

An Anatomy of China's 'String of Pearls' Strategy

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I Introduction

‘To keep a lamp burning, we have to keep putting oil in it¹⁾’ – Mother Teresa

Much as the lamp represents China's pulsating economic heart, oil can quite literally be transcribed as the blood that fuels it. Ports and pipelines become veins and capillaries in this great new game of survival in the 21st century where energy represents life and the lack of it translates to death of a nation's economy.

When a nation's economic success and perpetuity is largely conditional on its ability to secure access to energy sources, it comes as no surprise that a nation, as dependent and addicted to oil as China is, requires copious amounts of black crude to keep its economy lubricated. More importantly, not only must the energy source be accessible and the flow of it remain unabated and untampered, but it has to be acquired at a fair price with future price stability in mind.

Given that the stakes are so high in this port and pipeline strategy ~ and that China's main adversaries in this game ~ the U.S., Russia, India and to some extent Japan ~ are equally conscious of the outcome should they lose, this new tournament of high stakes understandably is being watched by many but understood by few. The various actors in the game attempt to manipulate, posture, cajole and influence their way into a winning position for future prosperity.

1) Famous Quotes and Authors,
<http://www.famousquotesandauthors.com/authors/mother_teresa_quotes.html>.

2) This phrase was coined in 2005 by Defense Contractor Booz Allen Hamilton in their report titled "Energy Futures in Asia," prepared for the then Defense Secretary Donald H. Rumsfeld. For more details see "China builds up strategic sea lanes," *The Washington Times*, January 17, 2005, <<http://www.washingtontimes.com/news/2005/jan/17/20050117-115550-19291/>>.

Dire situations inspire ingenious solutions and in the same vein, the necessity to survive becomes the mother of invention. It is through these roots that one can trace the emergence of China's 'string of pearls' strategy²⁾.

II Concept: What is the Meaning of 'String of Pearls'?

Simply put, a 'pearl' is a sphere of influence seeded, secured and maintained through the use of economic, geopolitical, diplomatic or military means³⁾. The 'string of pearls' is about the rising dragon's sea power and its emerging maritime strategy. The study of China's 'string of pearls' is important for policy implications and regional development in Asia as the 'dragon' will become a great sea power in the 21st century, challenging the predominance of the U.S. position in the Indian Ocean, and poaching on the backyard of India in the Bay of Bengal. These 'pearls' are interwoven and sinewed into a strong chain or 'string' by virtue of their strategic positioning and placement to each other.

According to Lin (2008), China's 'pearls' consist of an upgraded airstrip on Woody Island in the Paracel archipelago, a container shipping facility in Chittagong, Bangladesh, the construction of a deep water port in Sittwe, Myanmar, the construction of a navy

base in Gwadar, Pakistan, a pipeline through Islamabad and over Karakoram Highway to Kashgar in Xinjiang province, intelligence gathering facilities on islands in the Bay of Bengal near the Malacca Strait and the Hambantota port in Sri Lanka, etc. with more projects in the planning⁴⁾.

III Nature of China's 'String of Pearls' Strategy

China employs various means to establish these 'pearls' which are often characterized by the following steps:

1: Dollar Diplomacy and Infrastructure Buildup

China establishes diplomatic ties with the host country via trade offers or visits by senior officials or representatives from State-run enterprises. This is generally followed up by a generous dose of 'dollar diplomacy' ~ achieved by giving grants, economic aid, loans and even technical expertise and materials to the host.

By opening its vast pocketbook and digging deep, China indirectly submits the host country to a subliminal form of economic expansion through its infusion of cheap funds ~ courtesy of China's bottomless ready funding ~ made possible by China's extensive foreign reserve holdings which amounted to some US\$2.648.3 trillion in September 2010⁵⁾. These loans, in-

3) For an analysis of China's 'string of pearls' strategies see Christopher J. Pehrson, "String of Pearls: Meeting the Challenge of China's Rising Power across the Asian Littoral," Strategic Studies Institute, United States Army War College, July, 2006, pp.1-31. <<http://www.strategicstudiesinstitute.army.mil/pdffiles/pub721.pdf>>.

4) Christina Y. Lin, "Militarization of China's Energy Security Policy –Defence Cooperation and WMD Proliferation Along its String of Pearls in the Indian Ocean," Institut für Strategie- Politik-Sicherheits- und Wirtschaftsberatung (ISPSW) Berlin, Germany, June 18, 2008, pp. 3-4,

<<http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=56390>>.

5) World Bank, (October 2010) "Robust Recovery, Rising Risks," *East Asia and Pacific Economic Update 2010*, Volume 2, page 89, <http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1287417391641/EAP_Update_Oct2010_fullreport.pdf>. See also "China's Foreign Exchange Reserves, 1977-2010," Chinability, <<http://www.chinability.com/Reserves.htm>>.

vestments and grants set the stage for the deliberate development of the host country's addiction to relatively cheap funding which many countries find hard to wean themselves off.

Take Timor Leste for example, where China is responsible for constructing a large part of Dili's new ministerial buildings with Chinese labor, material and funds. These generous gestures are no doubt motivated by the abundant reserves of untapped oil and gas in the Timor Sea which China is hoping to gain access to⁶. After all, poverty-stricken Timor Leste policy makers would find it very hard to say no to a country that is responsible for the construction of the very buildings Dili's future leadership would be sitting in to determine these contracts.

Given that these host countries are often impoverished, the Chinese offerings are even more palatable and much appreciated. Even problematic and unstable States such as Pakistan, Iran, and Bangladesh ~ shunned by the international community ~ are suddenly re-energized. Their ruling elite, engorged and flush with Chinese cash find it hard to say no to the next offer. The heavily subsidized infrastructure buildup often entail the upgrading and establishment of roads, railways, highways, ports and in some cases, not all altruistic, military airfields and naval bases.

