

**HEARING ON CHINA'S ACTIVITIES AND INFLUENCE IN SOUTH
AND CENTRAL ASIA**

**HEARING
BEFORE THE
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION**

**ONE HUNDRED SEVENTEENTH CONGRESS
SECOND SESSION**

THURSDAY, MAY 12, 2022

Printed for use of the
United States-China Economic and Security Review Commission
Available via the World Wide Web: www.uscc.gov



**UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW
COMMISSION**

WASHINGTON: 2022

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HEARING ON CHINA'S ACTIVITIES AND INFLUENCE IN SOUTH AND CENTRAL ASIA

THURSDAY, MAY 12, 2022

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, D.C.

The Commission met in Room 215 of Dirksen Senate Office Building, Washington, DC and via videoconference at 9:30 a.m., Commissioner Carolyn Bartholomew and Commissioner Randall Schriver (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF COMMISSIONER CAROLYN BARTHOLOMEW HEARING CO-CHAIR

COMMISSIONER BARTHOLOMEW: Welcome, everyone, it's interesting to be back in person. I feel like our witnesses are miles away. We have somebody who actually is miles away, but welcome. Welcome to the fifth hearing of the U.S. China Economic and Security Review Commission's 2022 Annual Report Cycle.

Thank you all for joining us. We really appreciate our witnesses for the time and the effort they have put into their testimonies and for appearing before us today and answering what will undoubtedly be many questions.

Today's hearing examines China's activities and influence in two of its neighboring regions, South and Central Asia. As we will hear from our witnesses, China has diverse interests in these regions including economic interests by gaining access to natural resources, and developing new export markets and geopolitical interests by aligning or attempting to align other countries with its vision of a Sinocentric international order.

Commissioner Schriver, this hearing's co-chair, will address the national security interests.

Beijing has used the promise of economic assistance, development aid and investment to help secure its strategic interests in these countries. China's economic diplomacy, however, carries considerable risk.

As we have seen elsewhere in the world, Chinese investment in, and lending to South and Central Asian countries can bring crony capitalism and corruption, unsustainable debt loads, dependence on Chinese trade, and reliance on polluting extractive industries.

Belt and Road projects often benefit Chinese companies more than local economies. Moreover, by capturing the interests of local elites, Chinese presence in the region can undermine the ability of governments and private business to engage effectively.

Some countries are reconsidering the wisdom of pursuing ever-closer economic ties with China. Most notably in India, like in United States, there is a growing awareness that trade and

investment with China are not only economic issues but also national security issues.

India is both an example of the growing interest in diversifying away from China, and an example of the difficulty in actually doing so. Last year, trade between India and China reached an all-time high of \$126 billion with \$28 billion in export to China and \$98 billion in imports from China.

Both South and Central Asia have long and complex histories. As China deepens its engagement in South Asia, it faces competition from India which has deeper cultural and historical ties with many of the countries in the region.

China's increasing presence in Central Asia raises possible challenges to Russia's presence even as Beijing and Moscow publicly declare their friendship without limits. Russia's recent invasion of Ukraine and the swift economic sanctions that have been placed on it as a result, add a further element of uncertainty in the region.

Russia's diminished economic power and poor military performance may grant China an opportunity to deepen its influence in Central Asia. If China becomes too aggressive, however, it may experience a backlash, particularly because broad swathes of Central Asian populations already view China's presence with suspicion.

We will explore these and other issues with our distinguished witnesses today. Before we begin I'd like to thank the Senate Finance Committee for securing this room for our use today. I would also like to thank the Senate Recording studio for their assistance in live streaming this event.

Now I will turn the floor over to my colleague and Chair for this hearing, the distinguished Commissioner Randy Schriver.

**PREPARED STATEMENT OF COMMISSIONER CAROLYN BARTHolemew
HEARING CO-CHAIR**



Hearing on “China’s Activities and Influence in South and Central Asia”

Thursday, May 12, 2022

Opening Statement of Commissioner Carolyn Bartholomew

Good morning, and welcome to the fifth hearing of the U.S.-China Economic and Security Review Commission’s 2022 Annual Report cycle. Thank you all for joining us. We appreciate especially our witnesses for the time and effort they have put into their testimonies and for appearing before us today.

Today’s hearing examines China’s activities and influence in two of its neighboring regions, South and Central Asia. As we will hear from our witnesses, China has diverse interests in these regions, including economic interests, by gaining access to natural resources and developing new export markets, and geopolitical interests, by aligning or attempting to align other countries with its vision of a Sino-centric international order. Commissioner Schriver, this hearing’s co-chair, will address the national security interests.

Beijing has used the promise of economic assistance, development aid, and investment to help secure its strategic interests in these countries. China’s economic diplomacy, however, carries considerable risk. As we have seen elsewhere in the world, Chinese investment in and lending to South and Central Asian countries can bring crony capitalism and corruption, unsustainable debt loads, dependence on Chinese trade, and reliance on polluting extractive industries. Belt and Road projects often benefit Chinese companies more than local economies. Moreover, by capturing the interests of local elites, China’s presence in the region can undermine the ability of governments and private business to engage effectively.

Some countries are reconsidering the wisdom of pursuing ever-closer economic ties with China. Most notably, in India, like in the United States, there is a growing awareness that trade and investment with China are not only economic issues, but also national security issues. India is both an example of the growing interest in diversifying away from China and an example of the difficulty in actually doing so. Last year, trade between India and China reached an all-time high of \$126 billion, with \$28 billion in exports to China and \$98 billion in imports from China.

Both South and Central Asia have long and complex histories. As China deepens its engagement in South Asia, it faces competition from India, which has deeper cultural and historical ties with many of the countries in the region. China’s increasing presence in Central Asia raises possible challenges to Russia’s presence, even as Beijing and Moscow publicly declare their “friendship without limits.”

Russia's recent invasion of Ukraine and the swift economic sanctions that have been placed on it as a result add a further element of uncertainty in the region. Russia's diminished economic power and poor military performance may grant China an opportunity to deepen its influence in Central Asia. If China becomes too aggressive, however, it may experience a backlash, particularly because broad swathes of Central Asian populations already view China's presence with suspicion.

We will explore these and other issues with our distinguished witnesses today.

Before we begin, I would like to thank the Senate Finance Committee for securing this room for our use today. I would also like to thank the Senate Recording Studio for their assistance in livestreaming this event. Now I will turn the floor over to my colleague and co-chair for this hearing, Commissioner Randy Schriver.

OPENING STATEMENT OF COMMISSIONER RANDALL SCHRIVER HEARING CO-CHAIR

COMMISSIONER SCHRIVER: Thank you, Commissioner Bartholomew. And let me add my welcoming good morning to our esteemed witnesses, we appreciate your time today.

You know, we convened this hearing at a very important time and a dynamic time. You know, for 20 years we viewed regional issues, security issues primarily through the prism of counter terrorism and the response to the 9/11 attacks. And we're now in the process of reframing in terms of great power competition.

And the competition with China is an important reframing if not an organizing principle. Of course, China itself is absorbing the implications and lessons our withdrawal from Afghanistan, what new challenges that presents to them and what new opportunities it presents them.

As an interested security partner, China has long been involved in Central Asia and South Asia, if for no other reason due to proximity to the border areas and the near periphery. This is all part of China's back yard.

But now we see them being more active including on the security side, and we see activities in a variety of realms. We see joint exercises, military training, we see increased arms sales. We even see some basing, albeit through the People's Armed Police rather than PLA but a growing presence of China in the region.

As they pursue their interests and change their activities to meet the new challenges and opportunities, we have the opportunity to do the same, particularly with our major defense partner, India, a relationship that is growing and evolving, not without some complications as evidenced by the recent Indian decision on the UN vote on Russia-Ukraine, but a major defense partner with a great deal of potential that we're trying to build out to meet those challenges in South Asia in particular, including the Indian Ocean region where China is also active.

We've seen increased PLA presence through surface activities, extension of their anti-piracy activities off the horn of Africa and out of Djibouti. We see increased submarine activity and interest in developing access points through the Belt and Road Initiative throughout the Indian Ocean region.

So again, a very dynamic period, and we look forward to hearing from you so that we better understand the range of challenges and opportunities for us on our side and what recommendations you might have for the Congress.

Before we begin, I want to remind all the witnesses that the testimonies and transcripts from today's hearing will be on our website which is wwwuscc.gov. And also a reminder for your calendars that the Commission's upcoming hearing on U.S./China competition in global supply chains, and policies, and how to bolster their resilience will be on June 9th.

So with that, let me introduce our first panel. Our first panel examine Chinese leaders' perceptions of their challenges and opportunities in Afghanistan and Pakistan.

**PREPARED STATEMENT OF COMMISSIONER RANDALL SCHRIVER
HEARING CO-CHAIR**



Hearing on “China’s Activities and Influence in South and Central Asia”

Thursday, May 12, 2022

Opening Statement of Commissioner Randall Schriver

Thank you, Commissioner Bartholomew, and good morning to our esteemed witnesses. We hold this hearing at a dynamic time. For over 20 years, Washington has tended to view South and Central Asia through the prism of counterterrorism, especially in Afghanistan. Now as we transition towards great power competition, we are also reframing the way we see our interests in the region. Today’s hearing will help clarify how China affects our interests and what is at stake for the United States.

The Commission last held a hearing on China’s activities in Central Asia in 2015, a time when we asked whether China would cooperate with the United States to stabilize Afghanistan and join coalition counterterror efforts. Needless to say, our hopes for Chinese cooperation in Afghanistan have not materialized. Today, China is actively working to shape the regional security architecture to its benefit through joint military exercises, multilateral organizations like the Shanghai Cooperation Organization, and even the direct presence of armed forces in Tajikistan. China’s growing influence in a region once considered “Russia’s backyard” raises questions of how China’s so-called “new-era strategic partnership of coordination” with Russia will play out. Russia has traditionally been a dominant security partner for former Soviet states, and how the Kremlin will respond to a growing footprint of Chinese troops in Central Asia remains to be seen.

China’s efforts to exert greater influence continue along its western horizon, reaching across Central Asia into South Asia, where its competition with India has continued to intensify. The United States has an unwavering commitment to India as a Major Defense Partner, and our two countries share common visions and aspirations in a Free and Open Indo-Pacific. The U.S. and Indian defense establishments maintain close engagements that help ensure security with other partners in the region, for example through information sharing and cooperation between our two militaries.

The United States, India, and other countries in South Asia face a growing military challenge as PLA soldiers encroach on China’s borders with Bhutan, Nepal, and India. At the same time the PLA Navy is expanding its presence and improving its capabilities to deploy and conduct major operations in the Indian Ocean. The testimony in this hearing will speak to how partner countries in the region see these challenges and highlight opportunities for the United States to support and empower these countries as they respond to China’s destabilizing behavior.

Before we begin, I would like to remind you all that the testimonies and transcript from today’s hearing will be posted on our website, which is www.uscc.gov. Also, please mark your calendars for the Commission’s upcoming hearing on U.S.-China competition in global supply chains and policies to bolster their resilience, which will be on June 9. I will now turn to introduce our first panel.

PANEL I INTRODUCTION BY COMMISSIONER RANDALL SCHRIVER

COMMISSIONER SCHRIVER: So with that, let me introduce our first panel. Our first panel examine Chinese leaders' perceptions of their challenges and opportunities in Afghanistan and Pakistan.

And we'll start with Dr. Jennifer Brick Murtazashvili, excuse me, the Founding Director of the Center for Governance and Markets and Associate Professor in the Graduate School of Public International Affairs at the University of Pittsburgh. Her research focuses on issues of security, political economy, and governance in Central and South Asia. She will address the evolving relationship between China's leadership and the Taliban.

Next, we will hear from Dr. Muhammad Tayyab Safdar, a postdoctoral researcher at the University of Virginia. Dr. Safdar's research looks at the economic and political dimensions of increasing Chinese investment on host countries that are part of the Belt and Road Initiative focusing particularly on the China/Pakistan economic corridor. He will examine the China/Pakistan relationship and economic cooperation.

Finally, we welcome back Mr. Raffaello Pantucci, a Senior Associate Fellow at the Royal United Services Institute, and Senior Fellow at the S. Rajaratnam School of International Studies in Singapore. Mr. Pantucci researches China's relations with its Western neighbors including issues of terrorism and counter-terrorism. Today he will assess Chinese security approaches to Afghanistan and its borders.

Thank you all very much for your testimony. The Commission is looking forward to your remarks, and I ask all our witnesses to please keep their remarks to seven minutes. Dr. Murtazashvili, excuse me, we'll begin with you, apologies.

OPENING STATEMENT OF JENNIFER BRICK MURTAZASHVILI, FOUNDING DIRECTOR, CENTER FOR GOVERNANCE AND MARKETS, UNIVERSITY OF PITTSBURGH

DR. MURTAZASHVILI: Chairman Schriver, Commissioner Bartholomew, it's a real honor to be here today. My name is Jennifer Murtazashvili, and I'm speaking to you as a professor of International Affairs at the University of Pittsburgh and a non-resident scholar at Carnegie Endowment for International Peace's Asia Program.

I've been asked to speak to you today on China's interests in Afghanistan, Russia/China relations, vis a vis Afghanistan, as well as U.S. policy options in the region. I'll make four points today and one major recommendation.

First, security drives China's interests in Afghanistan. The de Americanization of security in Central and South Asia has led to new opportunities for regional powers and Afghanistan's neighbors to have more active strategies in the region.

The collapse of the Afghan Republic required urgency on the part of both regional countries to deal with the Taliban who seized power after Afghan President Ashraf Ghani fled. For China and other countries neighboring Afghanistan, dealing with the Taliban is not a luxury but a necessity.

China's engagement with the Taliban should not be mistaken for support. The longer the U.S. was in Afghanistan, the more unstable the country became. It's hard to overstate the acute instability that existed in Afghanistan for many years prior to U.S. withdrawal, especially after 2014.

China and other regional countries begin courting the Taliban in the hopes that they could bring stability. So did the United States. Since 2021, China's interest in Afghanistan has been focused on security. While China has talked up its desire to promote investment in Afghanistan, this is done largely to ameliorate the Taliban. China understands that Afghanistan remains a risky investment proposition.

Number two, China's security concerns, China has four primary security concerns that drive its engagement in Afghanistan. First, China wants to make sure that Afghanistan has a functioning government. Without a government in place, Kabul, you know, that Kabul can project its power throughout the country and maintain a monopoly on the use of violence, the Taliban will be unable to fulfill its security guarantees to China and other neighbors.

The most important security guarantee that China has promised is that --- that Afghanistan has promised, I'm sorry, is that the Taliban have said that Afghanistan will not be used as the base to launch terrorist attacks against neighboring states.

Second, China wants to ensure that its border with Afghanistan is secure to prevent violent extremists from entering its territory. To do this, Afghanistan is relying on the Taliban, but also leaning on security provisions of Tajikistan and Pakistan. China finds itself reliant on Russia and the Collective Security Treaty Organization which operates a military base in Southern Tajikistan.

Third, China aims to ensure that the Taliban are willing to eliminate Uyghur militant groups, specifically the East Turkestan Islamic Movement operating in Afghanistan. China exaggerates the threat of these groups to engage in what President Biden has called a genocide

against the Uyghurs.

In the months after coming to power, signs emerged that the Taliban took China's pleas to deal with Uygher armed groups seriously by moving them from Badakhshan Province in the Northeast and relocating them to Central Afghanistan.

There is no evidence, however, that Taliban leaders transferred any Uyghurs to Chinese custody. This strategy can backfire. There are reports that efforts to control these ETIM fighters inside of Afghanistan is pushing them closer to Taliban rival Islamic State Khorasan.

Finally, China aims to protect its current investments and citizens that are working in Afghanistan. But these projects and citizens are very few and projects have been on hold for a long time.

What is the Taliban attitude towards China? The Taliban actively courts China for economic benefit. Afghanistan is under extreme economic duress. Chinese investment and economic support are one the few economic opportunities Afghanistan has on its horizon, as aid flows from the United States and Europe have dried up.

The Taliban have expressed interest in Belt and Road activities, and China has promised investment. But insecurity makes these investments unrealistic. China has said that it hopes to bring Afghanistan into the China/Pakistan economic corridor and, quote, "replicate its success in Afghanistan to help bridge regional connectivity."

But the more China demands the Taliban denounce Islamist groups, the more vulnerable the Taliban become to IS-K and Taliban factions who can portray the Taliban as mere sellouts. The Taliban have justified its relationship with China by stating China doesn't interfere in domestic affairs. But that justification may not last for long as the Taliban feel pressure from IS-K and other groups.

Point four, Russia and China interests in Afghanistan. Russia and China are focused on security interests in Afghanistan and share concerns about violent extremism and terrorism. An informal division of labor between Russia and China has emerged, vis a vis Afghanistan. Russia has taken the lead on security. It has 8,000 troops in Tajikistan and a base in Kyrgyzstan.

China has seen its role as more involved in economic concerns, but recently China has made modest security investments outside of its territory. In 2017 it built military installations in Tajikistan near the Wakhan corridor to protect Chinese investments in Central Asia and provide an extra layer of security on its border with Afghanistan in anticipation of U.S. withdrawal.

Chinese outposts, however, take on greater significance after Russia's invasion of Ukraine which demonstrated the weakness of the Russian military, which in turn lead many to question Russia's ability to protect neighbors from potential threats from Afghanistan. This weakness may give China incentives to become more involved in security matters in the region.

What are the recommendations going forward? Today, the U.S. has very few policy tools it can wield in this region. It placed tough conditions on the Taliban. Similarly, U.S. relations with China and Russia are very strained.

Most importantly, the U.S. has lost tremendous credibility in the region. And this cannot be underscored. While the U.S. can promote its effort to drive accountability and conditionality with the Taliban, this must be met by a broader strategy that recognizes the importance of a regional connectivity and economic support as a path towards longer term stability in Afghanistan and the region.

With a distracted Russia, and the de-Americanization of the region, countries in the region have greater agency than any time in recent history. Thus, a path towards greater U.S. engagement in the region could be through neighboring countries who are looking for a third party that will allow them to balance Russia and China. This would allow them to build autonomy of local actors and recognize their increasingly independent foreign policies.

Engagement on issues of regional connectivity are shared interests of every country in this land-locked region and have the potential for positive sum outcomes for all. Thank you.

**PREPARED STATEMENT OF JENNIFER BRICK MURTAZASHVILI, FOUNDING
DIRECTOR, CENTER FOR GOVERNANCE AND MARKETS, UNIVERSITY OF
PITTSBURGH**



Jennifer Brick Murtazashvili

May 12, 2022

Founding Director, Center for Governance and Markets
Associate Professor, Graduate School of Public and International Affairs
University of Pittsburgh

United States-China Economic and Security Review Commission
Hearing on “China’s Activities and Influence in South and Central Asia”

Executive Summary

- China is motivated primarily by security interests in Afghanistan. It does not want terrorism or extremist activity to spill over from Afghanistan into China. It wants to prevent terrorism from destabilizing the region.
- The primary security concern of China is potential threats from the relatively small East Turkistan Islamic Movement, a group that seeks to liberate Xinjiang Province and the Uyghur people from Chinese government control and impose an Islamic order.
- Russia and China have strong mutual security interests in Afghanistan in preventing terrorism and violent extremism. The credibility of Russia as a security partner, however, in the region is in doubt after its poor performance in Ukraine.
- The U.S. has limited policy options in this region given that it will not engage with the Taliban, has tense relations with China, and has sanctioned Russia. This is compounded by loss of U.S. credibility throughout the region due to the disastrous result of the U.S. war in Afghanistan.
- A potential solution to this impasse is for the U.S. to support greater economic support and tools of regional connectivity to achieve positive-sum outcomes as Afghanistan’s neighbors seek to balance the influence of China.

1. Chinese Interests in Afghanistan

The announcement of the U.S. withdrawal from Afghanistan in spring 2021 sped the collapse of the Government of the Islamic Republic of Afghanistan led by President Ashraf Ghani. The de-Americanization of security in Central/South Asia has led to new opportunities for regional powers and Afghanistan’s neighbors to have more active security strategies in the region.

The collapse of the Afghan republic required urgency on the part of both regional countries and neighbors to deal with new authorities who had suddenly taken over Kabul. For China and other countries bordering Afghanistan, dealing with these new leaders, the Taliban, was not a luxury, but a necessity.

While China has engaged actively with the Taliban, this engagement should not be mistaken for support. Regional powers and Afghanistan's neighbors have little choice but to engage with the regime that is in place. The same could be said of other countries such as Russia and Uzbekistan, and to some extent Iran. These countries were aligned with and largely supported U.S. strategy in Afghanistan, especially in the early years after 2001. They supported the goals and objectives of the both the U.S. and the government in Kabul. None of these countries had any desire to see Afghanistan back in the hands of the Taliban, a movement they considered to be a supporter of terrorism and extremism

Despite this support, the U.S. failed to achieve its political or military objectives in Afghanistan. Instead, the U.S. presence and poor governance on the part of the Afghan government gave rise to the Taliban insurgency, which in turn wrought chaos and disorder in Afghanistan. The longer the U.S. was in Afghanistan, the more unstable the country became. It is hard to overstate the acute instability that existed in Afghanistan for many years, especially after 2014—the year the U.S. stopped military operations. The situation in northern Afghanistan became particularly challenging as upwards of one-third of the population migrated or became internally displaced before the collapse of the government. Violence skyrocketed in every corner of the country, especially in the north—a region that had not previously seen much Taliban presence. While conflict in Afghanistan was contained in the south and east for many years, its expansion into northern Afghanistan rattled its more powerful neighbors, especially China, Russia, Iran, and Uzbekistan.

Rather than bringing stability, over time, the U.S. intervention in Afghanistan spawned the growth of terrorist groups including Islamic State-Khorasan (IS-K). China saw this growing instability in the north as creating space for terrorist groups such as the Uyghur East Turkistan Islamic Movement (ETIM), an organization it accuses of fomenting separatism and terrorist attacks inside of China.

Since August 2021, security and fear of violent extremism has defined China's policy towards the Taliban. China has one overarching goal in Afghanistan: preventing terrorism and violent extremism from destabilizing the region. Specifically, it is worried about potential spillover of Islamic extremism from Afghanistan into Western China and the Xinjiang Autonomous Region. China also worries that a destabilized Afghanistan will provide fertile ground for the ETIM or other groups who wish to use Afghanistan as a basing territory.

While much has been made in the Western media about China's ambitions to wield significant influence in Afghanistan and secure investments in that country,¹ China understands that Afghanistan remains a risky investment proposition. China does maintain some investments in Afghanistan, but those projects have been plagued by problems and have mostly been on hold for years. The most notable of these was

¹ Bloomberg News, "With Economic Assets to Secure, China Embraces the Taliban," August 17, 2022, <https://www.aljazeera.com/economy/2021/8/17/with-economic-assets-to-secure-china-embraces-the-taliban>.

the Mes Aynak copper mine in Wardak Province, central Afghanistan, a project that was plagued by violence and instability for years. While the Taliban have been keen to reengage this project, China understands that restarting this project will require security. The ability of the Taliban to provide this, given the growth of IS-K and growing fissures within the Taliban movement, remains questionable.

2. China's Security Concerns in Afghanistan

China has four primary security concerns that drive its engagement in Afghanistan. China's overwhelming security interest revolves around the issue of foreign fighters and potential unrest from ETIM.

First, China wants to make sure that Afghanistan has a functioning government. Without a government in place in Kabul that can project its power throughout the country and maintain a monopoly on the use of violence, the Taliban will be unable to fulfill their security guarantees to China and other neighbors. This means that these countries will be vulnerable to potential instability from cross-border spillovers. The inability of the previous government to provide such order was a factor that encouraged China to begin negotiating with the Taliban in the first place. China has not recognized the Taliban as a government but has allowed them to occupy the Afghanistan embassy in Beijing, giving the Taliban de facto recognition.²

Second, China wants to ensure that its border with Afghanistan is secure to prevent violent extremists from entering its territory. To do this, Afghanistan is relying on the Taliban, but also is also leaning on security provisions of Tajikistan and Pakistan. China finds itself reliant on Russia and the Collective Security Treaty Organization (CSTO), which operates a military base in southern Tajikistan. Russia established this base in Tajikistan to provide support for the nascent government of Emomali Rahmon as he sought to consolidate power during the Tajikistan Civil War (1992-1997). It has remained in place since that time. Russia says its troops are ready to respond to "potential threats and challenges emanating from Afghanistan....and to identify and neutralize extremist terrorist cells that are attempting to violate the borders of Tajikistan."³

Third, China aims to ensure that the Taliban are willing to eliminate Uyghur militant groups operating inside of Afghan territory. It is important to stress that China has exaggerated the threat and involvement of Uyghurs in terrorist organizations. It has used the specter of Islamic separatism to crackdown on and imprison millions of Uyghurs in China.⁴ In July 2021, shortly before the collapse of the Kabul government, Taliban leaders promised China that it would not allow foreign fighters to use Afghanistan as a base to attack China.⁵

² Ben Evansky, "China, Afghanistan's Taliban Forging a Closer Relationship, Former Diplomat Says," *Fox News*, May 3, 2022, <https://www.foxnews.com/world/china-afghanistan-taliban-closer-relationship-former-diplomat>.

³ "Russia's Military Base in Tajikistan Fully Equipped to Respond to Any Threats, Says Envoy," *TASS*, January 28, 2021, <https://tass.com/defense/1394749>.

⁴ Sean Roberts, *War On The Uyghurs Chinas Campaign Again* (Princeton: Princeton University Press, 2020).

⁵ Shuli Ren, "How Afghanistan Snags China in a \$282 Billion Creditor Trap," *Washington Post*, accessed May 4, 2022, https://www.washingtonpost.com/business/energy/how-afghanistan-snagschina-ina-282-billion-creditor-trap/2021/08/18/0a5995b4-007d-11ec-87e0-7e07bd9ce270_story.html.

In the months after coming to power, signs emerged that the Taliban took China's pleas to deal with Uyghur armed groups seriously by moving them allegedly from Badakhshan Province in the northeast (close to China's border) and relocating them to Baghlan and Takhar provinces in central Afghanistan as an effort to monitor the group's activities. There is no evidence, however, that that Taliban leaders transferred any Uyghur fighters to Chinese custody. It is unclear if there has been a sustained effort to relocate or subdue these fighters after this initial move (but this is a very small group of allegedly several hundred fighters) or whether those movements were reported to get into the good graces of China. Furthermore, there are some reports that efforts to control the ETIM fighters inside of Afghanistan is pushing them closer to Taliban rival IS-K, and further out of Taliban control.⁶

Finally, China aims to protect its current investments and citizens that are working in Afghanistan. Although both parties hinted that there will be significant future investment by China in Afghanistan, few details have emerged. This is because without security, it is simply impossible for China to secure its own people working in the country. For example, in recent months, there has been an increase in terrorist attacks against Chinese citizens in Pakistan (see below). China will not want to take similar risks in Afghanistan until the Taliban is able to consolidate political and military control over the entire country for an extended period. Only this will give China some confidence that the Taliban can govern. Investments in the extractive sector, such as Mes Aynak, require security and stability. This remains a long way off in Afghanistan.

China will not make serious, long-term investments in Afghanistan until two things happen. First, the Taliban must demonstrate to China that they are reliable partners. This means that the Taliban must give up some members of ETIM to China and demonstrate that it is doing everything possible to quell extremist groups in the country. This is a difficult task when the Taliban itself used terrorism and violence for decades as it fought rivals, including the U.S. But weakening the ETIM and other extremist groups weakens leverage that the Taliban may have over China. Hosting groups such as ETIM and other extremist groups gives the Taliban some leverage vis-à-vis neighboring countries, especially China. Despite desires of China to have the Taliban suppress this group, China's own strategy incentivizes the Taliban to keep some violent extremists active to use as leverage over China should relations sour.

Second, the Taliban must demonstrate that they have a monopoly on violence in Afghanistan. This objective seems increasingly difficult at the current moment as the Taliban face increased threats from IS-K. The Taliban and IS-K are both Islamist movements, but they differ in their goals. The Taliban claim they are a movement with no aspirations beyond Afghan territory. IS-K has global ambitions and seeks to build a global caliphate. The Taliban have stated to neighbors and the U.S. that its primary goal is to create an Islamic emirate inside of Afghanistan alone, swearing off any global aspirations or ties to

⁶ United Nations Security Council, "Letter Dated 3 February 2022 from the Chair of the Security Council Committee Pursuant to Resolutions 1267 (1999), 1989 (2011) and 2253 (2015) Concerning Islamic State in Iraq and the Levant (Da'esh), Al-Qaida and Associated Individuals, Groups, Undertakings and Entities Addressed to the President of the Security Council" (United Nations, February 3, 2022), <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N21/416/14/PDF/N2141614.pdf?OpenElement>.

organizations that do have global ambitions. They have also promised repeatedly to China and the U.S. that they will not harbor international terrorists.

3. Taliban Attitudes towards China

The Taliban actively courts China for economic benefit. Afghanistan is under extreme economic duress. Chinese investment and economic support are one of the few economic opportunities Afghanistan has on the horizon, as aid flows from the United States and Europe have dried up. According to the Special Inspector General of Afghanistan Reconstruction, in April 2022, 24 million Afghanistan residents were in dire need of humanitarian assistance in Afghanistan, up from 18.4 million in 2021.⁷

This economic hardship is driven by three factors. First, 80% of budget support of the previous government came from foreign aid. Foreign support accounted for 40% of the country's gross domestic product. Most of that was from the United States. The collapse of the Afghanistan Republic led to a complete withdrawal of this foreign assistance, leaving millions of workers unpaid and driving enormous economic hardship, culminating in the complete collapse of the Afghan economy. Second, immediately after the collapse of the Republic, the U.S. and global partners seized Afghan central bank reserves and placed economic sanctions on the Taliban government. This move blocked Taliban access to \$9 billion in overseas currency reserves.⁸ Finally, the region is experiencing effects of a devastating drought that has impacted local harvests and increased food insecurity. This food insecurity is further compounded by Russia's invasion of Ukraine, as so much humanitarian assistance in Afghanistan was drawn from wheat harvested in Ukraine and Russia.

The Taliban realize the formidable economic power of China. China was not a substantial player when the Taliban last ruled Afghanistan in the 1990s, but its strength has grown considerably since then. Unlike the Afghan Republic, which did not participate in Belt and Road Initiative (BRI) infrastructure projects or take loans from China, the Taliban have expressed interest in these activities. Both the Taliban and China say that Afghanistan will host BRI activities, but no formal announcements have been made as to the nature of any investments. Noted earlier, growing insecurity in Afghanistan make such announcements unlikely in the near term.

China is keen on luring the Taliban into cooperation with promises of economic development but understands that it clearly has the upper hand when it comes to this relationship. China has said that it hopes to bring Afghanistan into the China-Pakistan Economic Corridor and "replicate its success in

⁷ Special Inspector General for Afghanistan Reconstruction, "Quarterly Report to the United States Congress" (Washington, D.C.: Special Inspector General on Afghanistan Reconstruction, April 2022), <https://www.sigar.mil/pdf/quarterlyreports/2022-04-30qr.pdf>.

⁸ David Wainer, "Afghanistan's Free Fall Sparks Accelerating Humanitarian Crisis," *Bloomberg.Com*, May 4, 2022, <https://www.bloomberg.com/news/articles/2022-05-04/afghanistan-s-free-fall-sparks-accelerating-humanitarian-crisis>.

Afghanistan” to help bridge regional connectivity. Chinese government officials have said that it can “help Afghanistan turn its resource advantage into a development advantage.”⁹

While China is promoting greater economic support with the Taliban, it is aware of the risks that are involved with investments in Afghanistan. While China is promising significant economic cooperation with the Taliban in the long-term, China is also confronting the fact that its BRI initiative in neighboring Pakistan has come at significant financial cost. The China Pakistan Economic Corridor (CPEC) is worth an estimated \$62 billion of the estimated \$282 China has lent throughout the world.¹⁰

CPEC has emerged as a risky investment for China for two reasons. First, it is a source of tremendous debt with returns that remain unclear. Second, the project has attracted the ire of extremists inside of Pakistan. Terrorist groups continue to target Chinese officials and workers inside Pakistan. In April, there was a high-profile attack that killed the head of the Confucius Institute in Karachi and wounded several others. Baloch militants took responsibility for this attack, claiming that China extracts resources from the region without compensating communities.¹¹ Despite these risks, Pakistani authorities are particularly keen on this cooperation because it provides the cash-strapped government significant resources and infrastructure. On the other hand, these investments look like significant liabilities for China.

Although China is dangling economic incentives in front of the Taliban, it does so to extract security guarantees while seeking to ameliorate development challenges in Afghanistan for fear that poverty may drive instability. If Afghanistan can demonstrate its ability to deliver on security promises, more cooperation may emerge. But having a foreign power, such as China, seen as having so much sway over domestic matters and dictating terms of engagement with fellow Muslims (such as ETIM) is risky for the Taliban. While there are no significant fissures among Taliban leaders with relation to China right now, there could be in the future should this relationship grow closer. Groups like the Haqqani faction of the Taliban, which have taken a harder line with regards to religious issues and have opposed the return of girls to school, could hold a similar hard line regarding China, should it put too much pressure on the Taliban to crackdown on Uyghurs in Afghanistan. Just as the Taliban pushed back on U.S. requests to have older girls return to school for fear of being seen as giving into U.S. demands, China could face the same fate should it put too much pressure on the Taliban to crackdown on Uyghur or other Muslim groups.

The more China demands the Taliban denounce other Islamist groups, the more vulnerable the Taliban become to propaganda from IS-K and other global jihadi groups who wish to portray the Taliban as ‘sell-outs’ to neighboring countries. They can show that the Taliban have given up religious purity in exchange for economic benefit. Thus, Taliban willingness to cooperate with Chinese authorities to isolate Uyghurs

⁹ Ministry of Foreign Affairs of the People’s Republic of China, “Wang Yi Holds Talks with Acting Deputy Prime Minister of Afghan Interim Government Mullah Abdul Ghani Baradar,” March 24, 2022, https://www.fmprc.gov.cn/eng/topics_665678/kjgzbdfyyq/202203/t20220325_10655539.html.

¹⁰ Ren, “How Afghanistan Snags China in a \$282 Billion Creditor Trap.”

¹¹ Ali Siddiqi, “Attack on Chinese Workers in Pakistan Challenges New Government,” VOA, n.d., <https://www.voanews.com/a/attack-on-chinese-workers-in-pakistan-challenges-new-government/6547926.html>.

inside of Afghanistan may weaken Taliban claims to be a truly Islamic movement and not a ‘pawn’ of foreign actors—an accusation they used against the previous Afghan government quite effectively.

Although the Taliban have made overtures to China, this alliance will be inherently unstable due to fissures within the Taliban movement itself. An Islamic movement will have a hard time justifying a long-term relationship with a country that has persecuted millions of fellow Muslims. This will be a harder sell if significant economic assistance does not arrive. The Taliban have justified this close relation by stating that China does not interfere in its domestic affairs, but that justification may not last long as the Taliban feel pressure and competition from IS-K, who take much firmer stance against China.

4. China-Russia Dynamics

China and Russia have strong mutual interests in Afghanistan. Both countries are focused on security issues in Afghanistan and share concerns about violent extremism and terrorism. China is worried about this spilling over into its eastern Xinjiang Province and fomenting unrest there. Russia is concerned that such violence could spillover into Central Asia, a region it considers its ‘near abroad’ and its exclusive sphere of influence. China has also been clear that it will not recognize the Taliban government without agreement from Pakistan, Russia, and Iran.¹² Both China and Russia have pressed the U.S. to lift economic sanctions against the Taliban. Russia and China have both criticized the U.S. and European focus on human rights and democracy in Afghanistan. Both have tried to scale down expectations that the Taliban can create an inclusive government.¹³

China and Russia share similar concerns that “their enemies could find a safe have under the Taliban rule.”¹⁴ They are both putting pressure on the Taliban to crack down on extremist groups. Russia asked the Taliban to call for the elimination of poppy cultivation in Afghanistan and has long-standing concerns about drug trafficking and opium addiction in Russia. The Taliban ceded to Russia’s request to ban opium cultivation, at least in theory.

Both countries have opposed the unilateral economic sanctions that the U.S. and Europe have put on Afghanistan. Unlike the U.S., which has been very vocal about creating a government more inclusive of Afghanistan’s ethnic and religious minorities and the return of girls to high school as a condition for aid and cooperation, Russia and China have encouraged this, but not demanded it. In March, the Chinese foreign minister visited Kabul and said that it opposes “forces outside the region to wantonly impose economic sanctions on Afghanistan and hopes that the Afghan caretaker government will establish an

¹² Yew Lun Tian, “China Will Not Be the First to Recognise Taliban Government, Scholar Says,” *Reuters*, October 30, 2021, sec. China, <https://www.reuters.com/world/china/china-will-not-be-first-recognise-taliban-government-scholar-says-2021-10-27/>.

¹³ Vinay Kaura, “China Draws Closer to the Taliban as Regional Foreign Ministers Prepare to Meet in Beijing,” Middle East Institute, March 24, 2022, <https://www.mei.edu/publications/china-draws-closer-taliban-regional-foreign-ministers-prepare-meet-beijing>.

¹⁴ Kathy Gannon, “China’s Foreign Minister Makes Surprise Stop in Afghanistan,” AP News, March 24, 2022, <https://apnews.com/article/afghanistan-business-china-economy-kabul-93160766eb7288c59d5673c712876092>.

inclusive political structure, implement prudent policies and make active efforts to serve the interests of the Afghan people.”¹⁵

An informal division of labor between Russia and China has emerged vis-à-vis Afghanistan in the shadow of U.S. withdrawal from the country, with Russia taking the lead on security issues and China more involved in economic concerns. The US withdrawal from Afghanistan in 2021 did not lead to a security vacuum in the region because of Russia significant military presence of more than 8,000 troops in Tajikistan as well as a military base in Kyrgyzstan.

Over the years, China understood that it could not rely on Russian or U.S. security guarantees alone to protect its frontier with Afghanistan. In 2017, it began constructing military installations in Tajikistan near the Wakhan corridor.¹⁶ These installations served several purposes. First, they helped protect Chinese investments in Central Asia. They also provided China with an extra layer of security on its border with Afghanistan. China constructed these bases in anticipation of U.S. withdrawal from Afghanistan.

While these outposts may not be significant in size or scale, they take on greater significance since Russia invaded Ukraine in February 2022. While Central Asian republics, China, and even the Taliban may have viewed Russia as having a formidable presence in Tajikistan, Russia’s war in Ukraine demonstrated the weakness of the Russian military. The heavily losses accrued by the Russian military also create uncertainty about the number and quality of Russian troops that are guarding the Tajikistan-Afghanistan border. There has been no public reporting as whether Russia’s war invasion of Ukraine has affected its troop levels in Tajikistan.

Russia’s military weakness and China’s security fears in Afghanistan from a rising tide of terrorism from IS-K in Afghanistan, could give China a greater incentive to become more involved in security matters in the region in ways they had not been in the past.

5. Recommendations

The U.S. has lost enormous credibility in Central and South Asia after its twenty-year engagement in Afghanistan. While the messy withdrawal captured public imagination, the prolonged conflict exposed enormous weakness in the ability of the U.S. military and civilian agencies to deliver on promises. It exposed a paradox of largesse combined with carelessness and lack of strategy.

The U.S. has few options in the region right now in this region than it has at any time in recent history. U.S. has placed limitations on its willingness to engage with Afghanistan based on the unwillingness of the Taliban to allow girls to attend high school and university and their unwillingness to include ethnic

¹⁵ Gannon.

¹⁶ Gerry Shih, “In Central Asia’s Forbidding Highlands, a Quiet Newcomer: Chinese Troops,” *Washington Post*, February 18, 2019, https://www.washingtonpost.com/world/asia_pacific/in-central-asias-forbidding-highlands-a-quiet-newcomer-chinese-troops/2019/02/18/78d4a8d0-1e62-11e9-a759-2b8541bbbe20_story.html.

and religious minorities as well as women in their government. Similarly, U.S. relations with China and Russia are at a nadir.

Although the U.S., China, and Russia share common goals of fighting terrorism and violent extremism in Afghanistan, the tactics used by China and Russia make it impossible for the U.S. to cooperate on these issues. With the war in Ukraine, cooperation with Russia is now out of the question. Like China and Russia, the U.S. seeks to prevent terrorism and damper the growth of violent extremism in Afghanistan. In the case of China, it becomes even more challenging because the result of their efforts to fight terrorism culminated in what President Biden has called the genocide of the Uyghurs in China.

While the U.S. can promote its effort to drive accountability and conditionality with the Taliban, this must be met by a broader strategy that recognizes the importance of regional connectivity and economic support as a path towards longer-term stability in the Afghanistan and the region.

The U.S. will face continued challenges driving positive change in Afghanistan because of its strained relationship with the Taliban and the sanctions that are in place. U.S. strategic objectives remain even more elusive as Chinese outreach and engagement with the Taliban weakens U.S. efforts to isolate the regime in Kabul.

The U.S. strategy of isolating the Taliban with sanctions and punishing them to specific outcomes does not seem to be working. This strategy is weakened by the engagement China and Russia should focus its strategy on this region by looking at Afghanistan's neighbors and working with them to develop a strategy for the region from the bottom-up.

With a distracted Russia and the de-Americanization of the region, countries in the region have greater agency than at any time in recent history. Thus, a path towards greater U.S. engagement in the region could be through Afghanistan and China's neighbors who are looking for another party that will allow them to continue to play larger powers off against one another. This would help build autonomy of local actors and recognize their increasingly independent foreign policies.

Engagement on issues of regional connectivity are shared interests of every country in this land-locked region. The U.S. should diversify its tool kit and identify positive-sum solutions that go beyond Taliban conditionality and sanctions to one that incentivize countries in the region to find ways to cooperate over economic region.

OPENING STATEMENT OF M. TAYYAB SAFDAR, POSTDOCTORAL RESEARCHER, UNIVERSITY OF VIRGINIA

COMMISSIONER SCHRIVER: Thank you. Next, we look forward to hearing from Dr. Muhammad Tayyab Safdar. Thank you.

DR. SAFDAR: Thank you very much. Members of the Commission, good morning. It is a privilege to be invited to testify at today's hearing. My testimony will focus on China's interests, focusing particularly on Pakistan, but I'll talk about Afghanistan and the broader area.

Initially, I'd like to make the following submissions. First, China's relationship with Pakistan remains extremely close. As my submitted testimony shows, security cooperation between the two sides remains strong. As the U.S. takes an increasingly close position with India, the security relationship is likely to get stronger.

Although the recent terrorist attacks against Chinese interests in Pakistan have raised challenges for the Pakistani security establishment, they are unlikely to imperil defense relations between the two sides, given that they have mutual interests. However, they are likely to have severe stresses in other areas.

Secondly, while the security relationship is important, China's interests have expanded in other areas in Pakistan. As I have written once again in my written testimony, the announcement of the CPEC in 2015 during President Xi Jinping visit provided the backdrop for a more multifaceted Chinese engagement in Pakistan.

There is a discernable change in how China interacts with political actors. Modes of cooperation, political parties have been institutionalized through mechanisms such as the Joint Consultative Mechanism launched in 2019.

The JCM includes political actors from across Pakistan's fractious political divide, including parties with a national presence, the religious right, and regional parties, especially from Balochistan.

China wants to develop a working relationship with prominent political actors in the country, a lesson it learned after the 2018 election which brought the PTI into power.

Apart from the focus on protecting Chinese interests in Pakistan, the political parties included in the JCM include religious parties that are strong in Khyber Pakhtunkhwa and in parts of Balochistan, and nationalist parties that have a presence in Balochistan which means that China's interests go beyond Pakistan, as religious parties have traditionally had a closed relationship with parts of Afghanistan.

The second dimension of relations which have expanded is in the economic realm. China has emerged as a primary source of capital, both through foreign investments and as a lender. China is the largest foreign investor in Pakistan as Figure 2 of my testimony shows.

Chinese investment in Pakistan's power structure with the power sector was driven by a congruence in the interest of diverse Pakistani and Chinese actors. However, Chinese-financed power projects face structural problems associated with Pakistan's power structure, power sector that exogenous factors like COVID have further exacerbated.

Despite efforts by the Pakistani government, Chinese lenders and state-owned enterprises have shown an unwillingness to renegotiate the terms and conditions governing these investments indicating the limits of Chinese largess to Pakistan.

Similar is the case with transport infrastructure, where the incentives of Chinese actors coincided with those of political actors within Pakistan. Unlike the power sector, however, infrastructure projects were based on government to government loans which had a direct impact on Pakistan's external debt.

Pakistan's ongoing problems, economic problems, domestic opposition from powerful actors, and the reorientation of focus towards the social economic dimension, have contributed to a reduction in spending on the transport infrastructure.

China is also Pakistan's largest trading partner and the second largest export market for Pakistani goods. While the trade relationship remains heavily skewed towards the Chinese, China has given duty free access to many goods from Pakistan.

The ability of Pakistani exporters to take advantage of the market access, however, remains limited which is once again a function of local constraints. Given concerns over terrorism, direct Chinese investment in Pakistan's manufacturing sector, which is a big part of what the Pakistanis want, is likely to remain limited.

While China holds 27 percent of Pakistan's external debt, the evidence of debt trap argument is limited. And even though China has provided balance of payment support to Pakistan in the past, recent events highlight some frustration in Beijing regarding the ongoing economic turmoil.

Fourth, China's strategic interests in Pakistan can be evidenced by the increasing presence in Gwadar. Funding for the projects in the port city has come through grants and interest-free loans. Chinese lending is usually not on such generous terms. The lending highlights long-term strategic interests that China has in the port city.

Despite these interests, there has been little improvement in people's lives on the ground. Access to essential services remains limited for the residents of Gwadar leading to protest. Politicians have also criticized the lack of Balochistan's share in the CPEC projects.

Problems in Balochistan are further compounded by the emerging threat of Baloch insurgent troops threatening Chinese interests in the province and beyond as the most recent suicide attack in Karachi shows.

Lastly, the situation in the region has been further complicated by the void left after the U.S. withdrawal from Afghanistan and the Taliban's return to power.

As has been pointed out by my colleague, China remains extremely sensitive to the presence of troops like the East Turkestan Islamic Movement which could regroup and launch attacks against Chinese interests.

While the Taliban have vowed not to allow Afghan soil to be used against other countries, there are questions regarding the ability to control the different groups operating in the country.

China has also sought to mediate the relationship between Afghanistan and Pakistan to ensure the safety of its economic investment and long-term strategic goals in the CPEC. China has begun considering incorporating Afghanistan into the CPEC.

Pakistan has been largely supportive of Chinese approaches to the Taliban. However, the situation seems to be complex and changing with an uptick in violent attacks on Pakistani security forces by the Tehrik-i-Taliban Pakistan.

The Tehrik i Taliban Pakistan appears to be enjoying the patronage of the Taliban government, and legal action appears to have been taken against Baloch insurgents which the

Pakistani government also believes to be hiding in Afghanistan.

The inability or lack of interest in dealing with the TTP and the Baloch insurgents has contributed to a marked decline in relations between the Afghan Taliban and the Pakistani establishment.

Given the ongoing Chinese presence in Pakistan and Afghanistan, as I've noted in my written testimony, there are areas of convergence and divergence between the U.S. and Chinese interests, especially in Pakistan. There is a need to further explore synergies in areas of convergence while being critical of areas of divergence.

In conclusion, I'd like to put forward the following recommendations. One, both the U.S. and China have long-run interest in promoting stability in the region. And there is a need to build on the areas of mutual interest.

Rather than competing with Chinese infrastructure investments under the Belt and Road Initiative in the region, the U.S. should focus on areas where the U.S. has a competitive advantage including in areas like technical cooperation and human development.

Lastly, sustained U.S. engagement, especially with the new civilian government and with other important stakeholders in Pakistan, is important. And given the long history of the U.S. in the region, I think it's important to take a balanced position even though Washington's interests are skewed towards India. Such a dialogue is likely to produce -- improve the U.S. position in Pakistan and alleviate tensions. Thank you very much.

**PREPARED STATEMENT OF M. TAYYAB SAFDAR, POSTDOCTORAL
RESEARCHER, UNIVERSITY OF VIRGINIA**

Testimony before the U.S.-China Economic and Security Review Commission

China's response to U.S. withdrawal from Afghanistan and China's
engagement with Pakistan

Dr. Muhammad Tayyab Safdar
University of Virginia

May 12, 2022

1. How does China view its relationship and engagement with Pakistan, beyond the catchphrase “all-weather friend?” What are the real extents and limits of the Chinese-Pakistan relationship and how does China view those in terms of its broader engagement in South Asia?

China and Pakistan have had a close relationship since the 1960s, and China views Pakistan as an ‘all-weather strategic partner’ (USIP, 2020). Relations between both countries have broadened and deepened over time from a historically narrow base focusing on the security dimension to include economic and political. This is especially true after the launch of the multi-billion dollar China Pakistan Economic Corridor (CPEC) in 2015. The CPEC has been described as an important pilot project of the Belt & Road Initiative (BRI) (Safdar, 2021). Originally valued at US\$ 46 billion, CPEC is one of the earliest and largest BRI projects (BBC, 2015). This increase in Chinese military, economic and diplomatic support has coincided with a decline in the U.S. engagement with Pakistan (USIP, 2020).

Key takeaways from this section:

- The Pakistan-China security relationship is particularly close and has a long history. Non-traditional security threats are testing this partnership in Pakistan.
- Despite tensions, China has expanded its links with different political actors. Learning from their experience, China has developed institutional modes of engagement with a diverse set of political actors.
- Since the launch of the CPEC in 2015, economic cooperation in trade and investment has grown. Productive capacity issues limit Pakistan’s ability to take advantage of improved access to Chinese markets.
- China holds a substantial portion of Pakistan’s debt, but evidence of “debt-trap diplomacy” is limited. Rather, the Chinese government’s recent reticence to reissue US\$ 4 billion in loans signals a limit to the partnership.

The Security Dimension

The relationship has its roots in a shared concern regarding India. Pakistan and India have had fractious relations since 1947, especially over Kashmir, while China and India fought a bitter border war in 1962. More recently, beginning in May 2020, tensions between China and India have been high with violent border skirmishes in Ladakh (Santora, 2020). Given these historical roots, the bedrock of the relationship between Pakistan and China is in the security realm informed by a mutual conflict with India. China has been one of the main elements in Pakistan’s strategic posture with India (USIP, 2020).

Given their continuing mutual interests, defense relations between Pakistan and China remain especially strong. From cooperation in the nuclear sphere to joint aircraft development, supply of military hardware including warplanes, missiles, submarines, and ships to frequent military-military exchanges. The relationship between the militaries of both countries continues to deepen. In 2002, the countries began Defense Dialogues on military cooperation, defense industry collaboration, and strategic issues. China has been the main supplier of conventional military hardware to Pakistan. Chinese technical cooperation has also been essential for developing the JF-17 thunder jetfighter by the Pakistan Air Force. In 2016, China sold eight submarines to the Pakistan Navy (Malik 2016). Most recently, in 2022, China sold J-10CE fighter jets to the Pakistan Air Force (Xuanzun, 2022). Despite the strength of the conventional military relationship between both countries, non-traditional threats such as continuing attacks on Chinese citizens and interests in Pakistan are worrying for Beijing. Continued attacks and

perception by the Chinese of inaction from the Pakistani establishment could negatively affect these close relations.

Some analysts have tied China's engagement with Pakistan to long-term geostrategic interests other than serving as a counterweight to India. In particular, some see China's attempt to build an overland corridor connecting western China and the Indian Ocean through CPEC to secure energy supplies to escape the 'Malacca Dilemma' (Myers 2021). Coined by President Hu Jintao in 2003, the "Malacca Dilemma" refers to China's dependence on the narrow Malacca strait to supply crucial natural resources and especially oil from the Middle East. Without the naval capacity to force open the Malacca strait and supply oil to the mainland during a conflict, the Chinese economy and military could be brought to a standstill. A fully operational pipeline for crude oil and other natural resources through Pakistan would reduce this risk. This could help explain the Chinese interest in Gwadar. Currently, there is limited physical progress on these plans because of the high cost of building such infrastructure. The geography of the area and the difficult terrain means that the cost of building the transportation infrastructure is currently prohibitively high.

The Political Dimension

Relations in the civilian realm have historically been the weakest link between China and Pakistan. Given the India-centric basis of the relationship between both countries, the military has been the constant in the relationship. As the Chinese relationship with Pakistan has broadened, so have its links with political actors across Pakistan.

Boni (2019) noted that the CPEC's launch during the Pakistan Muslim League-Nawaz's (PML-N) tenure represented a period when civilian authority asserted itself. The civilian leadership played an important role in decision-making regarding the CPEC projects. At times, the vision of political actors regarding the CPEC came into direct conflict with that of the military, exacerbating the civilian-military tensions that are an inherent part of Pakistan's political structure. It is important to note that Chinese state and corporate actors (state-owned enterprises) had a strong working relationship with the PML-N in the center and Punjab, the country's largest province by population.

The relationship between the Chinese and the Pakistan Tehreek-e-Insaf government was much less cordial. There were multiple reasons for the tension. In opposition, the PTI had been highly critical of agreements under CPEC negotiated by the previous government. Statements made by ministers and high-level officials further complicated the relationship between the two sides. Political instability and other issues have meant that China has pared down its expectations from CPEC, focusing once again on the military dimensions of the relationship (Small, 2020).

While CPEC has run into certain issues, it has provided the foundations for a deeper relationship, including in the political realm (Markey, 2020). This can be witnessed by looking at the developing relationship with political parties across the political spectrum, from the religious right to large national-level political parties like the Pakistan Muslim League-Nawaz (PML-N), the Pakistan People's Party (PPP) and the Pakistan Tehreek-e-Insaf (PTI). China has learnt from the criticism of CPEC projects and developed institutional mechanisms to engage with local political parties across the political spectrum. A Joint Consultative Mechanism (JCM) was launched in 2019 in Beijing, bringing together representatives from nine Pakistani political parties¹, as well as officials from government departments and elite leaders and representatives from the Chinese Communist Party (CCP) (Safdar 2021).

¹ These parties include the three largest national parties, the Pakistan Tehreek-e-Insaf (PTI), PML-N, Pakistan People's Party (PPP), religious parties including the Jamat-e-Islami (JI), Jamiat-e-Ulma-e-Islam-Fazal (JUI-F) and regional parties from Balochistan and Khyber Pakhtunkhwa province like Awami National Party (ANP),

The Economic Dimension

Trade

Economic ties between China and Pakistan have steadily become deeper. China is already Pakistan's largest trading partner, though the relationship is heavily skewed towards China. Pakistan has a persistent and large trade deficit with China. In 2021, imports from China accounted for more than 30 per cent of Pakistan's total imports. In response to persistent criticisms regarding the lack of access for exporters from Pakistan to the Chinese market, in 2020, both countries implemented the second phase of the China-Pakistan Free Trade Agreement (CPFTA-II). Under the terms of CPFTA-II, Pakistani goods are given preferential access to the Chinese market. Since its implementation, Pakistani exports to China have increased substantially from US\$ 1 billion to US\$ 3 billion in 2021 (UN COMTRADE, n.d.). Figure-1 shows changes in the trade relationship between both countries. Despite the increase in exports from Pakistan to China, the ability of Pakistani exporters to take advantage of the market access is severely constrained by productive capacity issues across different sectors resulting from persistent under-investment.

Figure 1: Pakistan's Trade with China



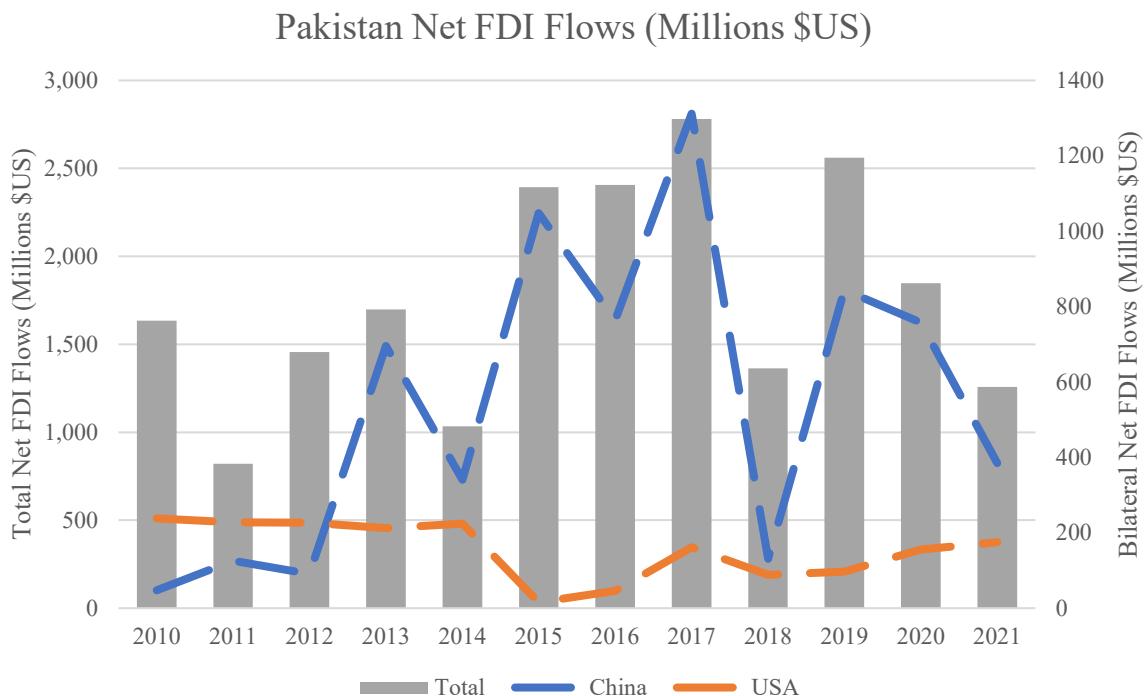
Source: Author's own based on UNCOMTRADE Data, available at:
<https://comtrade.un.org/data/>

Investment

Since the CPEC's launch in 2015, China has consistently been the largest source of foreign direct investment in Pakistan. China overtook the United States in 2014 as the largest investor in Pakistan (Figure-2). Much of the Chinese investment in Pakistan has been in the power sector rather than in manufacturing. The lack of investment in manufacturing is a function of different variables, including security concerns among Chinese firms, opposition from large businesses in Pakistan and lack of progress on Special Economic Zones (SEZs).

National Party, Pakhtunkhwa Milli Awami Party (PkMAP), Balochistan Awami Party (BAP) and the Balochistan National Party (Mengal) (BNP-M) (Safdar, 2021)

Figure 2: Net FDI to Pakistan and a comparison of U.S. and Chinese FDI



Source: Author's own based on Board of Investment, Pakistan data, available at:
<https://invest.gov.pk/statistics>

Debt

Apart from trade and investment, China has also emerged as an important source of debt. China is one of the most important lenders to Pakistan. According to the International Monetary Fund estimates, China holds almost 27 per cent of Pakistan's debt (IMF, 2022). While there are limits to the debt-trap argument, Pakistan faces challenges in paying back Chinese loans (Younas, 2021). Given Pakistan's economic challenges, China has also provided balance of payments and budgetary support. In March 2022, China agreed to roll over US\$ 2.5 billion in commercial loans. Given the ongoing vulnerabilities in Pakistan's external sector, the Chinese agreed to roll over a total of US\$ 4.5 billion in loans (Haider, 2022). There are, however, limits to Chinese monetary support to Pakistan. Despite assurances of Chinese debt rollovers, it has yet to honor the pledge to reissue loans with a total value of US\$ 4 billion that Pakistan repaid at the end of March (The News International, 2022).

2. Please describe the Pakistani and Chinese motivations for China-Pakistan economic cooperation. What does each country hope to achieve from economic initiatives such as the China-Pakistan Economic Corridor?

China and Pakistan's Economic cooperation: motivation

The economic ties between Pakistan and China have deepened further, especially after the China-Pakistan Economic Corridor's (CPEC) launch. The China Pakistan Economic Corridor refers to plans to connect Kashgar in the Xinjiang Autonomous Region to the port of Gwadar, located in Southwest Pakistan in the province of Balochistan. These multimodal connections include roads, pipelines, and railways. Apart from physical connectivity through infrastructure

projects, there are plans to build special economic zones, power plants, agriculture, communication infrastructure and other allied infrastructure along the physical corridor.

Work on CPEC was divided into the following three phases:

- Early Harvest (2015–2020): Focus on dealing with supply-side infrastructure bottlenecks in energy supply and transport infrastructure (Cultivation Phase);
- Medium Term (2020–2025): Industrial cooperation with investment, especially by Chinese firms in Special Economic Zones (SEZs; Development Phase); and
- Long-Term/Maturity Phase (2025–2030): Improving regional connectivity and integration and connection between Gwadar and Kashgar (Maturity Phase).

Cooperation between the two countries is based on a 1 + 4 model, with CPEC as a long-term development vision at the core and four functional areas of cooperation, including Gwadar port, energy, communication infrastructure, and industrial development. Multiple projects are to be undertaken in each functional area (Shulin, 2014). In the first phase, the bulk of the funding has gone towards projects in the power sector, with the rest allocated for projects to build the transport infrastructure, including roads and railways, and the Gwadar port (McCartney, 2020).

The key takeaways from this section are:

- Expansion in China-Pakistan economic corridor is driven by the motivations of diverse actors across the state and private sectors. While some of these objectives are strategic, commercial interests play a significant role.
- Investment in Pakistan's power sector was driven by congruence in the interests of diverse Pakistani and Chinese actors. Commercial returns were important drivers of investments by Chinese state-owned enterprises (SOEs) and large Pakistani conglomerates.
- In infrastructure, the expansion in the relationship between both countries represents both commercial and long-term strategic interests.
- In transport, the commercial interests of Chinese SOEs aligned with the development priorities of local politicians.
- Cooperation has also extended to emerging technologies. While these technologies can improve people's livelihoods, there is a danger that these tools can also be used for repression.
- Cooperation in the manufacturing sector is more limited but expanding. Pakistani firms increasingly look towards China as a source of technology, capital, and products.

Roots of deeper economic engagement

The Power Sector

During CPEC's first stage, most funding has gone toward the power sector. Unlike transport infrastructure, where projects are financed through government-to-government loans, projects in the energy sector represent the CPEC's foreign investment component. The CPEC's Long Term Plan calls for cooperation across the electricity value chain (MPD&R, 2017); however, initial cooperation has focused on augmenting the country's generation capacity (Safdar, 2021).

