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Introduction

Law and order : The Philippines announced its plan on March 13 to beef up security of southern waters along the borders between Malaysia and Indonesia. On March 15, the UN Security Council adopted the first-time Presidential Statement on calling for the member countries on boosting security off the pirates-infested Somalia Coast.

The Malaysian coast guard was formally established on March 21. The Second Meeting of Head of Coast Guard Agencies was held in Malaysia from March 21 to 22, in which 18 countries participated including Japan. At the meeting, Malaysian Defense Minister Najib Razak expressed his hope that the London insurance market's Joint War Committee (JWC) would reconsider the decision to classify the Straits as a war zone. (See p.6 "Commentary: Removal of the Malacca Straits from Security Blacklist" for more details)

Military security : A Chinese high-level officer was quoted as saying that China is conducting research to build its indigenous aircraft carrier and carrier groups. On March 16, a hearing on Chinese Military Modernization was held by the U.S.-China Economic and Security Review Commission from March 16 to 17. Some observers see China will build a domestic 45,000-60,000-ton carrier which is capable of carrying 30-40 SU-30MKK multi-role fighters by 2015.

India announced on March 16 that it plans to expand its military presence in the Andaman and Nicobar Islands.

This month's feature article is a brief of its strategic value of Gwadar port in Pakistan with assistance extended by China as well as China's "string of pearls" strategy.

Diplomacy and International Relations : The U.S. President George W. Bush made visits to South Asia this month. On March 2, following the two-day summit, both leaders agreed on security cooperation and civil nuclear cooperation. The value and the challenge of U.S.-India civil nuclear energy cooperation is featured in Chapter 2, "Intelligence Assessment".

On the other hand, at the meeting with Pakistan, Bush and his Pakistani counterpart Musharraf had talks about promoting anti-terror cooperation and nonproliferation of Weapon of Mass Destruction (WMD).

The inaugural ministerial meeting of the Trilateral Strategic Dialogue (TSD) was held on March 18 between Japan, the United States and Australia.

Russian President Vladimir Putin made an official visit to China from March 21 to 22 and held talks with Chinese President Hu Jintao. Both sides agreed to enhance ties by promoting their cooperation on politics, energy and regional affairs.

Resources, Environment and Others : Australia will not sell uranium to India due to the fact India hasn't signed the NPT treaty, Prime Minister John Howard told a news conference on

March 6. On the same day, Australian officials said the country was expected to sign an agreement with China for the sale of uranium when Chinese Prime Minister Wen Jiabao visits Australia in April.

On March 20, China announced that it will increase its refining capacity by one-third by 2010 to cover the surging needs of oil and refined products.

1. Intelligence Bulletin

1.1 Law and order

March 13 "Philippines plans to tighten security in southern border" (Stuff.com.nz, February 2, 2006)

The Philippines plans to ask all ships to use designated sea lanes along the borders with Malaysia and Indonesia to deny Islamic militants access to Mindanao island, said Philippine Defense Secretary Avelino Cruz on March 13. He said Philippine Navy and Coast Guard ships would board and inspect all vessels and watercraft passing outside a delineated maritime route. A system will be set up to monitor all ships in the waters.

Due to the lack of appropriate security measures in addition to its 36,000 km (2,300 miles) length, the Philippines coastline has been regarded as a weak link in the war on terror in Asia. Australia has offered equipment and training to local troops, including 30 high-speed river boats that are capable of penetrating marshlands on Mindanao island, said the Defense Secretary. As part of the integrated coast watch systems, data centers were set up in Davao and Zamboanga to coordinate operations of various border security agencies. Radar stations will also be installed on two areas on the Tawi-tawi island chain, the Philippines southernmost areas, to monitor incoming and outgoing vessels.

March 14 "No crimes in the Malacca Straits since October 2005" (Xinhua, March 15, 2006)

Abdul Hadi A. Rashid, Director of the Malaysian Maritime Enforcement Coordinated Center (MMCC) said no maritime crimes have been reported in the Malacca Straits since October 2005. The number of maritime crimes in 2004 up to September totaled 11, marking a sharp decline over the previous year with 37 cases. He said the result is due to coordinated efforts taken by various maritime enforcement agencies.

March 15 "U.N. Security Council urges action over piracy off the Somalia Coast" (Statement by the President of the Security Council, S/PRST/2006/11, 15 March 2006)

Following the discussion about the situation in Somalia, U.N. Security Council Presidential Statement was adopted on March 15, calling for the member countries on boosting security off the pirates-infested coast. The following is the full text of the paragraph about piracy and armed robbery:

The Security Council takes note of Resolution A.979 (24) adopted on 23 November 2005 at the twenty-fourth session of the International Maritime Organization biennial Assembly, concerning the increasing incidents of piracy and armed robbery against ships

in waters off the coast of Somalia. The Council encourages Member States whose naval vessels and military aircraft operate in international waters and airspace adjacent to the coast of Somalia to be vigilant to any incident of piracy therein and to take appropriate action to protect merchant shipping, in particular the transportation of humanitarian aid, against any such act., in line with relevant international law. In this regard, the Council welcomes the communiqué of the IGAD Council of Ministers' meeting in Jawhar on 29 November 2005, which decided to coordinate its strategies and action plans to face this common challenge in close collaboration with the international community. The Council further urges cooperation among all States, particularly regional states, and active prosecution of piracy offenses.

(http://www.un.org/Docs/sc/unsc_pres_statements06.htm)

(See also, the Feature Article of the November 2005 edition of the monthly report)

March 18 "U.S. Navy ships exchange fire on suspected pirates" (American Forces Press Service, March 18, 2006)

On March 18, a guided missile cruiser, USS Cape St. George, and a guided missile destroyer, USS Gonzalez exchanged fire with a suspect pirate boat towing two small skiffs in the Indian Ocean, about 25 nautical miles off the central eastern coast of Somalia. The suspected pirates took out what appeared to be rocket-propelled grenade (RPG) launchers and opened fire on the Navy ships. The Cape St. George and Gonzalez returned fire using machine guns in self-defense, killing one suspected pirates and wounding five. The fire broke out on the suspected vessel. 12 suspects including five injured were taken into custody by boarding teams from Cape St. George and Gonzalez. The teams also confiscated an RPG launcher and automatic weapons from the suspect vessel. No sailors were wounded in the battle. Cape St. George and Gonzalez have conducted maritime security operations in the water as part of Combined Task Force 150, led by Royal Netherlands Navy.