Buttressing the infrastructure buildup, construction of pipelines follow close with increasing regularity on the heels of roads and transportation logistics. September 2009, for example, saw the commencement of a giant project that will conjoin China's province of Yunnan with Myanmar's western coast. This new dual pipeline, nearly 4,000km long, which facilitates the transference of oil and gas from the offshore Shwe fields in the Arakan State to Kunming, China's capital in Yunnan province, is set to line the pockets of Myanmar's government to the tune of US\$29 billion over a 30 year period⁷.

2: Establishment of Common Ground: Fostering a win-win Relationship

Recognizing that its interests are best served by amalgamating the host countries' stakes with its own, Beijing also strives to seek a confluence of interest with the host States' stakeholders in the construction of its infrastructure. A good example is the port of Gwadar, in Pakistan, where China's contribution of US\$198 million for the first phase of the project, outweighed the host country's contribution by a hefty four times⁸). In addition, China also contributed US\$200 million towards the building of a highway connecting the port of Gwadar with Karachi⁹). The bene-

6) Eric Ellis, "Pearls for the orient," *The Age*, July 9, 2010, p.8, <<http://www.theage.com.au/business/pearls-for-the-orient-20100708-1028r.html>>.

7) Antoaneta Bezlova, "China Dual Pipelines in Burma to Push Ahead Amid Criticism," Inter Press Service News Agency (IPS) September 9, 2009, <<http://ipsnews.net/print.asp?idnews=48381>>.

8) Sudha Ramachandran, "China's pearl in Pakistan's waters," *Asia Times*, March 4, 2005, <http://www.atimes.com/atimes/South_Asia/GC04Dfo6.html>.

9) Sudha Ramachandran, "China's pearl in Pakistan's waters," *Asia Times*, March 4, 2005, <http://www.atimes.com/atimes/South_Asia/GC04Dfo6.html>, *ibid*.

10) Kamlesh Kumar Agnihotri, "Chinese Quest for a Naval Base in The Indian Ocean – Possible Options for China," National Maritime Foundation, New Delhi, February 12, 2010, p.2, <www.maritimeindia.org/.../Chinese%20naval%20base%20KKA-12%20Feb.pdf>.

11) Sudha Ramachandran, "China's pearl in Pakistan's waters," *Asia Times*, March 4, 2005, <http://www.atimes.com/atimes/South_Asia/GC04Dfo6.html>, *op. cit*.

fits to the host country and China immediately become apparent, i.e. Pakistan gains an infrastructure upgrade at a bargain price, alleviating its reliance on its Karachi port which was blockaded by India in 1971 during the India – Pakistan armed conflict¹⁰). China too, gains a naval outpost as well as a means to ease the chokepoint at the Strait of Hormuz where 40% of the world's oil passes through¹¹). Further benefits and motivations for China's involvement in the port of Gwadar will be discussed later.

IV Foreign Policy of 'Pearl' Development Strategy

According to Tseng (2008), the following core tenets have underpinned China's foreign policy:

- a) A stable international climate and environment which is conducive to carry out domestic development.
- b) Reassurance to other international parties that China does not intend to rock the boat in its rise to power.
- c) Counter or neutralize undue US influence on its borders while still simultaneously developing a good relationship with Washington.
- d) Spirited defense of China's own sovereignty and that of others¹²).

- e) Non interference in domestic and foreign policies of other countries.

In line with China's foreign policy mantra of 'non interference' and preservation of the existing regimes and relationships¹³), China adopts, by and large, a hands off approach in relations to the host country's domestic politics when developing 'pearls'. Granted that many countries China courts are weak and problematic States, this policy gels well with the situation in these unstable and in some instances failed States and explains China's success at increasing its oil imports from Sudan from a nonexistent 0% to 5.2% as of 2005, multiplying to 209'000 barrels per day in 2008 and increasing to 217'000 barrels a day for the first quarter (January to March) 2009¹⁴). This also explains why China has become one of the few States to penetrate Myanmar's junta 'Bamboo Curtain' and why Beijing was able to obtain considerable gas concessions.

By sticking to its hallmark of remaining amoral and coupled with its willingness to deal with just about anyone, irrespective of ideological orientations, China's quest for 'pearls' reflects its enlightening pragmatism, instrumentality and flexibility in its foreign policy. It also attests to Beijing's determination to do anything and everything to ensure secure access to energy resources.

12) Yu-Hui Tseng, "Chinese Foreign Policy and Oil Security," *Internationales Asienforum*, (International Quarterly for Asian Studies), November 2008, Vol. 39, No 3-4, pp.345-346.

13) Yu-Hui Tseng, "Chinese Foreign Policy and Oil Security," *Internationales Asienforum*, (International Quarterly for Asian Studies), November 2008, Vol. 39, No 3-4, p.355.

14) Evan S. Medeiros, "The African Dimension in China's Foreign Policy," Presentation at the FLAD-IPRI Conference on "Strategy and Security in Southern Africa," Lisbon, Portugal, October 2006, p.131, <http://www.ipri.pt/publicacoes/working_paper/pdf/10-Medeiros.pdf>. See also Pepe Escobar, "China plays Pipelineistan," *Asia Times*, December 24, 2009, <http://www.atimes.com/atimes/Central_Asia/KL24Ago7.html>, and U.S. Energy Information Administration, (EIA) Independent Statistics and Analysis, "China", <<http://www.eia.doe.gov/cabs/China/Oil.html>>.

V What are the Motivations for Developing 'Pearls'?

