya or Tanzania would provide an additional source of access to China’s growing

⁴³⁸ “Sri Lankan Government Reworking MoU on Airport Deal with India,” *The Economic Times*, August 5, 2018, <https://economictimes.indiatimes.com/news/politics-and-nation/sri-lankan-government-reworking-mou-on-airport-deal-with-india/articleshow/65281702.cms>.

⁴³⁹ Devirupa Mitra, “India Sounds Alarm on Chinese Infra Projects in Neighborhood,” *The Wire*, March 14, 2018, <https://thewire.in/diplomacy/china-making-headway-in-infra-projects-in-indias-neighbourhood-foreign-secretary-gokhale-to-panel>.

⁴⁴⁰ “Army Chief Bipin Rawat To Begin Four-Day Crucial Visit to Sri Lanka Tomorrow,” *New Delhi Television*, May 14, 2018, <https://www.ndtv.com/india-news/army-chief-general-bipin-rawat-to-begin-4-day-crucial-visit-to-sri-lanka-today-1851609>.

⁴⁴¹ AidData, Global Chinese Official Finance Dataset, Version 1.0, 2017, <http://aiddata.org/data/chinese-global-official-finance-dataset>.

⁴⁴² *Ibid.*

economic interests on the East African coast without having to negotiate the Bab el-Mandab Strait.

- During times of crisis or instability in Egypt, should the Suez Canal be inaccessible, a base on the East African coast would provide PLA Navy vessels with a port from which ships could conduct repair and resupply as they continue to South America, North America, or Europe.

Support for Chinese military presence

China has increased its military ties with both countries over the past few years. Senior PLA personnel have recently visited both Kenya (in 2017) and Tanzania (in 2016). However, China appears to have focused more on developing security ties with Tanzania, having provided the country with over 90 percent of all its arms imports since Xi Jinping came to power in 2012, including the provision of naval patrol boats.⁴⁴³ PLA Navy ships have also conducted port visits to Tanzania in 2017 and 2016. While this does not mean that the Tanzanian government would be amenable to a permanent Chinese facility on its territory, the growing security cooperation, combined with the growing economic ties, does suggest that the Tanzanian government is not wholly opposed to the idea of closer relations with the PLA.

Chinese SOE presence

The PRC is heavily involved in the construction of maritime and other transportation infrastructure in Kenya:

- China Road and Bridge Corporation, a state-owned enterprise, constructed a \$3.2 billion railway linking the inland capital of Nairobi with the port city of Mombasa in 2017.⁴⁴⁴ The railway is expected to connect the port with the inland African countries of Uganda, Rwanda, Burundi, the Democratic Republic of the Congo, South Sudan, and Ethiopia.⁴⁴⁵
- The China Communications Construction Corporation is also leading construction of the first three berths at a new megaport in Lamu, near the

⁴⁴³ SIPRI Arms Transfer Database, 2014, <http://www.sipri.org/databases/armstransfers>; "Tanzanian Navy Commissions New Vessels," Defence Web, May 6, 2015, http://www.defenceweb.co.za/index.php?option=com_content&view=article&id=39060:tanzanian-navy-commissions-new-vessels&catid=51:Sea&Itemid=106.

⁴⁴⁴ Duncan Miriri, "Kenya Inaugurates Chinese-built Railway Linking Port to Capital," Reuters, May 31, 2017, <https://www.reuters.com/article/us-kenya-railways/kenya-inaugurates-chinese-built-railway-linking-port-to-capital-idUSKBN18R2TR>.

⁴⁴⁵ *Ibid.*

Kenyan border with Somalia.⁴⁴⁶ Lamu is located in the Manda Bay region, site of the U.S. military's Camp Simba.⁴⁴⁷ The eventual goal for the port project is build 32 berths, creating one of the largest ports in eastern Africa.⁴⁴⁸ Kenya also has a history of hosting Chinese naval vessels as they traverse the Indian Ocean during Gulf of Aden deployments.⁴⁴⁹

Chinese SOEs are less involved in maritime infrastructure in Tanzania, though that could change in the future, particularly in the port city of Bagamoyo:

In May 2013, China Merchants Port Holdings signed a framework agreement with the government of Tanzania for the construction of a new port, special economic zone, and rail infrastructure at Bagamoyo.⁴⁵⁰ The Chinese Foreign Ministry reported on 24 April 2018, that the Tanzanian government was in final talks with China Merchants and the government of Oman about the port project (China Merchants and the Omani government will both provide financing).⁴⁵¹ Thus, should China Merchant's Bagamoyo project proceed, China would have a significant SOE presence in the maritime infrastructure of both Kenya and Tanzania.