The focus on the energy sector during the CPEC's first phase was driven by congruence in the interests of diverse stakeholders, including Pakistani politicians, the military establishment, large local firms, Chinese policymakers, and Chinese State-Owned Enterprises. Chinese SOEs

agreed to invest in Pakistan's power sector as the government urgently sought to deal with power shortages.²

For Pakistani politicians, Chinese investment in the power sector represented perhaps the only opportunity to confront the country's chronic power shortages within a short period. It also provided an opportunity to delay structural reforms in the power sector, which were likely to be unpopular. Furthermore, for politicians, the success of Chinese SOE investment in the power sector could act as a powerful signal to other potential investors from China and other countries that Pakistan was open to business and therefore spur economic growth.³

For other domestic actors like the military establishment, dealing with the power crisis was essential to maintain internal security. Frequent protests across major urban areas raised severe internal security challenges. For the establishment, investment in the power sector was also significant from an economic perspective. They believed that dealing with the power sector woes could lead to greater economic activity in the country and enhance resources available to the defence establishment.

Under the CPEC framework that guides energy sector cooperation between both countries, local firms, especially conglomerates with experience in Pakistan's energy sector, have partnered with Chinese State-Owned Enterprises (SOEs). The incentive of local firms to work with Chinese SOEs is commercial. Local firms have been able to deal with the primary constraint hindering investment in the energy sector through these partnerships – access to capital. Working with Chinese firms, they have been able to invest in projects where other external actors were unwilling to invest due to environmental, political, and economic sustainability concerns (Safdar, 2021).

Despite risks, for Chinese SOEs⁴, investment in Pakistan's power sector provided an opportunity to enhance their presence in foreign markets as part of the go-global strategy. The search for more profitable avenues of capital accumulation gained urgency after the Belt & Road Initiative's launch in 2013. Investment in Pakistan's power sector presented Chinese SOEs with an opportunity to make higher returns. The 2015 power policy guarantees a dollar-indexed return on equity (ROE) ranging from 17 – 20 per cent over the project's lifetime.⁵ For upstream Chinese industries, projects in the power sector under CPEC helped ameliorate overcapacity problems. It also provides a chance to internationalize Chinese standards in different industries.

The Chinese state viewed investment in Pakistan's power sector as an opportunity to showcase the development impact of the Belt & Road Initiative. Along with North Korea, Pakistan is the closest example of an ally that Beijing has. The close relationship would mean that the implementation of individual projects would not face challenges. Furthermore, the successful implementation of the power projects could signal other countries regarding the efficacy of the Chinese development model. Therefore, as a pilot project, investment in Pakistan's power sector could have long-run benefits for China and the BRI despite the risks involved. Therefore,

² Interview with a senior politician in Islamabad (2018) and an interview with a Lahore-based businessman working in the manufacturing sector (2019)

³ Interview with a senior politician in Islamabad (2018)

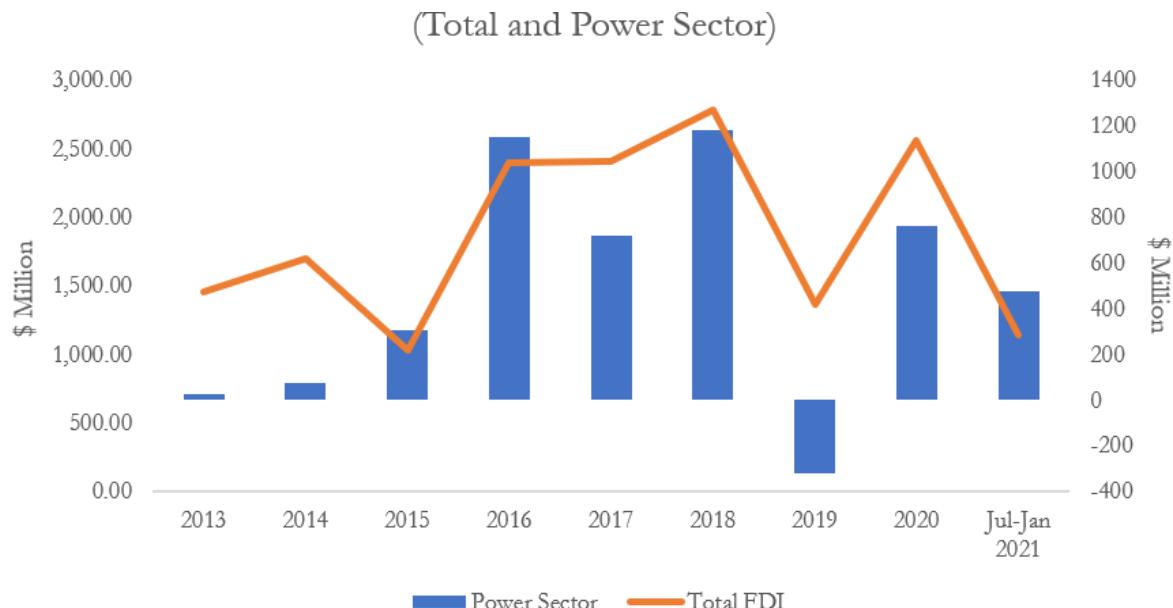
⁴ There are structural problems facing Pakistan's power sector. The most pressing issue facing the sector is that of circular debt. Circular debt describes the amount of payments held back by an entity which is facing cash flow problems from suppliers and creditors so that it can push its cash flow problems down to other segments of the supply chain. At its core, the problem of circular debt in the sector occurs when there is a chronic shortfall between inflows and outflows in the power sector.

⁵ Salman (2018). Consultative session: Determination of rate of return. Islamabad: National Electric Power Regulatory Authority, Government of Pakistan.

the power sector represented a true ‘win-win’ situation for both parties as their incentives aligned.

The figure below shows overall foreign-direct investment in Pakistan and the share of the power sector in FDI since 2013:

Figure 3: Net FDI in Pakistan and Investment in the Power Sector



Source: Safdar (2021)

Multiple power plants planned under the CPEC are already operational, and there has been substantial progress in dealing with persistent energy shortages. The share of the CPEC projects in electricity generation is likely to go up as more power plants begin commercial operations. There was a reduction in power shortages because of the addition of this capacity to the national grid. During the last five years, Chinese firms have invested almost US\$ 10 billion in building power plants and transmission lines. They have added more than 5000 MW to the national grid. The CPEC power plants accounted for almost 33 per cent of the country’s power generation in 2020. While much of the initial investment went towards commissioning plants based on imported coal, more recently, power plants that have started production or are under construction are based on renewable energy (including hydropower) or use indigenous fuel (local coal). Efforts to develop local fuel sources are in sync with the Pakistan government’s focus on optimizing the country’s power mix by reducing dependence on imported fuel.

The table below shows the increase in installed generation capacity.

Table – 1: Installed Generation Capacity by Type (MW)

Fuel Type	Installed Capacity (MW)	
	2013	2019
Hydel	6,947	9,761
Thermal	15,941	25,670
Nuclear	787	1,467
Renewables	50	2,247
Total Capacity	23,725	39,145

Source: Author's own based on NEPRA, State of the Industry Report, various years

The increase in installed capacity is primarily due to a rapid rise in thermal generation. The share of thermal generation has increased due to the commissioning of the CPEC projects and the addition of RLNG based power plants. While many of the earlier power plants used furnace oil or High-Speed Diesel (HSD), the share of electricity generated using coal has increased. The power mix has become more balanced, as the addition of coal and hydel power plants has reduced the overall generation cost.

The table shows changes in actual power generation by fuel type:

Table 2: Total Electricity generation by fuel type

Fuel Type	Total Generation (GWh)	
	2012 - 13	2018 – 19
Hydel	30,524	33,096
Thermal	Natural Gas	28,191
	Re-liquified Natural Gas (RLNG)	-
	RFO	35,804
	HSD	28
	Coal	40
Nuclear	4,181	9,136
Renewable Energy	32	4,918
Imports	375	487
Total	99,147	137,039

Source: NEPRA, State of the Industry Report, Various years

Infrastructure Development

The Chinese have expended substantial resources on infrastructure development in Pakistan. While some of the funding has gone towards traditional areas like building ports, roads and mass transit projects, China has also financed improvements in Pakistan's digital infrastructure. Unlike the power sector, though, infrastructure projects are based on government-to-government loans and represent the explicit debt component of the CPEC. Loans for infrastructure projects are typically long-term with a grace period and interest rates ranging between 2 - 3 per cent. While the terms of these loans are usually not discussed, evidence suggests that in Pakistan's case, the debt instruments are blended with most of the value of the loan at below-market interest rates but a significant minority (12 – 13 per cent) of the value of the loan at near market rates (5 – 6 per cent) (Safdar, forthcoming). Unlike the power sector, where the rationale was commercial, the motivation of Chinese spending on infrastructure development represents a mixture of long-run strategic interests mixed with commercial interests. These motivations are couched in the language of win-win cooperation.

Projects to improve the transport sector have funded motorways and a mass-transit light rail system in Lahore. Constructing a transport corridor between China and Pakistan has not been a priority for the Chinese, given the high material costs and challenging geography (Garlick, 2018). China's motivation for financing transportation projects is driven partly by local factors, especially the over-capacity that exists in different sectors of the economy.

Infrastructure spending is also a function of the commercial incentives of large Chinese SOEs like China State Construction Engineering Corporation (CSCEC), which lobbied the central government to fund the construction of the Multan-Sukkur motorway. Spending on improving the transport infrastructure is also in response to the demands of local policymakers. The Pakistan Muslim League-Nawaz (PML-N) prides itself as the party which builds infrastructure while in power. The motorway projects and the light-rail mass transit project in Lahore were pet projects of the PML-N leadership. Evidence suggests that the Chinese were inclined to spend on improving the country's railway infrastructure during the CPEC's first phase; however, road projects were fast-tracked because of the demands of the local politicians.

Several infrastructure projects are in various stages of completion in Gwadar. Unlike infrastructure projects in the rest of the country, funding for projects in Gwadar is primarily in the form of grants which shows the importance given by the Chinese to Gwadar port. The Chinese are financing and building the New Gwadar International Airport, which on completion, will be the largest commercial airport in the country. There are big plans for Gwadar, which currently has less than 150,000 people. The literature highlights the dual-use potential of Gwadar port as an important variable to explain the Chinese interest in the port (Kardon et al., 2020). It also provides the Chinese access to the Indian Ocean. In the Chinese strategic thinking, Gwadar is a gateway project connecting China with the Indian Ocean (Brewster et al., 2017). Given the evolving situation in the South China Sea, Gwadar could also provide an alternative route to the Strait of Malacca for moving goods and energy supplies. While the cost of such a project is prohibitively high (Garlick, 2018), geopolitical tensions and improvements in technology could provide the rationale for investment in this infrastructure. For Pakistan, Gwadar port provides a hedging strategy against India. Both Karachi and Port Qasim are located relatively close to each other. In the case of a conflict with India, they can be blockaded. Gwadar provides more strategic depth to Pakistan, given its location. It could also help Pakistan develop closer trade linkages with land-locked Central Asian states as a trans-shipment location. However, the success of this venture is dependent on peace in Afghanistan. Pakistani policymakers also hope to attract Chinese investment in the Gwadar

free zone being developed by China Overseas Port Holding Company (COPHC) which operates Gwadar port.

Pakistan is also part of the digital silk road. Karachi is one of the landing stations for the high-speed submarine PEACE cable, which connects countries in Europe, sub-Saharan Africa, and South Asia. Originating in Karachi, the PEACE cable embodies the emerging geostrategic competition between China and the United States in the technology sphere. Given the strategic location of the landing stations, the PEACE Cable is about more than just commercial returns (Blaubach, 2022). It is a theatre for great power competition. For Pakistan, the PEACE cable provides greater data security because of the involvement of Indian firms operating the existing submarine cable.

The PEACE cable landing station is in addition to other initiatives in the digital areas, including the China Pakistan Optic Fibre Project and Smart city projects across the country. There are both economic as well as strategic motivations behind these projects. From an economic perspective, improved access to information technologies and the internet can positively impact people's lives through innovative uses in education, health, agriculture, etc. It can also contribute to a better interface between the state and the citizenry by augmenting e-governance services in developing countries like Pakistan. Given the quasi-military nature of the regime in Pakistan after 2018 (Rahman and Shurong, 2021), links between China and Pakistan in the digital arena can also provide the tools to clamp down on dissent and further reduce individual freedom.

Cooperation in the Manufacturing sector

The CPEC's second phase focuses on fostering industrial cooperation through investment by Chinese firms in Special Economic Zones (SEZs). Policymakers in Pakistan have expressed their hopes of attracting labour-intensive manufacturing, which was relocating from China to other countries because of rising labour costs and other geopolitical challenges.

According to the CPEC Long-Term Plan, cooperation in the industrial sector would help generate local employment while reducing regional inequalities in Pakistan (MPD&R, 2017). Through CPEC and investment in the SEZs, Pakistan aims to enhance local industrial development by not only upgrading the textile sector but also promoting value addition in other industrial sectors by progressively upgrading capabilities from simple assembly operations to local value addition, both for the local market as well as exports (*ibid.*). Local policymakers see industrial development as a means of dealing with the chronic trade deficit affecting Pakistan by enhancing exports. The theory of change is where the initial investment in removing supply-side bottlenecks in the power and transport sector can help generate demand-side growth through increased economic and industrial activity.

Representatives of the Chinese state and Chinese SOEs operating in Pakistan highlight the importance of industrialization in contributing to sustainable economic growth and development in Pakistan.⁶ They observe that infrastructure improvement is unlikely to contribute to growth without enhancing industrial competitiveness and the share of manufacturing in the country's GDP. They highlight the manufacturing sector's important role in China's development⁷ and stress the importance of Pakistan learning from the Chinese experience, especially the role played by special economic zones (SEZs). The statements by Chinese officials and businesses highlight the importance of industrialization for Pakistan's development. The motivation for different Chinese actors to invest in industrial cooperation is much less strong in short to medium term than the motivations in the power sector. Because of

⁶ Interview with Chinese Diplomat in Islamabad (2019) and with managers of Chinese SOEs in Lahore (2019)

⁷ Interview with a large Chinese firm in Lahore (2021)

its location, Pakistan could be a bridgehead for Chinese firms expanding to Africa and the Middle East. Despite the advantageous location, multiple risks face Chinese manufacturers investing in the country, including political instability, lack of policy coherence, threats of violent terrorism and high costs.

While the evidence is anecdotal, Chinese FDI in the manufacturing sector is far more limited than investment in the power sector. Many Chinese firms that have invested in the manufacturing sector seek to take advantage of the domestic market rather than produce for the export market. Furthermore, Chinese firms' preferred entry mode is through licence agreements with Pakistani firms or joint ventures, given the market risks. A small but growing group of domestic firms have actively developed linkages with Chinese firms, especially those manufacturing consumer durables. Over the last decade, these linkages have contributed to the emergence of a capitalist class closely aligned with China and look toward Chinese firms as sources of capital, technology, and products instead of the Western world. Some of the most significant linkages have emerged in the automobile sector and consumer electronics.

In the automotive sector, local firms have developed joint ventures and technical/licence agreements with leading Chinese firms, including Changan, FAW and BAIC. A local firm has also signed a production licence agreement with Geely. These Chinese linked firms in the automotive sector initially began by introducing and assembling commercial vehicles for the domestic market. However, they are now expanding their presence in the passenger vehicle category. While these firms produce vehicles for the domestic market, some firms, like Changan, could use the local operation as an export hub (Hussain, 2020).

Chinese manufacturers have also gained a substantial market share in consumer electronics. As with the automotive sector, Chinese firms like Haier, TCL, Gree and Changhong are active in the domestic market. Haier began operating in Pakistan in 2006 as a joint venture with a local company. Haier has emerged as the market leader across consumer electronic categories. Haier became the first company to assemble laptops for the domestic market within the country. Since the tie-up with Haier, Ruba has gained significant prominence. Both companies launched the country's first privately owned and operated special economic zone (SEZ) in Lahore (Business Recorder, 2014). The importance accorded to the venture can be gauged from the fact that the SEZ was inaugurated in 2006 by President Hu Jintao (Bräutigam & Xiaoyang, 2014) while the Chinese Vice President Wang Qishan visited the economic zone during his trip to Pakistan in 2019. This was the first overseas Chinese SEZ.

The Ruba Group is emblematic of the emerging domestic firms looking toward China. Over the last decade, the company has developed partnerships with many Chinese firms in diverse sectors, including automotive (J.V. with Foton, a subsidiary of BAIC); glass (J.V. with Deli Glass Company Limited) and is actively seeking to expand the relationship with other Chinese firms. Whether these commercial relationships grow and expand remains open to speculation. However, what is certain is that the shift of local businesses towards Chinese firms and China is increasingly discernible. Others like Service Industries Limited, a local firm, entered a joint venture with Chaoyang Long March Tyre Co. Ltd. to manufacture steel-belted tyres for export. The venture began operations in Karachi in 2021 (Ahmed, 2021).

The lack of investment in manufacturing is also due to slow progress from the Pakistani side on the much-trumpeted special economic zones (SEZs). While the first SEZ was supposed to begin operations at the beginning of the second phase in 2020, development work has faced multiple delays. The impact of the Covid pandemic can partly explain the slow pace of work. Problems have been exacerbated by a lack of policy focus from the state. Estimates suggest that the first SEZ located in Rashakai in KPK province will begin operations in 2024 – 4 years

after the initial plans. Other prioritized SEZs in the urban centres of Punjab and Sindh are likely to begin operations in subsequent years.

3. What concerns exist in Pakistan about economic engagement with China among different sectors of society (such as policymakers, religious leaders, business owners, or workers) or in different regions of the country? How have Pakistan's goals in economic engagement with China changed in recent years, and how could current political trends in Pakistan affect future engagement with China? How has China changed its engagement with Pakistan to respond to changing political conditions in Pakistan?

As Pakistan remains in the depth of ongoing economic challenges—that have been exacerbated by exogenous factors such as the rise in global commodity prices, geopolitical tensions, and internal security challenges—there are different concerns/hopes among stakeholders regarding the multifaceted Chinese economic engagement in Pakistan. The section below highlights the concerns among different stakeholders.

Key takeaways from this section are:

- Chinese financed projects face structural problems associated with Pakistan's power sector. Despite efforts by the Pakistanis, the Chinese have shown an unwillingness to re-negotiate the terms and conditions governing these investments.
- China has given preferential market access to Pakistani products; however, it maintains a consistently high trade surplus. The high surplus is a function of the lack of local productive capabilities in industry and agriculture.
- Large businesses are concerned with competition from Chinese firms in the planned SEZs.
- As an autonomous economic actor, the Pakistani military has played a relatively small but growing role in direct cooperation on CPEC projects that generate economic rents.
- Peripheral regions like Balochistan feel that they have been ignored in the CPEC negotiations process and wealth creation, prompting unrest.
- The major change in Pakistan's goals in economic engagement with China came with the election of Imran Khan and the PTI in 2018. The CPEC was directed away from mega-project infrastructure investment and toward socio-economic development.
- Recent political changes in Pakistan could boost CPEC; however, many uncertainties remain on the political front.

The Power Sector

One of the major concerns for policymakers in the outgoing PTI government was the increase in circular debt in the power sector and the Chinese reticence to re-negotiate some of the terms and conditions governing the power purchase agreements (PPAs). These concerns will likely remain a formidable challenge for the incoming government, grappling with the rising international cost of commodities like oil, coal and liquified natural gas (LNG). As a natural resource deficient country, Pakistan is dependent on imports to meet its energy needs.

Evidence suggests that the rising capacity payments drive a significant portion of the increase in circular debt in the power sector. As more Chinese-financed power plants begin commercial generation, these capacity payments will increase (Ghumman, 2022). There are already substantial stresses in the relationship as Chinese-financed independent power producers face greater exposure to the problems of circular debt. Latest estimates show that the receivables of

ten Chinese financed IPPs have increased to Rs 300 billion (US\$ 1.6 billion), and almost 37 per cent of capacity is offline (Shahbaz Rana, 2022a).

Problems in the power sector are further exacerbated by the frequent devaluations of the Pakistan Rupee (PKR). Various tariff components are indexed with foreign currencies to adjust for exchange rate variations. Every time there is a devaluation of the Pakistan Rupee, there is a corresponding increase in the cost of electricity. While the tariffs shield investors from exchange rate variations, the frequent devaluation contributes to rising landed costs of electricity which has important welfare implications in a lower-middle-income country like Pakistan, for ordinary Pakistanis. It is difficult for civilian and military governments to pass on the full cost of electricity, increasing circular debt. On the other hand, an increase in the cost of electricity also acts as an incentive for power theft.

The lack of economic activity and less than forecasted demand growth have raised further management challenges in the power sector. As the spectre of circular debt continues to haunt Pakistan's power sector, the issue of capacity payments will gain increasing importance for policymakers as they deal with the twin challenges of dealing with the circular debt while trying to ensure that the country meets its obligations under the long-term Power Purchase Agreements (PPAs). The increase in international commodity prices further compounds problems in the power sector. The increase in commodity prices has a direct impact on the cost of electricity generation

The Covid pandemic further contributed to the challenges facing policymakers in the power sector. In 2020, the PTI government began re-negotiating PPAs with different IPPs. Through these renegotiations, the government reached an agreement with a consortium of 47 independent-power producers established under the power policies of 1994 & 2002. The government also wanted to re-negotiate the contracts with Chinese-financed power plants built under the CPEC framework, but the response of the Chinese side to these requests has not been positive. At the 10th meeting of the Joint Cooperation Commission, the highest forum for joint decision making under the CPEC, Pakistan agreed to keep the tariff and tax regime intact (Rana, 2021). Despite these assurances, Pakistani policymakers once again raised the issue of renegotiation with Chinese policymakers during former Prime Minister Imran Khan's visit to Beijing in February 2022. They unsuccessfully tried to convince the Chinese to re-negotiate two aspects of the existing PPAs:

- The existing contracts are front-loaded, which means that the debt will be paid off in ten years. As several CPEC projects have come online quickly and demand increase has lagged supply because of the economic slowdown in 2018 and the effects of the Covid pandemic, policymakers wanted to extend the loan payment tenor to 20 years. Doing so would reduce the capacity payments due on these projects.
- The Return on Equity per annum for different CPEC projects ranges from 17 – 20 per cent (IRR-based). As noted earlier, the ROE is indexed to the U.S. Dollar.⁸ Through renegotiations, the government wanted to reduce the ROE to reduce the cost of electricity.

Trade & Investment

Trade relations between China and Pakistan have developed over time, but, as noted earlier, China runs a substantial trade surplus. The size of the trade surplus has grown over time, especially after the two sides signed the first Free Trade Agreement in 2006. The agreement

⁸ It is important to note here that this indexation is not a special allowance for Chinese investors. Indexation to the US\$ is a common feature across all power policies announced in Pakistan to 'attract' private sector investment since 1994

eventually took effect in 2007. From 2007 to 2018, bilateral trade grew by more than 240 per cent. The growth in bilateral trade was six times greater than Pakistan's trade with the rest of the world. A study by the Consortium for Development Policy Research shows that while Pakistan's exports to China increased by almost 200 per cent, imports increased by almost 250 per cent, increasing from US\$ 4.2 billion in 2007 to US\$ 14.5 billion in 2018 (Afraz and Mukhtar, 2020).

Organizations like the Pakistan Business Council, a collective organization representing large businesses in Pakistan, were highly critical of the impact of CPFTA-I on Pakistan's manufacturing sector. A major critique of CPFTA-I was that the agreement was one-sided because it gave access to Chinese imports to Pakistan, but reciprocal access to the Chinese market for Pakistani imports was missing. The increase in Chinese imports to Pakistan contributed to premature de-industrialization in Pakistan. Attributing de-industrialization in Pakistan entirely to Chinese imports and the CPFTA is problematic, given the policy framework and incentive structure which incentivized investment in speculative areas of the economy, especially the stock market and real estate, while being at odds with the interest of industry (Naseemullah, 2016).

Pakistan and China began renegotiations on the FTA in 2012, and negotiations concluded successfully in 2019. The CPFTA-II covers the period from 2019 to 24. The terms of the re-negotiated FTA are a marked improvement to CPFTA-I and improve Pakistani exporters' access to the Chinese market. Afraz and Mukhtar (2020) observe that 80 per cent of the product lines that China imports from exporters from Pakistan face tariffs that are lower than or equivalent to China's main trading partner. Under CPFTA-II, China eliminated tariffs on 313 priority tariff lines for products that Pakistan exports. These include a diverse basket of goods including textile and garments, seafood, meat products, chemical plastics, footwear, and engineering goods including tractors, auto parts, home appliances and machinery etc. The effects of CPFTA-II on Pakistan's exports have been positive, and in Financial Year 2021 which runs from July 2020 to June 2021, Pakistan's exports to China grew year-on-year by 38 per cent to US\$ 2.355 billion.⁹ The relationship between the two countries remains heavily skewed towards China, and imports from the country increased by 13 per cent during the financial year.

Chinese officials in Pakistan have highlighted the problems associated with China's high trade surplus (Alam, 2022). While China has offered duty-free access to many different tariff lines, the ability to take advantage of these opportunities is constrained by the productive capabilities of local agriculture and industries. The lack of focus on industrial development by subsequent governments means that the capacity of Pakistani businesses to take advantage of the opportunities presented by CPFTA-II is limited.

Businesses

As noted earlier, large businesses that have entered the power sector have largely supported Chinese investment. Other business interests have been critical of the higher cost of electricity relative to Pakistan's neighbours. They are also wary of the impact of the planned special economic zones on their interests, given the substantial incentives offered to Chinese investors within the SEZs (Small, 2020). While opposition from local businesses could be part of the reason for the delay in establishing SEZs, problems were exacerbated by the lack of focus from the provincial and federal governments. Furthermore, recent work by McCartney (2021) has raised questions regarding the perception that industrial relocation in the SEZs will positively impact Pakistan's economic development in the absence of an active industrial policy. The

⁹ Data with the UNComtrade puts the figure at US\$ 3.03 billion

Pakistani state's ability to develop and implement a coherent industrial policy is highly questionable.

The Military Establishment

The bedrock of the relationship between China and Pakistan is the security dimension. The military establishment remains the most important actor in the relationship with the Chinese. After a brief interlude when civilians played an important role after CPEC's launch in 2015, the military re-emerged as the main actor in the relationship after the PTI government came into power in 2018. During the CPEC's initial years, civilian-military relations became increasingly acerbic, leading to Prime Minister Nawaz Sharif being dismissed on corruption charges. Given the military's oversize role in Pakistan's history, their lack of oversight over CPEC emerged as a bone of contention between the two sides. It raised broader questions related to the future of civil-military relations in the country.

There was also an economic dimension to these concerns, which had to do with China's increasing economic presence in Pakistan. These concerns, it was feared, could negatively affect public support for bilateral security cooperation (Small, 2020). There is little discussion in the existing literature regarding another important aspect of the economic dimension—economic rents. Contracts of multi-billion-dollar Chinese financed infrastructure projects were awarded solely to Chinese state-owned enterprises despite provisions in the framework agreement to form joint ventures (AGP, 2019). For large military-operated and controlled firms, this meant that they had no access to the substantial economic rents that these projects generated, contributing to further questions regarding the benefits of CPEC. There has been some progress in finding an accommodation between Chinese SOEs and military-run organizations like the Frontier Works Organization. In 2020 a Power China and FWO joint-venture was awarded a Rs 442 billion (US\$ 2.9 billion) contract for the first phase of the Diamer-Bhasha Dam. Power China holds the majority (70%) share in the joint-venture, with FWO holding the rest. While the Diamer Bhasha dam is not part of CPEC, the joint venture could provide a template for large CPEC projects in the future, further cementing military-linked firms' role in infrastructure construction (Safdar, forthcoming).

Changes in the geopolitical environment further exacerbated the military's concerns. Despite the close relationship between the two sides, Pakistan's military does not want to be caught in the middle of the emerging great power competition between the U.S. and China. Exclusive dependence on China reduced the room for manoeuvre with other partners, including the United States (Small, 2020). Recent changes in the regional geopolitical environment, including India's increasingly privileged position in U.S. strategic thinking as a counterweight to China in the region and beyond, have strengthened the close military-military relations between the two sides. This can be evidenced by burgeoning arms sales to Pakistan.

Centralization and the case of Balochistan

Soon after CPEC's launch in 2015, controversy erupted regarding the route followed by the physical corridor. Stakeholder conflict over fund allocations for different CPEC projects also began. The PTI levelled accusations that there was an over-allocation of funds for projects in Punjab province (Hussain, 2019). To deal with the concerns, the PML-N organized an All-Parties Conference to deal with the concerns of different provinces. Despite these efforts, the period was marked by concerns from regional actors regarding the continued dominance of Punjab in CPEC (Ahmed, 2019).

Despite the challenges, recent work by Ahmed (2019) observes that the post-2015 discussion on the CPEC and efforts to build a broad-based consensus provided an opportunity to revitalize centre-province relations within the country through dialogue and compromise. These efforts

could help deal with some of the deep-rooted ethnic divisions in the country (Ahmed, 2019). There is limited evidence that such a dialogue process has started. Centralizing decision-making regarding the CPEC has increased over the last two years (Adeney and Boni, 2020). Nowhere are the effects of this centralization felt stronger in Pakistan than in Balochistan.

Balochistan's political leaders expressed their reservations regarding Punjab's domination of CPEC (Ahmed, 2019). Despite the strategic importance of Balochistan, locals feel that the province has been ignored in CPEC's first phase. A study by the provincial Planning & Development Department highlighted that Balochistan received only 7 per cent of the total spending under CPEC. The study also highlighted the lack of progress on road infrastructure projects in the province under CPEC. In late 2018, the Balochistan provincial assembly adopted a resolution against the province's meagre share in CPEC projects (Shah, 2018).

Problems are further compounded by the tenuous relationship between Balochistan and the center. Nationalist political leaders highlight the history of resource extraction from the province and the lack of meaningful development. The example of natural gas—which was discovered in the province in Sui in the 1950s—is frequently cited. While Balochistan produces a substantial portion of the country's natural gas, only 6 per cent of the province has access to natural gas. Furthermore, limited financial benefits accrued to the provincial government are limited (Samad, 2014).

Given that Balochistan is Pakistan's largest province by area but has the lowest share in population, Baloch leaders fear that the economic opportunities generated by the CPEC will lead to a massive influx of labour from other parts of the country. This influx could further marginalize the local population and eventually make them a minority in their homeland (Ahmed, 2019). While part of the problem is related to the low population of the Baloch, the other issue is the lack of public sector spending on areas like health and education, which constrains human capital growth in the province.

The sense of deprivation is perhaps substantially deeper in Gwadar. Gwadar port has privileged importance in CPEC and China's strategic thinking. However, six years after CPEC's announcement and almost two decades after work on the port began, there has been minimal improvement in people's lives. There has been some improvement in the transportation links between Gwadar and other parts of the country through the Makran Coastal Highway; however, development in other areas remains limited. Gwadar still imports electricity from Iran as there have been delays in finalizing the modalities of the coal-fired power plant.

Furthermore, access to water remains a chronic problem in an arid area. Despite promises, the Federal government has been unable to construct the promised desalination plants to help alleviate the problem. There have also been concerns regarding the impact of the port on people's livelihoods. A substantial portion of Gwadar's total population is engaged in fishing. Their livelihoods have been affected by fishing from deep-sea trawlers from China and neighboring provinces like Sindh (Notezai, 2022). Plans to build a fence around Gwadar port and many security checkpoints in the city further stoked local disaffection (Aamir, 2020). In response to the multiple issues facing people in the region, there were massive protests in Gwadar in 2021 (Dawn, 2021). Many of the problems raised by the protestors are linked to development issues, such as the lack of access to basic facilities like electricity, drinking water, health, and education facilities (*ibid.*).

Changes in Pakistan's Goals

The realignment in Pakistan's position regarding CPEC began in 2017 when the country faced a record trade deficit. Before the election of the PTI in 2018, there were signs that CPEC was slowing down. The PTI's election further contributed to a shift in the CPEC's strategic focus

from infrastructure to socio-economic development. Former Prime Minister Imran Khan frequently highlighted the importance of learning from the Chinese poverty alleviation strategies. The changes have meant a substantial change in the scale of projects under the CPEC (Small, 2020). Under the PTI government, new joint-working groups on third-party cooperation, socio-economic development and agriculture were formed. In both cases, discussions focus on a more toned-down version of the CPEC with limited scope for large-scale investments. While SEZs remain a part of the CPEC, progress on providing utilities and physical work on zone development remains slow.

Impact of Political Changes on the relationship

The PTI's historical relationship with the Chinese has been tense. Before CPEC's launch in 2014, Asad Umer, who served initially as the finance minister and then as the Minister of Planning, filed a petition with the electricity regulator regarding the higher than market returns offered to Chinese investors (NEPRA, 2014).

In 2018, the former advisor on Commerce, Abdul Razzaq Dawood, caused significant concern in Beijing. In an interview with the Financial Times, Dawood observed that the Chinese investors were given incentives, much to the detriment of local investors (Andrelini et al., 2018). Dawood also called for a renegotiation of some of the CPEC contracts. The interview was published during Foreign Minister Wang Yi's visit to Pakistan and was viewed as a slight by the Chinese, who sent a sharp rebuke (Small, 2020). Others, like the new minister of railways, Sheikh Rashid Ahmed, bemoaned the substantial loan burden of the ML-1 project and its effect on the country's financial sustainability (Siddiqui, 2018). The statements need to be seen in totality in the context of Pakistan's political dispensation at the time and the hybrid nature of Imran Khan's regime.

Further controversies followed. In 2019, Murad Saeed, the Minister of Communication in the PTI government and one of Imran Khan's closest confidantes made accusations against a large Chinese SOE of corruption. He alleged that the firm offered kickbacks to ministers in the PML-N government. He accused the former Planning Minister Ahsan Iqbal of being the prime beneficiary of cost escalations allowed to China State Construction Engineering Corporation (CSCEC)—a leading Chinese SOE under the management of the central State-owned Assets and Administration Commission of the State Council (SASAC)—in the construction of the Multan-Sukkur motorway. The accusations contributed to further tensions between the Chinese and the PTI government. The Chinese SOE issued a strongly worded statement against the minister's charges, which is uncharacteristic for Chinese firms (Khan, 2019). The relationship between the PTI government and the Chinese improved in 2019 when Imran Khan visited Beijing with the Chief of Army Staff for a second time (Small, 2020). The JCC meeting, which followed the trip, signaled progress in some areas, including socio-economic cooperation (a priority for Imran Khan) and establishing three prioritized SEZs in Faisalabad, Rashakai and Thatta, as well as the ML-1 railway line project.

Despite these improvements, tensions persisted. In 2020, a report on the power sector commissioned by the government to audit the power sector observed that one of the Chinese projects under CPEC, the Shandong Ruyi (Pak) Energy power plant, would receive US\$ 2 billion in excess ROE during the project's lifetime due to misrepresentations by the sponsor (Committee for Power Sector Audit, Circular Debt & Future Roadmap, 2020). The Chinese expressed their frustration with these periodic statements against Chinese interests and the negative perceptions they generated.¹⁰ The tensions in the relationship with the civilian government meant that over the last three years, the Chinese have increasingly looked to the

¹⁰ Interview with Chinese Diplomat in Islamabad (2019)

military as the ‘principal interlocutor’ (Small, 2020: 6) and have relied on it to deal with political and economic challenges previously managed in the civilian domain.

These contracts were negotiated and implemented during the tenure of the Pakistan Muslim League-Nawaz (PML-N) government. Small (2020) noted that during the 2018 elections, Beijing hoped for political continuity as the PML-N had played an effective role in pushing CPEC forward during the first phase. A second term for the PML-N would help continue progress and strengthen Beijing’s position in Pakistan. With the recent political changes in Pakistan, relations with the Chinese could likely improve. This is especially true for Shahbaz Sharif, the younger brother of PML-N supremo Nawaz Sharif, who came into power after a no-trust vote against the Imran Khan-led PTI government. The incoming Prime Minister has historically had a good working relationship with the Chinese. Under his government, the Sahiwal coal-fired power plant was constructed and began operations within 22 months. He is viewed as an able administrator; during his tenure as Chief Minister of Punjab, the Chinese dubbed his ability to ensure rapid project implementation ‘Punjab Speed,’ akin to China’s famed ‘Shenzhen Speed’ (Rehman, 2016). Depending on the incoming government’s handling of the China-Pakistan relationship, the Chinese could exhibit greater flexibility to enter some form of negotiations to support Pakistan’s fledgling economy, especially as uncertainty grips the global economy. If the past provides some indication, the Chinese will be more comfortable working with the PML-N led coalition government in Islamabad. Despite Beijing’s willingness to work with the new government, Pakistan’s ongoing political instability is likely to remain a pressing concern for Chinese policymakers.

The PML-N led coalition government has also signaled a change in the organizational structure of CPEC. Soon after coming into power, Ahsan Iqbal, the Minister of Planning when the CPEC was launched, declared that the CPEC Authority—a decision-making body with strong military influence—would be shut down. The establishment of a parallel CPEC Authority, which gave an explicit role to the military leadership, was a major point of conflict in the relationship between the PML-N and the Army. The news that the CPEC Authority is now being liquidated raises questions about whether the military will be willing to take a less frontline role in CPEC and the relationship with the Chinese. It is too early to tell, and the situation will likely become clearer only after a new Chief of Army Staff takes over in 2022. Furthermore, national elections are likely to be held in 2023 and could provide further clarity on civilian-military dynamics.

4. How have security concerns affected China’s willingness and ability to engage economically with Pakistan? How has the return of Taliban rule affected China’s engagement with Pakistan?

There are substantial security challenges that will continue to affect the economic relationship between Pakistan and China. There has been a steady increase in attacks on Chinese targets in Pakistan as China’s economic footprint has grown. These attacks come from many actors, including Baloch nationalists and the Pakistani Taliban, highlighting the growing security dilemmas that the Chinese face in Pakistan (Basit and Pantucci, 2021).

Key takeaways from this section are:

- Attacks on Chinese nationals and interests are increasing from a range of insurgents. These attacks raise significant challenges for Chinese economic engagement in Pakistan.
- The costs of securing the CPEC have increased. These costs are likely to increase further, given the evolving threat matrix.

- China has engaged with the Taliban in Afghanistan and is interested in expanding CPEC to include the country. China's efforts are likely to be negatively affected by tensions between the Pakistan military and the Taliban.

The Baloch insurgency

There has been an ongoing insurgency in Balochistan since 2004. The insurgency gained greater traction after the killing of Nawab Akbar Bugti in 2006. The insurgency is the latest in a series of uprisings in the restive province since Pakistan gained independence in 1947. While terrorist attacks in Pakistan have declined in recent years, there have been high profile attacks on Chinese interests in Pakistan by Baloch militants.

Most of these attacks have taken place on high visibility targets in Balochistan. What is perhaps more worrying is that apart from Balochistan, most of the recent high-profile attacks on Chinese interests have taken place in Karachi, Pakistan's economic hub. In 2020, militants from the BLA's Majeed Brigade also claimed the attack on the Karachi Stock Exchange (KSE). In 2017, a consortium of Chinese firms acquired a 40 per cent stake in the Pakistan Stock Exchange for US\$ 85 million (Washiyama, 2020). The attack could be seen as signs of an emerging tactical alliance between Baloch and Sindhi separatist groups against Chinese economic interests in Pakistan (Basit, 2020). The BLA also carried out other high-profile attacks on Chinese interests in the country, including the 2019 attack on the Pearl Continental hotel in Gwadar and the 2018 attack on the Chinese consulate in Karachi.

In the latest such attack, a female suicide bomber from the Majeed Brigade of the Baloch Liberation Army (BLA) targeted a van carrying Chinese and Pakistani staff members working at the Karachi University's Confucius Institute. Three Chinese nationals died in the attack, leading to swift condemnation from Beijing. What is important to note concerning this attack is that it is the first known instance in the Balochistan conflict where a woman carried out the attack. Secondly, the attacker was well-educated and came from a well-off Baloch family. The attack serves as another reminder of the threats facing Chinese targets in Pakistan. It also signals a different and worrying dimension of the Balochistan conflict for Pakistani security analysts (Rana, 2022).

The Tehreek-e-Taliban Pakistan

Baloch militants are not the only threat to Chinese interests in Pakistan, including in Balochistan. The Tehreek-e-Taliban Pakistan (TTP) has also been accused of spearheading attacks against Chinese nationals. The militant group targeted the Chinese ambassador during a visit to Quetta. The Chinese ambassador narrowly escaped the attack at the upscale Serena Hotel in the city. The attack left five people dead and injured seventeen. Analysts saw the attack as a signal that the militants viewed China as an opponent because it supported the Pakistani state (Aamir, 2021).

In July 2021, nine Chinese were killed in an attack on a bus carrying Chinese and Pakistani workers engaged in constructing the Dasu dam project in Pakistan's Northern region. After initially suggesting that the incident was due to a technical fault in the vehicle, the government admitted that militants of the banned TTP were to blame (Rana, 2022). More worryingly, Chinese sources accused the East Turkestan Islamic Movement (ETIM) of working with the TTP in carrying out the attack (Basit and Pantucci, 2021). The Chinese reaction to the attack was strong. China canceled the Joint Coordination Committee meeting, which was supposed to meet after a hiatus of almost two years. The Chinese firm also stopped working on the project as China demanded that the Government of Pakistan improve security.

Mounting security costs

Pakistan has expended substantial resources to protect Chinese nationals and CPEC projects. In 2016, the Government of Pakistan raised a Special Security Division tasked mainly with protecting Chinese interests in the country. The SSD comprises two light infantry divisions with 15,000 soldiers each. The SSD is supported by 32,000 other security personnel from paramilitary forces like the Frontier Constabulary, Rangers, and the police. The cost of providing security to the Chinese is high. Recent reports suggest that the Chinese contribute to security costs (Rana, 2022). The high-security cost is already affecting large infrastructure projects like the ML-1 railway project, where the cost of providing security to Chinese nationals working on the project is a staggering Rs 36 billion (around US\$ 200 million) (Shahbaz Rana, 2022b). Given the precarious economic condition facing Pakistan, the high cost of security poses another challenge for policymakers in Islamabad.

In the face of the evolving threats faced by Chinese interests in Pakistan, Beijing is likely to increase pressure on the Pakistani establishment to improve the security of Chinese businesses and nationals. This will increase the security costs of CPEC putting further pressure on Pakistan's economy.

Prospects for Chinese investment

As China's economic footprint in Pakistan continues to evolve and expand, the threat matrix faced by Chinese interests is likely to evolve. These threats will contribute to a rethinking of the Chinese position in the country. More importantly, it will further deter private Chinese firms from investing in the country from Pakistan's perspective. Investing in the country is already risky; as the chronic political instability and problems large Chinese SOEs face in the power sector have shown, the additional risk posed by violence is likely to further deter private Chinese investors from relocating to Pakistan. This is especially true because other regions of the world, like Southeast Asia, are far less risky for industrial relocation.

It is doubtful that Chinese investment in the much-vaunted SEZs will grow substantially in short to medium. The lack of foreign investment in Pakistan's productive sectors means that the country faces the boom-bust cycle that has characterized Pakistan's growth over the last five decades. A large infusion of Chinese capital and firms in the planned SEZs will be accompanied by an increase in Chinese nationals coming to the country, raising the spectre of more attacks. While the incoming Pakistani government has repeatedly stated that they will improve the security of Chinese citizens working on different projects in Pakistan, the recent spate of high-visibility attacks is unlikely to give the Chinese much confidence. Basit (2018) has taken a different view regarding counter-insurgency cooperation between the two countries. After the early 2000s, Basit (*ibid.*) argues that both sides are trying to develop a holistic security strategy that involves multiple security actors, including the military, paramilitary, and private security firms. Despite these efforts, the recent attacks show a need to move beyond conventional security measures (Rana, 2022).

One of the ways in which the Chinese could play a positive role in Pakistan to safeguard their interests is by prodding the Pakistani establishment to open lines of communication with Baloch nationalists and insurgents. The Chinese could also push for some accommodation on issues that contribute to popular discontent against the Pakistani state in Balochistan. One such area is that of missing persons. There are frequent accusations that the Pakistani security forces act with impunity, and there are cases of enforced disappearances in the province (Samad, 2014).

Afghanistan after the Taliban takeover

During the U.S. war in Afghanistan, Miao and Xie (2021) have argued that China engaged in a policy of 'minimal intervention,' meaning that it avoided security issues other than serving

as a meeting place between the Afghan government and the Taliban. China also sought economic cooperation with Afghanistan within the framework of the BRI and particularly the CPEC. Overall, China had low-level involvement in the security field but significant economic investments due to China's growing demand for energy and incentives for foreign energy investment in Afghanistan (Miao and Xie 2021). China had temporarily withdrawn from Afghanistan following the uncertainty of the Taliban victory (Chen, 2021). China has sought to mediate the relationship between Afghanistan and Pakistan to ensure the safety of its economic investment and long-term strategic goals in the CPEC. Since the Taliban takeover in Afghanistan, there have been multiple high-level visits between the two countries. The Chinese Foreign Minister Wang Yi attended the Organisation of Islamic Countries' foreign ministers' meeting held in Islamabad in March 2022, after which he proceeded on a surprise visit to Kabul. Wang's visit to Afghanistan presents the clearest signal that China wants to engage with the Taliban as a 'normal government' (Gannon, 2022).

To minimize the risk of conflict along Pakistan's Western border, China has also begun to consider incorporating Afghanistan into the CPEC, potentially at links between Kabul, Peshawar, Kandahar, and Quetta (Chen 2021). Recently, Pakistani officials have also publicly discussed building connections between Afghanistan and Pakistan. China has reiterated the desire to extend CPEC to Afghanistan, highlighting the positive spillovers for the country's economy (Jun and Daye, 2021). Given its geographic location, Afghanistan could gain substantially from increasing transit trade from Central Asia to Pakistan's Gwadar port.

While fostering connectivity and improving transportation links between the two countries is one of the ways in which the CPEC can be extended to Afghanistan, other more innovative means of providing support to Afghanistan and Pakistan are also under consideration. Given the problems associated with circular debt, which are crippling Pakistan's power sector and negatively affecting the Chinese-financed power plants, one of the options is for Pakistan to export power to Afghanistan. Rather than the Afghans paying for the electricity, the Chinese can buy the electricity from Pakistan as part of their development assistance to Afghanistan through long term contracts (thirty years) (Ghumman, 2022). While authorities have mooted the plan in Pakistan, there has been no official response from China or Afghanistan. Currently, Afghanistan receives electricity from Central Asian states like Turkmenistan and Tajikistan.

Pakistan has been largely supportive of China's overtures to the Taliban. Given that Pakistan is one of the Taliban's closest supporters and has been a vocal advocate of the international community accepting the Taliban as the legitimate government in Kabul, this support is not surprising. While the Government of Pakistan frequently accused the US-backed government in Kabul of turning a blind eye to the activities of the TTP, the situation does not seem to have changed under the Taliban. The TTP seems to be enjoying the patronage of the Taliban government, and little action appears to have been taken against Baloch insurgents (Rana, 2022). The inability or lack of interest in dealing with the TTP has contributed to a marked decline in relations between the Afghan Taliban and the Pakistani establishment. Over the last few months, there has been a significant increase in attacks on Pakistan's security forces (Hussain, 2022). The clearest sign of the fast-deteriorating relations between the two countries was the announcement that Pakistan carried out air raids on alleged TTP sanctuaries in Afghanistan's eastern provinces of Khost and Kunar in April this year (Aljazeera, 2022). The air raids come on the heels of earlier incidents in which Taliban soldiers blocked an ongoing project to fence the porous border. The air raids represent a severe escalation in violence along the border. Given the volatile situation, China's options in the region are limited. Despite China's overtures to the Aghan Taliban, the continuing activity of the TTP and the group's access to weapons left behind by the U.S. is likely to raise concerns in Beijing, given that it wants to maintain peace in the region and protect its economic as well as domestic interests.

5. How does China's economic relationship with Pakistan affect U.S. interests? To what extent has it affected the willingness or ability of the United States and other development partners to work with Pakistan? How have concerns over Pakistan's debt, including the potential for undisclosed debt to China, affected Pakistan's relationship with multilateral institutions such as the IMF?

The United States has long-standing relations, and strategic interests in South Asia as the region is home to two nuclear-armed neighbors. Maintaining stability and open lines of communication between India and Pakistan aligns with U.S. regional interests. Furthermore, ensuring cooperation in counterterrorism operations will likely remain important. To support these long-term interests in the region, the U.S. should support Pakistan's nascent democratic transition and the civilian government. Investment—whether by China, the U.S., or other partners—that promotes sustainable economic growth and development will help maintain political stability in Pakistan and, thus, the broader region.

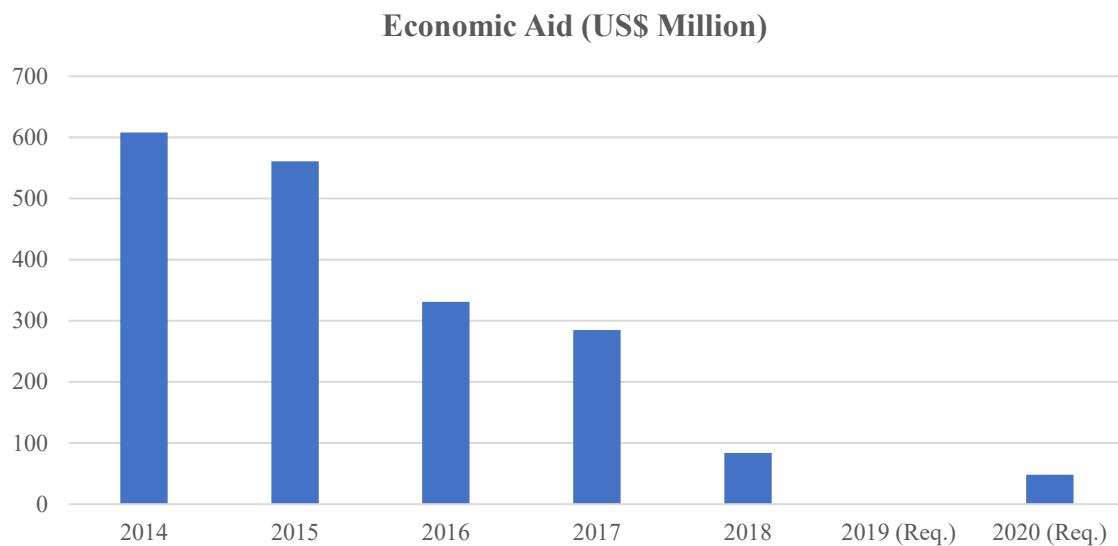
Key takeaways from this section:

- Chinese investment that promotes sustainable economic development converges with U.S. interests in safeguarding stability in Pakistan. Unsustainable debt-based growth threatens to destabilize the fragile Pakistani economy and its political system.
- China's exporting of emerging technologies, especially for surveillance and censorship, may also create dependencies and erode civil liberties to the detriment of U.S. interests.
- Third-party bilateral and multilateral development partners remain engaged with Pakistan.
- 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.

Geopolitical changes and Pakistan

Given the geopolitical changes taking place globally, especially with the U.S. withdrawal from Afghanistan, policymakers in Pakistan realize that the U.S. interests in the region have changed. The U.S. will likely reduce its engagement in the region, at least in the short term (Kugelman, 2016). Policymakers in Islamabad have their grievances regarding the U.S. and its increasingly lopsided regional engagement, which has skewed heavily towards India in the recent past. They also point out that while the U.S. has periodically abandoned Pakistan, China has remained a steadfast ally. For policymakers in Islamabad, the decline in U.S. involvement in Pakistan is evidenced by the reduction in financial and military support for the country. In January 2018, the United States suspended security assistance to Pakistan. In the economic realm as well, the U.S. has significantly pared back economic assistance to Pakistan with a constant reduction in U.S. aid during the period from 2014 to 2020, as the figure below shows:

Figure 4: U.S. Economic Aid to Pakistan



Source: Author's own based on Kronstadt and Epstein (n.d.)

Along with the reduction in economic assistance, FDI from the U.S. has also witnessed a decline. While the United States has historically been the largest source of FDI to Pakistan, since 2013, investment by the U.S. in Pakistan has been eclipsed by Chinese investment in the country. China has consistently been the largest source of FDI to Pakistan since the announcement of the CPEC in 2015.

The declining economic role of the United States in Pakistan may limit its ability to safeguard its interests in Pakistan on regional issues and problems like counterterrorism (Sacks, 2021). China's expanding economic linkages with Pakistan should not be seen as damaging to long-term U.S. interests in the country, however. To the extent that the development of Pakistan's economy will reduce the appeal of radical ideologies, Chinese investment may align with U.S. interests in Pakistan in promoting political stability and counterterrorism partnership.

Areas of Convergence

Infrastructure Development & Industrialization

There are many areas of convergence where China's economic engagement with Pakistan can positively impact the U.S.'s long-run strategic goals. For one, CPEC brought much-needed investment in Pakistan's power sector, contributing to economic activity in the country. The subsequent problems facing Chinese investments, especially in the power sector, underscore the limits of quick-fix solutions for Pakistan's economy and the importance of undertaking structural reforms. The U.S. has been engaged in providing policy support, especially in capacity building, to help Pakistan deal with some of these structural issues in the power sector. This support needs to be enhanced while keeping in view some of the political economy constraints facing political actors in Pakistan. Politicians in Pakistan have periodically highlighted the importance of engaging with the U.S. in the realm of ideas while depending on China for hardware like machinery.

Similarly, improvements in physical infrastructure can contribute to sustainable economic growth through direct and indirect linkages. At the micro level, it can open avenues of income generation for local people and weaken existing patronage networks. Similar is the case with mass transit projects. The Orange line urban mass-transit project in Lahore has been criticized

for the lack of economic sustainability and the continued dependence on subsidies. Given Pakistan's economic position, taking on more debt for the project is problematic; however, state subsidies are important for operating large public transport networks.

Structural change in Pakistan's economy could play an important role in dealing with the frequent boom-bust cycles that plague the Pakistani economy, thereby reducing dependence on multilateral institutions like the IMF. Chinese efforts to spur industrial development in Pakistan could align with U.S. interests by promoting economic stability in the country. Investment in infrastructure is likely to positively impact Pakistan's economic development if it contributes to augmenting the productive capabilities within society.

Areas of Divergence

Debt-fueled growth

Pakistan provides a cautionary tale to the debt-fueled growth model. While Pakistan's economic turmoil is structural, these problems have been exacerbated by Chinese lending for infrastructure projects and the lack of local linkages that these projects generate. In the power sector, Chinese financed projects have added capacity. However, they have also contributed to a substantial increase in capacity payments, thereby putting further pressure on Pakistan to meet the payment obligations. The debt-based growth model negatively affects Pakistan's economic and political stability and thus negatively affects U.S. interests.

Emerging Technologies

Information technologies have an important role in the economy in developing countries like Pakistan. They can provide access to information and have positive spillovers in health, education and income generation. Evidence, however, shows that they can also be deployed as tools of repression. The evolving relationship between China and Pakistan in emerging technologies can help the Pakistani state control the media and political opponents, stifling democracy. Cooperation between the two countries can also lead to more control over the online space based on learnings from the Chinese experience. Similarly, Safe City surveillance technologies that have been used in different cities in Pakistan can be used to clamp down on political dissent. The danger of using these technologies to stifle debate and strengthen central control is problematic for the long-term U.S. interests.

Development Partnerships with the U.S. and Others

Multilateral organizations and bilateral partners are still working with Pakistan on development projects. For its part, Pakistan continues to exhibit a willingness to work with other development actors, including the United States. Pakistani policymakers frequently express their desire to extend the CPEC and include other countries and partners (APP, 2022). The Chinese have also encouraged Pakistan to promote third party participation in the CPEC. Both sides established a Joint Working Group on Third-Party participation in CPEC projects. This multilateral approach is already visible in some existing CPEC projects. For example, the International Finance Corporation has invested in two Chinese-financed hydropower projects currently under construction in Pakistan (Safdar, 2021). The United Kingdom's Department for International Development (DFID), in partnership with the Asian Development Bank, has funded the construction of sections of the motorway network in Pakistan, forming part of the road network linking China and Pakistan (ICAI, 2018). Pakistan is a part of regional connectivity programmes like the Central Asian Regional Economic Cooperation project. It is also a party to the Turkmenistan-Afghanistan-Pakistan-India gas pipeline project and the World Bank-sponsored Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000).

Pakistan and the IMF

Pakistan's boom-bust economic cycle means that the country frequently requires balance of payments support. Since the late 1980s, Pakistan has been to the IMF more than 12 times. In 2019, Pakistan entered a US\$ 6 billion Extended Fund Facility (EFF) programme with the IMF. One of the main concerns of the IMF and the United States was the lack of transparency in Pakistan's relationship with the Chinese and the opacity of contracts.

Given Pakistan's chronic financing needs and dependence on the IMF programme to access other avenues of financing, the government has shared details of Chinese financing with the Fund. Moreover, overall, ambiguity regarding the terms of Chinese funding has not been a significant challenge in Pakistan's current relationship with the Fund. In the Article IV negotiations discussions between the IMF and Pakistan, debt rescheduling with Chinese lenders is expressly mentioned as one of the means through which Pakistan will bridge its financing needs (IMF, 2022). Differences have been more acute in other areas like controlling the fiscal deficit. Removing costly fuel subsidies remains a central sticking point between both sides. Furthermore, while the government has increased electricity tariffs, the Fund is pushing for the implementation of structural reforms to help sustainably resolve the circular debt problem.

6. The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?

Key recommendations based on the testimony are as follows:

- There is a need for sustained engagement by the U.S. with Pakistan, especially with the civilian government. Rather than being seen as transactional, the U.S. should be seen as a dependable partner in Pakistan.
- Simplistic arguments like debt-trap diplomacy fail to capture the factors that make developing countries like Pakistan willing partners with China in the Belt & Road Initiative. While China holds a significant share of Pakistani debt, it is unlikely to result in the loss of Pakistan's sovereignty, infrastructure, or industry.
- Chinese and Pakistani actors have multiple motives for engaging with each other. While some of these motives are strategic, there is an explicit commercial rationale for the burgeoning economic relations. China's economic engagement is driven by many decentralized commercial actors that act semi-autonomously from the Central Government's direction.
- Rather than competing with the Chinese in infrastructure construction, the U.S. can play an important role by contributing to the software of development through ideas and training human capital. These are areas where the U.S. enjoys a substantial competitive advantage.
- The U.S. can play a positive role in South Asia by promoting dialogue between India and Pakistan. Pakistan has already expressed the desire to engage with India on bilateral issues. Given the close evolving relationship between Washington and New Delhi, the U.S. can prod India to start a dialogue.
- There is substantial evidence that meagre access to technology does not improve productive capabilities. Significant learning risks are associated with technology adoption in late industrializers like Pakistan. The U.S. can help reduce these learning risks for Pakistani firms by augmenting technical cooperation. U.S. technical expertise

can play a vital role in assisting local firms in upgrading their productive capabilities. While the emphasis on small and medium enterprises is important, such technical support needs to also focus on large firms that are much more likely to adopt new technology.

- Both the U.S. and China have long-run interests in promoting stability in Pakistan, and there is a need to build on these areas of mutual interests. The United States should engage constructively with China in Pakistan and Afghanistan.

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OPENING STATEMENT OF RAFFAELLO PANTUCCI, SENIOR FELLOW AT THE S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES (RSIS)

COMMISSIONER SCHRIVER: Thank you. Now we go to Mr. Pantucci who is joining us virtually. We look forward to your comments.

MR. PANTUCCI: Hello. I'm going to assume you can all hear me, and someone will wave at me if you cannot. Chairman Shriver, Commissioner Bartholomew, members of the Commission, thank you for the invitation to testify before you today.

I'm very sorry I can't join you in person. I am in Singapore. But I appreciate the great efforts made by your colleagues to try to get me there. I submitted a written testimony, but I'll offer some brief thoughts now to summarize the questions that I was specifically asked. I'll leave recommendations to the end, and I may or may not include them depending on time.

To first briefly talk about threats that I think China sees from Afghanistan. I think, as has been repeatedly said by colleagues. Uyghurs is clearly a major concern for China, militant Uyghurs using Afghanistan as a base or the wider region to try to instigate trouble back towards China.

But this time it seems to be less of an immediate priority concern these days for Beijing. It's always on the list, but suddenly there's been a lot less noise around it.

In Afghanistan, as was pointed out by Dr. Murtazashvili, it seems as though some sort of an accommodation has been reached. But from my understanding, it's not clear that the Taliban are entirely uniform about what exactly they want, how they wanted to handle this.

I think there were some who wanted to try to engage more with the Chinese and do what they wanted to with the Uyghurs. But I think there's another faction that didn't necessarily see that. And that's why we saw the compromise of just moving them to a different part of the country.

But I think actually the bigger concern that China worries about at the moment is the problems of militancy and violence from Afghanistan spreading out regionally, specifically into Pakistan and into Central Asia.

And the three groups that have been most sort of animated about at the moment is the Balochi groups, the Tehrik i Taliban Pakistan, and the Islamic State Khorasan Province, all of which have clearly increased their violence over the past years, violence in fact increasingly also is specifically targeting China.

So I think this is really becoming the priority concern from Beijing when they're looking at security threats in Afghanistan and going out towards the region.

They're also very concerned about a collapse in the government in Kabul. The idea that the government might suddenly fall apart, leaving them with absolutely no partner to engage with is, I think, a pretty nightmarish scenario from Beijing's perspective.

Now I'm going to continue talking specifically about the security response. I would make the point that really China's leading on economic engagement with Afghanistan. And I think its bigger vision is this idea that, you know, heavy economic investment, a prosperous country will ultimately be a stable one.

And therefore, you know, that's the sort of equation they're looking at which is why, I think, we're seeing such a focus on the economic side. But I can talk more about that later if

there's interest.

I was asked the question how does China hedge with the Taliban through multilateralism? Well, I think that hedging towards Afghanistan has been China's policy basically for the past decade, if not more, certainly since the mid-2010s.

You can see that China is essentially chose to engage with Afghanistan on every particular front, that was with the United States, it with regional partners, it was through multilateral institutions like the SCO, or other mini-lateral ones they created around Afghanistan, as well as with opposing factions, engaging with the Taliban, discussion that they increasingly were willing to talk about publicly from the mid-2010s onward.

From Beijing's perspective, they don't see any reason to choose. I think what you've seen with Beijing since the fall of Kabul to the Taliban, was a desire to try to retain this approach. But it's complicated because, of course, you have a very different actor in Kabul. And that actor has very different relationships around the region, has very a very different interest in engaging.

The Shanghai Corporation Organization, for example, has not really done anything more than it would usually. There's no particular agreement within the organization about what exactly to do and how to handle Afghanistan. Some of the neighboring powers seem to want to engage more, others do not. And since it's a consensus-driven organization, you see nothing happening as a result.