China's reasons for pursuing its 'string of pearls' strategy include:

1: Securing Energy Resources

On a macro-level, China's ability to secure reliable energy sources is inextricably linked to its economic success. China is now the world's number one consumer of oil¹⁵⁾. China consumed 36.51 million tons of oil in June 2010 around 11 percent above that of a year ago¹⁶⁾, ~ and Beijing's appetite is not expected to wane anytime soon ~ estimates project that by 2015, China's oil consumption could reach 10.6 million barrels per day and might need 16.1% of the tradable oil in the global market by 2020¹⁷⁾.

China's phenomenal average annual economic growth rate of over 9.5% for the past twenty-six years¹⁸⁾, no doubt carried on the back of its status as the world's factory, remains highly dependent on oil. As China moves from 'relative dependence to one of absolute dependence' upon imported oil¹⁹⁾, China's ability to expand its economy will directly mirror its successes in securing access to energy sources.

Securing access to energy sources means securing ports and pipelines, the foundation that props up China's energy transport hub. It is no coincidence that China has the world's second largest merchant marine fleet. As of 2007, 1700 ships fly the five star red flag²⁰⁾ and this number is likely to grow in time as China embarks on an accelerated civil and naval shipbuilding program. This is significant because about 62% of the world's oil, or 2 billion barrels worth per year in hard figure terms, is transported via tanker ships²¹⁾. Ships being the favorite medium of transport for oil rely on ports for refueling, repairs and shelter. Developing and upgrading ports means shipping routes can be shortened and ship docking times reduced. Maintaining control of ports also means that shipping lanes stay open and free. In like manner, not only do ports have to be developed, operated and secured from other neighboring states, each port has to be interlinked to one another to form a conduit that can ultimately lead back to China.

To solve this conundrum, China solidified the link between the establishment of ports, control of ports and ships through its 'strings of pearls' strategy, thereby maintaining a 'self

15) According to an International Energy Agency (IEA) report dated July 20, 2010, China has now taken over the U.S. as the world's number one consumer of oil, i.e. 2.265 billion tons whereas the U.S. accounts for 2.169 billion tons. See The Straits Times, August 2, 2010 and Stephen Kurczy, "China energy use surpasses U.S. Who didn't see that coming?" *The Christian Science Monitor*, July 20, 2010, <<http://www.csmonitor.com/World/Global-News/2010/0720/China-energy-use-surpasses-U.S.-Who-didn-t-see-that-coming>>. International Energy Agency (IEA) "China overtakes the United States to become world's largest energy consumer," July 20, 2010, <http://www.iea.org/index_info.asp?id=1479>. See also Spencer Swartz and Shai Oster, "China Tops U.S. in Energy Use," *The Wall Street Journal*, July 18, 2010, <<http://online.wsj.com/article/SB100014240527487037>

20504575376712353150310.html?mod=WSJ_World_LEFTSecondNews>.

A Xinhua report however dismissed this claim, quoting an official with the National Energy Administration (NEA) at a press conference saying that 'The IEA's data on China's energy use is unreliable.' Xinhua, July 20, 2010, "China dismisses IEA analysis of it being world's top energy user," <http://news.xinhuanet.com/english2010/china/2010-07/20/c_13406190.htm>.

16) Chen Aizhu, "UPDATE 2-China oil demand on double-digit expansion pace in June," Reuters, July 15, 2010, <<http://www.reuters.com/assets/print?aid=UKTOE66D05H20100715>>.

17) Michael J. Economides, and Xina Xie, "China's Oil Imports Continued Upward Climb in '09," *Energy Tribune*, posted on Jan. 26, 2010, <<http://www.energytribune.com/articles.cfm/2982/Chinas-Oil-Imports-Continued-Upward-Climb-in-09>>.

sustaining, vertically integrated network of quasi-sovereign economic entities²²⁾ to secure its dominion of critical transportation hubs and supply lines.

Ownership of ports, even pseudo or partial ownership brings about added benefits of enabling China to control its petroleum reserves better. The proof is self evident ~ China successfully increased net crude-oil imports to a record 22.27 million metric tons, or 5.44 million barrels a day as of June 2010²³⁾. China's ability to import oil ~ and ever larger amounts of it ~ is working exceptionally well. Arguably this can be attributed to its 'strings of pearls' strategy' bearing fruits and paying dividends.

2: Access to New Markets

Delving further, China's ongoing presence via its 'pearls' also means opening doors to new untapped markets eager for Chinese goods, which no doubt aids in keeping China's growth rates purring along comfortably. Conjointly, Chinese businesses also benefit from these massive infrastructure projects that follow. In Myanmar, for instance, the revamping of roads saw the creation of 40,000 jobs for Chinese laborers, half of whom would remain in the

country to continue with repair and maintenance work. Chinese involvement in the redevelopment of the port of Yangon for example, saw a spike in the number of Chinese businesses being created to accommodate this new influx of Chinese workers. As Walsh, (2007), an expert on Asian labor migration humorously notes, the quality and number of Chinese restaurants in Yangon now rivals that of any country in the region²⁴⁾.

Infrastructure projects sponsored by China frequently entail the use of Chinese enterprises and labor ~ this means a boon to business for Chinese enterprises ~ while simultaneously injecting funds from China's left pocket back into its right, thereby keeping foreign capital outflow to a minimum. This self reinforcing cycle of 'inter pocket money transfers' means China forks out money under the pretext of assisting the host country in its infrastructure development only to get it back later in payments to Chinese businesses that help with the construction of these projects²⁵⁾.

Hambantota Port in Sri Lanka, where the first phase of the projects was estimated to cost US\$360 million, sheds some light on this 'Chi-

18) U.S. Department of State, Background Note: "China", <<http://www.state.gov/r/pa/ei/bgn/18902.htm>>. In 2009, its US\$4.814 trillion economy was about one-third the size of the U.S. economy.