Reliance on Chinese capital

The Center for Global Development's analysis of the impact of Chinese lending concludes that Kenya is one of the countries for which the risk of debt distress due to additional Chinese financing "could be quite high."⁴⁵² Indeed, the researchers include Kenya as one of three countries in Africa, along with Djibouti and Ethiopia, with

⁴⁴⁶ "Lamu Port in US\$479 Million Chinese Deal," Port Technology, August 4, 2014, https://www.porttechnology.org/news/lamu_port_in_us479_million_chinese-deal/; George Mwangi, "Chinese Firm Signs \$478.9 Million Kenya Lamu Port Deal," *The Wall Street Journal*, August 3, 2014, <https://blogs.wsj.com/frontiers/2014/08/03/chinese-firm-signs-478-9-million-kenya-lamu-port-deal/>.

⁴⁴⁷ *Defense Management: DOD Needs to Determine the Future of Its Horn of Africa Task Force*, Government Accountability Office, GAO-10-504, 2010, <https://www.gao.gov/assets/310/303408>.

⁴⁴⁸ "Chinese Contractor to Complete First Berth of Kenya's Lamu Port in Mid 2018," *China Daily*, July 7, 2017, http://www.chinadaily.com.cn/business/2017-04/07/content_28831548.htm.

⁴⁴⁹ "15th Chinese Navy Escort Fleet Leave Kenya," Ministry of National Defense—People's Republic of China, January 6, 2014, http://eng.mod.gov.cn/DefenseNews/2014-01/06/content_44820685.htm.

⁴⁵⁰ Fumbuka Ng'wanakilala, "Update 1- Tanzania Signs Port Deal with China Merchant Holdings," Reuters, May 30, 2013, <https://www.reuters.com/article/tanzania-china-infrastructure/update-1-tanzania-signs-port-deal-with-china-merchants-holdings-idUSL5N0EB3RU20130530>.

⁴⁵¹ Ibid.

⁴⁵² Hurley et al., *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*.

“elevated risk” for debt distress. One caveat to this, however, is that many of these loans have yet to be finalized.⁴⁵³

In contrast, Tanzania appears to be less exposed to Chinese debt and is at a lower risk of debt distress.⁴⁵⁴ According to IMF analysis, “all external debt burden indicators remain below their policy-determined thresholds,” suggesting that Tanzania is less at risk of debt distress than Kenya. Moreover, over the past few years, China has cancelled millions in debt owed by Tanzania. In 2011, for example, the PRC cancelled US\$75 million in the Tanzania-Zambia (TAZARA) railway, the route linking the port of Dar es Salaam with Kapiri Mposhi in Zambia’s Central Province.⁴⁵⁵

Third-country attitudes toward China’s military presence

India appears to be taking steps to strengthen its bilateral security relations with countries in Africa, including those along Africa’s east coast such as Tanzania and Kenya. In summer 2016, Indian prime minister Narendra Modi made a trip to Kenya, Tanzania, Mozambique, and South Africa to discuss, among other issues, enhancing maritime security.⁴⁵⁶ Following his trip, Kenya and India signed a range of defense and security MOUs. According to media reports, these MOUs will expand bilateral staff exchanges, provide training opportunities for Kenyan personnel, and provide the Kenyan government with hydrographic and other maritime equipment.⁴⁵⁷

Speaking at the Fourth India-Africa Strategic Dialogue in March 2018, Ambassador Woldemariam, the dean of India’s African Diplomatic Corps and Indian Ambassador to Eritrea, proposed the creation of a new Indian-African security architecture. This new architecture would build on the current bilateral ties that India has developed, particularly with the Indian Ocean littoral states.

⁴⁵³ Ibid.

⁴⁵⁴ Daria Zakharova, Roger Nord, and Paloma Anós-Casero, “United Republic of Tanzania: Debt Sustainability Analysis,” *IMF Country Report* 18, no. 11 (2017), <https://www.imf.org/external/pubs/ft/dsa/pdf/2018/dsacr1811.pdf>.

⁴⁵⁵ Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*.

⁴⁵⁶ “Visit to Africa aimed at deepening ties, economic cooperation: Modi,” *The Asian Age*, July 7, 2017, <http://www.asianage.com/india/visit-africa-aimed-deepening-ties-economic-cooperation-modi-377>.