March 21 "Nippon Foundation donates marine patrol trainer ship to Malaysia" (BERNAMA, March 21, 2006)

Malaysian Deputy Prime Minister Najib Razak announced on March 21 that his country would receive a marine patrol trainer ship from Nippon Foundation as a gift. The training ship will be handed to the Malaysian Maritime Enforcement Agency (MMEA) by the end of April. Najib said the contribution was part of efforts by the foundation for supporting the Malaysian government to maintain security of the Malacca Straits. He also welcomed the gift as it fulfilled two main principles – the right and responsibility to keep the Malacca Straits safety must be the duty of the littoral states – held by the Malaysian Government. The principle is also held by Singapore and Indonesia, and the form of assistance must be in accordance with the principles, he added.



Source: The Business Times, March 23, 2006

March 21 "Malaysia establishes MMEA" (The China Post, March 22, 2006)

The Malaysian coast guard was formally established on March 21 with a review of ships and troops by Defense Minister Najib Razak. The coast guard named the Malaysian Maritime Enforcement Agency (MMEA), having already launched its operation since November 2005, will have a capability of 4,500 personnel who are chosen from the navy, police, customs and other agencies together with 72 vessels, mainly fast-speed boats. At the two-day meeting titled the "Second Meeting of Head of Coast Guard Agencies" held in Malaysia from March 21 to 22, Najib stated that the formation of the MMEA demonstrated the enthusiasm of Malaysia tackling with the maritime security issues. He said some statistics showed that in the Malacca Straits only one attack had been reported in the second half of 2005 around the Malaysian waters. Since then, no attacks have been reported. He added "We hope the international insurers (Lloyd's) will reconsider the decision to classify the Strait as a war zone."

Commentary

Removal of the Malacca Straits from Security Blacklist

The London insurance market's Joint War Committee (JWC) classified the Malacca Straits as one of the world's 20 war risk areas in July 2005. Since then, maritime crimes in the Straits have decreased significantly. Meantime, on January 31, the International Maritime Bureau (IMB) Piracy Reporting Centre in Kuala Lumpur released its 2005 annual report on "Piracy and Armed Robbery against Ships". The report says the overall number of pirate attacks in the area in 2005 had decreased to 12 cases from the 38 cases of the previous year. (See the January 2006 edition of the OPRF monthly report). There was only one case reported in the Straits in the second half of 2005. In 2006, there were no cases of piracy or armed robbery reported in the Straits. This is considered attributable to the efforts to ensure the safety of the Malacca Straits by the three littoral states (Indonesia, Malaysia and Singapore) together with Thailand, including air patrols called "the Eye in the Sky" and supports from supports from the foreign countries such as the U. S. and Japan. With the backdrop of these factors, Malaysia has urged insurance companies to remove the Straits from a list of dangerous waterways. The below is a compilation of such arguments:

1. Call for Removal of the Straits from the List

Malaysia has called for the JWC to remove the Malacca Straits from a list of war risk zones. The number of piracy or armed robbery cases in the Straits had dropped to one in the second half of 2005 and there have been no cases in the Straits this year, Deputy Prime Minister Najib Razak

said at the Second Meeting of the Head of Coast Guard Agencies Asia held March 21-22. Malaysia hopes the international insurance companies will reconsider their decision to designate the Malacca Straits as a dangerous zone. Najib also said the statistics do not substantiate that discredit and the area is safe from any global terrorism. "All these while the only incidents are sea robbery and piracy. There is no evidence to suggest that the incidents are connected to regional or global terrorism," he said. (BERNAMA, March 21, 2006)

2. Perspective of the JWC

There are difference in perspective between the JWC and the littoral states regarding security in the Malacca Straits. Jeffrey Chen, Adjunct Fellow, Centre for Maritime Policy University of Wollongong, Australia, said while the JWC measures the security in the Straits from the business angle, the littoral states assess the security in the Straits from the view of political sovereignty. Accordingly, the fact the JWC classified the Straits as a war risk zone was a "slap in the face" to the littoral states. Although the JWC acknowledges and welcomes the prospective efforts of the littoral states, it says what is important is outcome and consequences and such efforts need to continue in order to achieve those efforts. (Singapore Institute of International Affairs, March 7, 2006)

The designation of the Malacca Straits as a war risk region can allow maritime insurance companies to hike insurance fees for ships passing through the Malacca Straits. Most ship owners using the Straits have paid the additional premiums about US\$ 5,000 per trip. However, given the fact that the additional premiums have not affected the number of ships coming into Singapore's port passing through the Malacca

Straits, it is insurers and underwriters, who need to set their house in order, says the write Chen.

Meanwhile, Malaysian Maritime Enforcement Agency (MMEA) Director-General Vice-Admiral Datuk Mohammad Nik said in an interview with Bernama that the Malaysian government does not have the authority to control the additional insurance premium, which could leave a business opportunity for insurance companies to cash in on the situation. (BERNAMA, March 22, 2006)

Chen does not foresee the JWC delisting the Straits for some time in the future, as there are clear differences in views of the security in the Straits between the JWC and the littoral states. Chen notes if the security in the Malacca Straits could be further increased by efforts of the littoral states and the international society, it will become increasingly difficult for the JWC to give any arguable reason for continuing to designate the Straits as a war risk zone.

1.2 Military security

March 1 "Australian SAS and Indonesian Kopassus troops train in Australia" (AAP, March 1, 2006)

Australian Department of Defense announced that its Perth-based Special Air Service (SAS) and Indonesia's special force, Kopassus conducted two-week counter terrorism training in Australia. The "Exercise Dawn Kookaburra" is an annual exercise focused on specific skills for counter hijack and hostage recovery operations. The exercise is also scheduled to be held in 2007. Kopassus has been accused of abusing human rights in East Timor, Aceh, and West Papua. The exercise was the first of its kind involving the special units from the two countries since 1997.

March 2 "Russia, China to hold joint antiterrorism exercises in 2007" (RIA Novosti, March 2, 2006)

Russian officials announced on March 2 it plans to conduct a large-scale anti-terrorism exercise with China in the spring of 2007. The exercise will involve special unites from the two countries and be held in Russia's Southern Federal District.

March 6 "China's defense budget rises 14.7%" (People's Daily Online, March 6, 2006)

China announced its defense budget would increase by 14.7 percent from the previous year to US\$ 35.1 billion in 2006. Most of the increase will cover wages and procurements for high technology equipment. Defense spending of China has increased by two-digit for over a decade. Western countries have claimed that China's real defense spending is nearly US\$ 90 billion a year.