19) Jason J. Blazevic, "Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma," *China Security*, Vol. 5, No. 3, 2009, p. 62, World Security Institute, <<http://www.chinasecurity.us/pdfs/JasonBlazevic.pdf>>

20) Lyle J. Goldstein, "CHINA: A New Maritime Partner?" United States Naval Institute. Proceedings. Annapolis: August, 2007. Vol. 133, Issue 8, p. 26.

21) Byron King, "The Only Safe Oil Investment: Tanker Ships," October 8, 2008, <<http://www.contrarianprofits.com/articles/the-only-safe-oil-investment-tanker-ships/6021>>.

22) Eric Ellis, "Pearls for the orient," *The Age*, July 9, 2010, p.8, <<http://www.theage.com.au/business/pearls-for-the-orient-20100708-10281.html>>, *op. cit.*

23) "China crude oil imports jump 34% in June," *Global Times*, July 23, 2010, <http://www.china.org.cn/business/2010-07/23/content_20561086.htm>.

24) John Walsh, "Myanmar Solves Malacca Dilemma: Burma Is Now China's Main Ally in Southeast Asia," August 8, 2007, <<http://www.suite101.com/content/myanmar-solves-malacca-dilemma-a28005>>.

25) This is exactly the same manner the U.S. used. See John Perkins, (2004) *Confessions of an Economic Hit Man*, (Berrett-Koehler Publishers).

nese pocketbook shuffle' game. Being constructed by two Chinese companies, China Harbour Engineering Company and Sinohydro Corporation, ~ 85% of the funding was provided courtesy of China's Exim Bank and the remainder by the Sri Lanka Ports Authority²⁶⁾.

An article in a Colombo newspaper best sums up the situation: 'Sri Lankan people get little or no benefit from the large amount of monies spent on the projects. The money lent from China is going back into the pockets of Chinese construction firms and workers.'²⁷⁾

3: Fine Tuned Control over Value Chain and Supply Routes

By the U.S. own admission, the national security risks brought about by a heavy reliance on foreign oil are well documented. One in five barrels of U.S. foreign oil comes from countries that the State Department considers to be 'dangerous or unstable.'²⁸⁾ These problems are not unique to the U.S. China, being heavily engaged in procuring oil from various unstable States could face a supply crunch as some of its host States descend into anarchy and war. In order to achieve better control over oil fields and gas, China for instance, has deployed 4000

non-uniformed forces in Sudan, ostensibly to protect its oil interests²⁹⁾. It has also supported the regime in Sudan by vetoing the UN Security Council's resolutions against Khartoum, providing the government with much political relief from UN pressure and sanctions. By preserving the current regime and having actual control of the oil infrastructure and supply, China keeps the oil pumping and flowing towards home without having to buy oil on the open market ~ which China has categorically viewed as being manipulated and unfairly priced by greedy international corporations. Thus, by controlling the entire supply chain from source to destination, China can ensure a steady flow of oil and can rely on its 'pearls' to send the oil home. As Zweig and Bi (2005) aptly put it, 'securing China's energy needs does not just revolve around obtaining them, but more importantly, the ability to get them home safely.'³⁰⁾

Control of the supply chain also grants China diversity in its acquisition of resources. This serves as an excellent hedge against oil price spikes that saw oil prices mushrooming to US\$150 a barrel in 2008³¹⁾, before finally fluctuating downward to a more affordable US\$83.16 a barrel on November 2, 2010³²⁾.

26) Charles Haviland, "Hambantota port project opened," BBC News, Colombo, 15 August, 2010, <http://www.bbc.co.uk/sinhala/news/story/2010/08/printable/100815_hambantota_port.shtml>. See also Wikipedia, "Port of Hambantota," <http://en.wikipedia.org/wiki/Port_of_Hambantota>.

27) Eric Ellis, "Pearls for the orient," *The Age*, July 9, 2010, p.8, <<http://www.theage.com.au/business/pearls-for-the-orient-20100708-1028r.html>>, *op. cit.*

28) Susan Lyon, Rebecca Lefton, Daniel J. Weiss, "Quenching Our Thirst for Oil: Growing Global Oil Demand Harms U.S. Security and Economy," April 23, 2010, AP/Greg Baker Center for American Progress, <http://www.americanprogress.org/issues/2010/04/oil_quench.html/print.html>.

29) David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs*, Sep/Oct 2005, Vol. 84, Issue 5, pp. 25-38, <<http://www.foreignaffairs.com/articles/61017/david-zweig-and-bi-jianhai/chinas-global-hunt-for-energy>>.

30) David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs*, Sep/Oct 2005, Vol. 84, Issue 5, pp. 25-38, <<http://www.foreignaffairs.com/articles/61017/david-zweig-and-bi-jianhai/chinas-global-hunt-for-energy>>, *ibid.*

31) Jason Simpkins, "How to Profit From the Oil-Price Spike of 2010," <<http://moneymorning.com/2009/12/22/oil-price-spike-2010/>>.

4: Social Development and Political Stability

Looking inwards towards China's motivations for pursuing its 'string of pearls' strategy reveals a deep seated social and political need for its continuation.

China's masses of 1.3 billion rely on the ruling Chinese Communist Party (CCP) to get economic conditions right. In order to keep these masses placid and happy, especially in its rural regions that have not benefited much from China's industrialization, the CCP deems it necessary to keep the growth rate to a minimum of 8% ('Bao Ba') in order to avoid social unrest³³). Since the growth rate is pegged indirectly to China's ability to procure energy sources, the 'string of pearls' strategy acts as a soothing balm to alleviate China's need for energy by helping to keep its umbilical cord firmly attached to its womb of oil sources.