⁴⁵⁷ “India, Kenya Sign 7 Pacts; to Deepen Ties in Security,” *Business Standard*, July 12, 2016, https://www.business-standard.com/article/economy-policy/india-kenya-sign-7-pacts-to-deepen-ties-in-security-116071100528_1.html.

The United Arab Emirates

Strategic location

A federation of seven emirates on the southern shores of the Persian Gulf, the UAE is a significant producer of oil and gas, and its city of Dubai serves as a major international air and maritime hub. A military presence in the UAE at cities such as Khalifa Port of Fujairah, for example, would offer China a number of potential advantages. For example, a military presence in the UAE, even a nominal one, would almost certainly provide China with more opportunities to collect intelligence on U.S. force posture and operations in the Arabian Gulf, as well as on the activities of U.S. partners and allies such as the UK, France, and Australia. Any PLAN ships in the UAE would also have a shorter response time to the Strait of Hormuz, improving the PLAN's ability to protect China's growing oil imports at their origin and through the strait. A Chinese military presence in the UAE would also place the PLA near a major international transportation hub linking the Indo-Pacific, Africa, and Europe. This proximity could enhance the PLA's ability to support and protect Chinese interests in the Gulf and the Western Indian Ocean region more broadly. Finally, a presence in the UAE would provide a potential base for developing stronger security ties with other Arab states in the region, potentially enhancing Chinese influence in the Gulf.

Support for Chinese military presence

The UAE's strong military ties with the United States, as well as with U.S. allies such as the UK and France, and growing ties with Australia, likely limit support for a PLA military presence among UAE political and military elites.

For example, the UAE is one of the few countries to have purchased Terminal High-Altitude Area Defense (THAAD) and Patriot missile systems from the U.S.⁴⁵⁸ It is unlikely that the UAE would want to damage military ties such as these by becoming too close to China in terms of military cooperation.

However, there is evidence that the UAE is interested in developing its security cooperation with other countries outside the United States, including China. During Xi Jinping's July 2018 visit to the UAE, his first trip abroad since being re-elected PRC president, both sides agreed to the establishment of a "comprehensive strategic partnership." The media in both countries portrayed this agreement as an important

⁴⁵⁸ U.S. Department of State Fact Sheet, "U.S. Security Cooperation with the United Arab Emirates," March 23, 2018, <https://www.state.gov/t/pm/rls/fs/2018/279535.htm>.

upgrade in relations between the two countries. Moreover, the UAE is the first—and so far only—Arab country to have a “comprehensive strategic partnership” with Beijing.⁴⁵⁹

More important, during XI’s visit the two countries signed 13 MOUs on strengthening cooperation across a wide range of areas, notably including military and law-enforcement cooperation and greater cooperation on security and counter terrorism issues.⁴⁶⁰ These MOUs create opportunities for expanded China-UAE military cooperation in the future, including expansion of training exercises, additional arms sales, future combined counterterrorism operations, technology transfers, and information sharing. While these types of security cooperation activities would still be far below what the United States and UAE currently enjoy, and would stop well short of a permanent PLA presence in the UAE, such activities would certainly pose a potential concern to the U.S., as increased presence of Chinese personnel creates an operational security risk to U.S. forces in the UAE. Given that UAE forces train and operate with U.S. forces, Beijing could potentially use future cooperation with UAE forces as means to acquire information on U.S. military forces’ tactics, techniques, and procedures.

Chinese SOE presence

Chinese SOEs are very active in the UAE, both in maritime infrastructure and other sectors, and their presence is likely to increase following Xi’s July 2018 visit. For example, COSCO Shipping Ports, a subsidiary of China COSCO Shipping Corporation, operates the Khalifa Port Container Terminal 2 under a 35-year concession.⁴⁶¹ In March 2018, China Natural Petroleum Cooperation (CNPC) paid 1.2 billion to purchase 10 percent of three offshore Abu Dhabi oilfields.⁴⁶² Moreover, in September 2018, Abu Dhabi National Oil Company awarded contracts worth \$1.6 billion to CNPC to conduct onshore and offshore seismic surveys to identify new oil and natural gas reserves.⁴⁶³ Chinese private and state-owned firms are also active in the UAE’s growing information

⁴⁵⁹ See for example Zhong Sheng, “Building China-UAE Community of Common Destiny in Joint ‘One Belt One Road’ Construction.”