The Chinese continue to push, however, for Afghanistan to do something. They've continued to engage Afghanistan and its border countries, hosting most recently the Tunxi Initiative. They've continued to engage in the Troika Plus, Pakistan, China, Russia, and the United States.

And they've created -- they've tried to extend the trilaterals that they used to hold between Pakistan and Afghanistan. Back in June 2021, they held a bilateral, Wang Yi held a meeting, a Trilateral, with his Afghan counterpart and Pakistani counterparts. And then in April of 2022, we see almost the same from format with the Taliban counterpart and the same foreign minister on the Pakistani side.

Where we see the Chinese going, not stopping in terms of their engagements at the multilateral level, is in terms of re-engaging with the Quadrilateral Corporation Coordination Mechanism, and institution that was created back in 2016 which brought together the chiefs of Defense staff of the four countries, Afghanistan, Tajikistan, Pakistan, and China.

To do this would basically involve a step too far probably in recognition terms with the Taliban government. And so they've hesitated. But they've seemed very willing to engage, frankly, with the Taliban through any format involving sort of the Ministry of Foreign Affairs.

The second question I was asked was what is China's presence in neighboring countries focused on reducing extremist threats. Well, it's been touched upon my colleagues, but basically, I would look at it through three different lenses.

The first is building up local capability, be that in Gilgit-Baltistan, or be that in Tajikistan, building up local bases which they've done in Tajikistan specifically, including ones where Chinese PAP forces are engaged, but also providing equipment of all sorts to various forces on the ground, but also in terms building bases to help the locals be able to manage their own security threats.

This is really about China. And I think here I'm talking specifically about the effort in

Tajikistan. It's really about China having its own eyes on the problems and not entirely relying on the Tajiks who do they do not think are a particularly reliable security force.

But it's also about engaging the border and police forces across the region. The PAP is very heavily engaged. And pre-pandemic we saw the Chinese engaging very heavily in terms of training exercises with locals. And this was done through the SCO in training exercises in the region but also done in terms of bringing regional police and border guards back to China for 11-month engagements in Shanghai at a course run at the Shanghai University in Politics and Law. And I've heard rumors that some of this has continued online, but it's not very clear to me exactly what's happening now.

There is also some private security firms they've engaged in the region to protect the Chinese assets and companies that are operating on the ground.

But I think the key take-away, I would say, is that China's essentially hedging. China isn't committing to anything, but it's engaging across the board in a range of different ways to essentially provide itself assurance should the Taliban not deliver the security concerns its worried about.

In terms of the wider lessons we can draw from China's engagement in Tajikistan is that China doesn't trust the locals, frankly. And this is why I think you have a base there with Chinese forces actually on the ground.

This is very much the same reason, I think, where the Russians have deployed so heavily there, in part because the Tajiks will permit it, but also in part because there's a recognition that there is a real weakness here.

I think the choice of the PAP in terms of leading this engagement is a reflection of how it's really tied to domestic Chinese security concerns. But I think the key distinction between Russia and China here is that Russia sees itself in some sort of parental role in the region, whereas China sees this in a very transactional, solipsistic light.

This is about Chinese domestic security concerns, potentially over spilling across the border. It's not really about bringing civility to the region. It's really about boring up Chinese direct security concerns. And I think that's where they're going to focus on.

The interesting elements I will touch about, the Russia dimension in particular, is that the Chinese, as far as I understand, there has not been much engagement between the Chinese force on the ground in Tajikistan and the Russian forces that are based in Tajikistan, even though I believe the Russians did try to reach out to try to get them to engage, which tells me that really, they're quite happily working in parallel there.

I wouldn't interpret there's a tension between China and Russia. I think basically the two of them see themselves as having different roles and different concerns and how they're interpreting that.

The final point I'll very briefly touch upon is the risk of how this could impact interests for the United States. I think the key thing is that China's increasingly worried about security issues in the region. But it's not going to take the same approach that, I think, the West would which is to try to go and fix them.

The answer from a Chinese perspective is to essentially ensure that its own interests are guaranteed and then essentially watch and see what happens. And that means that you potentially going to see violence and problems in the region become worse.

We've already seen the IS-K launching border attacks up into Central Asia. We've already seen violence in Pakistan increase over the past year. And these are issues where China will clearly increasingly put pressure on local forces to try to do something about it and probably engage in some degree to do it.

But at the same, China isn't going to go in and try to fix these problems which means that you could see these groups once again metastasizing in such a way and in a place where the U.S. doesn't really have the same sort of coverage that it did before.

And I will stop there conscious I've gone overtime, and I will leave my recommendations to the testimony unless you would like me to return to them. Thank you.

**PREPARED STATEMENT OF RAFFAELLO PANTUCCI, SENIOR FELLOW AT THE
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China's Current Security Approaches and Interests in Afghanistan

Testimony Before the US-China Economic and Security Review Commission, May 12, 2022

Raffaello Pantucci, Senior Fellow, S. Rajaratnam School of International Studies (RSIS), Singapore

China's security interests and approaches to Afghanistan and its environs are shaped by a concern that threats from this region might ultimately come back to hurt China. This is either from Uyghur separatists which Beijing fears are hiding in the region, or increasingly the growing number of regional groups that have identified China as an adversary. This shapes China's security responses in the region. But 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.

- 1. In what ways does China hedge its relationship with the Taliban through bilateral and multilateral security initiatives such as the Shanghai Cooperation Organization (SCO) and the quadrilateral counter-terrorism cooperation mechanism (QCCM) with China, Pakistan, Tajikistan and Afghanistan? Does China use these organizations primarily for security cooperation and training or to establish blocks of political influence? Has China's investment in these organizations, either in manpower or money, changed since the U.S. withdrawal from Afghanistan?*

China has always sought to hedge its security concerns with Afghanistan through multiple avenues of engagement. Since the fall of Kabul to the Taliban, China has largely sought to continue its regional activities as before. The Shanghai Cooperation Organization (SCO) has continued to hold a number of meetings and engagements, including a heads of state hybrid summit held in Dushanbe in September 2021. China participated in this and other SCO sessions in much the same way it has before, seeking to engage through the format, but not appearing to force through anything new. President Xi in his remarks during the summit focused heavily on Afghanistan and spoke of China's goals as being: "One, the peaceful transfer of power to Afghanistan. Second, contact and communicate with Afghanistan. Third, provide humanitarian and anti-epidemic assistance to the Afghan people."¹ He also called on the United States to play a greater role in providing funding to stabilize the country, releasing funds being held up by Washington, and help Afghanistan out of its economic funk. The major achievement of the Summit was the admission of Iran into the organization, and while Afghanistan hung heavy over the discussions – it was likely too close to the fall of Kabul to be able to properly adjust and respond. There was some discussion about how the Taliban should be engaged with now it was the de facto government of Afghanistan, but it was not something that Beijing expressed a view on.² This attitude is likely to persist with the SCO, with China continuing to highlight Afghanistan as an issue within the organization, and repeating these talking points, but unlikely to be actively pushing towards the SCO doing much more – in particular as there does not seem to be a consensus amongst members about exactly how to handle Taliban-led Afghanistan.

Looking to the Quadrilateral Cooperation Coordination Mechanism (QCCM) – this was an institution that was developed in large part as a result of the People's Liberation Army (PLA) seeking to play a greater role in Afghanistan. When it was established in 2016, it came as part of a larger effort where China was seeking to strengthen its direct border relations with Afghanistan – there was discussion about undertaking more training and even potentially building a base with the Afghans in Badakhshan.

¹ http://www.chinatoday.com.cn/ctenglish/2018/commentaries/202109/t20210926_800259123.html

² <https://eurasianet.org/csto-sco-summits-presage-policy-of-wary-tolerance-of-taliban-regime-in-afghanistan>

It was also the moment around which the discussion of the Chinese base in Tajikistan became more publicly acknowledged. After this initial appearance by the QCCM, it went quiet, though it continued to provide a convening function for China to engage with its regional partners on border security questions in particular. Afghan officials acknowledged its utility in particular in trying to manage complex security questions in remote Badakhshan. Given the official partner in the engagement would have to be government of Afghanistan's Ministry of Defence, it would require formal recognition of the Islamic Emirate government for it to be formally included and revived, meaning its revivification is something which would only be possible in the wake of formal recognition of the authority in Kabul – a step Beijing is unlikely to take first.

At the same time, in many ways, China has already recognized the Islamic Emirate government. Foreign Minister Wang Yi hosted his Pakistani counterpart Qureshi and Amir Muttaqi in April 2022 on the fringes of the larger regional meeting hosted by China at Tunxi.³ This format replicates an earlier multilateral engagement that China used to host which brought together senior foreign ministry officials between the three countries. In June 2021, two months before the collapse of the Republic government, Wang Yi hosted a virtual engagement involving Pakistani Foreign Minister Qureshi and then-Foreign Minister Atmar.⁴ This highlights China's desire to attempt to re-engage with the Islamic Emirate government in the same way that it was engaging with the Republic beforehand, restoring the same structures. Given the fact this has now happened with the Ministry of Foreign Affairs, it would not be impossible for a similar event to be held between Defence Ministries of the three powers. It is worth noting though that the QCCM is a structure theoretically represented by the Chiefs of Defence Staff which would be a different form of engagement to political ministries.

There have also been reports that China has helped facilitate engagements between the Islamic Emirate security authorities and the Pakistani intelligence services, in an attempt to help get them to resolve some of their differences.⁵ Issues that have become more acute in the recent past as Tehrek e Taliban Pakistan (TTP) have increased the tempo of their attacks in Pakistan, and in return Pakistani authorities have launched cross-border strikes alongside violent border clashes between Afghan and Pakistani fighters.⁶ If confirmed, China's attempt to step into the middle of this divide suggests a recognition by China of the role it can play in trying to stabilize the relationship between the two countries, leveraging the relationships that it has developed. Within these contexts, China appears to be trying to improve relations between Afghanistan and Pakistan, while also building up its own bilateral links to both. The aim ultimately is to enable China to have good security relations, establish influence and place China in a significant role across the wider region.

It is difficult to discern at the moment the degree to which China has actually increased its engagement or activity within these structures since the takeover, though there are persistent rumours of increased Chinese security engagement with the Taliban. The exact nature of these contacts is unknown. Whatever the case, the key driver of Chinese engagement is recognition that the Islamic Emirate authority appears like the most stable governance structure in Afghanistan for the immediate future and therefore an entity that Beijing will have to engage with if it wants to ensure its security interests in Afghanistan. While in the early days, much of the noise around China's security concerns was focused on the potential for Uyghur militants to establish themselves, it appears as though the Islamic Emirate's decision to move what Uyghur networks were present to locations far from Afghanistan's regions closest to China has to some degree soothed Chinese concerns.⁷ The more likely

³ https://www.fmprc.gov.cn/eng/zxxx_662805/202203/t20220331_10658064.html

⁴ <https://www.mfa.gov.cn/ce/ceuk/eng/zgyw/t1881345.htm>

⁵ <https://www.intelligenceonline.com/government-intelligence/2022/04/14/guoanbu-calls-on-isi-to-cooperate-with-taliban-secret-services,109767975-art>

⁶ <https://www.usip.org/publications/2022/05/pakistans-twin-taliban-problem>

⁷ <https://www.rferl.org/a/afghanistan-taliban-uyghurs-china/31494226.html>

concern at the moment is the growing violence in Pakistan which as has been seen in a number of recent attacks has led to the deaths of Chinese nationals.⁸

While China is still reticent to transfer all its former engagements with Kabul to the new government, it is clear that Beijing is increasingly moving in this direction. The ultimate goal will be not only to help strengthen China's relations and influence, but more specifically to ensure security guarantees from potential threats that may develop. It is worth remembering that from China's perspective, in many ways, the earlier relationship with the Republic government was one that Beijing appreciated as the Republic authorities for the most part shared their assessment about Uyghur militants being a group that needed clamping down on. While there was some evidence that this relationship had started to sour in the final months of the Republic government, there was also evidence that this had also created some tension with the incoming government which failed to monitor the escape of a number of Uyghur's in detention when they took over the country.⁹

This aspect is significant as it shows the levels of mistrust that China still needs to overcome in terms of its security relationships with Kabul, meaning Beijing will continue to seek to hedge rather than put all its eggs in one basket. This is likely to be a key aspect of the engagements China undertakes, with no single avenue being used, but instead a web of connections both with the Islamic Emirate authorities, regional powers, as well as long-established and more recently developed regional formats. Alongside this, China will continue its policy of strengthening its security relations with Tajikistan and Pakistan – with a particular emphasis on border security – to ultimately provide a hard security guarantee to accompany the multiplicity of political engagements. This hedging approach is a continuation of the approach that China has been taking with Afghanistan since at least 2014.

2. *Please describe China's security presence in neighboring countries aimed at reducing extremist threats. What Chinese organizations are present (e.g., Peoples Armed Police, Ministry of State Security, private security companies), and how do they cooperate with host governments? Is their focus stopping flows into Xinjiang, or has it moved toward creating stability in the the region? What changes, if any, has China made to their security presence in Tajikistan and neighboring countries in the last year, including any use of People's Liberation Army (PLA) units, increased militia presence, or additional training exercises outside of China's borders?*

The primary goal of China's security actors in neighbouring countries is to provide guarantees for China, as well as eyes and ears onto possible security threats from the region which might come back to China. Within the context of Pakistan and Afghanistan, this extends to worrying about the threats exacerbating tensions around the region, as well as threatening Chinese nationals or interests in the region. However, this latter concern is a secondary one, with the primary concern being domestic security. Thus far, there is confirmed presence of the People's Armed Police (PAP) in Tajikistan,¹⁰ as well as reports they have in the past undertaken joint patrols with Republic forces in Afghanistan.¹¹ The principal aim of these security forces has been to help China have an ability to have a direct reach into local security forces, to enable them to have a greater sense of control over the potential threats that might emerge. There is also a history of China providing security support through equipment to Pakistani forces in Gilgit Baltistan, strengthening the other indirect border China shares with Afghanistan.

⁸ <https://asia.nikkei.com/Opinion/Karachi-terror-attack-strains-Pakistan-s-ties-with-China>

⁹ <https://www.telegraph.co.uk/world-news/2021/10/16/exclusive-uyghur-jailbreak-complicates-talibans-ties-china/>

¹⁰ <https://www.crisisgroup.org/europe-central-asia/central-asia/tajikistan/b87-rivals-authority-tajikistans-gorno-badakhshan>

¹¹ <https://www.militarytimes.com/news/pentagon-congress/2017/03/05/chinese-troops-appear-to-be-operating-in-afghanistan-and-the-pentagon-is-ok-with-it/>

It is difficult to trace the movements of the Ministry of State Security (MSS). The most visible appearance of MSS operatives in Afghanistan took place in late 2020, when the Republic authorities disrupted a spy network in Kabul which they accused of collusion with anti-government factions on the ground. Their ejection was rapid and kept relatively discrete by the Afghan and Chinese authorities, as the Republic government had little incentive at that stage to entirely sabotage its relationship with Beijing. However, it was notable that reporting indicated that at least one of the men who had been ejected had been masquerading as a pine nut trader – a trade that Beijing has been encouraging between China and Afghanistan, but which also provides China with a good reason to engage with farmers in parts of Afghanistan where Uyghur militant groups have been active.¹²

This economic engagement has also been seen in other contexts, where China has used direct aid to the regions in Afghanistan near to its borders to try to develop links and contacts on the ground.¹³ While there is a logic to cultivating these relationships due to their border proximity and the humanitarian needs on the ground, it also provides a good opportunity for intelligence gathering and an excuse for China to maintain eyes on the ground.

The final element which is difficult to further quantify is the presence of Chinese private security companies. While they have been seen in Kyrgyzstan, and are believed to be present in Tajikistan, it is difficult to pin down their activities in other places.¹⁴ Reports from the ground suggest that some have started to emerge in Afghanistan, and since the recent attacks on Chinese nationals in nearby Pakistan, it is likely the presence of private Chinese security firms will increase there as well.

Whatever its scale and vector, the decision to assert some security presence is reflection of a sense of trepidation, and a continued fear that the situation in Kabul might abruptly destabilize. What remains constant, is China's single-minded focus on its own interests, rather than trying to bring regional stability. Quite aside from not having any experience in bringing peace brokering initiatives to life, China is also disinterested in engaging in regional issues between powers as this will force China to take sides, something which will only weaken Beijing's hand before some of the parties. By maintaining its objective view, this enables China to continue to cultivate all sides.

3. *What lessons or assessments can be drawn from China's undeclared persistent security force presence in Tajikistan? How might the presence of armed forces from China in Tajikistan be indicative of future armed force projection (whether People's Armed Police, PLA, contract, or based on other military or paramilitary forces)? To what extent is that presence indicative of China's leadership expanding their definition of China's "border region" in their security interests? What opportunities or burdens does China perceive in its growing security presence in and around Afghanistan?*

The deployment of a Chinese People's Armed Police (PAP) base in Tajikistan has been overread as evidence of Chinese security stretch into Central Asia. China has long been providing military support for Tajikistan to strengthen its borders with Afghanistan, recognizing that the long and porous border between the two countries represented a weak point in the region.¹⁵ This mirrors Russia's own continued to provide military support in Tajikistan and continued to maintain its largest military base outside its own borders in Tajikistan, the 201st Military Base which is divided between Dushanbe and Bokhtar, done under agreement with the Tajiks until 2042.¹⁶ The aim of this Russian presence is to help monitor and address potential threats that might emanate from Afghanistan through Tajikistan

¹² <https://thediplomat.com/2021/02/did-china-build-a-spy-network-in-kabul/>

¹³ <https://www.globaltimes.cn/page/202112/1243022.shtml>

¹⁴ <https://oxussociety.org/the-growth-adaptation-and-limitations-of-chinese-private-security-companies-in-central-asia/>

¹⁵ <https://www.reuters.com/article/us-tajikistan-china-border-idUSKCN11W0T1>

¹⁶ <https://tass.com/defense/1394749>

and ultimately threaten Russia. The Russian base has continued to be active, undertaking regular training exercises,¹⁷ including a surge of effort around the time of the fall of Kabul to the Taliban.¹⁸

While the Chinese presence is more limited than the Russian one, and with a very different history, the ultimate goals are similar. Beijing, like Moscow, is concerned about potential threats from Afghanistan spilling into Tajikistan, and recognizes that the border regions which China has with Tajikistan are adjacent to the border regions Tajikistan shares with Afghanistan. Remote and rugged, these are regions which are hard to entirely monitor and there is little faith in Tajik capabilities to ensure security coverage. As a result, Beijing has on the one hand provided regular military support to the Tajiks, but it has also chosen to ensure it has some of its own eyes on the potential threats and problems that might emerge. This is the fundamental reason for the Chinese presence. It is additionally significant to note that the security force that is being used is the People's Armed Police (PAP), an extension of a domestic security agency. This is the same force that has played an important role in building bilateral engagements with Uzbek, Kazakh and Kyrgyz security forces, reflecting the fact that China sees security threats in Central Asia as ones that have the potential to be linked directly to domestic security threats.

While China continues to refuse to entirely admit to the basing, when pressed, Chinese experts compare the engagements in Tajikistan to what Chinese security forces have done in the Golden Triangle region of Southeast Asia with which China shares borders. In the wake of the brutal kidnap and massacre of Chinese sailors in October 2011,¹⁹ China started to undertake joint patrols with Laotian, Thai, Myanmar and Cambodian forces to try to ensure better security in the region.²⁰ In some cases, the Chinese provided equipment, and have now started to explore basing in the region.²¹ This is similar to the context in Tajikistan, where there is a live security concern that Beijing is worried about in a neighbour where Beijing obviously has little faith in their capabilities to provide security assurances. The result has been to increase its direct security equity to be able to provide and ensure for its concerns – something articulated through equipment and funding support, the establishment of forward bases, and the creation of overlapping multilateral and minilateral institutions that provide opportunities for engagement.

The aim here is not to provide regional stability, but rather to ensure Chinese security concerns. There has been little evidence of China wanting to take a wider security leadership role, instead, China has retained a narrow focus on its own interests. The useful contrast is to examine Russian security engagement which while also fundamentally about Russian concerns about instability in the region impacting Russia directly, is interpreted in a far more expansive fashion whereby Russia sees itself as an ultimate security guarantor across the region. Witness the surge of Russian security engagement and activity at around the time of the fall of Kabul, and the Russian willingness to deploy to support the Kazakh government in the wake of violent protests in January 2022. Neither of these are roles that China sees for itself, where instead there was a limited increase in Chinese engagement with Tajikistan during the summer of 2022, but this was simply building on what China was already doing, rather than expanding it.

In terms of lessons that can be drawn from this, it is that China remains a fundamentally solipsistic regional security actor, focused single-mindedly on its concerns which it interprets through a fairly narrow lens. What is interesting is the fact that it appeared in the early days of China's deployment of forces and base establishment in Tajikistan, it appeared to be something that was not done in

¹⁷ <https://interfax.com/newsroom/top-stories/76143/>

¹⁸ <https://www.wsj.com/articles/russian-military-drills-near-afghan-border-deliver-warning-to-extremists-11635188626>

¹⁹ <https://www.theguardian.com/world/2011/oct/10/chinese-sailors-killed-mekong-river>

²⁰ <https://www.reuters.com/article/uk-southeastasia-drugs-mekong-idUKKCN0WH2ZW>

²¹ <https://www.voanews.com/a/us-says-cambodia-not-transparent-about-chinese-role-in-naval-base-construction-/6272820.html>

consultation with Moscow, with reports from the ground suggesting Russia was surprised by the reports of the base's establishment. This illustrates a tension between Beijing and Moscow which is worth considering, though not overstating, as it is clear that both countries have been able to move beyond these initial tensions. It is also notable, however, that they have not actually done anything to undertake cooperation in Tajikistan on security questions notwithstanding a presence that is near to each other on the ground. The key point is that while they are willing to work side by side, when it comes to hard security concerns on the ground, both clearly want to have their own eyes on problems, rather than relying on each other. And even more crucially, this does not seem a competitive relationship, but rather one that functions in parallel.

The overarching take-away from this deployment is that China is still not interested in taking a utopian approach to regional security, but is focused on its own security concerns. It will focus on these interests through multiple and overlapping approaches which will collectively provide China with enough assurance to be content. In the case of Afghanistan, this includes regional engagement as well as engagement with the Taliban with the two parts of the piece providing assurance to each other. It is questionable whether this model is one that China would offer in other contexts as well, outside direct border regions, as the fundamental driver to China's concerns in Tajikistan and Afghanistan are ultimately the potential impact this could have back to China directly.

4. *Is there risk of actors being drawn into or choosing to engage in proxy wars through unattributable support to militant groups in and around Afghanistan? How does any potentially increased risk emanating from Afghanistan impact existing internal security concerns in Tajikistan, Pakistan, or for others in the region? What might this look like, and how might it affect U.S. interests in the region?*

There has been a clear and growing problem of terrorist groups using Afghanistan once again as a base to launch attacks on neighbours. At the moment, the problem is most acute with Pakistan where the TTP in particular has increased its presence and violence within Pakistan from bases in Afghanistan, but it is notable that Balochi militancy has also been increasing as a problem for the past few years with a sharpening focus on China. The recent attack at Karachi University which led to the death of the Confucius Institute Director, two of his Chinese staff and their driver, was conducted by the Majeed Brigade of the Baluchistan Liberation Army (BLA), a unit that has undertaken repeated lethal attacks on Chinese interests in Pakistan. In Central Asia, Chinese interests have not recently been targeted in the same way – but the 2016 attack on the Chinese Embassy in Bishkek was an illustration of the dangers that exist for China in the region.²² The recent cross border shootings and growing rhetorical effort being undertaken by the Islamic State in Khorasan Province's (ISKP) to garner support and threaten Central Asia are illustrations of how problems in Afghanistan are reaching across borders north into Central Asia as well as south into Pakistan.²³ The fact ISKP has also made specific threats towards China further sharpens this concern towards Beijing.²⁴

This violence has already created some problems for regional relations. Pakistani forces have launched cross-border incursions into Afghanistan to address with threats they observe from there. There has also been a notable number of violent deaths of TTP leaders in Afghanistan since attempted peace talks between the TTP and government in Pakistan dissolved late in 2021. To the north, the Uzbek airforce has launched strikes into Afghanistan in response to concerns about ISKP threats from there. And there have been border clashes between IEA forces and their counterparts on Afghanistan's borders with Pakistan and Iran.

²² <https://www.reuters.com/article/us-kyrgyzstan-blast-china-idUSKCN11C1DK>

²³ <https://www.specialeurasia.com/2022/05/05/islamic-state-uzbekistan/>

²⁴ <https://www.scmp.com/news/china/diplomacy/article/3151791/why-did-isis-k-say-its-suicide-bomber-was-uygur>

Underpinning all of this violence is a fear of groups being manipulated by outside forces. Pakistan, for example, has long accused Balochi groups of being in the pay of India – a paranoia which is sometimes echoed in Chinese statements around attacks.²⁵ The evidence base for this is difficult to ascertain in the public domain. In some cases, Chinese paranoia takes this one step further and point to the United States as a possible outside actor manipulating forces. An early narrative that was advanced in the immediate wake of the collapse of the Republic government (which is heard less now) was that the United States was seeking to manipulate Uyghur groups in the region to threaten China.²⁶ The decision in late 2020 by the Trump administration to remove the East Turkistan Islamic Movement (ETIM) from its list of proscribed terror organizations was seen by China as a prelude to a move by Washington to engage with the group as a proxy against China.²⁷

More recently, Chinese officials have stopped making such references publicly, though it remains to be seen if this is because of a lack of concern or simply a decision to not antagonise the relationship with Washington. The recent decision by the US government to include the Central Asian group Katibat Tawheed wal Jihad (KTJ) on its list of proscribed organizations specifically referring to the group as being responsible for the 2016 attack on the Chinese Embassy in Bishkek might have been an attempt to mend this fence by Washington.²⁸ But until a decision is made to return Uyghur militants to the list of proscribed organizations, there will continue to be paranoia in China. Beijing continues to worry about the manipulation of groups in the region in advance of larger geopolitical interests, be this directed by Delhi, Washington, or others.

It is possible that China might seek to undertake similar manipulations itself. There have been reports of efforts by Chinese security and intelligence to develop contacts with potential proxies in border regions with India in Myanmar or Bangladesh to undermine Indian security.²⁹ But in the Afghan and Pakistani context, most of these stories have instead pointed to China seeking to develop connections with groups with the idea in mind of trying to get them to stop attacking Chinese interests.³⁰ It would presumably not be impossible for China to seek to manipulate groups to attack western or other adversary interests, but at the same time, Beijing does not have much form in successfully doing this. And for most of the violent groups in the region, there is a growing interest in targeting China recognizing as they do Beijing's growing influence and power across the region. Manipulations could easily backfire.

The primary danger to US interests lies in the broader violent trends in the region which could develop into threats which start to reach out beyond the region. There is also the potential danger to the US presence in the region – for example, diplomatic staff, businessmen, or travellers. If violence in Pakistan continues to escalate, it would be likely that US or allied interests might come into the cross-hairs of violent groups. The danger of proxy warfare through such groups in the region is another possible threat vector, but the risk comes more from the US being seen as being linked to such manipulations or India being discovered as being linked to violence. Both of these would escalate violence in the region, and increase the threat from groups which might even start to stretch beyond the region.

²⁵ <https://www.firstpost.com/world/china-warns-india-says-it-will-intervene-if-new-delhi-foments-trouble-in-balochistan-2980404.html>

²⁶

https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202103/t20210327_9170714.html

²⁷ <https://www.wsj.com/articles/china-irate-after-u-s-removes-terrorist-label-from-separatist-group-11604661868>

²⁸ <https://www.state.gov/terrorist-designation-of-katibat-al-tawhid-wal-jihad/>

²⁹ <https://www.asiasentinel.com/p/beijing-said-to-fund-separatist-india?s=r>

³⁰ <https://gandhara.rferl.org/a/pakistan-balochistan-china-seperatists-talks/29055188.html>

Finally, by increasing its security connections across the region, China is embedding itself further into the region. This could in the longer-term translate into influence which further locks the United States out of the region – part of a much bigger trend which has been visible across the wider region. While the US remains a significant player, the withdrawal from Afghanistan, worsening relations with Pakistan and worsening relations with Iran, Russia and China all mean this is a part of the world where the US is increasingly seen in an adversarial light. As Chinese influence increases, and as long as US-China relations remain tense, this is likely to harden further.

5. *The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?*

It is difficult to make recommendations without knowing more about what current action is already being taken, so these suggestions are simply ideas or areas in which the United States could explore taking steps forwards in the near term future in the region.

First – the US should try to avoid seeing the region through the lens of big power politics. Afghanistan has in the recent past been a place where the US and China have been able to cooperate to address mutual threats and concerns. Such cooperation might be impossible at the moment, but avoiding going too far in the other direction will enable the US to continue to try to address the humanitarian questions that exist across the region while also making overwatch of potential security threats that might emerge from militant groups more possible.

Second – the US should explore reversing the decision to remove ETIM from the proscribed terror list. While re-listing may be complicated, recognizing that there are some Uyghur groups that have made connections to violent jihadist groups is an important element to restore faith in US focus on genuine terror threats as opposed to political games being played through such proxies.

Third – unblock funding which could be used to improve the lives of ordinary Afghans. This will be difficult as the IEA government has shown repeatedly it is disinterested in meeting western demands around women's rights, but those who suffer are the Afghan people and finding ways of reaching out positively to them is important. It will remove a plank of China's narratives in Afghanistan.

Fourth – increase direct support for border security forces in Central Asia. The United States already has strong links and has provided support across the region. Continuing and exploring expanding this support is an important signal to the region as well as a way of building US ability to mitigate risks and maintain security overwatch in the region.

Fifth – work to encourage Pakistan to try improve the security situation in Balochistan through negotiations. The situation in Balochistan is worsening at the moment and it is possible Pakistan will react to it with a harder crackdown. Engaging with the new government in Islamabad to take a new approach might enable a new dynamic in the region which would strengthen the US hand in the region.

PANEL I QUESTION AND ANSWER

COMMISSIONER SCHRIVER: Thank you. Thank you for three excellent statements. We're going to begin our first round questions from commissioners, and we're going to begin with Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Well, first let me say thank you very much. I am not an expert in any way on the decisions that are made geopolitically between countries, and I've learned a lot being here. But listening to the three of you today, the kind of common thread that I picked up, and you can correct me if I'm wrong, is that everyone seems to indicate that perhaps sanctions aren't really working against the Taliban.

And I think all of you, in your own way, have said that there's great opportunity for America to become influential, and it isn't right now in that region, by finding ways to encourage things that we believe in amongst the people who work there, live there.

The thing that I'm interested in that I would like to hear a little bit more about, and I think I'd like to start with you, Dr. Murtazashvili. I hope I said the correctly. You said you think the real opportunity is in the surrounding region, to effectively become closer to them by supporting them and develop relationships that will enable them to work as a wedge for leverage and impact, I guess, the other -- to impact Afghanistan and maybe Pakistan.

And then I'd like to hear from our other two folks too if there's time, because I think what I heard there was, you know, maybe we can somehow improve our relationship with Pakistan which, reading everything, seems like it might be a little difficult. I don't know. I'd like to hear more about that. So can we start, please, with you, Doctor?

DR. MURTAZASHVILI: Sure. Thank you very much for this question. As I said in my testimony, it's a very difficult time for the United States in the region. The U.S. lost so much credibility because of the way it left Afghanistan.

Regardless of how you may feel about the intervention, regardless of how you may feel about the withdrawal and the decision to withdraw, the way the U.S. left, I think, left a very bitter taste in the mouth of many people in the region.

So what kinds of tools does the United States have right now, what tools? And I think the tools are very few and far between. So we have to look at what countries in the region are asking for. I look at Central Asia in particular as an area of opportunity.

These are landlocked countries that are not particularly happy about Russia considering them, as my colleague said, you know, sort of the paternal father figure. And Russia considers Central Asia to be its near-abroad, and we've seen really interesting dynamics in Central Asia, you know, since Russia's invasion of Ukraine, countries pushing back in ways that we did not expect them to.

I think this is a real opportunity for the United States to engage in positive ways. Of course, these countries are asking for security assistance. I think the United States should continue to provide this kind of security assistance, but it must be met with something else.

And as my colleague said, what is the United States best, where is its comparative advantage? This is human development, this is STEM, this is science, this is technology, this is human capital, these are opportunities to engage with education. These may sound like long term investments, but I think the tools that we have right now are extremely limited.

And these Central Asian countries have also been calling for increased regional connectivity. Uzbekistan in particular has a strategic partnership with Pakistan that it initiated prior to the collapse of the Ghani government but has maintained ever since, is very keen on getting access to South Asia as a way to diversify away from China and Russia.

So I think that there are real positive sum opportunities here. But of course the big challenge is what lies in between. And that's Afghanistan. So I think this is the big question of how you deal with this.

COMMISSIONER BOROCHOFF: We're almost out of time. Follow-up question on that, do you believe that those other nation states can have that kind of influence on the Taliban?

DR. MURTAZASHVILI: It's hard to say who can influence the Taliban right now. And to be honest, I think we've seen a lot of people try. And if I knew what could influence the Taliban, I probably wouldn't have the position that I have. And we've seen a lot of the efforts fail, the sanctions, the carrots, the sticks. I think it'll be interesting to watch China's strategy vis a vis the United States strategy. They're two very different strategies.

I think though a concerted regional strategy could work. And we're seeing, you know, Uzbekistan having very strong ties to the Taliban government right now.

COMMISSIONER BOROCHOFF: Thank you very much.

COMMISSIONER SCHRIVER: There's a question on Pakistan, maybe if there's time for a second round, we can address that. Commissioner Cleveland, joining us virtually.

COMMISSIONER CLEVELAND: Thank you. And thanks to the witnesses for superb testimony. A couple of you mentioned the Chinese assets and companies on the ground and that they are building up local capability along with bases.

I'm more interested in the economic and trade component of this and the role that that plays. Could any of you address the status of debt with China and what it's financing, what the terms are, are they transparent, and how does the lending itself serve Chinese interests? In other words, is it building up local capabilities or is it serving exclusively what China is interested in achieving in the region?

COMMISSIONER SCHRIVER: Did you want to direct that to somebody?

COMMISSIONER CLEVELAND: No, anybody, any of the witnesses. I'm just looking at the testimony that -- you all spoke to it, so --

MR. PANTUCCI: I'm happy to have a go.

COMMISSIONER CLEVELAND: Yes.

MR. PANTUCCI: I think on Afghanistan and debt, I think there is -- I don't know how much lending, per se, that the Chinese have done, frankly, with Afghanistan, so how much debt the Afghan government, the Taliban government is still carrying with the Chinese.

But I think basically the Chinese --- I've heard, just in Afghanistan, the stories of two big projects, a copper mine in Mes Aynak and an oil field up in Amu Darya. Both of those projects had stalled under the previous government. The Mes Aynak project never really got going since they signed the contract in 2007.

And the Amy Darya one did stop and start a few times, but the most recent thing was, I think, a couple of years ago the Republic government pulled the contract finally from the Chinese because they were failing to deliver.

Chinese companies have also done a lot of projects on the ground in terms of road

building when they would sort of come and implement projects that were being funded by the World Bank, AIIB, AGB, all those sorts of big international financial institutions.

And I think the focus has been in discussion since that the Taliban want to restart these big projects. And they want to restart them because they see them as being sort of economic opportunity.

But I actually think that they're frankly going to get slow-rolled on these, and as much as the Chinese were slow-rolling, frankly, beforehand. I actually think the more interesting thing to focus on is the surge of much smaller, low level investment that you've seen into Afghanistan which is really much more about private enterprise.

This is not about state-owned enterprise, you know, large SOEs. There are some small regional SOEs that are going in. But really, it's about Chinese entrepreneurs just sort of going in and having a go, and taking advantage of the opportunities they see.

Some of this is facilitated by the state, some of it is not. But I think the key thing to think about within the Afghanistan context is that this could build up to be really quite substantial, and quite substantial in sort of economic terms for Afghanistan.

And this isn't the same kind of you know, debt trap narrative which, I agree with my colleague before, I'm not entirely sure I see it, frankly, in Pakistan in the way that I think it's often articulated.

But China can become the most important economic actor for Afghanistan through lots of these smaller level engagements, you know, be this through pine nut exports, or saffron, or lapis lazuli, all sorts of gem stones are available, but also sort of, you know, some easier lithium mining, potentially some small scale artisanal copper mining and other things.

You know, you could see a lot of this happening, but happening not from the big state-owned enterprises. And cumulatively this could be really quite large. And I think this could have an interesting effect.

And actually, when we think about Afghanistan and the economic opportunities, that's the part we should be looking at with China, not focusing so much on these big state-owned enterprise projects which, frankly, are unlikely to finally get going, because there's a huge amount of infrastructure that needs to be built around them to actually get the projects moving in any way that is useful.

So I think, you know, to your question about is this building up local capability, I'm not sure that it is. But I think if we're looking at some of the agricultural exports, for example, you know, it does mean a lot of farmers are having access to the Chinese market to sell their products. And so there is a sort of mounting currency that's flowing back and forth.

But, no, I don't think that lots of Afghans are receiving huge amounts of training to help build up the sort of Afghan state later. And I'll stop there.

COMMISSIONER CLEVELAND: Thank you. Dr. Murtazashvili, or Dr. Safdar, can you talk a little bit about Pakistan and the debt scenario?

DR. SAFDAR: Yes. So there are two ways in which the Chinese have actually, you know, sort of given money to Pakistan. One is through foreign direct investment, as I pointed out, and most of it has gone towards the power sector.

In terms of the infrastructure projects, the transportation infrastructure projects, most of these have been financed thorough debt, through government to government lending.

Now, the interest rates, as far as these loans are concerned, are not very clear. However we have an increasingly better understanding of how many of these deals are structured. For one, there is a direct competition between three impaneled Chinese firms that are selected, so it's not open tender for any firm from any country to sort of participate.

As far as the interest rates for these loans are concerned, much of it is in the form of lending which has sub-market rates. However, a substantial portion of the lending is near market rates as well.

So in terms of the total foreign debt component that Pakistan owes to the Chinese, it's around 27 percent of external debt. However, as I've noted earlier, the debt trap argument does not really sustain itself on the ground. So even though much of the money flows back towards China, at least in the beginning because of the supply, so the thinking basically is that you deal with supply side problems.

And then, once you've dealt with supply side problems in terms of dealing with the power sector, which is a major problem as far as Pakistan is concerned, and in improving the transportation infrastructure, then the demand will come.

Now, the problem is that the demand itself is not coming. And that's a major issue for many developing countries that are part of the Belt and Road Initiative. Because the demand simply is not coming because of security issues, as I've already pointed out, but also because of exogenous factors like COVID. And that's where the major challenge is going to be.

DR. MURTAZASHVILI: And just one point of clarification, Afghanistan has no debt to China, did not participate in BRI during the past 20 years. So it is not indebted to China.

COMMISSIONER CLEVELAND: It was Pakistan I was interested in. And --

DR. MURTAZASHVILI: I'm sorry.

COMMISSIONER CLEVELAND: -- and I will do a question for the record on the free riding that, when you get a \$6 billion bailout loan from the IMF, and China continues to lend, there is a free riding component to the nature of the debt. So thank you.

COMMISSIONER SCHRIVER: Thank you. Commissioner Fiedler?

COMMISSIONER FIEDLER: I have a couple of factual questions. Can any of the witnesses talk to the issue of whether or not any Uyghurs from overseas, from the bordering countries, have gone into China in the last five years and committed any terrorist acts?

DR. MURTAZASHVILI: I'm not aware of any.

MR. PANTUCCI: Nothing has been reported. There hasn't been a report of a terrorist attack in China since, I think, 2016, so no.

COMMISSIONER FIEDLER: And there's been mention of the role of the PAP. Historically, the border in Xinjiang has been manned by the Production and Construction Corps troops. It's odd, number one, that the PAP, a domestic organization, would be having anything to do with border stuff or internal security in any other country except for the fact that the PAP, which is now pretty large, is made up of demobilized PLA troops. Who is doing border protection for the Chinese in Kazakhstan, Afghanistan, and other countries?

MR. PANTUCCI: I believe that's a PLA responsibility, a Chinese border guard forces. I think the Bingtuan are, I think, involved in Xinjiang security. But I think it is the PLA that are very responsible.

I think the interesting point I make about the PAP within this context is that I think the

reason you're seeing them deployed in terms of leading a lot of security engagements in Central Asia, and in specific at the bases on the border with Afghanistan, is because, I think, from China's perspective the threats that they're worrying about are ones ultimately that they see as coming back domestically.

So it's really a kind of extension of a domestic problem that they can see, that they're trying to address, rather than this being something that the PLA is particularly leading on.

I think part of the reason that we say in 2016 the creation of this Quadrilateral Cooperation Coordination Mechanism, bringing together chiefs of Defense staff of Afghanistan, Pakistan, China, and Tajikistan, was in part because the PLA with China was trying to sort of getting more involved. And they are the ones who are really ultimately responsible for the borders specifically, and that's why that became sort of the structure through which the Defense ministries would engage.

COMMISSIONER FIEDLER: Am I wrong in saying that historically it's been the Bingtuan that's done the border patrolling and protection? It is a quasi-military organization. And so when did the PLA take over border protection functions from the Bingtuan?

MR. PANTUCCI: I don't know the exact date, but certainly I think the PLA has been actively engaged on the ground for a very long time. The Bingtuan has, of course, been around since, you know, since the 40s or 50s. So it's been around for a very long time as a force out in the region.

But I think there was a moment in the '90s when actually the organization was suspended or disbanded. And so I think it could be that was the moment. But I don't know the exact date in which it was transferred over. But certainly in recent times, as far as I know, it's the PLA which has always been responsible.

COMMISSIONER FIEDLER: Thank you very much.

COMMISSIONER SCHRIVER: Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much, joining my colleagues in thanking the witnesses for their excellent statements.

Dr. Pantucci, in some ways it seems surprising that China has not yet been more the target of Islamist violence, increasing revelations about the mistreatment of its Uyghur minority population, increasing presence out through Central Asia as a result of BRI, and now a growing security crisis.

So I guess my question is, first, why has there not been more violence targeting Chinese interests and assets? And secondly, would you anticipate that there is going to be more in the future?

MR. PANTUCCI: Thank you. I mean, I think the principal threat organization in this region was, you know, the Taliban and Al Qaeda. And their principal adversary was the United States. And so that was why, I think, I you saw that the Chinese were kind of a secondary concern.

And, you know, if you go back and look at statements that Osama bin Laden made in, I think, the late 1990s, he even talked to the Chinese's potential allies in their greatest struggle against the United States. So I think these groups have long seen the U.S. as kind of the priority adversary.

Now, I think what started to change recently is I think that China's presence in the region

starts to increase. And we started to see them ending up getting engaged in situations which is putting them more in the cross hairs and, specifically, I think within Jihadist groups.

It's a curious question as to why the Uyghur contingent, which has always existed in Al Qaeda and fighting alongside the Taliban, was not able to get these organizations to turn their attention towards China. And I think it was principally because, frankly, at that moment China was, you know, not seen as the sort of priority adversary. The main adversary was the United States. This is when they were fighting on the ground.

So presumptively, now that the United States is not that present, you could see this shift happening. And I think actually you have started to see it happening really in the region quite substantially and in a way, that's certainly quite worrying to the Chinese.

The attack in October of last year in Kunduz when a suicide bomber blew himself up at a mosque in Afghanistan, and afterwards the IS-K people have a message in which they specifically referred to the Taliban's cooperation with China. And they used an individual who identified himself as a Uyghur in the suicide attack.

It was a real signal, frankly, that IS-K was taking notes of the Chinese support of their enemy, the Taliban, and was ready to start thinking about striking at them. So I think that was seen as a big red flag.

And then in Pakistan, frankly, you've seen, you know, in Balochistan there's a long history of Balochi insurgents sort of attacking China. But really, over the past years that narrative has picked up quite substantially. And I think the attack that we saw in Karachi a couple of weeks ago in which the Confucius Institute director was killed by a suicide bomber sent by the Balochi Liberation Army, I think was a really worrying signal.

Because previously, the organization had been targeting CPEC, China/Pakistan related projects and, you know, specific infrastructure projects being delivered under that. And here, they're attack an individual who is a Confucius Institute director and two teachers who were with him. So, you know, that was a really -- these are really big red flags. You can see that China is increasingly being seen as a great adversary across the region.

And in Central Asia, you can see this narrative is slowly starting to pick up as well. Previously, it used to be Uyghur militants that tended to be responsible for attacks we saw on Chinese diplomats or Chinese businessmen in Kyrgyzstan. But increasingly we see, you know, Kyrgyz in general being quite angry towards to Chinese and expressing that anger increasingly publicly. And we can see similar narratives in Kazakhstan in particular.

I think in Tajikistan and Uzbekistan we see a little bit less of this, but maybe Dr. Murtazashvili might have a little bit more about that. But I think the day is coming, frankly, that China is going to become a bigger target. And I think that is something that we're already starting to see, and I suspect it's only going to sort of increase as we go forward.

COMMISSIONER FRIEDBERG: Thank you, Doctor.

DR. MURTAZASHVILI: I was going to just add to these excellent remarks by stating that, you know, especially throughout Central Asia we don't see many terrorist attacks. We don't see them in China as well. And this is due to the heavily, you know, the authoritarian natures of these regimes, the heavy police presence.

So where you do see these attacks happen are inside of Afghanistan, for example, or inside of Pakistan. And this is where -- and China has such few interests inside of Afghanistan.

It's closed down all of its mining operations. It has very limited business interests.

So this attack in Kunduz at the mosque when you had a Uyghur suicide bomber who would deliberately attack, who was claimed by a member of ETIM, that was very significant. And it came at a time when China was putting increasing pressure on the Taliban to show that it could control the country.

DR. SAFDAR: If I could just add to it, there was an attack in Dasu on Chinese engineers who worked on a project for a large hydropower project. I over there as well there was a joint attack apparently between the TTP and the ETIM, probably reported in the media.

So again, this sort of broader cooperation between different groups that are based in Afghanistan is becoming a theme as we go forward. And as, you know, China's interests become deeper within Pakistan, these attacks are likely to gain greater traction.

COMMISSIONER FRIEDBERG: And when was this most recent --

DR. SAFDAR: This was in 20 --- so the most recent attack was in 2022, I think a month ago, on the Confucius Institute. The attack that I'm talking about was in 2021 in the northern area where a large hydropower project was being built.

COMMISSIONER FRIEDBERG: Thank you very much.

COMMISSIONER SCHRIVER: Thank you Commissioner. And Commission Vice Chair Glas?

VICE CHAIR GLAS: Thank you all for your testimony. I'm going to pass for now.

COMMISSIONER SCHRIVER: Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Mr. Chairman, and my appreciation to the witnesses for their great testimony today.

Dr. Safdar, I wanted to speak with you about your testimony regarding Chinese investment in Pakistan's power sector, initial investment that you note coincided with Pakistan's urgent need to deal with power outages. And certainly something that is topical today, given the current heat wave going on in Pakistan and India, where we see surges in demand cause rolling blackouts and power outages for significant numbers of the Pakistani population.

At the same time, there were some reports last year that I saw where Pakistani government officials noted that their power supply has actually flipped to a surplus due to that Chinese investment and the construction of additional generating facilities, and actually project that by next year they may have as much as 50 percent excess capacity.

So if there is this growing surplus and excess capacity attributable primarily to Chinese investment, first of all, what's causing the current outages? Is it grid reliability, is it just the nature of power surges during such an enormous heat wave, are there transmission challenges and the like?

And then more broadly, what is the impact of this excess capacity on Pakistan's power generation system, including affordability on their economy and on national, regional, and global climate initiatives?

DR. SAFDAR: Thank you, sir. Thank you for the question. You're right, so there has been an increase in demand, and Pakistan's power supplies haven't been able to, you know, sort of keep up.

Part of the reason is the substantial weakness of the grid. So despite the fact that all of this investment has gone into generation, the grid remains substantially weak, because there have

been years of under-investment in the grid.

And again, from a political perspective, it's very easy to add capacity. It's much more difficult, and politically it's not the same sort of value to deal with problems in the grid as well.

Now grid, of course weakness is one side of the problem. The other side of the problem is that the increase in the price of coal, LNG, as well as diesel, has had an impact on the supply of electricity to Pakistan.

Most of the power plants that were built by the Chinese initially work on imported coal. And some of them work on local coal. But the large portion of the sort of capacity comes from imported coal.

As the prices of coal have gone up, and as Pakistan lags further behind on payments to these independent power producers, as they are called, the Chinese firms are simply shutting down production, or they're threatening to, you know, sort of shut down production, as well which have a knock-on effect in terms of the supply of electricity to the grid.

The last question, or the last part of your question that you asked regarding the long term impact of these capacity additions, for one in the immediate there has been an increase in capacity payments to these new independent power producers which has a major impact on Pakistan's finances because these loans or these investments are backed by sovereign guarantees from the government of Pakistan.

Again, this is not something that has been done only for the Chinese. This has been a long standing practice in Pakistan's power sector, at least since the mid-1990s when reforms took place in Pakistan's electricity system.

But as I said earlier, the idea was that you deal with the problems and then there's going to be an upsurge in demand. That demand, sadly, has not come through, so the Pakistanis are saddled with excess capacity which they are finding it extremely difficult to pay for because, as I said, the payments to the independent power producers are pegged to the U.S. dollar, however consumers pay in rupees.

So as demand does not go up, you still have to pay these independent power producers. And as the rupee devalues against the U.S. dollar, your payments sort of continue to increase while your, you know, revenue generation remains extremely limited because of both COVID as well as structural weaknesses in Pakistan's power sector.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER SCHRIVER: Thank you. Commissioner Mann?

COMMISSIONER MANN: Yes, I wanted to direct this question to Dr. Murtazashvili but would welcome thoughts from the other panelists as well. It concerns China and Russia and the dynamics between them here.

You've spoken of the cooperation. Is this a matter of cooperation or are there elements of competition as well? And when we speak of cooperation, you talked about a division of roles. Is that simply the nature of the different assets that each country can bring, or is there active discussion and cooperation between the two? In other words, is it just the nature of the two countries, or are they actually cooperating on Afghanistan?

DR. MURTAZASHVILI: My sense on this that there is some cooperation. But they are very much operating in different spheres here. And so this also has to do with, like, we can remember Russia's long history of engagement inside of Afghanistan. It has its own interests.

It was a player in Afghanistan for many, many years, actually beginning in the 1950s with the Soviet Union's heavy investments in Afghanistan, the subsequent invasion. So, you know, Russia has its own people that it has dealt with for decades. So it has established connections in a sense the way China does not in Afghanistan.

You know, they're a part of several multilateral initiatives together, but Russia really does worry very much about the security spillovers from IS-K. We see China increasingly worried about this as well.

Narcotics is another area where I think that there is some cooperation. It was very interesting that the Taliban issued this ban on opium production very recently. And that was seen very much as a nod to Russia. Because Russia had asked for this. Russia has been very, very concerned about the drug trafficking into its own country. Drug addiction into its own country has been a long standing concern of Russia.

Whether the Taliban will actually implement that ban is a very different question, right. So we're seeing the Taliban play lip service to these countries, but whether they execute, and I sort of see the same trend now happening with China and the Uyghurs, China asks for something, the Taliban nod their head but maybe do something else. And I think the Taliban really believe that they can sort of play this strategy for a very long time, because they have the upper hand in certain dimensions.

But in terms of this cooperation, I don't think we see many areas of sustained cooperation between the two. I don't see a lot of tension between the Russia and China, you know, in Afghanistan specifically or in Central Asia for that matter. I'd be curious to hear what my colleagues have to say about this.

DR. SAFDAR: So I don't work on China and Russia. So, I would only say this as, you know, sort of a viewer on international affairs. There seems to be some congruence between the two sides. But I don't think that the Russians -- so there seems to be a clear division of labor in terms of the economic and the security. The security bit sort of goes towards the Russians or is more heavily skewed towards the Russians, whereas the economic bit is more heavily skewed towards the Chinese.

And I think, as the Ukraine war has shown, Russia's own shrinking capabilities are likely to act as a source of tension between China and Russia going forward as well. So that's my only take on that issue.

MR. PANTUCCI: Sir, I will just briefly say I think that, you know, I agree with colleagues. I think that Afghanistan in particular is not ever going to be a source of tension, I think, between the two. They both broadly want the same sorts of things in Afghanistan.

I think how they're going to go about it is going to be slightly different. And of course it is literally different. China has a direct border with Afghanistan. Russia does not, notwithstanding, its sort of paternalistic view of Central Asia.

It has still got Central Asia as a kind of buffer. And I think this is why you've seen, you know, in immediate wake of the collapse of the Republic government last year, you saw the Russians rushing to do training exercises with the Uzbeks and the Tajiks, and you saw them rushing through arms sales across the region. So, you know, it's the Russians that really lead in all that, but it's really about building up this kind of buffer region to protect them from the problems.

For the Chinese, it's a direct problem. So of course that buffer is much more immediate in some ways. And so I think that's where there's maybe a slightly different approach. But I think the key point I would make about the different approaches is that, you know, the Chinese really see this as an issue where they are trying to manage it from -- they are trying to manage it in a way that basically just keeps them in their borders but aren't interested to fix it.

Whereas I think, maybe from a Russian perspective there is also that view. But I think Russia might also think a little bit more about how to fix these sorts of problems. Because I think Russia maybe thinks in that way, whereas China thinks, well, you've just got to have your history, country, whatever you are. And we'll engage with whoever comes out on top in charge.

COMMISSIONER MANN: Thank you.

COMMISSIONER SCHRIVER: I will defer to the end of the queue and ask if Commissioner Scissors would like to ask questions.

COMMISSIONER SCISSORS: I have a question for Dr. Safdar. You know, China is all but required to help Pakistan, geography, all-weather friend, bla, bla, bla.

Assuming they are relatively successful, not perfectly successful but relatively successful in keeping Pakistan stable, I'm not asking for prosperity, I'm just talking about stability, why don't we just free ride off of them? This overlaps a little bit with Robin's question. Why should we devote resources to Pakistan?

China is going to. What do we gain from it besides, oh yeah, some good will? We're not going to be ahead of China, because of the economic ties that you've outlined well, and Pakistanis' affections. Why don't we just say oh, good, there's an area of the world someone else is taking care of, for once. Good job, goodbye.

DR. SAFDAR: That's a very interesting point that you make. And I think that's where my testimony sort of points toward. But there are areas where China has an advantage building infrastructure, investing in power sector, is an area where China has a comparative advantage.

The U.S. has its own comparative advantages as well in areas that do not require the same sort of resources as, you know, building roads, building power plants, et cetera, as required. And that's where the U.S. needs to focus its attention towards, so areas like technical cooperation, areas like human resource development. My colleague pointed towards STEM. I think those are the areas where the U.S. has an advantage, and those are the areas where the resources need to go towards.

It's not free riding, it's about building or providing the software to take advantage of the hardware that the Chinese are building. So again, there's a congruence. It depends on the lens that one is using. There's a congruence in terms of objectives in trying to stabilize a part of the world which is not known for its stability to begin with.

So while, you know, it might seem like an emerging area of conflict between great powers, it's not when one changes the lens that one looks at the problem.

COMMISSIONER SCISSORS: So I appreciate you mentioning the comparative advantage. Because I agree with you that there are some people who work in this building who think, oh, the BRI, we should just mirror it and that we should -- but my question goes beyond that.

So we have a comparative advantage in Pakistan and we can do some things. I'm like, well, why? We have a comparative advantage a lot of places, and we don't have infinite

resources or infinite attention.

The Chinese, in my opinion, are going to effectively stabilize Pakistan. Again, that's a low bar in some ways, but it's not that easy in this case. Why do we care about employing our comparative advantage in Pakistan? What do we get out of it, given that China's already going to provide regional stability?

DR. SAFDAR: So it's not a zero sum sort of game, as the United States remains a global power as it wants to, you know, sort of maintain its position as a global power, leaving it alone to the Chinese is not going to be, in my opinion, in the benefit of the United States, especially in the long term.

So while, again, if the bulk of the work is being done by the Chinese, that's perfectly fine. However, the United States, being a global power, needs to stay engaged in the region. So I do understand that, you know, in terms of the broader relationship, China and the U.S. has much greater interest in terms of the relationship with India.

However, leaving the relationship entirely alone to the Chinese is going to be to the detriment of the U.S.'s long term interest in the region. So it's not, I believe it's not an either or. I think, again, there are areas where the Chinese are strong, and that's where the bulk of the money is going in. And the Chinese are putting that in.

But there are areas that are low cost where the U.S. can have a major impact on the ground. And I think that's where the U.S.'s comparative advantage, not only in the areas that I pointed out but also in the soft powers.

So you think about education linkages, you think about all of those things. Those are areas where the U.S. has traditionally, as a leading global power, engaged with countries which it does not, you know, sort of see directly having an impact on their sort of regional interests.

So I think those are the models going forward. You can leave it to the Chinese, but then the detriment is that you will likely alienate the Pakistanis further which, I think, is not in the benefit as far as U.S.'s long term interests are concerned.

COMMISSIONER SCISSORS: Thank you.

MR. PANTUCCI: If I could briefly come in. I think the key point, the point I would make here, sorry, is why did the United States go into Afghanistan in the first place?

Well, there was a large terrorist attack from Afghanistan. And the organization that launched that attack was principally based in Pakistan. So the reason the U.S. got engaged in this region was because a large problem, suddenly came out and smacked the United States from this region.

I think the key thing is that, yes, the Chinese will go in and increasingly become responsible for the security things. But they're going to worry about their security concerns. They're not going to worry about other people's. And there is some overlap, but there isn't total overlap.

As we were talking about before, Al Qaeda is an organization that for many years, as you saw, China's potential ally against the United States. And so these organizations do still see the United States as a major adversary. And they do still have a presence in this part of the world.

So I think the risk, from the United States' perspective, of completely disengaging is they're essentially going to let problems fester here that have a history, sadly, of reaching out and hitting the United States and her interests around the world.

So I think it's really -- and the Chinese are not going to try to fix what's happening on the ground. They're going to try to stabilize it, and they're going to show that their interests are protected. But that doesn't totally, necessarily extend to United States' interests as well. So I think there's a subsistic element here for the United States as well which does determine a certain need to actually stay engaged in the game.

COMMISSIONER SCHRIVER: Thank you, Commissioner Wessel?

COMMISSIONER WESSEL: Hi, thank you all, add my voice of thanks to all our witnesses. Let me pull on two other issues as part of this if I can. There's really been no discussion yet about arms sales in the region.

And China, as I understand it, has provided \$6 billion of arms as well as, we all know, prior capabilities, for example, to Pakistan that are of critical concern, number one.

And number two, as was discussed, about Chinese outposts, you know, I think there's a question about, let's call it a surveillance section, which is Huawei's expanding presence in the region, building up Pakistan's Cloud infrastructure, Smart Cities capabilities, providing fiber optic connections for both Afghanistan and Pakistan.

If you could, if our witnesses could speak to these issues, again we just talked about competing interests in the region, the arms sales to Pakistan, I don't know anything about potential light arms sales to Afghanistan if it exists, and the potential for Huawei and other Chinese telephony, Cloud, et cetera, infrastructure companies to be able to both advance the interest of the state in terms of surveillance and their own interests.

Mr. Pantucci, do you want to start with that? Do you have knowledge?

MR. PANTUCCI: By all means. I think on the arms sales to Pakistan, they are quite considerable and they're increasing. I think the interesting aspect of them is the volume of joint activity that they're doing in terms of building fighter jets together, in terms of building submarines together. I think the Pakistani army is increasingly becoming very close to its Chinese counterparts, but maybe I'll let Dr. Saifdar touch a little bit more on that.

In terms of arms sales to Afghanistan under the Taliban government, I haven't heard of any. There were stories that circulated when the Republic government was in charge. Certainly the Chinese were providing some non-lethal equipment purportedly to the Taliban.

And they certainly were also supplying some sort of weaponry or some sort of equipment, security equipment to the Republic government. But I understand that there were various problems with that. So there were some going, but I think it was more as aid rather than sales. And with the Taliban, it was really about trying to build the relationship with them.

I think in Central Asia it's kind of a more dynamic story in a way. Because clearly Russia is the major provider, and Turkey is also quite a large provider there. But what you see with China is increasingly they're selling higher end equipment around the region.

So you look at the sort of the UAV platforms that are being purchased, a lot of them are Chinese. Though I did note that apparently the U.S. may be providing some to the Tajiks in particular. So they are, but they seem to be any more at level. It's more the sort of high end kit that they're selling rather than the sort of, you know, more mundane guns and stuff like that.

There is a certain volume of sales, and it is increasing, but I think others are still the sort of major arms providers essentially. But Dr. Murtazashvili probably knows a bit more about that than me.

On the Huawei and the ZTE question, maybe I'll just touch on Afghanistan specifically there. Those are both companies that have been engaged in Afghanistan for a long time. In fact, they were engaged when the Taliban government was in power pre-2001.

This was part of an arrangement between the Chinese government and then Taliban authorities to try to sort of build the relationship, because they were worried, frankly, about Uyghur militants again. And they wanted the government to do it. And this was facilitated by the Pakistanis, but the Chinese were building some telecoms infrastructure.

I think, with the Republic government taking over, I think Huawei and ZTE actually continued, frankly, to do a lot of it. And they are, I think, still doing it. Whether it's still going on now, I'm not 100 percent sure, I haven't seen the latest updates. But it would not surprise me, frankly, if Chinese telecoms companies were still delivering this infrastructure there.

But I think in the Afghan case, the point I would make is this is a country which needs infrastructure in general and telecoms infrastructure in particular. So I think probably, you know, the Afghans will take whatever they can.

I think the Chinese will probably offer it at fairly advantageous terms to try to sort of increase the footprint on the ground and seeing if there's a good way to sort of engage. But I'll let my colleagues talk a bit now.

(Simultaneous speaking)

DR. SAFDAR: Sorry. Do I go ahead? So in Pakistan, yes, the relationship's becoming closer. And as I pointed out in my oral testimony, it's going to become closer because of the U.S.'s tilt towards India. After Ladakh, China is now taking a balanced position vis a vis Pakistan and India.

There is an increasing sort of realization that Pakistan is important as far as China's own position in the broader region is concerned. And as the quad becomes increasingly closed in terms of trying to contain China, this relationship is going to gain greater traction. And as Raffaello pointed out, it's not only in this affair of weapons sales.

It's also in the joint development of weapons systems. The JF Thunder, JF-17 Thunder is the most closely viewed example, but there are other examples where the Chinese are jointly manufacturing submarines in order to build capacity within Pakistan which can then be deployed to sort of supply weapons to other parts of the world.