March 6 "India, Australia sign MoU on defense cooperation" (Rediff.com, March 6, 2006)

On March 6, Australia and India signed Memorandum of Understanding (MoU) on cooperation in defense focused on military training, defense industries, defense research and development. It includes maritime cooperation to tackle terrorist threat in the Malacca Straits. The MoU was signed in the presence of Australian Prime Minister John Howard who was on a visit to India and Indian Prime Minister Manmohan Singh. For implementing the MoU, the two countries also agreed to set up a high-level joint working group similar to working groups India has with France, Russia and the U.S.

March 7 "China holds over 800 missiles targeting Taiwan" (Taipei Times, 08 March 2006)

On March 7, Taiwan's Ministry of National Defense said that currently China possesses more than 800 missiles which target Taiwan.

March 9 "Taiwan soon starts missile production" (Taipei Times, March 9, 2006)

Lee Jye, Taiwan's Minister of National Defense confirmed on March 9 the production of a new air-to-surface missile designed to attack enemy airports is almost in place.

March 8 "Indonesian Navy holds anti-terror drill in the Malacca Straits" (The Jakarta Post, March 9, 2006)

Indonesian marines carried out a counter-terrorism drill in the Malacca Straits on March 8. The drill was designed to salvage crew held hostages by terrorists. A supervisor of the drill said the training aimed at alerting to terrorists by showing the capabilities of the troops. The drill involved more than 250 marines. Indonesia and Malaysia have rejected the ideas of the U.S. to have the American counterterrorist force stationed in the area, but both countries agreed to conduct joint naval patrols with Singapore and increase their anti-terrorism capabilities.

March 9 "Malaysia, Vietnam to set up a naval hotline" (DefenseNews.com, March 9, 2006)

Malaysia and Vietnam plan to set up a hotline between the two navies to handling maritime problems, Malaysian official said on March 9. This is as the basis for a cooperative arrangement between the two countries. Malaysian Deputy Prime Minister Najib Razak said the proposal for a Memorandum of Understanding on cooperation and the hotline to facilitate communication in any emergency situations was made by Vietnamese Minister of National Defense, Pham Van Tra during talks in Malaysia.

March 10 "China plans to build carrier, High Officer says" (Marine Corps Times, March 10, 2006)

A pro-Beijing newspaper in Hong Kong, Wen Wei Po reported on March 10 that China is conducting research to build its indigenous aircraft carrier and carrier groups. People's Liberation Army Lt. Gen. Wang Zhiyuan was quoted as telling that China is a large country with a long shoreline and in order to defend its interests in the sea an aircraft carrier can be a very important tool for the country. He also said the carrier fleet would not be completed for another three to five years. (As for stories about Chinese movements on acquisition of aircraft carriers and about a Soviet-made aircraft carrier Varyag purchased from Ukraine, see the January 2006 edition of the OPRF monthly report)

March 12 "Indonesian and the U.S. Navies launch counterterrorism exercise" (ANTARA NEWS, March 14, 2006)

The Navies of the U.S. and Indonesia launched a joint exercise on Small Craft Counter Terrorism Maritime Interdiction Techniques on Sulawesi waters from March 12 to 18. The joint exercise includes theory, discussions and field exercise, aimed at sharing experiences in tackling maritime crimes such as terrorism and smuggling. The U.S. Navy involved two MK-V special operation crafts with 20 crew on board, while the Indonesian Navy dispatched four warships and

175 crew members. First Admiral M Eddy Moerdijanto, Commander of the Bitung Naval Fleet, hoped Indonesia could possess MK-V craft with up-to-date equipment to defend its waters. Malaysia has owned such craft and conducted patrol to the Malacca Straits. Moerdijanto said the joint exercise was designed to reflect the strengthening bilateral relations between the two countries. He added both governments acknowledge the need to increase cooperation to improve professional skills. In advance to the joint exercise, the both Navies had carried out a similar joint exercise on Tarakan waters, Kalimantan.

March 16 "Taiwan may redeploy troops to disputed Spratlys island" (The Associated Press, March 16, 2006)

On March 16, Taiwan's Defense Minister said Taiwan is considering dispatching troops again to an island in the South China Sea to handle a possible Chinese attack. Taiwan had sent troops to the Taiping island until 1990, but they were forced to withdraw due to the difficulty of supplying. Taiwan has built a runway in the island since the late 2005.

March 16 "Testimony on the Chinese Navy's movement" (Hearing on Chinese Military Modernization and Export Control Regimes, the U.S.-China Economic and Security Review Commission, March 16, 2006)

A hearing on Chinese Military Modernization was held by the U.S.-China Economic and Security Review Commission from March 16 to 17. Cortez A. Cooper III, the Director for East Asia Studies in the Strategic Assessment Center at Hicks and Associates, Inc. provided testimony on the movements of Chinese military modernization as follows:

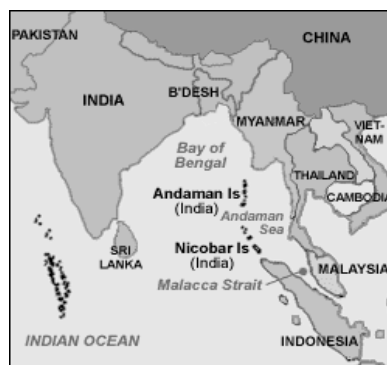
- (1) As a rising maritime trading power, China modernizes its navy as part of its comprehensive efforts, including civil and military shipbuilding capacity and access to major port facilities on each of the major regional seas. Therefore, China is working to keep its naval presence along maritime chokepoints in the South China Sea, the Malacca Straits, the Indian Ocean, and the Arabian Sea by ensuring access to bases in Cambodia, Myanmar, Bangladesh and Pakistan. These efforts coincide with China's policy to keep its export-led economy afloat and to acquire its rapidly increasing energy demands.
- (2) In order to build the technique and infrastructure of such maritime capacity, China is now becoming the world's largest shipbuilder over the next five years. Currently the world's largest shipyard is under construction in Shanghai.
- (3) China has built up its naval power, what is called a sea denial force. China weighs heavily on upgrading modern destroyers, submarines, cruise missiles and maritime strike aircraft to deter and prevent its enemy from operating for a certain period in an important sea lane or maritime zone of maneuver.
- (4) China is believed to have the capacity to carry out short-term sea denial operations out to about 400 nautical miles from its coastline by 2008. And it is believed to have the capacity to conduct operations that are sustainable for a few weeks by 2010. The capability does not reach to the Malacca Straits or the Indian Ocean, but China will have a "show the flag"

capability for coercive or defensive purposes in those waters by 2015.