⁴⁶⁰ “UAE, China Co-sign 13 Agreements, MoUs,” Saudi Press Agency, July 20, 2018, <https://www.spa.gov.sa/viewstory.php?lang=ar&newsid=1786788>.

⁴⁶¹ “Cosco Shipping Ports Container Terminal Inaugurated in Abu Dhabi,” Seatrade Maritime News, December 11, 2018, <http://www.seatrade-maritime.com/news/middle-east-africa/cosco-shipping-ports-container-terminal-inaugurated-in-abu-dhabi.html>.

⁴⁶² Lucy Hornby, “China’s CNPC Pays \$1.2 bn for Abu Dhabi Oil Holding,” *Financial Times*, March 21, 2018, <https://www.ft.com/content/820df99c-2d68-11e8-9b4b-bc4b9f08f381>.

⁴⁶³ “Adnoc Awards \$1.6b Contract to China’s CNPC,” *Gulf News*, September 12, 2018, <https://gulfnews.com/business/energy/adnoc-awards-16b-contract-to-chinas-cnpc-1.2254117>.

technology sector, including companies such as Huawei, China Union Pay, China Telecom Middle East, and Oceanblue Cloud.⁴⁶⁴

As noted, the MOUs signed in July cover a wide range of activities and indicate that there will be an expansion of opportunities for Chinese SOEs to invest in more sectors of the UAE economy, including finance, solar energy, and water resources. This suggests that Chinese investments and business activities will not be limited to port facilities and natural resources.

Reliance on Chinese capital

Unlike other cases discussed in this chapter, such as Sri Lanka or the Maldives, the UAE's financial resources make it highly unlikely that it will become financially dependent on Chinese lending. Consequently, the UAE appears unlikely to fall into a "debt trap."

However, the UAE appears open to further economic cooperation with China, has an interest in diversifying its economy, and seeks to balance its relationships with other countries. The new comprehensive strategic partnership and MOUs with China provide a framework for more diverse bilateral cooperation in finance, trade, technology, renewable energy, and other areas. Thus even if the UAE is not as reliant on China as the other countries examined in this chapter, China presence and influence in the UAE is likely to increase.

Third-country attitudes toward China's military presence

In addition to the U.S., other countries would likely have an interest in monitoring any expanding PLA presence in the UAE. For example, India has roughly 3.3 million expatriates living and working in the UAE, the largest Indian expat community in the world.⁴⁶⁵ Moreover, India maintains strong diplomatic and economic ties with the UAE. An increased Chinese military profile in the UAE would likely be of concern for India, possibly leading to greater competition between the two countries in the Gulf.

Iran is another country that might express concerns. As described in Chapter 3, Iran and China have historically enjoyed strong military and economic ties. Given the ongoing conflict in Yemen between the UAE and Saudi Arabia on one side

⁴⁶⁴ "China Develops Growing Appetite for UAE Tech Sector," *The National*, July 19, 2018, <https://www.thenational.ae/business/technology/china-develops-growing-appetite-for-uae-tech-sector-1.751866>.

⁴⁶⁵ "UAE Indians are the Largest NRI Community in the World," *Gulf News*, January 24, 2018, <https://gulfnews.com/uae/uae-indians-are-the-largest-nri-community-in-world-1.2162579>.

and the Iranian-backed Houthi rebels on the other, it is not unreasonable to think Iran would view growing China-UAE military ties with concern.

Conclusion

The ability to rely on other regional military facilities would be a significant asset for the PLA in the Middle East and Western Indian Ocean, and statements and writings by Chinese military and government officials and analysts strongly suggest that more facilities may be established in the near future. This chapter examined five factors that may affect Chinese decision-makers' choices for future locations for such a regional facility.

In short, China appears to be examining a wide range of possible locations, each with potential benefits to the PLA Navy's ability to project power in the region, yet each with its own challenges and pitfalls. Moreover, as a number of the examples described in this chapter illustrate, China may not have to establish a "second Djibouti" in order to support its growing presence in the region, but may also rely on a growing collection of civilian logistics facilities, often owned and operated by Chinese stated-owned firms.

Chapter 8. Implications and Recommendations

The final chapter of this study employs the analyses in the preceding chapters to provide recommendations for responding to China's growing presence in the Middle East and Western Indian Ocean.

