

SECTION 3: CHINA'S ACTIVITIES AND INFLUENCE IN SOUTH AND CENTRAL ASIA

Abstract

Chinese leaders consider South and Central Asia critical to securing China's western borders and ensuring access to Eurasia and the Indian Ocean. Accordingly, the Chinese government has escalated its efforts to exert influence in the regions over the past decade and has tried to establish its development and internal security interests as regional priorities by leveraging political influence through investment and loans. In South Asia, the Chinese government has become a more significant presence, but it has also damaged its relations with India and contributed to India's increasingly close relationship with the United States. In Central Asia, China has accrued significant influence, yet public opinion toward China remains mixed in the region. Meanwhile, the Chinese government remains concerned about its ability to manage regional security risks emanating from Afghanistan.

Key Findings

- Chinese strategists view the U.S. Navy as China's principal challenge in the Indian Ocean. In response, People's Liberation Army (PLA) Navy warships and submarines regularly exercise expeditionary capabilities in the Indian Ocean in what the PLA claims are antipiracy operations. China's efforts to secure its interests in the Indian Ocean region have included significant development financing in Sri Lanka and the Maldives, two small but strategically located island countries near India. Despite these efforts, however, China has yet to convert its economic ties into significant political or security gains.
- Over the past decade, China's government has worked to undermine India's influence in South Asia and exert its own, including by escalating military tensions along the two countries' disputed border. As a result, China-India relations are now at their lowest point in decades. The Indian government has increased its efforts to reduce its economic reliance on China, though it has had limited success to date.
- China has longstanding security ties with Pakistan motivated largely by a common geopolitical rivalry and territorial disputes with India. Since 2015, these ties have been bolstered by the China-Pakistan Economic Corridor (CPEC), an initiative that promises massive infrastructure investment as part of China's Belt and Road Initiative (BRI). While rhetorical support for CPEC remains strong in both countries, its implementation has fallen short of original expectations, and Pakistan's deteri-

orating security situation makes significant expansion of CPEC highly unlikely in the near term.

- China's engagement in Central Asia and Afghanistan is primarily driven by security concerns and preventing unrest in the regions from crossing into China's Xinjiang Uyghur Autonomous Region. The Chinese government also views the region as an important source of commodities such as oil, natural gas, and uranium and as a gateway to westward expansion of BRI. Its integration with Central Asia has recently accelerated as the region's traditional hegemon, Russia, has experienced setbacks in the wake of its unprovoked invasion of Ukraine.
- The Chinese government's development financing in South and Central Asia has helped recipient countries build much-needed infrastructure, but it also serves China's own economic and political aims. Its opaque lending, which typically does not require institutional economic reforms, often exacerbates underlying governance issues in recipient countries. Its lending terms are also more onerous than those from the United States or international financial institutions such as the International Monetary Fund (IMF). The turbulence in Sri Lanka that has occurred throughout 2022 is exacerbated by the hazards of accepting significant Chinese lending.

Recommendations

The Commission recommends:

- Congress direct the Secretary of State, Secretary of Defense, and Administrator of the U.S. Agency for International Development (USAID) to submit a strategy on U.S. interests in the Indian Ocean region with considerations for competition with China in the region, including:
 - Enhancing development and U.S. economic activity in the region;
 - Defending freedom of navigation;
 - Supporting and facilitating regional allies and partners in addressing security challenges in the region; and
 - Promoting cooperation with U.S. allies in the Indo-Pacific, including Japan and Australia, and major defense partners, including India, and NATO allies, including the United Kingdom and France, to support a rules-based order in the region.
- Congress direct the Administration to submit a strategy on U.S. interests in Central Asia with considerations for significant changing circumstances in the region, including:
 - Russia's diminishing presence as a result of its invasion of Ukraine;
 - The Taliban's rise to power in Afghanistan; and
 - China's growing influence on members of the Shanghai Cooperation Organization through promoting Chinese governance concepts, including anti-terrorism and law enforcement

norms aimed at suppressing political opposition and cyber sovereignty and information security standards that empower authoritarian regimes to restrict the free flow of information.

- Congress direct the U.S. Agency for International Development (USAID), the Development Finance Corporation, and other relevant agencies to make available training to relevant officials in South and Central Asia in assessing and mitigating the risks of China's investment and lending in the regions.

Introduction

Over the last decade, China's government has significantly escalated its efforts to exert influence in South and Central Asia. Chinese leaders consider the two regions critical to securing China's western borders and ensuring access to Eurasia and the Indian Ocean. At the 2014 Shanghai Cooperation Organization (SCO) Summit at Dushanbe, Tajikistan, Chinese Foreign Minister Wang Yi announced, "Central and South Asia lie at the core of the Eurasian continent" and serve as "security barriers for China's development and stability."¹ In both South and Central Asia, China's government has tried to establish its economic and internal security interests as regional priorities by leveraging political influence through investment and loans. These efforts target what China's leaders consider to be their key security challenges in the regions: in Central Asia, Chinese leaders see a likely source of instability in Afghanistan's Taliban government, while in South Asia, Chinese leaders consider India to be a geopolitical rival that continues to draw closer to the United States.

China's strategies in South and Central Asia have yielded mixed results. China's government has advanced its strategy by adapting its investments to fit each country's needs. China's efforts to compete with U.S. and Indian investments in smaller South Asian countries have produced an environment in which prospective recipients of investment may play India,* China, and the United States off one another to extract greater benefits without shifting their political alignments. Furthermore, China's efforts to undermine Indian influence in South Asia have severely damaged China-India relations. As a result, India's government has taken steps to reduce India's dependency on Chinese investment and imports and has increased its security cooperation with the United States and other countries of the Quadrilateral Security Dialogue, or Quad. China's government has engaged with Central Asian governments and with the Taliban government in Afghanistan to create an expanding security perimeter, hoping to insulate Chinese interests from violent extremism. While China has accrued significant influence over the Central

*A 2021 AidData report found that India's development finance and international aid efforts focus heavily on India's neighbors, with the exception of Pakistan. According to a dataset compiled by AidData analyzing India's development finance between 2007 and 2014, Indian development finance disbursements to its neighboring countries totaled more than \$1.5 billion, accounting for more than 98 percent of India's development finance disbursements. The largest recipient was Bhutan (\$914 million), followed by Afghanistan (\$226 million), Bangladesh (\$102 million), Sri Lanka (\$62 million), Burma (Myanmar) (\$33 million), the Maldives (\$6 million), and Pakistan (\$47,000). Gerda Asmus et al., "Does India Use Development Finance to Compete with China? A Subnational Analysis," *AidData*, September 2021, 13; AidData, "Indian Development Finance Dataset."

Asian countries, it remains concerned about its ability to manage regional security risks emanating from Afghanistan.

This section describes China's objectives and policies in South and Central Asia and provides an assessment of its relative successes to date. First, the section discusses the Indian Ocean as a theater of competition, identifying Chinese efforts to contest India's role as a net security provider to Indian Ocean island countries such as Sri Lanka and the Maldives. Second, the section overviews the Chinese government's policies in South Asia and rivalry with India, including military tensions along the two countries' disputed borders and steps India's government has taken to weaken ties between the countries' economies. Third, it provides a focused study on China's efforts to cultivate Pakistan to balance against or counter India's influence in South Asia. Fourth, it assesses China's investment and security cooperation in Central Asian countries and with Afghanistan's Taliban government itself. Finally, the section considers implications for the United States arising from China's efforts to expand its influence in South and Central Asia. This section is based on the Commission's May 2022 hearing on "China's Activities and Influence in South and Central Asia," consultations with experts, and open source research and analysis.

Competing Visions for the Indian Ocean

China-India competition for influence in South Asia extends into the Indian Ocean, where the two countries advance their naval postures and compete for political sway over Indian Ocean island countries. Like the continental competition, the two countries asymmetrically prioritize the region, with Chinese leaders considering South Asia and the Indian Ocean a secondary theater and Indian leaders considering the region central to their economic and security objectives.*² Senior leaders in Indian Prime Minister Narendra Modi's government have maintained that India has the "primary responsibility" for economic integration in the region, and both Prime Minister Modi and his predecessor Manmohan Singh declared India's intent to be a "net security provider" responsible for the security of the Indian Ocean region.³

The PLA Navy in the Indian Ocean: Nascent but Growing

Chinese strategists consider the U.S. Navy's presence to be China's principal challenge in the Indian Ocean. Christopher Colley, assistant professor of security studies at the National Defense College of the United Arab Emirates, testified to the Commission that Chinese leaders aspire to expand the PLA Navy's presence in the Indian Ocean to secure its economic and strategic interests, but the PLA Navy is far from achieving the capabilities needed to gain sea control in meaningful segments of the Indian Ocean.⁴ As such, Dr. Colley explained that Chinese strategists "see the American Navy as their principal challenge in the region, and there is real concern in Beijing that in the event of hostilities, the United States or Amer-

*One indicator of a theater's importance is the amount of diplomatic attention it receives from high-level leaders. According to data collected by the China Power Project between 2014 and 2020, Foreign Minister Wang made 13 trips to three countries in East Asia, 32 trips to 11 countries in Southeast Asia, and only 15 trips to 6 countries in South Asia. China Power Project, "Chinese High-Level Diplomatic Activity, 2014–2020," *Center for Strategic and International Studies*.

ican warships may block passage of Chinese merchant ships and oil tankers from reaching China.”⁵ Parochial Chinese interests have exaggerated these concerns to gain BRI funding for local projects. For example, Dr. Colley noted that the Yunnan provincial government, PLA officers, and the China National Petroleum Corporation promote the threat of the “Malacca Dilemma” to gain BRI funding for overland oil and gas pipelines to circumvent the Strait of Malacca.⁶

China’s current naval strategy calls for greater power projection into the Indian Ocean to protect its critical sea lanes from pirates and, eventually, potential U.S. Navy interdiction. China’s 2015 Defense White Paper stated that the PLA Navy will “gradually shift” from a focus on “near seas”^{*} defense to a strategy of simultaneously ensuring “near seas defense and far seas protection.”[†]⁷ The PLA Navy will demonstrate its emerging capabilities to conduct far seas operations in what PLA strategists call the “two ocean region,” defined as an “arc shaped strategic zone that covers the western Pacific Ocean and the northern Indian Ocean.”⁸ For example, between December 2008 and January 2022 the PLA Navy conducted 40 antipiracy deployments from its base in Djibouti, exercising capabilities almost certainly designed to demonstrate that PLA Navy sailors can project power along sea lanes in the Indian Ocean.⁹

The PLA Navy currently lacks the force structure to impose meaningful access denial in the Indian Ocean.¹⁰ According to a 2020 report published by the U.S. Naval War College, the PLA Navy has 100 warships and submarines capable of conducting operations in the Indian Ocean, but it is currently only capable of maintaining about 18 ships full time in the Indian Ocean.¹¹ The actual PLA Navy presence in the Indian Ocean has typically been even less, with six to eight ships in the region transiting to and from antipiracy operations in the Gulf of Aden and one or two submarine deployments each year.¹² In order to effectively block access to key sea lanes of communication, the PLA Navy will need to improve its anti-air and anti-submarine warfare or compensate this technical deficiency by sustaining a larger fleet presence. Despite China’s currently limited presence in the Indian Ocean, the PLA Navy is likely to develop over 67 additional major surface combatants and 12 nuclear-powered submarines within the decade while conducting annual far seas training that improves the PLA Navy’s ability to sustain ships far from China’s shores.¹³

Further, the PLA Navy’s exercises in the Indian Ocean reveal limited anti-air and anti-submarine capabilities as PLA Navy ships in the theater learn to operate without the cover of shore-based air

^{*}China’s “near seas” refer to the Bohai, Yellow, East China, and South China Seas and waters east of Taiwan. Chinese documents contrast the near seas with the “far seas” beyond. China Ministry of Natural Resources, First Institute of Oceanography, *Which Seas Comprise China’s Near Seas?* (我国的近海都包括哪些海?), May 4, 2017. Translation.

[†]The 2015 Defense White Paper marked a significant shift in China’s naval strategy. Since the 2006 Defense White Paper called on the PLA Navy to transition from focusing on territorial defense by extending its strategic depth into China’s near seas, all of China’s defense white papers—issued in 2008, 2010, and 2013—used the same language stipulating that the PLA Navy has a near seas defense strategy and remains in the course of building capabilities for far seas protection. China State Council Information Office, *The Diversified Employment of China’s Armed Forces*, April 2013; China State Council Information Office, *China’s National Defense in 2010*, March 2011; China State Council Information Office, *China’s National Defense in 2008*, January 2009; China State Council Information Office, *China’s National Defense in 2006*, December 2006.

defense systems and naval aviation.*¹⁴ Finally, even with its base in Djibouti, the PLA Navy would be dependent on “strategic strongpoints”—defined as strategically located commercial investment with high military potential—for repair and resupply of a much larger force presence or in the event of any maritime conflict.¹⁵ According to an analysis by Janes prepared for the Commission in 2020, potential strategic strongpoints that could feasibly become PLA bases in the Indian Ocean may include Chittagong Port, Bangladesh; Hambantota Port and Columbo Port, Sri Lanka; and Karachi Port and Gwadar Port, Pakistan.¹⁶ Some experts dispute the value of a strategic strongpoint. Joshua White, nonresident fellow at the Brookings Institution, notes that China’s investments in commercial ports may prove to be a net liability in a major conflict, noting that “high-end operations require sophisticated infrastructure and logistics of a kind that simply cannot be borrowed *in extremis* from commercial ventures.”¹⁷

The PLA Navy’s Future Force Structure in the Indian Ocean

The PLA Navy is preparing for a larger future presence in the Indian Ocean through the use of antipiracy missions. According to Dr. Colley, the PLA Navy is far from the ability to outmatch a U.S. naval battle group.¹⁸ To minimize the gap in naval capabilities, China’s leaders have adopted an Indian Ocean approach that modernizes the PLA Navy and employs its forces in a way that increases the level of operational risk to U.S. sailors and submariners in the Indian Ocean. The logic of this approach, Dr. Colley testified, is to raise the costs of conflict with the hopes the U.S. Navy will be deterred from confronting the PLA Navy.¹⁹ Darshana Baruah, South Asia fellow at the Carnegie Endowment for International Peace, testified to the Commission that the PLA Navy is actively using its operations and exercises to mitigate its operational disadvantages in the Indian Ocean.²⁰ Although China’s government publicly asserts these exercises are antipiracy missions intended to provide a regional public good, Ms. Baruah also notes the PLA Navy regularly deploys submarines, which are not optimized for antipiracy missions, to the Indian Ocean, suggesting the PLA’s deployments have motives other than providing public goods.²¹

PLA strategy documents appear to anticipate a much more capable force in the Indian Ocean in the future. According to the *2020 Science of Military Strategy*, the current deployment “is mainly to deal with the threat of piracy,” but the scope of the PLA Navy’s Indian Ocean missions “may expand” if “hegemonic countries,” referring to the United States, “exercise control over important transit routes that are vital to China.”²² In reality, the PLA Navy’s Indian Ocean mission set is already scheduled to expand regardless of U.S. action. Within the next ten to 15 years, the PLA aims to be capa-

*The PLA Navy’s most well-developed capabilities are those it exercises in defense of China’s near seas, which enjoy the benefit of land-based sensors, aircraft, and offensive fires. PLA strategists have historically described “using the land to control the sea” precisely to exploit the strategic benefits of augmenting a local navy with shore-based fire. The 2013 *Science of Military Strategy* explicitly embraces this approach, describing continental China as the “support and backstop” from which power radiates to the “focal point” of the maritime Indo-Pacific region. Shou Xiaosong, ed., *Science of Military Strategy* (Revised in 2013), Military Science Press, 2013, 246; Andrew S. Erickson and David D. Yang, “Using the Land to Control the Sea?—Chinese Analysts Consider the Antiship Ballistic Missile,” *Naval War College Review* 62:4 (2009): 53–86.

ble of fighting a limited war along BRI, and by midcentury it aims to be capable of rapidly deploying forces anywhere in the world.²³ While official Chinese documents available to the public do not discuss a future Indian Ocean fleet in the PLA Navy to execute these missions, Director of the Center for Maritime Strategy Studies and research professor at the Institute of Ocean Research at Peking University Hu Bo has proposed that the PLA Navy “consider developing two oceangoing fleets, centered around aircraft carriers—the Pacific fleet and the Indian Ocean fleet.”²⁴