- (5) To conduct sea control and air superiority operations along sea lanes in the Philippine Sea, the Malacca Straits and the Indian Ocean, it is essential to possess the ability to project and sustain air power and air defense in distant waters. Given China's national development priorities, it is not its interest to pursue the high-priced carrier navy over the next two decades. However, this does not eliminate the possibility of a "hybrid" navy having one or two carrier groups designed to provide minimum blue-water power projection for regional contingencies. But China's approach is slow. Some observers see by 2015, China will build a domestic 45,000-60,000-ton carrier capable of carrying 30-40 SU-30MKK multi-role fighters. (http://www.uscc.gov/hearings/2006hearings/written_testimonies/06_03_16_17wrts/06_03_16_17_cooper.pdf)

March 16 "India to increase military presence in the Andaman, Nicobar Islands" (Gulf Times, March 18, 2006)

Vice-Admiral Arun Kumar Singh, commander-in-chief of the Andaman and Nicobar Command said on March 16 that India plans to expand its military presence in the Andaman and Nicobar Islands. According to the plans, India will construct three new air bases in addition to the existing base, to beef-up coast guard troop levels and strengthen infrastructure of aging facilities located in the islands. "Our expansion plans are totally transparent and the defensive measures are being taken to ensure the safety and security of the islands only," Singh said. (As for the Andaman and Nicobar Islands topics, see the July, August, September and October 2005 edition of the monthly report)



Source: Asia Times Online, October 19, 2005

March 19 "Indonesian, Indian Navies to hold joint patrols" (ANTARA NEWS, March 19, 2006)

An Indonesian official on March 19 said that Indonesian and Indian Navies would conduct their seventh joint patrols simulating various threats in the waters between Sabang Island and Nicobar Islands from March 24. The one-week joint patrols will be commanded from Port Blair in the Andaman Islands. Indonesian will send the KRI Sutan Taha corvette and a Nomad maritime

patrol aircraft.

March 27 "Indian Navy launches its landing ship" (New Kerala, March 27, 2006)

On March 27, the Eastern Command of the Indian Navy launched its third largest landing ship, INS Airavat. The ship, having the capability of carrying more than 500 troops, 12 main battle tanks, 10 army heavy trucks and other amphibious armament, have full defense ability and capacity to board MK 42C helicopters. The INS Airavat is also capable of achieving a speed of 15.8 knots, enduring at sea for more than 45 days and having a displacement volume of 5,600-ton.

March 28 "Taiwan holds large-scale naval excersices" (Crisscross Japan, March 29, 2006)

Taiwan's Navy launched its large-scale naval drills off the east coast of the island on March 28. The officials said the exercises, including Anti-Submarine Warfare (ASW), are not designed to target a third country.

March 30 "Pakistan, China sign frigate agreement" (The Dawn, March 30, 2006)

On March 30, Pakistan and China agreed to build a fourth F-22P frigate in Karachi. While the frigate will be built in Pakistan, China will provide training and technical support to Karachi Shipyards along with modernizing the facility.

1.3 Diplomacy and International Relations

March 2 "The U.S. and India release the joint statement" (Rediff.com, March 2, 2006)

The U.S. President George W. Bush on a visit to India and his Indian counterpart, Manmohan Singh released a joint statement on nuclear cooperation and security on March 2. This came after their meeting. The following is the excerpt from the joint statement. The United States and India have:

- (1) Noted the enhanced counter-terrorism cooperation between the two countries and stressed that terrorism is a global scourge that must be fought and rooted out in every part of the world.
- (2) Welcomed the increased cooperation between the United States and India in the defense area, since the New Framework for the U.S.-India Defence Relationship was signed on June 28, 2005, as evidenced by successful joint exercises, expanded defence cooperation and information sharing, and greater opportunities to jointly develop technologies and address security and humanitarian issues.
- (3) Reaffirmed their commitment to the protection of the free flow of commerce and to

the safety of navigation, and agreed to the conclusion of a Maritime Cooperation Framework to enhance security in the maritime domain, to prevent piracy and other transnational crimes at sea, carry out search and rescue operations, combat marine pollution, respond to natural disasters, address emergent threats and enhance cooperative capabilities, including through logistics support. Both sides are working to finalize a Logistics Support Agreement at the earliest.

- (4) Welcomed India's intention to join the Container Security Initiative aimed at making global maritime trade and infrastructure more secure and reducing the risk of shipping containers being used to conceal weapons of mass destruction.

(<http://www.state.gov/p/sca/rls/pr/2006/62418.htm>)

March 4 "The U.S. President Bush visits Pakistan" (The Whitehouse HP, March 4, 2006)

The U.S. President George W. Bush visited Pakistan and had talks with Pakistan's President Musharraf on March 4. In a press briefing after their meeting, Musharraf stated as follows: (1) Both the United States and Pakistan have established a very strong, sustainable, far-ranging relationship. (2) The relationship includes commencing their strategic dialogue, with creating an institutional way of the dialogue. Within such a framework, both sides are expected to talk about trade, investment, defense relationship and cooperation on war against terrorism.

On the other hand, Bush said as: (1) Musharraf and I reaffirmed our shared commitment to a broad and enduring strategic partnership, beginning with their cooperation in their fight war against terrorism. (2) Pakistan is an important partner in fighting proliferation of WMD. It also agreed to join the Container Security Initiative. (3) The United States will support democracy in Pakistan. (4) Pakistan and India have an historic opportunity to moving toward a lasting peace. The United States hopes that Pakistan and India make progress on important issues including Kashmir.

(<http://www.whitehouse.gov/news/releases/2006/03/20060304-2.html>)

March 16 "The Bush administration releases National Security Strategy of the United States of America" (The Whitehouse HP, March 16, 2006)

The Bush administration released a report on the U.S. national security, titled the "National Security Strategy of the United States of America" on March 16. For the current Bush administration, this is the second report released since September 2002. The report is designed to revise the previous one. The report, along with the "Quadrennial Defense Review Report 2006" (this is featured in the February edition of the OPRF monthly report) is the publication released at the time of war on terrorism. The below is the overview of the report:

The long-term measure against war on terror is to promote freedom and human dignity through democracy, while there are four points to be taken as the short-term measure to create the space and time for having democracy take root:

- (1) Prevent attacks by terror networks before they actually occur.

- (2) Prevent rogue states and terrorists using WMD without hesitation from acquiring them.
- (3) Deny supports and sanctuary to terrorist groups from rogue states.
- (4) Deny terrorists control of any country to prevent being used as a base.