So the relationship is deep. There are likely to be, you know, these sort of fissures that come along the way as these are taxing fees on Chinese interest. But it's not likely to breakdown in the near or the medium term because of the U.S.'s own tilt towards India as far as Pakistan is concerned.

On the fiber optics, yes, there is a definite increase in the sales of these safe city systems in Pakistan, and to develop the internet facilities, and the IT sector in Pakistan as well.

And you rightly point out that, while there is an explicit economic benefit to having these facilities on the ground as well, there is this sort of a danger that these facilities can be deployed to clamp down on political, you know, opponents within the country.

So that's an ongoing danger as far as Pakistan is concerned. And that played out during the last few months of the PTI government as well where these systems were used to clamp down on journalists across Pakistan. Thank you.

COMMISSIONER SCHRIVER: Thank you. Chairman Wong?

CHAIRMAN WONG: Thank you. So my question's for Dr. Murtazashvili, if I got that right, and Mr. Pantucci.

You know, as you said earlier, there is much to be debated about the wisdom and perhaps the morality of our withdrawal from Afghanistan, as well as the manner in which we withdrew, as well as the long term effects on U.S. interests.

But my question goes to Chinese interest and Chinese view of the withdrawal. Is it that China saw this, or our withdrawal, and the manner perhaps too, as an opportunity to expand their influence and have a freer hand in Afghanistan and perhaps the region?

Or did they see this as, you know, with great trepidation, as creating a problem on its western border, one that may fester for years and that would preoccupy them and draw their attention away from their eastern coast? I'm just, my question is essentially how does China view this? What are they worried about? Or are they happy about it, maybe both?

DR. MURTAZASHVILI: So I think the answer to that question can actually be both, that this was an opportunity for China. So if we look at the relationship between China and the United States, obviously this was a major wound to the United States which, given the adversarial relationship between -- the increasingly adversarial relationship between China and the United States, this was seen as a very positive gain for China.

But in terms of the certain security risks, I think everybody, China's -- Afghanistan's neighbors, particularly Russia and China, were really were really banking on the Taliban to be able to implement control over the country.

And the United States had been withdrawing from Afghanistan for a decade. So this was, I mean, the way in which the United States left was shocking to everybody but not a surprise that it had come.

So, you know, China and Russia were looking this for a long time, understood that this would happen, hence we're seeing these outposts, hence we're seeing increased Chinese --- over the past five years, China has increased its arm supplies to Central Asian states dramatically, dramatic increases. So there's both fear and opportunities.

Now, of course, China would like to see this as an opportunity to expand CPEC into Afghanistan. And China has this special relationship now with Iran. So, I mean, you could see China having a strong desire to extend this special relationship it has, these strategic partnerships, across the region.

But the big question mark is, of course, Afghanistan and what's going to happen inside that country. And until there is a coherent government, and that looks so very far away, this looks like a very, very risky pipe dream, right. So its immediate concern is going to be on those security issues that will and do pose a very serious security concern to China.

But in the long term, we are seeing this as a real opportunity for China. So I think it really depends on the timeframe that we're looking at.

MR. PANTUCCI: Thank you for the -- sorry, I ---

(Simultaneous speaking)

CHAIRMAN WONG: I was just going you but you chimed in. Great.

MR. PANTUCCI: Thank you. I think, look, I think that the -- I'd agree with Dr. Murtazashvili, frankly, I think that, you know, the Chinese have a certain love of schadenfreude, you know, the Americans, they're big, they're ballsy, and look what they did. This is a disaster,

and an embarrassing withdrawal, and is all very humiliating, and so on. So I think that certainly played positively to them.

And I think also the broader narrative that Dr. Murtazashvili was leading towards about, you know, China essentially now being the big player across the wide Eurasian land mass, you know, if you look there, Afghanistan was the place where the U.S. really had a strong footprint. Now it does not. Now you've got a region and an area where basically China has sort of a lot of influence and a lot of reins.

Now, there's a lot of problems that come with that, which China's going to have to deal with. But I think they're going to deal with it in their way rather than the way that we necessarily would want to. And I think that's an important element to think about.

But I think in terms of the withdrawal itself, the one element I would pick up slightly, which I think was interesting to note, was that I think the Chinese, the anger that Dr. Murtazashvili touched on, that the Chinese were kind of pissed off to some degree that the Americans had left a big problem right on their borders. I mean, they knew this was coming at some point, but I think they've been disappointed at quite what a problem it was the moment when, you know, how quickly the Republic government fell apart.

So I think they were hoping that the Republic government was going to survive in some sort of form. The fact that it evaporated so quickly, I think, was a source of concern and really made them think, you know, gosh, the Americans have really done us a disservice.

And then an interesting element you saw coming up in some of the earlier narratives was that people went further and said actually this is a plan by the Americans to try to undermine us, to try to manipulate groups in Afghanistan to ultimately try to attack China.

And you saw the Ministry of Foreign Affairs echo this in some its sort of briefings, talking about how the United States was using Uyghurs here to ultimately try to attack China. And so, you know, it was really a sense of seeing this as a huge, A, American failure, and then B, something the Americans actually tried to, in some way, screw the Chinese.

And I think you have to understand this within the context of a decision that was made in the closing days of the Trump administration which was to delist the East Turkestan Islamic Movement as a terrorist organization which I don't think was a very sage move.

I understand the logic behind it, but I think that it was not a particularly sage move. Because the Chinese have always worried about this organization in Afghanistan. By removing this unlisted terrorist organization, the U.S. was essentially signaling, potentially, that they might, what, recognize this organization, or they didn't see this group as a problem, or they might try to do something with them. And that, I think, really set a lot of paranoid bells going in China.

And I think the final point I'd end on here is that we also need to remember, Afghanistan actually used to be a place where the U.S. and China could cooperate. You know, if you look at the mid-2010s, they were running joint diplomat training exercises together, agricultural programs together. There was a narrative of cooperation. At one point the Chinese were facilitating some of the negotiations between the U.S., the Taliban, and the Pakistanis, you know, they were actually engaging.

So when the Chinese would look around the world they would say we're clashing with the Americans everywhere. But actually, in Afghanistan we weren't.

So to see that flip on its head, to really see now that no longer were they cooperating with

the Americans there, but actually they thought the Americans were using Afghanistan somehow to strike at them, I think really speaks to, I think, the difficulty that will be found going forward in trying to do anything with the United States in Afghanistan and, I think, the degree to which the Chinese would probably actually try to freeze the U.S. out of both the country but also the wider region.

As I say, this is going to bring a lot of problems onto China, but I think that they see it from the kind of, you know, the bigger geostrategic space. Not having the Americans in their backyard is not a bad thing.

CHAIRMAN WONG: Thank you, very insightful.

COMMISSIONER SCHRIVER: Commissioner Bartholomew?

COMMISSIONER BARTHOLOMEW: Thank you, Dr. Murta -- I'm so sorry we're not pronouncing your name properly, Murtazashvili, you looked like you were disagreeing with what Mr. Pantucci was just saying there. So, I wanted to give you the chance before I asked my own questions.

DR. MURTAZASHVILI: No, I wasn't disagreeing, I just think that we also have to look very carefully about what's going on inside of China as well. We haven't spoken about that at all. And so that, I think, plays an enormous role in both how China is viewing this and what this looked like a year ago or six months ago.

COMMISSIONER BARTHOLOMEW: All right, thanks, which is a good jumping off point for me. I had what I thought were two separate questions, but now I'm going to add a third. And I think they're sort of merging.

One, jumping off of what Commissioner Scissors was asking about, I guess my question is, why should we believe that the Chinese will be any more successful in fostering stability in the region than we were? It seems to be growing in turmoil. So that's my first one.

The second one is, especially, I think, it was Mr. Pantucci who talked about private, small investors moving into the region, and if that's the case, how does China, which wants to demonstrate that it's a great power and demonstrate to its own people that it can protect its citizens in other places, how do they deal with that in a context where, again, violence seems to be increasing?

And then my third one, which might go for the record is, as somebody who has been a strong proponent of development assistance in most of my career, I just look at the numbers. And I know it's easy for us to say we need to be playing to our strength in this, but we have provided \$7.7 billion in USAID alone to Pakistan in the past ten years, and some \$39 billion in civilian assistance.

And so if we are going to go down the path, what do we need to do to make sure that that's effective? Because I'm not sure that it has been. Again, I will put that one in for the record, because it's a big question to answer. But for the other two, Dr. Safdar, do you want to start?

DR. SAFDAR: Thank you very much for those questions. So the question, the point is that because the Chinese are right next door to Pakistan, Afghanistan, and all of these regions, so for them stability in the region is much more important as compared to the United States.

And the way that they sort of -- the theory of change as far as Chinese are concerned is you bring in the economic, and my colleagues have pointed this out as well, you bring in

economic development, and economic development is going to help deal with these festering conflicts that are there as far as these regions are concerned.

And the problem is that that's an oversimplification of long, drawn out, conflicts within these places. However, for them it's important that these conflicts remain localized rather than going towards China. And they remain localized to the extent that it does not have a negative impact on their interests within these regions as well.

So in that sort of a perspective, they're going to try and push these governments to maintain security for Chinese nationals and Chinese interests within these places. And as I've written in my written testimony, that's a big ask as well.

So for example, in one of the projects that the Chinese want to do, this large rail project in Pakistan, the security cost alone is around \$200-odd million for a multi-year project that they're going to do which is going to put enormous, you know, tax to Pakistani state in terms of their own sort of limited fiscal capabilities that they have. So the Chinese will then have to, you know, sort of foot the bill as far as these projects are concerned.

As far as the second point that you make, and that's the interesting bit because, from my perspective, it is when this productive investment from China starts flowing towards these countries that some of the deeper structural problems that these countries like Pakistan face are going to be dealt with.

So they're going to become part of global value change, they're going to start manufacturing goods which they do not do at this particular point in time.

The problem over there is exactly as you pointed out. Once these Chinese firms begin their operations in these countries with the security situation, it is going to become increasingly difficult for these host country governments like Pakistan to provide security to these interests.

And that is where I think the second part, you know, sort of comes in, that you have to have better sort of training of local facilities, with local law enforcement agencies, and that's what the Chinese are doing by providing training, by investing in these safe city projects as well.

So that's what the Chinese are trying to do in order to, you know, sort of hedge their bets in terms of moving this productive investment into all of these places.

The last point that you make, I think, is important, and that's a very important point as far as Pakistan is concerned. Because the narrative in Pakistan is different. The narrative in Pakistan is that the U.S., when it sort of gives money to countries like Pakistan, the focus very much is on the defense side. So it is defense capabilities, and on arming, you know, the Armed Forces, where a lot of the assistance goes.

Providing support to the civilian government, you take the period from 2001 to 2008 when Musharraf was in power and the later period. When you compare it, you can see a marked difference in the kind of resources that have gone into the country. So military governments versus civilian governments, there's a marked difference in the kind of resources that have gone into the country in both of these periods.

So that's why I highlighted and I submitted that it's important to work with civilian actors within the sphere. Because at the end of the day, even if they're rent seeking, politicians go to the people after every five years. They need to deliver something on the ground as opposed to military actors who, as much as we might want to believe they're benevolent, do not need to go to the people.

So their delivery is much more different, or their incentives as political actors are much more different as compared to civilian governments. So that's why I highlight and I make that submission once again, that it's important for the U.S. to stay engaged with civilian actors.

Other stakeholders are important, but I think it's extremely important, given the U.S.'s own advantages, to stay engaged with civilian actors within Pakistan. Thank you.

COMMISSIONER SCHRIVER: Rather than a second round, if we want to pick up at least one of your other two questions?

COMMISSIONER BARTHOLOMEW: Does anybody else have anything they want to add?

DR. MURTAZASHVILI: I would just add very briefly that it seems that China's interest here is really containing rather than controlling. And if we look at that, you know, containing what's going on inside of Afghanistan, I think that is how China is approaching this rather than seeing if they can find all of the solutions to these problems.

I think this idea of investment is still a very long way off. I think the security interests loom large, and I think China has learned from the United States' own efforts, as you mentioned, about this aid issue. Look how much the United States invested inside of Afghanistan, and to what end?

So this notion that aid, and money, and development can win hearts and minds and solve problems is really a failed model. And I tell you this as a former USAID employee myself. And I believe in development assistance very much. I feel that the tools that we have, however, really need updating. And it's really time for us to reevaluate how we do this, how much money we're willing to give without monitoring it.

I think the United States caused so many problems inside of Afghanistan because of our desire to help. I mean, the Special Inspector General for Afghanistan reconstruction has laid it out perfectly. We gave so much money, we weren't overseeing this money. And to Afghans, it looked like we wanted to support the Taliban, because so much of it was going to the enemies of the United States.

So I think that we can do much better in this regard. And I think that's another much longer conversation. So thank you for raising that question.

COMMISSIONER BARTHOLOMEW: So very quickly, sorry, very quickly, do we have any reason to believe that the Chinese are going to do this any better than we did when corruption does not seem to be a factor in any of them, any of the projects or the lending that they do?

DR. MURTAZASHVILI: I think it's because the model itself is wrong. China may invest in more effective ways that may lead to some kind of economic outcomes which may be better. But I don't think it's going to lead to stability or legitimacy, right.

And we conflate those two. We somehow believe that the two are related. And I think what we can learn from Afghanistan is that maybe China will do it better. But it's not going to lead to the kind of stability or a legitimate government.

COMMISSIONER SCHRIVER: Thank you. I had another question in mind, but I think Dr. Murtazashvili, you mentioned we haven't talked at all about what's going on inside China. And it sort of reminds me, I have the distinction, maybe dubious distinction as being part of a decision when we listed ETIM, in fact, I think there's probably photos with then Deputy

Secretary Armitage announcing it in Beijing and me standing next to him, and being part of the administration that delisted them.

And of course we delisted because they didn't meet the criteria in terms of the organization and structure numbers, the ability to, through an organized entity, plan, carry out attacks, and because, of course, of the human rights concerns, the overuse of ETIM as cover for cracking down on Uyghurs who simply want to practice their faith, have the autonomy that's guaranteed them in the Chinese constitution, et cetera.

So you opened the door to speaking a little more about what's going on inside China, and I think there is tension with, I mean, obviously we have strained relations with China because of the great power competition. We have very poor relations with the Taliban. But obviously we want somebody to take care of the IS-K problem and any fellow travelers. But there is this tension. And I wanted to give you the opportunity to talk about it.

DR. MURTAZASHVILI: Sure. And I would actually defer to my colleagues who could speak about this in far greater depth as their expertise in terms of what's going on domestically inside of China far outpaces my own.

But look at what's been happening in China over the past several months with this latest response to COVID. I'm very concerned that, you know, we have these assumptions about China's ability to project its power externally. That may not be sustainable in the long run.

We talked about the debt that China has sustained through BRI and so forth, and the inability of countries to repay that debt. We look at what's going on in Pakistan where China has invested so handsomely, right, in this economic partnership.

I'm very concerned about making many assumptions about the role of China in the long term. I know that we have underestimated China in the past. But if we look at where things are going right now, I'm not sure that China will be in the position to provide the kind of stability, for example, inside of Afghanistan that many of us had thought they would be.

COMMISSIONER SCHRIVER: Thank you, and actually I meant a little more specifically in terms of ETIM and the tie that the Chinese make in terms of their broader activities inside China, the genocide, the concentration camps, et cetera.

DR. MURTAZASHVILI: Sure, I mean, China has used this, right, as sort of a cudgel, as a reason, as an excuse to cause so much harm to so many when we know that --- what is the total number of members of this group, it's 500, potentially 700, you know, a high estimate. Have they been involved in the kinds of terrorist attacks that would have them be associated with this designation?

What has China done with this designation? So the damage that has been done to the Uyghur people because of this is a tragedy that will live with us forever.

COMMISSIONER SCHRIVER: Thank you. Mr. Pantucci, it would only be fair to have you defend your position of relisting, given the problematic nature of the original listing. One might argue it would, since they lacked the criteria to meet the definition, it wouldn't be a move that would suggest we're more serious about terrorism. It would be viewed as a political move. But I'd like to hear your thoughts on the merits of relisting.

MR. PANTUCCI: I think the problem is that what the Chinese refer to as the East Turkestan Islamic Movement refers to itself as the Turkestan Islamic Party, and that is an organization that is quite active in Syria, has a presence historically in Afghanistan, and has

claimed incidents in China but frankly in the distant past.

I think the problem in some ways around the delisting was that, you know, the United States was saying that essentially China is the problem. What China articulates as its principle concern with Afghanistan, or at the time was, now, as I say, it's expanded out to some of these other groups, was the Uyghur militant problem. And they would use ETIM as a kind of shorthand to do that

And so the United States turning around and saying, well, this entity doesn't exist, hasn't existed for some time, even though I think it was only a couple of years before the delisting that the U.S. Department of Defense claimed to do a strike against them in Badakhshan Region in Afghanistan, suggested that there was politics, but at play on the U.S. side rather than actually a conscious decision to decide that an organization didn't have the kind of footprint and presence it did.

I mean, what the Chinese refer to as ETIM is frankly very expansive. They think anyone who's a Uyghur, who's not sort of working for the Chinese state in some way, or very closely linked to the Chinese state, you know, expresses any anger towards the Chinese state, they refer to as ETIM. That's that kind of catchall framing for all of it.

But within this there is a group of militants that does exist, that is fighting in Afghanistan, and has for, I'm sorry, is more permanently, at the moment, fighting in Syria.

And this organization does exist, and it does have links to more Al Qaeda affiliated organizations and close links to the Taliban. So it's not as though there isn't such a thing. It's just that I think the word that's used around it is different.

And so I think the risk in delisting it is that essentially, you're denying, and what the Chinese are taking as their principle concern there, and one that the U.S. has also actually expressed some concerns about in the past in terms of actually trying to do something as well.

So I think my point about relisting was maybe we need to think again about how to recognize that, you know, the Chinese do have some sort of a terrorist problem, while at the same time not acknowledging or condoning any of the horrendous acts that are happening within China which, frankly, are probably making the very problems that they're trying to claim to deal with worse.

But I think it's a delicate balance you have to strike. I would argue the similar example you could look at is with Russia where we clearly know that what Russia is doing in the North Caucasus is probably making the situation more dangerous and is making the groups that are linked there more dangerous. And some of these groups have unfortunately got links to groups that have attacked the West or have tried to attack the West.

So it's a matter of how do we kind of thread that needle, upon the one hand recognizing that there is a real problem, but on the other hand not condoning or giving cover for all of the other atrocious acts that are permitted by these governments, because there is a kind of mutual problem there.

And the final point I'd say on this is I was very interested to note that when the United States recently added Katibat al Tawhid wal Jihad, KTJ, a sort of Central Asian group, to its prescribed terror list not that long ago, when the State Department made the announcement earlier they specifically referred to it being linked to an attack against the Chinese embassy in 2016 and to an attack in St. Petersburg. I think it was in 2017.

So the U.S. is recognizing that it does have a kind of shared terrorist problem there. And this one does unfortunately extend to a small number of Uyghurs who do also get involved in this. But by denying that entirely, you're basically entirely undermining, I think, the broader narrative of what the U.S. is doing with, or trying to do in terms of supporting Uyghurs.

Because I think from a Chinese perspective they say, well, the Americans don't even believe the real sort of terrorist problem that we have. And so as a result we can ignore all of this, because it's all sort of great power politics rather than a genuine humanitarian concern.

COMMISSIONER SCHRIVER: Thank you very much. Thank you to all our witnesses. It sounds like we may have some questions for the record. So we'd appreciate your prompt attention to those. But thank you very much for your contributions today and your excellent statements and answers. And we will break for ten minutes. Thank you.

(Whereupon, the above entitled matter went off the record at 11:13 a.m. and resumed at 11:21 a.m.)

PANEL II INTRODUCTION BY COMMISSIONER CAROLYN BARTHOLOMEW

COMMISSIONER BARTHOLOMEW: Here we are again. Our second panel will survey China's initiatives to build influence in Central Asia.

This panel will also address the role of other security and development partners, such as Russia.

We will begin with Dr. Nargis Kassenova, a senior fellow and Director of the Program on Central Asia, at the Harvard University's Davis Center for Russian and Eurasian Studies.

She researches Central Asian politics and security, and China's Belt and Road Initiative in the region.

Dr. Kassenova will describe for us China's security concerns in the region, and discuss the China-Russia relationship, in Central Asia.

We will then hear from Ms. Niva Yau, a Senior Researcher at the OSCE Academy, in Bishkek, Kazakhstan. She specializes in China's foreign policy, trade, and security in its western neighborhood, including Central Asia and Afghanistan.

She will address China's economic ties with Central Asian countries, as well as Central Asian perspectives on China.

Dr. Kassenova, we will begin with you. I will remind you both that we have, you have seven minutes in which to speak. And, then of course, we'll engage in questions and answers.

Thanks very much.

**OPENING STATEMENT OF NARGIS KASSENOVA, SENIOR FELLOW AND
DIRECTOR, PROGRAM ON CENTRAL ASIA, HARVARD UNIVERSITY
DAVIS CENTER FOR RUSSIAN AND EURASIAN STUDIES**

DR. KASSENOVA: Thank you very much.

It is a great honor to be here. Let me start.

China's engagement in Central Asia has undergone an impressive evolution since 1991. The starting position was having territorial disputes with three newly independent states—Kazakhstan, Turkistan, and Kyrgyzstan—and limited interaction and trade with the region.

Today, China is a key economic, political, and security partner for Central Asian states.

This outcome is the result of careful management of mutual vulnerabilities. Beijing worried that the sudden independence of Soviet Central Asia would inspire dreams of self-determination among mostly minorities in Xinjiang.

So, it gave concessions to its much weaker neighbors in the territorial disputes, and invested in friendly relations with them.

Central Asian governments immediately complied with Beijing's "One China" policy, and pledged not to allow any organizations and forces, to carry out separatist activities on their territories.

Beijing's security agenda in Xinjiang—fighting the three evils of terrorism, separatism, and extremism—became the pillar of the Shanghai Cooperation Organization, co-founded by China, four Central Asian states, and Russia.

The SCO positioned China as a regional leader in Eurasia. Under the SCO umbrella, China and Central Asian states have been conducting joint counter-terrorism exercises.

China's People's Liberation Army, People's Armed Police, and Ministry of Public Security have established good relations with their Central Asian counterparts, and provided them with assistance, equipment, training, and other forms of aid on a regular basis.

At present, both China and Central Asian states see the situation in Afghanistan, and the activities of Central Asian militants there, as a threat to their security.

In 2016, China, together with Afghanistan, Pakistan, and Tajikistan, created the Quadrilateral Coordination Cooperation Mechanism, to discuss border security and counter-terrorism. And, deployed PAP troops on the Afghan-Tajik border.

In 2021, the Tajik government announced the construction of a new Chinese-funded base on the border.

Russia's war in Ukraine might create more need for such cooperation, given the possibility that Moscow's capacity to provide security on the border will diminish.

Another important facet of Beijing's Xinjiang policy influencing its relations with Central Asian states has been economic development.

Since the 1980s, it made efforts to develop Xinjiang by embedding it in the broader regional trade and investment networks with the Central and South Asia.

In the 1990s, China and Central Asian states built and upgraded transport infrastructure, and their trade grew exponentially.

China also started looking at this region as an attractive source of oil and gas. CNPC made major investments in Kazakhstan, Kazakhstan's oil and Turkmenistan's gas, and built

pipelines to bring Central Asian resources to Chinese markets.

China's economic strength is, made it a particularly attractive partner for the states of the region, in the aftermath of the two global financial crises.

China became a major provider of concessionary loans to Central Asian states. Tajikistan and Kyrgyzstan have been primary recipients of these loans. And, I can go into numbers later if you are interested.

Central Asian states are enthusiastic participants in China's Belt and Road Initiative since it promises them more resources for infrastructure development, and integration into trans-continental production, value chains, and trade flows.

The priority corporation areas defined in the bilateral documents include transport, communication, energy, manufacturing, agribusiness, and finance.

However, the promise of Chinese investments has been constrained by the problematic environment for investments, and protest fueled by fear of China.

Weak rule of law, high level of corruption from poor to mediocre quality of government regulations, create hurdles for the implementations of projects, and their long-term sustainability.

China-Central Asia economic cooperation and trade were disrupted by the Covid-19 pandemic. However, the recent numbers show that bilateral trade rose on pre-pandemic levels.

At the same time, China-Europe rail freight traffic via Kazakhstan picked up during the pandemic, due to disruptions of sea freight.

And, the Digital Silk Road received a boost, as well.

It is too early to assess the impact of Russia's war in Ukraine on China-Central Asia economic cooperation connectivity.

On the one hand, the weakening and isolation of the Russian economy, create more opportunities for the Chinese activities.

On the other, the negative toll of current developments on Central Asian economies tightly linked with Russia is unavoidable.

The Eurasian land bridge passing through Russia is already in trouble. And, the rail freight is down.

This would push China and Central Asian states to develop the alternative bypassing Russia. China-Central Asia-West Asia economic corridor, the routes that connect Central Asia with Turkey and Europe, and Iran and the Persian Gulf.

The Chinese government treats Central Asian states in a respectful and benevolent way, the way it deals with small states it has no contentious issues with.

Meetings between Chinese and Central Asian leaders are regular. Beijing engages with Central Asian countries on a broad range of issues, and provides foreign aid.

Considerable aid, medical supplies, and vaccines to Central Asian states during the pandemic, is a case in point.

China professes non-interference in domestic affairs, not allowing itself comments on political developments in Central Asia, beyond the generic denunciations of color revolutions promoted by external forces.

While they are on the same page with China in the area of human rights, it is more difficult for some Central Asian states to endorse Beijing's recent policies in Xinjiang, because they involve their core ethnic groups.

Central Asian states try to hedge China's growing influence through their multi-vector foreign policies.

States with more capacity, Kazakhstan and Uzbekistan, can do it more successfully, while less endowed states like Turkistan and Tajikistan find themselves more vulnerable and dependent.

The case of Turkmenistan is a special one, with the poverty of statecraft largely responsible for its strong dependence on China.

And, so China's interaction with the Russia and Central Asia, we can say that the two big neighbors share the state-centric agenda, and jointly push against Western normative pressures in the region, and the world.

Beyond that, however, there is little cooperation in the political and economic sphere.

While Russia accepted China's growing economic presence in Central Asia, it was not fully happy with it, and tried to hedge it by blocking Beijing's initiatives to turn the SCO into an effective economic cooperation organization, and pushing its own Eurasian economic integration projects.

Formally, Moscow aligned itself with the BRI, but there has been very little cooperation on the ground.

Now opportunities for the United States.

The U.S. consistent support for sovereignty and territorial integrity of Central Asian states has been indispensable, particularly during the early years of independence.

Its engagement helped directing the development of new nation states, though an opening to the world, integration to global markets, modernization of education systems, and to a less extent, liberalization of politics and society.

Without it, the region would have looked different today, and showing less promise for a better future.

Since the plans to withdraw from Afghanistan were announced, there have been fears that the U.S. is withdrawing from the region.

The war in Ukraine shows that such withdrawal could have major costs for Central Asian states, but also for the United States given the Russian factor.

At the same time, the war and the tectonic geopolitical issues that it's causing increases the importance of the China factor, and the Iran factor, the connectivity in the Caspian-Black Sea corridor.

Central Asia is of high relevance in this regard.

An effective U.S. engagement in the region would continue to aim at supporting sovereignty and independence of Central Asian countries.

And the period we have ended now might be even more challenging than the 1990s, but have a nuanced long-term approach, allowing for soft neutrality, or loose alignment of Central Asian states with their neighbors, particularly Russia and China.

Central Asians cannot change their surroundings, and cannot afford to choose camps. They are relatively small and weak, but their aspirations to sovereignty and well-being should not be discarded, and can be drawn upon.

Thank you very much for your attention.

**PREPARED STATEMENT OF NARGIS KASSENOVA, SENIOR FELLOW AND
DIRECTOR, PROGRAM ON CENTRAL ASIA, HARVARD UNIVERSITY DAVIS
CENTER FOR RUSSIAN AND EURASIAN STUDIES**

12 May 2022

Dr. Nargis Kassenova
Senior Fellow/Director, Program on Central Asia
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“Testimony before the U.S.-China Economic and Security Review Commission”
China’s Influence in South and Central Asia

China’s Engagement in Central Asia

1. Key driver of China’s engagement – security of Xinjiang

China’s engagement in Central Asia has undergone an impressive evolution since 1991. Three decades ago, the starting position was having territorial disputes with three newly independent states – Kazakhstan, Kyrgyzstan and Tajikistan – and limited interaction and trade with the countries of the region. Today China is a key economic, political and security partner for Central Asian states.

This outcome is first and foremost the result of (careful management of) mutual vulnerabilities/insecurities. Beijing was worried about the security of its restive Xinjiang province. In the early 1990s it feared that the sudden independence of Soviet Central Asians would inspire dreams of self-determination among Muslim minorities in Xinjiang.¹ Chinese policy makers were worried that new solidarity networks would be formed and that ‘separatists’ would find safe heaven and support across the border. Central Asian states felt fragile and vulnerable, realizing that their military capabilities (almost non-existent at the time) were clearly not a match for the giant Chinese army. China assumed a friendly stance and gave concessions to its much weaker neighbors. Central Asian governments immediately complied with Beijing’s “one China” policy and pledged not to allow any organizations and forces to carry out separatist activities on their territories.

Beijing’s security agenda in Xinjiang - fighting the “three evils” of terrorism, separatism, and extremism – became the pillar of the Shanghai Cooperation Organization (SCO), a regional security organization, co-founded by China, four Central Asian states and Russia. The SCO provided China with an experience of forming and running a multilateral organization and positioned it as a regional leader in Eurasia.

Under the SCO umbrella, China and Central Asian states (with the exception of neutral Turkmenistan) have been conducting joint counter-terrorism military exercises.² China’s People’s Liberation Army, People’s Armed Police and Ministry of Public Security have established good relations with their Central Asian counterparts and provide them with assistance (equipment, training, and other forms of aid) on a regular basis.

¹ In 1990, the population of Xinjiang included 7.2 million Uyghurs, 1.1 million Kazakhs and 140,000 Kyrgyz.

² The latest drills took place in September 2021 in Orenburg, Russia.

At present, both China and Central Asian states see the situation in Afghanistan and the activities of Central Asian militants there as a threat to security. In 2016 China together with Afghanistan, Pakistan and Tajikistan created the Quadrilateral Coordination and Cooperation Mechanism to discuss border security and counterterrorism, and the same year there appeared media reports about the deployment of Chinese People's Armed Police troops on the Afghan-Tajik border. In 2021, in the aftermath of the withdrawal of U.S. troops from Afghanistan and the Taliban takeover of the country, the Tajik government announced the construction of a new Chinese-funded base on the border. Russia's war in Ukraine might create more need for such cooperation, given the possibility that Moscow's capacity to provide security on the border will diminish.

2. Economic cooperation and connectivity

Another important facet of Beijing's Xinjiang's policy influencing its relations with Central Asian states has been economic development. Chinese policy makers see security and economic development as interlocked and mutually reinforcing. Since the 1980s, they made efforts to develop western provinces, including Xinjiang, by embedding them in the broader regional trade and investment networks with Central Asia and South Asia.

China and Central Asian states carried out projects to build and upgrade transport infrastructure and improve border-crossing procedures. Railway link connecting Kazakhstan and Xinjiang started operating in 1992. Kyrgyzstan opened two border crossings, and by the end of the 1990s became an entrepôt for trade of Chinese goods in the region. While the quality of the latter at the time was low, they filled the empty market and helped millions of Central Asians muddle through the difficult times by engaging in transborder "shuttle" trade.

In the second half of the 1990s, China started looking at Kazakhstan as an attractive source of oil. CNPC started developing a number of oil fields there. An agreement to build Kazakhstan-China oil pipeline was signed in 1997, and in 2006 its first section started bringing oil from Western Kazakhstan to a refinery in Xinjiang.

In 2000, these efforts to foster connectivity received a strong boost with the launch of the "Open Up the West" program and infusion of major investments in the infrastructure of western provinces, including Xinjiang, driven by the interlinked goals of "common prosperity" and "strengthening of national unity, safeguarding of social stability, and consolidation of border defense." It allowed the construction of the mega West-East Gas Pipeline connecting the eastern markets of China with the gas reserves of Xinjiang. This made feasible the construction of Central Asia-China gas pipeline to bring Central Asian gas (primarily Turkmen) into the Chinese system. Lines A, B and C of the Central Asia-China gas pipeline were financed by the Chinese credits and built over the period of 2007-2014. In the meantime, in 2007, the CNPC signed a production sharing agreement to explore and develop giant gas fields with the Turkmen government.

Its economic strength and dynamism made it a particularly attractive partner for the states of the region in the aftermath of the global financial crises of 1997-1998 and 2007-2008. Beijing provided concessionary loans to Central Asian states. At the 2004 SCO summit President Hu Jintao announced China's readiness to lend \$900 million, and in 2009, at another SCO summit, he offered \$10 billion.

Tajikistan and Kyrgyzstan were major recipients of these loans and had Chinese companies build infrastructure – roads, power transmission grids, hydropower plants, etc. To a lesser extent, Kazakhstan and Uzbekistan benefited as well. The global financial crisis and Chinese loans also created conditions for the start of financial integration by setting up joint investment funds and opening currency swap lines. In 2011, Kazakhstan and Uzbekistan signed bilateral currency swap agreements with China.

In 2013, President Xi Jinping, while on his tour of Central Asia, announced the Silk Road Economic Belt initiative (later transformed into the global Belt and Road Initiative). The initiative was received with much enthusiasm by Central Asian governments since it promised more resources coming their way for infrastructure development and integration into international production value chains and trade flows. Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan linked their national development strategies to the BRI. The priority areas defined in the bilateral documents included: transport, communication, energy, manufacturing, agribusiness and finance.

China's willingness to build economic corridors across Eurasia reignited the hopes of Central Asian states of becoming transcontinental connectors between east and west, north and south. Two of the six overland BRI corridors identified in official communications by Chinese authorities run through Central Asia: the “New Eurasian Landbridge” (passing through Kazakhstan) and the “China-Central Asia-West Asia Economic Corridor” (potentially engaging all five countries of the region). The initiative also promised investments and opportunities to develop new production capacities. International development banks also recognized the significant potential benefit of China's initiative for the region. The EBRD's 2018-19 Transition Report predicted that, in some Central Asian countries, BRI investment in infrastructure would raise real GDP per capita by 4-6 per cent.

The SREB/BRI drew on earlier connectivity efforts serving Beijing's key interest of ensuring the security of Xinjiang by creating the benign and development-inducive environment for it. At the same time, it marked China's “coming of age” as a great power operating globally and providing the public goods of connectivity to the world. For Central Asian states being part of this global initiative was a way to raise their own international profile.

However, the promise of new investments has been constrained by the problematic environment for investments and protests fueled by fear of China and sinophobia. Weak rule of law, high level of corruption, from poor to mediocre quality of government regulations create hurdles for the implementation of projects and their long-term sustainability. In addition, Chinese investments and projects face the challenge of suspicious and even negative public opinion.

There are several examples of BRI projects in Central Asia getting stalled, going wrong, and causing public scandal. In 2018, the Bishkek thermal power plant, renovated by a Chinese company with a Chinese loan, broke down, leaving residents without heat during a harsh winter. Consequently, two former prime ministers of Kyrgyzstan were found guilty of lobbying for the interests of the Chinese company and were sentenced to long jail terms. In 2019, Kazakhstan's authorities suspended the Nur-Sultan (Astana) Light Railway Transit (LRT) project due to massive embezzlement of the loan provided by China Development Bank. In 2020, the Kyrgyz government cancelled a US\$275-million Chinese investment project to build a logistics centre in the Naryn Free Economic Zone in central Kyrgyzstan, following a series of protests by local residents against the 49-year lease of land to the joint Kyrgyz–Chinese venture that was to build it.

China-Central Asia economic cooperation and trade was disrupted by the COVID-19 pandemic. The recent numbers, however, show that bilateral trade rose on pre-pandemic levels: in 2021 China-Kazakhstan trade stood at \$25.2 billion, up from \$22.3 billion in 2019; China-Kyrgyzstan trade reached \$7.5 billion, up nearly 18 percent from \$6.37 billion in 2019 (in 2020, it slumped by more than half, to \$2.9 billion). At the same time, China-Europe rail-freight traffic via Kazakhstan picked up during the pandemic due to disruptions of sea-freight.

It is too early to assess the impact of Russia's war in Ukraine on China-Central Asia economic cooperation and connectivity plans and realities. On the one hand, the weakening and isolation of the Russian economy create more opportunities for the Chinese activities. On the other, the negative toll of current developments on Central Asian economies tightly linked with Russia is unavoidable. The “Eurasian Land Bridge” passing through Russia is already in trouble. Starting March, the export volume on trains heading to Europe from the port of Dalian has been “greatly reduced.” This would push China and Central Asian states to develop the alternative bypassing Russia China-Central Asia-West Asia Economic Corridor (the routes that connect Central Asia with Turkey and Europe, and Iranian port Bandar-Abbas in the Persian Gulf).

3. Digital Silk Road

China-Central Asia digital cooperation has been flourishing. Chinese ICT companies, such as Huawei and ZTE, made substantial inroads in Central Asia. They work with local cell phone companies in all five Central Asian states. The unfolding of the 5G technology is a product of this cooperation. Chinese facial recognition technology has been used for creating smart/safe cities across the region (Almaty, Bishkek, Dushanbe, Nur-Sultan, and others). China's AliExpress (e-commerce platform owned by Alibaba) works in all five countries and set up a partnership with Kazakhstan's national postal office KazPost.

The leaders of the region are enthusiastic about importing Chinese surveillance technologies. In 2019 Uzbekistan's President Mirziyoyev visited Huawei Innovation Center in 2019, and Kazakhstan's President Tokayev – HikVision Headquarters. Both are determined to continue digitizing the economy, public services, and developing ‘safe cities’ in their countries. While the DSR is opening new opportunities for Central Asian governments and consumers, there are concerns about the misuse of technology and enhancing authoritarianism, unintended

consequences (such as data leaks) due to insufficient capacity of governments and companies, and new dependencies (if Chinese ICT companies monopolize the field).

4. Dependencies and vulnerabilities

The five Central Asian countries have different sets of dependencies and vulnerabilities with regard to China. Kazakhstan is the biggest economy and China's biggest economic partner in the region. From pre-independence times, it has always been eager to tap into opportunities of cooperation with its eastern neighbor. At the same time Kazakhstan's policy makers have been eager to maintain the diversity of trade partners and investors in line with the multi-vector foreign policy. In the most strategic and lucrative oil and gas sector, Western, Chinese and Russian companies have significant shares, and none of them dominates the field. Chinese companies produce about a quarter of Kazakh oil.

China is an important partner in developing the transport and industrial capacity of the country. Kazakhstan prides itself on investing its own money into transport infrastructure. Out of sixteen highways started in 2017, nine are financed by the government of Kazakhstan, five are financed in cooperation with international financial institutions, and two are funded by China's EXIM Bank. Kazakhstan's national railway company, Kazakhstan Temir Zholy (KTZ) owns fifty-one percent of the stakes in Khorgos dry port, planned as a major hub of Eurasian transport network. Kazakhstan's external debt to China is modest, and in December 2021 it stood at \$9 billion, or around five percent of its overall debt.

A similar dynamic can be seen in China-Uzbekistan relations. Uzbekistan has a diversified pool of foreign investors, with Chinese, South Korean, Russian and Western companies well represented. China is the biggest lender to Uzbekistan accounting for \$4.2 billion (or 18 percent of total external public debt) in 2021.

The negative implications of the economic imbalance are more pronounced in cases of Kyrgyzstan, Tajikistan and Turkmenistan. Kyrgyzstan and Tajikistan took major loans from China's EXIM bank for various infrastructure projects, such as road construction and rehabilitation, modernization and construction of transmission lines, renovation of thermal plants and others. In 2021, Bishkek's public debt to China stood at \$1.7 billion (or 42 percent of the total public debt), and Dushanbe's – at 1.2 billion (or 37 percent of the total public debt). As for Turkmenistan, it strongly depends on Chinese investments and China's demand for gas. Chinese companies are responsible for more than a quarter of its gas output. In 2021 34bcm of gas were exported to China (accounting for 75 percent of total export). Turkmenistan's external debt situation is not clear.

5. International politics

The Chinese government treats Central Asian states in a respectful and benevolent way, the way it deals with small states it has no contentious issues with. This approach was formulated as “friendly relations with neighbors, to make them feel secure and help them get rich” (*mulin*,

ailin, fulin). Meetings between Chinese and Central Asian leaders are regular, almost on par with those between Russian and Central Asian presidents. Beijing engages with Central Asian countries on a broad range of issues and provides foreign aid. Considerable aid (medical supplies and vaccines) to Central Asian states during the pandemic is a case in point.

China professes non-interference in domestic affairs of other states, not allowing itself comments on political developments in Central Asian and other Eurasian countries beyond the generic denouncement of “color revolutions” promoted by “external forces.” Its officials emphasize the lack of conditionality on development assistance rendered by Chinese agencies, in contrast to Western aid. Moreover, Beijing provides moral and material support to Central Asian governments in times of need. For example, in the aftermath of the 2005 bloody Andijan events in Uzbekistan, President Karimov went to Beijing for words of understanding.

Central Asian states share with China the normative agenda of non-interference in domestic affairs and state-centric narratives and norms. Together with China and Russia, and other members of the SCO, they co-sponsored a “Code of conduct for information security” submitted to the UN General Assembly in 2015. The code underlined the states’ right to independent control of information and communications technologies, and the role of the state in “encouraging a deeper understanding by all elements in society, including the private sector and civil-society institutions, or their responsibility to ensure information security.”³

While they are on the same page with China in the area of human rights, it is more difficult for some Central Asian states to endorse Beijing’s recent policies in Xinjiang because they involve their co-ethnic groups. In January 2019 Kazakhstan, Kyrgyzstan and Uzbekistan abstained from signing either of the two letters prepared by different coalitions of countries and sent to the UN Human Rights Council, one denouncing China’s policies in Xinjiang, the other supporting them. The letter of support, however, was signed by Tajikistan and Turkmenistan.

Central Asian states try to hedge China’s growing influence through their multi-vector foreign policies. States with more capacity – Kazakhstan and Uzbekistan – can do it more successfully, while less endowed states, like Kyrgyzstan and Tajikistan, find themselves more vulnerable and dependent. The case of Turkmenistan is a special one, with the poverty of statecraft largely responsible for its strong dependence on China.

6. Domestic politics

China is increasingly becoming a factor in domestic politics in Central Asia, due to deep insecurities in Central Asian societies with regard to China and its intentions.

Despite the fact that the territorial disputes are successfully resolved, in all three bordering countries there is some public anger about the “lost land” and suspicion that China is not fully

³ United Nations Digital Library. Letter dated 9 January 2015 from the Permanent Representatives of China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan and Uzbekistan addressed to the Secretary-General, United National General Assembly. [Viewed 24 April 2019]. Available: <https://digitallibrary.un.org/record/786846?ln=en>

satisfied with the result and might revisit the issue in the future. Protests broke out in a number of cities in Kazakhstan in spring 2016 in reaction to new legislation that allowed for the extension of land leased to foreign companies from ten to twenty-five years. People were afraid that the change would allow Chinese companies to capture more land. In April 2020, social media networks in the country spread the translation of an article “Why Kazakhstan is trying to return to China”, published on Chinese online platform Sohu.com, that was claiming that Kazakh khanates and their territories had been part of China. Kazakhstan’s Ministry of Foreign Affairs (MFA) issued a note of protest and summoned the Chinese Ambassador in the country. Around the same time a similar article titled “Kyrgyzstan Used to be China’s Land” appeared on Toutiao.com. However, it did not cause a similar reaction from the Kyrgyz government, which might be explained by the fact that it was in the process of asking Beijing for debt relief.

As the 2016 protests in Kazakhstan demonstrate, the land issue overlaps with that of China’s economic expansion. There are concerns that Central Asian countries are growing too dependent on China and falling into its fold. Both in Kazakhstan and Kyrgyzstan there have been small-scale protests against China’s expansion featuring demands not to borrow more Chinese credits.

Another sensitive issue is the mis-treatment of Muslims, particularly co-ethnics, in Xinjiang. The public opinion in Kazakhstan and Kyrgyzstan that had been largely indifferent to the travails of Uyghurs in neighboring Xinjiang, began to put pressure on the authorities to react to the mistreatment of Kazakh and Kyrgyz minorities in the camps. The issue was raised both in Kazakh and Kyrgyz parliaments, and the governments promised to monitor the situation. Representatives of the Kazakh MFA held talks with their Chinese counterparts both in Beijing and Astana regarding “frequent complaints by ethnic Kazakhs about problems they face in the People’s Republic of China.” In January 2019, the authorities announced that 2,000 ethnic Kazakhs received permission to leave Xinjiang and move to Kazakhstan.

7. Relations with Russia

For centuries the destiny of Central Asians was shaped by a competition, sometimes pronounced, sometimes latent, between Russia and China. They have been the main actors and shapers of the regional order for Central Asian states. Changes in their policies and capacities to implement them define its features. From the time of the collapse of the USSR, China has been respectful of Russia’s interests in Central Asia, despite the weakness of the northern neighbour in the 1990s and the growing gap in their fortunes and capacities.

The two big neighbors of Central Asia share the normative state-centric agenda and disliking of Western pressures with regard to human rights which they see as interference in domestic affairs. They are comfortable to jointly push against these pressures in the region. They provide moral and material support to authoritarian governments. Beyond that, however, there is little cooperation in the political sphere. Russia pushed for the expansion of the SCO and inclusion of India and Pakistan in order to dilute China’s weight in the organization.

While Russia accepted China’s growing economic presence in Central Asia, it was not fully happy with it and tried to softly hedge it. For example, it peddled China’s initiatives to turn the SCO into an effective economic cooperation organization. In 2010 Moscow did not support

Beijing proposal to set up special SCO development funds. Instead, that year Russia, together with Belarus and Kazakhstan, launched the Customs Union with unified tariffs for imports from third countries. This development was watched with concern by Chinese policy-makers and businesses trading with Kazakhstan and Kyrgyzstan. However, ultimately it did not hinder China-Central Asia economic cooperation. Given the triumphant launch of the BRI, Moscow had to find an accommodation with it. In 2015, President Putin and President Xi made a joint declaration on cooperation in aligning the Eurasian Economic Union the Silk Road Economic Belt stating support for each other's megaprojects. Unsurprisingly, this cooperation proved to be modest and slow.

The informal "division of labor", with Russia responsible for security and China in charge of economic development, was also gradually challenged. As already mentioned, China provided security assistance to Central Asian states, has a coordination mechanism with Tajikistan, Pakistan and Afghanistan to discuss border security and counterterrorism, and presence on the Afghan-Tajik border. The war in Ukraine is likely to strengthen this trend.

8. Opportunities for the United States

The U.S. consistent support for sovereignty and territorial integrity of Central Asian states has been indispensable, particularly during the early years of independence. Its engagement helped directing the development of new nation-states toward opening to the world, integration into global markets, modernization of education systems, and to a lesser extent – liberalization of politics and society. Without it the region would have looked different today, and showing less promise for a better future.

Since the plans to withdraw from Afghanistan were announced, there have been fears that the U.S. is withdrawing from the region. The war in Ukraine shows that such withdrawal could have major costs for Central Asian states, but also for the United States, given the Russia factor. At the same time, the war and the tectonic geopolitical shifts it is causing, increases the importance of the China factor, the Iran factor, the connectivity in the Caspian-Black Sea corridor. Central Asia is of high relevance in this regard.

An effective U.S. engagement in the region would continue to aim at supporting sovereignty and independence of Central Asian countries (the period we have entered now might be even more challenging than the 1990s), but have a nuanced long-term approach, allowing for soft neutrality or loose alignment of Central Asian states with their neighbors, particularly Russia and China. Central Asians cannot change their surroundings and cannot afford to choose camps. They are relatively small and weak, but their aspirations to sovereignty and wellbeing should not be discarded and can be drawn upon.

OPENING STATEMENT OF NIVA YAU, SENIOR RESEARCHER, OSCE ACADEMIY

COMMISSIONER BARTHOLOMEW: Thank you very much.

Ms. Yau?

MS. YAU: Hello commissioners and distinguished members of the committee. Thank you for your kind invitation asking me to come here today, to talk to you about China's economic engagement with its neighbors in Central Asia.

I was asked to specifically look at China's economic engagement in Central Asia, but my work covers all of the aspects of China in the region.

The ties and histories between what occupied today's PRC and Central Asian states date back at least 2,000 years.

Unlike relations with its Southeast Asian states, which were largely based on the tributary system, Central Asian empires and tribes were consistently active threats, challenging stability in the East.

Forging good relations with Central Asian states holds substantial symbolic, strategic importance to the Chinese Communist Party.

Not only is Central Asia considered part of the Chinese periphery, thus, Chinese interests are already placed in the category of domestic interests in Central Asia, it is crucial to survival of the CCP to control a land mass historically of threat to the Chinese civilization.

Today, the roughly 75 million population in Central Asia share a 3,320 kilometer border, with the PRC's Xinjiang Uyghur Autonomous Region, historically known as East Turkestan.

At diplomatic establishment, the PRC secured regional support and a recognition for its desired status of Taiwan.

But what the PRC needed was immediate consensus and concrete commitments, to eradicate supporters and sympathizers of the Uyghur led, East Turkestan independence movement, that were once active in Central Asia, due to the cross-border ties amongst the Uyghur population.

In Central Asia, this required local law enforcement efforts to integrate these networks as well.

In order to ensure a full grip on Xinjiang/East Turkestan, the PRC also needed to resolve border disputes with Kazakhstan, Tajikistan, and the Kyrgyz Republic, that was left from the Soviet legacy.

At the time, the PRC had little to no leverage and bargaining power in Central Asia. Its ties to the region had been cut off by the Soviet Union.

In 1991, when Central Asia first became independent, its total trade with the PRC was at \$463 million.

The lack of progress through diplomatic dialogue prompt the necessity of PRC economic and military engagement in the region.

In 1994, when then Premier Li Peng toured Central Asia, Li spoke of these security issues alongside economic narratives, such as reviving the old Silk Road.

Meanwhile, he was hand delivering generous loan agreements to Central Asian leaders, bringing to bilateral meetings group and groups of Chinese entrepreneurs, to find economic opportunities in the region.

In the years following, regional trade with the PRC grew from \$463 million in 1999, to \$2.3 billion in 2002, and \$50.2 billion in 2013.

As trade grew at the same time, PRC security objectives in the region have achieved full success.

All border disputes ended in 1999. Central Asia-based groups associated with the East Turkestan independence movement have been criminalized.

Uyghur cultural groups disintegrated. Uyghur community leaders murdered members of the Uyghur community, deported and heavily surveyed in Central Asia.

By now, the PRC has since built a well-rounded economic footprint in Central Asia. All of these presences allow Chinese actors to engage in a quantitative manner, working with as many elites and potential future elites as possible, who will be of use to PRC interests in the region.

As a result, PRC engagement in Central Asia in the past 20 years, dramatically reorientated the region from Russia, to China.

In energy, the two pipelines ended Central Asian reliance on only being able to export oil and gas to Russia.

In transport, upgraded railway links, particularly the diversification routes offered by the China-Europe Railway Express via Kazakhstan, offered Chinese seaports as an alternative access to sea-based trade.

In processing industries, the PRC is offering new technologies to Central Asian states that Russia never did.

A quiet competition between Russia and the PRC can be witnessed in the regional economic space, with the latter offering substantially more, and in its favor.

Russia's Eurasian Economic Union, of which Kazakhstan and the Kyrgyz Republic are members, drew up favorable tariffs for imports within the region, which effectively made imports from the PRC more expensive.

Russia, through the Eurasian Economic Union, also proposed multiple times to create a unified trade bloc, which would prohibit member states, such as Kazakhstan and the Kyrgyz Republic, from having a third-party trade agreement.

The PRC introduced itself to Central Asia at a time when the region faced quick decoupling from the collapse of the Soviet Union.

Political leaders were fed narratives that with the PRC, Central Asia can re-transform into a key hub in Eurasia, revival of the Silk Road.

Specifically, the PRC promised economic development without political liberation, good governance, and social justice.

Failing to bring about such a fantasy, instead many of the Chinese funding and companies have been found in corruption cases.

And these corruption cases are increasingly dividing the Central Asian public and the local elites.

The issues that Chinese companies bring to Central Asia, open spaces and opportunities for investors from other countries, who are willing to commit to better practices.

As Central Asian states caught themselves in an ever more dividing global environment, the risks are now outweighing the convenience of cooperating solely with Russia, and the PRC.

The developmental path that Central Asia aligned itself with Russia and the PRC, is not sustainable. It appears that now is the turning point for Central Asia.

The recommendations that I propose today are, one, support Central Asian integration domestically and regionally, and integration to the global system.

Two, work with Asian allies of the United States, such as Japan, South Korea, and Thailand.

Three, sustain access to local knowledge for refined communication strategies, with local governments in the region.

And, lastly, avoid isolating Afghanistan.

Thank you.

**PREPARED STATEMENT OF NIVA YAU, SENIOR RESEARCHER, OSCE
ACADEMY**

Niva Yau: Witness Testimony

Prepared Statement by

Niva Yau¹

Senior Researcher

Academy

Organization for Security and Co-operation in Europe (OSCE)

Before US-China Economic and Security Review Commission

May 12, 2022

Hearing on China's Activities and Influence in South and Central Asia

Commissioner Bartholomew and Commissioner Schriver, and distinguished Members of the Commission: thank you for your kind invitation asking me to testify before you today. I am honored to have the opportunity to share with you my thoughts on the People's Republic China's (PRC) engagement with its neighbours in Central Asia. I was asked to focus specifically on the PRC's economic engagement in Central Asia.

Ties and histories between what occupy today's People's Republic of China (PRC) and Central Asian states date back at least two thousand years. Unlike relations with Southeast Asian states which were largely based on a tributary system, Central Asian empires and tribes were consistently active threats challenging stability in the east.

These ties have been forcefully broken off by the Russian Empire. The Chinese Communist Party (CCP) has been using selected stories from the Silk Road to paint a harmonious picture to shape the diplomatic narratives in the past 30 years. But the Silk Road was not entirely harmonious. The rise and fall of Chinese dynasties were often connected to management success of relations with empires and tribes in the western region. Multiple Chinese dynasties were driven to bankruptcy, and in some cases capture, due to never-ending wars with the nomadic groups coming from the western region. For example, An Lushan was a Sogdian general who toppled the Tang dynasty and claimed the empire as Yan dynasty.

Forging good relations with Central Asian states holds substantial symbolic strategic importance to the CCP. Not only is Central Asia considered part of the Chinese periphery, thus Chinese interests are already placed in the category of domestic interest, it is crucial to survival of the CCP to control a landmass historically of threat to the Chinese civilization.

Having managed its western borders with officials in Moscow during the Soviet Union, Central Asia's independence came as a shock to Chinese leaders. The Jiang administration, occupied by dozens of Russian-speaking Soviet educated officials like Jiang himself, crafted early policies on Central Asia. These policies were basic at a surface level, directed at solving immediate bilateral problems but were carefully thought-out after 1994 to build a foundation for greater Chinese influence in the region.

Today, the roughly 75 million population in Central Asia share a 3320-kilometer with the PRC Xinjiang Uyghur Autonomous Region (historically known as East Turkestan). In a January 1992 Central Asia tour, the PRC established formal diplomatic relations with Turkmenistan, Uzbekistan, Kazakhstan, Tajikistan, and the Kyrgyz Republic. Amongst all Central Asian states, Uzbekistan has kept most distance from the PRC since the beginning under the First President, Karimov's isolationist regime. On the other hand,

¹ The views presented in this testimony are Niva Yau's alone and do not represent those of OSCE Academy and of the Organization for Security and Co-operation in Europe.

Kazakhstan's First President, Nazarbayev has visited Beijing and held talks with Chinese leaders even prior to formal diplomatic relations and the fall of Soviet Union.

Chinese Interests in Central Asia

At diplomatic establishment, the PRC secured regional support and recognition for its desired status of Taiwan. However, what the PRC needed was immediate consensus and concrete commitments to eradicate supporters and sympathizers of the Uyghur-led East Turkestan independence movement that were active in Central Asia due to cross-border ties amongst the Uyghur population. Conservative statistics record the Uyghur population in Central Asia to be around 300,000; however, the Uyghur diaspora estimates the real figure to be at least one million because cross-border activities between the PRC and Central Asian states were not recorded during the sudden collapse of the Soviet Union.²

In the PRC, the roughly 11 million Uyghur population is the largest ethnic minority. Beijing was under immense pressure as the independence movement poses serious domestic security and stability concerns. The separatist movement must be completely eliminated, even across official borders, for it endangers unity of the CCP political system and its functioning as a unified Chinese state.

In Central Asia, this required local law enforcement efforts to disintegrate these networks scattered around the region. As well, in order to ensure a full grip on Xinjiang (East Turkestan), the PRC also needed to resolve border disputes with Kazakhstan, Tajikistan and the Kyrgyz Republic that was left from Soviet legacy. A combination of these needs, which are necessary to be all achieved at once, called for a serious effort to bring Central Asian leaders onboard.

At the time, the PRC had little to no leverage and bargaining power in Central Asia. Its ties to the region had been cut off by the Soviet Union. In 1991, when Central Asia first became independent, its total trade with the PRC was at merely \$463 million. The border dispute negotiations that were between PRC and Central Asian states always included participation of the Russian Federation. There were little incentives and capacities for Central Asian states to manage the East Turkestan independence movement across the border, and lack of progress through diplomatic dialogue prompted the necessity of PRC economic and military engagement.

In 1994, when then-Premier Li Peng toured Central Asia, Li spoke of these security issues alongside economic narratives such as reviving the old Silk Road, meanwhile hand delivering generous loan agreements to Central Asian leaders, bringing to bilateral meetings group after group of Chinese entrepreneurs. In the years following, regional trade with the PRC grew from \$463 million in 1991, \$2.3 billion in 2002 to \$50.2 billion in 2013.³

As trade grew, at the same time, PRC security objectives in the region have achieved full success. All border disputes ended in 1999. Central Asia-based groups associated with the East Turkestan independence movement have been criminalized, Uyghur cultural groups disintegrated, Uyghur community leaders murdered, members of the Uyghur community deported and heavily surveilled.⁴ On

² Isa, Dolkun, "Uyghur situation in Central Asia countries (In Kazakhstan, Kyrgyzstan and Uzbekistan)," Organization for Security and Co-operation in Europe Human Dimension Implementation Meeting, September 25, 2007, <https://www.osce.org/files/f/documents/3/1/27056.pdf>.

³ Yau, Niva, "China's Pursuit of Power in Central Asia," OSCE Academy, December, 2020, https://osce-academy.net/upload/file/Niva_brief.pdf.

⁴ Isa, Dolkun, "Uyghur situation in Central Asia countries (In Kazakhstan, Kyrgyzstan and Uzbekistan)," OSCE Human Dimension Implementation Meeting, September 25, 2007, <https://www.osce.org/files/f/documents/3/1/27056.pdf>.

Beijing's terms, it has exerted extraterritorial stability in Central Asia – the western periphery it believes to be tied to the security of Xinjiang (East Turkestan), creating its desired peace and stability on its doorstep. In order to maintain strict national cohesion and prevent unravelling of the entire system, Beijing is likely to continuously work to ensure a full grip on Xinjiang (East Turkestan), thus expanding presence in Central Asia.

Aside from sustaining ability to manage these security issues, in the long run, Central Asia offers the strategic landmass which will allow the PRC to shift energy and trade reliance away from the sea. In the past, the best of Chinese dynasties enjoyed a global trade system which was China-centric and land-based. It is no wonder then, that the PRC seeks to position itself as the geopolitical center of the Asia-Pacific, including Central Asia. As such, in exploring economic cooperation with Central Asian states, the largest implemented projects and those most continuously discussed and explored are in the energy and logistics sector. As the PRC make steps towards national rejuvenation, construction of this land-based energy and trade route in the Eurasian landmass has already begun in Central Asia. In 2013, this was consolidated and coined the Belt and Road Initiative.

Chinese Investments in Central Asia

Compared to 1991, the PRC has since built a well-rounded economic footprint in Central Asia. All of these presences allow Chinese actors to engage in a quantitative manner, working with as many elites and potential future elites as possible, who will be of use to PRC interests. Regional trade pattern sustains the role of Central Asia as an exporter of raw materials to and importer of consumer goods from the PRC. The PRC is the first, if not second, leading trade partner of all Central Asian states. Where resources and capacity are available, the PRC also engages in investment projects. It has embarked on dozens of industrial capacity transfer projects in Kazakhstan since mid-2000s, following a BOT (build operate transfer) or BT (build transfer) structures, where Kazakh companies maintain ownership while sharing profits with Chinese companies. Most significantly, the PRC is the principal provider of cheap loans and grants to Central Asian states, primarily in the logistical sector, particularly to weak economies such as Tajikistan and the Kyrgyz Republic.

In 2020, the Central Asian economy stood at roughly \$286 billion GDP. At \$169 billion, roughly half of regional GDP is concentrated in Kazakhstan, \$57 billion in Uzbekistan; \$45 billion in Turkmenistan; \$8 billion in Tajikistan and \$7 billion in the Kyrgyz Republic.⁵ As such, Kazakhstan also consistently makes up of at least half of regional trade with the PRC. Trade patterns between Central Asian states and the PRC in the past 20 years consisted of Central Asian export of raw materials and import of Chinese-made consumer products.

Uyghur Human Rights Project & Oxus Society for Central Asian Affairs, "No Space left to Run: China's Transnational Repression of Uyghurs," June 24, 2021, https://oxussociety.org/wp-content/uploads/2021/06/transnational-repression_final_2021-06-23.pdf

⁵ World Bank, "GDP (current US\$) – Kazakhstan", 2022

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KZ>

World Bank, "GDP (current US\$) – Uzbekistan", 2022

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=UZ>

World Bank, "GDP (current US\$) – Turkmenistan", 2022

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=TM>

World Bank, "GDP (current US\$) – Tajikistan", 2022

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=TJ>

World Bank, "GDP (current US\$) – Kyrgyzstan", 2022

<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KG>

Between 2013 and 2016, this was proved to be an extremely fragile and unsustainable trade relationship. Hit by the Crimea crisis which affected Central Asian currencies because of devaluation of the Russian ruble, Central Asian affordability of Chinese consumer products sharply declined. At the same time, slowing down of the Chinese economy reduced crude oil imports from Kazakhstan as domestic manufacturing needs declined. Due to these factors, bilateral trade between China and Central Asia fell by 40% from \$50.2 billion in 2013 to \$30 billion in 2016.