Recommendation #1: Prepare for a changing operational environment

China's growing presence in this region is already changing the operating environment for the U.S. and U.S. Navy in the following ways:

Increased likelihood of Chinese military intervention

Much of China's presence in the Middle East and Western Indian Ocean is in countries that are relatively unstable politically, including places such as Kenya, Sudan, Tanzania, and Yemen.

Other places where China has a growing presence, such as Sri Lanka and the Maldives, face at least near-term political uncertainty as well.⁴⁶⁶ Given this instability in places where China's presence is growing, the PLA may be called on to safeguard Chinese investments or personnel located in these countries or provide humanitarian assistance or disaster relief to local Chinese expatriate communities.

Given the increasing probability of Chinese military intervention in the Middle East and Western Indian Ocean in the near to medium term, the U.S. Navy should consider how best to respond to Chinese military intervention in the region under multiple scenarios:

Where and under what circumstances would the U.S. Navy oppose or cooperate with PLA operational activities in the region? Questions such as this are likely to become more important as the PLA and PLA Navy become increasingly active in the Middle East and Western Indian Ocean.

⁴⁶⁶ See Appendix C for a list of indicators of political stability and Chinese presence for the countries examined in this study.

A more crowded and complex environment

Our analysis also indicates that China's economic and commercial activities in the region will continue to grow, bringing more Chinese citizens and more Chinese commercial activities, and creating a more crowded and complex operating environment. For the U.S. Navy, this means a greater chance of unplanned encounters or accidents involving either Chinese civilians or the Chinese military.

With this in mind, the U.S. Navy should consider how it will respond to such unplanned encounters with China in order to mitigate the potential for unintended escalation. One possible option would be to establish and maintain regular channels of communication with the PLA in accordance with and under the guidance of the Office of the Secretary of Defense (OSD). Establishing such communication channels might help mitigate the potential for any accidents to escalate into more serious, unplanned confrontations.

More competition for access to maritime infrastructure

A larger Chinese military and civilian presence in the region also means that the U.S. Navy is likely to face greater competition for access to ports, airfields, and other infrastructure, particularly in the following locations:

- *Djibouti*: Chinese SOEs already own and operate the Doraleh Multipurpose Port, and the Djiboutian government's seizure of the Doraleh Container Terminal suggests that a Chinese firm might eventually operate that facility as well.
- *Port Khalifa*: COSCO began operating a new container terminal in Port Khalifa in December 2018. COSCO has already stated that it is seeking to make Port Khalifa a regional transshipment hub, diverting Chinese ships from other ports in the region. Should COSCO be successful, the increased traffic into the port could potentially create delays for USN and other ships seeking to use the port facilities as well.

Recommendation #2: Track Chinese regional activities to help plan a targeted response

Understanding where China is focusing its efforts is the first step that will allow the U.S. Government to develop an appropriate policy response.

In the future, we recommend continuing to track the following indicators of China's presence in the region:

- **Diplomatic and military diplomatic indicators**, including state visits by Xi Jinping and senior military personnel, PLA Navy port visits, and Chinese arms sales in the region.
- **Indicators of China's information narrative**, including letters and interviews by Chinese leaders published in local newspapers ahead of their visits, white papers on China's policies toward the region, and articles in authoritative Chinese media explaining those policies.
- **Military indicators**, including the number and types of PLA Navy ships participating in regional operations, and the number and location of PLA operations in the region.
- **Economic indicators**, including which Chinese companies are building, own, or are operating ports in the region, and the extent to which states in the region are borrowing from China.

China's current focal points in the region

The data in this study provide a starting point for this effort.⁴⁶⁷ By examining China's activities in the region, we have identified several focal points for China's presence, discussed below.

Djibouti

As the site of China's only overseas military base, the PLA already has an extensive military presence in the country. However, PLA Navy port visits are also common in Djibouti, and China has also been a growing source of weapons for Djibouti under Xi. China has also played an extensive role in the Djiboutian economy as a key source of financing for infrastructure construction. This high level of lending has led analysts at the Center for Global Development to conclude that the country may be unable to continue to service its debts to China in the near to medium term.

Kenya

China is a growing source of Kenyan weapons, financial investment, and lending for infrastructure projects. This includes projects such as the Chinese-financed Nairobi-to-Mombasa railroad, and berths at the port at Lamu, both of which have caused the Kenyan government to take on added amounts of debt.

⁴⁶⁷ See Appendix D for a summary of China's presence per these indicators across all countries examined here.