Prevention of proliferation of WMD is one of the top-priority issues in the Bush administration. The first objective is to close a loophole in the Non-Proliferation Treaty which enables regimes to produce fissile material used for making nuclear weapons under cover of a nuclear energy for civilian use. The second objective is to prevent rogue states and terrorists from acquiring fissile materials. In addition, the report says to deter and defense, the new strategic environment requires new approaches. It states clearly that the U.S. will not rule out the use of force against enemies possessing WMD before any attacks occur even if the time and place of the enemy's attack remains unclear.

About China, the report notes that the country holds some "old ways of thinking" such as: (1) The country keeps increasing its military power in a nontransparent manner. (2) China takes action as if it aims at seizing energy supplies around the world. (3) It supports resource-rich countries without considering the bad government or misbehavior of those regimes. On the other hand, the United States hopes China to act as a responsible stakeholder as it becomes a global player. "Our strategy seeks to encourage China to make the right strategic choices for its people, while we hedge against other possibilities," says the statement.

(<http://www.whitehouse.gov/nsc/nss/2006/nss2006.pdf>)

March 18 "Trilateral strategic dialogue was held between Australia, Japan and the U.S." (The Ministry of Foreign Affairs of Japan HP)

The inaugural ministerial meeting of the Trilateral Strategic Dialogue was convened on March 18 by Japan, the U.S. and Australia. The below is the excerpt from a joint statement released after the meeting:

As longstanding democracies and developed economies, our three countries have a common cause in working to maintain stability and security globally with a particular focus on the Asia Pacific region. This meeting was a significant step in intensifying the strategic dialogue between our countries and reflects the importance we attach to greater trilateral cooperation in addressing contemporary security issues. This cooperation will complement the strong security relationships that each of our three countries has established.

Discussions during the dialogue covered a wide range of current security challenges, both regional and global, of shared interest to our three Governments. Supporting the emergence and consolidation of democracies and strengthening cooperative frameworks in the Asia-Pacific region was a particular focus of our attention.

We welcomed China's constructive engagement in the region and concurred on the value

of enhanced cooperation with other parties such as ASEAN and the Republic of Korea. We recognised the importance of reinforcing our global partnership with India and noted that India's decision to place its civilian nuclear facilities and programs under international safeguards would be a positive step towards expansion of the reach of the international non-proliferation regime.

To strengthen trilateral cooperation, we decided to enhance our exchange of information and strategic assessments on major international and regional security issues and developments, including to assist our efforts to counter terrorism and the proliferation of weapons of mass destruction. We also reaffirmed the value of conducting regular trilateral consultations between our respective Ambassadors in charge of Counter-terrorism, with the intention of supplementing and reinforcing the network of partnerships each of our countries has created to fight the global terrorist threat.

(<http://www.mofa.go.jp/region/asia-paci/australia/joint0603-2.html>)

March 21-22 "Russian President Putin pays an official visit to China" (Xinhua, March 22, 2006)

Russian President Vladimir Putin made an official visit to China on March 21-22 and held talks with Chinese President Hu Jintao. According to a joint statement issued following the talks, they agreed to enhance ties by promoting their cooperation on politics, energy and regional affairs. The two countries also signed 14 cooperative agreements. The following is the content of the joint statement:

- (1) The statement says "The energy cooperation between China and Russia, as an important part of the Sino-Russian Strategic Partnership of Cooperation, is witnessing a high-level development, and is of great significance for further deepening bilateral economic cooperation."
- (2) As for the cross-strait issue, Russia expressed its strong support for the "one-China" policy, saying Taiwan is an inalienable part of the China's territory.
- (3) China and Russia fully resolved their border issues stretching for 4,300 kilometers in 2005 after 40 years negotiations. The statement says the complete and smooth implementation of the agreement on enhancing military trust and mutual reduction of military troops on the border, as well as the agreement on common use of some islands in the border river and surrounding waters on economic purpose will lead to peace and friendship in the border areas between China and Russia.
- (4) China and Russia advocate the promotion of coordination within the framework of the Shanghai Cooperation Organization (SCO). The SCO has increased its presence in international relations, with playing a special role in efficiently dealing with transitional threats. The next SCO summit is scheduled to be held in June 2006 in Shanghai.

1.4 Resources, Environment and Others

March 6 "Australia won't sell uranium to India" (The Financial Express, March 7, 2006 & The International Herald Tribune, March 14, 2006)

Australia will not sell uranium to India, Prime Minister John Howard who was on a visit to India told a news conference after the top-level meeting with his Indian counterpart, Manmohan Singh on March 6. This came in association with the U.S.-India agreement on civil nuclear cooperation, concluded on March 2. He said there is no plan for the U.S. to change the current policy, stating the reason as India is the country that hasn't signed the NPT treaty.

According to the International Herald Tribune on March 14, Australian officials told reporters on March 13 the country was expected to sign an agreement with China for the sale of uranium. Energy industry analysts see China will sign an agreement in April when Chinese Prime Minister Wen Jiabao visits Australia, guaranteeing that uranium will only be used for peaceful uses. Australian Department of Foreign Affairs said during talks held in Beijing this month, officials from the two countries had made substantial progress on the safeguard agreement and nuclear cooperation.

March 14 "Canada's Husky Energy to launch drilling oil well in South China Sea" (Xinhua, March 15, 2006)

Canadian company Husky Energy will start drilling an oil well at waters 1,500 meter-depth in the South China Sea at the end of April. The well is one of the 12 deepwater blocks that were invited public participation by the China National Offshore Oil Corporation (CNOOC) in 2002, having a water depth from 300 to 2,000 meters. The exploration will be carried out in three phases. One well will be drilled in each phase. Husky will bear all expenses incurred during the exploration period. CNOOC will participate up to a 51 percent interest in any subsequent development.

March 20 "China to increase refinery capacity" (Xinhua, March 20, 2006)

Chinese National Development and Reform Commission that is in charge of industrial policy issued a plan to increase China's refining capacity by one-third by 2010 to cover the surging needs of oil and refined products. It plans to increase up to 31.6 percent from the 285 million tons of crude oil refined in 2005, by adding at least 90 million tons of new refining capacity by 2010 on an annual basis.

Meanwhile, PetroChina said it is enhancing the exploration of both onshore and offshore oil fields and estimates substantial increase in the next few years. Crude oil consumption in China has shown threefold increase in the past decade, from 644 million barrels in 1985 to 2.2 billion barrels in 2005. As crude oil prices have soared, the government has called for domestic oil developers to accelerate oil production to help reduce imports that cost a lot.