In the past 15 years, the majority of total exports from Central Asia to PRC have been in the energy sector, dominated by two state-managed pipelines, China-Kazakhstan oil pipeline and China-Central Asia gas pipeline. Chinese oil imports from Kazakhstan experienced substantial growth – from 45,000 tons in 1997 to over 1 million tons in 2002, peaking at 11.98 million tons in 2013 (4.25 percent of Chinese total oil imports that year) at the bilateral pipeline's maximum capacity. However, since 2014, the figure fell to 5.68 million tons and continuously declined since then.⁶ On the other hand, gas exports from Turkmenistan to PRC have experienced consistent growth since starting operations in 2012, at 21.3 bcm, 51.4% of total Chinese gas import.⁷ The figure gradually climbed to 31.7 bcm in 2017, 37.3 bcm in 2020 and 34 bcm in 2021.⁸ Other Central Asian exports to PRC are much smaller in scale and they are often managed by private Chinese companies, including mined materials such as gold, copper, coal, and others.

Most of PRC investments in Kazakhstan, Turkmenistan and Uzbekistan are in the oil and gas sector, and majority of them are jointly operated with local partners. Chinese investors find security in having a local partner to manage local operational difficulties especially when a project involves a large sum of investments. The PRC has invested at least \$20 billion into the Kazakh oil and gas sector; at least \$17 billion into Turkmenistan's and at least \$2 billion into Uzbekistan's. The largest projects in Kazakhstan, the China-Kazakhstan oil pipeline and the Darkhan deposit have joint agreements with KazMunaiGas. Through a 60.3% stake in AktobemunaiGas, CNPC operates on Zhanazhol, Kenkiyak, Uriktau and Mangystau fields. Through a 50% stake in Kuatamlonmunai, CNPC operates on Kony and Bektas fields. Through a 60% stake in PetroKazakhstan, CNPC modernized the Shymkent refinery. After taking over FIOC in 2004, FIOC's assets became Sinopec's largest operations in Kazakhstan.

PRC new investments in other industries, such as copper and aluminum, are in BOT/ BT format, where Chinese companies build and continuously earn profits from projects which are owned by Kazakh companies. In Uzbekistan, which has only in recent years welcomed Chinese investments outside of the oil and gas sector, now have a variety of smaller Chinese investments in its agriculture, real estate, electricity, auto, textile and railway industries.

Elsewhere in Central Asia, Chinese investments are concentrated in the mining sector. In Tajikistan, Chinese companies own several mining projects, such as lead, zinc, silver, gold, antimony ore and others. In the Kyrgyz Republic, Chinese mining are focused on gold, copper, tin and tungsten. These resources are exported to the PRC in their raw, unprocessed form. Compared to oil and gas operations in

⁶ Yau, Niva, "Tracing the Chinese Footprints in Kazakhstan's Oil and Gas Industry", The Diplomat, 12 December, 2020, <https://thediplomat.com/2020/12/tracing-the-chinese-footprints-in-kazakhstans-oil-and-gas-industry/>

⁷ Sadykov, Murat, "Turkmenistan Supplying over Half of Chinese Gas Imports", 6 August, 2013, <https://eurasianet.org/turkmenistan-supplying-over-half-of-chinese-gas-imports>

⁸ BP, "BP statistical review of world energy", June 2018, <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>

BP, "BP statistical review of world energy", 2021, <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2021-full-report.pdf>

Business Turkmenistan, "China Imports 34 bcm of Turkmen Natural Gas in 2021", 6 January 2022, <https://business.com.tm/post/8075/china-imports-34-bcm-of-turkmen-natural-gas-in-2021>

Kazakhstan, Uzbekistan and Turkmenistan, most of the Chinese mining companies in Tajikistan and the Kyrgyz Republic operate without a local partner.

As well, in Tajikistan and the Kyrgyz Republic, dozens of cheap, long-term loans have been granted to local governments to modernize basic infrastructure, with the condition to contract Chinese companies. Most of these loans are towards infrastructure projects which have minimum prospects of generating direct income to repay the loans, such as construction of a new highway connecting the north and south part of the Kyrgyz Republic, with no plans to install a toll. Instead, these projects rely on providing the infrastructure and logistics which can boost trade, only one aspect of importance in terms of increasing trade.

Some of these projects are purely to feed political goals of the Central Asian leaders. For example, under the Atambayev administration, his goal for Kyrgyz energy independence facilitated reconstruction of the Bishkek power plant and building of the north-south electricity line, both of which were financed by cheap Chinese loans and constructed by state-owned Chinese companies. Worst are the rent-seeking opportunities that come with Chinese loans – such as the cost of relocating cattle which went only into the pockets of local officials instead of local herders – which further inflate the project cost and add additional burden to taxpayers.

These projects sustain long-term Tajik and Kyrgyz dependence on the PRC as Chinese debt has climbed to close to half of total foreign debt in both Central Asian countries. Beyond unrealistic repayment plans, mounting misjudgments towards Chinese loans and projects are most problematically being made amongst leaderships in Tajikistan and the Kyrgyz Republic. Only recently, after the case of the PRC seizing the Sri Lankan Hambantota port, have the two governments changed their attitudes, and have been outspoken about plans to repay Chinese debts. During the pandemic, unconditional repayment delays requested by these Central Asian states were not offered by Chinese state policy banks. Instead, the banks offered repayment extension with additional interest rates, furthering the existing dependency pattern.

While promised that economic engagement with PRC will bring the region back to its once prosperous days during the Silk Road, the bilateral economic plannings that are between Central Asian states and the PRC on the other hand are slow at meeting these promises. Particularly in Tajikistan and the Kyrgyz Republic, these promises are unmet. In Kazakhstan and Uzbekistan, leaderships are unsatisfied with the lack of diversity in their exports to the PRC and have been demanding more technology transfer since mid-2010s.

In 2014, the Kazakh government prepared a proposal of 80 projects for the Chinese side to consider investing.⁹ The next year, a \$2 billion government-to-government joint fund was allocated for about 55 projects from the list. The 55 projects are valued at a total of \$24.6 billion, which Chinese SOEs, who are constructing partners, are set to invest and profit under BOT/BT format. About 72% of the 55 projects are industrial processing technologies, most are new to Kazakhstan, such as plastics manufacturing, wind energy, auto assembly line and others. As of 2022, 15 projects are completed, most are under construction. In 2015, following success of Kazakhstan, the Kyrgyz Republic delivered a proposal of 40 projects to the Chinese side, but none materialized. In 2017, Tajikistan also suggested its desire for industrial transfer from the Chinese side.

Apart from more diverse investment projects, Central Asian governments are pushing existing Chinese projects to create more profits within the local economy. The primarily example is pushing Chinese firms to hire more locals via writing these obligations in the contracts. As well, Central Asian states have adopted legislation of proportion of local hires and placing caps on foreign worker permits. Aside from

⁹ Van Der Kley, Dirk, and Yau, Niva. "How Central Asians Pushed Chinese Firms to Localize", October 2021, <https://carnegieendowment.org/2021/10/15/how-central-asians-pushed-chinese-firms-to-localize-pub-85561>

government incentive to create jobs, civil society most particularly in Kazakhstan and the Kyrgyz Republic have been the most prominent actors in voicing out this imbalance of importing Chinese workers. The compliance to local demands has demonstrated PRC willingness to provide more economic benefits to strengthen stability of like-minded regimes and leaders. In the case of Chinese economic engagement in Central Asia, it is clear that economic goals are subordinate components of broader security goals.

As Chinese companies moved to hire more local workers, combined with trends of industrial transfer, it is expected that PRC companies will impact regional migration. In the past 30 years, Central Asian workers have found Russia to be the principal destination for work and migration. Millions of Central Asian workers at variety level of skills, due to language similarity and Soviet legacy, find Russia their second home. However, as Chinese companies grow their presence and continuously offer training and hire more Central Asian workers, more will stay in the region for work instead of moving to Russia. The massive population of Central Asian workers who work in Russia and the remittances they send back home are one of the largest contributors to local GDP. At the same time, Russia benefits from having continuous influx of cheap labour from Central Asia to fill its industries. As such, this regional migration pattern has sustained much of dependence on Russia, if changed, will impact the kind of leverage Russia can exercise in Central Asia.

Apart from this, PRC engagement in Central Asia in the past 20 years dramatically reoriented the region from Russia to China. In energy, the two pipelines ended Central Asian reliance on only being able to export oil and gas to Russia. In transport, upgraded railway links, particularly the diversification routes offered by the China-Europe Railway Express via Kazakhstan, offered Chinese sea ports as an alternative access to the sea-based trade. Lianyungang port in the Chinese northeast provides extensive privileges, such as free storage and a direct train cargo service connecting to landlocked Kazakhstan. In processing industries, the PRC is offering new technologies to Central Asian states that Russia did not.

A quiet competition between Russia and the PRC can be witnessed in the regional economic space, with the latter offering substantially more, and in its favour. Where initiatives call for a multilateral effort, the PRC actively uses the Shanghai Cooperation Organization (SCO). After successfully pushing for a unified permit system within the Shanghai Cooperation Organization (SCO) to simplify truck logistics at the Central Asian borders in 2014, the PRC in 2019 proposed a unified customs system for the entire SCO region. This system, which is only slightly modified from the domestic Chinese system, could potentially allow the PRC to export border management softwares outside of its own borders. Previously, as the Central Asian country through which most Chinese products are transferred, Kazakhstan has already voiced concerns about the PRC's noncompliance with existing rules, such as the SMGS convention.¹⁰

In response, Russia's Eurasian Economic Union, of which Kazakhstan and the Kyrgyz Republic are members, draw up favourable tariffs for import and export trade within the Union, which effectively made imports from the PRC more expensive. However, this has not been implemented fully as the Kyrgyz Republic widely practices relabeling imported Chinese products as Kyrgyz-made. Also, Russia in the Eurasian Economic Union proposed multiple times to create a unified trade bloc, which would prohibit member states from having third-party trade agreements. This proposal was continuously rejected by Kazakhstan, with the Kazakh President Tokayev calling it a "restriction of sovereign rights".¹¹

¹⁰ Established by the Soviet Union's Organization for Cooperation of Railways (OSJD) in 1957, the SMGS convention governs the movements of cargo. P.J. Hodgkinson, "Report on Transport Facilitation procedures and documentation in Kazakhstan." United Nations Economic and Social Commission for Asia and the Pacific, https://www.unescap.org/sites/default/files/Seamless%20Transport%20report_Kazakhstan.pdf.

¹¹ "The EAEU Presidents did not adopt the strategy. Tokayev saw in it a "restriction of sovereign rights." Azattyq, May 19, 2020, <https://rus.azattyq.org/a/30621018.html>

Beyond trade, the PRC has also introduced an SCO technology partnership in 2016, which allowed funding to enter Central Asian states from the Xinjiang local government which has expanded technology cooperation beyond the traditional purview of anti-terrorism. Groups of Chinese scientists are now working on dual-use technologies and services in Central Asia that were previously exclusive to Russia. In 2019, the SCO adopted a roadmap to digitalization, with dozens of Chinese companies meeting with the SCO Secretary General soon after to consolidate participation. Beside maintaining capacity to address security issues, PRC-led digitalization efforts in Central Asia shaping technical standards and architecture will also help to secure long-term commercial advantages for Chinese tech companies and introduce a new form of dependency.

Local Perspectives and Implications

The PRC introduced itself to Central Asia at a time when the region faced quick decoupling from collapse of the Soviet Union. The few industries that it had struggled to continue operation due to the repatriation of Russian skilled workers back to Russia, basic supplies stopped coming, leaving most in Central Asia shocked by the sudden change. The PRC offered economic cooperation at a time when Central Asian states looked for survival, and leaders were after regime stability. Cheap consumer products coming from the PRC replaced supplies from the Soviet time. And political leaders were fed narratives that, with the PRC, Central Asia could re-transform into a key node in Eurasia – revival of the Silk Road. Specifically, the PRC promised economic development without political liberation, good governance, and social justice.

Failing to bring about such fantasy, instead, many of the Chinese funding and companies have been found in corruption cases involving all ranks of Central Asian officials. The issue of corruption has increasingly been dividing the Central Asian public and the local elites. Particularly in rural areas with Chinese investment projects, with taxes paid to the capital, the local population does not see benefits staying in the local community but instead going to corrupted officials. As well, the damage done to the local environment as a result of mining projects, which are often difficult to monitor as they are located in remote places, spark tension between local community and local officials due to the latter never following up on complaints. Dissatisfaction amongst local communities which live around a Chinese investment project have paused dozens of projects through non-violent protests, strikes, blocking of road to violent attacks such as burning down a gold processing plant.

The urban population, which does not live with and thus did not witness the issues of Chinese companies on the ground, is more concerned about economic dependence on the PRC and the lack of economic diversity and growth locally. The local business community finds a lack of opportunities to conduct manufacturing as cheap Chinese products continuously flood the market. At the same time, opportunities for entry into large-scale Chinese investment projects are limited as the Chinese companies either go solo or with a local SOE. Those politicians who engage in corruption with Chinese projects also further their political career with these funds, narrowing the space for newcomers to competitively engage in politics regionally.

What is more, amongst the urban population, there is a widely shared unsettling worry of Chinese strategic ambitions in the region. With or without intention, Beijing sends subtle reminders that parts of Kazakhstan, Tajikistan and the Kyrgyz Republic were part of the Chinese Empire at various dynasties. Despite fully resolving their border disputes, Central Asian countries find Chinese discussions, existence and use of these maps which included their territories into the PRC a concerning, though rare, practice. These issues have all fueled deep distrust of Beijing's intentions and public uneasiness about being heavily dependent on their eastern neighbour.

The issues that Chinese companies bring to Central Asia open spaces and opportunities for investors from other countries who are willing to commit to better practices. By 2050, the population of Central Asia is

expected to reach 100 million.¹² In order to grow its economy, Central Asia is in need of both hard and soft infrastructure. As the world's least connected region to global sea-based trade, shipping is expensive due to poor highways, lack of efficient cargo trains and accessibility to ports. There is large potential for international donors to profit from assisting the revival of Central Asia's logistical network connectivity with South Asia. Uzbekistan is already committing efforts to connect itself with South Asian partners, including Afghanistan, Pakistan and India. India has in recent years stepped up engagement with Central Asian states, particularly with Turkmenistan, for its energy needs.

Apart from facilitating the physical logistical network, soft infrastructures are also needed. In areas such as border management, customs rules, tariffs, anti-drug, storage, and so on, other countries such as the United States can offer knowledge-based assets. Business opportunities in other sectors are likely to open given the physical viability of doing business. As Central Asian states caught themselves in an ever more dividing global environment, the risks are outweighing the convenience of cooperating solely with Russia and the PRC. It appears that now is the turning point for Central Asia. Central Asia is embracing a magnitude of global geostrategic shift it had not witnessed. The United States can benefit from playing a significant role in facilitating economic engagement between Central Asia and South Asia, supporting allies in both regions. Under considerable anxiety, Central Asian states are likely to welcome new initiatives and partners.

Currently, the challenges for foreign businesses and governments working in Central Asia lie in the rent-seeking culture that Chinese companies and officials helped sustain. The local inefficiency of regulations and administrative processes aid to open up spaces for rent-seeking officials, who extort Chinese companies who are willing to engage in such environment. The key challenge for other foreign investors will be to navigate this rent-seeking culture, while keeping in mind the small margin of profits due to expensive logistics for export and little disposable income for domestic consumption. However, as highlighted above, the developmental path that Central Asia aligned itself with Russia and the PRC is not sustainable. There are opportunities for other countries, particularly those who are already engaging in projects developing better business environments on the ground, such as the United States, the United Kingdom, the EU, India, Japan and South Korea, to increase diplomacy work, and share their experiences on governance.

Recommendations

1. Support Central Asian Integration, and Integration to the Global System

Central Asian states, who are anxiously deciding how best to transition away from its reliance on Russia after its War in Ukraine, must be offered an alternative option instead of falling deeper in their dependency on the PRC. None of the Central Asian countries are completely comfortable with the consequence of their close collaboration with Russia and the PRC. Crucially, Central Asian states, who desire regional integration and regional integration to the global systems, should be supported and empowered.

In international affairs, as shown in the past 30 years, Central Asian states have been simultaneously and irregularly included in both European and Asian multilateral structures, summits and forums—the former motivated by the region's Soviet legacy and its continuous ties with Russia, and the latter motivated by Silk Road histories and the Belt and Road Initiative. This Eurasian identity that Central Asian countries assigned to themselves has not worked in their favour. In many areas, such as trade, cultural norms and values, it is neither integrated with Europe, nor Asia.

¹² Makhanov, Kanat. "UN Population Prospects: Case of Central Asia", Eurasian Research Institute, <https://www.eurasian-research.org/publication/un-population-prospects-case-of-central-asia/>

Driven by recent developments, Central Asian states now look to South Asia as a prime region of integration. Yet, none of these integrations will sustainably succeed without Central Asian states coming to a regional identity consensus that serves to guide norms and values in its societies, which will then dictate its developmental path, choices of partners, foreign policies, and so on. In the past 30 years, both Russia and the PRC compete in the political narrative sphere that shapes and divides this precise regional identity.

What Central Asia needs, is to be connected to the global system in a regional manner that allows the region to exploit successes and failures of other blocs' experiences. It is only through such integration that governments in Central Asia will make decisions and act with restraint with consideration of global norms and values.

Firstly, Central Asian integration should be supported where it can. For example, foreign actors should support dialogue processes to resolve existing conflicts and problems amongst Central Asian countries, in areas such as water, enclaves, and so on. As a minimal step, foreign actors can support more non-controversial regional initiatives which bring the Central Asian public together, for example youth engagement, experience sharing in animal protection, and so on.

Second, Central Asian states should be elevated and empowered as a bloc. Central Asian states fully understand the role they play in aiding the PRC to sustain its legitimacy in Xinjiang (East Turkestan). At the same time, Central Asian states are making use of this Chinese vulnerability in exchange for demands in other areas. Given the current global dynamic, Central Asian states should be empowered to re-think their transactional relationship with the PRC.

Third, connect Central Asia with the world. Kazakhstan joined the World Trade Organization only in 2015. Uzbekistan is in the process of accelerating its WTO membership. Turkmenistan only formally applied to WTO membership in 2021. Apart from supporting Central Asian integration to the global trade system through global trade organization memberships, Central Asian delegations should be included in global summits and forums in other sectors, such as civil society. By simultaneously bringing Central Asians out to the world, and creating more global knowledge and attention to the region, regional governments can find alternatives away from Russia and the PRC. Central Asian states should be exposed to case studies in countries and regions, particularly in Southeast Asia, where integration with the global trade system and compliance with global norms have resulted in economic success and strengthened local accountability.

2. Work with Asian Allies of the United States

In supporting Central Asian integration to the global system, other Asian countries can play a key role. Japan and South Korea already have strong presence in Central Asia. South Korea enjoys historical ties with the region, with roughly half a million of ethnic Koreans living in Central Asia. Korean businesses have established long-term presence particularly in Uzbekistan, where South Korea is amongst top trading partners. Both the Japan International Cooperation Agency (JICA) and Korea International Cooperation Agency (KOICA) engage in local human development work in Central Asia. In April 2022, the Japanese Foreign Minister visited Astana, Kazakhstan and asked President Tokayev to align with the world on Russia's War in Ukraine. There is large potential for the United States to jointly work with, fund and implement projects with Japanese and Korean partners in Central Asia. As well, the United States can support other Asian allies, for example Thailand, to introduce its presence in Central Asia.

3. Sustain Access to Local Knowledge for Refined Communication Strategies

On the ground, foreign governments who work on Central Asia should sustain good access to information about local developments in order to formulate appropriate communication strategies with local governments. Very few international media outlets employ correspondents in Central Asia, and if they do,

the majority work on a contractual basis. In the English-language space, only two media outlets dedicate close attention to affairs in Central Asia. Radio Free Europe is under-funded and is increasingly incapacitated by its internal competition within the Central Asian services. Eurasianet has little diversity in its senior management which does not permit growth for its writers of Central Asian origin.

Lack of international media capacity on the ground meant little global attention and understanding of crucial events that took place in Central Asia. For example, international reporting on the nation-wide unrest in Kazakhstan in early 2022 was stripped of its local context and political elements.¹³ On the other hand, Radio Free Europe and Eurasianet, with no resources to enlarge its audience, compete for a small group of Central Asia watchers. It is in the interest of foreign actors to support their own medias and maintain good access to information on the ground.

4. Avoid Isolating Afghanistan

Regional countries around Afghanistan, particularly Uzbekistan, have accepted and to some extent embraced the prospects of a long-term Taliban leadership. A stable Afghanistan will finally allow visions of Central Asia South Asia connectivity, including the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline which will solve India's energy problem and subsequently aid its development process. Rediscover Central Asia as a factor on stabilizing Afghanistan, there are many areas where facilitating exchange and interactions are possible between Central Asian states and Afghanistan.

While it is important to continuously highlight human rights problems and terrorism threats that are associated with the Taliban leadership, the United States will benefit from engaging in a new dialogue with the Taliban under these new regional circumstances. Criticizing and punishing the Taliban leadership in public will be counter-productive to developments that are brewing between Central and South Asia. Regional countries who wish to engage with the Taliban leadership should be free to do so. In the long-run, having Afghanistan play a role in the Central Asia South Asia connectivity project open possibilities of introducing global norms and values to the country. Working with the Taliban leadership in Afghanistan is possible if there is on the ground willingness to learn and gradually integrate itself with the global system, initiatives from Central Asia are a good starting point.

¹³ Couch, Emily, and Khashimov, Sher, "How Western Media Framed Kazakhstan's Protests", Foreign Policy, <https://foreignpolicy.com/2022/05/02/western-media-kazakhstan-protests/>

PANEL II QUESTION AND ANSWER

COMMISSIONER BARTHOLOMEW: Thank you very much. Interesting testimony from both of you.

We'll start our questioning with Commissioner Wong, Chairman Wong.

CHAIRMAN WONG: Thanks, I'm going to have to marinate on some of those statements, so perhaps I can ask if you can come back to me?

COMMISSIONER BARTHOLOMEW: All right, Commissioner Wessel?

COMMISSIONER WESSEL: I thank you both for your testimony, very interesting.

I'd like to pull on the thread, one of the threads that Ms. Yau, you raised, which was the reorientation of Central Asia to China.

It appears to me from, the, Russia's losses on the battlefield are turning into losses geopolitically, that this is a real opportunity for China to strengthen its position with Central Asian countries.

Could you talk about, you know, the advantages of Russia, I mean China, vis-a-vis Russia, and whether, what's currently happening with the invasion is going to advantage Chinese interests even more.

Ms. Yau first.

MS. YAU: Thank you for the question.

I think there's a couple of things here. The alignment that Central Asia has with China, has already been happening, with or without Russia's war in Ukraine.

Yes, this is going to speed up the process, and this is going to speed up the process in a couple of areas.

First, we are never going to see China stopping to expand its influence in Central Asia, for the reasons that I mentioned above.

It is in the neighborhood of China, and it is considered as the domestic interest of China, to work with Central Asia.

And, to incorporate Central Asian states in its own strategic interest, and its strategic planning in the future.

What has been happening in the past ten years in Central Asia, is that there are pushback from local leaders, and local governments, that do not want to fall into this trap with China.

I call this a trap because currently, there's only Russia and China that's working in the region.

The things that are pushing back and the moment, one, is that countries like Kazakhstan or Uzbekistan, are asking for more industrial transfer.

So, these industrial transfers are not only technologies that China have gotten from Western countries before, and now they are sending it to Central Asia, but these are technologies that incorporate indigenous Chinese technologies that China wish to start setting the technological standards in Central Asia and forward, to the West.

And, by the West, I mean in Caucasus and Eastern Europe and so on. Not necessarily the West in the sense of Europe and U.S.

The other thing that China is doing in Central Asia, is that China is hiring more local workers. And, this was again a push by Central Asian states.

So, this push of hiring local workers actually mean that in, when we are talking about China and Russia in the region, Russia depends on the millions of cheap labor from Central Asia.

As we now see that Chinese companies are more willing to hire local workers, and we now see that Chinese companies are willing to engage in a diversified portfolio of investment projects in Central Asia, we are going to see more of these Central Asian workers staying in Central Asia, and not going to Russia.

In a lot of the Chinese literature, it is clearly highlighted that Chinese policymakers see the presence of Central Asian workers in Russia, a high leverage of Russia in Central Asia. And, they are intended to change that.

Thank you.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, do you want to add?

DR. KASSENOVA: Yes, if I can add to that.

I wouldn't call the process what we have since the beginning of independence, as reorientation from, from Russia to China.

I think we saw overall diversification of Central Asian polities and economies. And, China was part of this process.

But of course, given that China is next door, given that China is, you know, is, a big market, big investor, that made it a very, kind of a very good partner for Central Asian states.

But otherwise, it's not just the Russia and the China who have a big game in Central Asia. Western investments are considerable. We are definitely looking in different, different directions.

And, well Niva mentioned Japan, South Korea, you know, Taiwan, and other actors.

Now with the war, as I mentioned in my testimonial, we still don't know how it will play out. Because on the one hand, yes, Russia is getting weaker, although that doesn't mean that there will be no, no trade with Russia.

We are too, too attached to each other. We share a lot. The links are, the links are deep and, you know, across the board.

But definitely it's weaker. It cannot offer what it could offer before, and China becomes more attractive in this regard.

And, not only China, other, you know, other actors, other actors as well. So, we are actively looking, looking around.

But at the same time, the Russian economy going down, will have a negative effect on Central Asian economies, and I hope it will not collapse in the process.

So, it's a very difficult, difficult situation. There are huge challenges, but there are also some, some opportunities.

And, there are big opportunities for further diversification of Central Asian economies at the moment. So, we are actively looking both to the West, and South.

COMMISSIONER BARTHOLOMEW: Thanks very much.

COMMISSIONER WESSEL: Thank you.

COMMISSIONER BARTHOLOMEW: Commissioner Scissors?

COMMISSIONER SCISSORS: To be blunt, Central Asia doesn't matter very much to the United States.

So when people talk about more subtle, nuanced, accurate views of Central Asia, it kind of goes past most policymakers.

Ms. Yau, I interpret your answer to Mike's question as being, there is a very important process going on between Central Asia and China, and that is more important than Russia's problems in Ukraine.

And, I know you didn't really get into like, the Ukraine matters very much. You went

back to talking about China.

Good answer. It's a nice clear answer, which is what we like in policy.

Dr. Kassenova, I don't think your answer is as clear. There are opportunities; there are challenges. Okay, that's true. Of course you're right, and of course you're right that it's too early to judge.

But I don't have to be responsible, so I won't be. I want you to tell me what you think the most dramatic possible outcome could be.

I don't mean 0.1 percent, but I don't mean 50 percent. I mean something U.S. policymakers should see, that they're going to care about, that could happen. Not that it's likely, based out of Russian losses, and trouble in Ukraine.

Because that's what's going to get people to pay attention to Central Asia in the next year, is if you say look, 75 percent chance, you know, kind of going along with less Russian presence. But there's a chance X will happen.

Is there something out there that you think is maybe not a likely event, but it's a possible event, and it would be quite impactful.

And again, I'm talking about given Russia's deteriorated position.

DR. KASSENOVA: It would be very hard to predict and to give, to give the kind of, even an approximate estimate.

One concrete thing that can happen and affect very negatively Central Asian economies, is the kind of, is the shortage of remittances.

Remittances from Russia to Kyrgyzstan, Tajikistan, and Uzbekistan are very considerable.

Now, Russian economy is in free fall. What's going to happen? And, we see the return of some labor migrants back, and the countries don't know what to do, what to do with this situation.

So, that's something very, very concrete.

Trade, it's also, will be affected, and Russian economy is under sanctions. You know, Russian businesses are closing in Central Asia.

In Kazakhstan, three Russian banks that played a very important role, they are closing. So, we'll see how that will, you know, will get affected, and how the sanctions -- we don't know how the sanctions will affect us at the moment. And, we see the delegation, delegation came here. Delegations come here from Central Asia, and they try to negotiate with, with your government.

We don't know. I'm just, I have to say honestly, I don't know. There are too many moving parts.

COMMISSIONER SCISSORS: So, in this case that you've outlined where there could be a, could be, especially the longer the conflict goes on, a fairly significant blow to Central Asian economies, or some of them.

And, this is for both of you. And, again, I know I'm being unfair, but a brief answer would be helpful.

Do you see, China has its own problems, a lot of them. The BRI is shrinking, something I'll talk about next panel.

But do you see China stepping in to provide more assistance to Central Asia, to perhaps balance this potential blow, or the Chinese saying look, you know, we'd love to help you, but we're a little bit distracted by 20 other things?

Both of you, please.

MS. YAU: I would like to just respond to the previous question.

I don't think I was being very clear about, you know, what's the most dramatic thing that could happen to Central Asia.

I think one of the dramatic things has already happened, is the fact that we are only here talking about the fate of the Uyghurs of East Turkestan right now, in 2022.

But the failure of engaging with Central Asia 20 years ago, has already cost us not having East Turkestan.

And, the continuation of not engaging with Central Asian states on the issue of Uyghurs, of the issue of East Turkestan, or of their 3,000 kilometers border, is going to cost us the future of the region. And, of whatever policy it is the U.S., and U.S. allies wants to pursue.

And, the second thing is, what the Chinese worry about in Central Asia, is the region's going to be captured by Islam.

And, this will happen especially with the new situation in Afghanistan, without a concrete policy to address this in the region.

And, to engage in a new manner of Central Asian leaders, reflective of the current circumstances.

DR. KASSENOVA: I think China will step in. There might be some debt forgiveness to the poorest, poorest states of Central Asia.

There will be more foreign aid to Central Asia, but it cannot substitute what we're losing as a result of this war.

COMMISSIONER SCISSORS: Thank you both.

COMMISSIONER BARTHOLOMEW: Thank you.

Commissioner Mann?

COMMISSIONER MANN: Yes, I wanted to ask Ms. Yau.

You spoke in your, both in your written testimony and today, toward the idea that now is the turning point. And, I wanted you to explain that more.

I wasn't sure if you were referring to the war in Ukraine and its impact, or something broader, or more amorphous.

So, could you just explain now is the turning point?

MS. YAU: Thank you.

What I mean by Central Asia is the turning point, is not necessarily connected to the war in Ukraine, but to the fact that because of the war in Ukraine, and this was a process that was already taking place, that Central Asia is looking for alternative partners.

But because of the war in Ukraine, this has sped up. So, it is now looking at partners in Iran. It's looking at partners in India. It's looking for partners in South Korea.

It is looking to deepen these ties, and this is what I mean by the turning point.

So, when we're here today talking to American audience about Central Asia, what is really important is U.S. do not go at it alone.

Because we are from the region, and we understand that in this region, there is a very high sense of anti-Americanism.

And, there is no work that the U.S. can do alone effectively in the region. It is very important to work with U.S. allies like India, U.S. allies like South Korea, and U.S. allies like Japan, who also have very large presence in the region.

The turning point that I mean here, is that in Kazakhstan two weeks ago, the Japanese foreign minister was there talking to the president about the war in Ukraine.

Additional to that, asking the president to align with world values. What it means, the

Japanese were telling the Kazakhstan president is that Japan is here.

And, today, President Tokayev is in Turkey. And, in Uzbekistan, this is a similar trend. The heads of states and the foreign ministers, are visiting various places in the world, looking for partners.

When they come to Washington, is there a will from this region, from North America, to also work with other Asian partners, is a question that I, I pose, but you don't have to answer.

But it's definitely something for considering.

COMMISSIONER MANN: Thank you.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, anything to add?

DR. KASSENOVA: Yes. Well, why is it the turning point? Central Asian states were the last to leave the Soviet Union. We have had very good relations with Russia.

Russia was a strategic ally number one for, for Central Asian states. Turkmenistan is a separate case, as usual.

So, now Russia is turning into a pariah state internationally. And, that puts us in a very difficult, difficult situation.

Because until the war in Ukraine, we had these two big neighbors, Russia and China. And, they kind of, the presence of both helped us to have some room for maneuver. So, they were kind of counter-balancing each other.

Now Russia is down and, you know, and we don't want to be fully overwhelmed by China. And, that's why we're kind of pushing for more, for more diversification, diversification now as Niva mentioned.

So, it's very, very difficult, difficult moment, and that's why I said it's even more challenging than in the early 1990s.

Because in the early 1990s, the overall international setting was very different.

COMMISSIONER BARTHOLOMEW: Thank you.

Commissioner Mann, you still have a little bit of time. Any other questions?

COMMISSIONER MANN: No further questions --

(Simultaneous speaking.)

COMMISSIONER BARTHOLOMEW: Great.

COMMISSIONER MANN: -- thanks.

COMMISSIONER BARTHOLOMEW: Thanks.

All right, Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Madam Chair.

Ms. Yau, I wanted to follow up on your response to Commissioner Wessel's question, and your statement about Russia's dependence on cheap labor from Central Asia.

And, specifically, the impact of the crisis in Ukraine on that seasonal migration. I've seen estimates as high as 8-10 million people from the Central Asian nations, worked in Russia just last year.

Which obviously reduces unemployment, eases a strain on public services, and results in these folks sending remittances to their families back home.

So, what will be the consequences of the crisis in Ukraine on that seasonal migration? What will be the impact on employment in these Central Asian states?

And, more broadly, the impact on the Central Asian economies themselves?

MS. YAU: Thank you, and I think Nargis can add on to this as well. But I've been traveling in the region in the past couple of months.

I was in Dushanbe, I was in Tashkent, I'm usually based in Bishkek, but I travel across

the region.

And, something that you can see is that even after the war, and especially right after the war, the labor migrants from Central Asia are still going to Russia.

The jobs are still there. The jobs that they have in the low-skilled workforce, is still there, and is still have this demand.

And, with the added factor that there's a lot of rumors, and there's a lot of research at the moment that is being conducted, about whether or not these Central Asians are being recruited to fight Russia's war in Ukraine, in order to get expedited citizenship in Russia.

Of course, this is an ongoing research of my colleague, so I will not elaborate on that. But the crisis on Central Asia regarding the remittances, depend on the trade back pattern between Central Asia and Russia.

Because no matter how the international currency affects the ruble, no matter how the ruble against the dollars, or against the Euros, is affected, if the trade between Russia and Central Asia still sustains, the currency of the ruble is actually not really affecting Central Asia per se. Because they already trading in rubles.

And, these trade relationships are quite isolated in a sense, from the global system. They are very, they are petty trade. They are trade of consumer goods.

They are trade of goods that are produced in Russia, selling to Central Asia. And, Central Asia selling to Russia. Vice versa.

There is the economic relationship that sustains between the region and Russia, that is isolated from the way that the ruble is affected at the moment.

COMMISSIONER GOODWIN: So, just to clarify, I may have misunderstood.

Earlier I thought you had indicated that a lot of this cheap labor that Russia depends upon, is staying in Central Asia, and not going to Russia.

And, now I thought you may have suggested that we don't see any indications of that just yet.

Obviously, it's early, but there's no indications of an impact on that seasonal migration, just yet.

MS. YAU: So earlier, I was talking about a trend that has been happening in the past five years, with regards to Chinese investments.

So, that is definitely happening. But it is not happening in the scale of millions staying in Central Asia.

We're talking about Chinese investments projects that have started in the past five years, that are in the industrial transfer sector.

So, these are things like aluminum processing, or things like uranium processing, that are keeping Central Asian workers in China.

But we are talking about 1,000 workers per project. So, as it grows, then it will scale up to the numbers that is half a million, you know, say that will stay in the region, and not in Russia.

It is a trend that has happened, but has not happened to the scale where it is affecting Russia right now.

And, right now because of the pandemic, the Chinese investments are paused in the region. So, these workers, you know, these projects are paused. Because the Chinese managers and the Chinese engineers, are not in the region.

So, these projects have been paused. And, because of that, these jobs have, you know, been paused as well. And, that's why they are still going to Russia.

COMMISSIONER GOODWIN: Thank you very much.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, anything to add to that?

DR. KASSENOVA: Well, we see that remittances are down, and that some people are coming, coming back. And, well, remittance is down and food prices are up.

Fuel prices are up, and we are still kind of suffering from the negative affect of the pandemic.

So, the economic situation I would say is quite, quite dire.

COMMISSIONER BARTHOLOMEW: Thank you.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER BARTHOLOMEW: Commissioner Glas -- oh, Carte, did you have another question?

COMMISSIONER GOODWIN: No, that was it. Thank you.

COMMISSIONER BARTHOLOMEW: Okay, great.

Commissioner Glas?

VICE CHAIR GLAS: Yes, thank you to you both, and thank you Chairwoman Bartholomew.

Ms. Yau, I wanted to start with you. You talked a lot about the further integration between the Central, the workers that, picking up on Carte's comment.

But I wanted to talk about the economic implications of this integration, and what risk, you know, given the fact that these trade relationships are deepening substantially.

What kind of economic risk does that pose to manufacturing, or industries here in the United States, thinking through our recommendations for the end of the year?

I know both of you have recommended deep, more deep engagement. But are there some key take-aways that we should keep in mind, based on your analysis?

MS. YAU: I think for the U.S. when looking at Central Asia, and looking at China and Central Asia, the key, the key lens is still going to be thinking from okay, the relationship of the U.S. and China, right.

So, the fact that Central Asia is one of the many places that feed raw material to China, and sustains the Chinese economy, in terms of having access to cheap raw material, and these are raw materials that are essential.

For example, we're talking about crude oil from Kazakhstan, that feeds directly into the industry centers, and the manufacturing factories in Xinjiang, East Turkestan.

And, we're talking about natural gas flowing from Turkmenistan into China, that is the 40 percent of Chinese import gas. Globally, 40 percent is from Turkmenistan.

So, these are the economic engagement that China sustains in the region, that is crucial to the Chinese economy.

And, in that respect, it is crucial when thinking about U.S. relationship with China, right.

So, oil and gas really is the, is the real commodity that's being traded. It's about 80 percent of the regional trade with China. But there are also a lot of other key materials.

So recently, this was a negotiation that was, you know, in the past 15 years, is to have, is to grant Chinese access to Kazakhstan's largest, and one of the world's largest uranium reserves in the eastern part of Kazakhstan.

So, the Chinese interest in the uranium field in Kazakhstan, is meant to be to feed the nuclear batteries that will be made in China.

So, when you think of projects like that isolated of, you know, as a Chinese project in Kazakhstan, it doesn't make any sense.

But if you think about what this uranium fuel will do to the Chinese economy, to the

Chinese society, growth of the sustainability of energy security, and through that, the relationship with U.S., then it makes sense why this Chinese project in Kazakhstan is important.

And, it's important to look at it. It's important to look at the loans. It's important to look at the terms. And, it's important to look at the technical standards that are being imposed right there in eastern Kazakhstan.

So, when we think about economic engagement that China's doing in Central Asia, it is really, should be through such a prism.

And apart from of course, the oil- and gas- rich countries like Kazakhstan, Uzbekistan, and Turkmenistan, then we look at the smaller countries like the Kyrgyz Republic, and Tajikistan.

And, we can see that half of these countries' foreign debts, are to state Chinese banks.

And, these are two countries that share mountainous borders with China, that China has already a lot of security engagement at those borders.

Cameras, wires, fences. That it is actively working with border guards in those two countries.

You then look at how this economic engagement, these loans, actually being translated to other engagement in the military sector. In the security sector. In the multilateral sector. In deporting ethnic minorities back to China.

And, all of this then matters in a sense that the economic is the vehicle in which China impose other strategies.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova?

DR. KASSENOVA: Yes. I would say that the security engagement was primary, actually. So, and then they went and kind of together. As a complex.

But what I want to say is that, of course the economic importance of Central Asia for the U.S. is very limited.

We are small, small markets. Of course there is some, well, there is oil, there is gas. There are some opportunities for U.S. tech companies. There are some opportunities for U.S. agribusiness companies.

But the primary, I think the primary importance of the region, is geopolitical because of its geostrategic location.

You know, we're next with Russia. We are next to China, to Iran, and, you know, to this southern corridor, and neighbors of neighbors of the European Union.

So it's Eurasia. It's a Eurasia issue.

COMMISSIONER BARTHOLOMEW: Thanks very much.

Commissioner Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much.

If I understand, both of you are describing a situation I think in the following way.

Russia's influence is likely to diminish, at least in the short term, because of what's happening in Ukraine, and perhaps it's been diminishing gradually over time, over the last 20 years or so.

In any event, China's influence is likely to increase, and the Central Asian countries as you describe it, have an interest therefore, in diversifying their connections outside, so as not to fall fully under the influence of China.

So first, I guess, my question would be, is that correct?

But then, two questions. One, what leverage, or what tools, do outside countries, particularly democratic countries, have to influence events in those places?

And, I think this is following up on Dr. Kassenova's comment. Are we really going to buy much more of what's produced in those places? Are we really going to make substantial commercial investments there? Are we really going to offer large quantities of aid?

It's not clear to me what the tools are. That's first.

And second, and I think this is something Ms. Yau, you emphasized but I'd be interested to hear what both of you have to say about it. This idea of North-South connectivity.

The notion that if you could build pipelines, and other forms of infrastructure that would run to the south, down through Pakistan, through India, out to the Indian Ocean, you would solve India's energy problems. You would give these Central Asian countries another outlet for their products.

It sounds great, but aren't the obstacles to that insurmountable at this point, in part because of what we heard this morning about Afghanistan?

So, Ms. Yau?

MS. YAU: I think this is why one of my last recommendation is avoid isolating Afghanistan.

Because there are countries, and there are leaders in Central Asia that want, and willing to work with the Taliban leadership.

And, they are banking on this North-South connectivity precisely because they want to get rid of dependence on China.

So, at the moment, there's a lot of things that can be done. I mean, American policy in Central Asia, has been about this North-South connectivity as well.

But the reason why it hasn't fall through, is because of Afghanistan. But this has changed.

With Central Asian willingness to work with the Taliban, and without public criticism of what the Taliban leadership is in the process of pursuing, keeping in mind that there are other objectives that can be achieved working with the Taliban leadership.

North-South connectivity can bring a whole region together, to a time when it was before the Russian Empire's intervention in the region.

There used to be a lot of ties and histories, between Central Asia and South Asia. India now, really, is discovering that.

The head of state was the first head of state to meet the new Turkmen president just a month ago.

The Turkmenistan-Afghanistan-Pakistan -India pipeline is very important for the two countries.

Because even the Turkmen leaders understand that potential sanctions on China, would devastate its economy, after experiencing, you know, a sanction on Russia, sanction on Iran, that devastated Turkmen income on the gas trade.

So even they understand that working with India is important. They understand that this pipeline is important. And because of that, they are willing to work with the Taliban leadership.

This should not be disrupted, because it is in the interest of the local governments in the region, to work together.

And, I think the security issue that are in Afghanistan, can be managed. And, this is something that is already heavily discussed in Central Asia between the Central Asian governments, and with the Taliban leaders.

I think North-South connectivity can happen. And, before China is already right now talking about infrastructure investments, and roads, and electricity, in Afghanistan, there are

international organizations, international financial institutions backed by the U.S. and its allies, that can also work on that.

There are alternatives like Indian companies, Pakistani companies, or other companies, that are also equipped to do the job.

COMMISSIONER FRIEDBERG: So, what you envision is Western, or democratic investment in this North-South infrastructure? That this is how it's going to get built?

MS. YAU: In terms of hard infrastructure, yes. We need the hard infrastructure right now. There's no highway. There is no, there is no highway. There is no electricity even, electricity transmission, right.

So, that has to be done first. But while you're doing that, and what's more important while doing that, is building the soft infrastructure, like custom rules.

Incorporating the new Taliban leadership into the global system. Having them join -- very early to talk about this, but having them join institutions into the World Trade Organization. Having, incorporating the Taliban into systems like that.

It's important to at least start thinking about, and put that on the table as well.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, anything quickly to add?

DR. KASSENOVA: Yes. On the tools, can I make a couple of points on the tools?

I think that the first tool is the political engagement and dialogue. And, for example, in Kazakhstan, which is you know, one of the most important countries in the region. There hasn't been a U.S. ambassador for months, for months already. And, nobody's nominated.

So, and there is a healthy respect for the U.S., and its position in the world. So, that's something that will be appreciated.

The second is facilitation of investments, and trade. And, the third would be development assistance, and support for reforms. So.

COMMISSIONER BARTHOLOMEW: Wonderful. Thank you.

Going to move on to Commissioner Fiedler.

COMMISSIONER FIEDLER: Just a quick question on the citizen attitudes towards Chinese in Central Asia.

Has there been any polling, or is there any other indications, of any animosity towards the Chinese?

MS. YAU: The exact numbers are somewhere between 20-30 percent. There is a, there are great survey organizations in Central Asia, that does regional polling on China.

And, the figures in which the public find Chinese engagement threatening, this figure is rising.

And, the favorable view on Russia, is also slightly decreasing as well.

COMMISSIONER FIEDLER: Well, I mean what are, let's take Kazakhstan for instance. Do you have any recollection of the Kazakh numbers?

COMMISSIONER BARTHOLOMEW: You know Jeff, maybe this is better that we ask this question for the record, so that they can provide some data for us.

COMMISSIONER FIEDLER: Okay.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, did you have something you wanted to add?

DR. KASSENOVA: Yes, I don't remember the exact number.

COMMISSIONER BARTHOLOMEW: Okay.

DR. KASSENOVA: So.

COMMISSIONER FIEDLER: Okay.

COMMISSIONER BARTHOLOMEW: Jeff, anything else?

COMMISSIONER FIEDLER: No.

COMMISSIONER BARTHOLOMEW: Okay, Commissioner Cleveland?

COMMISSIONER CLEVELAND: Thank you, this has been really interesting testimony. I very much appreciate it.

I just want to start by saying, I'm not sure I agree with Dr. Scissors' characterization of the irrelevance of Central Asia. I think that we have to be careful sort of country-by-country.

The model that China's exporting, whether it's authoritarian and related to surveillance, or exporting their standards when it comes to transportation, and the role that SOEs play in terms of corruption and exporting, or relying on loans that, at a non-competitive rate.

So, who would have thought Ukraine would be playing the role that it is, in terms of global turmoil?

So, my question is really, really specific for the two of you. You've talked about loans, you've talked about terms, and investment in Kazakhstan.

I read an interesting book by Suzanne Levi-Sanchez, about Tajikistan and Afghanistan, and Badakhshan.

And, she talks a lot about the kind of investments that Russians and Chinese companies have made. The quality of the investments.

So, I wonder if you could talk about when China or Russia builds a bridge, when they build a road, when they invest in infrastructure, and this may build on Jeff's question, what is the quality of the project?

Who benefits? Is it sustainable? Does it meet any kind of global standards when it comes to environment, or quality control?

So, could you address sort of the more micro-level investments, that China and Russia are making in Tajikistan and Kazakhstan, in particular?

MS. YAU: Okay, I'll go first, and I'll be really quick.

So, the quality of projects are almost correlated to whether or not it's financed by a Chinese state banks, or international financial banks.

So, when it's a project funded by World Bank, or Asian Development Bank, for example, even though they contract a Chinese projects, Chinese companies, the Chinese companies still have to abide to the international standards.

But when the funding comes from a Chinese state bank, no one is checking. The local government's not checking; the Chinese side is not checking; the local community is angry, but no one can do anything about it, because the funding comes from Chinese state policy bank.

And, this is the real problem.

Now, so with that, the quality of projects are different depending on the banks, and depending on where.

In Tajikistan, these infrastructure projects, a lot of them are actually backed by international financial banks. And, they are, quality is quite good, to be honest.

But in Kyrgyzstan, where the Kyrgyz leaders have taken a lot of state Chinese policy loans, on the other hand, these projects are unchecked.

And, these roads are cracked after two years. And, the power plant fails after a year into remodernization that left millions, two million of people in the capitol, freezing cold in the winter, in -20 degrees.

So, it really depends on the loan structure. That's very important.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova, anything to add?

DR. KASSENOVA: I agree it varies on the company, but I wouldn't say that all SOE projects are bad, bad quality.

There are some quality projects carried out by Chinese companies. And, I would say they are getting more and more concerned with the standards, ESG, and, you know, all that.

So, there is progress there, and they're also getting more concerned with the corruption. And, we saw some projects revoked on those grounds.

And, Russia doesn't build infrastructure. That's, you know, there are bridges and things like that. This is not Russia building.

COMMISSIONER BARTHOLOMEW: All right, thanks.

Robin, any follow up?

(No audible response.)

COMMISSIONER BARTHOLOMEW: No? All right, Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you.

I want to start just by saying that the two of you have done just a phenomenal, impressive, courageous job of demonstrating that there's a problem in your area of the world.

And, you're coming here and saying even though generally speaking, our folks don't like you, here's a great way that you can bring us into the fold, in the long run.

And, I think someday if there's ever a great improvement over there, I hope the people in your area of the world remember what you said.

Secondly, I've learned in the time that I've known Commissioner Scissors, that sometimes he's a contrarian. And, what he says, isn't exactly how he feels. He's challenging you.

And, I think he did that. I don't know what he actually thinks on this issue, but I know that he presented it in a way that got you to respond forcefully. And, it made a big impression on me.

And, so my question is, and I thought you laid out this entire idea of the North-South pipeline, and what it could do for everyone, in a very cogent way.

So, my question is, if you are successful in convincing America that it should work with Japan, and India, and other countries that theoretically, people have some credibility in your country with, do you believe that your folks, how do they feel about Japan, India?

And, how would they feel if suddenly, America was a part of that, and was really going to begin to pursue what you're suggesting? What would the reaction be at home?

Either one of you, or both.

DR. KASSENOVA: Well, I have to say that diversification is, you know, it didn't start today, right?

It has been the game since the beginning of independence. So, for three decades, Central Asian states have been trying to diversify.

Now that the urgency of that is higher because of the, you know, what's happening with Russia and the war in Ukraine, and Japan has been active in the region from the early '90s.

South Korea has been active in the region from the early '90s. Turkey, Iran. So, we have these established connections. It's not anything we need to build from scratch.

So, these relationships are there, and they can be drawn upon. That's why things are happening very fast now, right.

Niva mentioned the trips to Turkey, and you know, all these conversations that, that we are having.

So, it will not be difficult to build the coalitions. And, there is a great complementarity between you know, what U.S. is trying to do with the BRI, and China. And, Japan.

There is a, I don't know what's happening to it now, the Blue Dot Net. But basically, that there is some coordination and cooperation.

And, I hope that it will kind of, it will become more forceful, forceful now.

The reaction, Central Asians will be very happy if, if there is more. Yes, more help in this regard.

COMMISSIONER BOROCOFF: Thank you.

Ms. Yau?

MS. YAU: Yes, I think overall, any of the Central Asian regime right now, would jump on the idea, you know, to be more connected to, to South Asia.

And, they are welcoming a lot of initiatives. This is the right time to do more, because is available now. Is stabilizing, and they need it.

And, a lot of the talk is going to be led by India, because India was not too much concerned about this.

But now it has really come to see its energy security to be tied to Turkmenistan, and this pipeline.

And, I think this shift in Indian policy, foreign policy, towards Central Asia, is going to be very much aligned with American interests.

COMMISSIONER BARTHOLOMEW: All right, Commissioner Schriver?

COMMISSIONER SCHRIVER: Thank you.

I want to associate myself with other commissioners who underscored the importance of Central Asia. I think it is important.

To say something is less important than other regions, is not to say that it's unimportant.

But where I do think Commissioner Scissors has a point, if you look at where policy is actually made, Senate confirmed appointees, and higher ranking people, you'd be hard pressed to find expertise.

And, you'd be hard pressed to find somebody who can articulate, you know, very well what our interests are, what the challenges are, et cetera.

So, there's a point here about needing the expertise of people like you, to sort through what our priorities should be, and where the opportunities and challenges are.

And, so with that in mind, I want to ask. One thing I'm quite certain most Senate confirmed appointees can't do is, is even really disaggregate.

We talk about Central Asia, or maybe the more sophisticated ones can say Central Asia minus Turkmenistan.

But the reality is, most of our engagement is bilateral. It's, you know, there hasn't been a lot of, there's not sort of the ASEAN engagement parallel, or, you know, nowhere near EU level. So, we do disaggregate in our actual engagement.

And, so what I want to ask is either with partners and allies, which I think was a very excellent observation, thank you for making that, Ms. Yau, Central Asia minus Turkmenistan, four countries left, where even with our limited tools, limited time and attention, limited resources, should we prioritize?

I would have said a year and a half ago, Uzbekistan, Kazakhstan, but now, you know, things are in motion because of Ukraine, because of political strife in these countries.

So, you know, if you disaggregate and then prioritize, can you tell us where the real opportunities are on a bilateral basis?

DR. KASSENOVA: Actually, the U.S. has a platform. There is C5+1 platform for cooperation with five Central Asian states.

And, I wouldn't cut out Turkmenistan so completely, because it's also an important transit, transit zone for us because it's connecting us to Iran, and Southwest.

But in terms of kind of potential, I would also think that Kazakhstan and Uzbekistan continue to be the kind of, the primary targets, yes.

Because they have the capacity. They have the capacity to work on it, and they are actively pushing for, for this.

Because they don't want to, you know, to fall into the fold of Russia. Or China.

I'm a little bit skeptical, if I can say, like one sentence on the southern route. I'm a bit more skeptical than Niva on that.

I think it would be great if there is some trade in this direction, if the U.S. doesn't block the cooperation.

I cannot foresee the U.S. investing in Afghanistan, you know, and all these rules. And, but not blocking, that would be already an improvement.

And, I think for us, more promising are the corridors via Turkey, and via Iran. This would be the kind of really, truly promising ones.

MS. YAU: I think the problem that U.S. faces with only being able to bilaterally engage with Central Asia, is also the problem that China faces with only being able to really engage bilaterally the most, with Central Asian states.

And, this problem stems from the fact that there is very little regional integration in Central Asia.

There are legacies that are left behind from the Soviet Union. The borders, the waters, the enclaves that are, you know, still creating local level conflicts among Central Asian states.

But this has also changed in the past five years. Apart from, you know, diversifying, you know, foreign partners, Central Asia now amongst themselves, also see the importance of integration.

Because they also see, you know, the experience of ASEAN. They also see the experience of Europe, that, you know, binding together and having integration regional, is really important.

So, supporting that effort in, you know, regional integration in non-controversial areas, is very important at a government level.

But also as a social level, people from Uzbekistan, needs to see people from Kyrgyzstan. People in Kyrgyzstan needs to see people from Tajikistan at a youth level, at a woman's entrepreneur level. All of this is lacking and is very important to support.

As for priorities, it's very hard to pinpoint which exact country is the most, or should be the most, important to the U.S.

But I would just add to what Nargis was saying about the, the southern routes. I think so these are recommendations for the U.S., right.

So when I'm recommending the U.S. to connect Central Asia to India, because India is a U.S. ally. Iran is not.

Iran is a Chinese ally, and because of that, China is connecting Central Asia to Iran, so that it can connect Iran and China, through Central Asia.

But for the U.S., connecting Central Asia to India, is a different matter.

COMMISSIONER BARTHOLOMEW: All right, thank you.

My turn, and I'll be the last one to question, and then we're going to break for lunch.

First, a factual question, and then I'll tell you what my bigger question is before I ask the factual question.

And, that is the capture of local elites by Chinese companies, or the Chinese government.

Particularly, Ms. Yau, I'm thinking about the use of Chinese technology, as a way to surveil potential opposition, crack down on potential opposition.

But you had mentioned the gap between local elites, and people. And, I wondered if you could just expand on that.

But first I have a factual question for you, which is, if I understand what you said, you said that people are, that people from Central Asia are not leaving Russia to go back to Central Asia? Or they're continuing to migrate to Russia for economic reasons?

Everything I've read said that people in, the Central Asians in Russia started leaving during the pandemic. And, now because of sanctions, the economic opportunities in Russia are squeezing.

And, so I wondered, did I mishear what you were saying?

MS. YAU: So on Central Asians staying in Central Asia, was a trend that happened before the pandemic, when Chinese investments are diversified in the region.

In that sense, they are hiring more local workers, so that --

(Simultaneous speaking.)

COMMISSIONER BARTHOLOMEW: In the region is what you were saying?

MS. YAU: In the region.

Yes, they were hiring more Central Asian workers in Central Asia, so that in the long term, if this trend keeps amplifying, then Central Asian workers will not go to Russia, to the scale that it is now.

And, we have quite actually conflicting statistics, on how many Central Asian workers are actually in Russia.

Because the statistics come from migration letters, custom data, and also it comes from the remittances, which is also affected by, you know, the economic situation. So, we don't know at the moment, how much is that actually being affected.

But what I personally have seen from the ground, from the airports, from my networks, is that a lot of these people are still going to Russia.

Even when I was crossing the land borders and I was talking to, you know, men that are also crossing the border from Dushanbe to Samarkand, and I was asking them where are you going. They said Russia.

And, so it is still happening. We don't have the exact numbers because it's very hard to, you know, do statistical work in the region.

But, you know, there's no sense that this is no longer happening because if it's really no longer happening, then we will see millions of men that are appearing in the region. And, this is not happened.

And, on your question on local scene, you know, there's polarization between locals and the local elites.

This comes from fact that, you know, there is so much corruption between Chinese companies, and local elites.

And, the locals can see that even in places that does not have, you know, much press freedom. Like, Tajikistan, or Uzbekistan. Locals still see that.

Because they see Chinese company. They see Chinese managers and workers, working in their land. Working in their community. But they don't, they see zero benefits.

And, they see at the same time, these elites are getting richer. They're having nice cars; they're having nice houses.

And, through that association, they can see these elites are in Chinese pockets, and they're not happy with that.

COMMISSIONER BARTHOLOMEW: Dr. Kassenova?

DR. KASSENOVA: Well, corruption is not an imported problem in Central Asia. It's our problem, and, well, Chinese money is not the only money that is corrupting, corrupting our elites.

We had corruption scandals having to do with U.S. oil companies. We had corruption scandals having to do with European companies.

So, it's not, you know, kind of an exclusive product of China. So, I think Chinese companies, they kind of, they work in local contexts.

And, the context is not very good at the moment. So, we do have a problem in that department.

I wouldn't call it, the what we have like a capture of local elites. Maybe partial capture of local elites. But it's all very contextual.

So, you benefit today, you kind of, maybe you kind of try to do a favor. Tomorrow the situation might change.

And, if we look at these millennia of interactions, that's the kind of behavior by Central Asian elites we've seen. We saw. We saw in the past.

They would change, you know, change sides depending on the circumstances. Paying allegiance to the, you know, to the Qing emperor one day, you know, redirecting on the next day, so.

COMMISSIONER BARTHOLOMEW: Understood. Thank you both very much.

With that, we're going to break for lunch. But we really appreciate your, the time and the expertise that you brought to this.

And, I will associate myself with Commissioner Schriver, and disassociate myself with Commissioner Scissors.

I do think that the region is important, and I think that any place that also people are fighting autocracy, is an important thing.

So, thank you very much and we'll break and we'll be back at 1:20.

(Whereupon, the above-entitled matter went off the record at 12:28 p.m. and resumed at 1:20 p.m.)

PANEL III INTRODUCTION BY COMMISSIONER RANDALL SCHRIVER

COMMISSIONER SCHRIVER: Let's come to order here and begin our third panel.

So for our third panel we are going to shift our focus to continental South Asia and examine China's competition with the United States and India for regional influence.

First, we will welcome back Dr. Tanvi Madan, the Director of The India Project at the Brookings Institution. Dr. Madan's work explores India's foreign policy, particularly its relations with China and the United States as well as the development of interest based coalitions. Today Dr. Madan will provide an overview of U.S. China competition in South Asia.

We will then hear from Dr. Jagannath Panda, the head of the Stockholm Center for South Asian and Indo Pacific Affairs at the Institute for Security and Development Policy. Dr. Panda specializes in India's relations with Northeast Asia as well as EU infrastructure and initiatives in the Indo Pacific. He will address the Chinese government's coercive measures against India along their disputed borders along their disputed border, as well as Chinese efforts to build strategic influence in countries near the China India border.

And, finally, we will hear from Mr. Akhil Bery, the Director of South Asia Initiatives at the Asia Society Policy Institute. Mr. Bery's research focuses on the U.S. India relationship and developments in South Asia more broadly. He will discuss changes in the China India economic relationship.

And, Dr. Madan, I understand you are joining us virtually from down under. And we appreciate in particular you making the time for us, given the time change. And we'll begin with you.

OPENING STATEMENT OF TANVI MADAN, DIRECTOR OF THE INDIA PROJECT, BROOKINGS INSTITUTION

DR. MADAN: Thank you, Commissioner Schriver, Co-Chairs Bartholomew and Schriver, members of the Commission, and staff. Thank you very much for the invitation to testify on China's influence in South Asia.

Over the coming years, this is a region that will be both the venue for and the source of intensifying China U.S. and China India rivalries, with the latter likely to have greater impact on the region.

China is not a newcomer in South Asia, but its activities and its influence here have increased considerably. Its engagement in the region has been driven by Beijing's broader economic and strategic interests. It precedes the Belt and Road Initiative, but that initiative reflects and has driven an acceleration in China's activities and in its desire to seek increased influence in South Asia.

The nature and extent of China's ties across the region varies. Due to their ongoing boundary crisis, China India ties are at their lowest point in decades. This relationship has some elements of cooperation but is largely characterized by competition, and as the fatal military clash in 2020 demonstrated, even conflict.

On the other hand, Pakistan is one of China's closest partners. To Beijing, this relationship initially represented containment on the cheap. By strengthening Pakistan's capabilities, it kept India tied down in South Asia.

That strategic rationale remains today, but now with economic ties accompanying the deep Sino Pakistani military and diplomatic ties, Chinese engagement with Bangladesh, Nepal, Maldives, and Sri Lanka has also grown across domains – diplomatic, economic, defense, technological, public diplomacy, and even political.

In addition to its bilateral interactions, China has convened dialogues with South Asian states, such as on COVID 19, and participated in or hosted discussions related to developments in Afghanistan. These mechanisms have tended to exclude India.

China's involvement in the region has not been without setbacks as we have seen in Pakistan, Sri Lanka, and Nepal recently, but it has had both push and pull elements. That is, this engagement has been sought, or at least welcomed, by many countries in the region.

For them, China provides economic and military resources that others will not or cannot, particularly at the base and scale and on terms that Beijing offers. Moreover, the China option gives them leverage with other major powers. The U.S. China and India China competitions have brought more South Asian states greater attention from all three powers, and the opportunity for them to play one off against the other to maximize gains in their own strategic and even political space.

The ties of all of the South Asian states with China have shaped their engagement with the United States. For instance, Delhi's concerns about China, many of which are akin to Washington's, have led it to a much closer relationship with the U.S. and better U.S. India management of differences, including on China.