India’s Indian Ocean Ambitions

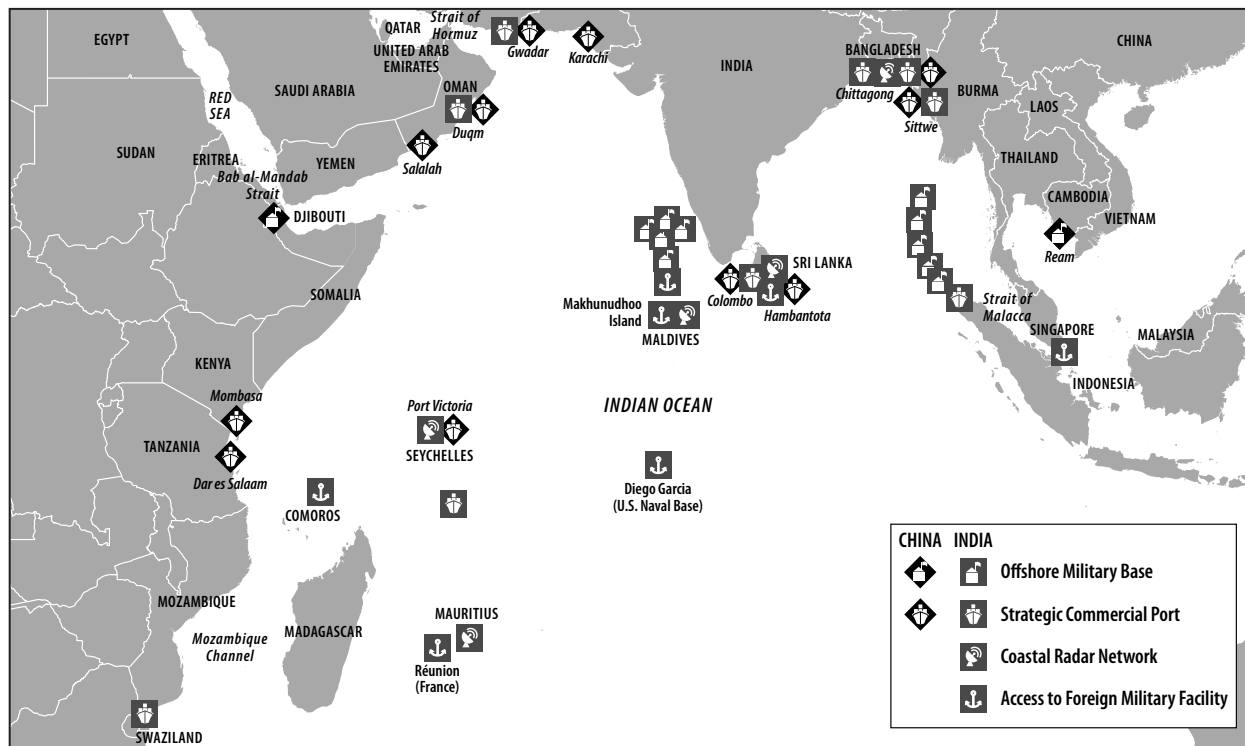
India’s maritime strategy emphasizes its ability to be a “net security provider”* in the Indian Ocean, building trust and confidence among countries in the region to counterbalance growing Chinese influence.²⁵ The Indian Navy’s latest maritime strategy document, published in 2015, describes “net security” as “the state of actual security available in an area, upon balancing prevailing threats, inherent risks and rising challenges in a maritime environment, against the ability to monitor, contain, and counter all of these.”²⁶ India’s maritime strategy closely associates its provision of net security with closer cooperation and interoperability with friendly maritime forces in the region by regularly dispatching the Indian Navy to perform port calls, provide training support, and participate in joint naval exercises with partner countries.²⁷

India’s government operationalizes its strategy to provide net security by investing in maritime domain awareness and brokering intelligence-sharing agreements with other states in the Indian Ocean (see Figure 1). For example, in 2018 the Indian Navy launched an Information Fusion Center to process radar and sensor data from participating countries.²⁸ At the same time, India’s government invested in radar arrays in Bangladesh, the Maldives, Mauritius, the Seychelles, and Sri Lanka, effectively improving the data each of these states could contribute to the Information Fusion Center.²⁹ India’s government has also broached the possibility of building military infrastructure on the Seychelles or Mauritius, potentially giving the Indian Navy facilities from which to project power in the western Indian Ocean.³⁰

According to Ms. Baruah, India’s turn toward net security in the Indian Ocean comes after years of low diplomatic outreach to Indian Ocean islands, while Chinese diplomats developed robust ties with the same countries.³¹ In testimony before the Commission, Ms. Baruah noted that while Prime Minister Modi’s 2015 visit to Sri Lanka was the first by an Indian prime minister in nearly 27 years, senior Chinese officials had made consistent visits to the region.³² Similarly, Prime Minister Modi’s 2015 visits to Mauritius and Seychelles were the first by an Indian head of government in over 20 years.³³ Senior Chinese leaders prioritized economic engagement with the Maldives as early as 2001, and Chinese leaders similarly prioritized

* U.S. government officials initially raised this term and concept. At the 2009 Shangri-La Dialogue, then U.S. Secretary of Defense Robert Gates urged “India to be a partner and net provider of security in the Indian Ocean and beyond.” India’s then Prime Minister Singh and Prime Minister Modi have both embraced the phrase as an Indian national security policy objective. Anit Mukherjee, “India as a Net Security Provider: Concept and Impediments,” *S. Rajaratnam School of International Studies*, August 2014, 1.

Figure 1: Major Indian and Chinese Security Investments in the Indian Ocean



Source: Asia Maritime Transparency Initiative, "Ports and Partnerships: Delhi Invests in Indian Ocean Leadership," *Center for Strategic and International Studies*, December 5, 2019; Chad Peltier, Tate Nurkin, and Sean O'Connor, "China's Logistics Capabilities for Expeditionary Operations," *Janes* (prepared for the U.S.-China Economic and Security Review Commission), April 15, 2020, 26.

Seychelles and Mauritius as part of China's then emerging Africa strategy from 2006, when China designated Mauritius as one of five Chinese Special Economic Zones in Africa.³⁴ Reaffirming the Chinese government's commitment to growing its influence in these islands, then General Secretary Hu Jintao visited Seychelles in 2007 and Mauritius in 2009 as part of his tours through Africa.³⁵ In comparison, the Indian government's strategic investments in Indian Ocean island states have responded to the Chinese government's growing economic influence in the region.³⁶

According to Ms. Baruah's research, India's vision of net security is overly concerned with geostrategic competition with China while providing inadequate attention to the nontraditional security challenges the island states consider paramount.³⁷ Indian Ocean island representatives who participated in a 2021 dialogue hosted by Ms. Baruah were unanimous in naming the following as the top security threats in the Indian Ocean: climate change; illegal, unregulated, and unreported fishing; and piracy, plastic pollution, and oil spills.³⁸ Indian Ocean island countries typically welcome China's growing presence as an opportunity to form a lucrative partnership with a country that has maintained more consistent diplomatic engagement with the island states than either India or the United States.³⁹

China Advances Its Indian Ocean Strategy through Economic Diplomacy

One of China's means of advancing its strategic goals in the Indian Ocean has been through increased economic ties with Sri Lanka and the Maldives, two island countries in the Indian Ocean near the southern tip of India. According to data compiled by AidData, between 2000 and 2018 China funded an estimated \$15.7 billion in projects in the two countries.⁴⁰ Beijing's primary motivation for its economic outreach to Sri Lanka and the Maldives is to extend its presence in the countries. As Sam Custer, director of analysis at AidData, testified before the Commission, "Beijing's ability to cultivate friendly relations with [Sri Lanka and the Maldives] not only helps secure its maritime trade, but access 'dual use' ports for its naval vessels to project power vis-à-vis India and the U.S. in the Indian Ocean."⁴¹ Gaining influence in Sri Lanka and the Maldives also reflects the Chinese government's geopolitical aims, as the countries' voting power in international fora such as the UN can help insulate Beijing from international criticism over human rights violations such as its repressive campaigns in Xinjiang and Hong Kong.

From the perspective of Sri Lanka and the Maldives, China is an important source of lending for public infrastructure, which political leaders in the countries have used for both productive investments and politically expedient projects. Financing from Beijing has indeed helped meet serious infrastructure shortfalls in these countries. A 2020 Chatham House study found that between 2009 and 2019, Chinese investment funded the construction of 68 percent of all expressways in Sri Lanka, leading to "improving national road connectivity, enhancing road safety, and reducing journey times."⁴² According to Ms. Custer, several factors make Beijing an appealing development partner despite the fact that Beijing's financing is offered on less generous terms than many other bilateral or multi-

lateral lenders.* First is the sheer scale of financing offered, which China deploys “at a scale which outstrips what most bilateral and multilateral actors can offer.”⁴³

Lending from China has also proven appealing to politicians in Sri Lanka and the Maldives due to the relative lack of requirements for environmental protection, social safeguards, or institutional reform that often accompany funding from other lenders, such as the United States. As a result, political leaders accepting Chinese lending are able to more quickly begin construction of politically advantageous projects. For example, in Sri Lanka, then President Mahinda Rajapaksa used Chinese financing to fund multiple projects in his hometown of Hambantota during his presidency from 2005 to 2015, including fast-tracked construction of “a state-of-the-art international convention center, a 35,000-seat cricket stadium, a 300-acre botanical garden, a 235-acre ‘Tele Cinema Park’ for TV and film production, an oil refinery, a sports complex, and a string of luxury hotels and housing projects.”⁴⁴ Because these projects are not subject to the same rigorous planning requirements, they are at greater risk of being economically untenable, adding to concerns about Chinese-funded projects leading to unsustainable debt loads in recipient countries.†

China’s Development Finance

Beijing’s development finance aims to satisfy several Chinese Communist Party (CCP) goals. Beijing’s funding of infrastructure projects across the world frequently benefits Chinese state-owned firms in industries such as aluminum and cement that suffer from domestic overproduction by providing them with new markets.⁴⁵ The opportunity to obtain natural resources is also an important factor in Beijing’s overseas development finance. In 2008, then chairman of China Development Bank Chen Yuan, when discussing the future of Chinese outbound investment, said, “I think we should not go to America’s Wall Street, but should look more to places with natural and energy resources.”⁴⁶ China’s investments in South and Central Asia have indeed extended to natural resources, such as copper mining in Kazakhstan or natural gas in Turkmenistan.⁴⁷ In addition to economic aims, the political conditionalities attached to China’s development finance give Beijing potential geopolitical leverage, helping to ensure recipient countries will support or at least refrain from criticizing the Chinese government on the global stage. The political conditionalities that Beijing attaches to its lending contrast with its general lack of

*According to a study by AidData analyzing China’s overseas lending from 2000 to 2018, Chinese loans on average had an interest rate of 4.2 percent, a repayment period of 9.4 years, and a grace period of 1.8 years. By contrast, in 2018, across all official development loans offered by members of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee—a forum of 30 major donor countries including the United States—the average interest rate was 1.1 percent with an average repayment period of 28 years. Ammar A. Malik et al., “Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects,” *AidData*, September 2021, 37.

†For more on concerns over Beijing’s development financing in different regions, see U.S.-China Economic and Security Review Commission, Chapter 1, Section 2, “China’s Influence in Latin America and the Caribbean,” in *2021 Annual Report to Congress*, November 2021, and U.S.-China Economic and Security Review Commission, Chapter 1, Section 3, “China’s Strategic Aims in Africa,” in *2020 Annual Report to Congress*, December 2020.

China's Development Finance—Continued

requirements for any economic or governance reforms, which are more common from bilateral lenders such as the United States and multilateral lenders such as the IMF.* A recent analysis on China's development finance has found evidence that Chinese financing "seems to discourage policy reform, weaken public sector institutions, and fuel corruption."⁴⁸

An initiative recently launched by the G7 that aims to help developing countries meet their infrastructure needs could provide an alternative to China's development finance. In June 2022, U.S. President Joe Biden and other G7 leaders announced the formation of the Partnership for Global Infrastructure and Investment (PGII), under which the United States and G7 partners will "aim to mobilize \$600 billion by 2027 in global infrastructure investments," including \$200 billion from the United States.⁴⁹ According to the White House press release, the PGII will "deliver game-changing projects to close the infrastructure gap in developing countries, strengthen the global economy and supply chains, and advance U.S. national security."⁵⁰ China's official response to PGII has been positive, with Chinese Ministry of Foreign Affairs Spokesman Zhao Lijian saying, "China always welcomes initiatives that promote global infrastructure," and mentioning that BRI and PGII could be complementary.⁵¹ Chinese state media have published stories highlighting criticisms of PGII, however, including opinions that PGII is an attempt to compete with BRI.⁵²

China Adapts to Changing Political Environments in Sri Lanka and the Maldives, with Mixed Results

China's financing practices in Sri Lanka and the Maldives have adapted in response to changes in domestic environments in the two countries as well as changes in their relations with other lenders. Beijing's changing diplomatic tactics have helped it weather backlash against Chinese lending and retain significant, if changing, economic ties to both countries. China's economic engagement with Sri Lanka and the Maldives increased notably in the first decade of the 2000s as both countries experienced economic setbacks and scrutiny from traditional development partners. In the Maldives, Beijing provided financial assistance in the wake of a 2004 tsunami that devastated the country's economy. According to a 2019 AidData report, this 2004 tsunami relief aid marked the first officially recorded financial assistance from China to the Maldives.⁵³ During the administration of then Maldivian President Abdulla Yameen, which began in 2013, concerns over unsustainable lending practices also led the IMF to curb concessional financing to the Maldives, and the United States and EU considered sanctioning the Maldivian government for President Yameen's human rights practices.⁵⁴ Similarly, Beijing's

*China is not a member of the Paris Club, a group of 22 creditor nations that strive to coordinate workable solutions to mounting debt problems among debtor nations. The 22 permanent members of the group are Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Paris Club, "Permanent Members."

development financing to Sri Lanka increased in 2007–2009, during the end of Sri Lanka’s civil war, while other lenders reduced their economic ties due to concerns over human rights abuses by the Rajapaksa government.⁵⁵

The Chinese government’s economic outreach, while initially popular, eventually led to backlash in both countries. In Sri Lanka, concerns over expensive and unprofitable projects, along with alarm over the country’s mounting debt, led to growing dissatisfaction with the country’s economic alignment with China.⁵⁶ In 2015, then President Rajapaksa was unseated in an electoral upset that was viewed as a referendum on the country’s ties with Beijing.⁵⁷ The winner of the election, Maithripala Sirisena, launched a review of major Chinese investments, placing several major projects on hold and seeking to renegotiate the country’s debt.⁵⁸ The Maldives saw a similar political backlash in 2018 with the election of current President Ibrahim Mohamed Solih, who represented an opposition that was critical of China’s investments in the country amid concerns of unsustainable debt growth.⁵⁹ After coming to power, President Solih also indicated that the Maldives may pull out of a free trade agreement with China, signed in 2017 but not yet ratified, in an attempt to renegotiate more favorable terms.⁶⁰

According to Ms. Custer, this backlash caused Beijing to change its approach in both countries. Newly mindful of public opinion, Beijing increased its public diplomacy in fields such as education, cultural exchange, and the media. At the same time, China continued its old tactics of funding politically advantageous projects, approving a \$100 million grant to construct a hospital in President Sirisena’s hometown.⁶¹ As a result, China has remained an important economic partner to Sri Lanka and the Maldives, albeit in different ways from before. In Sri Lanka, after the 2019 election of pro-Beijing candidate Gotabaya Rajapaksa—the brother of former President Mahinda Rajapaksa—China has become an important source of liquidity for the country, which has experienced a sharp fall in its foreign exchange reserves.⁶² In her testimony before the Commission, Ms. Custer described China’s role as one of an “emergency lender of first resort,” as the country initially sought help from China before multilateral lending institutions such as the IMF.⁶³ In the Maldives, Ms. Custer said, “the heyday of large-scale megaprojects may be over,” but the Maldivian government has nevertheless signed agreements for smaller Chinese-funded infrastructure projects.⁶⁴

The political landscape in both Sri Lanka and the Maldives continues to evolve, leaving the future of China’s engagement subject to change. Sri Lanka in particular has experienced political and economic turmoil in 2022 that has led to the resignation of former President Rajapaksa (for more on China’s role in Sri Lanka’s economic crisis, see textbox, “Chinese Lending to Sri Lanka Exacerbates Ongoing Financial Crisis,” later in this section). In the Maldives, an upcoming presidential election in 2023 could mark a larger role for China, as former President Yameen has been campaigning on an anti-India platform.⁶⁵ According to Ms. Custer, smaller countries such as the Maldives and Sri Lanka have more leverage during and shortly after national elections, when Beijing’s economic presence attracts greater scrutiny and a policy reorientation toward other

development partners becomes a possibility.⁶⁶ For similar reasons, these countries also have a stronger negotiating position with China when other development partners are willing to offer funding.