2. Intelligence Assessment

U.S. President Bush's Visit to India: The Meaning and Challenges of U.S.-India Agreement on Civil Nuclear Cooperation

On March 2, U.S. President George W. Bush visited India and announced with Prime Minister Singh that they reached an agreement on separation of civil and military nuclear facilities and cooperation on civil nuclear facilities. Since India, which conducted a nuclear test in 1998 and has not signing the Nuclear Proliferation Treaty (NPT), is an alleged nuclear power, the announced cooperation is stimulating discussion within and outside the United States. The below is an analysis of this agreement with an introduction of U.S. and Indian positions on major issues.

1. U.S.-China Great Power Game over India

(1) U.S. sources emphasized the significance of the deal, saying that U.S. cooperation on technology transfer or uranium supply to Indian civil nuclear facilities would contribute to solving the growing energy problem caused by Indian economic growth. Also, India's neighboring countries such as Afghanistan, Pakistan, Sri Lanka, Bhutan, Nepal, Bangladesh and Myanmar are all domestically unstable and much less democratized than India. Some observers find it highly significant U.S. cooperation on Indian civil nuclear facilities because democratic and economic development of India, which has a population of more than 10.4 billion, would stabilize these neighboring countries.

On the other hand, while it is fully aware of India's strategic and geopolitical importance in the post-9.11 era, the United States consciously avoid sending a message that the United States is trying to counterbalance China with the nuclear cooperation agreement. The United States does not seem to consider that it is a good idea to do so based only on U.S.-India diplomatic/security; U.S.-India economic relations are far behind U.S.-China economic interdependence. Judging from remarks of U.S. sources, while it is seeking a future strategic partnership with India as a regional power through President Bush's visit to India, on the surface, the United States is giving consideration to China at strategic crossroads in accordance with the State of the Union Speech of January 2006, Quadrennial Defense Review Report (QDR 2006) issued in February 2006 and the new National Security Strategy issued in March 2006.

Also, in terms of U.S.-China great power game over India, U.S.-India cooperation can be seen as an effort to counterbalance China in the end since China seems to contain India by developing cooperation with India's neighboring countries such as Pakistan, Bangladesh, Myanmar and Nepal. Then, from Pakistan's point of view, Pakistan might have incentive for seeking closer relations with China if not provided the same nuclear cooperation as India has.

(2) From Indian perspective, this nuclear cooperation agreement symbolizes the rapid growth of U.S.-India relations based on shared view of the world and anti-terror efforts after 9.11. India might also recognize that it is in a strategically important location for the United States and that the necessity of power balancing to restrain China in the new security environment brought this result to India. India realizes that China does not like this development of U.S.-India relations. It is highly likely that India is ready to accept Pakistan's closer relations with China through nuclear cooperation as an inevitable result of political game among the United States, China, India and Pakistan. Many in India, reflecting India's wariness over China, appreciate the power balancing against China resulted from the development of U.S.-India relations after 9.11 and from India's significant geopolitical location.

(3) On the other hand, Bush administration's refusal to Pakistan's nuclear cooperation request is criticized as a strategic error which might get Pakistan, which is on the forefront of the war on terror, closer to China.

2. U.S. "Double Standard" toward India?

(1) The United States acknowledges that its cooperation on India's civil nuclear facilities is criticized as virtual acceptance of India as the 6th nuclear power after the permanent members of the U.N. Security Council. However, the United States might evaluate an India accepting IAEA inspectors on its civil nuclear facilities and abiding by severe nonproliferation measures better than an India doing it all alone.

The United States might consider that India could continue to follow nonproliferation since India has placed its nuclear program under severe civilian control and maintained no first nuclear strike policy while sharing anti-terror objectives and developing democracy. The United States might also intends to set an example to developing countries that are interested in nuclear energy by giving special treatment to a model country in nonproliferation such as India in order to ensure that nonproliferation will be followed more strictly while preventing each country from going nuclear out of the NPT system.

The United States also acknowledges that its treatment of India, Pakistan, Iran and North Korea is criticized as a "double standard": the United States agreed with India on civil nuclear cooperation while rejecting to Pakistan's request and opposing to Iran's and North Korea's nuclear development.

From U.S. point of view, however, Pakistan is not a reliable partner since Pakistani engineer, Dr. Khan, was involved in the proliferation of nuclear weapon technology through nuclear black market.

On the other hand, the new National Security Strategy issued in March states that Iran is

hiding its nuclear plan and poses a “greater challenge” to the United States than any single country. As for North Korea, the United States regards it as a serious nuclear proliferation threat and “rogue state,” destabilizing the region and challenging the international society by showing off small nuclear forces. Both Iran and North Korea are regarded as tyrannies and sponsors of terrorism, and the United States cannot treat them the same as India. In sum, in assessing the threat of nuclear proliferation, the Bush administration attaches importance not only to the capabilities of the states, but also at least as much importance to the nature of the regimes and administrations or the policy intentions of the states in question.

(2) India has developed laws since it began its nuclear development and it has stick to nonproliferation and non first use of nuclear weapons since the nuclear test of 1998. India feels proud that this attitude has led to U.S. trust in India’s nuclear policy. In fact, President Bush evaluated it highly at the U.S.-India summit meeting of July 2005. It seems that the most important issue in the recent U.S.-India nuclear negotiations was the prospect of India’s continued nonproliferation policy.

(3) IAEA’s inspections are intended to prevent military nuclear development under the disguise of civil use. It is nothing but a double standard to give a special treatment to India, which is outside the NPT regime, by separating its military and civil nuclear facilities and inspecting only the latter. It can be said that now that it applied this “double standard” to India, the United States reversed its nuclear proliferation strategy. Since 9.11, the United States has been engaged in the long war against terrorists. To win the war on terror, the United States might prefer securing nonproliferation cooperation from India as well as other actual and potential nuclear powers to allowing terrorists to obtain nuclear materials and use them to attack the United States and its allies. Japan should clearly acknowledge that the shift in U.S. nuclear strategy and review its own stance toward the NPT regime.

3. The Transparency of India’s Nuclear Policy

According to a source from Indian nuclear circles, 60% of India’s nuclear facilities are for civilian use and 40% for military natural uranium is used as fuel at civil facilities and plutonium at military. The source pointed out the following:

- (1) Despite the concern from the international community about India’s will to separate civil and military nuclear use, from technical point of view, it is easy for India to do so because of the different sources of fuel.
- (2) Since IAEA inspections will be conducted only on civil nuclear sites, the inspections will find out neither the past amount of plutonium production on military facilities nor any information which is useful for guessing the size of India’s nuclear arsenals.
- (3) The U.S.-India cooperation on civil sites does not applied to military sites which is maintained by India. The United States does not cooperate with India on the development of

military facilities.