Delhi's particular anxieties about Beijing's growing presence and influence in South Asia and in the Indian Ocean region have also led it to a more tolerant, if not welcoming, attitude towards American power and presence in the region, something it earlier resisted.

Beijing, on its part, largely sees the U.S., and particularly its ties with India, as part of the Chinese challenge of China's challenge in South Asia, and it sees most American actions, alone

and in conjunction with other powers in the region, as complicating Chinese interests. Beijing has largely dissuaded the smaller South Asian states from deepening ties with the U.S. and sought to curb influence American influence in the region.

In the past, China has cooperated or consulted with the U.S. in response to crises in South Asia. However, the U.S. China competition has been changing this dynamic, too. During the 2019 India Pakistan crisis, for instance, Washington saw Beijing as playing an unhelpful rather than stabilizing role in the crisis. China has also approached COVID assistance in the region from a competitive rather than cooperative lens.

Intensifying Sino U.S. competition has, in turn, changed views in Washington of Chinese activities in South Asia, with greater concern today about what we have earlier seen as benign or even beneficial initiatives such as the China Pakistan Economic Corridor.

Growing concern about China's expanding influence, along with the inclusion of South Asia and the Indian Ocean region into the Indo Pacific region, has also resulted in greater American attention and assistance to the region. This increased engagement should continue. American expectations and approaches in South Asia, however, will have to be tailored, given the diversity of opinion there on China.

With more like minded India, the U.S. should seek to increase the scope, scale, and speed of alignment, discuss and clarify expectations regarding potential contingencies, including related to Taiwan and the China India border, and manage or resolve differences on the region or on China.

Vis à vis Pakistan, U.S. expectations will have to be more limited; that is, minimizing the support that Islamabad might offer China or finding ways to mitigate the consequences of that support.

With regard to other South Asian countries, if alignment isn't on the table, then their non alignment is the next best option; that is, ensuring that they maintain a balance rather than bandwagon with or support Beijing.

Second, and relatedly, in South Asia and elsewhere in the Indo Pacific, Washington will need to develop strategies for dealing with the new nonaligned in the context of the intensifying U.S. China competition. These states are unlikely to be attracted by, and might even be rebelled by, a with us or against us framing or a democracy versus autocracy framing or messaging focused on countering China and/or by efforts to punish them for their nonalignment.

And they will not just want to be seen through a China lens. Instead, the U.S. and its like-minded partners must see these countries in their own right and be responsive to their priorities. They will need to offer substantive solutions and alternatives to these countries proactively and not just wait for China to make mistakes.

In the U.S. context, this will require Congress resourcing at the Indo Pacific lines of effort, including those in South Asia, and continued engagement with these countries even as the European theater demands American attention.

Also beneficial will be thinking across bureaucratic seams and better integrating South Asia into the larger Indo Pacific whole. In addition, in the near term, any steps that the U.S. can take alone or with its partners to mitigate the adverse economic energy and food security concerns of the Russia Ukraine crisis for South Asian countries would be helpful.

Finally, U.S. efforts in this region would benefit tremendously from investing in the development of a better understanding of the strategic, economic, and political landscape in South Asia and the Indian Ocean region as well as in China's regional interests and attentions

there.

Thank you.

**PREPARED STATEMENT OF TANVI MADAN, DIRECTOR OF THE INDIA
PROJECT, BROOKINGS INSTITUTION**

Testimony before the U.S.-China Economic and Security Review Commission
Hearing on China's Influence in South and Central Asia

Tanvi Madan

Senior Fellow, Foreign Policy & Director, The India Project, The Brookings Institution¹

May 12, 2022

Co-chairs Bartholomew and Schriver, members of the Commission and staff, thank you very much for your invitation to testify on China's influence in South Asia.

China is not a newcomer in South Asia, but its activities and influence in the region across a range of domains have been increasing in recent years. Just in the last two years, the region has garnered more attention from Beijing for several reasons including a China-India boundary crisis, the US withdrawal from Afghanistan, concerns about the safety of Chinese citizens in Pakistan, the challenges and opportunities that COVID-19 has presented for Chinese interests in the region, as well as growing interest from other major powers, especially the US, in South Asia and the Indian Ocean region.

The US and India on China: Alignments

Over the last decade and a half at least, as Washington and Delhi's relationships with Beijing have soured, their own bilateral ties have deepened. This is not a coincidence. The US and India's strategic convergence vis-à-vis China and in the Indo-Pacific has been a key driver of the US-India relationship. This has led to closer ties, and to incentivizing the two capitals to manage their differences more effectively.

Both countries have had relationships with China that have involved elements of cooperation and competition, though in different proportion at different times. In recent years, the competitive dimensions have dominated in both the Sino-Indian and Sino-US bilaterals. Even as the US-China relationship has moved toward strategic competition, India's relationship with China has deteriorated due to a boundary crisis that started in 2020 and continues to this day. Former senior Indian officials have described the current state of the relationship with China as one of armed coexistence. Nonetheless, like the US, India also continues to maintain economic ties with China, albeit at a smaller scale, and Delhi seeks to cooperate with Beijing on some issues.

Washington and Delhi have shared, though not identical, concerns about a rising China's capabilities, intentions, and actions. Both believe the challenge is a cross-domain one, spanning geopolitical, economic, technological, and ideological dimensions. Their concerns include the nature and extent of Chinese involvement and influence in the Indo-Pacific, including in South Asia. They worry that Beijing seeks a unipolar Asia dominated by a China that sets the terms. And they see China's recent behavior as the major challenge to their vision of a free, open, and rules-based region, and as hindering US and Indian interests.

India shares several US concerns about China, including its growing military and technological capabilities and expanding footprint in the Indo-Pacific. Delhi, too, worries about Beijing not following through on commitments it has made, and its unilateral changes to the status quo with the

¹ The views expressed in this testimony are solely those of the author. The Brookings Institution does not take institutional positions.

threat or use of force, whether in the South China Sea or along the China-India border. The two countries are also aligned on several economic differences with China, particularly the lack of reciprocity in this domain. For both, friction points with Beijing include large trade deficits, limited market access, intellectual property theft, preference for state-owned enterprises and the blurring of public-private sector lines, and forced technology transfer.

Delhi and Beijing also worry about the nature and effect of Chinese economic engagement in their own countries, as well as in the broader region. In South Asia, and indeed the broader Indo-Pacific, both believe that Chinese economic involvement is exacerbating, among other things, unsustainable debt burdens. And they see Beijing as using economic leverage—and even coercion—for strategic and political ends, including curbing American and Indian influence in the region.

These concerns, and an understanding that the challenge cannot be tackled alone, have led to a closer relationship between the US and India. The past several US administrations have envisioned India as a geopolitical counterbalance, economic alternative, or democratic contrast to China. And this has contributed significantly to their view that, as a result, India's rise is in American interests and worth supporting. India, too, has seen the US as crucial as it manages its China relationship. Delhi believes that its ties with the US have at times served as leverage, with Beijing taking India more seriously in part because Washington does. In addition, the US has directly and indirectly helped enhance India's military, economic, and technological capabilities. And it is a critical node in India's network of partnerships that is designed to help maintain a favorable balance of power in the region.

The parallel US and Indian competitions with China have also led to American assistance to India in recent Sino-Indian crises, which, in turn, has increased Delhi's willingness to deepen the partnership with the US. During the 2017 Doklam crisis, Washington provided some rhetorical support and behind-the-scenes assistance (including, reportedly, through intelligence-sharing) to India. Military equipment that India purchased from the US also improved its ability to respond to Chinese activities at the boundary during the crisis. P-8I reconnaissance aircraft, for example, provided India a better picture of Chinese deployments. During the 2020 crisis, US support for India was more visible. Rhetorical support included criticism of China from the Trump administration and both sides of the aisle on Capitol Hill. In 2020, assistance to India also reportedly included the fast-tracking of certain equipment and intelligence sharing. The Indian military also extensively deployed equipment acquired from the US during the crisis. Trump administration officials were in regular touch with their Indian counterparts at the height of the crisis. The Biden administration has continued these consultations, and also continued to criticize China's "aggression on the border with India."

US-India alignment on China has also led to cooperation beyond the bilateral domain. This is perhaps most evident in the revival and deepening of the Quad, but also involves increased engagement via other minilaterals and in regional and multilateral institutions.

The US and India on China: Misalignments

The American and Indian approaches on China are not, however, entirely aligned. This is, among other things, a function of geography, the nature and extent of their relationships with China, regional commitments, and differences in how they see the balance between values and interests.

India, for instance, worries less about the ideological dimensions of the China challenge. Delhi does not dismiss the impact of the nature of the Chinese regime—Beijing's handling of COVID-19 and the lack of clarity about its motivations for the 2020 boundary crisis have made the adverse effects evident to Delhi. However, if one considers the spectrum of objectives debated in the US, Delhi would be more aligned with those arguing that the goal should be to shape the environment in which China is operating to deter it from adverse actions rather than regime change in Beijing. They are also more reluctant to frame the competition as one of democracies versus autocracies, in part because they believe that will exclude potential partners in the Indo-Pacific, including in South Asia.

In addition, there have been differences between the US and India on the question of how far and fast to compete with China, though these have narrowed somewhat recently. In Washington, there has been a sense that India's desire not to provoke China has limited its cooperation with the US and other countries. Delhi, on the other hand, has been concerned about blowback from Beijing if India is seen as a US ally. It often reminds interlocutors that its prism and range of options is shaped by the reality of being China's neighbor. Nonetheless, Delhi has overcome some of its reluctance as China has become more assertive, for instance, deepening its defense and security ties with the US, and including Australia in the India-Japan-US MALABAR naval exercise. And, while India remains less willing than the US to call China out by name, in some cases, India has gone further than the US. For instance, imposing restrictions on Chinese investment in the country and banning Chinese apps.

The US and India's different speeds and styles can lead to disappointment and doubts if not handled with care, as can the G2-A2 problem. The first involves concerns in India that China's relevance to key American priorities or a US desire to focus on other domestic or foreign policy priorities will lead to Washington making concessions to Beijing or to a US-China condominium. The second part involves American concerns that, to focus on domestic priorities and remain non-aligned, India will be drawn in by Beijing's Asia-for Asians approach and make concessions to China or cooperate with it via the Russia-India-China, BRICS or Shanghai Cooperation Organization mechanisms. These concerns are often evident when there are high-level Sino-US or Sino-Indian engagements.

American and Indian approaches to the Indo-Pacific and the China challenge therein, while largely aligned, also have differences. One set involves emphases. Within the Indo-Pacific, the Indian Ocean region is of greater priority to India, while the Pacific has naturally received more American attention and resources, given US alliances, partnerships, and commitments in that region. Furthermore, Delhi sees the American emphasis in the Indo-Pacific as being primarily on the maritime domain, whereas it also has crucial continental concerns and considers the Eurasian landmass an arena of competition with China as well. The two countries also prioritize different issue sets: Delhi, for instance, cares far more about the China-Pakistan Economic Corridor (CPEC) than it does developments on the Korean peninsula. They also have different relationships with Taiwan, which, in part, means they think about a contingency in the Taiwan Strait from different vantage points.

Finally, there can be some divergences on principles and partners. There are different interpretations, for instance, of freedom of navigation, with Delhi seeking to exercise greater authority in its exclusive economic zone. In terms of partners, even as India has been concerned about growing Sino-Russian alignment, it has seen Russia as a partner in its balancing strategy vis-à-vis China and in its effort to build military capability—thus, it has sought, at the very least, to avoid actions that might push Russia closer to China and wanted to incentivize Moscow to maintain other partnership options. The US, on the other hand, sees Russia as a rival. This particular US-India difference has been evident in the aftermath of the Russian invasion of Ukraine. Another example is India's partnership with Mauritius

that, along with its stance on decolonization, has led it to support Port Louis' claim against Britain to the Chagos archipelago. That, in turn, complicates America's interests in the Diego Garcia base.

Nonetheless, shared concerns about China's involvement in the Indo-Pacific and particularly in South Asia and Indian Ocean region have helped narrow some US-India differences or helped them manage them better. For instance, today India has a different view of American power and presence in the Indian Ocean—including at Diego Garcia—than it did before. Delhi has historically not liked to see extra-regional countries be active in what it considers its backyard. But, just as in the 1950s and 1960s, as China has become more active in the region, India has become more accepting, if not welcoming, of more American and Japanese involvement in the region if it brings additional resources and offers alternatives to China's initiatives. This was evident in Delhi's welcoming of the US-Maldives defense agreement and the Japan-Maldives coast guard agreement. This attitude has also opened the door to US-India cooperation, for instance, in Nepal or coordination (for example, on COVID-19 response) in the region. Concerned about the growing activities of China in this region and thus wanting to see the US maintain and even expand its involvement in the region, its response to AUKUS has been sanguine, if not welcoming.

China and South Asia

China is not a newcomer in South Asia. It has engaged with this subregion since the founding of the People's Republic, with the nature and extent of its interest and interactions varying over time and across countries. Today, this engagement is broader and deeper than ever before, with greater Chinese attention as it sees South Asia in terms of its broader economic and strategic interests. This engagement precedes the Belt and Road Initiative (BRI) but that initiative reflects and has driven an acceleration in Chinese activities and desire to seek increased influence—and curb that of the US and India—in the subregion.

It is worth considering Beijing's engagement in the region in three baskets: that with (1) rival India, (2) partner Pakistan, and (3) the non-aligned smaller South Asian states.

After some initial years of cooperation, the China-India relationship turned competitive in the mid-to-late 1950s due in large part to their boundary dispute and the Dalai Lama's escape to India. From the late 1980s, there were attempts to establish a new, more stable modus vivendi. The two countries reached agreements that sought to ensure peace and tranquility at the border, which would enable the development of other dimensions of the relationship. That was the basis for a period of cooperation, which involved increased high-level interaction, the development of economic ties, and engagement in the multilateral sphere, including on issues like global economic governance and climate change and in/with institutions like BRICS, the Russia-India-China trilateral, Shanghai Cooperation Organization, and Asian Infrastructure Investment Bank.

However, the competitive Sino-Indian dimension never disappeared and, since the 2008 global financial crisis and particularly after Xi Jinping took office, it has arguably dominated. This competition plays out at the bilateral, regional, and global levels. It has involved the intensifying boundary dispute (with four major crises since 2013), Tibet, the sharing of the Brahmaputra river waters, economic frictions, technology concerns, the China-Pakistan relationship, China and India's increasing activities and influence in their overlapping peripheries, divergent stands in global organizations, and a lack of trust. In the last two years, the relationship has deteriorated with the worst

boundary crisis since the 1962 China-India war, and an Indian belief that China violated the boundary agreements that the two countries had signed. Given the resultant border deployments, upgrading of military capabilities and infrastructure, impact on India's domestic and foreign policies, and Beijing's framing of boundary differences now not as a historical dispute but a sovereignty issue, it is unlikely that the relationship will go back to where it stood two years ago.

The China-Pakistan relationship is almost the opposite of the Sino-Indian one. Initially, China saw Pakistan as an American ally—and Pakistan was indeed a member of the South East Asia Treaty Organization. But, as China's relations with India deteriorated, its relations with Pakistan deepened in the late 1950s and particularly early 1960s. For Beijing, this was containment on the cheap—by strengthening Pakistan's capabilities, it kept India (then seen as a US partner) tied down in South Asia. This strategic rationale for the close partnership remains today but the nature of Sino-Pakistani ties has changed in some ways. Diplomatic and military cooperation dominated the initial decades. However, in recent decades, cooperation in the economic sphere has also grown, making the relationship more than a government-to-government or military-to-military one. It has also meant that Pakistan's domestic political and security environment has become of greater interest to Beijing than it had been in the past. Beijing has at times seen American engagement with Pakistan to be in its interests, both because it distributes the burden among different Pakistani partners, and it can cause friction in the US-India relationship. However, when this engagement goes against Chinese interests and preferences, Beijing has made its unhappiness clear.

China's ties with several other South Asian states also go back historically, but they have grown in recent years, albeit to different degrees. Ties with Bangladesh have gone from China resisting its creation to becoming its largest supplier of defense equipment. Ties with Nepal and Myanmar—two other countries that are part of China and India's overlapping periphery—have also deepened, as have China's interests in two Indian Ocean countries, Maldives and Sri Lanka. In each case, China's diplomatic, economic, technology, defense, public diplomacy, and even political engagement has increased. In Afghanistan, Beijing has been engaging with the Taliban and joined Russia in a de facto recognition of the new government in Kabul (including through high-level engagement). One exception to such Chinese engagement in South Asia has been Bhutan, which has not established diplomatic relations with China. However, the two countries are engaged in border negotiations, and Beijing has sought ways to increase its influence in Bhutan, as well as put pressure on that country's close ties with India.

China has also been attempting to engage with the region as a whole, often sans India. Delhi has resisted upgrading China's status as an observer in the South Asian Association of Regional Cooperation to full membership. However, Beijing has created its own mechanisms akin to forums it has created with other regions in the world. For instance, it has convened various collective dialogues, including on COVID-19, with several South Asian states, and participate in or hosted discussions of Afghanistan's neighbors (that included one non-neighbor—Russia—while excluding another, India).

China's motivations for engagement with various countries in the region has varied. In each case, today those involve economic interests. But even beyond India and Pakistan, where Chinese strategic interests have driven its interactions, there have also been specific security considerations that have sometimes dominated. In Nepal, for instance, these involve controlling Tibetan transit. In Afghanistan, Chinese concerns about the East Turkistan Islamic Movement and the Islamic State have driven its engagement with the Taliban. In the Indian Ocean islands, flag has followed trade, with increasing PLAN interest and activities as its economic footprint has expanded across the Indian

Ocean littoral. Whatever its initial intentions, the desire to protect these interests have now also led to a greater Chinese interest in the political dispensations and developments across the region—and in shaping them. Beijing's role in Nepal, for instance, has made evident that Chinese interests take precedence over any principle of non-interference.

Beijing's involvement in the region has not been without setbacks. These have included questions in some countries about the lack of transparency of BRI contracts and the terms involved, the inability of countries to repay debt (with fiscal problems exacerbated by the impact of the COVID-19 and the Russia-Ukraine war as evident in Sri Lanka), difficulties that Chinese companies have faced where they have had to navigate local conditions with less support from the capitals, security concerns, public backlash to China's increased economic and political influence that have made this an election issue, and questions about the costs and quality of China's COVID-19 assistance, including vaccines.

The US, China, and South Asia

Beijing's intensifying competitions with India and the US have affected its engagement in the region. While the primary area of Sino-US competition will remain in East Asia and the western Pacific, Beijing largely sees Washington, and particularly its ties with Delhi, as part of its challenge in South Asia. And it sees most American actions, alone and in conjunction with other major and middle powers, as complicating the landscape and Chinese interests. Chinese analysts have often publicly highlighted the US presence in the region as a net negative. They have even suggested to Indian counterparts that Washington is the source or instigator of China-India problems. Beijing has actively also dissuaded the smaller South Asian states from deepening ties with the US. For instance, the Chinese ambassador to Bangladesh warned against engagement with the Quad, and Beijing was active in trying to scuttle Nepal ratifying a compact with the US-backed Millennium Challenge Corporation (MCC) that will also enable deeper India-Nepal economic engagement. Some reports indicate it also played a role in Colombo discontinuing a MCC compact (and in encouraging opposition to a status of forces agreement with the US, and the Sri Lankan government scrapping a Japan-funded light rail project and an India-Japan-Sri Lanka project to develop the east container terminal in Colombo). China's missions in the region furthermore regularly deploy propaganda deriding the US or praising the Chinese model in contrast—this has been particularly evident during the course of the pandemic.

There have been some exceptions to the Chinese view of the US as a problem in the region, and the US and China have even cooperated or consulted in response to crises. However, their intensifying rivalry could change that dynamic, too.

Sino-US interactions during India-Pakistan tensions make this evident. After the Cold War, like the US, China wanted stability in South Asia, and it sought to cooperate with India. Thus, there were instances of Beijing either working alone or on a parallel track with Washington to try to defuse India-Pakistan tensions when they boiled over or threatened to do so. This was perhaps most evident during the Kargil conflict in 1999 and after the Mumbai terrorist attacks in 2008. During the last India-Pakistan crisis in February 2019, however, the US-China rivalry and Washington and Beijing's respective relationships with Delhi and Islamabad seemed to shape their lack of consultation. The Trump administration even saw China as being unhelpful.

Washington and Beijing's future desire and ability to work together in South Asia will likely depend on the nature and extent of their rivalry, their relationships with India and Pakistan, and their

assessments of the leverage they have with Delhi and Islamabad (and their willingness to use it). One complication is that China's relationship with Pakistan is partly motivated by its rivalry with India. Washington, on the other hand, does not benefit from strained India-Pakistan relations—indeed those have often created problems for the US. So, while the two countries could seek stability in the region broadly, their motives and equities vis-à-vis India-Pakistan tensions are not necessarily the same.

Washington and Beijing have also cooperated in Afghanistan, where the two countries have worked together or at least pulled in the same direction at times (including in collaboration with Pakistan). They continue to engage via the extended troika mechanism after the Taliban takeover of the country though their interests are not entirely aligned. Given some shared security concerns, this could be a future arena for cooperation or at least coordination, particularly in the event of a terrorist attack.

Even beyond Afghanistan, there could be a shared interest in the security situation in Pakistan, given increasing Chinese concerns about the safety of its citizens and facilities there. However, Washington has also found that, by giving Islamabad a non-US option, China has reduced American leverage with Pakistan and made the Pakistani leadership less willing to take action Washington desires, especially on counterterrorism. For example, China had been willing to use its leverage with Pakistan to curb the activities of ETIM but not of the Haqqani network or Lashkar-e-Taiba.

In the broader region, in the past there has also been interest in China, the US and India in cooperating or at least working in parallel on certain regional and global issues. For example, they have shared an interest in maritime security in some realms, including anti-piracy. Each has responded to disasters in the Indian Ocean region—sometimes separately, sometimes coordinating. They have also at times aided each other in evacuating citizens in emergencies.

The challenge, however, has been differences in the US and China's approaches, as well as these issues getting caught up in Sino-US rivalry. When that happens, instead of helping alleviate tensions, these domains become another arena for competition—as, not just Sino-US interactions during recent India-Pakistan tensions, but also the competitive responses to COVID-19 demonstrate. And sometimes these issues themselves can contribute to competition.

Intensifying Sino-US have also altered views in Washington of Chinese activities that were earlier seen as benign or even beneficial. For example, initially the United States took a more sanguine view of CPEC, hoping it could contribute to Pakistani economic development, reduce Islamabad's demands of Washington, and incentivize China to seek stability and security in Pakistan. In recent years, however, American officials have expressed concern about CPEC, questioning its costs, effect on Pakistan's debt burden, lack of transparency, and effect on employment.

The American view of the smaller South Asian states has also changed as a result of competition with China in ways that Beijing dislikes. For one, this rivalry has put South Asia and the Indian Ocean region under a bigger spotlight because this is seen as an important arena in which China is increasing its activities, presence, and influence. Indeed, the Chinese project at Hambantota in Sri Lanka contributed to Washington's seeing BRI from a more competitive prism.

The greater US concern about China in South Asia, and especially the Indian Ocean region, has led to more attention to these countries in both the Trump and Biden administrations, and increased engagement and assistance. Over the last few years, Washington has hosted several of the region's

foreign ministers, with several American officials traveling to the countries as well. Last year, the deputy secretary of state hosted a meeting with interlocutors from several South Asian countries on the sidelines of the UN General Assembly meeting. There have been new agreements, such as the MCC contract with Nepal and a defense agreement with the Maldives, intentions to expand the American diplomatic presence in the region, and some increased security and development assistance, and help in dealing with COVID-19.

Whatever American—or Indian—concerns about China’s involvement in the region, however, the reality is that it has had both push and pull elements, i.e. this engagement has been sought or at least welcomed by most countries in the region. For many, China provides economic and military resources that others will not or cannot—particularly at the pace and scale and on terms that Beijing offers. Moreover, the China option gives them leverage with other major powers, particularly with India, which had alone dominated the region for several decades.

Thus, the smaller South Asian states will prefer not to choose sides or align with the US or China. For them, US-China competition—and China-India competition—has brought with it not just greater attention from the US (and China and India) but also an ability to play one benefactor against the other to maximize gains and their strategic space (Pakistan had long taken this approach though it has been less successful at making the argument today that the US should engage it to wean it away from China, given the close Sino-Pakistani partnership and level of Pakistani dependence on China). An additional benefit from some governments’ perspectives (for example, Bangladesh and Sri Lanka): major power rivalry has reduced the extent to which US concerns about their internal political developments have impeded Washington’s interaction with them. Thus, these countries’ preference will be to maintain ties with several larger powers, use major power rivalries for their own benefit, and try to avoid getting squeezed by these competitions.

The Road Ahead

In the context of competition with China, the US will continue to put India at the heart of its South Asia strategy. However, the rest of the region should garner attention from the administration and Congress as well.

First, it will be important to recognize the diversity of opinion within South Asia on China. American expectations and approaches will have to be tailored accordingly. And it will require different efforts with different aims. Vis-à-vis India, which has been aligning with the US to balance China, these could involve trying to increase the scope, scale, and speed of alignment. It should entail discussing potential contingencies, including related to Taiwan and the China-India boundary, and clarifying expectations. And it should involve proactively discussing and managing or resolving difference in the region or on China, and keeping each other in the loop to avoid the G2-A2 concerns that arise intermittently and lead to uncertainty.

Vis-à-vis Pakistan, the expectations might have to be more limited—i.e., minimizing the support that it might offer China or finding ways to mitigate the consequences of that support. Vis-à-vis the other South Asian countries, the aim should be to encourage alignment, but if that is not possible or likely, then to ensure that they maintain a balance rather than bandwagon with or support Beijing. If their alignment isn’t on the table, non-alignment is the next best option.

Second and relatedly, in South Asia and elsewhere in the Indo-Pacific, Washington will need to develop strategies for dealing with the new non-aligned in the context of intensifying US-China competition. In this regard, there are some lessons to be learnt from the Cold War. One lesson is with regard to framing. The new non-aligned in South Asia are unlikely to be attracted by—and might even be repelled by—a “with us or against us” framing, and/or by efforts to punish them for their non-alignment. Instead, there must be a willingness to accept their freedom to choose along with an effort to offer more attractive choices and to incentivize alignment.

Countries are also likely to distance themselves from a strategy that involves messaging focused on countering China. A democracy-vs-autocracy framing is also likely to limit South Asian buy-in—not necessarily because of the nature of their own regimes but because many in the region are sovereignty hawks and believe that outsiders have used ideological framing to intervene in countries. Far more effective and attractive messages will be those focused on the importance of the rules-based order and a region where countries are free to make choices, and on shared interests

Third, and relatedly, the US should frame its approaches to the smaller South Asian states more broadly than as a response to competition with China—even if that is the prism through which Washington will see these countries and the reason these countries are garnering greater interest. Being responsive to local priorities will make these relationships more sustainable, increasing the attractiveness of the US as a partner across more constituencies and limiting the blowback these countries are trying to avoid from China. And such an approach could still meet American objectives—for instance, a maritime security framing for Indian Ocean countries could cater to both American China-specific objectives, and be attractive to countries such as Maldives and Sri Lanka that are worried about both traditional and non-traditional security threats, and are interested in building their own capacities.

In addition, Washington should assess the value of certain trade-offs that will come into play in South Asia. For example, the foreign economic policy debate will shape the economic incentives and options the US can offer, and American strategic imperatives will not always reconcile with values-based imperatives in the region. Both, for instance, will affect the American approach to—and options available vis-à-vis—Bangladesh.

Washington should also be prepared to deal with trade-offs between its ties with India and the smaller South Asian states. The latter prefer to maintain an independent relationship with the US while India desires its neighborhood interests to be considered, if not prioritized, by its major power partners. The US can square the circle by forging independent ties with other South Asian states while keeping Delhi in the loop on sensitive matters (such as security ties).

Fourth, it will be important for the US to offer substantive solutions and alternatives to these countries—and not just wait for China to make mistakes. South Asian countries’ willingness to cooperate or align with the US—or even stay neutral—will depend on their sense of American interest in and commitment to the region. This will require Congress resourcing the Indo-Pacific lines of effort, including those in South Asia. It will call for continued engagement in the region from both the executive and legislative branches even as the European theater demands American attention—in this regard continued visits by senior officials to and from the region will be helpful, as would members of Congress adding other South Asian states to their itineraries when they visit India or Pakistan. And it will require being responsive to the concerns of countries in the region, including the challenges to their security and prosperity.

The US should have realistic expectations about the approach South Asian countries will take vis-à-vis China (or not). However, they are more likely to align with the US or at least not bandwagon with China if they believe they have options, and that China can be deterred from not just the use of force but also coercion. Thus, steps that members of Congress can take or encourage the administration to take to offer strategic and economic alternatives, strengthen deterrence in the Indo-Pacific, and ensure the maintenance of a rules-based order will be crucial.

Fifth, given competing priorities at home and abroad and other constraints, it would also be helpful for the US to encourage and enable its like-minded partners to be responsive to the concerns and needs of countries in South Asia. But even as Washington works with India (and/or other partners like Australia, Japan, or the United Kingdom) in the region, this cannot be a substitute for developing and investing in independent relationships with these countries.

Sixth, in the near term, any steps that the US can take—alone or with partners—to mitigate the adverse economic, energy and food security consequences of the Russia-Ukraine crisis for countries in South Asia would be helpful. They would also help counter Sino-Russian messaging that it is Washington's rather than Moscow's decisions that are responsible for their predicaments. Relatedly, the US should try to ensure that its approach to South Asian countries on their positions to the current crisis in Europe does not hinder their willingness or ability to align with the US in the Indo-Pacific.

Seventh, the US should plan for any spillover from other subregions in Asia to South Asia in both the continental and maritime domains. Thinking across regional bureaucratic divisions should not necessarily involve whole-scale reorganizations of bureaus or combatant commands, but a better, more flexible ability to work across these seams. The creation of the Indo-Pacific coordinator position at the National Security Council is a step in the right direction. Further informal or formal mechanisms could help as well, including more regular exchanges between bureaus and commands and their counterparts in the region. Members of Congress might also recommend that the administration encourage diplomats to serve across these seams and thus develop “Indo-Pacific” expertise.

Eighth, US efforts in South Asia would benefit from investing in the development of a better understanding of the strategic, economic and political landscape in South Asia and the Indian Ocean region, as well as China’s regional interests and intentions there. This could include funding for the study of this region and countries in it, more visiting fellowships for experts and students from the region (and vice versa), the inclusion of these countries in more university study abroad portfolios, and increased opportunities for policymakers and experts to travel to the region and engage with key stakeholders and counterparts there.

Finally, US-China competition should not preclude cooperation with Beijing on shared concerns in South Asia and for crisis prevention and management. However, expectations for progress should remain realistic. As the COVID-19 pandemic has shown, areas that were traditionally considered ripe for cooperation, such as global health security, can also turn competitive. Moreover, the desire for greater cooperation with Beijing should not lead to accepting or ignoring malign behavior or unilaterally ceding their own interests or those of their partners. Although it could seem like an attractive option in the short term, that approach will only invite further instability in the future.

**OPENING STATEMENT OF JAGANNATH PANDA, HEAD OF THE STOCKHOLM
CENTRE FOR SOUTH ASIAN AND INDO-PACIFIC AFFAIRS, INSTITUTE FOR
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COMMISSIONER SCHRIVER: Thank you.

Dr. Panda?

DR. PANDA: Esteemed Commissioners, Excellencies, thank you very much for this kind invitation. It is an honor and a pleasure to testify to this Commission. And I will state that the views expressed here are purely belongs to me. These are my personal opinions.

Let me begin by making the statement that South Asia is increasingly becoming critical to the global geopolitics, and that is for a number of reasons we know. One is the current topic of discussion; that is, China's new strategic orientation in South Asia under Xi Jinping.

Second, I think the critical linkages that has been emerging between South Asia and the Indo Pacific on the economic and on the strategic front.

Third, India's rise as a power in the regions or possibly beyond the regions, influencing the geopolitics of the regions.

And, fourth, the geostrategic importance of the countries in the Himalayan regions.

And I think these four variables have been critical about the South Asian politics. And today if we talk about these four critical variables, China's new strategic orientation in South Asia is the most decisive factor.

And we know for a fact probably that China's interest in South Asia is nothing new. But, rather, China's South Asia policy has witnessed a steady expansion over the years, previously under President Jiang Zemin and President Hu Jintao.

However, President Xi Jinping's foreign policy on South Asia is somewhat difficult and exclusive to my mind. The question here is in what respect it is different, in what respect it is exclusive, and how is it different from President Hu Jintao and President Jiang Zemin's policy towards South Asia. If we try to analyze that, then we will be able to identify the Chinese influence in South Asia.

To my understanding, there are four critical features that we need to identify in Xi Jinping's South Asia policy.

The first, I think under President Xi Jinping South Asia is linked more intently, more seriously, in the overall discourse of the rise of China and in China's developmental practices.

In fact, since the establishment of the PRC, if we see the three critical regions Northeast Asia, Central Asia, Southeast Asia has always been the prime focus of Chinese foreign policy, not so much on South Asia. But under Xi Jinping, I think there is a deliberate intent to take South Asia as one of the critical variable in Chinese foreign policy.

But what really is distinctive about Xi Jinping's foreign policy is that Xi Jinping pursues a more active and assertive policy towards South Asia, links the regions as a part of China's national development plan that spans from 2020 to 2035, and through 2035 to '49. In fact, continuously in his speech Xi Jinping has tried to link South Asia as a critical variable in China's developmental discourse.

But then there is not the only region specific outlook from Xi Jinping. I think there is a deliberate, more delicate way of connecting with South Asia, and this is what we have seen. Through different channels of more delicate context, Xi Jinping is trying to, you know, capture the grips in the South Asian politics.

For example, the Asian Infrastructure investment bank has been a key variable for the

Chinese outreach in South Asia.

The second critical variable is the centrality of India in Xi Jinping's foreign policy. The Chinese approach has been to engage with India, but engage also simultaneously with a calculated conflict. Xi Jinping is trying to change the narrative of the status quo of the boundary dispute, and he has definitely tried to derail the boundary negotiation process.

Excellencies, I must bring to your attention that since Xi Jinping has, you know, arrived in power in 2013 and '14, there has a marked rise in China's border country with India. The beginning of this was evident during Xi Jinping's visit to India in 2014 when the Chumar Valley incident happened.

The Doklam crisis in 2017 was a huge blow to China since the PLA was caught in surprise that the Indian army crossed the line of control to stand in the Doklam Valley for 73 days facing the PLA. Doklam Valley incident was a strategic blow to China.

The Galwan incident was more of a military incident by the PLA to the Doklam incident. Evidently, the Galwan Valley incident in 2020 witnessed that the conflict can break away into a mini scale war.

However, I would like to draw your kind attention here, that no matter how provocative the People's Liberation Army's current actions looks like, China would not like to enter into a full scale war with India at present.

Post the 2016 military restructuring and reform of the PLA, the theater commander had substantially had a substantial say and a critical say in China's India policy. The Chinese strategy is to create more pressure on India, making a conflict broadened situation on the bordering regions to change the status quo, and new claims on the ground try to put more pressure on India from time to time.

Through new claims, the Chinese strategy is also to derail the boundary negotiation process. The attempt is to make the existing border negotiation mechanisms like the special representative level talks and the WMCC, the Working Mechanism for Consultation and Coordination, somewhat irrelevant.

Current situation indicates that the commander level talks on the ground is the most important method of talk at this moment to bring some kind of temporary peace and stability to the China India boundary tensions.

Currently, there have been 15 rounds of talk, but there is no hope of, you know, permanent solution to the boundary dispute on the ground. And probably another notable feature of Xi Jinping's new era foreign policy in South Asia is the introduction of the Land Border Law, which came into force this year on 1st of January, and the law is proclaimed as a tool to defend territorial integrity and exert new claim for China.

The third critical variable in Xi Jinping's South Asia policy is to create a strategic divide between India and India's neighbor in South Asia, be it Nepal, be it Bhutan, be it Bangladesh. And I think there is a deliberate Chinese attempt to create a division between India and these neighbors.

BRI has become one of the most important media to exert influence in South Asia for China. Through the BRI projects in South Asia, China is looking for alternative overland routes to the Indian Ocean. But what is most important factor here we need to take a note of that individual South Asian countries are critical to China's foreign policy strategy.

There is no one-dimensional engagement that China is pursuing with all of the South Asian countries. Different tactics, different methods are being pursued, and we need to take a critical note of that.

We can during the discussion, we can come about the China's engagement with all of these individual countries separately. But my last point here would be I think one of the critical features about Xi Jinping's outreach towards South Asia, which actually makes him a different president from the previous president, and that is the most effective outreach is the Chinese decision making process.

We know for a fact that the Chinese decision making process has been quite unitary under Xi Jinping's leadership. He controls the guard. He controls the PLA. He controls the party today. And, therefore, the Chinese decision making has been quite unitary and authoritarian towards India and India's neighbors.

India's growing relations with the United States, Japan, including Australia at critical factors, which is influencing China's policy towards South Asia. The Gajraj Corps, India's defense agreement with the United States have consistently increased Xi Jinping to factor South Asia more intently.

In fact, among the South Asian specialists in China, there is a consensus not to prolong the border conflict with India, since this will allow Delhi to go for a likely military alliance with the United States in future or in coming times.

But one of the critical and this will be my last point one of the critical factors which actually desists Xi Jinping's, you know, assertive policy towards India and towards the South Asian countries is the Japanese investment in India's northeast India.

Japan has emerged as a critical actor in India's northeast, and there is a comprehensive investment package currently India receives from Japan from the Japanese government for the northeastern states development where there are seven states eight states are there. And each of the states have comprehensive Japanese investment package in the regions.

I will conclude by saying here that China's influence in South Asia is expanding rapidly. New foreign policy measures are being introduced to make China's South Asia policy much more dynamic. We will continue towards a mixture of assertive and cooperative policies towards the regions.

But if we compare China's outreach towards Central Asia, Northeast Asia, and Southeast Asia, I think China is still a beginning power in South Asia. And I think both India and U.S. as critical partner can do a lot in order to check the Chinese progress in South Asia.

Thank you very much for listening to me.

**PREPARED STATEMENT OF JAGGANATH PANDA, HEAD OF THE STOCKHOLM
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China's Projection and Pursuit of Power in South Asia: *Implications for India*

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South Asia is increasingly becoming central to global geopolitics, not least because of China's stupendous rise and the simultaneous emergence of Indo-Pacific as the world's economic and strategic center of gravity. China's interest in the South Asian region is not a new development but comes as an abiding factor of its foreign and security policy. It not only encompasses China's outlook toward India and its partnership with Pakistan, but is also embedded in its broader foreign policy goals of achieving national rejuvenation and entering into a new era of glory. In South Asia, China's policy aims not only to maintain a strategic balance in its growing acrimony with India or rivalry with the United States, which is seeking foothold in the region because of significant stakes, but also to secure its interests in its troubled provinces (Tibet and Xinjiang) that are susceptible to "external meddling."¹ Projecting, if not procuring, stability in its restive provinces is integral for China to continue its assertive advances in the Indo-Pacific, not just along the Himalayan borders but particularly in the Indian Ocean, East and South China Seas, and Taiwan.²

South Asia is one of the world's most dynamic regions but home to several lines of flux—of which the conflict between India and Pakistan is central to the South Asian quagmire.³ This intractable dispute is only augmented by the frictions between India and China at their disputed border, the Line of Actual Control (LAC). Beyond such contentions, new fault lines are quickly emerging in and around Afghanistan, which stands in a precarious situation after Taliban's takeover of the government, and within Pakistan, which is now witnessing growing internal political strife and instability. In a testament to frictions and trust deficit between the eight regional states—Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka—South Asia is the world's least-integrated and disconnected region, with intra-regional trade amounting to merely 5 percent.⁴

In view of such fault lines, China recognizes that it can gain tremendous influence in the region. Notably, with international land borders with 14 states,⁵ China shares a contiguous boundary⁶

with five of the eight South Asian countries—Afghanistan, Pakistan, India, Nepal, and Bhutan—making the region its immediate concern. As China looks to establish its position as an Asian hegemonic power with global ambitions, deeper and more extensive contacts between Beijing and the capitals of the regional states have become a way to gain strategic ground and aid China’s rise in its south.

China’s economic, geo-political, and strategic footprint has expanded rapidly over the past decade, bringing with it crucial implications that the international community is only just beginning to understand and address. While advanced industrial economies and strong democracies seek to come together to take a united stance against authoritarian belligerence, countries that have a limited capacity to “manage and mitigate political and economic risks” remain especially “vulnerable” to China’s influence activities.⁷ This is especially true in South Asia, where countries do not have the wherewithal to counter China’s active influence operations.

Against such a scenario, what implications will China’s South Asia diplomacy under Xi Jinping have for India? What are the key features of Xi Jinping’s foreign policy vis-à-vis this region? How does it differ from that of the previous administrations? Importantly, how does it affect China-India relations given the continuing stalemate in boundary negotiations? Is the People’s Liberation Army (PLA) influence in the border areas unassailable? Can India effectively maneuver its partnerships with the West (United States and the European countries) and in the Indo-Pacific (Japan, South Korea, and Southeast Asian States) to consolidate its hold in South Asia and the Indian Ocean Region (IOR)?

This paper attempts to answer these questions by first reviewing Xi Jinping’s “new era” policies in South Asia, especially his directed focus on China’s borders. It looks at the areas where China’s expansion in South Asia is most noticeable. The paper analyzes China’s ties with four South Asian states, namely Afghanistan, Bangladesh, Bhutan, and Nepal, examining their respective roles in China’s South Asia policy and how they impact India. The paper also looks at the India-China boundary disputes through PLA’s increasingly modern and massive maneuvers. In a nutshell, the paper studies the trends and patterns in China-India relations in South Asia through China’s foray into India’s neighborhood, and how that plays into their boundary disputes.

Evolution of China’s South Asia Outlook: Examining Xi’s “New Era” Paradigm

In recognition of the vital role that South Asia holds in China’s security calculus and hegemonic ambitions, Beijing has been paying closer attention to the region. Post the 1962 Sino-Indian war, China conducted a comprehensive review of its South Asia policy and made a calculated decision to enhance ties with India’s adversary Pakistan, starting with the Sino-Pakistan Boundary Agreement of 1963—wherein as per Indian claims, Pakistan illegally ceded 5,180 sq. km in Pakistan-Occupied Kashmir to China.⁸ The fact that both China and Pakistan shared positive relations with the US at that time only served to add credence to their partnership, while making it a strategic concern for India.⁹

In the years following the Sino-Indian war, China’s outlook toward South Asia was largely driven by the Cold War and its equation with the Soviet Union. Hence, security was of primary concern in Beijing’s outreach. As China opened its economy under Deng Xiaoping, concerted effort was made to extend trade relations with countries in the region so as to enable better economic integration and thus greater security. Toward the end of the Cold War, as China

entered into a period of rapprochement with both Russia/Soviet Union and India, previously two of its major regional adversaries, Beijing's South Asia policy changed from being security-focused to one focused at achieving greater economic and political influence.

Since Xi Jinping assumed leadership, China's South Asia policy has gone from a strategy of keeping a low profile and acting as a benevolent, assertive partner to an aggressive hegemon in recent years. Unlike his predecessors, Jiang Zemin and Hu Jintao, who adhered to a conservative foreign policy,¹⁰ Xi's priority has been to forge a favorable environment for China's ascension to a "global leader in terms of composite national strength and international influence."¹¹ Accordingly, Xi has already laid the blueprint for a two-stage development plan, traversing 2020-2035 and 2035-2050, to transform China's image, including in South Asia, in order to become a *global power center*. The ideological underpinning of this "new era" strategy stresses on developing "socialism with Chinese characteristics" to ultimately realize "socialist modernization," by first building a "moderately prosperous society."¹²

Besides seeking to entrench control over its extended neighborhood through bilateral ties, Xi's South Asia policy also includes exerting greater sway in multilateral regional institutions, such as the South Asian Association for Regional Cooperation (SAARC; China is an observer)¹³ and the Asian Infrastructure Investment Bank (AIIB; China is a founding member). Since Xi Jinping's accession to power, Beijing has focused on connectivity- and infrastructure-centric projects in South Asia where it has strengthened its bilateral relationships with countries such as Pakistan and Nepal.¹⁴

One key endeavor to get a permanent foothold in the region has been the launch of the Belt and Road Initiative (BRI), which runs through Latin America, Europe, Central Asia, Africa, East Asia, and South Asia—which is a critical intersection point for BRI's components, the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR).¹⁵ Through the BRI projects in South Asia, China is looking for "alternative overland routes" to the strategic Malacca Strait, on which China is heavily dependent for both its economic and energy security but that can be easily blocked by India.¹⁶ The MSR would allow an alternative access to the Indian Ocean through its "crown jewel" of Gwadar port (Pakistan) in the Arabian Sea, which is close to the Strait of Hormuz, another important trade passageway for China.¹⁷

Therefore, bolstering a military presence in the IOR including through building of overseas naval bases and deployment of submarines—while at the same time detracting from India's status as the major regional power and security provider—has become an important endeavor for Beijing. China's assertive and growing presence in the IOR is obviously an offshoot of its rising maritime military capabilities that look to rebalance power in the Indo-Pacific.

Further, in the wake of the pandemic, the BRI has been supplemented by the Digital and Health Silk Road Initiatives, with an intense focus on vaccine diplomacy, as a way of further enhancing its soft power in the region.¹⁸ In addition to these features, Xi's South Asia policy has also persisted in retaining Pakistan as an *all-weather friend* and lending the new Taliban government of Afghanistan a steady (if measured) helping hand, with the aim of consolidating its influence after the US withdrawal.

Another notable part of Xi's new era policy in South Asia is the land border law, which came into force on January 1, 2022.¹⁹ The law is proclaimed as a tool to defend territorial integrity arising out of anything from protracted conflict to natural disasters that affect land border security, as well as pursuing infrastructure and economic development of the border areas.²⁰

According to the state-run media outlet *Global Times*, the law also provides ample “legal foundation for China in dealing with border disputes.”²¹ This law aims to establish markers along state borders,²² allowing the army and police to use weapons against intruders; focuses on building “Xiaokang” (meaning “moderate prosperity”)²³ in border villages and encourages civilians to aid the PLA.²⁴ Considering that China has been enacting several such laws amid brewing tensions with neighbors, the intent certainly is to aggressively cow bordering states into submission.²⁵

Notwithstanding its immense financial stimulus to the region, China’s growing economic and military presence poses equally significant security challenges. In case of the BRI, for instance, the region faces the very real risk of poorly regulated loans with little transparency and exorbitant conditions that serve to snare economically struggling South Asian states further into a debt trap. Rather than merely a connectivity and developmental mechanism, the BRI has become a central component of Xi’s South Asia strategy and holds the potential to significantly restructure the security architecture in the region, which is currently dominated by India.²⁶ As India’s rise and stand against Xi’s unilateral and belligerent attempts to change the status quo threaten China’s bid at primacy in South Asia, Beijing has come to view India as a regional competitor. Accordingly, China’s foremost goal in context of its regional policy has been to leverage its economic and military prowess to encourage—arguably even coerce—smaller states to tilt toward China. Gaining such inroads, amid bolder power projection in the IOR, will certainly have enormous security implications for India.

China in Afghanistan: From Bystander to Taliban Benefactor?

Afghanistan’s geographical location at the crossroads of Central Asia and South Asia—neighboring China, Iran, Pakistan, Uzbekistan, Tajikistan, and Turkmenistan—ensures its strategic and geopolitical importance.²⁷ After the controversial US-led North Atlantic Treaty Organization (NATO) coalition’s withdrawal and the takeover by Taliban, a frantic race to fill the political vacuum has begun. It includes not only immediate neighbors such as China, Iran, and Pakistan, but also India that considers Afghanistan a “contiguous neighbor” and Russia, which no longer seems inclined to be directly involved in the country except as a security provider to the three former Soviet republics for fears of domestic instability (importantly, however, its future will affect the China-Russia dynamics).²⁸ Of all the players, China’s role has elicited the most relevance, largely due to its growing global influence and great power ambitions.

However, China is not an established stakeholder in the country. Historically, especially post-Cold War, even though the PLA provided military training and arms to the Mujahideen during the Soviet rule and engaged with the Taliban during its previous rule (1996-2001), China continued to maintain a low-level engagement only for security reasons.²⁹ At the same time, China was wary of the Taliban for its linkages with the Turkistan Islamic Party (formerly, East Turkestan Islamic Movement), a militant outfit supporting Uyghur separatism.³⁰ Curbing the rising Islamic fundamentalist activities in Xinjiang and across borders became the main motive for China joining hands with Russia, Kazakhstan, Kyrgyzstan, and Tajikistan (the Shanghai Five, formed in 1996).³¹ The alliance was later formally institutionalized as the SCO³² (which now has India and Pakistan as members, too) to oversee the member-countries’ economic and security interests in Afghanistan.³³

Post the September 2001 attacks, even as China perfunctorily supported the US “war on terror,” it did maintain informal contacts with the Taliban.³⁴ Once the United States and its allies occupied the Afghan landscape, China did not want to be a secondary player and participate

militarily; it preferred to keep a low profile that allowed it to fulfil its “limited goals.”³⁵ In 2017-2018, China started to shed its peripheral role, as the US administration under Trump was brokering a peace deal with the Taliban; the Taliban engaged with China, through Pakistan as a broker, on several occasions, with a Taliban delegation going to China in 2019.³⁶ Notably, with Xi Jinping laying down his “national rejuvenation” dream, Beijing was looking to expand not only through its “mercantilist” outlook but also in the security domain (to prevent Islamic radicalism and protect its business interests in the state).³⁷

A “fractious” Afghanistan would be catastrophic for China’s domestic integrity,³⁸ and if China plays its cards right with the Taliban, namely it is able to secure legitimate assurances of Taliban to control Uyghur extremism activities, the Taliban can emerge as an important ally in solidifying China’s outreach in the region.³⁹ Though China is yet to officially legitimize Taliban 2.0, it has renewed support to the Afghan government.⁴⁰ The partnership with the Taliban will not only boost its influence in the region, but also allow China resource access for technology-related development; military access to the Arabian Sea;⁴¹ expansion of the BRI via the China-Pakistan Economic Corridor (CPEC) and the Trans-Himalayan Multidimensional Connectivity Network (THMCN) into Afghanistan increasing its outreach to Eurasia and West Asia; and tamping down on terrorism, extremism, and separatism in Xinjiang, provided the Taliban keeps its promises.⁴²

The China-Pakistan-Taliban bonhomie spells bad news for India, which has been losing hold over Afghanistan, especially considering the stalled border negotiations with China. It would reduce India’s regional influence and give China an upper hand.⁴³ As part of its strategy to redefine its role, India could coalesce with its Quadrilateral Security Dialogue (Quad) partners with a view to contain China’s outreach in this region, as also increase its machinations in the SCO.

China and Bangladesh are “Brothers” in Trade and Defense

Bangladesh’s geopolitical importance to China lies in its location in the Bay of Bengal, which connects South Asia to Southeast Asia; its proximity to India; its growing economy; and the West’s growing awareness about its potential, be it to fight terrorism, pursue climate action, or counter China’s connectivity initiatives. China and Bangladesh developed diplomatic relations in 1976,⁴⁴ but ties only deepened post Xi’s succession to power in 2013. In 2016, Bangladesh joined the BRI during Xi’s visit to Dhaka, and subsequently, established a “strategic partnership.”⁴⁵ The partnership intended to support Bangladesh’s goal of becoming a “middle-income country by 2021 and a developed country by 2041.”⁴⁶

A number of infrastructure connectivity projects are ongoing in Bangladesh including the US\$3.3 billion Padma Bridge, the US\$1.9 billion Pigeon Power Plant, the US\$1.32 billion power grid development, and a US\$1 billion digitalization project.⁴⁷ During 2009-2019, China invested an estimated US\$9.75 billion in various transportation projects in Bangladesh.⁴⁸ In 2019, the two governments inked deals worth US\$1.7 billion toward Bangladesh’s power sector.⁴⁹ These projects have implications beyond the economy, showcasing Beijing’s soft power in South Asia. Besides, China has also expanded its partnership in the field of education via the opening of various Confucius institutes, for example, and is building rapport with Bangladesh’s leading political parties [the Awami League signed a memorandum of understanding (MoU) with the Chinese Communist party in 2019].⁵⁰

China could also use the discord between India and Bangladesh over the pending Teesta river water-sharing agreement; China offered Bangladesh assistance of about US\$1 billion for an

irrigation project on the Teesta.⁵¹ If implemented, the Chinese project would certainly cast a shadow on India's sphere of influence, if not majorly impact the negotiations with Bangladesh on Teesta water-sharing.

Notably, trade and defense ties are the mainstay of their cooperation. China is one of the largest trading partners of Bangladesh, which in turn became China's "third largest market" for engineering contracts in South Asia in 2021.⁵² In the past few years, China has invested heavily in Bangladesh:⁵³ As per Bangladesh Bank statistics, the net foreign direct investment (FDI) inflow from China was US\$45 million in 2021 (January-March), up more than three times from 2020 (same time period); and the trade volume was US\$13 billion, up 58.9 percent year-on-year.⁵⁴ However, in the two-way trade, Bangladesh suffers from a huge trade deficit; for example, in 2018-19, China's export value was about US\$13.6 billion, whereas Bangladesh's was US\$560 million.⁵⁵ After China provided 97 percent duty-free benefit to Bangladesh in 2020, trade has seen "double-digit growth."⁵⁶

In 2019, China and Bangladesh agreed to deepen defense cooperation through "industry and trade, training, equipment and technology, mutual visits of navy ships, and the United Nations peacekeeping operations."⁵⁷ Bangladesh is equipped with Chinese tanks, frigates, and fighter jets. China has also raised red flags for India and the security in the Bay of Bengal after its navy made port visits to Chittagong in 2016-2017.⁵⁸ In 2019, Prime Minister Sheikh Hasina allowed China access to the Chittagong and Mongla ports; Beijing will also help Bangladesh construct its first submarine base, which will house two Chinese-made submarines purchased by Dhaka from Beijing in 2016.⁵⁹ Bangladesh became China's second-largest buyer of military hardware globally in 2020.⁶⁰ In February 2022, *Nikkei Asia* published a report stating that China would likely set up a maintenance facility in Bangladesh for surface to air missiles that were supplied in 2011.⁶¹ It reported that the facility would be part of a "raft of Chinese military-related investment and supplies" to Bangladesh that includes warships, naval guns, anti-ship missiles, and surface to air missiles.⁶² Bangladesh has however denied the report as "misleading."⁶³

By luring a long-standing ally of India, China is playing psychological games to exert pressure on India, while at the same time increasing its sphere of influence. Thus, India faces a triple threat: economic, political, and security. However, China is not without its own fears, particularly of Bangladesh joining the Quad, or Quad-associated projects like the Supply Chain Resilience Initiative (SCRI), which would certainly undermine China's efforts and possibly set an example for other South Asian states.⁶⁴ The fear is serious enough for Beijing to warn Bangladesh of "substantial damage" in relations were Dhaka to support the Quad, even as there is no such move planned.⁶⁵ China's remarks, reminiscent of its wolf-warrior diplomacy intended to intimidate states, are simply an extension of its strategic competition with India in South Asia.

China's Himalayan Gambit: Bhutan and Nepal in the Mix

The Himalayan borders are at the heart of the geopolitical tensions in south Asia.⁶⁶ China's invasion of Tibet in 1950 transformed the Himalayan region from a strategic buffer to a region with intensified rivalries, as is evident today. China's enhanced military power and aggressive tactics have impacted not only India (Ladakh and Arunachal Pradesh) but also the Himalayan borders of Nepal and Bhutan: Satellite imagery has revealed that China been constructing several structures since 2020 along Bhutanese and Nepalese borders.⁶⁷ Though the Bhutan government has refused to comment on these activities, in 2022, Nepal officially confirmed

Chinese interference in its territory.⁶⁸ Such incidences have reiterated the security implications of China's infrastructural and economic connectivity activities in this sensitive region (both geopolitically as well as environmentally). China claims that it is boosting infrastructure projects in the Tibet Autonomous Region (TAR) for economic development, but the dual-use intent is primarily for military purposes.⁶⁹ In the Himalayan borders, China's "invisible incursion," namely using cultural tropes to increase influence, has been particularly useful.⁷⁰ Pursuing economic and diplomatic engagements while enhancing military infrastructure and capability is China's common foreign policy maneuver in the borders. The tactics, naturally, impact the trust factor among its neighbors, and subsequently undermine its influence, even if they provide short-term gains.

Bhutan

Notably, Bhutan does not have diplomatic relations with China, although it recognizes the PRC as the only legitimate government of China and follows the One China policy.⁷¹ It has also engaged with China through trade, culture, tourism, and even diplomat-level exchanges.⁷² Their bilateral boundary negotiations that began in earnest in the 1980s focused on the 270 sq. km stretch of the contentious India-China-Bhutan tri-junction and the valleys in Bhutan's northern region. The tri-junction—a highly strategic and vulnerable point because of its access to India's north-eastern states via a narrow passageway called the Siliguri Corridor—was the focal point of the Doklam crisis in 2017. The crisis stalled the Bhutan-China negotiation process, as it originated because the Chinese military constructed a road in the contested area (near a Bhutan army camp).⁷³ Nonetheless, the talks resumed in April 2021 and soon after in October, China and Bhutan signed a "historic" MoU, the so-called "Three-Step Roadmap for Expediting the China-Bhutan Boundary Negotiation."⁷⁴ Although India so far has been rather cautious in its response to the MoU development, there are legitimate fears about Bhutan's changing equation with China, which in turn will blunt India's influence with the historically close ally.⁷⁵ Moreover, India's exclusion from the negotiation table is being viewed as a diplomatic victory for China.

As Bhutan is not a member of the BRI,⁷⁶ China does not yet have significant investments, which could change once the MoU comes into effect. The sectors needing most attention are road connectivity and water harnessing, as the Himalayas are crucial sources of water supply for the Asian region. Already, Chinese companies like Sinohydro and Huaneng are apparently seeking to tap into hydropower resources in Bhutan, where India has invested US\$695 million in the Mangdechhu hydro-project.⁷⁷

Nonetheless, Bhutan would be cautious about China's intent as not only are there reports of Chinese villages being built in the Himalayan borders, but China has also claimed Bhutan's eastern Sakteng region, in parallel to the negotiation process.⁷⁸ The claim was serious enough for Bhutan to issue a stringent protest attesting the sovereignty of its territory (the Sakteng Wildlife Sanctuary).⁷⁹

Broadly, the China-Bhutan MoU in the context of China's land border law and its increasingly antagonistic tactics certainly worry India. In 1996 and 2020, China offered a "package deal" to Bhutan, namely exchange of territory in central Bhutan for Doklam, which Bhutan rejected.⁸⁰ However, given the evolving tense situation, the LAC deadlock, and the possibility of Bhutan embracing the post-MoU relations with China, the overall impact may reflect negatively on the India-China border talks, particularly if India is unable to reconfigure its diplomatic outreach to Bhutan.

Nepal

The delineation and demarcation of the Nepal-China boundary was achieved via an agreement on March 21, 1960. This boundary agreement replaced the Thapathali Treaty, recognized Chinese sovereignty over Tibet, surrendered all rights granted by the old treaty, and led to the subsequent formation of a new border treaty in 1961 resulting in the construction of the pillars of demarcation.⁸¹ Nonetheless, scattered disputes over the boundary have remained, such as over Mount Everest and pillar 57, with the treaty having witnessed several changes like the inclusion of 76 permanent border pillars. Yet, the dispute did not escalate toward greater hostility.

However, over the past three years, incidences of Chinese belligerence along the demarcated border have grown. In 2020, China reportedly constructed nine to eleven buildings on the Nepali side.⁸² Media reports concurrently cited a survey conducted by the Nepali Ministry of Agriculture claiming there had been consistent illegal Chinese encroachments in bordering districts.⁸³ In 2021, tensions with Beijing further escalated when border pillars vanished in the Daulkha district.⁸⁴ The Chinese embassy in Nepal has denied claims of encroachment, with *Global Times* terming it a “smear campaign.”⁸⁵ After the land border law was put into effect by China, the Nepalese government is more on guard, given China’s propensity for using salami-slicing and civilian reallocation tactics.⁸⁶

Nonetheless, being a small kingdom that is heavily dependent on the Chinese economy and has been a part of the BRI since 2017, a dichotomy in Nepal’s China policy is clearly visible. Despite viewing China as a threat to its sovereignty and national security, it has remained actively engaged with Beijing not just economically, but also strategically via frameworks like the Himalayan Quad (China, Pakistan, Afghanistan, and Nepal; the first meeting was held virtually in July 2020).⁸⁷ This framework on face value offers support through transport, trade, and medical infrastructure, focusing on improving post pandemic recovery, but the security aspect, developing it a counter to the US-led Quad, is hard to ignore.⁸⁸

Nepal has signed multiple agreements for transboundary connectivity via the BRI.⁸⁹ During President Xi’s visit to Nepal in 2019, Nepal became a strategic partner, opening new avenues of cooperation.⁹⁰ As part of the BRI, China is pushing to accelerate the THMCN, which will link Kathmandu with TAR and operate close to the Indian border, raising security concerns in India.⁹¹ China’s infrastructural diplomacy not only promises growth and development but also provides Nepal with alternative trading routes while neutralizing its reliance on India, its traditional partner.⁹²

Xi Jinping’s focus on promoting “peripheral diplomacy” (*waiwei waijiao*) and “good neighbor diplomacy” (*mulin waijiao*) looks to complement his trans-Himalayan power politics play.⁹³ As the India and China border-talks stalemate continues and China’s assertiveness in Sikkim and Arunachal Pradesh increases, the future of the middle sector covering Uttarakhand and Himachal Pradesh comes into question.⁹⁴ In this context, Nepal emerges as a pivotal player, and China’s charm offensive—coupled with its massive economic weight—in Kathmandu would be a major foreign policy tool.

Meanwhile, India has struggled to manage its “neighborhood policy,” the unresolved border dispute with China being the major hindrance.⁹⁵ With Nepal, India-driven connectivity developments been limited due to unsettled boundary issues in Kalapani and Susta. As the India-China border tensions escalate, it becomes important for India to focus new synergy into

its relationship with Nepal; the threat from China's military incursions into border territories, especially in light of the new land border law, and protecting their respective national sovereignty is a common agenda. India and Nepal need to revitalize their long-standing historical connections to present a joint response to China in the Himalayas, especially as Xi Jinping's bid for a third term in office draws close.

China-India Boundary Dispute: PLA's Unassailable Influence?