Beijing's Development Assistance Has Resulted in Limited Leverage

The Chinese government's changing tactics have enabled it to retain significant economic ties to Sri Lanka and the Maldives. In her testimony before the Commission, Ms. Custer argued that Beijing's clearest geopolitical success "has been in areas that are less costly foreign policy concessions for South Asian countries to cede but are highly prized wins for Beijing," such as abiding by its "One China" principle.⁶⁷ China's economic diplomacy in Sri Lanka and the Maldives has been correlated with these countries adopting positions favorable to Beijing or at least refraining from criticizing Beijing. This trend is particularly observable in Sri Lanka, whose voting record at the UN has closely mirrored that of China: between 2006 and 2014, Sri Lanka and China had a 99 percent similarity in their voting records at the UN General Assembly.⁶⁸ Sri Lanka has also signed several statements to the UN supporting some of China's most controversial policies, including letters in 2020 supporting Beijing's crackdowns in Hong Kong and Xinjiang.⁶⁹ While the Maldives did not sign the same letters, it has avoided signing statements condemning China's policies. One Solih Administration official interviewed for a 2019 AidData report on China's influence in South and Central Asia stated, "Given the financial hold China has on us, we would be reluctant to issue statements of direct condemnation to Beijing."⁷⁰

Beijing has had a more difficult time parlaying its economic influence into a durable security presence in the two countries. The Sri Lankan government's 2017 signature of a 99-year lease deal giving control of the country's Hambantota Port to a Chinese company in exchange for \$1.1 billion in debt relief has attracted controversy for being an example of Beijing's "debt trap diplomacy," referring to the idea that Beijing lends at predatory terms in order to receive greater leverage over the recipient country, including the possibility of seizing strategically significant infrastructure in the event of default. Claims of "debt trap diplomacy" have themselves drawn controversy from other observers, however, who argue that there is little evidence the Chinese government has sought to gain control over distressed assets and that Sri Lanka's debt issues are largely unrelated to China's lending.^{*71} In 2018, then Sri Lankan Prime Minister Ranil Wickremesinghe stated that the Sri Lankan government had informed the Chinese government that Hambantota could not be used for military purposes.⁷² A 2021 report by the U.S. Department of Defense found that China has likely considered Sri Lanka as one potential location for a PLA base or military logistics facility, though there is currently no evidence of Chinese plans to use Hambantota as a military station.⁷³ Nevertheless, recent activity in Hambantota has continued to raise concerns. In July 2022, the Sri Lankan gov-

*According to IMF figures, as of the end of 2020, Sri Lanka's external central government debt totaled \$32.7 billion, amounting to 40.6 percent of the country's gross domestic product (GDP). Of this, the largest amount was owed to private creditors (\$13.3 billion), followed by multilateral creditors (\$8.8 billion), non-China bilateral creditors (\$5.6 billion), and China (\$5 billion). International Monetary Fund, "Sri Lanka 2021 Article IV Consultation," March 2022, 51.

ernment approved a request from the Chinese ship *Yuan Wang 5*, a space satellite tracking ship, to dock in Hambantota.⁷⁴ The ship was originally scheduled to dock at Hambantota between August 11 and 17, before the Sri Lankan government asked it to defer arrival, reportedly due to concerns from the U.S. and Indian governments that the ship could be used to spy on Indian facilities.⁷⁵ On August 12, the Sri Lankan government granted permission for *Yuan Wang 5* to dock at Hambantota, saying the U.S. and Indian governments did not give “concrete reasons” for their opposition.⁷⁶

While the Chinese government has not established a permanent military presence in Sri Lanka, there have been limited military exchanges between the two countries. In 2019, the PLA Navy donated a decommissioned frigate to the Sri Lankan Navy, which Sri Lanka’s government said would join “patrol and surveillance missions in deep seas around Sri Lanka, providing maritime security, and help in search-and-rescue operations.”⁷⁷ China’s PLA National Defense University hosted more than 110 senior officers in the Sri Lankan armed forces for training between 2000 and 2020.⁷⁸ Moreover, in 2021 China’s embassy in Sri Lanka and the Sri Lankan military organized a series of events celebrating the 94th anniversary of the founding of the PLA.⁷⁹ A retired Sri Lankan general appeared at one event, where he gave prepared remarks that included CCP propaganda points such as “without the CCP, there would be no new China” and “the PLA is a Great Wall of Steel protecting China.”⁸⁰

Beijing has made less headway in establishing a security presence in the Maldives, whose government has stated it has no plans to allow foreign military bases in the country.⁸¹ In 2017, China and the Maldives finalized a deal to build a Joint Ocean Observation Station on Makunudhoo, an island in the northern Maldives close to Indian waters that could reportedly give China a view of key Indian Ocean shipping lanes.⁸² In June 2019, a Solih Administration official said the project, which had been agreed to under the previous Yameen Administration, was “not on the table” anymore.⁸³

Chinese Lending to Sri Lanka Exacerbates Ongoing Financial Crisis

Throughout 2022, Sri Lanka has experienced ongoing economic and political turmoil, including the resignation in July of the country’s former president and prime minister.⁸⁴ The country’s economic issues stem from a number of factors, including political corruption, the global economic slowdown caused by the novel coronavirus (COVID-19) pandemic, and a 2021 policy banning chemical fertilizers that led to declining agricultural production.⁸⁵ As a result of these problems, Sri Lanka’s foreign exchange reserves have fallen, leaving the country struggling to pay for essential imports and unable to pay its foreign debts.⁸⁶ In April 2022, the Sri Lankan government announced it would suspend

*The Type-053 HRG (JIANGWEI) frigate that the PLA Navy donated is Sri Lanka’s only principal surface combatant. Sri Lanka’s navy also operates four offshore patrol vessels of similar size. Two are *Saryu*-class patrol vessels decommissioned from the Indian navy, one is a *Sukanya*-class patrol vessel also from the Indian navy, and the last is a Hamilton-class cutter transferred from the U.S. Coast Guard. International Institute for Strategic Studies, “The Military Balance 2022,” February 2022, 306.

Chinese Lending to Sri Lanka Exacerbates Ongoing Financial Crisis—*Continued*

foreign debt payments, the country's first default on foreign debt since gaining independence in 1948.⁸⁷

The country's ongoing economic turmoil has brought increased attention to the Chinese government's role in Sri Lanka's accumulation of debt and its reluctance to renegotiate the debt. Early in the COVID-19 pandemic, Sri Lankan officials reportedly considered requesting bailout funds from the IMF, which last provided lending to Sri Lanka in 2016.⁸⁸ Ultimately, rather than asking for IMF assistance, which generally requires economic and institutional reforms, the Sri Lankan government instead accepted \$3 billion in additional funding from the Chinese government throughout 2020 and 2021.⁸⁹ Sri Lanka's government also sought economic assistance from Beijing shortly before its default. In March 2022, Chinese Ambassador to Sri Lanka Qi Zhenhong announced China was considering a request from the Sri Lankan government for \$2.5 billion in loans and economic assistance.⁹⁰

As the Chinese government delayed responding to this request, and as the extent of Sri Lanka's crisis became clear, the Sri Lankan government finally sought help from the IMF. In March, Bloomberg reported that a Sri Lankan delegation was preparing to fly to Washington to seek \$4 billion in aid from the IMF.⁹¹ Following the Sri Lankan delegation's visit, China's ambassador to Sri Lanka expressed disappointment in the discussions and warned a debt restructuring "definitely [would] have an impact on future bilateral loans."⁹² In June 2022, then Prime Minister Wickremesinghe discussed the negotiations with U.S. Secretary of State Antony Blinken, who said the United States would support Sri Lanka and promote investment in the country after the IMF talks concluded.⁹³ That month, the country's central bank governor said Sri Lanka should have gone to the IMF earlier, saying, "If we started the debt resettlement process one year before, we could have managed the situation without this kind of suffering in the country."⁹⁴ Then Prime Minister Wickremesinghe also said that once Sri Lanka and the IMF reach a deal, the Sri Lankan government will seek to restructure its debts with Beijing.⁹⁵ In July 2022, U.S. Secretary of the Treasury Janet Yellen said it was "quite frustrating" that the Chinese government had not done more to contribute to global debt relief and expressed hope that China would work with Sri Lanka to restructure its debt.⁹⁶ In September 2022, the Sri Lankan government reached a staff-level agreement with the IMF for \$2.9 billion in loans over the next four years, though before the deal can be finalized Sri Lanka must reach debt restructuring agreements with its creditors, including China, India, and Japan.⁹⁷

*Then Prime Minister Wickremesinghe was sworn in as Sri Lankan president on July 21, 2022, following the resignation and exile of President Gotabaya Rajapaksa the week before. He had taken office as prime minister, his sixth time holding the office, in May 2022 following the resignation of Prime Minister and former President Mahinda Rajapaksa. Marwaan Macan-Markar, "Meet Wickremesinghe: Sri Lankan President Sworn In as Doubts Swirl," *Nikkei Asia*, July 21, 2022; Skandha Gunasekara and Mujib Mashal, "In Blow to Ruling Family, Sri Lanka's Prime Minister Quits in Face of Unrest," *New York Times*, May 9, 2022.

China's South Asia Strategy

China's government is trying to increase its economic and political influence in South Asia by developing bilateral ties in the region and actively shaping its multilateral groupings.⁹⁸ China's strategy to deepen its influence in South Asia includes two key lines of effort. First, it has imposed costs on India—investing in counterbalancing Pakistan and escalating tensions along China's and India's disputed borders—to occupy time and resources that India's foreign and defense establishments could otherwise direct to contest China's activities in South Asia. Second, it has leveraged capital investments as wedge issues between India and other South Asian countries, targeting its investment projects to undercut Indian investment while also attempting to shape the South Asian countries' political environments to become more favorable to Chinese interests.

China's strategy appears to overestimate its ability to influence South Asian countries while significantly underestimating South Asian states' agency. As a result, South Asian countries are able to play Chinese investors off of Indian or U.S. investors, extracting more funding while hedging against any changes to political realignment toward China or away from India.⁹⁹ Moreover, China's cost imposition approach to India has incurred significant blowback, with the Indian government placing greater restrictions on trade and investment* with China and increasing security cooperation with the United States and other Quad countries in response to China's provocations.¹⁰⁰

China's current strategy to undermine Indian influence while asserting its own strategic influence elsewhere in South Asia took shape in 2013. Vijay Gokhale, who served as India's foreign secretary from 2018 to 2020, observed a “perceptible shift in China's strategic outlook” around the same time General Secretary of the CCP Xi Jinping convened the first-ever Conference on Diplomatic Work with Peripheral Countries† in 2013.¹⁰¹ At this conference, Xi asserted that China's diplomatic strategy for its peripheral regions “must keep pace with the times and be more proactive,” indicating CCP leaders observed changes in China's foreign policy environment sufficient to require a new diplomatic strategy.¹⁰² At the time, Zhao Minghao, senior fellow at Fudan University's Institute of International Studies, noted that China's foreign policy toward South Asia has been an enduring “weak link” in its peripheral diplomacy.¹⁰³ Ambassador Gokhale assessed that China's new strategic outlook “elevated the periphery in the order of China's priorities” and signaled new objectives in South Asia, likely including an objective to “establish strategic control” along the China-India border and in nearby countries.¹⁰⁴

These new political objectives were parallel to similar developments in China's economic engagement in South Asia. In 2013, the

*According to a 2022 report in Indian media, foreign direct investment from China and Hong Kong into India averaged \$1.5 billion every year from fiscal year 2015 to fiscal year 2019. In fiscal year 2020, that amount fell to \$200 million dollars. During the first half of fiscal year 2021, foreign direct investment from China and Hong Kong into India totaled just \$36 million. India's fiscal year begins in April and extends through March 31 of the following year. Sai Manish, “Ladakh Fallout: How India Bled Chinese FDI,” *Rediff*, February 9, 2022.

†In Chinese foreign policy parlance, “peripheral countries” refer to countries sharing a border with China.

Chinese and Pakistani foreign ministers signed a joint statement committing to “the joint study and formulation of a long-term plan for the China-Pakistan Economic Corridor” to enhance China-Pakistan economic ties.¹⁰⁵ Tanvi Madan, director of the India Project at the Brookings Institution, testified to the Commission that the logic of China’s relationship with Pakistan remains “containment on the cheap” whereby empowering Pakistan complicates India’s security environment and decision-making.¹⁰⁶

China Drives Ties with India to Their Lowest Point in Decades

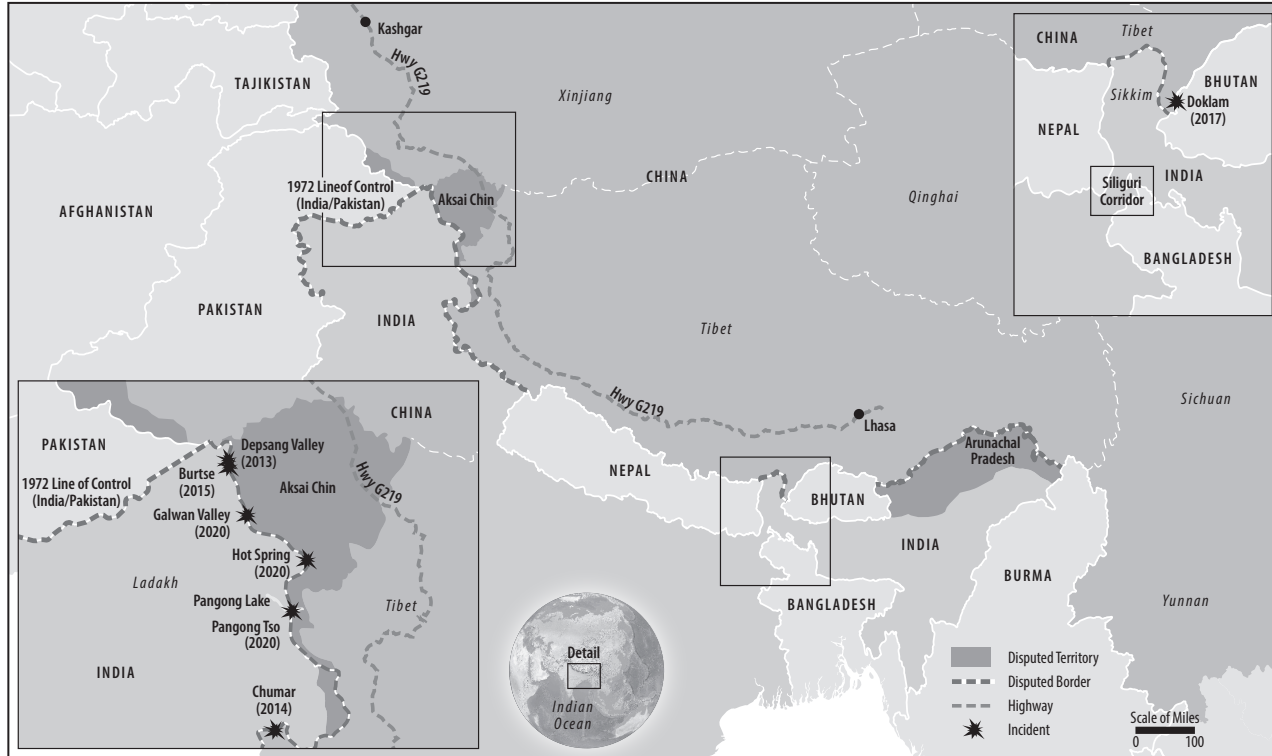
China’s approach to the region centers on neutralizing India as a rival power in South Asia. According to the Stimson Center’s China Program Director Yun Sun, “Beijing’s vision for Asia is strictly hierarchical—with China at the top—and does not consider India an equal.”¹⁰⁷ Jagannath Panda, head of the Stockholm Center for South Asian and Indo-Pacific Affairs at the Institute for Security and Development Policy, further describes how Xi has elevated South Asia’s importance in China’s foreign policy by pursuing “a more active and assertive policy” in the region.¹⁰⁸ This approach involves two steps. First, China’s diplomats engage directly with India to downplay any tensions while the PLA maintains protracted and calculated tensions over the two countries’ disputed boundaries. Dr. Panda testified before the Commission that Xi “has definitely tried to derail the boundary negotiation process” as part of a “calculated conflict” that requires constant diplomatic attention from India to manage, potentially distracting the country from other priorities in the region.¹⁰⁹ Second, China’s government attempts to create what Dr. Panda called “a strategic divide” between India and other South Asian countries such as Nepal, Bhutan, Bangladesh, and Sri Lanka by trying to create dependencies on Chinese investment while undercutting Indian investments in these countries.¹¹⁰ Dr. Madan testified that as a result of China’s provocative behavior in South Asia, particularly along the two countries’ disputed boundary, “China-India ties are at their lowest point in decades.”¹¹¹

China Increases Its Assertiveness along the Disputed Border with India

China has taken a more aggressive policy toward the border since 2013 and engaged in five significant border altercations between 2013 and 2020 (see Figure 2).¹¹² In April 2013, a PLA platoon entered the Depsang Valley in what India’s government considered an incursion of the Line of Actual Control (LAC)* only weeks before Chinese Premier Li Keqiang’s first official visit to India.¹¹³ The standoff was not resolved until the Indian government agreed to destroy several fortifications and bunkers near the site.¹¹⁴ In September 2014, Indian and PLA soldiers engaged in a standoff at Chumar in eastern Ladakh while Xi was on an official visit to India, requir-

*The LAC is the demarcation that separates Indian-controlled territory from Chinese-controlled territory on the two countries’ shared border. It is made up of three sectors: eastern, middle, and western. The two countries do not agree on many details of the LAC, including the exact length. Beijing and New Delhi have been unable to overcome their differences despite signing agreements and committing to various confidence-building measures. Sushant Singh, “Line of Actual Control: Where It Is Located, and Where India and China Differ,” *Indian Express*, June 1, 2020.