- (4) India has maintained the “minimum nuclear deterrent” strategy established by the Vajpayee administration. Some in India have concern that the recent agreement might pull all the cards on the table, making the nuclear strategy dysfunctional and inflexible. But the U.S.-India nuclear cooperation and IAEA’s inspections are intended for civil use and there will be no effect on military facilities, let alone India’s nuclear strategy.

There is some concern about technical problems such as the use of fuel rods from civil facilities for plutonium production for military use. IAEA’s inspections on civil facilities will be begun in stages by 2014 and it is necessary to keep close watch on the transparency of India’s nuclear policy.

4. The Future of U.S.-India Relations

- (1) Given the President’s agreement with India on civil nuclear facilities, U.S. Congress has to revise domestic legislation (the ban on nuclear cooperation with non-NPT signatory countries) and policies. There is already strong opposition to the strategic decision made by President Bush, who is burdened by low approval ratings, regarding nuclear policy. The pros and cons are batted back and forth in Congress and Secretary of States Rice is dealing with the members of Congress by sending them individual letters. It is necessary to keep an eye on whether or not the agreement will be approved by Congress.

On a side note, it is considered that France, Russia and other countries do not oppose to the U.S.-India agreement because they expect India as a future market for civil nuclear facilities and fuel. During President Chirac’s visit to India of February 2006, France and India agreed on the promotion of peaceful development of nuclear energy.

- (2) Most of the Indians (80%, according to an Indian) support Prime Minister Singh’s decision on civil nuclear cooperation with the United States. In Indian Parliament, the Communists, a non cabinet ally of the Singh administration, has attached special importance to China and express reservations about the administration’s approach to the United States. Some parties and politicians also point out the inconsistency of the U.S. policy toward India in the past 50 years and insist that India be alerted to the United States. As for India’s nuclear policy, some people argue that India should maintain a free hand by rejecting IAEA’s inspections.

Therefore, in order to promote better relations with the United States, Prime Minister Singh has to listen to all parties and take a gradual, sound and balanced approach to the Parliament, which will slow down the overall proceeding.

- (3) The strategically significant relations between the United States and India, which is in the middle of the “arc of instability,” will continue to be strengthened on a global scale of common

values of democracy, economic development, mitigation of the expansion of Chinese influence in the region, and anti-terror efforts. For its part, Japan has to keep a closer watch on the trends of India, including maritime security in the Indian Ocean and China's response to the developing U.S.-India relations.

3. Feature: Chinese “String of Pearls” Strategy and the Strategic Value of Gwadar Port (Pakistan)

The monthly report has often featured stories on the Chinese military, especially its naval forces buildup. A topic about a hearing on Chinese Military Modernization and Export Control Regimes held by the U.S. Congress is also included in the report this month. One of the main motives of China’s military modernization is its energy strategy. According to the “Annual Report to Congress: The Military Power of the People’s Republic of China 2005” published by the U.S. Defense Department in July 2005, given that China’s increasing dependence on the oil resources overseas is playing a greater role in its strategy and policy formation, China is likely to enhance its investment in the blue-water navy and military presence overseas in order to stabilize procurement of oil from overseas and defend sea lanes to transport the resource. On the energy security front, securing energy supplies and their safe transport to China are inseparably related. For those purposes, China has adopted a “string of pearls” strategy, which is a term of a collective series of diplomatic and military measures aimed at acquiring access and strategic bases along more than 10,000 kilometers of sea-lanes stretching from the Middle East to China via the Persian Gulf. This topic, along with the Indian Navy’s movements, has been taken up in the monthly report several times.

The first “pearl” is the port of Gwadar, Pakistan. China and Pakistan signed an agreement of US\$ 22.26 million for additional dredging of the Gwadar Deep Sea Port Project on March 24. The development of the port is regarded as a shining example of Pakistan-China cooperation and the port is expected to be ready for operation later this year. (Daily Times, March 25, 2006)

The compiled materials this month are provided below covering the whole picture of the “string of pearls” strategy, and the current situation of the Gwadar port including its strategic value along with excerpts from past editions of the monthly reports.

1. What is the Chinese “String of Pearls” Strategy?

The Washington Times of January 18, 2005 carried an article headlined “China builds up strategic sea lanes.” This may be the first published use of the expression “string of pearls” strategy, quoted from a defense report. (That conservative newspaper article is frequently quoted.) The Washington Times had obtained a copy of an internal report titled “Energy Futures in Asia” produced by a global strategy and technology consulting firm Booz Allen Hamilton on request of Advisor for the U.S. Secretary of Defense for Net Assessment. This particular article in the Washington Times presents the outline of the report.

The internal report, quoted in the Washington Times article, says that China is adopting the

“string of pearls” strategy to secure bases and diplomatic ties stretching from the Middle East to southern China, including the construction of a new naval base at the Gwadar port. Outlines of the strategy are as follows:

- (1) Beijing has already established electronic eavesdropping posts at Gwadar. The posts monitor vessels passing through the Strait of Hormuz and the Arabian Sea.
- (2) Other “pearls” in Chinese sea lanes strategy include:
 - Bangladesh: China has deepened ties with the Bangladesh government and built a container port facility at Chittagong. In that country, China seeks extensive naval and commercial access.
 - Burma (Myanmar): China has developed close ties with the military regime and has turned the country adjacent to the Malacca Straits, through which 80 percent of China’s total crude oil imports passes, into Beijing’s satellite.
 - Cambodia: In November 2003, China and Cambodia signed a military agreement on providing training and equipment. Cambodia has helped China construct a railway from southern China to the sea.
 - South China Sea: Chinese activities in the region attach much more importance to defending or denying tankers passing through the South China Sea than to territorial claims. In the region, China is building up military forces capable of projecting air and sea power. Recently China has upgraded its presence through oil drilling platforms and marine research vessels.
 - Thailand: With funds of US\$20 billion, China considers excavating a canal across the Kra Isthmus, which would allow vessels to bypass the Malacca Straits.

Some other pieces of notable information on the “pearls”, which appeared in various publications over one year before the publication of the above article, follow. It includes information already reported in past editions of the OPRF monthly report. Information of the Gwadar port will be taken up separately.

China perceives that the sea-lanes from the Malacca Straits to the Persian Gulf have already been controlled by the U.S. Navy. Chinese President Hu Jintao called this vulnerability to energy strategy a “Malacca Dilemma” (The Washington Times, January 18, 2005). One of the major targets of the “string of pearls” strategy is to acquire Malacca Straits detour routes. Kunming, capital of Yunnan Province, is now seen as a strategic hub enabling China to link these “pearls” and its inland by connecting the Mekong River, the Irrawaddy River, roads and railways.