Projects such as: the US\$1.5 billion oil pipeline (771km) that the China National Petroleum Corporation (CNPC) started constructing in 2009 at the port of Kyaukphyu in Rakhine State Myanmar, linking the Chinese city of Kunming³⁴); Gwadar's rail and road linkages and the development of the Karakoram Highway (KKH) connecting China and Pakistan across the Karakoram mountain

range, through the Khunjerab Pass³⁵); and the Uzen oilfield and pipeline deal in Kazakhstan worth US\$4.4 billion which links Kazakhstan to Xingjian³⁶), infuse not only a vast amount of money but more importantly create jobs which brings about welcomed business activity and prosperity to relatively underdeveloped provinces such as Xingjian and Yunnan.

Such projects also enhance business opportunities. Walsh (2007) states that nearly 1 million workers have crossed the border into Myanmar to seek their fortune as a result of China's efforts to develop Yangon into a 'pearl'.³⁷

By careful diplomacy and by providing growth and job opportunities, the CCP continues to receive the mandate of the people to rule.

Another perplexing question is why China persists in pursuing its 'string of pearls' strategy? Is one of its aims to create an osmosis of Chinese culture and business in the host country? This longer term social element cannot be discounted. By virtue of social influence, bestowed by the ongoing Chinese presence of labor in maintaining the infrastructure and facilities, social propagation of ideals and thoughts occur. These projects become the seeding point of Chinese communities and

32) Reuters, "UPDATE 1-Oil price of \$70-90/bbl reasonable -Qatar," November 2, 2010, <<http://af.reuters.com/article/idAFSGE6A102C20101102>>.

See also "Oil rises to US\$86 in Asia," The Straits Times, November 4, 2010, <http://www.straitstimes.com/BreakingNews/Money/Story/STIStory_599275.html>.

33) Aki Ito and Patrick Ria, "Rogoff Says China Crisis May Trigger Regional Slump," *Bloomberg Businessweek*, February 24, 2010, <<http://www.businessweek.com/news/2010-02-24/rogoff-says-china-crisis-may-trigger-regional-slump-updater-.html>>.

See also "Business: Drilling for the Party; China's oil companies," *The Economist*, London: May 24, 2003. Vol. 367, Issue 8325; p.66, <<http://www.economist.com/node/1801323>>.

34) *China Infrastructure Report Q3 2010*, Business Monitor International Ltd, London, May, 2010, p.40, <<http://marketpublishers.com/pdf/pdf.php?id=541299&lang=en>>.

35) Karakoram Highway, Wikipedia, <http://en.wikipedia.org/wiki/Karakoram_Highway>.

36) Ahmed Rashid and Trish Saywell, "Beijing Gusher," *Far Eastern Economic Review*, February 26, 1998, 161, 9, p.48.

37) John Walsh, "Myanmar Solves Malacca Dilemma: Burma Is Now China's Main Ally in Southeast Asia," August 8, 2007, <<http://www.suitero1.com/content/myanmar-solves-malacca-dilemma-a28005>>, *op. cit.*

businesses that may stay for the longer term. Attempts to dislodge Chinese influence by another actor such as the U.S. or India in their pursuit of regional influence might thus be harder. As much as American culture has permeated Asia leaving an impressionable footprint on the local populace, China seems to be in the position to replicate the same endeavors as its American counterparts. If this trend continues, will it not become a replica of American cultural imperialism?³⁸⁾

5: Neutralizing Competition

China is not the only player in the global grab for energy. Four main players are engaged at the energy card table: China, U.S., India and Japan. In the case of Myanmar, India appears as the most serious contender for China. India's situation and aspirations are similar to China's. Both countries are rapidly developing economies and are emerging States ~ both rely heavily on imported oil, and both have enormous demands for energy. Estimates suggest that India would need to import as much as 91% of its oil demand by 2030³⁹⁾.

China's 'strings of pearls' gambit is part of a well co-ordinated, multifarious play at neutralizing India's efforts to gain any traction in business, military and political influence in various energy rich host States. By 'garlanding its 'string of pearls' around India⁴⁰⁾' and pulling tight to form a garrote, India's ambitions to gain access to energy sources are diminished

right in its backyard. Side effects of China's garrote include limiting India's access to strategic ports, shipping lanes, pipeline opportunities and transport routes essential for getting energy sources back to India.

Notably, State-run Chinese business entities and the Chinese government operate jointly to secure business deals. State sponsored Chinese companies routinely outbid various Indian companies for oil and gas concessions by paying artificially high prices for resources. Such generous bids are deliberately designed to erode India's ability to develop meaningful business relationships with the host State on any significant scale. India simply cannot seem to match China's generous dispensation of 'economic rewards.'

China's veto power in the UN Security Council to block any sanctions is a powerful political weapon that China sometimes employs in its bid to outmaneuver its competitors, using it as a 'coup de grace' for example, in India's efforts to secure access to energy and business opportunities. Such an incident is described by one analyst, when China blocked efforts by the UN Security Council to place sanctions on Ecuador by exercising its veto power. As a result, the Chinese company was successful in its bid for oil concessions in Ecuador⁴¹⁾. The same story applies to the cases in Myanmar and Iran.

With such advantages, it comes as no surprise that China seems to be consistently

38) See John Tomlinson, (2001) *Cultural Imperialism: a Critical Introduction*, (New York: Continuum International Publishing Group).

39) Mingjiang Li, "Sino-Indian Energy Politics," Conference on Geopolitics of Energy in South Asia. The Geopolitics of Energy in South Asia, Singapore: Institute of Southeast Asian Studies, 2009, pp. 152-162.