Figure 2: Disputed Areas and Military Incidents along the Sino-Indian Border (2013 to 2022)



Source: Ashley J. Tellis, "Hustling in the Himalayas: The Sino-Indian Border Confrontation," *Carnegie Endowment for International Peace*, June 4, 2020, 2; Will Green, conflict on the Sino-Indian Border: Background for Congress," *U.S.-China Economic and Security Review Commission*, July 2, 2020.

ing Prime Minister Modi to request Xi's intervention to facilitate disengagement on both sides.¹¹⁵ The following September, the PLA constructed a watch tower in the disputed Burtse region of northern Ladakh, which the Indo-Tibetan border police dismantled, leading to another standoff.¹¹⁶ Local commanders of the PLA and Indian Army met in a series of flag meetings* to resolve the situation.¹¹⁷ Tensions flared again in 2017, this time in the Sino-Indian-Bhutan border region, as PLA engineers attempted to extend a road from China toward Indian territory through an area controlled by Bhutan.¹¹⁸ This strategically advantageous location near the Doklam region would provide China a position near a narrow stretch of land called the Siliguri Corridor that connects India's northeastern states to the rest of India.¹¹⁹ China's road construction drew an Indian military response, leading to a 73-day armed standoff before both sides withdrew.¹²⁰ The 2020 China-India LAC crisis, which included multiple standoffs in eastern Ladakh at Pangong Tso, Hot Springs, and in the Galwan Valley also involved the first fatalities resulting from the boundary dispute in 45 years.¹²¹ The Galwan Valley offers a strategically desirable location from which to control Aksai Chin and prevent access to the region from Ladakh, India. Aksai Chin is the disputed region where Tibet, Kashmir, and Xinjiang all meet and through which China has built a highway to connect Tibet and Xinjiang.¹²²

China's aggressive behavior has improved its military position in the border dispute while severely straining its diplomatic relationship with India.¹²³ According to Andrew Small, senior transatlantic fellow at the German Marshall Fund, it is "clear that China has achieved certain tactical gains" but at the expense of Indian policymakers' trust.¹²⁴ For example, after withdrawing from the most recent standoff in 2020, the PLA shortly returned to the Galwan Valley and succeeded in shifting the agreed-upon buffer zone onto India's side of the LAC.¹²⁵ By constructing roads and bridges that facilitate troop movement, China has since strengthened its position along the LAC.¹²⁶ The PLA has built water wells, solar water heaters, and larger-capacity troop accommodations along the western sector to increase the army's capacity near Ladakh and improve its logistics and sustainment during harsh Himalayan winters.¹²⁷ China's actions on the border have not been an effective signal to India in warning against deeper security ties with the United States and allies.¹²⁸ Rather than intimidating India into softening its China policy, China's calculated escalation has pushed India toward closer cooperation with the United States and other Quad countries.¹²⁹

Chinese leaders have failed to keep the border tensions from having a negative impact on China's cooperation with India in economic, social and educational sectors. Indian officials reject China's attempt

*A flag meeting is a confidence-building exercise where commanders of both sides meet to resolve tensions at the local level. The LAC has five designated Border Meeting Points (BMPs) for these flag meetings to occur, and the last BMP was established just one month before the Burtse incident. After the Galwan crisis in 2020, China and India established regular talks at border meeting points between commanders at the corps level. The 16th round of talks took place at the Chushul BMP in Ladakh on July 17, 2022. Ajay Banerjee, "India, China Open 5th Border Meeting Point," *Tribune India*, August 1, 2015; *IndiaTV*, "India, China Hold Second Round of Corps Commander-Level Talks amid Heightened Tensions," June 22, 2020; China's Ministry of National Defense, *Joint Press Release of the 16th Round of China-India Corps Commander Level Meeting*, July 18, 2022.

to compartmentalize the border dispute by emphasizing the damage it does to the whole relationship.¹³⁰ Since the fatal clash in the Galwan Valley in 2020, Chinese diplomats have urged India's government to maintain positive China-India ties despite China's mounting pressure on the disputed border, and they have done so without offering compromise or concessions to reduce tensions.¹³¹ During an official visit in March 2022, Foreign Minister Wang told Indian External Minister Subrahmanyam Jaishankar that China and India, as "mature and rational major developing countries," should "not let the boundary issue define or even affect the overall development of bilateral relations."¹³² Senior Indian government officials, however, have maintained that the ongoing border crises culminating in the Galwan Valley conflict led to a watershed moment in China-India relations. In an April 2021 speech to Chinese and Indian scholars, India's then Ambassador to China Vikram Misri noted an "inadvisable" tendency among Chinese diplomats to "characterize it as just a minor issue," which he warned was "tantamount to running away from the problem."¹³³ In a joint press briefing following his March 2022 meeting with Foreign Minister Wang, External Minister Jaishankar asserted, "The frictions and tensions that arise from China's deployments since April 2020 cannot be reconciled with a normal relationship between two neighbors."¹³⁴ External Minister Jaishankar also emphasized the China-India border dispute's decisive role in bilateral relations, telling a reporter, "If you ask me, is our relationship normal today? My answer to you is no, it is not. And it cannot be normal, if the situation in the border areas is abnormal."¹³⁵

China's government has also taken ostensibly nonmilitary measures to shape China-India border's security environment. Since 2016, China's government has advanced a Plan for the Construction of Moderately Well-Off Villages in the Border Area of the Tibet Autonomous Region.¹³⁶ A July 2017 document issued by the Chinese-controlled Tibet Autonomous Regional government specified that the plan involved building 628 such villages near the contested border through 2020 in what was reportedly a "rural revitalization" project.¹³⁷ As of July 2022, the construction of all 628 villages had been completed, according to Tsewang Dorji, research fellow at the Tibet Policy Institute, a think tank based in India.¹³⁸ Satellite imagery from March 2022 has shown that at least one of these villages is now fully inhabited, with cars in nearly every driveway.*¹³⁹ This project included building "militarized village[s]" that position electronic warfare and air defense stations in Tibet, bordering India.¹⁴⁰ Independent analyst Suyash Desai notes that nearly all of these villages have access to broadband, optical fiber, or 4G communications infrastructure, capabilities that are unique for the area and that position the villages to be effective "border watch posts for the PLA."¹⁴¹ China's government has also taken coercive actions against other countries, such as expanding its village construction into neighboring Bhutan, which researcher Robert Barnett describes

*The Chinese government's construction of villages in Tibet is similar to its establishment of settlements in other border areas, including the western Xinjiang Province, where the PLA sent troops beginning in the 1950s. Unlike border settlements in other parts of territory claimed by the Chinese government, however, the residents of the Tibetan border villages are largely ethnic Tibetans. This is in part due to the high altitudes of the settlements. As a result, most ethnic Han settlers in Tibet live in urban areas. Robert Barnett, "China Is Using Tibetans as Agents of Empire in the Himalayas," *Foreign Policy*, July 28, 2021.

as part of an effort to “force the Bhutanese government to cede territory that China wants elsewhere in Bhutan to give Beijing a military advantage in its struggle with New Delhi.”¹⁴² According to a 2022 Reuters report, China continued and accelerated construction of these villages in regions it disputes with Bhutan over 2021, building as many as 200 structures across six locations between six and 17 miles from the location of the 2017 Doklam standoff.¹⁴³

China Tries to Drive a Wedge between India and Other South Asian Countries

China’s efforts to drive wedges between India and other South Asian countries have led countries to select among competing offers of development financing while maintaining relations with both China and India. India-China competition and U.S.-China competition in South Asia have enabled South Asian countries to play each side off the other to maximize their economic and political benefit.¹⁴⁴ This dynamic of playing India and China against one another cuts both ways. For example, in early 2022 Sri Lanka’s government received currency swaps and \$1.5 billion in financial assistance from India, likely as part of broader negotiations in which India’s government seeks to preserve its presence in Sri Lanka’s Colombo port as a counterweight to Chinese investment in Sri Lanka’s Hambantota port.¹⁴⁵ Conversely, according to fieldwork conducted for a Carnegie Endowment for International Peace study on China’s influence in South Asia, Chinese companies in Nepal often undermine Indian projects by offering larger versions of the same projects at lower cost and with shorter production timelines.¹⁴⁶ South Asian countries also continue to consider proposals from countries other than China and India. In 2020, the government of Bangladesh canceled the Sonadia deep sea port over the terms of a Chinese loan in favor of another deep sea port financed by Japan.¹⁴⁷

Nepal’s* deepening ties to China illustrate how Beijing’s competitive funding commitments could lead South Asian states to reduce their cooperation with India or India’s partners in the region. In March 2022, Foreign Minister Wang visited Nepal one month after the country had ratified a \$500 million grant associated with the Millennium Challenge Corporation Compact in 2022.¹⁴⁸ During Foreign Minister Wang’s visit, Nepali Prime Minister Sher Bahadur Deuba requested more BRI grant funding from China.¹⁴⁹ After the visit, Nepal’s government also declined to participate in the U.S. State Partnership Program, which facilitates military-to-military engagement with the U.S. National Guard. Nepal’s government had previously asked to participate in the program in 2015 and 2017.¹⁵⁰ Chinese Foreign Ministry spokesperson Wang Wenbin lauded Ne-

* Nepal is a federal parliamentary republic with multiple competing parties, many of which are communist. The Chinese Communist Party has been expanding its ties to the communist parties of Nepal and encouraging them to unite. In 2018 the Communist Party of Nepal—Maoist-Centre and the Communist Party of Nepal—United Marxist Leninist merged to form the Nepal Communist Party (NCP) until its split in 2020. The current ruling party, Nepali Congress (NC), came to power in 2021 and is wary of Beijing’s engagement with the communist parties. The visit to Nepal in July 2022 by Liu Jianchao, head of the CCP’s International Liaison Department, may mark a shift in Beijing’s strategy from seeking a united communist party to hedging its bets by engaging the NC. Central Intelligence Agency, “The World Factbook: Nepal,” September 14, 2022; Aneka Rebecca Rajbhandari and Raunab Singh Khatri, “One Party, Two Countries?” *Nepali Times*, June 28, 2022; Santosh Sharma Poudel, “What Lies behind Chinese Delegation’s Visit to Nepal,” *Diplomat*, July 13, 2022.

pal's decision to sidestep the State Partnership Program.¹⁵¹ In August 2022, during a visit from Nepalese Foreign Minister Narayan Khadka to China, Chinese Foreign Minister Wang announced a set of support measures for Nepal, including pledges to provide \$118 million (renminbi [RMB] 790.6 million) in aid, fund a feasibility study for a Nepal-China railway, and cancel tariffs for 98 percent of exports from Nepal to China.*¹⁵² Nepalese economists have expressed concerns that BRI projects could undermine Nepal's sovereignty and lead to unsustainable debt growth.¹⁵³

Competition with China Drives Closer U.S.-India Cooperation

Concurrent U.S. and Indian competition with China in South Asia has deepened ties between India and the United States and its allies as well as ties between China and Pakistan.¹⁵⁴ Since 2020, both the United States and India have expanded bilateral intelligence-sharing agreements and maintained robust participation in the Quad grouping.¹⁵⁵ China's government has similarly cultivated a closer relationship with Pakistan in hopes the China-Pakistan axis will act as a counterweight to U.S.-India cooperation.¹⁵⁶ In a May 2021 interview, Pakistan's then Foreign Minister Shah Mahmood Qureshi suggested any decision on plans for a PLA Navy base in Pakistan "depends on how the Quad turns out."¹⁵⁷ Highlighting the importance of the relationship to Chinese leaders, in March 2022 Foreign Minister Wang described the China-Pakistan relationship as "unbreakable and rock solid," further asserting that any interference in that relationship would be "a red line no one can cross."¹⁵⁸

China's efforts to undermine Indian influence in South Asia have softened Indian reluctance to increase security cooperation with the United States. As Indian leaders grew more concerned about China's assertions of power in South Asia, the Indian and U.S. governments became increasingly aligned and more effective at managing differences, including those regarding China.¹⁵⁹ (For more on the China-India relationship and Russia's role in it, see Chapter 3, Section 1: "Year in Review: Security and Foreign Affairs.") Ms. Baruah assessed that India and the United States are now able to coordinate security efforts in the Indian Ocean, though India's government would likely not have been ready to do so five years ago.¹⁶⁰

China's antagonistic approach to India has driven closer security cooperation between India and the other Quad countries. India had previously been inconsistent in its support for furthering the Quad, retaining its nonaligned status by hedging against too much security cooperation with the other Quad countries.¹⁶¹ In testimony before the Commission, Dr. Panda argued that "there has been a significant change about India's position and undertaking towards the Quad" as a result of China's aggressive behavior in the region.¹⁶² Dr. Madan noted that in recent years, India's government has deepened Quad security cooperation. In 2020 and 2021, India included Australia in the annual Malabar naval exercise, bringing all four Quad countries into this Indian exercise, which has included maritime forces from India and the United States for decades and Japan since 2014.¹⁶³ Notably, Dr. Panda and Ms. Baruah both testified before the Com-

*Unless noted otherwise, this Report uses the following exchange rate from June 30, 2022 throughout: 1 U.S. dollar = 6.70 RMB.

mission that they believe India's government may decide to support Taiwan against a PLA invasion depending on the intensity of the China-India border dispute and whether Taiwan's government will similarly support India in that dispute.¹⁶⁴

Few Prospects for U.S.-China Cooperation in South Asia

Prospects for U.S.-China cooperation in South Asia have significantly diminished as China's approach to South Asia has become more assertive. According to Dr. Madan's testimony, U.S. officials considered China's involvement in the February 2019 India-Pakistan crisis to be unhelpful despite successful U.S.-China cooperative efforts to manage tensions following the Kargil conflict in 1999 and after the Mumbai terrorist attacks in 2008.¹⁶⁵ U.S. and Chinese interests regarding the India-Pakistan relationship have diverged since China's government began cultivating stronger ties with Pakistan as a means of geopolitical competition with India, reducing the Chinese government's incentive to mitigate India-Pakistan tensions.¹⁶⁶ The Chinese government's interest in intensifying India-Pakistan tensions, as it continues to inflame China-India border tensions, conflicts with the United States' strategic interests of a stable South Asia.

India Attempts to Reduce Economic Reliance on China

The border clash and economic downturn in 2020 galvanized longstanding concerns among Indian policymakers about economic dependency on China, prompting restrictions on Chinese investment and trade as well as measures to support domestic industry. These actions have had some success in reducing reliance on Chinese imports, particularly in critical sectors like telecommunications. Continued trade reliance with China has contributed to a marked shift in New Delhi's openness to trade agreements, with the Modi Administration actively pursuing closer trade ties around the world.

Indian Restrictions on Chinese Trade and Investment Accelerate Starting in 2020

Indian policymakers have long been concerned over the nature of the country's economic relations with China, which they view as largely one-sided in favor of China. A 2016 analysis of India-China economic relations since the late 1980s in the German *Journal of Current Chinese Affairs* identified unequal trade as a longstanding issue in the bilateral relationship, finding that "perennial and worsening trade deficits deeply concern New Delhi as these are perceived to reflect unequal terms of trade between the two countries as China primarily exports manufactured goods to India while India's exports to China are largely composed of raw materials."¹⁶⁷ At an October 2019 summit between General Secretary Xi and President Modi, the two leaders agreed to launch a High Level Economic and Trade Dialogue, under which officials from both countries would meet regularly to discuss ways to boost bilateral trade and investment flows, though no such meeting has yet occurred.¹⁶⁸ India's November 2019 withdrawal from the Regional Comprehensive Economic Partnership—the world's largest economic regional trade agreement—was due in large part to concerns that the agreement did not adequately

address potential surges in imports, particularly from China. (For more on the Regional Comprehensive Economic Partnership, see Chapter 2, Section 2, “Challenging China’s Trade Practices.”)¹⁶⁹

Since 2020, India’s concerns over excessive economic reliance on China have grown, leading to a series of new policies aimed at reducing China’s presence in and leverage over India’s economy. At the beginning of the COVID-19 pandemic in 2020, the Indian government enacted a policy requiring government approval for investment from countries sharing a land border with India.* The Indian government explicitly framed this policy as a response to the pandemic, introducing it as a measure to stop “opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic.”¹⁷⁰ According to Indian media reports, as of June 2022 the Indian government had received 382 proposals for Chinese investment since enacting the investment approval requirements, of which it approved 80.†

More recently, the Indian government announced a series of investigations into Chinese telecommunications companies operating in India for alleged legal violations, including tax evasion and customs evasion.¹⁷¹ The companies under investigation by the Indian government include Xiaomi, Vivo, Oppo, and Huawei, which are among the largest smartphone vendors in India.‡¹⁷² As part of the investigations, the Indian government raided the offices of all four companies and seized more than \$758.9 million (60 billion Indian rupees) in funds from Xiaomi and Vivo connected with alleged illegal remittances.§¹⁷³ In response to the investigations, Xiaomi said the outcomes could “adversely affect its operating results or cash flows,” though the company did not quantify the potential financial effects.¹⁷⁴

The 2020 Galwan Valley border conflict amplified existing concerns over ties with China and led to further economic restrictions against China. The most notable action has been banning Chinese phone and mobile device apps, including TikTok, WeChat, and Weibo. In June 2020, following the border clashes, the Indian government initially banned 59 Chinese apps and has since expanded the prohibition to a total of 321 apps.¹⁷⁵ In July 2020, shortly after the bans were announced, the Chinese business magazine *Caixin* reported that sources close to the senior management of ByteDance, the parent company of TikTok, expected \$6 billion in losses as a result of the bans.¶¹⁷⁶ The Indian government did not explicitly

*Although the announcement did not specifically mention China, it was widely understood to be aimed primarily at Chinese investment. Before the April 2020 announcement, similar restrictions already applied to investments from Pakistan and Bangladesh. The other countries affected by the April 2020 announcement were Bhutan, Burma, Afghanistan, and Nepal. Aditya Kalra and Aftab Ahmed, “India Toughens Rules on Investments from Neighbours, Seen Aimed at China,” *Reuters*, April 18, 2020.

†The report did not specify the value of the proposed investments. The report also did not specify how many of the remaining 382 proposals had been rejected or were awaiting decision from the Indian government. Pavan Burugula, “Nod for 80 FDI Proposals from China Entities,” *Economic Times*, July 6, 2022.

‡Xiaomi was the largest smartphone seller in India in the first quarter of 2022, while Vivo and Xiaomi were the fourth and fifth largest, respectively. Du Zhihang and Ding Yi, “Vivo Says It’s Cooperating with Indian Authorities after Raids,” *Caixin*, July 6, 2022.