In 1992, China started its development project, the “Greater Mekong Subregion Programme,” with assistance by the Asian Development Bank. The project involves Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan Province of China. The routes in this project are Kunming-Chiang Rai via Laos, Kunming-Chiang Rai via Myanmar, and Kunming-Hanoi-Hai

Phong. In these routes the Mekong River is an important artery. China, Laos, Myanmar and Thailand signed an agreement on commercial navigation on the upper Mekong River in 2000. Currently the navigation improvement project is underway to permit passage of 500 dead weight tonnage (DWT) barges. (“China expands its southern sphere of influence,” *Jane’s Intelligence Review*, June 2005, pp.40-44)

As the Kra Isthmus plays a vital role in securing these detour routes, China is now considering the Isthmus’ importance in the “string of pearls” strategy. As already reported in the October 2005 edition of the monthly report, the committee on the Kra Canal project envisages a 100-kilometer two-lane canal with a harbor at each end and a highway parallel to the canal. The construction is estimated to cost around US\$20 billion to \$25 billion and to take nearly a decade to build, but nothing has yet started.

Another detour route drawing attention is a corridor linking Yunnan to the Bay of Bengal via Myanmar. This route connects Kunming and the Bay of Bengal via Myanmar’s Irrawaddy River leading to the Indian Ocean. The road from Kunming to Bhamo, a border town of Myanmar, is already complete. From Bhamo, cargo would move south by barge to Minhla, from where it would be shipped by road to the Kaynkpyu port. Feasibility studies of the route were completed in the mid-1990’s. Subsequently, China sent dredgers to Myanmar and offered to build a port at Bhamo, but Myanmar has suspended the offer. It seems Myanmar is concerned that China’s influence within the country is growing too strong. (*Jane’s Intelligence Review*, June 2005, p.42)

In addition to the port construction at Chittagong, Bangladesh, China is now upgrading its naval bases in Myanmar: Hainggy, Akyab, Za Det Kyi, Merqui, Kyaukpyu, Cheduba and Bassein. One Pagoda Point, near the entrance of the Irrawaddy, is becoming one of China’s main military logistic bases. (October 2005 edition of the monthly report) Meanwhile, the Myanmar government leased its territory of Coco Island to China in 1994. China built a maritime reconnaissance and electronic intelligence station on the island, which is between the Bay of Bengal and the Malacca Straits and about 45 kilometers north of the Andaman Islands, India. (October 2005 edition of the monthly report)

The map below illustrates China's "string of pearls" strategy.



(Source: Ocean Policy Research Foundation)

2. Current Situation of the Gwadar Port and Its Strategic Value

(1) Present Situation of the Gwadar Port

It was only in 2001 that full-fledged steps toward construction and development of the deep-sea port of Gwadar were taken. It is said that the US military actions in Afghanistan in October 2001 drove China to launch assistance to the construction of the Gwadar port. Following the agreement on participation in the construction and development of the deep-sea port of Gwadar, China laid the foundation of the Gwadar port in March 2002. Chinese technical experts became responsible for design and construction of the port. China's involvement in the Gwadar Deep Sea Port Project has been immense. The total cost of the project is estimated at US\$1.16 billion, of which China contributed about \$198 million for the first phase. Furthermore, the country provided another \$200 million to build a highway connecting the Gwadar port with Karachi, Pakistan. About 450 engineers were sent for the project. (Asia Times Online, March 4, 2006)

The Pakistani government officially announced the completion of the first phase of construction on May 31, 2005. Three berths with lengths of 602 meters and related facilities were constructed. The 11.5-12.5 meter deep port is capable of operating up to 60,000 DWT bulk carriers and 25,000 DWT container vessels. Pakistan has a large-scale plan for the second phase to construct total nine berths: four container berths, one bulk cargo terminal allowing 100,000 DWT ships to berth, one grain terminal, one Ro-Ro terminal and two terminals allowing 500,000 DWT ships to berth. The work of dredging the approach channel to 14.5 meters started in January 2005

and completion is estimated by June 2006. (Alok Bansal, "Implications of Gwadar Port Project," *Journal of Indian Ocean Studies*, Vol.13 No.2 August 2005, pp.181-193 citation from pp.184-185)

Other than port and harbor construction project, the Pakistani government envisages networks connecting Gwadar with the inland areas of Pakistan, central Asian countries and China by roads or railways.

(2) China's Strategic Value

To China, the strategic value of the Gwadar port lies mostly in its geographical position. Gwadar is 72 kilometers from the border of Iran, 725 kilometers west of Karachi, and about 400 kilometers from the Strait of Hormuz at the tip of the Persian Gulf. Xinjiang Uighur, a Chinese province, is 2,500 kilometers from Gwadar. Thus, the area can be a hub of ocean and land for regional economic activities linking China, Afghanistan and central Asia.

In terms of its location between Pakistan and India, Gwadar has a significant strategic value. The Karachi port, which handles 90 percent of Pakistan's seaborne shipping, is adjacent to India. India blockaded the Karachi port in 1971 during the India-Pakistan war, causing serious damage to the Pakistani economy. During the 1999 Kargil conflict, the Karachi port was again exposed to the threat of blockade. On the other hand, the 725-kilometer distance between Gwadar and Karachi helped Pakistan secure its crucial strategic depth along the Arabian coastline. (Asia Times Online, March 4, 2006)

Due to the fact that Gwadar is close to the Persian Gulf linking to the Strait of Hormuz, these areas have a strategic value to China as well. About 60 percent of China's energy exports come from the Middle East. To establish a foothold to the waters controlled by the U.S. is of great significance to China. Berth to Chinese Navy's vessels and submarines at its first "pearl," the Gwadar port will allow China to monitor the US and Indian navies stationed around the Persian Gulf and the Arabian Sea. The "pearl" is even called a "Chinese Gibraltar" by some analysts. (DailyIndia.com, March 26, 2006) Furthermore, Gwadar can be the nearest Malacca Straits detour route to China.

So far, it seems that Chinese Navy does not have the capability to keep its constant presence along the sea-lanes from the Middle East to China by effective use of this "pearls" strategy. However, the Chinese navy has gradually grown from a brown-water to green-water navy. Chinese acquisition of an aircraft carrier that can play an important role as a platform for the sake of a blue-water navy around 2015 is considered well within the range of possibility. When such Chinese naval forces emerge that are able to utilize these "pearls", the strategic environment of oceans surrounding the southern fringe of the Eurasian continent will be significantly transformed.

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