Pakistan

Pakistan remains China's primary military and economic partner in the region, while Chinese loans to the country are the key reason the Pakistan government has been able to avoid a currency crisis to date.⁴⁶⁸ Roughly 35 percent of all China's arms sales during 2013–2017 worldwide have gone to Pakistan. China's CPEC project is also the flagship project for BRI, which includes a Chinese SOE operating Gwadar port under a 40-year concession.

Sri Lanka

Sri Lanka has been a focus of China's military diplomatic outreach under Xi, and has hosted more PLAN ships, including submarines, than any other country in the region except Djibouti and Oman. Sri Lanka also hosted a state visit from Xi in 2014. Economically, Chinese SOEs are heavily involved in both Colombo and Hambantota ports. While Sri Lanka is not quite as likely to experience debt distress as Pakistan or Djibouti, this is largely because future Chinese-financed projects are unlikely at this time. However, even if Sri Lanka refrains from taking on additional Chinese-financed projects, its potential for debt distress is not insignificant: its ratio of public debt to GDP is roughly 85 percent and rising.⁴⁶⁹ Should Sri Lanka have trouble financing its current debt, this could give China an opportunity to obtain additional concessions from the Sri Lankan government.

Tanzania

Tanzania was clearly targeted by Xi Jinping for diplomatic outreach, as it was the destination for Xi's second overseas trip and the first country he visited after becoming CCP general secretary in 2012. Moreover, China has provided roughly 87 percent of all Tanzania's weapons purchases since 2013, and the China Merchants Port Holdings continues to negotiate with the Tanzanian government on the construction of the port project in Bagamoyo.

The United Arab Emirates

Chinese state firms already own and will eventually operate maritime infrastructure at the port of Khalifa. Moreover, while the UAE is not susceptible to debt pressure in the way that other countries in the region are, Chinese leaders appear to be reaching out to the UAE in other ways. For example, under Xi, senior military personnel have made three separate visits to the country.

⁴⁶⁸ See for example, Farhan Bokhari, "Pakistan Seeks More Loans From China to Avert Currency Crisis," *Financial Times*, July 5, 2018, <https://www.ft.com/content/1256ceaa-802c-11e8-bc55-50daf11b720d>.

⁴⁶⁹ Hurley et al., *Examining the Debt Implications of the Belt and Road Initiative*.

Recommendation #3: Develop a three-pronged approach to China's messaging

With an understanding of the context of China's current outreach, the next step in crafting a U.S. policy approach in the region is to address the PRC's public messaging campaign. Below we provide some suggestions to consider.

Continue to highlight the positive aspects of the U.S. military presence in the region, particularly the benefits of the U.S. Navy's presence.

Despite China's growing military engagement, the United States, particularly the U.S. Navy, remains far more active in the region than the Chinese military or the Chinese navy. At times, however, these benefits may be difficult to perceive. Therefore, whenever possible, U.S. Navy personnel, being one of the most active U.S. services in the region, should highlight those benefits. For example, despite the recent growth in China's military presence, only the USN, with its coalition of partners and allies, can safeguard the region's waterways, the safety and security of which are critical to maintaining global growth and stability.

The USN also provides high-quality military training and assistance to regional navies, which no other military in the region can provide, as well as timely and high-quality emergency rescue and assistance support, and humanitarian disaster relief in times of crisis.

Highlight the United States' respect for national institutions and the rule of law.

China appears to have made headway in expanding its presence in numerous countries in the region, at least in part as a result of developing personal ties with national leaders, including Sri Lanka's former president Mahinda Rajapaksa and Maldives former president Abdulla Yameen. Media reports also suggest that Chinese SOEs have been directly involved in providing large sums of money to support former president Rajapaksa's election campaign in 2015.⁴⁷⁰

In contrast, and as noted by Secretary of State Pompeo, the United States "seeks partnership, not domination."⁴⁷¹ U.S. Government personnel should continue to build upon this by highlighting the United States' desire to develop long-term engagement plans with national institutions as opposed to individuals.

⁴⁷⁰ Maria Abi Habib, "How China Got Sri Lanka to Cough Up a Port," *New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

⁴⁷¹ Secretary of State Michael R. Pompeo, "Remarks on 'America's Indo-Pacific Economic Vision,'" remarks to Indo-Pacific Business Forum, U.S. Chamber of Commerce, Washington, DC, July 30, 2018, <https://www.state.gov/secretary/remarks/2018/07/284722.htm>.

Do not force countries in the region to choose between China and the United States.