§Unless noted otherwise, this Report uses the following exchange rate from June 30, 2022 throughout: 1 U.S. dollar = 78,970 Indian rupees.

¶Despite the magnitude of the expected losses, India did not account for one of ByteDance’s top ten markets by revenue share as of 2020. An internal ByteDance memo reportedly showed that the company’s revenue jumped to \$34.3 billion in 2020, a 111 percent year-on-year increase.

tie the bans to the border clashes; in a statement, India's Ministry of Electronics and Information Technology said it enacted the bans after receiving "many complaints from various sources" about the apps "stealing and surreptitiously transmitting users' data in an unauthorized manner."¹⁷⁷ Despite a broad user base in India for the most popular apps, public opinion supported retaliation: in an online poll conducted by an Indian media company shortly after the clashes, 89 percent of respondents were in favor of the ban, with 87 percent agreeing that it should be extended to other apps.¹⁷⁸

Some of the Indian government's policies have sought to bolster the position of domestic Indian companies that have struggled against Chinese competitors. In August 2022, Bloomberg reported that Indian authorities were considering restrictions that would prevent Chinese companies from selling smartphones under \$150 (12,000 Indian rupees).¹⁷⁹ The restriction is reportedly due to concerns over Chinese companies' domination of this segment of the smartphone market, which accounted for approximately one-third of India's smartphone sales in the first quarter of 2022.¹⁸⁰ Chinese smartphone makers currently account for nearly 70 percent of India's smartphone market and up to 80 percent of smartphones sold for under \$150.¹⁸¹ Indian firms, by contrast, currently account for less than 1 percent of smartphone sales in India, down from approximately 35 percent at their peak in 2015.¹⁸² Later in August, Rajeew Chandrasekhar, India's Minister of State for Electronics and Information Technology, denied that the government had any plans to ban Chinese phones but also expressed support for the development of domestic Indian smartphone brands.¹⁸³

Indian Government Enacts Domestic Manufacturing Initiatives

In addition to levying economic restrictions against Chinese firms, the Indian government has sought to bolster its economic self-sufficiency through policies aimed at developing India's manufacturing capabilities. In March 2020, the Indian government introduced a set of production-linked incentive schemes providing subsidies to firms in select industries that manufacture in India.*¹⁸⁴ In February 2021, the Indian government announced it would commit approximately \$25 billion (1.97 trillion Indian rupees) to the schemes over the next five years.¹⁸⁵ The production-linked incentive schemes currently apply to 14 sectors, including pharmaceuticals, medical devices,

Revenue growth slowed to 70 percent in 2021 for a total of \$58 billion, though this slowdown was largely attributed to the Chinese government's crackdown against tech companies. Coco Feng, "TikTok Owner ByteDance Said to Post Slower Revenue Growth in 2021 amid China's Tech Crackdown," *South China Morning Post*, January 21, 2022; BBC, "TikTok Owner ByteDance Sees Its Earnings Double in 2020," June 18, 2021; Manai and Mudit Kapoor, "How Much Money Does TikTok Make in India?" *Business Today*, June 30, 2020.

*The Indian government has had a long history of heavy subsidization and highly protectionist trade policies. While the Indian government removed many of its restrictions as part of an IMF bailout in the early 1990s, India's government continues to intervene in many aspects of the economy. A 2020 WTO trade policy review of India found that "to support both domestic production and exports, India continues to provide a number of incentives, in the form of direct subsidies and price support schemes, tariff concessions or exemptions, or preferential rates of interest." Tariffs in India remain higher than almost any other country. According to the 2022 WTO *World Tariff Profiles*, India's average most-favored nation tariff rate is 18.3 percent, lower than tariffs in only Iran and Sudan. World Trade Organization, "World Tariff Profiles 2022," 10–13; World Trade Organization, "Trade Policy Review: India," November 25, 2020, 10; Szu Ping Chan, "Why India Is One of World's Most Protectionist Countries," *BBC*, April 11, 2019.

textiles, and automobiles.* According to Akhil Bery, former director of South Asia initiatives at the Asia Society Policy Institute, these schemes have proven successful, with companies such as Nokia and Foxconn increasing their manufacturing in India to take advantage of the incentives.¹⁸⁶ In some sectors, however, the production-linked incentive schemes have fallen short of their goals. In March, Indian media reported that of 14 companies eligible under the plan for the information technology (IT) hardware industry, only two or three were likely to meet their first-year production targets.¹⁸⁷

India Diversifies away from China to Other Trade Partners

India has also shown willingness to engage with other key trade partners in its efforts to diversify away from China. In February 2022, India and the United Arab Emirates signed a trade agreement, and in April 2022—only six months after negotiations began—India and Australia signed a trade agreement.¹⁸⁸ Negotiations are also underway for agreements with Canada, Israel, the United Kingdom, the EU, and the Gulf Cooperation Council.[†]¹⁸⁹ Additionally, in November 2021 India and the United States revived the Trade Policy Forum, aimed at enhancing bilateral economic ties.¹⁹⁰ Mr. Bery testified that while these trade deals are limited in scope, they nevertheless “mark an important shift in India’s mindset” away from earlier “pro-investment but anti-trade” policies under the Modi Administration.¹⁹¹

Despite Efforts, India Remains Heavily Reliant on China

In the first half of 2022, India’s bilateral trade with China grew 16.7 percent year-on-year to a record \$67.1 billion, with the trade deficit growing 70.7 percent to \$48 billion.¹⁹² Cheap Chinese inputs and lack of alternative capital sources make it difficult for India to decouple. Chinese suppliers offer competitive prices for many of India’s most important imports, in comparison with both Indian prices and prices of other potential suppliers. For example, in 2018 Chinese prices of telephone set parts—India’s most imported item from China that year—were 43 percent less expensive compared with the top five other global suppliers.¹⁹³ Indian government officials have eased restrictions on Chinese imports in certain instances due to cost concerns. For instance, in July 2022 the Indian paper the *Economic Times* reported that Indian government-owned enterprises involved in renewable energy projects would soon be able to import components from China, in an exemption from restrictions enacted in 2020.¹⁹⁴

The decrease of Chinese investment into India since 2020 has also reportedly caused the Indian government to reconsider the extent

*The full list consists of the following sectors, announced in three tranches. The original list, announced in March 2020, consisted of (1) key starting materials/drug intermediates and active pharmaceutical ingredients; (2) large-scale electronics; and (3) medical devices. In November 2020, the list was expanded to include (4) electronic/technology products, (5) pharmaceuticals; (6) telecom and networking products; (7) food products; (8) white goods (air conditioners and LEDs); (9) high-efficiency solar photovoltaic modules; (10) automobiles and auto components; (11) advanced chemistry cell batteries; (12) textile products; and (13) specialty steel. In September 2021, the list was further expanded to include (14) drones and drone components. Invest India, “Production Linked Incentive (PLI) Schemes in India.”

†The Gulf Cooperation Council is a political and economic alliance consisting of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar, and Kuwait. Secretariat General of the Gulf Cooperation Council, “Member States.”

of its investment restrictions. In January 2022, Bloomberg reported that the additional review step on Chinese investments had created a bottleneck of approximately \$6 billion in proposed funding awaiting review.¹⁹⁵ As a result, Indian government officials have reportedly considered exempting potential investments with ownership interest of less than 10 percent.¹⁹⁶ As of September 2022, there is no update on the proposed revision. According to Ananth Krishnan, a journalist and author of the *India China Newsletter*, “Slowly, Chinese investments are coming back, [though] these are individual deals, and it’s still a trickle and nowhere near the flood of the 2014–2019 period.”¹⁹⁷

China’s Significant Investment in Pakistan

China-Pakistan relations have traditionally been defined by the two countries’ overlapping security concerns, in particular their mutual interest in containing India’s power and influence in South Asia.¹⁹⁸ Security relations between the two countries remain robust, with ongoing cooperation including supply of military hardware, nuclear development, and military-to-military exchanges.¹⁹⁹ In recent years, China and Pakistan have also deepened their bilateral economic relationship. These closer economic ties have been most visible through CPEC, China’s massive investment initiative in Pakistan’s economy announced in 2015. As a central part of BRI, CPEC has been referred to as BRI’s “most ambitious undertaking in any single country.”²⁰⁰

By any account, CPEC represents a significant expansion of China’s investment in Pakistan. A RAND Corporation report on China’s foreign aid found that between 2003 and 2011—before the announcement of CPEC—China provided approximately \$4 billion of foreign aid and government investment in Pakistan.²⁰¹ By contrast, a 2020 report by Andrew Small, senior transatlantic fellow at the German Marshall Fund, found that China’s investments since the establishment of CPEC totaled approximately \$25 billion.²⁰² Pakistani and Chinese politicians continue to proclaim their support for CPEC and have even proposed extending the initiative to Afghanistan.²⁰³ There are, however, ongoing questions about the initiative’s viability, particularly given Pakistan’s deteriorating economic and security conditions. Additionally, recent flooding across Pakistan (see textbox below) has called into question the future of many CPEC projects. In August 2022 Pakistani Foreign Minister Bilawal Bhutto-Zardari said that the floods would have dire effects on Pakistan’s economy and would affect infrastructure projects, including CPEC.²⁰⁴

Natural Disasters in Pakistan Create Need for Financial Support

Throughout the summer of 2022, large sections of Pakistan suffered from unprecedented floods that have killed more than 1,200 people and have had devastating humanitarian and economic consequences across the country. More than 33 million people in Pakistan have been affected, with at least 6.4 million in dire need of humanitarian aid, according to a World Health Organization representative in Pakistan.²⁰⁵ The Pakistani government cut its

Natural Disasters in Pakistan Create Need for Financial Support—*Continued*

economic growth forecast from 5 percent to 2.3 percent as floods have affected millions of acres of arable land and caused factories to suspend operations.²⁰⁶ In early September 2022, Pakistani Prime Minister Shehbaz Sharif estimated that the damage caused to houses, infrastructure, and farms amounted to more than \$10 billion.²⁰⁷

The damage caused by the floods has led to an acute need for disaster relief funds, and has increased scrutiny on China's role in supporting Pakistan. The Chinese government has pledged \$59.7 million (RMB 400 million) in relief supplies to Pakistan, though it is unclear how much of the pledged support has been delivered.²⁰⁸ Husain Haqqani, Pakistan's former ambassador to the United States, said that "China is not rising to the occasion" and compared China's disaster relief efforts unfavorably to those of the United States, which he said is generally more capable at rapid response.²⁰⁹ According to the U.S. Agency for International Development, since August 2022 the U.S. government has provided more than \$50 million in disaster relief to Pakistan and has deployed a Disaster Assistance Response Team to lead U.S. government humanitarian response efforts.²¹⁰

CPEC Motivated by Security and Economic Concerns

From Beijing's perspective, CPEC offers a mixture of both strategic and economic opportunities. The construction of much-needed infrastructure in Pakistan would enable it to continue serving as a counterweight to India even as India's economic strength grows, a longstanding motivation behind Beijing's relations with Islamabad. CPEC offers additional benefits for China, including a potential land route to the Indian Ocean, allowing China to avoid what former General Secretary Hu referred to as the "Malacca Dilemma"—China's dependence on the Strait of Malacca as a shipping thoroughfare for oil and other natural resources coming from the Middle East.²¹¹ (For more on vulnerabilities in China's access to oil, see "China's Oil Insecurity and the Shadow of Conflict" in Chapter 2, Section 3, "China's Energy Plans and Practices.") The large-scale infrastructure projects also promise construction contracts for Chinese firms—an important part of Beijing's "Going Out" strategy, which seeks new markets for Chinese industries suffering from domestic overcapacity.²¹² More broadly, CPEC provides an opportunity to showcase the development potential of China's BRI, which was announced two years prior to CPEC's 2015 launch. At its inception, CPEC was billed as BRI's flagship project, a term Chinese state media still uses to describe the undertaking.²¹³

From the perspective of Pakistani policymakers, Chinese investment has been crucial to helping Pakistan address critical shortfalls in its economy. As Muhammad Tayyab Safdar, postdoctoral researcher at the University of Virginia, testified before the Commission, "CPEC offers a rare opportunity to address some of the country's long-standing bottlenecks to sustained economic growth, not least

its chronic energy deficits, poor transportation infrastructure and connectivity, and weak industrial development.”²¹⁴ In particular, Pakistani politicians viewed Chinese investment in the power sector as “perhaps the only opportunity to address chronic power shortages within a short period.”²¹⁵ Pakistan’s government viewed improving the country’s power supply not only as an issue of internal security but also as an opportunity to signal to foreign investors “that Pakistan was open to business and therefore spur economic growth.”²¹⁶ The imperative for economic development is particularly strong for Balochistan Province, a sparsely populated, economically underdeveloped region with separatist movements that have engaged in violent attacks around Pakistan.²¹⁷ Some of the infrastructure projects also have broader strategic importance for Pakistan. The Port of Gwadar, for instance, not only seeks to address domestic development and security objectives in Balochistan but also provides Pakistan with an alternative to its ports in Karachi and Qasim, which could be blockaded in the event of a conflict with India.²¹⁸

Infrastructure Is a Key Pillar of CPEC

Investment in large-scale infrastructure is a key focus of CPEC projects. Very little of this investment in CPEC has gone toward establishing physical connectivity between China and Pakistan, however. According to Dr. Small, “Despite the use of the term ‘corridor,’ [CPEC] was never intended as a serious cross-border artery, and there are still no plans for railways, pipelines, or even large-scale road traffic” between the two countries.²¹⁹ Rather, CPEC infrastructure funding has focused on projects in Pakistan’s energy sector.²²⁰

Much of the early CPEC investment in Pakistan’s energy sector has gone toward building coal-fired power plants. Several studies of CPEC investments have noted that the emphasis on coal was driven by Pakistani politicians, who viewed coal plants as the most effective way to tackle energy shortages.²²¹ By the 2010s, most foreign and multilateral lenders had grown hesitant to finance coal-powered plants, leaving China as one of the only viable financing partners.²²² In order to secure Chinese financing, Pakistani politicians offered special terms that mitigated risk to Chinese lenders, including generous payments to power generation companies, guaranteeing a high return on equity.²²³ In 2021, General Secretary Xi claimed in a speech at the UN General Assembly that China would not continue to build new coal-powered plants abroad, bringing the future of coal projects in CPEC into question.*²²⁴ In February 2022, however, media reported that the coal-fired Gwadar Power Plant was proceeding, despite the fact that construction on the plant had not yet begun.²²⁵

CPEC-funded power projects have contributed significantly to meeting Pakistan’s energy needs, though the country still faces serious problems with a weak grid and unreliable power supply. In 2013, when negotiations for CPEC began, installed generation capacity totaled 23,725 megawatts, with an energy deficit of 5,000

* Observers have noted that General Secretary Xi’s pledge was vague in many respects. According to Li Shuo, a policy advisor at Greenpeace China, it was unclear whether Xi’s pledge applied to the nonstate sector or to projects that have already been proposed, been approved, or begun construction. Additionally, Mr. Li said it was unclear whether the moratorium applied to the financing of projects in addition to construction. Azi Paybarah, “China Says It Won’t Build New Coal Plants Abroad. What Does That Mean?” *New York Times*, September 22, 2021.

megawatts.²²⁶ As of 2020, total generation capacity in the country had increased to 38,719 megawatts.²²⁷ According to Dr. Safdar, CPEC power plants accounted for nearly one-third of Pakistan's power generation that year.²²⁸ Chinese-invested power plants have contributed to a growth in generation capacity that, by some estimates, may exceed Pakistan's immediate needs. In 2021, a Pakistani government official estimated that by 2023, Pakistan could have as much as 50 percent too much electricity-generating capacity.²²⁹ A 2021 report by Pakistan's National Electric Power Regulatory Authority also found that underutilization of efficient power plants was a problem in the country's electricity system and "one of the major causes of increase in consumer-end price of electricity."²³⁰ The report also found, however, that underutilization occurred for reasons beyond lack of demand, including nonavailability of fuel and poor governance.²³¹ In other words, underutilization of capacity does not reflect generating capacity in excess of Pakistan's energy needs. Moreover, according to Dr. Safdar, chronic underinvestment in Pakistan's energy grid has meant that despite growth in generating capacity, Pakistan continues to experience unreliability in its power supply.²³²

While energy infrastructure has been called "the most effectively executed part of CPEC," it has also suffered from the problem of circular debt, which occurs when Pakistan's state-owned distribution companies fail to collect sufficient revenues, leaving them unable to pay Pakistan's Central Power Purchasing Agency. As a result, the Central Power Purchasing Agency is unable to pay other power companies—including Chinese-owned companies—which are in turn unable to pay their fuel suppliers.²³³ This problem has become particularly acute amid rising commodities prices and a depreciation in the Pakistani rupee.²³⁴ Throughout summer 2022, Pakistan experienced nationwide blackouts, due in part to Chinese-run power companies in the country shutting down power plants amid \$1.5 billion (300 billion Pakistani rupees) in unpaid fees.*²³⁵

Challenges with Gwadar Port

One of CPEC's most notable infrastructure projects is Gwadar Port, which has been described as the flagship project of CPEC.²³⁶ Despite Gwadar Port's close association with CPEC, China's involvement in the port significantly predates the CPEC and BRI initiatives. The Gwadar project, located in Balochistan Province, was initially proposed in 2000 by Pakistan's then President Pervez Musharraf during his first visit to China, and it was constructed by a Chinese firm between 2002 and 2006.²³⁷ In 2007, the Port of Singapore Authority took over management after winning a bid for a 40-year contract to operate the facility.²³⁸ Control of the port returned to China in 2013, when the Singapore Port Authority exited the contract early, reportedly over a dispute with the Pakistani government concerning land rights in Gwadar.²³⁹ Beyond the port itself, planned CPEC investments in Gwadar

*Unless noted otherwise, this Report uses the following exchange rate from June 30, 2022 throughout: 1 U.S. dollar = 204.03 Pakistani rupees.