40) See Christina Y. Lin, "Militarization of China's Energy Security Policy –Defence Cooperation and WMD Proliferation Along its String of Pearls in the Indian Ocean," Institut für Strategie- Politik- Sicherheits- und Wirtschaftsberatung (ISPSW) Berlin,

Germany, June 18, 2008, p5, <<http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=56390>>, *op. cit.*

41) Mingjiang Li, "Sino-Indian Energy Politics," Conference on Geopolitics of Energy in South Asia. The Geopolitics of Energy in South Asia, Singapore: Institute of Southeast Asian Studies, 2009, p.153, *ibid.*

42) Mingjiang Li, "Sino-Indian Energy Politics," Conference on Geopolitics of Energy in South Asia. The Geopolitics of Energy in South Asia, Singapore: Institute of Southeast Asian Studies, 2009, p.153, *ibid.*

beating India to the business table in its efforts to secure foreign energy. Even India's Prime Minister Dr. Manmohan Singh concedes that 'China is ahead of us in planning for its energy security' and that India 'can no longer be complacent'⁴²⁾; a tacit admission that China appears to be winning the war on resources.

6: Unblocking Choke Points with Port and Pipeline Acupuncture

China's 1994 'Westbound' strategy, in short, economic and political expansion into resource-rich areas for the purposes of resource acquisition, saw a dramatic rise in oil being imported from various parts of the world via ships⁴³⁾.

Currently, the Middle East is the largest exporter of oil to China, followed by Africa. According to FACTS Global Energy, China imported 3,568 million bbl/d of crude oil in 2008, of which approximately 1.8 million bbl/d (50 percent) came from the Middle East, 1.1 million bbl/d (30 percent) from Africa, 101,000 bbl/d (3 percent) from the Asia-Pacific region, and 603,000 bbl/d (17 percent) came from other countries⁴⁴⁾.

Most of the oil has to be transported by ship through three chokepoints that are vulnerable to disruption. One such point is in the Gulf of Aden where Somali pirates have been making news headlines by their audacious hijacking of various ships, a recent incident being the capture of the Chinese ship the De Xin Hai and

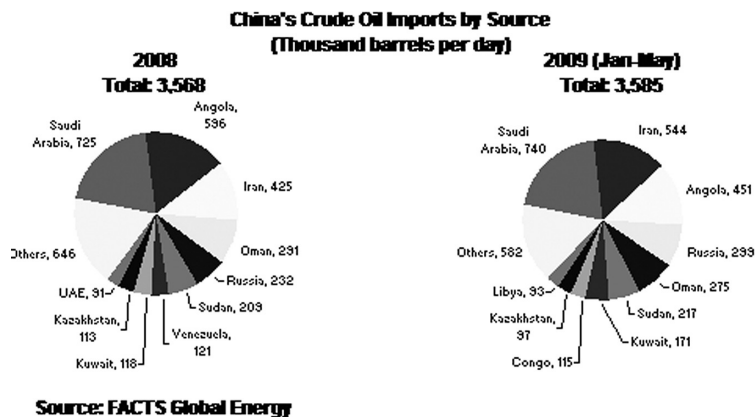


Figure 1

43) Jason J. Blazevic, "Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma," *China Security*, Vol. 5 No. 3, 2009, p. 61, World Security Institute, <<http://www.chinasecurity.us/pdfs/JasonBlazevic.pdf>>, *op. cit.*

44) U.S. Energy Information Administration, (EIA) Independent Statistics and Analysis, "China", <<http://www.eia.doe.gov/cabs/China/Oil.html>>.

its 25 crew members 1,100 km east of the lawless Somali coastline. Most of China's African sourced oil passes through there⁴⁵).

Another of these chokepoints, the Strait of Hormuz lays next to Iran, the U.S. professed axis of evil state. Being only 34 miles wide at its narrowest point and near to Iranian naval bases, the Strait could easily be blocked in the event of a conflict between Iran and Washington⁴⁶).

The third chokepoint ~ the Strait of Malacca, a thin congested waterway straddling Indonesia and Malaysia, with Singapore making up the southern tip, constitutes the most strategically important chokepoint for China. Being the shortest route between India and the Pacific Ocean, the route sees more than 60,000 vessels plying through the Strait each year, of which, very large crude carriers constitute a large part of the overall traffic. But what is even more important, nearly 80% of China's oil imports pass through the Strait of Malacca, making it a key conduit for its oil supply⁴⁷).

Justifiably, this bottleneck and dependency China has on the Strait of Malacca has made Beijing wary. Perceived as a strategic vulnerability, the Strait represents China's carotid energy artery. One could extrapolate that

should the Malacca Strait be severed from or constricted by another power such as the U.S., China's efforts at energy source diversification could come to naught.

Publicly referred to as the 'Malacca Dilemma', a phrase coined by China over what it sees as its major stumbling block to the transport of oil imports from the Middle East and Africa back to China, this dilemma has garnered much attention from its ruling elite. In November 2003, President Hu Jintao expressed this fear when he stated that 'certain major powers' were bent on controlling the Strait⁴⁸), an indirect reference to the omnipresence of the U.S. Navy in the Strait which has naval facilities in Singapore. This led one Chinese newspaper to profess: 'It is no exaggeration to say that whoever controls the Strait of Malacca will also have a stranglehold on the energy route of China.'⁴⁹)

Born out of a dire need to keep these chokepoints free from entrapment, China, relies on its 'strings of pearls' strategy to unblock these meridian points. By strategically inserting pipelines and building ports, China reduces its reliance of getting oil through these chokepoints.

45) See, "Somali pirates hijack Chinese ship", *Asian Correspondent*, <<http://us.asiancorrespondent.com/breakingnews/somali-pirates-hijack-chinese-ship.htm>>.

46) See Anthony H. Cordesman, "Iran, Oil, and the Strait of Hormuz," March 26, 2007, Center for Strategic and International Studies, Washington D.C., p.2, <http://csis.org/files/media/csis/pubs/070326_iranoil_hormuz.pdf>.