While continuing to highlight the positive aspects of the U.S. presence in the region is one component of an effective strategy, it is important to note that publicly criticizing China's activities in the region too harshly can backfire. Regional leaders can perceive U.S. criticism of China's activities in the region as a "scare tactic" by the United States, which may actually result in those countries seeking closer ties with China.

Appendix A: Selected region port infrastructure built by Chinese firms

Country	Port	Facility	Builder
Djibouti	Doraleh	Multipurpose Port	China State Construction Engineering Corporation
Eritrea	Massawa	Cargo Terminal Multipurpose Terminal	China Harbour Engineering Corporation (CHEC)
Kenya	Lamu	Berths	China Road & Bridge Corporation
Pakistan	Gwadar	Phase 1	CHEC
Pakistan	Qasim	Qasim International Container Terminal 2	CHEC
Saudi Arabia	Jeddah	Red Sea Gateway Terminal Civil Work	CHEC
Sri Lanka	Hambantota	Phase 1	CHEC
Sudan	Port Sudan	Container Berths and Dredging	CHEC
Tanzania	Dar es Salaam	Roll-on/roll-off terminal Cargo Terminal	CHEC

"Djibouti's Doraleh Port Officially Opens," Xinhua, May 24, 2017, http://www.xinhuanet.com/english/2017-05/24/c_136312120.htm

China Harbour Engineering Company, "CHEC Signed the EPC Contract for Massawa New Port Project Phase 1," China Harbour Engineering Company, February 10, 2014, <http://www.chec.bj.cn/zg/tabid/81/Infold/5150/Default.aspx>

"Kenya Says Chinese Firm Wins First Tender for Lamu Port Project," Reuters, April 11, 2013, <https://www.reuters.com/article/kenya-port-lamu-idUSL5N0CX38D20130411>

China Harbour Engineering Company, "Pakistan's Gwadar Port Opens" (*Bajisitān Guadaer gang kaigang*; 巴基斯坦瓜达尔港开港), China Harbour Engineering Company, March 31, 2007, <http://www.chec.bj.cn/tabid/363/Infold/1276/Default.aspx>

China Harbour Engineering Company, "Qasim International Container Terminal – Terminal 2," China Harbour Engineering Company, <http://www.chec.bj.cn/tabid/130/Default.aspx>

China Harbour Engineering Company, "Red Sea Gateway Terminal Civil Works (RSGT)," China Harbour Engineering Company, <http://www.chec.bj.cn/tabid/408/Default.aspx>

China Harbour Engineering Company, "Hambantota Port Development Project Phase-I Constructed by CHEC Won 'China Civil Engineering Zhantianyou Award,'" China Harbour Engineering Company, December 28, 2015, <http://www.chec.bj.cn/zg/tabid/898/Infold/7295/Default.aspx>

China Harbour Engineering Company, "Project of New Container Berths at Entrance of Port Sudan & Dredging," China Harbour Engineering Company, <http://www.chec.bj.cn/tabid/404/Default.aspx>

"Tanzania Signs \$154 Mln Contract With Chinese Firm to Expand Main Port," Reuters, June 11, 2017, <https://af.reuters.com/article/investingNews/idAFKBN1920B6-OZABS>.

Appendix B. Debt distress

Increased Chinese lending to sovereign borrowers for infrastructure projects as part of China's Belt and Road Initiative (BRI) might increase the risk of debt distress in some borrowing countries.⁴⁷² Indeed, Christine Lagarde, the managing director of the International Monetary Fund (IMF), has stated that although the BRI can provide financing for much-needed infrastructure, loans for unneeded or unsustainable infrastructure projects "can also lead to a problematic increase in debt, potentially limiting other spending as debt service rises, and creating balance of payment challenges."⁴⁷³ Some commentators, including former Secretary of State Rex Tillerson, have warned that debt distress may result in China's providing relief in ways that weaken the sovereignty of borrowing countries.⁴⁷⁴

Researchers at the Center for Global Development have assessed the likelihood of debt problems in 68 countries associated with the BRI.⁴⁷⁵ First, they identified 23 countries, referred to as countries significantly vulnerable to debt distress, for whom the risk of debt distress as a result of additional Chinese financing could be quite high based on sovereign risk credit ratings and debt sustainability analyses conducted by the IMF and World Bank. Second, they identified future BRI projects for each country they expected to be financed by sovereign or sovereign-guaranteed concessional or commercial loans or export credits. Third, the researchers integrated each country's BRI lending pipeline into its debt at the end of 2016. This process identified eight countries of particular concern due to rising debt-to-GDP ratios above 50–60 percent. These countries, which include three in the region examined in this study, are Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.