Since Xi's accession to power, there has been a marked rise in India-China border conflicts, culminating with the deadliest clash in 45 years in 2020 (Galwan Valley), which has also become a rather prolonged crisis.⁹⁶ As discussed earlier (see sections on Bhutan and Nepal), the PLA has enhanced its military infrastructure build up since 2020 especially along the LAC. In 2021, the PLA carried out live-fire precision strike drills in the Karakoram mountains to test the troops' "fire strike efficiency and combat capabilities under the harsh cold in plateau regions."⁹⁷ The same year it was reported that China was constructing buildings in Arunachal Pradesh and several villages around Doklam.⁹⁸ In early 2022, India raised objections to China's "illegal" construction of a bridge on the Pangong Tso Lake (for facilitating faster movement of PLA troops) despite completing the disengagement process (in Pangong and Gogra regions) in 2021.⁹⁹ In April, days after US Secretary of Defense Lloyd Austin warned about Beijing "eroding the security" of the Indo-Pacific by constructing "dual-use infrastructure along India's border,"¹⁰⁰ an official in Ladakh claimed that China had installed three mobile towers in its hot spring close to the Indian territory.¹⁰¹ China's construction activities, which include new roads, bridges, bases, airstrips, and landing bases, are spread across the three sectors of the India-China boundary. India, too, is engaged in improving its infrastructure in the border areas (e.g., its Border Roads Organization completed more than 100 projects and has built new airstrips and landing areas), besides enhancing surveillance along the boundary.¹⁰²

Post the Galwan clash, China has mobilized large-scale deployment of PLA forces along the LAC; enhanced the PLA training activities and equipment fielding operations, especially for potential contingencies in high-elevation regions; expanded the use of Unmanned Aerial Vehicle (UAVs) for regular intelligence, surveillance, and reconnaissance missions; and installed a fiber optic network in the remote western Himalayan region, as also 5G wireless communications in TAR (bordering Sikkim), for "faster communication and increased protection from foreign interception."¹⁰³ The PLA's proficiency in employing "virtual war domain capabilities" (e.g. cyber and electronic warfare) and "digital influence operations" (e.g., through social media platforms) during peacetime and wartime give it an edge over India, which lags behind China in modern warfare methods.¹⁰⁴

The PRC's socio-economic development along border areas and diplomatic efforts reinforce its military modernization plans. Apart from maintaining close contact with the military leadership of neighboring countries through the PLA, the PRC uses its economic and political clout in multilateral forums and organizations to expand its defense and security network in other countries, and isolate those that do not cooperate (e.g., Lithuania faced China's wrath for allowing Taiwan to open a de facto embassy).¹⁰⁵ Moreover, PLA's superior capabilities along the LAC would provide China "war-winning advantages," especially as these limited skirmishes and widespread use of its "military-civil fusion" strategy (which is an integral part of the new land border law) have increased the PLA's readiness to fight wars.¹⁰⁶

Bilateral Cooperation despite Antagonistic Borders?

Both the countries have held 15 rounds of talks for disengagement to defuse the tensions in the area without complete resolution of issues, mainly due to non-negotiable border demarcation views along the LAC.¹⁰⁷ Moreover, even as India and China have agreed to disengage their troops in the Gogra Heights area of eastern Ladakh and in Pangong Lake area, China's aggressive tactics, the presence of a large number of troops in border areas, and the two sides' inability to grant any territorial concessions have not allowed the bilateral relationship to become "normal."¹⁰⁸ Both sides have differing views: for India, these crises are transgression attempts by the PLA to change the status quo across the boundary by creating temporary or permanent structures, carrying out patrols or drills, and hindering "normal" Indian patrols.¹⁰⁹ On the other hand, China claims its "historical" sovereign rights, a universal tactic across its borders as a means to establish its national rejuvenation goals on its way to achieve global hegemony.¹¹⁰

At the same time, Beijing is not too keen to prolong the border crisis with India so as to prevent India from growing closer to Washington; the PRC has warned US officials to not interfere in its relationship with India.¹¹¹ Beijing has also repeatedly criticized the Quad (comprising India, United States, Japan, and Australia) as an anti-China US tool. Moreover, China does not want the border conflict to harm other areas of its bilateral relationship: India has a burgeoning trade with China, which crossed US\$125 billion in 2021, up 43.3 percent from 2020.¹¹² In March 2022, Wang Yi in a surprise visit to New Delhi reiterated China's intention to put the border issues at an "appropriate position," take a long-term view of bilateral relations, explore "China India plus" development model in South Asia, and pursue cooperative multilateral engagement.¹¹³ However, India not only continues to stress the "abnormality" in the bilateral relations but also seeks "fairer market access in trade" as trade remains "unbalanced" in China's favor due to multiple reasons, including non-tariff barriers.¹¹⁴

Summing Up: Xi's "Socialist Modernization" Policy: Implications on India

China's growing clout in India's traditional sphere of influence (including the IOR) and India's "pointed alignment" via increasing bonhomie with not just the United States but also the European Union, Japan, Australia, and South Korea has intensified the China-India regional rivalry.¹¹⁵ Some of the implications marked by Xi's "new era" foreign policy in South Asia that seem to be directed against India are as follows:

- In light of PLA's enhanced warfighting readiness and superior communications capabilities and to contend with PLA's assistance to the Pakistan military, India must hasten its military modernization plans.
- The border resolution process will continue to be plagued by slow progress—China will relegate it to the sidelines. At the same time, India will need to address China's economic, diplomatic, and military support of Pakistan, as well as its repeated stoking of the Kashmir issue [in 2022, Wang Yi's speech at a conference of the Organization of Islamic Cooperation (OIC) in Pakistan supported the OIC's stand on Kashmiris' "inalienable right to self-determination"]¹¹⁶.
- Even as the war-like situation will continue to loom large in the near future, India and China will also show each other witting and unwitting support: e.g., in 2021, China joined India in their decision to push forward a "phase down" rather than "phase out" of coal at the United Nations Climate Change Conference in Glasgow; India backed

China’s Winter Olympics in 2022; and both India and China have maintained strategic silence (or even tacitly supported Russia) during the Ukraine war.

- China will seek to further cooperation in multilateral forums such as the SCO and Russia-India-China grouping; India is likely to attend the next BRICS (Brazil, Russia, India, China, South Africa) summit hosted by China in mid-2022.
- India will continue its power-partner equation with China through developmental partnership, i.e., thriving economic partnership and strategic autonomy in policies will seek to counter China’s growing belligerence.
- India will continue to be cautious in its engagement with the United States so as to not appear overtly anti-China, throwing weight around its policy of not being part of the alliances or camps yet pursuing “pointed alignment” (as highlighted in its stand during the Russia-Ukraine war).
- India will showcase more assertiveness in its security partnerships with “like-minded” countries; its connect with the European countries and Japan in the Indo-Pacific will seek to balance China in a way more suited to its foreign policy than Washington’s confrontational approach. These partnerships will also boost its Indian Ocean maritime security strategy.
- India will need to strengthen neighborhood equations not through the traditional “big brother” lens but in view of the evolving regional scenario, wherein each neighbor in South Asia is reconfiguring its own importance in bilateral relations.
- India must revisit its Act East Policy, and pursue enhanced cooperation with the Association of Southeast Asian Nations (ASEAN) as a bloc, as well as bilaterally and trilaterally (with ASEAN dialogue partner and its long-time ally, Japan) with individual states
- India could use its growing relationship with Taiwan as leverage to revisit its One China policy by collaborating with the island in creating projects such as the SCRI and supporting the inclusion of the Taiwan question in the Quad’s agenda, perhaps by including Taiwan as a Quad dialogue partner. India’s engagement with the Quad will continue in similar lines; the Quad framework will however evolve to include more countries in its plus format.

Notes

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¹¹³ Devirupa Mitra, “Even as India Says Ties with China ‘Not Normal,’ Foreign Ministers Discuss Trade, Ukraine,” *The Wire*, March 25, 2022, <https://thewire.in/diplomacy/india-china-wang-yi-s-jaishankar>.

¹¹⁴ Shreya Nandi, “India’s trade deficit with China widening continuously: Foreign secretary,” Business Standard, October 21, 2021, https://www.business-standard.com/article/economy-policy/india-s-trade-deficit-with-china-widening-continuously-foreign-secretary-121102101472_1.html; MEA, India, “Transcript of Special Briefing by External Affairs Minister on Meeting with Foreign Minister of China,” no. 108.

¹¹⁵ Jagannath Panda, “Modi’s ‘self-reliant India’ has key foreign policy aspects,” *Asia Times*, July 13, 2020, <https://asiatimes.com/2020/07/modis-self-reliant-india-has-key-foreign-policy-aspects/>.

¹¹⁶ Al Jazeera, “India Rebukes China FM over Kashmir Remarks before Expected Visit,” March 24, 2022, <https://www.aljazeera.com/news/2022/3/24/india-rebukes-china-fm-over-kashmir-remarks-before-expected-visit>.

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OPENING STATEMENT OF AKHIL BERY, DIRECTOR OF SOUTH ASIA INITIATIVES, ASIA SOCIETY POLICY INSTITUTE

COMMISSIONER SCHRIVER: Thank you. Mr. Bery.

MR. BERY: Thank you very much for having me here today. As Dr. Panda said, my views are personal. They don't reflect the institution.

But members of the Commission, good afternoon, and thank you again for the opportunity to testify today about China's economic ties with India. Today my remarks will focus on the overall bilateral commercial relationship between India and China, what steps the Modi government has taken to reduce India's reliance on Chinese imports and what potential future steps might be taken.

Before getting into the specifics, there are a few points I would like to make. First, the India China trade and investment relationship is fairly one sided in favor of China, a fact which greatly concerns the Modi government and is the framework for understanding India's actions on trade. Second, the trade deficit with China is recognized as a strategic, economic, and even a political problem for the Modi government, which is determined to wean itself off of India's reliance on China but is finding it difficult to do so.

Third, unfortunately, when India develops policies that seek to reduce that reliance, these policies tend to protectionist in nature, which also winds up hurting U.S. interests.

So with that broader framework in mind, I just wanted to present a quick snapshot of the India China trade relationship. For context, India's fiscal year runs from April 1st until March 31st. This data is sourced from the Indian Ministry of Commerce.

So in the 2015 '16 fiscal year, the first fiscal year under the Modi government, India's trade deficit with China was about \$53 billion, and in 2017 '18 it reached \$63 billion before declining of course due to the COVID 19 pandemic.

However, according to data from India's Ministry of Commerce and Industry, the trade deficit already this fiscal year, between April 2021 and February 2022, stands at \$65 billion.

According to data from the Chinese government, total trade last year reached about \$125 billion.

Electrical machinery and equipment dominate India China trade and is a key reason why India has sought to boost its electronic manufacturing capabilities through various policies and schemes, as well as through increasing customs duties in the annual budget.

Beyond this, India's largest imports from China are chemicals, active pharmaceutical ingredients, auto components, and, finally, medical supplies. India also imports a range of finished products from China, including laptops and computers. The challenge that India faces is that its reliance on finished goods from China has benefitted it tremendously.

So, for example, India's mobile phone revolution could not have happened without imports from China, nor could India's solar revolution. On mobile phones, Chinese smartphone brands accounted for about 75 percent of India's smartphone market last year, with Xiaomi Corp taking the lead as India's top smartphone seller with approximately a 27 percent market share.

Realme is number 3, Vivo is number 4, and OPPO is number 5.

For India, the growing trade imbalance represents both an economic concern as well as political and national security. On the economics front, India believes that China puts up various regulatory and non-tariff barriers that impede the ability of Indian firms to compete in China, which was one of the major reasons India withdrew from the Regional Comprehensive

Economic Partnership negotiations as it believed that it was not getting fair and equitable market access to the Chinese market in exchange for access to the Indian market.

On the political front, national security is constantly at the top of mind of Indian policymakers, and the heavy reliance on China is of particular concern. According to various estimates, about 65 to 70 percent of all active pharmaceutical ingredients are sourced from China, which are critical for India's antibiotic and vitamin production.

As India does not have an alternative source for meeting the size of its API requirements, even though, yes, India does export some APIs, imports from China are much cheaper than what India is able to manufacture.

At the onset of the pandemic, these concerns were crystallized when Wuhan shutdown as it's a major source of APIs for India's pharmaceutical industry, and the industry came under stress, exposing a key national security concern for India. If geopolitical tensions with China continue to spike, China could stop exporting critical products to India, putting pressure on the Indian economy, and this is one of the main drivers of India's focus on self sufficiency and import substitution.

Another example is that China could use exports to India of critical infrastructure to attack India. So India did ban the import of power equipment from China, but in October 2020, there was a major blackout in Mumbai, which reports indicate could have been connected to a Chinese cyber campaign against India's power grid.

India has relatively few tools in its belt that it can put on the can put pressure on the Chinese economy, but its biggest weapon is access to the Indian economy. India knows that Chinese firms would like to invest and grow in India, and India has sought to make it more difficult for them to do so.

For example, at the beginning of the COVID 19 pandemic, India introduced new rules mandating that investments made from countries that share a land border with India, i.e. China, are now subject to review by the government. This stands in contrast to other investments which do not need government approval.

It has excluded Chinese companies from ongoing 5G trials and implemented mobile application bans under national security concerns.

Beyond attempts to restrict Chinese participation in the Indian economy, India is also aiming to attract some of the shifting supply chains away from China. Prime Minister Narendra Modi first focused on attracting manufacturing by the Make in India campaign, which sought to combine liberalization of foreign direct investment rules with an outreach campaign.

In his second term, there has been a shift in strategy towards this idea of self-sufficiency, but it has been accompanied by the production linked incentive schemes which are essentially financial incentives for firms if they meet certain production and export targets over a certain period of time.

There is some evidence that this change in strategy is working as a number of firms have taken advantage of the scheme to begin or expand manufacturing in India. At the same time, the government has developed a new approach towards trade, seeking to diversify its trade partners.

In recent months, India has signed trade deals with Australia and the United Arab Emirates and begun negotiations with the United Kingdom, and there are signals that negotiations with the European Union and Canada are set to restart. Oman and Israel are also other potential partners.

Though these deals are not high standards deals, and India has not opened up a number of politically sensitive sectors such as agriculture, the deals do mark an important shift in India's

mind set, as under Prime Minister Modi I would argue that India has been pro investment but anti trade.

For the U.S., this is a prime opportunity to reengage India on trade. India has shown interest in being a part of the Indo Pacific economic framework, and the U.S. is India's largest export market.

As my colleague Wendy Cutler has written, with GSP renewal potentially on the table, that reinstates some of the leverage that the U.S. has on India and can be used as a way to resolve some of the bilateral trade irritants in order to work on trade issues in the IPEF and the Quad.

Second, the reengagement on trade needs to include a digital component. This is an important facet of the U.S. India commercial relationship. For this, it makes sense for the U.S. and India to establish a U.S. India Digital Economy Ministerial, not unlike the structure of the U.S. EU Trade and Technology Council and the new India EU Trade and Technology Council. But the issues and workstreams should be tailored towards the U.S. India relationship.

So it's also an opportunity to create a digital strategic partnership similar to how there are partnerships for energy and defense. Digital issues are critical to a robust India U.S. commercial relationship, and they need to be elevated in the conversation.

Thank you very much.

**PREPARED STATEMENT OF AKHIL BERY, DIRECTOR OF SOUTH ASIA
INITIATIVES, ASIA SOCIETY POLICY INITIATIVES**

Testimony before the U.S.-China Economic and Security Review Commission

Hearing on

“China’s Activities and Influence in South and Central Asia”

May 12, 2022

Testimony by Akhil Bery

Director of South Asia Initiatives, Asia Society Policy Institute

Chairman Wong and Vice-Chair Glas, hearing Co-chairs Commissioner Bartholomew and Commissioner Schriver, other distinguished members of the commission and staff, thank you for the opportunity to appear before you today to share my thoughts on China’s economic ties with India. Today, my remarks will focus on the overall bilateral trade relationship between India and China, what steps the Modi government has taken to reduce India’s trade deficit with China, and what is driving the Modi government’s stance towards China. Finally, I will discuss what opportunities there are for U.S. companies, and some recommendations for policymakers.

1. Describe the most important components of China-India trade and investment relations. In what economic sectors is India’s reliance on China the greatest? Conversely, are there any sectors or areas where India is able to exercise economic leverage over China?

Before getting into the specifics, there are a few points I would like to make. First, the India-China trade and investment relationship is fairly one-sided in favor of China, a fact which greatly concerns the Modi government, and is the framework for understanding India’s actions on trade. Second, the trade deficit with China is recognized as a strategic, economic, and political problem for the Modi government, which is determined to wean itself off of India’s reliance on China, but is finding it difficult to do. Third, unfortunately, when India develops policies that seek to reduce that reliance, these policies tend to be protectionist, which also wind up hurting U.S. interests.

With that broader framework in mind, here is a quick snapshot of the India-China trade relationship. Trade and investment between India and China is consistently skewed in favor of China, with the Indian government concerned about the growing trade imbalance, and taking steps to both increase exports to China, while limiting Chinese exports to India. In the 2015-16 fiscal year (the first full fiscal year under the Modi government), India’s trade deficit with China stood at \$52.68 billion¹, reaching \$63.05 billion in 2017-18², before declining to \$44.02 billion³ in the 2020-21 fiscal year. According to data from India’s Ministry of Commerce and Industry,

¹ “India’s trade deficit with China jumps to \$53 billion in 2015-16,” *The Economic Times*, August 1, 2016, <https://economictimes.indiatimes.com/blogs/et-commentary/indias-trade-deficit-with-china-jumps-to-53-billion-in-2015-16/>

² “India-China Trade Deficit,” *Press Information Bureau*, February 7, 2020, <https://pib.gov.in/newsite/PrintRelease.aspx?relid=199141>

³ “India’s Chinese imports slip 7.2% to \$65.21 bn in 2020-21; exports up 26%,” *Business Standard*, March 25, 2022, https://www.business-standard.com/article/economy-policy/india-s-chinese-imports-slip-7-2-to-65-21-bn-in-2020-21-exports-up-26-122032500774_1.html

the trade deficit between April 2021 and February 2022 already stands at \$65.34 billion.⁴ India's fiscal year is from April 1 until March 31st.

Electrical machinery and equipment⁵ dominate India-China trade, and is a key reason why India has sought to boost its electronics manufacturing capabilities through various policies and schemes, as well as through increasing customs duties in the annual budget. Beyond this, India's largest imports from China are chemicals (that are typically used by industries), active pharmaceutical ingredients (API), auto components, and finally, medical supplies. India also imports a range of finished products from China, including integrated circuits, laptops and computers, as well as oxygen concentrators. The challenge here is that India's reliance on finished goods from China has benefited India tremendously; India's mobile phone revolution could not have happened without imports from China, nor could the India's increasing use of solar energy. On mobile phones, Chinese smartphone brands account for about 75%⁶ of India's smartphone market last year, with Xiaomi Corp taking the lead as India's top smartphone seller, with approximately a 27% market share. Samsung is the number 2 brand, with approximately a 21% share. Though domestic manufacturing of cellphones has increased, India is still heavily reliant on imports from China.

Active pharmaceutical ingredients is another sector where India is concerned that geopolitical tensions with China could put pressure on India's pharmaceutical sector. According to various estimates, about 65-70% of all APIs⁷ are sourced from China, which are critical for India's antibiotics and vitamins, and India does not have an alternative source for meeting the size of its API requirements. If China were to stop exports, it would put pressure on the Indian economy.

For India, the growing trade imbalance represents both an economic concern, as well as a political concern, as they believe that the Chinese government is putting up various regulatory and non-tariff barriers that impede the ability of Indian firms to compete in China. India exports raw materials to China, such as iron ore and metals, but it imports a lot of finished and value-added products. Furthermore, some of India's key demands have remain unaddressed in trade negotiations with China; one of the reasons that India withdrew from the Regional Comprehensive Economic Partnership (RCEP) negotiations, was because it felt it was not getting fair and reciprocal market access with China. India has sought greater market access for its pharmaceutical products, sugar, rice, and dairy industries, as well as its services industry.

India has relatively few tools in its belt that can put pressure on the Chinese economy, but its biggest weapon is access to the Indian economy. India knows that Chinese firms would like to invest and grow in India. It has sought to make it more difficult for Chinese companies to do

⁴ Pia Krishnankutty, "The long road to Atmanirbhar Bharat: India's trade deficit with China hit record \$77bn in FY22," *ThePrint*, April 25, 2022, <https://theprint.in/economy/the-long-road-to-atmanirbhar-bharat-indias-trade-deficit-with-china-hit-record-77-bn-in-fy22/926987/>

⁵ "China and India Trade," <https://oec.world/en/profile/bilateral-country/chn/partner/ind>

⁶ "Chinese smartphone brands expanded India market share in 2020 – report," *Reuters*, January 27, 2021, <https://www.reuters.com/article/india-smartphones/chinese-smartphone-brands-expanded-india-market-share-in-2020-report-idUSKBN29W1X3>

⁷ Sandeep Soni, "Despite being world's pharmacy, why Indian pharma is dependent on China for bulk drugs," *Financial Express*, December 22, 2021, <https://www.financialexpress.com/industry/sme/msme-eodb-despite-being-worlds-pharmacy-why-indian-pharma-is-dependent-on-china-for-bulk-drugs/2386143/>

business in India or exclude them from various tenders, such as the ongoing 5G trials. India's ability to exert pressure on Chinese companies is growing as India has developed innovative new ways to block them from the Indian market. One recent example is when India decided to ban TikTok and WeChat; for TikTok, it was reported that this would cause a loss of about \$6 billion⁸, and the ban derailed TikTok's immediate plans for an IPO, while setting a precedent for other countries to follow. A similar situation occurred when India began sending signals that Huawei would not be allowed to participate in 5G trials; Huawei reduced its staff⁹ in India under the expectation that demand for its products in India would decrease.

2. Describe the effects of recent border tensions on India's economic relations with China. What forms of economic restrictions has India placed on China, and what additional measures could it take?

Since coming to power in 2014, unease with China's growing aspirations has driven India's China policy. Though India has sought to cooperate with China in various domains, tensions have simmered below the surface. For example: India sought China's support for entry into the Nuclear Suppliers' Group, but China refused, citing the need to grant Pakistan entry as well. India, for its part, has increasingly implemented a range of policies to protect the Indian economy from being too reliant on Chinese imports and investments, which has agitated China. In successive budgets, India raised customs duties on dozens of projects and expanded local content rules in an attempt to develop domestic manufacturing and to lessen the economic dependence on China. India's concern about the trade deficit with China was one of the driving factors behind India's withdrawal from the Regional Comprehensive Economic Partnership negotiations in 2019, as India believed that it was not getting fair access to the Chinese market.

Since the beginning of the Covid-19 pandemic, India has introduced new rules¹⁰ mandating that all investments coming from countries that share a land border with India are now subject to review by the Department for Promotion of Industrial and Internal Trade as well as the relevant ministry or department of the government of India that has primary responsibility for the relevant sector. The law was introduced after China's central bank bought a 1% stake in an Indian bank¹¹, Housing Development Finance Corporation. India also feared that Chinese companies could use the crash in the stock market as an opportunity to increase stakes in Indian companies at a discounted price.

India's policies towards China have become increasingly more aggressive following the Galwan Valley clash on the Line of Actual Control in June 2020, where 20 Indian soldiers lost their lives

⁸ "TikTok predicts over \$6bn loss from India's ban: Report," *Economic Times*, July 3, 2020, <https://economictimes.indiatimes.com/tech/internet/tiktok-predicts-over-6-bn-loss-from-indias-ban-report/articleshow/76773061.cms>

⁹ Danish Khan, "Falling telecom business triggers layoffs at Huawei India, company slashes revenue target for 2020," *ET Telecom*, July 27, 2020, <https://telecom.economictimes.indiatimes.com/news/falling-telecom-business-triggers-layoffs-at-huawei-india-company-slashes-revenue-target-for-2020/77183960>

¹⁰ Department for Promotion of Industry and Internal Trade Consolidated FDI Policy, Effective from October 15, 2020

¹¹ Rajesh Mascarenhas, "China's central bank buys 1% stake in HDFC," *Economic Times*, April 13, 2020, <https://economictimes.indiatimes.com/markets/stocks/news/chinas-central-bank-holds-1-stake-in-hdfc/articleshow/75104998.cms?from=mdr>

as did an unknown number of Chinese troops. One of India's first actions was to ban various Chinese mobile applications. The first set of bans came in June 2020 when India decided to ban TikTok, WeChat and 57 other Chinese mobile applications¹², owing to national security considerations. India followed this with more mobile application bans in September and November 2020, and in February 2022, India banned another 54 mobile applications¹³ that have Chinese links, including the Free Fire mobile game, which is owned by Singapore-based Sea Ltd., but Sea counts Tencent as one of its major investors. In total, India has banned 321 mobile applications under national security considerations.

Beyond the mobile application bans, India also banned the import of power equipment from China, and has sought to reduce Chinese presence in telecom infrastructure. India's state-owned telecom company, Bharat Sanchar Nigam Limited (BSNL) sourced about 44% of its mobile network equipment from ZTE, while 9% was sourced from Huawei.¹⁴ After the clashes though, BSNL re-issued a 4G tender that excluded companies that originate from countries that share a border with India from participating in the tender, effectively excluding Huawei and ZTE. Similarly, Bharti Airtel and Vodafone Idea, which had extensively used Huawei equipment in their 3G and 4G network rollout, signaled that they were no longer going to use Huawei's equipment in their 5G trials. Finally, in May 2021, India's Department of Telecommunications introduced a list of approved vendors for India's 5G trials, leaving Huawei and ZTE off of the list.¹⁵

Each time China pushes India on the Line of Actual Control, India retaliates with economic measures. These measures have been either the mobile application bans or increased tariffs on Chinese-origin products. India also retaliates when it feels that it is treated unequally; for example, the government recently decided to suspend tourist visas¹⁶ for Chinese nationals, as China has yet to allow Indian students enrolled in Chinese universities to return for physical classes. If there is another flare-up on the border, India is likely to impose more restrictions on Chinese investment into India by refusing to approve investments made from either China or Hong Kong, or excluding Chinese companies from public tenders. Similarly, there are likely to be more mobile application bans in the future.

3. How do Indian policymakers view economic relations with China as creating risks to India's national security? Are there moves in India to actively move, change, or secure certain supply chains? To what extent is any sort of "decoupling" viewed as desirable or feasible?

¹² Maria Abi-Habib, "India bans TikTok, WeChat and Dozens of Other Chinese Apps," *New York Times*, June 29, 2020, <https://www.nytimes.com/2020/06/29/world/asia/tik-tok-banned-india-china.html>

¹³ "India Adds 54 More Chinese Apps to Ban List; Sea Says It Complies With Laws," *Reuters*, February 15, 2022, <https://www.reuters.com/world/india/sea-owned-game-free-fire-unavailable-india-after-ban-chinese-apps-2022-02-15/>

¹⁴ "BSNL's 44% mobile network equipment from ZTE, 9% from Huawei," *The Indian Express*, September 17, 2020, <https://indianexpress.com/article/business/companies/bsnl-44-per-cent-mobile-network-equipment-from-zte-9-per-cent-from-huawei-6599954/>

¹⁵ "Huawei and ZTE left out of India's 5G trials," *BBC*, May 5, 2021, <https://www.bbc.com/news/business-56990236>

¹⁶ "India Suspends Tourist Visas For Chinese Citizens As Payback: Report," *NDTV*, April 25, 2022,

<https://www.ndtv.com/india-news/india-suspends-tourist-visas-issued-to-chinese-nationals-iata-2915119>

With border tensions continuing, Indian leaders at the highest levels believe that the widening trade deficit with China is not only an economic issue, but a political and national security issue. They do not seek to completely decouple from China – that is not practical --- but they do recognize that India needs to take steps to protect strategic sectors from Chinese influence, secure its critical supply chains, and use government policy to boost self-reliance, exports, and foreign investments.

National security is constantly at the top of mind of Indian policymakers, and the heavy reliance on China is of particular concern. At the onset of the pandemic, these concerns were crystallized, especially when Wuhan shut down, as India's pharmaceutical industry is dependent on China for sourcing of APIs. For India, this exposed a key national security issue: if geopolitical tensions with China continue to spike, China could stop exporting critical products to India, putting pressure on the Indian economy. This is one of the main drivers of India's focus on self-sufficiency and import substitution.

In response to the pandemic, Indian policymakers have begun advocating for a concept entitled *atmanirbhar bharat*, which translates to self-reliance. Though the concept of self-sufficiency has been a part of Indian history, the idea of *atmanirbhar bharat* represents the government's latest attempts to attract manufacturing to India.

Throughout Modi's first-term, the slogan "Make in India" was widely used, as the government sought to present itself as a partner to the private sector in order to encourage manufacturers to relocate part of their supply chains to India. However, manufacturing did not grow at the scale that the government expected it to, but Indian policymakers realize that both trade tensions between the U.S. and China, as well as the Covid-19 pandemic present India with a unique opportunity to attract some of the shifting supply chains.

In March 2020, policymakers introduced the first production-linked incentive (PLI) schemes¹⁷ for key starting materials/drug intermediates/active pharmaceutical ingredients, large scale electronics manufacturing, and medical devices. Buoyed by the success of these schemes, in November 2020, the government introduced schemes for electronic/technology products, pharmaceutical drugs, telecom & networking products, food products, white goods (ACs & LED), high-efficiency solar PV modules, automobiles & auto components, advance chemistry cell battery, textile products, and specialty steel. Finally, in September 2021, the government introduced a PLI scheme for drones and drone components. The PLI schemes provide eligible manufacturing companies with incentives ranging from four to six percent on incremental sales over the base year of 2019-20. Overall, the government has allocated approximately \$26.48 billion for these schemes. The sectors chosen are sectors where the government believes that India can have a competitive advantage and attract some manufacturing away from China.

There are some indicators that the schemes are going to be successful. Companies such as Foxconn Hon Hai, Wistron, Pegatron, Nokia India, and others have increased manufacturing in India to take advantage of the PLI scheme.

To complement the PLI schemes, the government has embraced a new attitude towards trade. Since coming to power in 2014, the government has frequently raised customs duties, withdrawn from and paused trade negotiations, primarily due to concerns about Chinese trade practices and

¹⁷ Invest India, Production Linked Incentive (PLI) Schemes in India, <https://www.investindia.gov.in/production-linked-incentives-schemes-india>

India's trade deficit with China. However, this year, the government has successfully concluded negotiations with the United Arab Emirates on a trade deal, completed a phase 1 deal with Australia, and is in talks with the United Kingdom and Israel. Furthermore, after a gap of 8 years, negotiations with the European Union are set to restart, and Canada is also another potential trade partner.

4. Aside from ongoing border tensions and national security concerns, how are Indian views on economic relations with China changing, and what drives these changes? To what extent do views differ in India among different sectors of society (such as the business community and the government), different regions of the country, or different political parties? Are there any sectors where India views further integration as desirable?

There is a difference between the political class and the business community. For the political class, China is India's greatest geopolitical threat, supplanting Pakistan. Under Prime Minister Narendra Modi, India has taken more of a confrontational stance towards China, recognizing that China's larger geopolitical aspirations will pose a challenge to India. Though Modi believed he could work together with China in his first term, those aspirations slowly changed, and after the border standoff between Indian and Chinese troops on the Doklam plateau in 2017, the deterioration of the relationship accelerated. Though there were efforts to try to "reset" the relationship through two informal summits, the first in Wuhan in 2018 and then a second in Mamallapuram in 2019, the Galwan Valley clash in 2020, has chilled the political relationship even further. From India's perspective, there can be no normalization of ties until the border issue is settled, as Indian policymakers believe that China has violated every agreement that governs conduct on the border. When Chinese Foreign Minister Wang Yi visited India in March 2022, he was met with a frosty reception, as Indian Foreign Minister S Jaishankar made it clear that the onus is on China to take steps to restore ties.

There is bipartisan consensus within India that China is a major national security threat and that China's global ambitions could hamper India's rise as well. The Congress party, which has ruled India for most of the post-independence period, has used the current border situation to attack Prime Minister Modi for being "scared to call out China for its aggressions," and that Modi had failed in guarding India's security and sovereignty, while also accusing the ruling Bharatiya Janata Party as being the "Beijing Janata Party."¹⁸ Though this is politics, it points to the how the discourse in India has shifted post-Galwan, where political parties are using the current border crisis to attack the ruling party. Furthermore, one popular phrase used by the opposition is that "Make in India is now Buy from China," signaling that the growing trade deficit with China, when combined with the limited growth in the manufacturing sector, as well as the relatively high unemployment rate in India, is entering into mainstream political discourse.

For businesses though, the situation is much different. While national security typically dominates India's economic policy and the political relationship remains cool, economically, despite India's efforts to impose restrictions on Chinese goods, trade in goods continues to flourish. In 2021,

¹⁸ Shemin Joy, "'Make in India' is now 'Buy from China', BJP is Beijing Janata Party: Congress," *Deccan Herald*, February 4, 2022, <https://www.deccanherald.com/national/national-politics/make-in-india-is-now-buy-from-china-bjp-is-beijing-janata-party-congress-1078009.html>

bilateral trade between India and China crossed \$100 billion for the first time¹⁹, driven primarily by electronic products, chemicals and auto components. India's imports from China were estimated to be about \$97.5 billion²⁰, while Indian exports to China crossed \$20 billion²¹ for the first time. The trade imbalance continues though, and highlights that despite the plethora of measures the government of India has taken, businesses still rely on China for intermediate and finished products.

The business community was also apprehensive after the government introduced the policy that restricted investments from countries that share a land border with India. India's start-up sector was once heavy reliant on financing from Chinese entities, and at one point, 18 out of 30 Indian unicorns (startups valued at over \$1 billion) had some Chinese financing.²² This came about for a three reasons: first, domestic venture capital firms are a relatively recent concept in India, so startups were unable to obtain financing. Second, Chinese investors were patient, especially as breaking into the Indian market presented a huge strategic opportunity, and they were willing to wait to access the market. And finally, as regulatory clampdowns happened in China, fintech companies looked to India for more opportunities.

However, these fears have proven to be unfounded, due in large part to Chinese policy actions, including stopping Ant Group's IPO, announcing a probe into Didi, and forcing AliPay to breakup – these actions have led foreign investors to look for other markets, and India has been the main beneficiary. According to the Asian Venture Capital Journal²³, for every \$1 invested into Chinese tech in the third quarter last year, \$1.50 went to Indian startups. Investors from the U.S., UK, and Japan are looking closely at India, and in 2021, 44 start-ups reached unicorn status in India²⁴, with many receiving financing from U.S. investors, suggesting that some of the greatest beneficiaries of the crackdown on Chinese venture capital funding have been U.S. investors and corporates. So fears about a financing gap have proven to be unfounded.

5. How have economic tensions with China affected India's approach to its economic relations with other countries, including the United States? What challenges and opportunities does this create for the U.S. government, U.S. firms, and U.S. workers?

India's economic and geopolitical tensions with China have for the most part, caused India to focus on developing its own domestic manufacturing capabilities. In successive budgets, the government has raised customs duties, primarily to combat the rising trade deficit with China, but also, to build domestic capabilities. India's actions have often had spillover effects, which have affected U.S. companies. For example, when India raised tariffs on electronic goods, though this action was aimed at China, it affected companies such as Apple and HP. Similarly, India's decision to ban

¹⁹ Karunjit Singh, "Amid bilateral chill, India-China trade marks record surge in 2021," *Indian Express*, January 26, 2022, <https://indianexpress.com/article/business/economy/amid-bilateral-chill-india-china-trade-marks-record-surge-in-2021-7741805/>

²⁰ IBID

²¹ IBID

²² Ananya Bhattacharya, "India's startup ecosystem doesn't need China," *Quartz*, November 16, 2021, <https://qz.com/india/2090203/do-indias-startups-need-chinese-vc-funding/>

²³ Benjamin Parkin and Mercedes Ruehl, "Investors pivot to India after China's tech crackdown," *Financial Times*, November 16, 2021, <https://www.ft.com/content/24596573-96f5-406d-82cf-4da1d02f98df>

²⁴ Invest India, "Indian Startups turned Unicorns in 2021," <https://www.investindia.gov.in/indian-unicorn-landscape#:~:text=Indian%20Startups%20turned%20Unicorns%20in,as%20unicorn%20headquarters%20in%202020>

Chinese mobile applications has caused challenges for U.S. companies operating mobile application market places (such as Google or Apple). We have also seen India punish companies for storing data on Chinese servers rather than in India, which has further solidified the push for data localization. In the process, U.S. companies such as American Express and Mastercard have been punished by Reserve Bank of India for not complying with localization laws, barring them from adding new customers until they were in compliance with the laws. A further expansion of data localization rules is possible in India's data protection bill, which is currently under consideration.

While there are negatives, there are economic opportunities for U.S. firms to take advantage of. India has recognized that a comprehensive trade strategy is needed to complement the PLI schemes, as the success of the PLI schemes and *atmanirbhar bharat* is directly linked to India's ability to export. India is re-engaging with key partners on trade, having signed deals with the United Arab Emirates and Australia, begun negotiations with the United Kingdom, and restarted negotiations with the European Union. Even though the U.S. and India were unable to successfully conclude a trade deal during the Trump administration, under the Biden administration, the U.S.-India Trade Policy Forum has restarted, and Ambassador Katherine Tai is in regular contact with her counterpart, Minister of Commerce and Industry Piyush Goyal. Following the conclusion of the Trade Policy Forum late last year, India and the U.S. continued to negotiate and announced that India will allow the imports of U.S. pork and pork products into India for the first time. Separately, India continues to purchase U.S. liquefied natural gas in order to meet its energy needs, supporting more U.S. jobs.

India has also expressed support for the Indo-Pacific Economic framework, and is keen to work together with likeminded countries such as the Quad partners (Australia, Japan and the U.S. are the other members) on the supply chain resilience effort. There are positive signals from India about deepening its economic engagement with the U.S., and with India making policy changes that seek to attract foreign investors to invest in India.

6. The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?

It is time to re-engage India on a trade deal. During the Trump administration, the U.S. and India engaged in a series of trade discussions, which aimed at improving market access for U.S. firms in India, and in exchange, the U.S. would reinstate India's participation in the generalized system of preferences (GSP) program. However, due to the lapse of the GSP program and the change in administration, trade negotiations came to a standstill. Though there have been some positive developments lately, including the agreement on opening up India's pork market to U.S. exports, there's an opportunity to do more. As my colleague at the Asia Society Policy Institute, Wendy Cutler, has argued, it is time for the U.S. and India to talk trade²⁵. Beyond the economic benefits, there are a number of strategic benefits: India is our partner in the Quad, and the U.S. and India as the only countries that do not have a trade deal between themselves. Furthermore, India and the U.S. are also a part of the "I2U2" Quad (India, Israel, United Arab Emirates, and United States), and India has concluded a deal with the UAE and is actively considering negotiations with Israel.

²⁵ Kenneth Juster, Mohan Kumar, Wendy Cutler, and Naushad Forbes, "It's Time for America and India to Talk Trade," *Foreign Affairs*, April 14, 2022, <https://www.foreignaffairs.com/articles/india/2022-04-14/its-time-america-and-india-talk-trade>

As India and the U.S. work together on a supply chain resiliency effort, and as companies look to move some of their operations and supply chains out of China, this is the right moment for the U.S. and India are to begin reaching their full potential by engaging in broader trade negotiations.

Additionally, there is a need to elevate and broaden our level of engagement on the digital economy, and make this a central pillar of our strategic and trade engagement with India. There is an opportunity now to move towards a U.S.-India data sharing agreement and leverage India's presidency of the G-20 in 2023 as an opportunity to move forward on global digital issues. One of the recommendations from a task force that I recently participated in suggests that now is the time to develop as U.S.-India Digital Economy Ministerial, which could be co-chaired by cabinet level officials from the Department of State, the Office of the U.S. Trade Representative, and the Department of Treasury. This is not unlike the structure of the U.S.-EU Trade and Technology Council and the new India-EU Trade and Technology Council, but the issues and work streams should be tailored towards the U.S.-India relationship. This is also an opportunity to create a digital strategic partnership, similar to how there are partnerships for energy and defense. Digital issues are critical to a robust India-U.S. commercial partnership, and they need to be elevated in the conversation.

PANEL III QUESTION AND ANSWER

COMMISSIONER SCHRIVER: Thank you. We're going to return to alphabetical order, and we're going to begin with Commissioner Borochoff.

COMMISSIONER BOROCHEFF: Good afternoon. Thank you very, very much for being here and for your testimony.

I'm going to start with Dr. Madan, but I think I'm going to ask the same question of all three of you. Each of you gave some great general ideas about what you would like to see us recommend to our Congress.

But I'm very interested and, Dr. Madan, I think you had eight really good recommendations. If you all had to pick a specific recommendation, not the general one, in your mind, what would be the one thing that would really be smart for the American government to do if we were to recommend it? And why and what would it be specifically, not in general?

DR. MADAN: Thank you, Commissioner. As for the view that I have is kind of the one I mentioned at the end, which is really investing and understanding and devoting resources to understanding the political, economic, geopolitical landscape in South Asia, understanding these countries, what China's intentions are there, what its activities are there, mapping those, seeing where we can actually offer alternatives, where it makes sense for us to, and how we can actually shape the conversations there.

I think the reason I say it's the most important and when I say kind of deeper understanding and engagement, I include kind of the kind of high level interaction, but also interaction with civil society in these countries, so not just a government to government relationship, more exchanges, for instance, which we have seen in other parts of the Indo Pacific but not in South Asia beyond India in particular.

And the reason I say this is the most important is because I think it will benefit the other recommendations that I mention. We cannot figure out the best alternatives to offer these countries or, for instance, how to best to engage them and shape their choices to ones that are more aligned with ours if we do not understand their priorities and their ways of working and what China is indeed trying to do there at the kind of granular level.

So I think that will have the kind of most return for investment so to speak in terms of in terms of how we engage in the region.

COMMISSIONER BOROCHEFF: Thank you.

Dr. Panda or Dr. Bery, do you have a comment?

DR. PANDA: Thank you very much for that excellent question. In fact, I would also agree with Dr. Madan, and also follow the same route by saying I think there are a number of areas where probably India and U.S. can cooperate in the regions.

Two specific points I would like to bring out. One is that when we talk about India U.S. cooperation in South Asia or in the neighboring regions, we don't have enough examples about third country cooperation. So each one of these countries in South Asia, be it Nepal, be it Bhutan, Bangladesh, they can be taken into confidence in terms of building a trilateral understanding or a nexus.

India U.S. can take the lead in that trilateral nexus, and that would, you know, hugely change the Chinese operational strategies and probably put a check there.

The second is that I think we need to also identify the projects. What are the projects that are going to be beneficial for the U.S. American interests and Indian interests? And I think one lesson which could be learned from the Chinese practices is that they have identified the projects,

the developmental sectors.

And that's how they are operating in South Asia through different mode of engagement, which there is no unilateral factor as far as Chinese engagement in South Asia's culture.

So, therefore, we also need to find out the project, the sectors, the developmental parameters where possibly there could be a synergy between India and U.S. to cooperate with the local actors, be it the government, be it the local stakeholders, the business communities, or the associations and the institutes.

And I think we need to identify, be it on the maritime corridors, in the Bay of Bengal regions, or on the Himalayan corridors.

Thank you very much.

COMMISSIONER BOROCOFF: Thank you.

MR. BERY: I would agree with what Dr. Madan said. I would also point out that, unfortunately, I do not have a Ph.D., much to my friend's disappointment.

COMMISSIONER BOROCOFF: Sorry.

(Laughter.)

COMMISSIONER BOROCOFF: Me either.

MR. BERY: On the trade front, I would argue that I think this is the time to strike on trade. The two sides came closer in the Trump Administration to finishing a deal, but unfortunately it was not able to cross the finish line.

You have seen renewed momentum from India on trade, and at the same time in the various forums that India and the U.S. participate together for example, on the Quad, India already has an agreement with Australia. It has one with Japan. It is missing the U.S.

In the I2U2, India, Israel, United Arab Emirates, and the U.S. India has one with the UAE. It is potentially negotiating one with Israel. But, again, the U.S. is left out. By working together on trade and removing some of these bilateral trade irritants, I think it can foster greater cooperation between the U.S. and India.

COMMISSIONER SCHRIVER: Thank you.

Commissioner Cleveland.

COMMISSIONER CLEVELAND: Thank you. Thanks to all for their superb testimony. Nice to see you again, Dr. Madan.

I'd like to ask Dr. Madan, you mentioned in your sixth recommendation that the U.S. should take any steps that it possibly can, alone or with partners, to mitigate the adverse economic energy and food security consequences of the Russia Ukraine crisis.

And so I'd like, if you could, to elaborate on what that might look like in terms of specifics. And then for each of you, but in particular Mr. Panda, I am interested in there is one line in your testimony, Mr. Panda, that says that it would be useful to have Taiwan considered on the Quad agenda, if not in fact as a Quad dialogue partner.

So if you could elaborate on what that might look like and why that would be a good idea. Thank you. Dr. Madan first?

DR. MADAN: Thank you, Commissioner. It's good to see you as well again. We have seen particularly the impacts across South Asia of higher commodity prices across the board.

This is this is not just kind of an economic issue. It is a political one as well as we're as seeing in Sri Lanka right now. And there are several factors for that, but I think the consequences of the Russian invasion of Ukraine have tipped that over the scale.

But we have seen kind of the kind of energy, edible, oil impacts, the food security concerns because of both the constraints on fertilizer and grain access. I think the U.S., along

with perhaps India, could work together. There were already some discussions.

But I think thinking about, especially for the smaller South Asian states, mitigating the impact in terms of, for instance, India perhaps could direct its some of its wheat surpluses towards kind of the region if they need it. Or, frankly, on the crude oil price side, I think the U.S., India, perhaps Japan, and other big consumers of crude oil could help shape the decision making in Riyadh and in the UAE in terms of their oil productions, which currently they have they have not increased, and in fact are even charging an Asian premium for India and the U.S.

Both have leverage with these countries. India is increasingly so. And I think that can be used, for instance, to help out especially the smaller South Asian countries, but it would also help India and Pakistan.

COMMISSIONER CLEVELAND: Thank you.

Mr. Panda, could you speak to the Taiwan role.

DR. PANDA: Yes. Thank you very much for that question. Yeah. I think when we are talking about South Asian politics, we cannot really talk all of these politics in isolation. We know for a fact that every politics in South Asia is very closely linked with the Indo Pacific undercurrents and with the Southeast Asian politics.

And for last few years, even though there is a lot of highlights and a lot of impetus on the Quad groupings, during the pandemic we have also talked about the Quad Plus groupings.

And Quad Plus groupings has been a very useful grouping in terms of talking about addressing the post pandemic difficulties about the vaccine diplomacy, about a number of issues to build a synergy against authoritarian practices and try to think about, you know, how to plan for an alternative supply chain or new supply chain.

So to that effect I think Taiwan has a space, if not greatly in the South Asian politics but when we are building synergy between the India and U.S. in the context of both South Asia and Indo Pacific. Taiwan has definitely its place.

And why I do think that South Taiwan has a place? Because if you see last five to six years, Taiwan has specific foreign policy towards the regions. That is a new Southbound foreign policy under President Tsai Ing wen. And under that new Southbound foreign policy, Taiwan is increasingly looking at Southeast Asia and India as a critical partner.

So I think we should not really overlook those foreign policy potentials, which are also pieced towards South Asia, which we need to take advantage.

Similarly, today we are taking the advantage of Japan. Japan has an EPQI strategy expanded partnership of quality infrastructure, and it's what we see that India is trying to collaborate with Japan in India's northeast in northeastern regions focusing on seven to eight states.

So similar synergy can be tapped as far as Taiwan is concerned and both India and U.S., along with the Quad countries, should be talking terms with Taiwan. And we are clear about one thing, that Quad is just an open framework. And it is not a body. I don't think, you know, even though there will be reaction from People's Republic of China, we don't need to care for that. It's open groupings, and there is a space for Taiwan to cooperate.

Thank you.

COMMISSIONER CLEVELAND: Thank you so much.

COMMISSIONER SCHRIVER: Commissioner Friedberg. My apologies.

Commissioner Fiedler.

COMMISSIONER FIEDLER: Okay. Alphabetical order.

What is the internal opposition within India to further cooperation with the United States?

I mean, it has to be a nuanced political move internally, but I haven't read anything about it. So any of you have any idea?

DR. PANDA: Shall I go ahead? Thank you.

COMMISSIONER FIEDLER: Yes.

DR. PANDA: I think this is an interesting question to the in the context that, you know, we are talking about the most debatable society. That is India. There will always be an alternative view. There will always be an opposition view.

So, and I think what we have seen, no matter whose political party comes to power in Delhi, there is always an opposition camp who has questions about the foreign policy decisions.

And to that effect, even though U.S. there is, you know, overall consensus among the political fraternity and among the diplomatic fraternity in Delhi that U.S. is a critical partner, but then there is always, you know, a kind of alternative views about questions why India needs to go all the way with the U.S.

And I think to the effect I think, Commissioner, your question is very important because there has been issues in Indian foreign policy, be it on North Korea, be it on Iraq, be it on, you know, India's relationship with China, which India needs to manage.

There is always a debatable aspect of Indian foreign policy. So to that effect, I think the opposition parties are sometimes do questions about, you know, going India's decision about going all the way to cooperate with the U.S. But I think there is no doubt today that U.S. is the most effective and critical consequential partners as far as India's foreign policy is concerned, and there is no dispute about that.

The overall consensus is that to strengthen the relationship with the U.S. and try to pose a credible challenge to China and Indo Pacific, if it is possible.

COMMISSIONER FIEDLER: Anyone else have a view of this?

DR. MADAN: Perhaps I might add, Commissioner Fiedler, I think there is, as Dr. Panda said, the secular trend is that across governments, U.S. India's ties with the U.S. have only increased. It also, amongst the public to the point that to the extent that we have surveys remains kind of the very favorable ratings across administrations.

Nonetheless, there are there is a debate on how far and fast to engage with the U.S. and on what issues, even within government, and that does shape some of that has been, you know, what is China's reaction going to be? To some extent, there has also been, what is Russia's action reaction going to be?

But I think you largely see, because of and then kind of the judgment that India makes, when it needs to, it will set aside those concerns. So if, for instance, India did make a choice to not just revive but deepen the Quad, or include Australia in the Malabar exercise that the other countries do, despite objections from China and Russia, because of its increased concern about the rules based order in the Indo Pacific.

Outside government, there are there do tend there is even some opposition to the U.S. relationship, even though it does tend to be kind of fairly restrictive, as Dr. Panda said.

Some of this is ideological. It comes from the left parties that have long resisted. You also do see some constraint on or some kind of hesitance on the right. Where the right and left on this tend to agree is that they that they do not want to be overdependent on the U.S. They question sometimes U.S. reliability, and they believe that India should be strategically autonomous, and sometimes they believe that the U.S. constrains that autonomy.

People like me have argued that in the alignment with the U.S., it in fact enables India's autonomy because the biggest constraint on India's autonomy today is China, not the U.S.

COMMISSIONER FIEDLER: Thank you. I will have a question for the record on your conjecture about how India will react if China forcibly tries to take Taiwan. But we don't have time for it in this round.

Thank you.

COMMISSIONER SCHRIVER: Well, we might have to make time for that at some point before we're done. Interesting question.

Now Commissioner Friedberg. Thanks.

COMMISSIONER FRIEDBERG: Thank you very much. I have a question for Dr. Panda and also for Mr. Bery.

Dr. Panda, you describe this somewhat unusual Chinese strategy for dealing with India, on the one hand pursuing trade relations, on the other behaving very provocatively along the border. And I wonder if you could spell out what you think the rationale of that approach is and what and what the endgame might be.

DR. PANDA: I think we need to go into the details why the Chinese have lately been so aggressive in order to understand the rationales in terms of identifying what are their "objectives" behind all of these things.

You know, one of my core arguments on this has been that when we talk about China and the boundary dispute, Line of Actual Control was always a disputable fact. It was always a problematic, disputable fact, so it's not that only recently there is a misunderstanding or misperception about the Line of Actual Control.

Over the years, over the five, six decades since the Chinese China and the war from 1962, this has been an unresolved issue. But I think why recently, and particularly under Xi Jinping, this issue has been, you know, escalated and why we do see an aggressive Chinese approach towards India, one of the main fact is that I think is the rising nationalism in both of the countries.

We know for a fact that when Xi Jinping came to power, there was an economic recession, economic, you know, slowdown in China, what they called, you know, new normal in China's economy. The Chinese society has been under pressure. The BRI has been introduced, and it will tackle the Chinese economic pressures.

On the other hand, if you talk about Delhi and India, there is a party in power who does not want to really compromise on national security thinking. And I think to that effect Prime Minister Modi has been quite effective as a leader, and there is a backbone to the ruling political party. That is the BJP, and it's, you know, an off route political association that is the RSS, Rashtriya Swayamsevak Sangh, who is very effective and influential groupings in terms of influencing BJP's foreign policy agenda.

And I think they do not have a point way to think anything about in compromising terms when it comes to the national security thinking. So there are rising nationalism on both sides in China and India, which has been the clashing point.

Second, I think President Xi Jinping's personality has been a clashing personality with Prime Minister Modi. But I think more than that, what we see today is that probably President Xi Jinping has to follow the ground military's orders, because today we see that the theater military command has an influential say in China's India policy. From 2015, 2016, onwards, when there has been reform and restructuring in the Chinese military.

The theater command has been given a kind of autonomous, you know, go ahead to kind of a green signal to, you know, claim for new territories, to identify new territory, to make the status quo look like irrelevant, and go for new territories. And this is what we are seeing.

If we connect the dot about the 2014 Chumar incident, 2017 Doklam incident, 2020, the Galwan incident, each one of these incidents suggests there are new claims happening from the Chinese side. And the objective is to derail the negotiation process, to go for the new claims.

And, also, my last point here would be that there are two effective mechanisms which were looking at the boundary negotiation process. One was one was the special representative-level dialogue, which was happening at the national security advisory level on the Chinese side, the State Councilor's level. Today, what we see, that mechanism seems quite irrelevant in current context.

Second, the WMCC, the Working Mechanism on Consultation and Coalition on the Border Affairs, which was established just before Xi Jinping came to power in 2012, that also became, you know, irrelevant with all of this aggression. And so the Chinese strategy is to make this negotiation process derail and try to put India under pressure situation.

And I think that's one of this core objective behind Xi Jinping's recent aggression towards India.

COMMISSIONER FRIEDBERG: Okay. Thank you. I don't think I have time for another, but

COMMISSIONER SCHRIVER: Okay. Vice Chair Glas. We may have an opportunity to come back to her.

We'll move to Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Mr. Chair.

Dr. Panda, I wanted to return to your discussion of China's Land Border Law and whether you see this really as a counterpart or an approach modeled on a similar approach that the Chinese have used in the South China Sea where they had crafted in advance a legal argument to serve as legal cover or justification for territorial expansion.

And here perhaps accompanied by an even more pronounced effort to use civilian settlements to make and counter territorial claims along the border in the Line of Actual Control.

So I wanted to get your thoughts on that, and then, specifically, your insight into how aggressively you would anticipate the Chinese applying, interpreting, and implementing this law, especially with regard to the provision that would purport to prohibit construction on the other side of the border without Beijing's approval.

DR. PANDA: Interesting question. In fact, I think my first reaction to China's Land Border Law would be that it was in reaction to India's re evocation of Article 370 in Jammu and Kashmir.

As you know, Prime Minister Modi has been quite effective. In fact, this is the point I was making earlier, that the current government in Delhi does follow a nationalist agenda in terms of trying to have a unified India.

And, therefore, what we saw is that there has been a lot of policy measures has been introduced in order to integrate Jammu and Kashmir with India more deliberately. And, you know, re evocation of Article 370 has been a huge signaling strategic signaling towards China, and China has seen it as a huge setback.

So to that effect, when we are talking about the Land Border Law, the land border law in a way has come out as a response to India's movement as far as Jammu and Kashmir is concerned, and the kind of infrastructure development under the more Modi Administration is taking place.

But I think China's national border law has a greater legacy, greater trajectory. We should not be shortsighted to factor it only in Indian context, because as you rightly pointed out,

I think there is a, you know, maritime law they have introduced, and that has a you know, a direct linkage with South China Sea to Taiwan issue.

So I think what we are currently seeing under President Xi Jinping's administration, under his tenure, that the Chinese are trying to bring history as a as a medium of play, and they are using national sovereignty as a basis of argument.

So I think when we are talking about Land Border Law, and the maritime law that has been introduced recently, both have a similar trajectory. They are trying to facilitate Xi Jinping's hand in terms of reviving the Chinese history and trying to pass a signal to the regions that China is here, not to compromise anything. China will be you know, not be negotiating anything as far as land territories are concerned or maritime territories are concerned.

So, therefore, I think when you are talking about Land Border Law, we should not be seeing it in isolation. It has a greater legacy. It has a greater trajectory. But in context of specifically in context of India, I think this was introduced more as a response to India's re evocation of Article 370, which has now allowed India to see Jammu and Kashmir as an integral part of India.

Thank you.

COMMISSIONER GOODWIN: Would you anticipate that the Chinese will use this law as justification or as cover for additional civilian expansion and settlements in disputed areas?

DR. PANDA: Definitely. I think what we have seen recently is that there is a new Chinese policy which is emerging. That is the Xiaokang border villages. Xiaokang border villages are model villages where the civilian entities are coming, trying to facilitate the People's Liberation Army on the ground.

So, therefore, when we are talking about the Land Border Law, it has a clear, you know, linkage to the ground realities, and that's how the Chinese are trying to establish the connections. They are building up the infrastructure in the bordering regions. They are bringing out a kind of mixture civilian setup where purely and the civilian communities are coexisting in the regions, and they are trying to make sovereignty issue, and trying to also bring the historical connotations into account.

So, therefore, you are right. I think when we see on a greater context, it has a problematic, you know, signaling towards India and towards many other countries with whom China has a land border or a maritime dispute.

COMMISSIONER GOODWIN: Thank you.

COMMISSIONER SCHRIVER: Thank you.

Commissioner Mann.

COMMISSIONER MANN: Thank you, and thank to the panelists. I have a couple of questions. The first may be a side issue, but I wanted to ask about it. China is also actively involved in Burma, in Myanmar, as are India and the United States. Is it out of these discussions simply as a matter of definition because Burma is classified as Southeast Asia, or is it so domestically preoccupied that would be the euphemism I guess that it plays no role in any of these larger calculations?

DR. MADAN: I'm happy to start with on that question, Commissioner. It actually I think I perhaps just didn't discuss it because it's not often considered in this AOR, but it is very much connected. We draw the bureaucratic seams that or stitch the bureaucratic seams, but it is quite very connected, has been since the beginning of the PRC's founding, as well as Indian independence.

Burma also had a boundary dispute. In fact, it was the same McMahon Line that India

and China that separate India and China on kind of the eastern side. That boundary dispute was resolved, but it is the connections go back.

You have also seen in kind of more recent years Indian engagement and also its different view from the U.S. sometimes of developments, or at least different approach in Burma from the U.S. has been shaped by its concerns about greater Chinese involvement there. You've seen, for instance, India move from being one of the only Asian countries to support the kind of democratic movement in Burma in the '80s to in the '90s as a result of concerns about Chinese involvement there as well as concerns that the junta would not be as supportive in dealing with Indian insurgents.

India shifted its approach and started dealing with the junta, and that's what you've seen since then, which is India has argued to the U.S. that the field should not be left. There should not be a vacuum left for China with the regime in Burma.

On this, it's not just engaging with or consulting with the U.S. It's also engaging with Japan, which is another actor that is active there. You have also seen kind of fallout, and another reason Burma is related is because of kind of the Bangladesh Burma connection, including with kind of the Rohingya now being a factor.

But there is another just one other kind of element I'll mention is, there has been quite considerable concern about Chinese economic engagement and the potential strategic implications of that in Burma, something that has been a subject of U.S. India discussion as well as India Japan discussion, including the development the Chinese development of the Port of Kyaukpyu, which would give it a foothold so to speak in kind of the Bay of Bengal.

So I think you have seen that Burma is very much connected to this story, if you think about it for on the ground, even if we kind of separate them in bureaucratic in bureaucratic seams.

I do think there is scope for kind of discussion in terms of it has been for that reason about the state of affairs in Burma and not leaving not leaving things or not leaving either a vacuum or instability in the region that Beijing could take advantage of.

COMMISSIONER MANN: Thank you.

COMMISSIONER SCHRIVER: You have a minute, and you mentioned a second question. Do you want to try to slip it in or move on?

COMMISSIONER MANN: Since it's only a minute, I will move on to a possible second round.

COMMISSIONER SCHRIVER: Okay. Again, I'll defer to the end of the queue, Commissioner Scissors.

COMMISSIONER SCISSORS: Mr. Bery, I want to extend your observation that India's pharmaceutical industry is has a significant dependence on Chinese chemical inputs to the U.S. India relationship, which is to say, if the Chinese cut the Indians off, the very considerable Indian pharmaceutical exports to the United States get cut off. We will get hurt. We will see price inflation. We will be unhappy.

If the Chinese cut the United States off, if they want to be effective in saying no more pharmaceutical ingredient exports to the U.S., they have to cut India off as well, because otherwise India will simply supply the U.S.

This is a very important point of convergence of interests between the U.S. and India. We want India to be successful in moving off of dependence on Chinese chemical precursors, for India's own sake in serving its own industry, or serving its exports including its exports to the United States. So your point is well taken. I wanted to extend it into U.S. policy interests,

because that is an area where the U.S. and India have almost exactly the same interest.

Having said that, I'm taking it off the table so you can't use it. You say we should the U.S. and India should engage on trade, and I you know, I just discussed a trade related issue. I think it's probably more about investment in India than it is about trade, but you can't use that one.

What do you think the two sides can actually agree on that matters, right? We were close to a very tiny trade deal in the Trump Administration, not a real trade deal. I read the India UAE free trade agreement. I'm sorry I lost that time of my life, and I would like to get it back.

We don't it's hard for me to imagine a lot of trade issues that matter on which the U.S. and India can agree. So, please, I'd love to hear your views.

MR. BERY: Thank you very much for the question. And I would actually argue that there has been some momentum on trade already. So there was an agreement between India and the U.S. to expand pork exports from the U.S. to India for the first time ever.

India still maintains tariffs on a wide range of U.S. agricultural products in response to U.S. imposition of Section 232 tariffs during the Trump Administration. That's another potential area for India to remove tariffs.

What my argument is that when GSP is kind of brought back to the table, if Congress were to reauthorize it, that would provide momentum to say to India, look, this is an opportunity for us to take advantage of your opening on trade. Start removing some of these barriers to trade that you've put on to trade that you've put on U.S. companies, and in exchange we will consider reinstating GSP privileges for you.