Challenges with Gwadar Port—Continued

have grown to include projects such as an international airport, water desalination plants, and a hospital.²⁴⁰

Theoretically, a port in Gwadar could offer economic upsides for both China and Pakistan, though under current conditions it is not commercially viable. For Pakistan, a port in Gwadar—if connected to adequate overland transportation infrastructure—could facilitate closer trade linkages with Central Asia, Afghanistan, and Iran. According to Dr. Safdar, however, the success of such a venture depends on improved security in Afghanistan.²⁴¹ Developing a port in Gwadar could also give China overland access to the Indian Ocean, theoretically reducing China's reliance on the Strait of Malacca, through which more than 70 percent of China's petroleum and liquefied natural gas imports currently transit.²⁴² While the costs of transporting goods and energy supplies through Gwadar overland to China are currently prohibitively high, Dr. Safdar noted in his testimony before the Commission that technological improvements and continued geopolitical tensions with India could make Gwadar Port a viable alternative in the future.²⁴³

A port in Gwadar also has strategic significance for both countries. As mentioned above, Gwadar Port offers a hedging strategy for Pakistan, as the country's largest ports—in Karachi and Qasim—are closer to India and vulnerable to a blockade by the Indian Navy.*²⁴⁴ According to a 2020 report by the U.S. Naval War College's China Maritime Study Institute, Chinese analysts have highlighted the port in Gwadar as a top choice for establishing a strategic presence overseas, and the port's facilities are capable of supporting the PLA Navy's largest vessels.²⁴⁵ According to Dr. Small, "There is no need to dig out secret documents and hidden plans when vast arms sales, naval cooperation, and joint weapons systems development all occur openly, with no need of any 'cover' from CPEC."²⁴⁶

Gwadar has so far failed to live up to its promised economic potential, with only minimal shipping and industrial activity at the port.²⁴⁷ In late 2021, large-scale protests broke out across Gwadar, blaming China for a shortage of water and electricity in the city and demanding an end to illegal fishing by Chinese vessels.²⁴⁸ In May 2022, Pakistan's media reported that only three CPEC projects in Gwadar had been completed, while 12 additional projects remain unrealized, having fallen behind schedule.²⁴⁹

Technology Infrastructure

China has also invested in the construction of technological infrastructure projects across Pakistan. According to Dr. Small, while China's technological investment in Pakistan is currently small

*During the Indo-Pakistani War of 1971, the Indian Navy accomplished a blockade of the Port of Karachi. The Port of Qasim had not yet been constructed but is considered functionally part of the Port of Karachi given its proximity. Azhar Ahmad, "Gwadar: Potential and Prospects," Seminar on Gwadar, Pak Institute for Conflict and Security Studies and Federation of Pakistan Chambers of Commerce & Industry, Islamabad, Pakistan, January 29, 2015, 12.

compared to other parts of CPEC, it “may ultimately prove to have a more lasting impact, as Beijing takes on an ever-more dominant role in the country’s digital architecture.”²⁵⁰ China’s technological infrastructure investment includes “safe city” projects, which involve the installation of digital monitoring equipment and are billed as crime-fighting initiatives.²⁵¹ For example, according to a 2019 study by the Lowy Institute, the Lahore “safe city” project built by Huawei uses “some 8000 high-grade CCTV cameras, 4G wireless connectivity, facial recognition, automated vehicle number plate recognition, multiple tracking options, integrated communication platforms, geographic information systems, and specialized apps for use by security personnel.”²⁵²

The proliferation of “safe city” projects has increased concerns that China is exporting its authoritarian “police state” governance model to other countries.²⁵³ It has also led to claims that Chinese companies are illicitly monitoring information collected inside Pakistan as part of these projects. In August 2021, a U.S. contractor that worked on a “smart city” project in Pakistan sued Huawei, alleging the telecom giant used the contractor’s software systems to establish a “back door” into Pakistan that allowed Huawei to view sensitive data related to Pakistan’s national security as well as personal data of Pakistani citizens.²⁵⁴

CPEC technology infrastructure projects also include several network cables connecting China to Pakistan. The China Pakistan Fiber Optic Project, started in 2018, is the first land-based telecommunications cable linking China and Pakistan, with plans to eventually provide connectivity to Afghanistan and Iran.²⁵⁵ Pakistan is also the beginning point of an undersea high-speed internet cable that will connect Pakistan to East Africa as part of China’s Digital Silk Road project. The shareholders on this Pakistan to North and East Africa cable project include Chinese telecom giant Huawei. The project currently extends through several East African countries and is slated to reach to France, with plans to expand branches to Singapore and South Africa in later phases.²⁵⁶

CPEC Projects Raise Concerns of Debt

Like many other countries that are recipients of Chinese development funding, Pakistan’s involvement in CPEC has given rise to concerns that the country is amassing unsustainable and undisclosed debt to China. A 2020 report by the U.S. Institute of Peace found that “Chinese-funded development projects are hardly the sole cause of problems in Pakistan, but BRI projects, in working outside established standards, can exacerbate underlying weaknesses in governance and contribute to an already unsustainable debt load.”²⁵⁷ According to IMF data, Pakistan’s government had \$99.1 billion in external debt—totaling 28 percent of its gross domestic product (GDP)—at the end of fiscal year 2021.* China was Pakistan’s largest external creditor, accounting for \$29.8 billion of its debt or 8.4 percent of GDP.†

*Pakistan’s fiscal year runs from July 1 of the previous calendar year through June 30 of the current year. Fiscal year 2021 ended on June 30, 2021. International Monetary Fund, “Pakistan 2021 Article IV Consultation,” February 2022, 4, 49.

†Of this debt, \$23.1 billion was owed directly to Chinese state entities, while a further \$6.7 billion was due to commercial banks in China. International Monetary Fund, “Seventh and Eighth

A key concern is that any debt relief extended to Pakistan by other bilateral lenders or multilateral institutions may simply enable Pakistan to satisfy undisclosed debt owed to China. In 2019, Pakistan received a \$6 billion bailout from the IMF.*²⁵⁸ Ahead of that bailout, several U.S. lawmakers voiced their concern that the funds would be used “to relieve debts incurred largely from predatory Chinese infrastructure projects” under CPEC, whose “debt repayment and profit repatriation terms are not transparent.”²⁵⁹ In June 2022, Pakistani media reported that the IMF had asked Pakistan’s government to renegotiate CPEC energy deals before paying the approximately \$1.5 billion (300 billion Pakistani rupees) to Chinese power plants operating in Pakistan.²⁶⁰ The IMF reportedly suspected that Chinese independent power producers had been overcharging Pakistan.²⁶¹ Nevertheless, according to Dr. Safdar, “Pakistan’s debt, including undisclosed debt to China, has been less of a factor in the relationship with the IMF than structural problems in the Pakistani economy,” including disputes over Pakistan’s domestic fuel subsidies.²⁶²

Pakistan’s Security Situation Jeopardizes CPEC’s Future

A deteriorating security situation in Pakistan—including attacks directed at Chinese nationals and Chinese investment projects—presents one of the most significant impediments to further implementation of CPEC. Chinese interests in Pakistan have long been under threat from a range of actors, including ethnic separatist movements in Balochistan and Sindh provinces, as well as the Tehreek-e-Taliban Pakistan, a militant umbrella organization affiliated with al Qaeda and the Afghan Taliban.²⁶³ These attacks have added to China’s reluctance to invest in CPEC projects and in some cases have resulted in at least the temporary closure of projects under construction. In July 2021, for instance, an attack on a bus with Chinese and Pakistani workers at the Dasu Dam project, allegedly carried out by militants affiliated with the Tehreek-e-Taliban Pakistan, resulted in the deaths of 13 people, including nine Chinese workers.²⁶⁴ The project, funded by the World Bank, was not part of the CPEC framework. The day after the attacks, however, Chinese authorities postponed a meeting of the Joint Coordination Committee, the body that oversees implementation of CPEC.²⁶⁵ When the committee eventually met in September 2021, Chinese authorities asked Pakistan to upgrade security for CPEC projects.²⁶⁶ The increasing cost of CPEC security poses another challenge for Pakistan’s government.²⁶⁷ In April 2022, for instance, Pakistan’s media reported that Pakistani politicians had delayed implementation of over \$176.4 million (36 billion Pakistani rupees) in security upgrades associated with a CPEC railway project between Karachi and Peshawar.²⁶⁸ Officials from the Chinese government have also reportedly asked the Pakistani government to allow a Chinese se-

Reviews under the Extended Arrangement under the Extended Fund Facility,” September 2022, 44.

*The IMF has bailed out Pakistan a total of 22 times, most recently in 2019. As of April 2021, Pakistan’s debt to the IMF accounts for 8 percent of its external debt. International Monetary Fund, “Pakistan 2021 Article IV Consultation,” February 2022, 49; International Monetary Fund, “Pakistan: History of Lending Commitments,” February 29, 2020.

curity company to protect Chinese citizens and projects in Pakistan, though the Pakistani government has so far refused.²⁶⁹

Despite the difficulties in implementing CPEC, Chinese and Pakistani officials have continued to voice their support for the initiative. During his victory speech after his election in April 2022, Pakistani Prime Minister Sharif promised that the government would speed up implementation of CPEC.²⁷⁰ The Chinese government similarly reaffirmed its commitment to CPEC, with Chinese Foreign Ministry Spokesman Zhao saying, “We will continue to work with the new Pakistani administration to ... build CPEC with high standards in a sustained manner.”²⁷¹ Officials from China and Pakistan have also expressed interest in incorporating Afghanistan into the initiative. In March 2022, Foreign Minister Wang called for closer three-way cooperation among China, Pakistan, and Afghanistan and said the countries should “jointly advance Belt and Road cooperation and extend [CPEC] to Afghanistan, and help Afghanistan participate in regional connectivity.”²⁷² According to David Sacks, research fellow at the Center for Foreign Relations, the incorporation of Afghanistan into CPEC is unlikely due to security concerns in the country.²⁷³

China Insulates Itself from Threats in Central Asia and Afghanistan

China’s strategy for Central Asia and Afghanistan employs peripheral diplomacy to insulate itself from external sources of instability along China’s western border. As with its southern neighbors, China aims to influence Central Asian States and Afghanistan to accept China’s security interests as regional priorities.²⁷⁴ Although China’s engagement with Central Asia and Afghanistan has historically been led by economic activities, in recent years Chinese leaders perceive urgent new security threats, such as the return of Taliban rule in Afghanistan, that may lead to instability in Xinjiang. As a result, China’s government has attempted to grow its economic and political influence in Central Asia to ensure its security objectives in the region.

For the last three decades, China’s most significant source of regional influence has been economic engagement in Central Asia.²⁷⁵ According to Raffaello Pantucci, senior fellow at the S. Rajaratnam School of International Studies, “Underpinning the direct security responses that China undertakes is a vision for economic prosperity and development across the region which Beijing believes will ultimately stabilize the region and deliver long-term security guarantees.”²⁷⁶ China’s state-focused approach coopts illiberal governments in Central Asia to pursue China’s security interests, sometimes assisting in suppressing dissent through tools like surveillance technology.²⁷⁷

China has significantly increased its security engagement in Central Asia and Afghanistan.²⁷⁸ Chief among China’s growing concerns is that the Taliban’s recent return to power in Afghanistan will enable Uyghurs to foment unrest in the predominantly Uyghur province of Xinjiang.²⁷⁹ China calls this perceived threat the East Turkistan Islamic Movement (ETIM)* and uses this term indiscriminately.

*ETIM was an ethnically Uyghur-led movement that advocated for independence of Xinjiang under their preferred name for the region, East Turkistan. Most members of this group, including

inately to label Uyghur activity as terrorism.²⁸⁰ Chinese leaders also fear that growing opposition to China's presence in the region from both reemerging violent extremist groups and local populations will challenge China's ability to shape the region for its interests.²⁸¹

China uses multilateral security institutions with Central Asian states and Afghanistan as a platform to enshrine its security concerns in a shared regional agenda.²⁸² Through these platforms and other agreements, China cooperates with its neighbors in bilateral training exercises that function as part of an extended security perimeter reaching beyond China's borders.²⁸³ This cooperation is designed to ensure Chinese security interests rather than provide regional security.²⁸⁴ China's government has also increased its physical security presence in the region by increasing joint border patrols, investing in border surveillance technology, and, in one instance, stationing Chinese armed forces abroad to manage security risks in Tajikistan.²⁸⁵ Chinese leaders likely intend these short-term measures to have cascading effects for broader regional security.²⁸⁶

China's Economic Engagement in Central Asia Seeks Stability and Resources

From China's perspective, economic engagement in Central Asia and Afghanistan helps China create a stable periphery that supports China's development.²⁸⁷ Central Asia provides China with resources that China considers critical to its energy security.²⁸⁸ China also uses Central Asia as a market for products manufactured in Xinjiang, which China's leadership believes will mitigate instability in the autonomous region by creating a more economically dynamic Xinjiang.²⁸⁹ The region also offers alternative and faster* shipping routes for Chinese goods going to European and Middle Eastern markets (see Figure 3).²⁹⁰ As with China's bilateral lending in other regions, Chinese infrastructure loans have contributed to significant debt burdens in some Central Asian countries while often failing to benefit local populations (see "Transport Infrastructure Fosters Connectivity, Debt, and Corruption" later in this section).²⁹¹ Chinese firms have also taken advantage of elite corruption† and weak formal institutions to elicit commitments from Central Asian govern-

its leader, were captured or killed in Afghanistan and Pakistan by 2003. In 2008, a second militant independence movement that called itself the Turkestan Independence Party (TIP) emerged with threats against the Beijing Olympics and today primarily operates in Syria. The connection between TIP and ETIM are unclear, but the Chinese government used threats from TIP to revive discussions of ETIM and continues to use the name ETIM as an umbrella term for Uyghur activity. As of 2020, the United States no longer recognizes ETIM as a terrorist organization. Sean R. Roberts, "Why Did the United States Take China's Word on Supposed Uighur Terrorists?" *Foreign Policy*, November 10, 2020.

*Transport from eastern China to western Europe takes two weeks by train, in contrast to 40 days by sea. While rail transit through Kazakhstan could offer a faster and cheaper route than maritime shipping for more goods, incomplete infrastructure and the lack of reliable schedules prevent a higher volume of goods transiting the region. Cordula Rastogi and Jean-Francois Arvis, "Improving the Eurasian Connection: Supply-Chain Efficiency along the Modern Silk Route through Central Asia." *World Bank*, 2014, 65.

†According to the World Bank, "Elite capture refers to situations where elites shape development processes according to their own priorities and/or appropriate development resources for private gain." Chinese business and political leaders use informal relationships with elite in Central Asia to benefit Chinese interests. Nargis Kassenova, senior fellow and director at Harvard University's Davis Center for Russian and Eurasian Studies Program on Central Asia, argues that because China is not the sole cause of Central Asian elite corruption, China has only partial elite capture in the region. World Bank, "CDD and Elite Capture: Reframing the Conversation," *Social Development How To Series*, 3, February 2008; Nargis Kassenova, oral testimony for the U.S.-China Economic and Security Review Commission, *Hearing on China's Activities and Influence in South and Central Asia*, May 12, 2022, 183.

Figure 3: Map of Central Asia with Major Railways and Ports



Source: Jack Farchy and James Kynge, “Map: Connecting Central Asia,” *Center for Strategic and International Studies*, May 9, 2016; Ji Siqi, “China-Europe Rail Shipping Growth Slows as Ukraine War Pushes Companies Back to the Seas,” *South China Morning Post*, July 29, 2022.

ments to suppress expression the CCP judges as dangerous to its interests or supportive of Uyghur autonomy.²⁹² As local populations grow disillusioned with these behaviors, China has started to respond to local demands in an effort to protect its image in Central Asian countries.²⁹³

In Central Asia, China has found partners that are eager to accept investment that advances a vision of regional integration and connectivity.²⁹⁴ With limited options for development finance, Central Asia looks to China as a means of hedging against overdependence on Russia. Additionally, China's conditions for economic engagement are relatively inexpensive and low risk. These conditions often involve political commitments, including recognition of China's "One China" principle and a commitment to cooperate in China's efforts to reduce perceived threats of separatism, extremism, and terrorism—a trio China calls the "Three Evils."²⁹⁵ According to Niva Yau, senior researcher at the OSCE Academy* in Kyrgyzstan, the Chinese government "promised economic development without political liberation, good governance, and social justice," which are often costly and complex conditions for international development assistance.²⁹⁶

China's expansion of economic ties with Central Asia creates potential points of friction with Russia, the traditional hegemon of Central Asia. According to a 2018 analysis by the Carnegie Endowment for International Peace, "Many of China's goals in [Central Asia]—economic development, political stability, and keeping the West at bay—either coincide with Russia's agenda or at least do not contradict Russia's short-term interests."²⁹⁷ In many ways, China's economic-focused approach to Central Asia complements Russia's presence, which is more focused on military and security relations.²⁹⁸ However, Alexander Cooley, a Russia and Eurasia expert at Colombia University, argues that the Russia-China relationship in Central Asia is more akin to "public cooperation and private rivalry."²⁹⁹ In January 2022, India's former ambassador to Denmark wrote in an op-ed that Russia had asked India to expand its own economic presence in Central Asia due to concerns over China's growing footprint in the region.³⁰⁰

China's Energy Interests in Central Asia

China's long-term aims in Central Asia and Afghanistan largely revolve around securing access to energy and natural resources, which play a key role in China's efforts to both develop its western provinces and diversify the nation's energy suppliers and import routes.³⁰¹ China's "Go West" initiative aims to narrow the wealth and development gap between China's prosperous eastern provinces and China's underdeveloped western provinces.³⁰² Gas from Turkmenistan and pipe infrastructure through Turkmenistan, Uzbekistan, and Kazakhstan supply the West-East Pipeline Project aimed at developing western China.³⁰³ The project, initiated in 2002, has completed three of four projected pipeline routes that bring gas from Central Asia through Khorgos, Xinjiang, and across central China

*The OSCE Academy is a partnership between the Organization for Security and Cooperation in Europe (OSCE) and the government of the Kyrgyz Republic. OSCE Academy in Bishkek, "OSCE Academy Factsheet."

to Shaanxi, Fujian, Guangdong, and Sichuan provinces.³⁰⁴ (For more on China's energy interests in Central Asia, see Chapter 2, Section 3, "China's Energy Plans and Practices.")