47) See, Hongyi Lai, "China builds bridges to fuel its engine room," *Financial Times*, London (UK): Jul 5, 2010. p. 9.

48) Sudha Ramachandran, "China secures Myanmar energy route," *Asia Times*, April 3, 2010, <http://www.atimes.com/atimes/South_Asia/KD03Dfo3.html>.

Table 1: Ports and Pipeline Projects

Country	Project Type	Project Location and Description	Project implications	Chokepoint
Myanmar	Port/Harbor	A deep water harbor at Kyaukphyu, construction of which started in 2008 ⁵⁰ .	➤ Will serve as the beginning of an oil terminal to pipe oil from the Middle East and Africa through Myanmar.	Strait of Malacca
Myanmar	Pipeline	1450km long pipeline from Kyaukphyu to Kunming, South West China ⁵¹ .	➤ Bypass the Strait of Malacca by granting China the ability to pipe oil straight from Myanmar into China. Such a conduit will ensure that China receives regular oil flowing from the Middle East and Africa.	Strait of Malacca
Myanmar	Naval Base	A naval base at Kyaukphyu.	➤ Provides military control and influence over the Bay of Bengal.	Strait of Malacca
Pakistan	Pipeline	Potential pipeline along with a highway and railway from Gwadar port in Pakistan to Xinjiang ⁵² .	➤ Provides yet another alternative route for China to get oil from the Middle East and Africa through to China. Given that Myanmar's junta could be displaced, this pipeline serves as a handy hedge against a regime change in Myanmar which could disrupt China's plan to pump oil from Yangon via the Kyaukphyu to Kunming pipeline.	Strait of Malacca
Pakistan	Port/Harbor	US\$1.2 billion Gwadar deep water port, situated at Gwadar in Balochistan province of Pakistan approximately 75km east of Pakistan's Border with Iran ⁵³ .	➤ Up to 60% of China's energy supplies come from the Middle East. Gwadar's close proximity to the Strait of Hormuz means that Gwadar serves as a strategic transit point for China's Iranian and African crude oil imports. ➤ Counteracting Indian influence in the Arabian Sea and Indian Ocean. A friendly Pakistan means that China's competitor in the energy theatre, India, is unable to exert undue influence in that particular region. Cultivation of Pakistan as one of China's 'pearls' also ensures that Pakistan firmly remains embedded as a thorn in India's side, increasing India's military insecurity, further distracting India from searching around for energy sources and removing China from India's immediate crosshairs. Such intentions are not lost on India. Kanwal Sibal,	Strait of Hormuz and Strait of Malacca

49) Ian Storey, "China's Malacca Dilemma," China Brief, Volume: 6 Issue: 8, April 12, 2006, <[http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=31575&tx_ttnews\[backPid\]=196&no_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=31575&tx_ttnews[backPid]=196&no_cache=1)>.

50) Graeme Jenkins, "China building pipelines to carry Burmese oil," *National Post*, (Don Mills, Ontario) Jan 15, 2008, p. A.11.

51) Graeme Jenkins, "China building pipelines to carry Burmese oil," *National Post*, (Don Mills, Ontario) Jan 15, 2008, p. A.11, *op. cit.*

52) See, Hongyi Lai, "China builds bridges to fuel its engine room," *Financial Time*, London (UK): Jul 5, 2010, p. 9, *op. cit.*

53) Gwadar port, Wikipedia, <http://en.wikipedia.org/wiki/Gwadar_port>.

			<p>a former Indian foreign secretary who is now a member of the government's National Security Advisory Board, mentioned of China, 'There is a method in the madness in terms of where they are locating their ports and staging points.' 'This kind of effort is aimed at counterbalancing and undermining India's natural influence in these areas.'⁵⁴⁾</p> <p>➤ While the official intent of China points to using Gwadar as an energy transport hub, serendipitously for China, Gwadar, being one of the few deep water ports in the region also facilitated the morphing of Gwadar port into a formidable naval base. Such dual functionality enables the establishment of Gwadar not only as a port of call and refueling bastion for Chinese commercial tankers transiting through the area, but also serves as base of operations for Chinese naval ships operating in the region. Ostensibly, Gwadar's locality next to one of the world's busiest shipping lanes also means that it provides the perfect location for China to develop a maritime listening post to monitor U.S. and Indian naval movements in the area⁵⁵⁾.</p>	
Bangladesh	Port/Harbor	Chittagong deep sea port	<p>➤ Provides another staging point for the Chinese Navy to dock and refuel while on patrol in the Indian Ocean. Chittagong is Gwadar's twin brother in China's 'strings of pearls' policy. Close analysis reflects an uncanny similarity in function between the two ports ~ projection of military power across the Indian theatre and simultaneously satisfying the underlying commercial aspects of being an energy conduit.</p> <p>➤ Chittagong also bolsters China's surface and sub-surface platforms and fits perfectly as a supplementary launch pad for China's submarines⁵⁶⁾.</p>	Strait of Hormuz
Sri Lanka	Port/Harbor	US\$1 billion port at Hambantota, 6 nautical miles from major sea lanes between the Bay of Bengal and the Arabian Sea ⁵⁷⁾ .	<p>➤ Hambantota serves as a backup for the Chinese Navy in case Gwadar falls prey to the 'Balochistan's violence malaise' ~ domestic resistance in the form of violent retributions to China's efforts at establishing a base as locals see the port as a symbol of exploitation⁵⁸⁾.</p>	

Source: compiled by the author

54) Vikas Bajaj, "China's 'string of pearls' meant to encircle India?" *Herald Decan*, February 2010, <<http://www.deccanherald.com/content/53291/chinas-string-pearls-meant-encircle.html>>.