⁴⁷² Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*.

⁴⁷³ Christine Lagarde, "Belt and Road Initiative: Strategies to Deliver in the Next Phase," International Monetary Fund, April 12, 2018, <http://www.imf.org/en/News/Articles/2018/04/11/sp041218-belt-and-road-initiative-strategies-to-deliver-in-the-next-phase>.

⁴⁷⁴ Aaron Maasho, "Africa Should Avoid Forfeiting Sovereignty to China Over Loans: Tillerson," Reuters, March 8, 2018, <https://www.reuters.com/article/us-usa-africa/africa-should-avoid-forfeiting-sovereignty-to-china-over-loans-tillerson-idUSKCN1GK114>.

⁴⁷⁵ This paragraph is based on Hurley, Morris, and Portelance, *Examining the Debt Implications of the Belt and Road Initiative*.

Appendix C: Political stability and Chinese presence in Middle East and Western Indian Ocean countries

Country	2016 World Bank Political Stability rating: 100 = most stable, 0 = least stable	2016 World Bank Political Stability Quartile: 1= most stable, 4 = least stable	Chinese workers on official projects	Chinese FDI stock 2015 (\$US millions)
Bahrain	18.10	4	12	3.87
Djibouti	23.81	4	965	60.46
Egypt	9.05	4	2,302	663.15
Eritrea	17.14	4	829	119.41
Iran	20.48	4	2,257	2,949.19
Iraq	3.33	4	10,584	388.12
Jordan	26.67	3	1,097	32.55
Kenya	9.52	4	7,436	1,099.04
Kuwait	41.43	3	5,013	543.62
Lebanon	8.10	4	N/A	3.78
Maldives	60.00	2	252	2.37
Oman	71.90	2	487	200.77
Pakistan	1.43	4	9,515	4,035.93
Qatar	76.19	1	4,270	449.93
Saudi Arabia	28.57	3	37,977	2,434.93
Seychelles	69.52	2	442	160.11
Somalia	2.86	4	N/A	NA
Sri Lanka	49.52	3	5110	772.51
Sudan	2.38	4	7,910	1,809.36
Syria	0.00	4	N/A	11.00
Tanzania	30.48	3	5796	1,138.87
UAE	60.95	2	11,662	4,602.84
Yemen	0.48	4	178	453.30

Sources: Data derived from: Daniel Kaufmann and Aart Kraay, *Worldwide Governance Indicators*, World Bank, <http://info.worldbank.org/governance/WGI/#home>; China National Bureau of Statistics.

Appendix D: China's presence in the Middle East and Western Indian Ocean:

Country	Military diplomacy			Macroeconomic		Maritime infrastructure		
	Port visits 2013–2017	PLA officer visits 2013–2016	PRC arms sales: % of total arms imports	PRC FDI 2013–2016 (% total FDI)	Potential for debt distress	uilt	own	operate
Bahrain	0	0	3%	<1%		N	N	N
Djibouti	11	3	35%	27%	High	Y	Y	N
Egypt	1	1	<1%	8%	Medium	N	Y	N
Eritrea	0	0	None	No data		N	N	N
Iran	2	3	12%	11%		N	N	N
Iraq	0	0	<1%	<1%		N	N	N
Jordan	1	0	1%	<1%	Medium	N	N	N
Kenya	2	0	30%	27%	Medium	Y	N	N
Kuwait	1	0	None	10%		N	N	N
Lebanon	0	1	<1%	<1%		N	N	N
Maldives	1	1	<1%	2%	High	N	N	N
Oman	9	0	<1%	No data	Medium	N	N	N
Pakistan	6	4	70%	33%	High	Y	Y	Y
Qatar	1	0	1%	13%		N	N	N
Saudi Arabia	6	1	<1%	3%		N	N	N
Seychelles	2	0	43%	10%		N	N	N
Somalia	0	0	25%	<1%		N	N	N
Sri Lanka	6	3	None	5%	Medium	Y	Y	Y
Sudan	1	0	28%	6%		N	N	N
Syria	0	0	1%	<1%		N	N	N
Tanzania	2	2	87%	8%		Y	N	N
United Arab Emirates	2	3	1%	6%		N	Y	Y
Yemen	1	0	<1%	19%		N	N	N

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