By "going west," China also hopes to diversify its energy providers and delivery routes.³⁰⁵ According to the Warsaw Institute, more than 70 percent of China's petroleum and liquified natural gas imports traverse the Strait of Malacca, a vulnerable chokepoint that if threatened would rapidly and severely undermine China's economic production and military development.³⁰⁶ Kazakhstan still only provides a small fraction of China's overall energy imports, averaging 400,000 barrels per day compared with the 6.5 million barrels per day China imports through the Strait of Malacca.³⁰⁷ Kazakhstan also largely provides natural gas, which is less strategically important than oil.³⁰⁸

In addition to meeting domestic energy needs, China's heavy investment in Central Asian energy infrastructure has deepened Chinese influence in the region at Russia's expense.³⁰⁹ By building the Central Asia-China gas pipeline, which began operating in 2009, China created an avenue for Central Asian states to reduce their dependence on Russia's market and prepared itself to surpass Russia as the primary consumer of Central Asian gas.³¹⁰ As a result of China's significant investments in Central Asia, Russia now relies on some Chinese-built energy infrastructure to transport and export energy resources.³¹¹

Transport Infrastructure Fosters Connectivity, Debt, and Corruption

China's most significant economic ties with Central Asian countries have occurred through Beijing's financing of investment projects in the region. According to research from AidData, between 2000 and 2017 China's financial diplomacy* to Central Asia amounted to more than \$54 billion, the majority of which consisted of infrastructure financing.³¹² These infrastructure projects have helped further China's goals in Central Asia in several ways. First, much of the transportation infrastructure has been constructed to increase capacity of exports from Xinjiang to Central Asia, and in 2019, 81 percent of Xinjiang's total exports went to Kazakhstan, Kyrgyzstan, and Tajikistan.³¹³ According to Nargis Kassenova, senior fellow and director at Harvard University's Davis Center for Russian and Eurasian Studies Program on Central Asia, Chinese leaders have long tried to embed Xinjiang into Central Asian trade networks.³¹⁴

Central Asia also benefits from Chinese investment in rail networks that improve connectivity and trade opportunities between Central Asian countries and the rest of the world.³¹⁵ Central Asia lacks a regionally connected rail system because most rail networks in the region were designed by the Soviet Union to reinforce a dependence on Moscow.³¹⁶ With its New Eurasian Land Bridge between Jiangsu Province and Kazakhstan, China built Central Asia's first rail link that did not go to Russia.³¹⁷ China's planned transpor-

*AidData's definition of financial diplomacy includes "grants, concessional loans, and non-concessional loans from government agencies, policy banks, state-owned commercial banks, or investment funds. This also includes technical assistance and debt forgiveness" as well as technical assistance and debt forgiveness. Samantha Custer et al., "Silk Road Diplomacy: Deconstructing Beijing's Toolkit to Influence South and Central Asia," *AidData at William & Mary*, 2019, 6.

tation links aim to further connect China with all five countries in Central Asia through the “China-Central Asia-West Asia Economic Corridor.”³¹⁸ As of 2021, the majority of Chinese goods going to Europe by rail passed through Russia, although discussions of additional rail that would bypass Russia could theoretically provide faster and cheaper transit routes for China.³¹⁹ Russia strongly objects to projects in Central Asia that cut Russia out of the market and has used institutions like the Eurasian Economic Union to pressure Kazakhstan to limit deals with China.³²⁰ Although China has used a “velvet glove” approach toward Russia’s traditional sphere of influence in the region, China’s growing concerns about international sanctions on Russia for its war on Ukraine may incentivize China to accelerate development of new routes that bypass Russia.³²¹

Chinese infrastructure projects have also contributed to debt sustainability concerns across Central Asia. According to Temur Umarov, fellow at the Carnegie Endowment for International Peace, debt to China is particularly acute in Kyrgyzstan and Tajikistan.³²² Tajikistan’s bilateral government debt to China at the end of 2020 totaled \$1.1 billion, according to IMF data, accounting for 38 percent of its total public and publicly guaranteed external debt of \$2.9 billion and roughly 14 percent of its GDP in 2020.³²³ The IMF has not reported Kyrgyzstan’s total government debt to China, but Kyrgyzstan’s finance ministry indicated in 2020 that the country owed \$1.8 billion to China Exim Bank alone, roughly 23 percent of the country’s GDP and almost 40 percent of its external debt of \$4.5 billion that year.³²⁴ The unsustainable debt burden has raised questions about what will happen if these states cannot repay China.³²⁵ In February 2021, Kyrgyz President Sadyr Japarov said Kyrgyzstan may have to forfeit certain assets if the country could not repay its debts, though he did not specifically address debt to China in his remarks.³²⁶ Many Central Asians fear that China will exact land in exchange for debt relief and that their desperate governments will accept, as Tajikistan did in 2011.³²⁷ China has been unwilling to restructure or forgive Central Asian debt, offering only extended deadlines at a higher interest rate to struggling Central Asian states during the COVID-19 shutdown.³²⁸ While IMF loans helped to reduce the negative impact of COVID-19 on Tajikistan and Kyrgyzstan’s economy, they have also likely subsidized Tajik and Kyrgyz repayments to China.³²⁹ The IMF and World Bank assess that Tajikistan is already at “high risk” of debt distress, and according to the Center for Global Development, BRI-related financing will likely add to both Tajikistan and Kyrgyzstan’s risk of debt distress.³³⁰ While Kyrgyzstan is currently considered to be at a “moderate risk” of debt distress, its currency depreciated against the U.S. dollar by 19 percent between March 2020 and August 2021.³³¹ The IMF has identified further depreciation as a risk that could raise public debt and affect the country’s economic growth.³³²

Chinese firms also take advantage of established patterns of corruption to coopt Central Asian elites for China’s economic and political benefit.³³³ According to Dr. Kassenova, China did not export corruption or weak rule of law to Central Asia; rather, Chinese political and business leaders operate in a local context where informal relationships often have more power than formal institutions.³³⁴

Drawn to the prospect of Chinese wealth, political elite in Central Asia lobby for Chinese companies to win contracts that enrich them, and they strike deals that use national resources to benefit their family members.³³⁵ China's threat of fining or blacklisting companies that publicly criticize China also muffles popular anger over China's Xinjiang policies.³³⁶ Central Asian governments, eager to remain in China's favor, avoid challenging China's policies and have arrested refugees from Xinjiang and shut down Kazakh and Uyghur rights activists.³³⁷ China courts local elites because it cannot afford to lose political support where it invests heavily.³³⁸ Backlash in countries like Burma (Myanmar) and Pakistan reinforce this view, while turbulent political environments in Central Asia question the reliability of China's cultivated elite relationships.³³⁹ Mr. Umarov notes that China has made efforts to bring pro-China politicians to power in Kyrgyzstan in an effort to protect against widespread distrust of China among Kyrgyzstan's citizens.³⁴⁰ He also notes that the growing number of anti-China protests in Central Asia also serve as protests against these captured elites and China's complicity in their corruption.³⁴¹

China Adapts to Local Demands

Disappointment with Chinese projects has tempered Central Asian states' initial optimism regarding BRI.³⁴² According to Ms. Yau, Central Asia's local populations have become disillusioned as Chinese investments enrich elites while the public receives poor-quality infrastructure, such as power plants that fail within a year and poorly constructed roads.³⁴³ For example, in 2018 a Chinese-repaired power plant in Kyrgyzstan malfunctioned, leading to a cold winter for many Kyrgyz, who in turn lost trust in Chinese investment.³⁴⁴ As a result, Chinese-financed projects in Central Asia have been subject to protests, strikes, and even violent attacks.³⁴⁵ China's domestic policies in Xinjiang further spur anti-China sentiment, often expressed through public demonstrations, as in Kyrgyzstan and Kazakhstan.³⁴⁶ Dr. Kassenova noted that corruption throughout Central Asia, weak rule of law, and poor government regulations limit successful commercial engagements with many countries, not just China.³⁴⁷ Due to their lack of alternatives, Central Asian states continue to partner with China to build much-needed hard infrastructure, including railroads, pipelines, and power plants.³⁴⁸ China's narrow focus on its own development leaves Central Asian states without much-needed soft infrastructure such as customs rules, human capital, and institutions.

One enduring point of friction between local populations in Central Asia and Chinese infrastructure investment is the popular fear that Chinese leaders intend to erode Central Asian states' sovereignty by encroaching on their land.³⁴⁹ This suspicion of Chinese territorial expansion fuels popular resistance to China buying or renting land, particularly in Kazakhstan, Kyrgyzstan, and Tajikistan.³⁵⁰ Although China's border disputes with these states have been formally resolved* since 1999, 2002, and 2011, respectively,

* Each of these border agreements faced large domestic opposition for ceding large portions of land to China. Bruce Pannier, "Central Asian Land and China," *Radio Free Europe Radio Liberty*, May 2, 2016.

Chinese public statements and school textbooks that refer to the whole of Kyrgyzstan and parts of Kazakhstan and Tajikistan as part of a Chinese empire drive fears that China will renege on border agreements.³⁵¹ Compounding this distrust of China's government, domestic populations in Central Asian states fear their own governments will give China land in return for corrupt personal gain or as an unofficial means of achieving debt relief.³⁵² These fears have erupted in protests over China buying land, establishing companies, and even renting farmland. On occasion, public demonstrations against Chinese companies buying or leasing land have led Central Asian governments to terminate Chinese investment projects.³⁵³

In order to improve its image in Central Asia and thus help Central Asian leaders justify China's presence in the region, China is adapting to domestic concerns.³⁵⁴ Most notably, China has shifted from debt financing to investment in infrastructure projects, according to research from Ms. Yau and Dirk van der Kley, research fellow at Australian National University.³⁵⁵ China has also begun to implement programs called "Luban workshops" that teach technical skills relating to industrial sensors, machinery equipment manufacturing, and high-speed rail technologies, enabling trained Central Asian workers to contribute to local economies.³⁵⁶ Creating local employment will likely affect migrant workers, who currently send remittances home from jobs in Russia.³⁵⁷ Similarly, China's efforts to transfer industrial capacity temper the dramatic trade imbalance between China and the region.³⁵⁸ Ultimately, China's concern for its image in the region is largely a function of securing political goodwill, which General Secretary Xi established as the first directive of Peripheral Diplomacy* in a 2013 speech.³⁵⁹

China's Indirect Security Strategy

China's approach to securing its interests in Afghanistan and Central Asia relies heavily on partnerships with the region's governments. China commits the minimum resources its strategists consider necessary for securing its interests, and it relies on other actors to stabilize the region whenever possible. For example, between 2001 and 2014, while China benefited from the International Security Assistance Force's (ISAF) presence in Afghanistan, Beijing did not commit resources to support the region's security with troops, equipment, or funds.³⁶⁰ Only after ISAF drew down its forces in 2014 did China increase its role through multilateral organizations.† China's leadership also charged the PLA with developing counterterrorism capabilities that were previously the remit of the domestically focused Ministry of Public Security.³⁶¹ The following

* In his address to the 2013 Peripheral Diplomacy Work Conference, General Secretary Xi listed four directives of securing goodwill, deepening regional economic ties, increasing cultural influence, and improving security cooperation. Michael D. Swaine, "Chinese Views and Commentary on Periphery Diplomacy," *China Leadership Monitor* 44 (July 28, 2014): 2.

† Since 2014, China has created several Afghanistan-focused initiatives, including the SCO's Regional Anti-Terrorist Structure (SCO-RATS) in 2015 and the Quadrilateral Cooperation and Control Mechanism (QCCM) in 2016 with Afghanistan, Pakistan, and Tajikistan to curtail potential spillover of illegal drugs, weapons, and terrorists. Both of these mechanisms aim to keep threats contained to Afghanistan rather than fill a power vacuum within Afghanistan. Ahmad Bilal Khalil, "Afghanistan and the Shanghai Cooperation Organization," *Diplomat*, July 14, 2021; Raffaello Pantucci, "Commentary: China's Expanding Security Role in Afghanistan," *Reuters*, March 1, 2017; Eva Seiwert, "The Shanghai Cooperation Organization Will Not Fill Any Vacuum in Afghanistan," *Foreign Policy Research Institute*, September 30, 2021.

year, China passed a counterterrorism law that enabled the People's Armed Police, another domestically focused organization, to engage overseas.³⁶² Whereas the Chinese government has previously insisted that its armed forces would not deploy overseas without either a UN mandate or an invitation from a host nation, this law could now authorize Chinese deployments overseas in situations where Chinese nationals are attacked.³⁶³ Despite China's growing involvement, Chinese leaders view their limited security engagement in Afghanistan as a necessary burden and have resisted accepting the role of security guarantor.

China's effort to shape its western neighbors into a willing and able first line of defense for China's interests overlooks important domestic political dynamics that will likely undermine its security policies.³⁶⁴ China is not concerned with solving domestic problems in Central Asia or conditioning state relations on a value system in Afghanistan. Whereas the United States and its allies and partners emphasize the importance of upholding human rights—including those of women, children, and minorities—as a basic precondition for international legitimacy, China is more concerned with having a predictable partner on its western border, no matter how that regime maintains control.³⁶⁵ This approach has backfired. In Kyrgyzstan, for example, China's willingness to operate in bribes and corruption led to the criminal conviction of former Prime Minister Sapar Isakov, costing China a political ally and much public favor.³⁶⁶ Jennifer Brick Murtazashvili, founding director of the University of Pittsburgh's Center for Governance and Markets, notes that this approach of only looking out for China's own interests will leave vulnerabilities in regional stability as it ignores fundamental governance issues.³⁶⁷

Building Capacity and Influencing Central Asia to Act as China's First Line of Defense

China is increasing its security engagement in Central Asia and Afghanistan through multilateral and bilateral defense agreements to secure its western border. While Chinese leaders' perceived threat of Uyghur-led separatism continues to drive this trend, growing threats from nonstate militant groups in and around Afghanistan as well as anti-China sentiment in Central Asia further prompt China's security engagement. By influencing state leadership and building military capacity in Central Asia, China aims to cultivate neighbors that are willing and able to act as its first line of defense.