55) See Christina Y. Lin, "Militarization of China's Energy Security Policy – Defence Cooperation and WMD Proliferation Along its String of Pearls in the Indian Ocean," Institut für Strategie- Politik- Sicherheits-

und Wirtschaftsberatung (ISPSW) Berlin, Germany, June 18, 2008, p.6, <<http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=56390>>, *op. cit.*

56) See "China's Pearls In Power Play," *South Asian Tribune*, June 29, 2010, <<http://southasiantribune.com/chinas-pearls-in-power-play/>>.

VI | **Assessment: Soft Power or Hard Power?**

Presently, China appears to be primarily focused on the deployment of soft power in the form of subtly disguised ‘humanitarianised’ energy-for-aid policy that gradually creates a grateful and malleable recipient through the generous application of economic benefits with the ultimate motive of shaping a favorable outcome through inducement rather than coercion.

Such long term motivations are complex to define, but can best be expressed by:

- a. Chinese leaders have come to recognize that American military presence has immensely improved U.S. control over petroleum reserves.⁵⁹⁾ Finer control can be achieved by overseeing all aspects of operations from the initial extraction of oil to transporting it home.
- b. Counteracting U.S. influence in the global arena. Every pro-China port that Beijing gains means one less friendly port for the U.S. Navy to operate from. With more China friendly ports, the U.S. Navy’s radius of influence is being slowly excised. Such measures significantly reduce the area out of which the U.S. Navy can operate and possibly cripple the U.S. Navy’s effectiveness in times of war.
- c. Traditionally, the symbiotic relationship between energy and the use of military power as a means to securing access to such resources is as old as metamorphosis itself. As China evolves as a superpower, such

moves are not unexpected in the historical context of any emerging superpower. Just as the U.S. once pioneered the selective use of soft and hard power after WWII, China’s ascendancy into the world’s league of superpowers has heralded in a new chapter in the use of and re-animation of such strategies.

- d. Since China indirectly controls the ports in certain ‘pearls’, Beijing could, if necessary, even influence the host country to institute and introduce dual standards of port tariffs and charges that could increase and discourage competitors’ usage of ports run by China. In the course of any conflict, China could also use these ports and bases as stepping stones for China’s navy to attack enemy interests.
- e. Along the same vein, and often an overlooked fact is that ports require skilled labor to operate and maintain them. Since such a skilled workforce is in most cases non-existent in the host country, extensive use of labor supplied by China guarantees a permanent long term presence of Chinese influence in that particular area. As subsequent social enclaves of pro-China laborers eventuate, China can rely on a group of China trained or supplied workforce to do the motherland’s bidding in time of war.

VII | **Conclusion**

Politics and big business often go hand in hand. Nowhere clearer can these mutual inter-

57) Jason J. Blazevec, “Defensive Realism in the Indian Ocean: Oil, Sea Lanes and the Security Dilemma,” *China Security*, Vol. 5 No. 3, 2009, p. 61, World Security Institute, <<http://www.chinasecurity.us/pdfs/JasonBlazevec.pdf>>, *op. cit.*

58) See “China’s Pearls In Power Play,” *South Asian Tribune*, June 29, 2010, <<http://southasiantribune.com/chinas-pearls-in-power-play/>>.

59) Tseng Yu-Hui, “Chinese Foreign Policy and Oil Security,” *Internationales Asienforum*, (*International Quarterly for Asian Studies*), November 2008, Vol. 39, No 3-4, p.349, *op. cit.*

dependent relationships be seen than from the interactions of the Chinese State and its accompanying National Oil Corporations (NOCs). The Chinese State and the NOCs have become inseparable instruments in the pursuit and courting of new 'pearls'. With the State serving as the indomitable central backbone for NOC's to use as a springboard, China's once fledgling NOCs have gained the necessary impetus, support and traction to become formidable global competitors in the energy market. Strong, globally competitive NOCs means China gains bona fide pro-state commercial entities that can compete more vigorously, but more importantly, in tandem with the State for mutual gains. Put simply, NOCs are the commercial representatives representing big business, while the State represents the political aspect of the relationship. Thus there is a convergence of interests for both the State and the NOCs to work together as 'China Inc' and that's where China's 'string of pearls' strategy comes into play as a natural response designed to help China achieve its ambitions

Whether China's 'strings of pearls' strategy represents a new paradigm in China's play for long term military domination or is one simply born out of pure commercial necessity for energy remains to be seen. Ostensibly, China's moves to acquire various 'pearls' appear to be rather benign and not overly invasive compared to previous historical colonial powers. Notwithstanding, China skeptics' real concern is when such subliminal soft power eventually crystallizes into something a lot harder with military undertones. In conclusion, the competition for global resources between the U.S.,

India and China will continue to be mainly commercial in nature.

Looking forward, China will most likely continue on its present path of acquiring 'pearls'; the only real questions would be when and where the next one would be, and how it would overall impact both on its national competitors and markets in the 21st century.

An Anatomy of China's 'String of Pearls' Strategy

Shee Poon Kim

This article analyses the meaning, nature and particularly the motivations of China's pursuit of its 'string of pearls' strategy mainly focusing on the States adjacent to the Indian Ocean.

Ostensibly, China's moves to acquire various 'pearls' appear to be rather benign and not overly invasive compared to previous historical colonial powers. Notwithstanding, China skeptics' real concern is when such subliminal soft power eventually crystallizes into something a lot harder with military undertones. For the foreseeable future the competition for global resources between the U.S., India and China will continue to be mainly commercial in nature. Looking forward, China will most likely continue on its present path of acquiring 'pearls'; the only real questions would be when and where the next one would be, and how it would overall impact both on the littoral States and markets in the 21st century.

Keywords: pearls, oil, pipeline, port, strategy, corporation