China uses multilateral platforms such as the SCO, the China-Central Asia Foreign Ministers Mechanism (C+C5), and the Lianyungang Forum* for law enforcement to establish its own security concerns as regional security priorities.³⁶⁸ Largely considered ineffective for building military capacity, the SCO provides a tool for China to normalize the language of its security concerns and persuade Central Asian states to view China's concerns as their own.³⁶⁹ Having accepted China's designation of the "Three Evils" in its first summit in 2001, the SCO continues to prioritize China's security

*The Lianyungang Forum is a multilateral platform for security dialogue focused on law enforcement. The forum began in 2015 and is hosted by China's Ministry of Public Security. "The Fifth Lianyungang Forum Successfully Concluded Deputy Minister Delivered Speech" March 9, 2021.

concerns in Central Asia and normalize the narrative that because the member states' security fates are interconnected they must not pursue security separately from one another.³⁷⁰ China is binding together the region's interest in a way that prioritizes China's security concerns, effectively reducing Central Asian states' ability to determine their own interests or independently assess what constitutes a threat.³⁷¹ According to Ms. Yau, China has successfully "lobbied for Central Asian countries to criminalize the status of [Uyghur diaspora] organizations" and agree to a "consensus over non-tolerance of Uyghur independence supporters."³⁷² For example, China has effectively lobbied Central Asian states to limit Uyghur activity, including peaceful movie screenings, even though Central Asian citizens oppose this repression. China has also demanded Kyrgyzstan extradite refugees from Xinjiang and pressured Kyrgyzstan to censure activist films.³⁷³ According to Mr. Umarov, China's actions lay "the foundation in Eurasia for a scenario in which 'Pax Sinica' will dominate every aspect."³⁷⁴

The SCO has also adopted increasingly broad definitions of security that could offer China the opportunity to align member states' discussion of threats with China's interests. The SCO Development Strategy 2025 further states its goal of not only ensuring physical security but also "counter[ing] threats to the political, economic, and social security of the member states," and it aims to do so with increased cooperation in educational institutions, mass media, research centers, religious organizations, and nongovernmental organizations.³⁷⁵ For example, think tank experts have discussed expanding the SCO's role in Central Asia to nontraditional security areas such as food security and energy security, though it does not appear the SCO has done so to date.³⁷⁶

Where China lacks confidence in regional actors' ability to act in its interest, it has increased bilateral engagement to build military capacity. The most notable example is in Tajikistan, where the "security forces are beset with corruption and institutional weakness" and deemed by China as incapable of managing security threats emanating from Afghanistan.³⁷⁷ China's establishment of a People's Armed Police base in Tajikistan in 2016 demonstrates its willingness to take assertive action to protect its interests where another state cannot. China has also lost confidence in Russia's ability to maintain stability with its longstanding contingent of troops stationed in Tajikistan.³⁷⁸ The Russian military's poor performance in Ukraine and Russia's withdrawal of over 1,500 soldiers from Tajikistan for deployment to Ukraine has reduced the region's confidence in Russia as a security partner.³⁷⁹ Additionally, China's military outpost in Tajikistan suggests China's leaders are expanding the definition of peripheral security to consider actions in a neighboring state's sovereign territory as China's legitimate security prerogative. According to Stephen Blank, a senior fellow at the Foreign Policy Research Institute, China is increasingly "determined to assert itself wherever it has major interests at stake," and this behavior may include more Chinese troops stationed in Central Asia and elsewhere.³⁸⁰

As China increases its security footprint in Central Asia, the region has become an arena of soft competition for influence between China and Russia. Through a "velvet glove" approach toward Rus-

sia's traditional sphere of influence, China has maintained a stable relationship with Russia and demonstrated respect for Russia's political concerns. According to Paul Stronski and Nicole Ng of the Carnegie Endowment for International Peace, Russia and China have more to gain from cooperation than competition, though their "partnership may be tempered by unfulfilled expectations on both sides."³⁸¹ China will likely become more assertive where it lacks confidence in an existing security structure's capacity to guarantee its security interests.³⁸² Additionally, China's arms sales to Central Asia are quickly growing and have the potential to undermine Russian influence in some Central Asian republics. Between 2015 and 2020, China supplied 18 percent of Central Asian arms imports, demonstrating significant growth from the 1.5 percent it supplied between 2010 and 2014.³⁸³ Although Russia cornered 62 percent of the regional arms market between 2015 and 2020, China is quickly catching up.³⁸⁴ China's weapons sales are particularly notable in advanced technology where Russia cannot offer the most modern equipment. Whereas Russia continues to provide basic hardware and military platforms like small arms and vehicles, China offers communications technology, unmanned aerial vehicles, dual-use cyber infrastructure, and some missile platforms, which have a higher value than Russia's equipment.³⁸⁵ Chinese weapons sales have found particular success in Uzbekistan, which has spent more on arms from China than from Russia.³⁸⁶ Despite China's growing presence, Russia remains the dominant security partner in Central Asia, and obstacles—including language barriers—prevent true military interoperability between China and the Central Asian republics.³⁸⁷

Xi Boosts China's Influence in SCO with Promises at 2022 Summit

During the 2022 SCO Summit in Samarkand, Uzbekistan, Xi announced a series of new commitments to the SCO member states that signify China's growing assertiveness as a security and economic partner in Central Asia.³⁸⁸ Xi pledged to train over 2,000 law enforcement personnel from SCO member states in five years and committed to establish a China-SCO base for counterterrorism training, which will strengthen China's security ties to the region.³⁸⁹ Closer ties and joint training experience remove barriers to interoperability and create people-to-people ties between Chinese and the SCO members' security forces. China's promises of security cooperation in the region take advantage of the declining influence of Russia, which has historically been the region's dominant security partner.³⁹⁰ By promising high-value collaboration such as a China-SCO Big Data Cooperation Center and an agreement to share satellite data, China continued to carve out its position as a regional security partner in areas of cooperation where Russia cannot compete.³⁹¹ As Central Asian states view Russia's unprovoked invasion of Ukraine with distrust and concern for their own security, there is a growing appetite for cooperation outside of Russia, and China is capitalizing on the opportunity.³⁹²

China also offered greater economic cooperation to the Central Asian republics at the Samarkand Summit. Growing interest in expanding a Eurasian trade network that bypasses Russia culminated

in China, Kyrgyzstan, and Uzbekistan signing a memorandum of understanding on the long-discussed railway path that would cut out Russia and Kazakhstan.³⁹³ With Kazakhstan, China signed agreements for bilateral border trade between the two states to be conducted in RMB.³⁹⁴ China signed 30 additional cooperation documents regarding finance, water management, development and digital currency with the SCO member states.³⁹⁵ Through these economic and security measures, China is solidifying its influence in Central Asia through the SCO.

At the Samarkand Summit it was also announced that the SCO's membership and observer positions will expand to include new states, while reaffirming that the Central Asian states are the core of the SCO.³⁹⁶ In what will become the first expansion of SCO membership since India and Pakistan joined in 2017, SCO initiated the paperwork for Iran to gain membership in the organization.³⁹⁷ Additionally, Bahrain, the Maldives, the United Arab Emirates, Kuwait, and Burma each began the process of becoming dialogue partners.³⁹⁸ While the summit saw no movement on admitting Afghanistan as a member, Xi emphasized the role of SCO cooperation with Afghanistan in order to promote regional security.³⁹⁹

The summit demonstrated limits and potential disagreements among SCO member states. While Xi attended bilateral discussions with several attending heads of state, including Russian President Vladimir Putin, he did not meet with President Modi.⁴⁰⁰ (For more information on Xi's meeting with President Putin, please see Chapter 3, Section 1, "Year in Review: Security and Foreign Affairs.") In the summit's declaration document, there was no mention of Russia's invasion of Ukraine or China's territorial claims over Taiwan.⁴⁰¹ During the summit, a border dispute between Tajikistan and Kyrgyzstan erupted into the worst violence between the two states since they gained independence in 1991.⁴⁰² The clash demonstrated the limits of the SCO as a mechanism for diplomacy and security cooperation, and Xi himself made no public comment on the conflict.⁴⁰³

Hedging Political Relationships in Afghanistan

China's engagement with the Taliban since the latter's return to power is not a show of support but rather a continuation of a strategy that hedges against volatile power shifts.⁴⁰⁴ For decades, China has approached Afghanistan by developing simultaneous relationships with both controlling and contesting parties, never fully committing to back one.⁴⁰⁵ In its engagements with the Afghan Republic, China sold weapons and hosted military training with the legitimate government while simultaneously maintaining a relationship with the Taliban.⁴⁰⁶ Now that the Taliban again governs Afghanistan, China still hedges its relationship by neither recognizing nor condemning the Taliban, remaining flexible to cooperate without alienating itself from the international community.⁴⁰⁷

China leverages its investment and diplomatic legitimacy to attain security cooperation from the Taliban, with only limited success.* In

*The Taliban has also acquiesced to Russian demands to stem opium production. We have yet to see whether this will be followed up with action or if this nominal commitment is merely lip service to a regional power. Jennifer Brick Murtazashvili, oral testimony for the U.S.-China

2021, the Taliban reassured China it would not “allow any force to use Afghan territory to engage in acts detrimental to China,” and it once relocated ethnic Uyghurs from Afghanistan’s Badakhshan Province on China’s border to central Afghanistan (see Figure 4).⁴⁰⁸ This example of Taliban action to suppress Uyghurs does not indicate consistent cooperation with China, and no evidence suggests the Taliban has extradited any Uyghurs to China.⁴⁰⁹ By contrast, China once enjoyed a high degree of cooperation with former Afghan President Ashraf Ghani, who made a commitment to counter anti-China militants, and with former President Hamid Karzai, who witnessed the two states sign an extradition treaty.⁴¹⁰

China has taken measures to demonstrate opportunity for commercial ties with and aid to Afghanistan, yet current economic engagement remains extremely limited. According to Mr. Pantucci and Alexandros Petersen, a late academic at the American Universities of Afghanistan and Central Asia, “The tangible economic links between China and Afghanistan amount to the export of Afghan pine nuts to China and the construction of a fiberoptic cable down the Wakhan Corridor to help Afghanistan get on the internet.”⁴¹¹ The Chinese government has announced more recent measures to increase Sino-Afghan economic activity.⁴¹² In August 2022, China resumed processing visas for Afghan businessmen and declared that 98 percent of Afghan imports will enter China without tariffs.⁴¹³ China has also increased pledges of humanitarian aid to Afghanistan in an effort to strengthen its image in the region. In September 2021, following the return of Taliban rule, the Chinese government pledged \$29 million (RMB 200 million) to Afghanistan, with a further \$7.2 million (RMB 50 million) pledged after an earthquake in June 2022.* In an interview with The China Project, Ms. Yau indicated that Chinese leadership was interested in using propaganda to showcase Chinese aid in contrast to the United States’ long-term military presence.⁴¹⁴ The United States remains the largest humanitarian donor to Afghanistan, however, providing more than \$774 million in assistance to Afghanistan since August 2021, including nearly \$55 million in response to the June earthquake.⁴¹⁵

The Taliban is also trying to leverage its cooperation for China’s support, yet it is cognizant of the limits to this support.⁴¹⁶ China will not be able to secure the cooperation it desires or hedge against the Taliban as successfully as it hedged against the former Afghan Republic. Not only does a hardline faction within the Taliban oppose China’s policies toward Uyghurs and thus obstruct cooperation, but also any cooperation China can secure may fuel the resurgence of Islamic State Khorasan (ISK), a rival of the Taliban and self-declared adversary of China. ISK accrues public support for its extremist agenda and undermines Taliban authority by accusing the Taliban of betraying Muslims and Islamic values.⁴¹⁷ While ISK has long opposed China’s treatment of Muslims in Xinjiang and abroad,† the terrorist group remained preoccupied with its “principle adversary,”

Economic and Security Review Commission, *Hearing on China’s Activities and Influence in South and Central Asia*, May 12, 2022, 20.

*According to China’s embassy in Afghanistan, these pledges have been fulfilled as of July 2022. Kate Zhang, “China Delivers US\$37 Million in Aid to Afghanistan, Fulfilling Promise to Taliban,” *South China Morning Post*, July 6, 2022.

†Some reports suggest that China’s activity will drive Uyghurs toward ISK, but this has not been seen yet. Jennifer Brick Murtazashvili, oral testimony before the U.S.-China Economic and

Figure 4: Map of Afghanistan



Source: Jack Farchy and James Kynge, “Map: Connecting Central Asia,” *Center for Strategic and International Studies*, May 9, 2016; Ji Siqu, “China-Europe Rail Shipping Growth Slows as Ukraine War Pushes Companies Back to the Seas,” *South China Morning Post*, July 29, 2022.

the United States.⁴¹⁸ According to Mr. Pantucci, without the dominant United States presence in the region, ISK and similar extremist groups can turn their attention more directly to China.⁴¹⁹

China has increasingly become the target of nonstate militant extremists.⁴²⁰ ISK claimed responsibility for the 2021 Kunduz Mosque bombing and took the unusual step of identifying the suicide bomber's ethnicity by naming him Muhammad al-Uyghuri.⁴²¹ This additional step signals not only that China is on ISK's radar but also that China cannot trust the Taliban to contain ethnic Uyghurs in Afghanistan.⁴²² Since the NATO-led Resolute Mission Support in Afghanistan ended in 2021, ISK now has fewer targets to distract its focus from China.⁴²³ China also faces growing threats from the Taliban in Pakistan (Tehreek-e-Taliban Pakistan) and Balochi militants,* both groups that denounce China's self-serving investments in their communities. Tehreek-e-Taliban Pakistan is a subgroup of the Pakistani Taliban that continues to conduct attacks in Pakistan, and the group is suspected to be behind the 2021 car bombing in Pakistan's western province of Khyber-Paktunkhwa that killed nine Chinese nationals.⁴²⁴

Implications for the United States

South and Central Asia are regions of growing importance in Chinese foreign policy, and each present important trends for the United States to monitor. China's attempts to exert influence and control over South Asia by undermining Indian influence directly threaten the critical interests of a key U.S. partner. Similarly, China's expanding investments and security cooperation in Central Asia are actively reshaping the strategic environment around Afghanistan. The U.S. Interim National Security Strategic Guidance asserts that the United States will "only succeed in advancing American interests and upholding our universal values by working in common cause with our closest allies and partners."⁴²⁵ Moreover, China's manufactured crises along China and India's disputed border impose outsized risks on India, challenging India's national security and threatening to spark armed conflicts between two nuclear weapons states. Deteriorating relations with China have already driven the Indian government to greater strategic alignment with the United States. This trend could improve the U.S. ability to respond to the CCP's increased aggression in South and Central Asia, even as the U.S. and Indian governments differ on crucial issues such as relations with Russia's government in the wake of its invasion of Ukraine.

Chinese leaders have grander ambitions for future PLA presence and operations in the Indian Ocean that directly challenge U.S. protection of the commons and role in the region. The PLA Navy takes the U.S. Navy as their principal challenge and regularly deploys warships and submarines to exercise expeditionary capabilities un-

Security Review Commission, *Hearing on China's Activities and Influence in South and Central Asia*, May 12, 2022, 11.

*"The BLA [Balochistan Liberation Army] is part of the Baloch Raji Aajoi Sangar (BRAS) umbrella group of Baloch nationalists, which comprises... the BLA, the Baloch Liberation Front (BLF), the Baloch Republican Guard... [and] the Baloch Republic Army. BRAS and its affiliates are generally pro-independence for the Balochistan region; they regard both Pakistan and China as threats." Yumi Washiyama, "Balochi Militants Take Aim at Chinese Interests," *Diplomat*, July 24, 2020.

der the guise of antipiracy operations. Although the PLA's ambitions to be able to conduct operations in the Indian Ocean remain far from its current capabilities, a future PLA Navy operating in close proximity to U.S. Navy or Indian Navy warships heightens friction and risks of inadvertent escalation, challenging India's intended role as a net security provider in the Indian Ocean.

The Chinese government has funded the construction of some sorely needed infrastructure in many South and Central Asian countries. These projects, if properly implemented, could boost economic growth in the countries and help their economic and technological integration with the rest of the world, thereby providing greater opportunities for U.S. businesses. In practice, however, the Chinese government's funding is accompanied with an expectation that recipient countries will provide support for Beijing's authoritarian policies on the global stage, or at the very least refrain from criticizing Beijing. The Chinese government is likely to use this support to reshape international norms and standards to suit the CCP's interests, particularly through consensus-based international fora such as the UN. Chinese-funded technological projects can also serve as a means of locking in Beijing's preferred technological standards, creating a landscape more favorable to the CCP's authoritarian practices.

Chinese-financed infrastructure projects have also contributed to an unsustainable debt buildup in many recipient countries across South and Central Asia, increasing the risk that the United States and other development finance partners will be responsible for extending further debt relief to many highly indebted countries. The opacity and lack of rigorous standards during the planning stages of these projects also increases the risk that such projects will saddle recipient countries with added debt rather than provide economic growth. This risk is particularly prevalent amid current trends of slowing global economic growth and high interest rates. In the event of such a crisis, any debt relief provided by the United States and multilateral lending institutions may ultimately benefit China, which has historically proven unwilling to participate in multilateral debt-relief efforts.

Appendix: Indian Government Restrictions on Economic Ties with China

Date	Action	Note
April 2020	India's Ministry of Commerce and Industry requires government approval of foreign direct investment (FDI) coming from countries that share a land border with India to curb "opportunistic takeovers/acquisitions of Indian companies due to the current COVID-19 pandemic." ⁴²⁶	Between April 2020 and March 2022, the Indian government has received 347 FDI proposals, of which 281 remain pending. ⁴²⁷ The backlog has reportedly led New Delhi to consider relaxing the restrictions. ⁴²⁸
June 2020, September 2020, November 2021, and February 2022*	India's Ministry of Electronics Information Technology placed restrictions on downloading Chinese apps (321 as of October 2022). ⁴²⁹	The initial bans in 2020 impacted one of the Chinese internet industry's largest overseas markets. TikTok had been downloaded by over 100 million users in India. ⁴³⁰
July 2020	India's government amended its public procurement law to restrict bids from companies in countries that share a land border with India. ⁴³¹	In September 2022, Indian media reported that the Indian government had exempted several types of goods used in renewable energy in an effort to boost such projects. ⁴³²
April 2021	India's government began requiring mandatory registration for certain types of copper and aluminum. ⁴³³	According to Indian government officials, this restriction aimed to curb copper and aluminum imports from China and other Asian countries in order to protect India's domestic producers. ⁴³⁴
May 2021	India's government announced that mobile companies were to conduct 5G trials with foreign equipment makers, including Ericsson, Nokia, and Samsung, but it did not mention Huawei or ZTE. Several Indian government officials said New Delhi would likely block mobile carriers from using Huawei equipment, though no ban has been announced. ⁴³⁵	In July 2020, two Indian state-owned telecommunications companies canceled bids on upgrading to 4G, apparently to prevent Huawei and ZTE from participating in the project. ⁴³⁶

*Some of the latest apps include those belonging to major Chinese tech companies, such as Alibaba, Tencent, and NetEase, that had already been blocked by India's government in 2020 but which the firms had rebranded. *Bloomberg*, "India Bans 54 Chinese Apps, Including Those of Tencent, Alibaba and NetEase, on Security Concerns, Report Says," February 14, 2022.

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