So I think that's where where my argument is coming from is that there are small steps to be taken, including removing price controls on medical devices which adversely affect U.S. companies. When I talked about India putting in protectionist policies that hurt U.S. companies, when India put restrictions on Chinese investments, Apple, Dell, Cisco, were all exporting products to China which from China to India, which got held up at the border due to random inspection checks.

So removing those sorts of irritants from the bilateral trade relationship I think will allow the U.S. and India to kind of talk to each other better on trade to widen the trade relationship.

COMMISSIONER SCISSORS: So just to clarify, what you're thinking about is there are some unnecessary, even, you know, recently created barriers we can engage on and we can improve on. You're not really thinking of this as a big step forward for U.S. India trade.

MR. BERY: Absolutely not. I don't think we are at any point considering a free trade agreement with India, and I think that would be wrong to consider. I don't think India has shown enough initiative yet to warrant broader trade discussions with the U.S., but I do say that it is worthwhile engaging in removing some of those irritants, so that U.S. companies can compete more in India.

COMMISSIONER SCISSORS: Thank you, and thank you for the point on pharmaceuticals.

COMMISSIONER SCHRIVER: Chairman Wong?

CHAIRMAN WONG: So, Dr. Panda, I want to ask a little bit more about the Quad format. You mentioned it in the context of Taiwan, which is an interesting way to approach the Quad. But I guess my question is, basically, how does India view the Quad format in its utility?

I mean, from the U.S. perspective, we have been trying to elevate the Quad, enhance the frequency of contacts, find new projects, and perhaps turn it at some point to more of a, not just, you know, the humanitarian focused projects that we've had since the tsunami period when the Quad was formulated, but more towards security.

Does India agree on that? Will they want this to be a kind of full spectrum format? And I ask that because in my time in government we had lots of ambition. But I will be frank, a lot of the drag was from India. It's I chalk it up to its historical, nonaligned strategic culture. A part of it was just bandwidth, and they weren't able to commit resources.

So I turn it over to you just to maybe expand upon how India views the Quad and its strategy.

DR. PANDA: I think India's understanding about Quad has been at a kind of incremental process, you know, evolutionary kind of a process in terms of understanding the Quad framework and trying to imbibe it in Delhi's foreign policy.

But I think if we see the evolution of the Quad and the way Delhi initially saw Quad, I think since the beginning there has been a lingering doubt about India's commitment towards Quad because there was no clarity about the Quad, Delhi was very lukewarm about Quad, and there was a hesitation initially, let's say around 2017 when the Quad 2.0 appeared.

So I think from that point onwards, that's always been a cynical view in many strategic circles to see that probably India is not fully invested or committed to the Quad framework. On the contrary, I will say that today, after the pandemic, I would say that there has been a significant change about India's perception and undertaking towards the Quad.

India does see Quad as a critical foreign policy variable today as far as Indo Pacific planning is concerned, and India does, you know, appreciate about the kind of multilateral, minilateral engagement India is evolving with U.S., Japan, and Australia, within the Quad process.

But I think I will try to link with your point what you interestingly pointed it out, that there has been an evolution about, you know, the non alignment, the strategic autonomy. I mean, these are, again, a fixed perception about Indian foreign policy. But we know for a fact that every foreign policy will try to grab opportunities to take their advantage and probably try to link it with their national interests.

So to that effect, I think what we are today watching, and that is what very interesting about Indian foreign policy, particularly during the pandemic and after the pandemic. There is a pointed alignment strategy emerging in India.

India is going for a pointed alignment engagement, be it in the defense sector, between the areas of science and technology and economics, with the Quad countries and outside the Quad countries.

So Quad is a critical grouping in Indian foreign policy. There is no doubt about that, and I think the way the Chinese have treated India during the pandemic, that has changed India's, you know, perception towards the Quad and towards the Indo Pacific. Today we see a much more focused approach towards Delhi over the Quad process.

But I think I would also add very shortly by saying that, as you rightly pointed out, Quad is still a kind of evolutionary mechanisms, even though there has been official (unintelligible) leadership summit. But it's not really agreed formula. It's not agreed groupings with an agreement.

So I think to that effect there is no commitment for a different game plan. Even though Delhi understand that we need a Quad groupings to counter (unintelligible) Chinese outreach, to challenge to deal with the Chinese challenge, but there is no agreed formula on many issues, including the Taiwan issues on South China Sea, on India China boundary dispute.

So when it comes to the hardcore defense, hardcore, hard pressed issues, there is a little bit of doubt, not only in Delhi but with many, I think all the Quad countries will hold the same

thing.

But more or less on a grander level, Delhi is looking at Quad much much more seriously than what it used to see three to four years back.

CHAIRMAN WONG: Thank you.

COMMISSIONER SCHRIVER: Commissioner Bartholomew.

COMMISSIONER WESSEL: Mr. Chairman? If I could reinsert myself prior to in between Scissors and Wong?

COMMISSIONER SCHRIVER: I see I'm having not only trouble with pronunciation today but alphabetical order. My sincere apologies.

COMMISSIONER WESSEL: No worries. I know

COMMISSIONER SCHRIVER: Commissioner Wessel.

COMMISSIONER WESSEL: I always bow to the Chair of the Commission, so no worries.

Let me since Derek and I tend to trade off criticisms, I'm going to question, you know, his approach that the or his assessment that, you know, the value of Indian pharmaceutical ingredients, products coming here is to address inflationary concerns.

To me, it's a matter of health care security, and China we're seeing many of these products essentially being pharmaceutical tourists. They are sent from China to India, and then they come here. And for me that's a question of our health security.

We have seen articles in the last several days about the inability of cancer patients and others to have the imaging opportunities here in the U.S. because of lack of contrast for shutdowns.

So, Dr. Bery, I wanted to first raise with you you're one of the few who really talked about the IPEF at all, the Indo Pacific Economic Framework, which is a big issue for the administration. How do you and the other witnesses look at the IPEF? I don't think we need to go into GSP and other bilateral issues with India. This is really more about, you know, the framework and structure of U.S. trade relations in the region and how those may offset China activities and interests.

So if you could give me your thoughts deeper thoughts on IPEF, its salience, its impact, and how that fits into U.S. policymaking.

MR. BERY: I would start by saying I don't know what's in the IPEF. I am also eagerly waiting to see what the administration puts out. So I I would hesitate to comment on that.

But what I do know is that India has been in communication with the U.S. Government about IPEF and has looked favorably upon it. So I would defer my answer on it until there is more information available on the IPEF framework.

COMMISSIONER WESSEL: Okay. Do either of the other witnesses have a view on the IPEF?

DR. PANDA: Sorry. I don't have anything to add. Thank you.

DR. MADAN: I'll just add that I think, you know, some of this is going to be expectation setting in the region. It is not unlike in kind of Southeast Asia and East Asia, you are not going to see, you know, the kind of level of disappointment that there is not a trade component to it, for instance. But I think, you know, there would be interest, I suspect, and where there can be connections in terms of the individual pillars.

And from our understanding of it currently that this will be kind of more plug and play, and I think it fits with this kind of coalition model that we have seen even with things like the Quad, which is, you know, that countries will engage according to their comfort levels.

So I think, you know, you will see, as Mr. Bery said, that there has been the Indian government has seen components of this, has welcomed them, and I suspect, you know, other countries, for example, the Bangladeshi foreign minister was recently in town as well, perhaps got a preview of it as well.

So I think the idea when as we see the kind of pillars develop, I think there will perhaps be interest in engaging on that.

I think the kind of the kind of big economic question in South Asia, and especially the smaller countries, tends to be on the connectivity side. But there, you know, on kind of infrastructure projects. So I think they might be interested in whether there is something there on digital infrastructure.

You know, they wouldn't want market access, but I don't think the expectations are as high as they are perhaps elsewhere in Asia about that. So I think you will see kind of more interest in the pillars and seeing how it can how countries can engage. On the infrastructure component, it tends to be more kind of India, Japan, amongst the like-minded, the EU, that tend to be engaged, perhaps even Britain increasingly as part of its Indo Pacific tilt.

And then I think, you know, you will see you have seen, however, with, for example, the Millennium Challenge Corporation compact with Nepal, which has kind of a component of also integrating India and Nepal in a better way as well.

So I think you are seeing some of this develop, but not necessarily through the IPEF directly, but this might be subsumed within that as well.

COMMISSIONER WESSEL: Thank you.

COMMISSIONER SCHRIVER: Everybody's waiting for the surprise, who I'm going to call on next but

(Laughter.)

COMMISSIONER SCHRIVER: Commissioner Bartholomew.

COMMISSIONER BARTHOLOMEW: Thank you. I would just point out that my Co Chairman is getting his alphabetizing wrong and he's got a list right in front of him.

(Laughter.)

COMMISSIONER BARTHOLOMEW: So thank you to all of our witnesses. This is really interesting. I have several questions.

The first one I want to tie back to the first panel where we talked about Pakistan, and I'm just wondering China's positioning vis à vis Jammu and Kashmir. I'm surprised it has only been mentioned once here, but how does that sort of the triangulation of that fit in?

And, generally, could you just talk more about India China Pakistan and how they are positioning themselves? And this I think would be for everybody. Dr. Panda?

DR. PANDA: Thank you very much. I think for last 10 years or so, I think the kind of military modernization that has taken place in Chinese military, the kind of infrastructure planning that China has done in the bordering regions, and the kind of chemistry that has happened between China and Pakistan.

One of those critical debate in Delhi are in recent years that has been on the forefront is that whether and at what time probably Delhi is going to face a dual front war.

And I think that explains about everything, because the way the Modi government has approached Jammu and Kashmir regions and tried to integrate more with India, and try to, you know, carry out developmental projects, infrastructure developmental projects, across the northern border, be it the bordering regions with China or in Pakistan, that has allowed, you know, policymakers in Beijing and policymakers in Islamabad to sit together and talk about not

only Jammu and Kashmir but also about the inter triangularity that exists between India and China and Pakistan.

One particular point that will actually decide and determine these—the fate of India's relationship with these two countries is that, to what extent U.S. can actually come into play. I mean, we know for a fact that the Pakistanis have long expected a lot of donations. And even though over the last two to three decades they have received a lot of donations from U.S., they have misplaced data, they have mishandled those donations, financial packages, received from the U.S.

So we need to keep a tab about how to put a check on Pakistan in terms of not misutilizing those, you know, financial aids that is received from the U.S.

Also, the kind of gameplan that is emerging between China and Pakistan, not only about China Pakistan Economic Corridor but also the kind of dual understanding happening about the Kashmir issue. That is going to decide a lot about the triangularity between India, China, and Pakistan.

But I would say and stop here by saying that probably we have to wait and see how the new government Pakistan is going to approach whole lot of things. We expected a lot from the Imran Khan government, but I think Imran Khan government in Pakistan followed the same route like the previous government.

So I don't think there is any huge changes going to happen between China and Pakistan. There will be a relationship evolving between them, and the relationship will only be strengthening. And India has to be very careful, and probably there is a gulf between India and U.S. to talk about some of these issues on the ground and also very pointedly how to address some of these issues, but Delhi is anticipating for a long time a dual front war.

COMMISSIONER BARTHOLOMEW: Dr. Madan, anything to add?

DR. MADAN: I'll just add that on the Kashmir side, China is actually a party to the dispute in Kashmir, both because in the China Pakistan agreement in 1963 in which Pakistan essentially ceded territory to China that India still kind of claims as part of—as part of Jammu and Kashmir as a whole, as well as the fact that Ladakh itself, which is now kind of a union separate union territory, was also part of Jammu and Kashmir and is kind of part of what China not just claims but actually holds.

There is also kind of the consideration where we have seen China go from kind of largely being supportive, and it still has an interest in the Kashmir dispute not turning into a conflict. It does not want to see instability, but it—at the same time, it does—you know, it has been trying to kind of—it does not want demands to be made from Pakistan for its assistance, which it is not given beyond the point in these conflicts.

Having said that, there has been a shift, as I mentioned, in terms of how helpful it has been in India Pakistan crises, including over Kashmir in recent years, and it has in fact been supportive of the Chinese kind of of the Pakistani position on Kashmir.

For example, in 2008 and 2009, it started stapling visas on kind of passports of Indian citizens, Indian nationals, who were from Kashmir and from Arunachal Pradesh, which China claims as well. So you have seen that.

And one other thing that I'll just briefly mention is China-Pakistan Economic Corridor. One of the reasons India was not supportive of that, would not endorse it or the Belt and Road Initiative is there are Chinese projects in Pakistani held Kashmir that is disputed.

COMMISSIONER BARTHOLOMEW: Thank you.

COMMISSIONER SCHRIVER: Thank you. I'd like to ask a question that it might be a

little insider y, but I was approached by some congressional staff wearing a different hat on a proposal.

And I'll direct this to you, Dr. Madan, because I think you are the one who mentioned seams. It's not just that we draw seams where we draw them. The case we mentioned before was Burma being East Asia, everything east being South Asia. It's that the U.S. Government itself draws those seams in different places in different agencies, even sometimes within the same agency.

Office of the Secretary of Defense has an Indo Pacific Assistant Secretary, but our combatant commands divide India literally in half. INDOPACOM has India west; CENTCOM has India east. In State Department, we have separate bureaus entirely, South Asia and East Asia. So on and on and on. National Security Council just had a reorganization with this Indo Pacific coordinator, but before that it was split.

So, again, a bit insider y, but, Dr. Madan, do you see that this manifests in any difficulties in our relationship with India? Obstacles to more coherent communication, policy development? Would you see a need for adjusting some of these seams at least so we're unified across the USG, even if we have to draw a seam somewhere?

DR. MADAN: Thank you, Commissioner Schriver. I think it used to be more of a problem, particularly when kind of South Asia was seen as not just distinct but almost isolated from the rest of Asia. I think one thing that the Indo Pacific framework has done that has been positive is it has integrated kind of South Asia already to some extent into the kind of larger Asian whole or reinserted it into that larger kind of Indo Pacific.

And so I think, you know, the efforts, for example, to think across those themes going back to kind of the 2014 onwards, even 2015 period of thinking about, you know, the connections between South and Southeast Asia, between kind of even kind of and what we've seen recently in terms of thinking about India as a player, even as far as the kind of Middle East, we have obviously thought about it in terms of Iran for a while, I think those have helped.

But I do think I do think where you know, there was some talk a few years ago, as you know, about kind of reorganizations. I think the problem with that is, no matter where you draw you know, kind of draw that seam or that line, somebody will get left out. There is always a discussion, you know, is Pakistan in the Indo Pacific or not, for instance.

There have been problems at times, for example, with India on that kind of separation where Pakistan has been in CENTCOM and that has sometimes created kind of friction. But I think recently because communication and coordination has been better between the U.S. and India across across this kind of larger South Southeast Asia dimension, with, for example, the Quad meaning that EAP is now involved, East Asia and Pacific Bureau being involved as well at State in thinking about India, I think this has all helped.

I think, you know, the fact that the that India now engages with each of the kind of combatant commands, not just CENTCOM and INDOPACOM but AFRICOM as well, has helped. And so I think better kind of coordination and across these seams on the U.S. end would be better, but continued kind of consultations with India and thinking about incorporating India within these kinds of the bureaus that are related, but where India doesn't reside would also kind of be helpful.

So I think it is the situation is much better than where it was due to developments over the kind of last decade. So I would not be in favor of reorganization, but I do think, thinking through that much more systematically, these coordination efforts would be helpful.

COMMISSIONER SCHRIVER: Thank you. Excellent answer.

Gentlemen, I don't know if you had any thoughts on that. No?

DR. PANDA: No. I don't have any thoughts, but if time permits I would like to answer the earlier question how India will respond to if the Chinese have, you know, force reoccupying Taiwan. Shall I go ahead?

COMMISSIONER SCHRIVER: In 30 seconds.

(Laughter.)

COMMISSIONER SCHRIVER: Sure. Please.

DR. PANDA: I think, yeah, time will say, but I think interestingly, if we see the foreign policy position papers of between India and China, there is no mention about One China policy anymore in Indian Foreign Ministry papers.

Of course, India does acknowledge One China policy, but there is no mention about that in any of these official documents for last 10 to 12 years. That explains about India's future planning about Taiwan. If PLA forcefully occupies Taiwan, it depends on how U.S. is responding.

But I think one particular variable that will also decide about India's responses, whether India will get a kind of support as far as its own position on the boundary issue discussion from both the mainstream political parties in Taiwan that is, DPP and KMT.

DPP has a somewhat pro India position on the boundary dispute, but, historically, if we talk about KMT's position on India-China boundary dispute, it's not very clear.

So unless there is a consensus in the Taiwan front from the two mainstream political parties about supporting India's claim on the boundary issue, then India cannot really support Taiwan.

So I think Taiwan's reciprocation will matter to India, and then probably India will depend on how U.S. is responding probably India will support the Taiwan's cause and probably stand for it, provided Taiwan is supporting India's claim on the boundary dispute given that historical connotation between KMT and mainland China.

Thank you.

COMMISSIONER SCHRIVER: Thank you.

May I ask if any Commissioners have interest in a second round or a second question? Yes, Commissioner Bartholomew.

COMMISSIONER BARTHOLOMEW: I do, and I think Commissioner Mann I think said when he was asking his questions he had something for the second round.

I'm interested in Chinese misinformation and disinformation in India. Obviously, India has a robust information environment and active press. But is China trying to spread misinformation and disinformation or trying to get India to sort of frame a Chinese narrative, particularly in social media? And, if so, is it effective?

Dr. Panda, you keep stepping up to volunteer to answer.

DR. PANDA: Yes. I think it's difficult to say how much the Chinese have made inroads. But if we take into account during the pandemic the kind of nationalist measures the current government has taken to ban the Chinese application, it suggests that the Chinese had made an inroad, and there was an influence, you know, increasing that the Chinese, you know, information campaigning was there in terms of influencing the public opinion.

TikTok was very influential. There are many applications were very influential during the pandemic and before the pandemic. So Indian government has put a curb.

But I think I will extend this point to another point which is also very critical. You know, there has been reports, even though I would not really confirm how credible these informations

are or how these reports are, but there have been reports, media reports that, you know, the Chinese are actually influencing some of the, you know, associations, NGOs, in terms of, you know, creating some kind of protest and, you know, going against India's national interest as far as the northeastern part of India is concerned, particularly in Arunachal Pradesh and in other northeast districts, including in Assam.

So one could say that the Chinese are there in terms of creating misinformation or disinformation. It is a part of the Chinese strategy, but we do not know for definite reasons how much at this moment how much they have made an inroad, but I would say that the application ban has done some damage to the Chinese campaigning in India.

MR. BERY: If I may?

COMMISSIONER BARTHOLOMEW: Mr. Bery.

MR. BERY: Yeah. If I may add to that, with the initial ban of Chinese mobile applications TikTok, WeChat, et cetera that has India continues to use this. There was a more recent mobile application ban in February 2022.

One of the key concerns of the Indian government, though, was they wanted to make sure that they could hit China where it hurt. And at the time, ByteDance was planning for an IPO based on the user data it was going to generate in India. As soon as the TikTok ban came into place in India, ByteDance's plans for the IPO were shelved.

So, yes, there is misinformation, but I would also point not only to social media but to traditional media. So it's very common to see the Chinese embassy or Chinese entities taking out ads in newspapers and that being plastered on the front page of the newspaper without any kind of editorial oversight there.

So I would look not only at social media but also traditional media to look for where Chinese disinformation operations are.

COMMISSIONER BARTHOLOMEW: Great. Thank you.

Dr. Madan, anything to add?

DR. MADAN: Yes. I think, you know, what we haven't seen is many of the Chinese diplomats engage in kind of wolf warrior behavior in India, but what we have seen is, for instance, them chiding the Indian media for its reporting on various issues, trying to kind of instruct it to report a certain way, something we have recently seen the Russians also follow. They seem to have taken their lead from the Chinese Embassy in India on this.

We have seen efforts, not necessarily, for example, to promote Chinese views, though there's some of that. We have seen efforts from various Chinese outlets, and including the official accounts in India, to actually amplify, for example, Russian disinformation.

We have also seen them take a very anti American line during COVID, for instance, highlighting not just the U.S. but other democracies as failing in their efforts. So we have seen pretty targeted messaging on that.

Just to Mr. Bery's point, and following up on that, one even before some of these kind of recent app bans, you saw Indian kind of concern about, for example, something called UC Browser, which was the default browser in a lot of these Chinese kind of mobile phones that are sold in India.

And there was concern that one of the reasons it was kind of banned, that it would there would be manipulation of search engine results on that because and throwing up content that was more favorable to the Chinese to the Chinese point of view.

COMMISSIONER BARTHOLOMEW: Thanks very much.

COMMISSIONER SCHRIVER: Commissioner Mann, did you want to try your second

question?

COMMISSIONER MANN: Sure. It's a very basic question. I guess I'll address it to Dr. Panda.

Can you tell me you've spoken of the changing policy under Xi Jinping. I don't get what he and China in general get out of accentuating, exacerbating the border disputes. I mean, is this simply a matter of a more assertive policy? Is there anything I mean, obviously, they have been fighting over territory for many decades, but what does he get out of pushing the border disputes as he has in the last five years?

DR. PANDA: I think a couple of things. One is one reason why he has been very categorical in terms of pushing the conflict with India on the boundary issue is to pressurize India not to have a kind of a border infrastructure game plan because under the Prime Modi's government what we have seen, the border infrastructure development has been a key domestic variable in Indian politics at present.

There are (unintelligible) where India is getting out a lot of rules and they really need those projects, trying to connect the northeastern part of India to the central part and other parts of India. So that has been a worrying factor for Chinese policymakers for some time, and, therefore, we do see that, you know, Xi Jinping is implementing an aggressive posture to put pressure on India not to go out on any full scale in terms of carrying out border infrastructure development as far as the India China boundaries are concerned.

The second is I think, as I mentioned earlier, I think there is a nationalist domestic and foreign policy ingredient that is visible under the current government in Delhi, and I think that has become a troublesome factor for China.

All this while what we have seen, 10 years if we go before the current government in Delhi came to power, if we talk about the first ten years of 21st century, from 2002, 2003, to 2012 under Manmohan Singh's government, there were a lot of good mechanisms that were established between India and China to stabilize the relationship.

That actually did not really worry the Chinese. The Chinese were taken into confidence. But under the current government in on the Modi government, I think even the Modi government was very clear about its economic investment policy with China, but it was very clear about not to really make any compromise as far as national security calculus are concerned.

So I think to that effect the Xi Jinping administration has been very careful, and that has disturbed their planning to some extent and probably the kind of understanding we are having with Japan on the northeastern sector, that has also a problem.

And also, the India U.S. chemistry, evolving chemistry, be it security or defense partnership. I think that has been also a troublesome factor for Xi Jinping, and that's why he is creating a lot of problems for India on the boundaries.

COMMISSIONER SCHRIVER: Thank you.

And I think with that excellent answer we will close and close the third panel and resume for our final panel in about nine minutes. We'll be on break.

Thank you very much.

(Whereupon, the above entitled matter went off the record at 2:52 p.m. and resumed at 3:00 p.m.)

PANEL IV INTRODUCTION BY COMMISSIONER CAROLYN BARTHOLOMEW

COMMISSIONER BARTHOLOMEW: Our fourth and final panel today will address China's interests and strategies in the Indian Ocean and the role of maritime competition with India and the United States.

First, we will hear from Ms. Darshana Baruah, a fellow in the South Asia at the Carnegie Endowment for International Peace. Her research focuses on the role of the Indian Navy in the Indo-Pacific as well as the significance of strategic islands in the Indian Ocean region.

Today Ms. Baruah will describe the Indian government's strategy and policy to be a net security provider for other countries in the Indian Ocean.

Next, we will hear from and welcome Dr. Christopher Colley, who I think came in from Nepal, an Assistant Professor at the National Defense College of the United Arab Emirates, where his research specializes in Chinese and Indian Naval modernization and India's responses to China's increasing activity in the Indian Ocean region.

Dr. Colley will speak to the Chinese government's ambitions in the Indian Ocean and PLA Navy efforts to project power further into the region.

Finally, we will hear from Ms. Samantha Custer, the Director of Policy Analysis at AidData, a research center tracking China's economic diplomacy. The center is at William & Mary.

Ms. Custer's research examines how great powers deploy economic and soft power tools to advance their interests. And she has published numerous studies on China's growing global interest. Ms. Custer will provide an overview of China's economic footprint in South Asian Island countries.

Before we begin with our witnesses, I want to recognize and acknowledge the great work that our staff did, Leyton Nelson, Howard Wang and Jessie Foster. I'm not sure if Jessie is still here. They pulled together these wonderful witnesses for us. So thank you very much to our staff.

Okay, Ms. Baruah, let's begin with you.

OPENING STATEMENT OF DARSHANA M. BARUAH, FELLOW, SOUTH ASIA PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

MS. BARUAH: Thank you. Good afternoon, Commissioner Bartholomew, Commissioner Schriver, thank you for this opportunity to testify today on the competing visions on the Indian Ocean.

My testimony today looks at the strategic significance of the Indian Ocean, underlines the need to dispel some of the assumptions from the last century, analyzes the current power dynamics and provides recommendations on how Congress could approach and prioritize this critical region.

I would begin by noting that different governments hold different and competing priorities for the Indian Ocean within their vision for the Indo-Pacific. While China does not use the Indo-Pacific framework, it holds a more coherent approach towards the Indian Ocean looking at the region more broadly.

In contrast, the U.S. government tends to view the region in silos, often broken down through its continental divisions and priorities in South Asia, the Middle East and Africa. My research looks at not only how powers like the United States, its allies and China view the Indian Ocean but also how the island nations within the Indian Ocean view these priorities. These perspectives give us a fuller picture and understanding of the state of the play.

In my view, the Indian Ocean is a region of opportunity and vulnerability for China where it will seek to build its credibility and presence. China depends on the Indian Ocean for trade, particularly for its energy transits and supply and goods transiting through the region.

Moreover, the Indian Ocean is also predictable for China's engagement with African nations, its partners in the Gulf and the six Islands of the Indian Ocean: Sri Lanka, Maldives, Mauritius, Seychelles, Madagascar and Comoros.

Perhaps an example supporting the importance of the Indian Ocean in Beijing's engagement is that China is the only country with an embassy or a diplomatic mission in each of the six island nations.

Moreover, Chinese officials have been more consistent in their visits to the region. In comparison, when Indian Prime Minister Narendra Modi visit Sri Lanka in 2015, it was the first time an Indian Prime Minister had done so in almost 27 years. U.S. presence in the region has had a similar footprint if not less.

I would also argue against a narrative of assertive or dominant China view in the Indian Ocean as that is not necessarily a view shared by the region.

China, to an extent, carries a positive angle in the region. Beijing has no standing disputes in the Indian Ocean. Instead, most disputes emerge from the colonial period and are with nations such as the United States, the UK and France.

On military importance of the region, China's first overseas military facility is on the Indian Ocean coast in Djibouti. In the near to mid-term, we are likely to witness increasing Chinese presence and deployments to the Indian Ocean to strengthen visibility and partnerships across the region.

On the topic of China in the Indian Ocean, the urgent question the United States and its

allies and friends should be asking is, how should the U.S. approach this region and what should the priorities be?

My first answer is stop dividing the maritime domain of the Indian Ocean into the continental subregions of South Asia, Africa and the Middle East. This approach, a relic of the post-Soviet era, undermines the United States' understanding and strategy in the region.

The Indian Ocean today is significantly different than it was in the last century, with different players, challenges and cooperations emerging across different phases, teams and between players.

To understand the current state of play, it is beneficial for the United States to consider the ocean as one theater from the Eastern coast of Africa to the western shores of Australia, including key choke points such as the Strait of Hormuz, the Bab-el Mondeb and the Straits of Malacca.

The U.S. government has not made its interests and views on the Indian Ocean clear. The United States Department of Defense divides the Indian Ocean into three combatant commands, the INDOPACOM, the CENTCOM and AFRICOM, creating divisions along a seamless ocean.

Each command has its different set of priorities and resources, creating a disjointed approach toward the Indian Ocean. Similarly, the U.S. Indo-Pacific strategy has limited discussion on the Indian Ocean and its approach. The U.S. government has not written or published a comprehensive Indian Ocean strategy in decades to help underline and identify priorities in the region.

If the United States is concerned about its competition with China, then Washington needs a renewed focus on the Indian Ocean. At the moment, U.S. engagement in the region appears to be reactionary to Chinese policies whereas Beijing's policies appear to be based on its need to establish itself as a credible player in the region and in protecting its sea lines of communications.

For example, the United States announced its intent to establish an embassy in Maldives in 2020 for the first time ever. China opened its embassy around 2011.

As concluding remarks, I would recommend initiating additional hearings and reports to understand the region and China's dependency on these waters. I would highly recommend an Indian Ocean strategy to underline U.S. interests and priorities in the region.

My additional recommendation includes initiating a desk or nodal point in U.S. administration to look at developments in the region, in the Indian Ocean region more holistically, to break down the divisions or create better coordination between INDOPACOM, CENTCOM and AFRICOM as well placing an Indian Naval officer at the INDOPACOM and perhaps an Indian Ocean task force to show presence and engage with littorals and islands in the region.

My written testimony has gone into a little bit more details into some of these issues. I thank you for your time and for hosting this hearing on the Indian Ocean today, which is a significant development in advancing the conversation. I look forward to your comments and feedback.

**PREPARED STATEMENT OF DARSHANA M. BARUAH, FELLOW, SOUTH ASIA
PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

China's influence in South and Central Asia, Panel IV-

Maritime Competition in the Indian Ocean

Darshana Baruah

Fellow

Carnegie Endowment for International Peace

Testimony before the U.S.-China Economic and
Security Review Commission

May 12, 2022

Good afternoon. Commissioner Bartholomew, Commissioner Schriver, thank you for the opportunity to testify today on competing visions for the Indian Ocean. My testimony today looks at the strategic significance of the Indian Ocean, underlines the need to dispel the assumptions about the ocean from the last century, analyzes the current power dynamics and provides recommendations on how Congress should approach and prioritize this critical region.

I. India's view of the Indian Ocean

The Indian government considers the Indian Ocean a key strategic and economic theatre, important for its diplomatic, military, and regional engagements. Historically, the Indian Ocean has been a critical theatre for engagement and interest for Delhi given it constitutes both New Delhi's immediate and extended neighborhood which could potentially impact its security environment. A secure and stable Indian Ocean is therefore central to New Delhi's security environment. India enjoys great strategic location in the Indian Ocean and considers itself a key regional and security player.

Despite such an important view of the Indian Ocean, New Delhi's approach, engagement and understanding of the region has however, been fairly limited especially after the end of the Cold War until the recent past. This, non-active approach emerged from a place of strategic inertia due to the lack of direct competition in the Indian Ocean. While the Indian Ocean was a major theatre for competition during the Cold War between the Soviet Union and the United States (U.S.), it disappeared into the periphery of strategic conversations following the end of the Cold War. As the United States realigned its energy, resources and focus on continental sub-regions of the Ocean, such as the Middle East, the Indian Ocean experienced a vacuum from great power competition. While the United States was present in the region, primarily through its military base in Diego Garcia, the Indian Ocean came to be a transit route for its forces between Japan and the Middle East or as staging ground for military operations in Afghanistan, Libya, and Iraq. India and France emerged as the two key players in the Indian Ocean, each assuming a critical role in the eastern and western Indian Ocean, respectively. With U.S. priorities and interests elsewhere, Washington began to support and encourage India to take on a more leading role in the Indian Ocean.

Robert Gates, the then U.S. Secretary of Defense, suggested India be a "net security provider" in 2009 during his speech at the Shangri-La dialogue in Singapore.¹ The idea of India being a net security provider, hence was an American thought. For India, by this point, the maritime domain had become a quiet and at times ignored aspect of its foreign policy conversations. The lack of a competition in what it considered its 'area of strategic influence' meant India had established itself as a key partner for most of its neighbors in the Indian Ocean. The Indian Navy too, was one of the most active primary players in the Indian Ocean allowing New Delhi to establish itself as an important player in the region quickly.

¹ See "India as a Net Security Provider: Concept and Impediments." RSIS, August 2014. https://www.rsis.edu.sg/wp-content/uploads/2014/09/PB_140903_India-Net-Security.pdf

The importance of the maritime domain and the Indian Ocean as an essential strategic theatre is re-emerging in Indian strategic calculations today again, after a period of lull, mainly due to growing competition with China.

Despite political hesitations where Indian leadership failed to recognize the importance of its maritime environment, the Indian Navy has always prioritized the Indian Ocean as an important theatre. It is a key trading route and home to chokepoints critical for energy transitions. (See image 1). From a naval and maritime perspective, the Indian Navy understands the importance of the region and the domain in both establishing itself as a key player as well as in securing its interests. While the Indian Ocean is a critical trading route especially for energy vessels for nations beyond the region, Delhi's own trade and energy routes to the Persian Gulf are dependent on a safe, secure, open and stable Indian Ocean region. The Indian Navy today prides itself as a first responder to the region and discusses its capabilities, capacities and challenges in providing net security to the region. The Navy's 2015 Maritime Security Strategy lists shaping "a favorable and positive maritime environment, for enhancing net security in India's areas of maritime interest"² as one of its aims and objectives. While it is the political leadership who decides and shapes India's areas of interests, the Indian Navy considers the entirety of the Indian Ocean, from the eastern coast of Africa to the Straits of Malacca including Arabian Sea, Bay of Bengal, Persian Gulf, Gulf of Oman, Gulf of Aden, Red Sea and its littorals as its "primary areas of interests".

From a political perspective, India traditionally divides the Indian Ocean into the eastern and western Indian Ocean and prioritizes its engagements and presence in the eastern and northern Indian Ocean. The northern Indian Ocean including the Arabian Sea, Bay of Bengal and the Persian Gulf constitute India's primary areas of interests. Among the Indian Ocean regional islands, India has traditionally placed greater attention on Sri Lanka and Maldives as its immediate maritime neighbors followed by strategic cooperation and interest with Mauritius and Seychelles. Madagascar and Comoros lie at the peripheral end of India's Indian Ocean outreach. Continental sub-groupings have played a significant role in this division of the both the Indian Ocean and the approach to its resident nations. While Sri Lanka and Maldives are part of South Asia and its sub-regional groupings, Mauritius, Seychelles, Madagascar, and Comoros are part of Africa. A greater diaspora in Mauritius and Seychelles, in comparison to Madagascar and Comoros meant the Port Louis and Victoria have been part of India's strategic outreach and engagements in the Indian Ocean.

India is not the only nation guilty of dividing the Indian Ocean into continental sub-regions. In fact, it became a norm for most nations across the globe particularly after the end of the Cold War. However, to better understand the Indian Ocean region today, and its many dynamics, players and interactions, it is important to view the ocean as one continuous region, from eastern coast of Africa

² "Enduring Secure Seas: Indian Maritime Strategy." Indian Navy, October 2015.

https://www.indiannavy.nic.in/sites/default/files/Indian_Maritime_Security_Strategy_Document_25Jan16.pdf

to the Western Coast of Australia. In support of this view, the Carnegie Endowment for International Peace, where I lead the Indian Ocean Initiative³, released an interactive map of the ocean to showcase its importance and the need to view it as one region. I hope this Commission and its members will find this new tool useful.

As I mentioned earlier, the view of looking at the Indian Ocean as one region is now slowly changing, and the Indian Ocean is re-emerging in India's priorities and strategic calculations. Delhi encapsulates its Indian Ocean policy through 'SAGAR', an acronym for Security and Growth for all in the Region, a vision from the Prime Minister's office. Below are some of the examples on how India's recent initiatives and policies toward the region cement its role as a key security player.

1. The Indian Ministry of External Affairs (MEA) set up a new division- the Indian Ocean division in 2016 to look at the region more holistically and as one theatre, primarily through the island nations. However, at the time of setting up the division, Madagascar and Comoros were not included. MEA later revised its policy and placed the two islands in the division in 2019, a reflection of its expanding and strengthening Indian Ocean outreach.
2. Indian Prime Minister Narendra Modi in 2015 went to three of the six Indian Ocean islands- Sri Lanka, Mauritius, and Seychelles signaling renewed interest toward the islands. Prime Minister Modi's visit to Sri Lanka came after a gap of 28 years from an Indian Prime Minister. Today, high level visits from India to the islands are frequent and regular with Prime Minister Modi choosing Maldives as his first overseas visit after his party's re-election in 2019. Apart from regional structures such as the Indian Ocean Rim Association (IORA), India continues to engage with its maritime neighbors at the senior officials level such as the Colombo Security Conclave.⁴
3. In an effort to emphasize the importance of its neighborhood in India's foreign policy while underlining Delhi's commitment to regional security, India follows a "Neighborhood first" policy which includes Sri Lanka and Maldives in the Indian Ocean.
4. Bolstering its capacity building efforts in the region, India has set up coastal radar system and stations in collaboration with Maldives, Mauritius, Sri Lanka, and Seychelles. India has

³ Indian Ocean Initiative. <https://carnegieendowment.org/specialprojects/IndianOceanInitiative>

⁴ The Colombo Security Conclave began as consultations between India, Sri Lanka and Maldives at the level of National Security Advisors. The 2022 edition saw Mauritius participate in the conclave and Bangladesh and Seychelles as observers. See, "Joint Press Statement of the 5th NSA Level Meeting of the Colombo Security Conclave held on 09 – 10 March 2022, in Maldives." March 10, 2022, <https://mfa.gov.lk/5th-nsa-level-meeting/#:~:text=Delegations%20of%20the%20founding%20members,10%20March%202022%20in%20Maldives>.

also offered similar assistance to Myanmar and Bangladesh for better maritime domain awareness.

5. India also seeks to maximize its maritime partnerships in the region through collaborations creating platforms and initiatives to address key challenges of the region. The Indian Ocean region frequently faces strong natural disasters with many island nations identifying climate change as the primary security challenge. Delhi in partnership with friends such as Australia and France have announced and spearheaded initiatives like the Indo-Pacific Oceans Initiative, Coalition for Disaster resilient Infrastructure, International Solar Alliance.
6. As a response to the ongoing pandemic, India in May 2020, launched "Mission Sagar" sending emergency medicines, food, along with Medical Assistance teams to its Indian Ocean neighbors -Maldives, Mauritius, Seychelles, Madagascar, and Comoros.
7. The Indian Navy continues to lead New Delhi's efforts on Indian Ocean engagements. The Navy prides itself as the 'first responder' in the region, deploying quickly and offering Humanitarian Assistance and Disaster Relief (HADR). The Indian Navy's role as a key player in HADR has been growing since its relief efforts during the aftermath of the 2004 Indian Ocean Tsunami, where India, Japan, Australia, and the U.S. coordinated with its operations.
8. The Navy has also been playing a role in leading regional security efforts both by strengthening its own capabilities as well as countries in the region. One such effort is establishing the Information Fusion Centre-Indian Ocean Region (IFC-IOR), started in 2007, the first regional framework aimed at structuring information sharing on white shipping and addressing threats such as illegal fishing, drug smuggling and human trafficking.
9. In 2007, the Indian Navy launched its Mission Based Deployment, to increase its presence and visibility across the Indian Ocean.⁵ Under the initiative, the navy aims to be present across seven key areas in the Indian Ocean to enhance its role as a key security player. (See image 2)

As shown above, India has a keen interest in playing an active role and increasing capabilities in the Indian Ocean region. A strategic advantage for New Delhi is its geography and historical and political ties with littorals and islands in the Indian Ocean. While geography is one of India's biggest advantages in the Indian Ocean, it is also a major challenge for New Delhi. The

⁵ Darshana M. Baruah "India in the Indo-Pacific: New Delhi's Theater of Opportunity." Carnegie Endowment for International Peace, June 30, 2020. <https://carnegieendowment.org/2020/06/30/india-in-indo-pacific-new-delhi-s-theater-of-opportunity-pub-82205>

maritime geography is often overshadowed by India's physical boundaries with Pakistan and China along with its northern borders.

As India traditionally has faced bigger threats along its continental borders, the maritime domain is often ignored and neglected. Take for example its defense budget. The Indian Navy's share of the defense budget is at the bottom of its all three services. The Indian Navy's budget often accounts to approximately 14% of the defense budget. This year, it saw a jump to 19%, a considerable hike given the Navy does not enjoy the same priorities as its Army and Air Force counterparts.

The Indian Ocean region is vast, spanning the eastern coast of Africa to the western coast of Australia. While the Indian Navy is not very visible close to Australian waters, it certainly is present between Horn of Africa and the Straits of Malacca. The Navy's biggest challenges lie in the western Indian Ocean, a long distance away from Indian shores. In the absence of overseas military facilities, the Indian Navy stands to benefit from agreements such as the Logistics Exchange pacts increasing the Navy's ability to deploy to and sustain presence across the vast Indian Ocean region.

While the maritime domain, and the Indian Ocean is regaining its prominence in Indian foreign policy considerations, the competition in the region at time outpaces Delhi's ability to respond. This stems from the Indian Ocean missing from Delhi's political conversations as a strategic space for decades. While India has made significant developments in the last five years in correcting its policy approach to the region, partnerships will still come to play a big role in keeping the Indian Ocean secure and stable, particularly in the western Indian Ocean. The Indian Navy too will need naval partnerships to address new challenges and strengthen its capabilities ranging from anti-submarine warfare to maritime domain awareness.

II. China in the Indian Ocean

Chinese activities in the South China Sea and the prominence of the Pacific region in Washington's security calculations have, to an extent, undermined the importance of the Indian Ocean region to China's maritime ambitions. The Indian Ocean is a key trading route for China's energy supplies and routes, making it also the theatre of vulnerabilities.

The U.S. Department of Defense's (DoD) "Military and Security Developments Involving the People's Republic of China 2021" identifies the top 10 crude oil suppliers for Beijing.⁶ Out of the 10, the route to nine of its suppliers is through the Indian Ocean region. Securing these critical Sea

⁶ "Military and Security Developments Involving the People's Republic of China." Department of Defense. <https://media.defense.gov/2021/Nov/03/2002885874/-1/-1/0/2021-CMPR-FINAL.PDF>

Lines of Communications (SLOCs) will be a key priority for Beijing as it continues its engagements and presence across the region.

China is expanding its reach in the Indian Ocean. In 2017, China opened its first overseas military base in the Indian Ocean, in Djibouti. Unfortunately, most governments divide the Indian Ocean into continental sub-regions and thus, classified the Chinese facility in Djibouti as an African development rather than an Indian Ocean development.

When viewed as one region, it helps identify Beijing's commitment, interests, and priorities in the Indian Ocean. For example, China is the only country with an embassy in each of the six island nations in the region. In comparison, Washington has only three embassies (in Sri Lanka, Mauritius, and Madagascar), with two defense attachés covering the six islands, which span the entire Indian Ocean from Sri Lanka to the Mozambique Channel.⁷ It is also important to dispel assumptions which point toward China as a new player in the region. China could be a new military player in the Indian Ocean, but it certainly is neither a new political nor diplomatic player in the Indian Ocean. In fact, while the United States, France and India exercised strategic inertia toward the region, Beijing quietly continued to deepen and strengthen its engagements across the entire region, from western to eastern Indian Ocean, through economic, diplomatic, political, and now military engagements.

The Indian political and military bureaucracies (with the exception of the Navy) usually are concerned about direct defense engagements between Beijing and its partners in the region. The Indian leadership relies on its own geographic advantages and China's disadvantages in the Indian Ocean. Some instance where Indian leadership have expressed concern and caution include Chinese deployment of submarines for its anti-piracy missions in Horn of Africa and submarine docking in Sri Lanka. Increasing military engagements such as the submarine deal between China and Bangladesh also raise concerns in Delhi. For China however, these engagements are critical to establishing its role as a credible security player and partner to its friends in the region. The Indian Ocean is also critical for Chinese deployments and engagements with African nations, and we are likely to see greater and stronger Chinese presence in the region within the coming decade. The Indian Ocean is both an important theatre for China in establishing itself as a credible security actor as well as to secure its interests and protect its maritime vulnerabilities.

In the next 5-10 years, the region will likely see another Chinese military facility in the Indian Ocean as well as the deployment of its aircraft carrier. This development would naturally intensify the growing maritime competition between India and China. Establishing an additional naval facility in the Indian Ocean will allow Beijing to address some of its geographic disadvantages in the region. Combined with its presence and engagements in the South China Sea and the Pacific, the ability to secure its SLOCs in the Indian Ocean will significantly add to Chinese capabilities in the

⁷ Darshana M. Baruah, "Showing up is half the battle: U.S. maritime forces in the Indian Ocean", *War on the Rocks*, March 18, 2021 <https://warontherocks.com/2021/03/showing-up-is-half-the-battle-u-s-maritime-forces-in-the-indian-ocean/>

Indo-Pacific. An additional Chinese military facility in the Indian Ocean is not a matter of 'if' but a matter of 'when'. While the eastern Indian Ocean is widely assumed to be the space for the next Chinese base, I would put the eastern coast of Africa as an equal possibility, if not more likely.

From a region perspective, China has been a welcomed additional player for the region, changing the geopolitical dynamics of the Indian Ocean. Unlike in the South China Sea, Beijing has no territorial disputes in the region (see image 2) making Beijing a welcome alternative to western powers with sovereignty disputes in the region stemming from colonial period. China also does fairly well on the question of rules based international order as for the Indian Ocean islands and littorals, it is France, U.S., and U.K. that is viewed as intimidating by smaller nations because of its disrespect toward the U.N. charter as seen in the case of Diego Garcia.⁸ While there is no denying the role India and France play in providing regional security in the Indian Ocean, there is also a sense of discontent from island states and smaller neighbors. Indian Ocean island nations and littorals do not seek to replace China with India as their key security partner, but they certainly are keen to expand their partnership and reduce dependency on a single player. In that, China emerges as good and strong player as an additional and at times alternative security partner for many in the region. We have captured some of these perspectives in an article titled "what islands have to say on Indo-Pacific geopolitics" To better understand island perspectives on the evolving geopolitics of the region, my initiative at the Carnegie Endowment established an annual islands dialogue bringing together the islands of the Indian and the Pacific Oceans. Commissioner Schriver, you were there at the forum last year and as you heard, perspectives from islands on China are not always on the same lens as viewed by Washington or Delhi.⁹

A growing Chinese presence across its diplomatic, political, and military footprint is certainly a cause for deep concern in Delhi. India already is in a tense and volatile situation with China along its northern continental border. A strong China in the Indian ocean amplifies the Sino-Indian competition across land and maritime boundaries.

III. U.S.-India in the Indian Ocean

As mentioned above, the United States supports India's role as a net security provider in the Indian Ocean. Washington and Delhi's objectives in keeping the Indian Ocean region safe, secure, and stable provides a strong basis for collaborations in the Indian Ocean. Increasing competition with China also provides a common basis for better understanding of the strategic implications of China's engagements in the Indo-Pacific. However, the United States and India differ in its view of the Indian Ocean. While the Indian Ocean is the priority theatre for India, it currently features in the margin of its strategic priorities for the United States. Further, the U.S. DoD divides the

⁸ See the Carnegie Endowment International Peace's interactive map for disputes in the Indian Ocean region, <https://carnegieendowment.org/publications/interactive/inian-ocean-map>

⁹ See, Ocean Nations: An Indo-Pacific Islands Dialogue, an annual islands forum hosted by the Carnegie Endowment and the Sasakawa Peace Foundation <https://carnegieendowment.org/2021/09/20/ocean-nations-indo-pacific-islands-dialogue-event-7680>

Indian Ocean into INDOPACOM, CENTCOM and AFRICOM. Since India falls under INDOPACOM's area of responsibility, there appears to be limited conversation between Delhi and Washington on developments west of the Indian Ocean. Incidentally, the western Indian Ocean is also the region where India requires further capabilities, capacity and partnerships. While the United States considers the Indian Ocean as part of its Indo-Pacific Strategy, there is little understanding of Washington's interests, priorities, and capacities in the region. It is also difficult to understand Washington's understanding of Beijing's dependence on the Indian Ocean and therefore the lack of an Indian Ocean approach. To determine and underline initiatives, priorities and policy alignments between the United States and India, there is a need to first establish an understanding of the Indian Ocean in each other's strategic priorities.

Despite being present in the region, through its deployments and its military facilities in Diego Garcia and Djibouti, US naval and maritime engagements with the region has been limited. The United States Navy transits the Indian Ocean between its deployments to Japan and the Middle East and the 7th fleet and the 5th fleet. While it engages with countries such as India during such deployments, engagements with smaller nations and islands are particularly limited. The military base in Diego Garcia is strategically located for missions and deployments in the region, however, given the nature of the missions carried out from the facility, the United States is considered missing from the region. Additionally, most of the Indian Ocean islands have coast guards and an U.S. aircraft carrier in the region cannot meaningfully engage with the island nations and littorals of the region. There is great opportunity for the U.S. to engage with Coast Guard's of the region through training, exercises, and interactions. As I have written in a War on the Rocks article, the U.S. must do more to show up and be present in the region.

There have also been concerns about Delhi's reaction to a more active United States presence in the Indian Ocean, viewed as engagement from an external player. These hesitations come from the Cold-War era and from a time when Washington enjoyed a stronger partnership with Pakistan, a relationship Delhi has always been uncomfortable with. Today, the U.S.-India relationship has bridged many of these differences and enjoy a strong and strategic partnerships. There is far more communication, trust and shared goals toward the region, than perhaps ever before in the relationship. However, geographic priorities for both nations remain different and there is still a need to better understand each other's maritime priorities and challenges.

The United States has not written a public Indian Ocean strategy in decades, and one that meets the defense and strategic needs of the 21st Century. To determine how U.S. and its partners can work together to secure the Indian Ocean, it is critical for Washington to determine its own Indian Ocean priorities and challenges. It is my strongest recommendation to the Commission to advise Congress on the need for an Indian Ocean strategy within its Indo-Pacific framework. This will allow its partners and friends to understand the gaps, challenges, and capacities giving way for a better framework for cooperation in the Indian Ocean and the wider Indo-Pacific. As far as strategic competition goes, it is my personal belief the Indian Ocean region will play a central role in determining China's place in the Indo-Pacific.

IV. Recommendations for Congress

I would like to make the following recommendations for Congress on the Indian Ocean region:

1. Initiate hearing on the Indian Ocean to understand the region and China's dependency on these waters. If the goal is to understand and manage a strategic competition with China, it is necessary to study and understand the region and perspectives from its littorals and islands.
2. Congress should mandate the administration to create an Indian Ocean strategy to outline its interests and priorities in the region. Further, the annual U.S. Indo-Pacific strategy should include a section on the Indian Ocean outlining how the United States seeks to engage with the region and manage its competition with China. In the 2022 Indo-Pacific strategy, a 19-page document, the Indian Ocean is mentioned approx. twice, both in the context of India.
3. Encourage the administration to initiate a desk or a division at the National Security Council to look at the Indian Ocean region holistically. Currently, there is no place within the U.S. administration, where developments in the Indian Ocean is discussed or monitored.
4. Encourage the U.S. DoD to breakdown the division of the Indian Ocean into artificial silos and create a more seamless engagement across its three combatant commands responsible for the Indian Ocean.
5. As a key partner in the Indian Ocean, Congress should encourage the creation of a position to place an Indian Navy official at INDOPACOM for better coordination and understanding of the Indian Ocean.
6. Consider an Indian Ocean Task Force deployed to the region with a mission to engage with the littorals and islands of the Indian Ocean show its presence, interests, and commitment to the region.

As a concluding note, I would like to emphasize the need to view and engage with the region beyond the 'China competition' lens. Islands and littorals have significant agency today and governments across the globe must be conscious of this. Framing policies primarily as a response to China's presence also undermines the nations commitment and understanding of the region. If leaders from the United States and India only visit the region after security developments with China, it sends both a wrong message and undermines their perceived commitment to the region. Engagements and interests in the region should last beyond the news cycles and despite China competition to meaningfully strengthen partnerships in the region. For that, it is important to have a comprehensive strategy outlining the framework for priorities, interests, and challenges in the region as a whole.

I thank the commission today for hosting this hearing on the Indian Ocean and it's been an honor and privilege to testify before you today.

Appendix

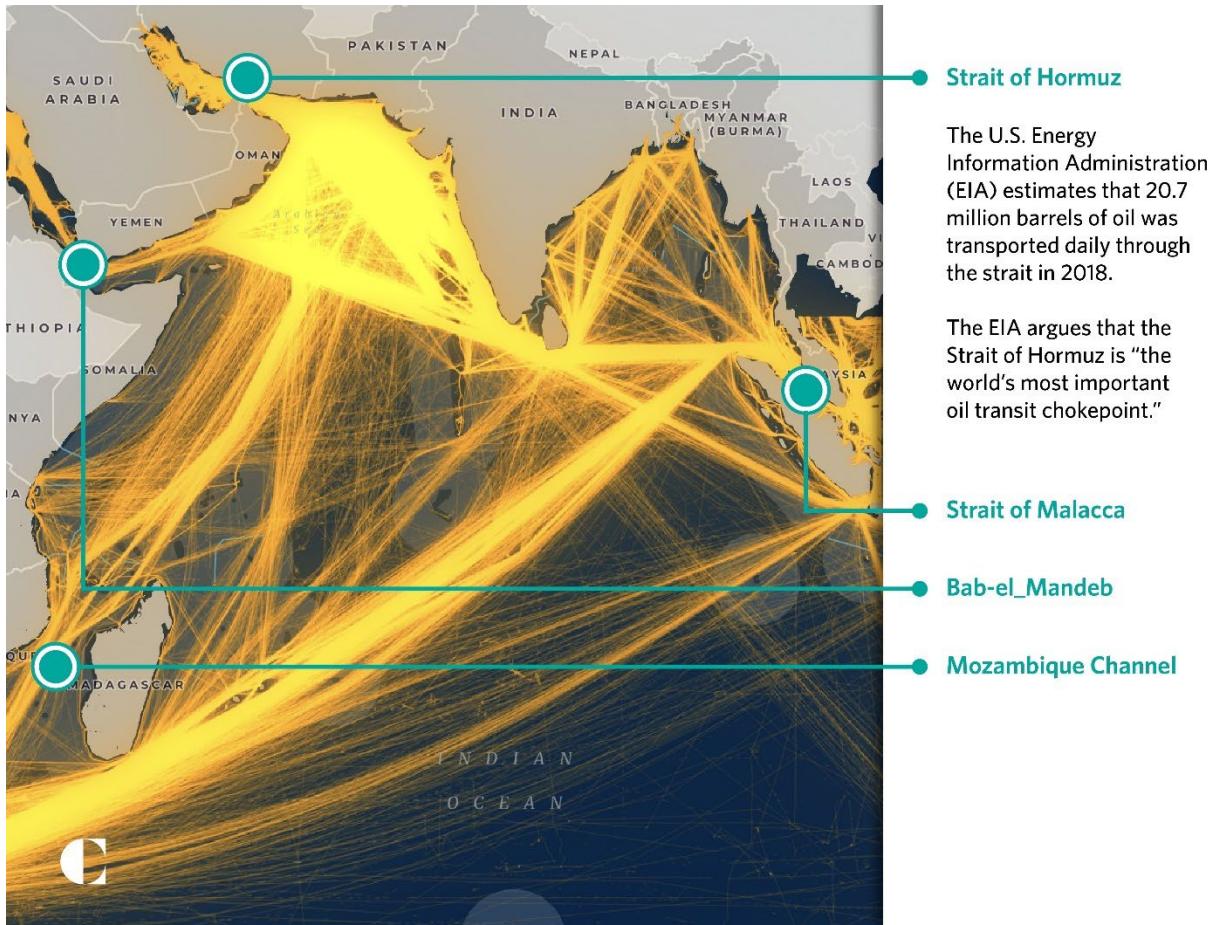
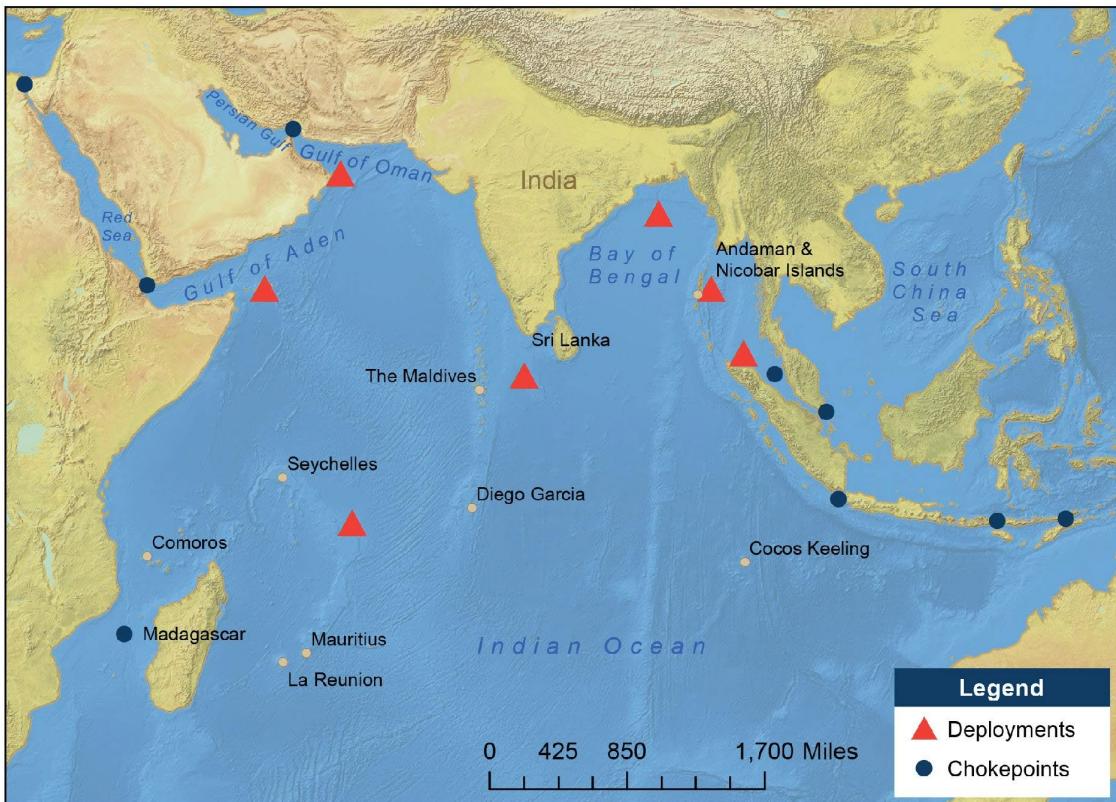


Image 1: Chokepoints in the Indian Ocean region

MAP 2
Indian Navy's Mission-Based Deployment



SOURCE: Directorate of Strategy, Concepts, and Transformation, Integrated Headquarters, "Ensuring Secure Seas: Indian Maritime Security Strategy," Naval Strategic Publication 1.2, Indian Navy, October 2015, https://www.indiannavy.nic.in/sites/default/files/Indian_Maritime_Security_Strategy_Document_25Jan16.pdf; Press Information Bureau, "Year End Review—2019 Ministry of Defense," Government of India Ministry of Defense, December 27, 2019, <http://pibarchive.nic.in/newsite/PrintRelease.aspx?relid=196160>; Sujan Dutta, "Indian Navy Informs Government About the Fleet's Reoriented Mission Pattern," New Indian Express, April 1, 2018, <https://www.newindianexpress.com/nation/2018/apr/01/indian-navy-informs-government-about-the-fleets-reoriented-mission-pattern-1795404.html>; based on maps from Natural Earth, <https://www.naturalearthdata.com/downloads/50m-raster-data/50m-natural-earth-1/>.

Image 2: Indian Navy's Mission Based Deployment



Image 3: Disputes in the Indian Ocean

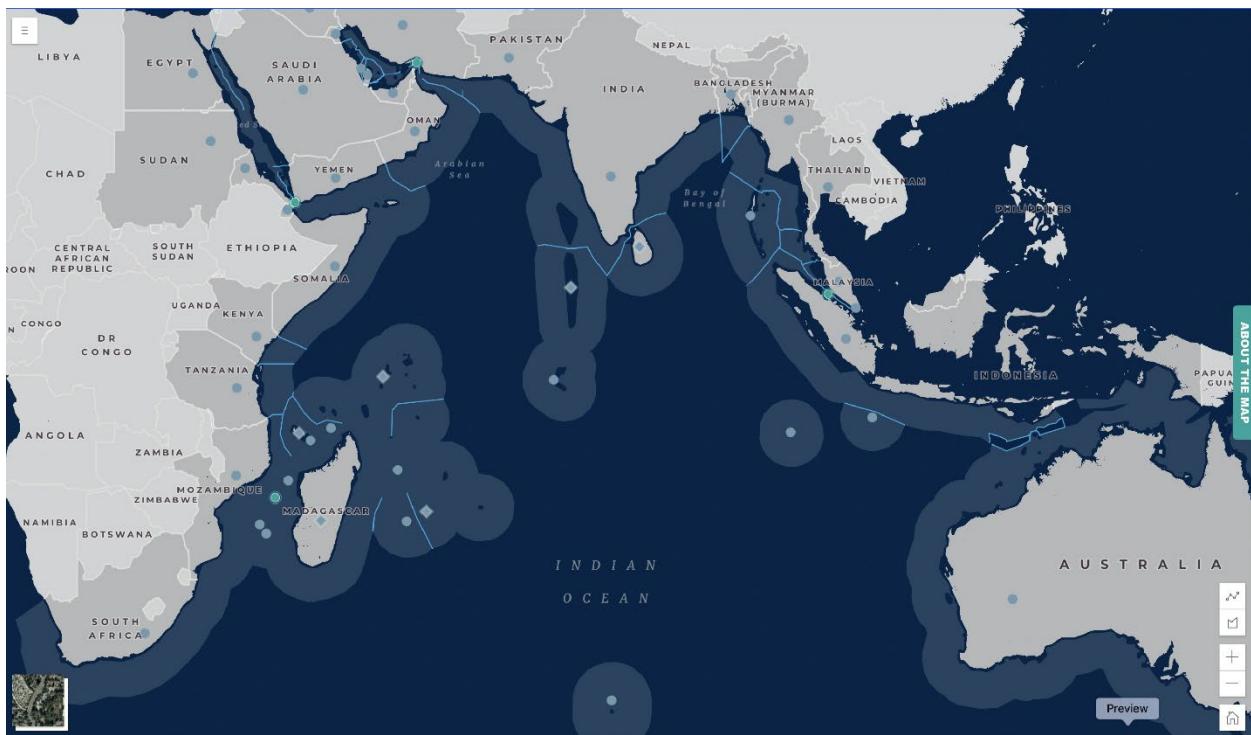


Image 4: A map of the Indian Ocean region to capture its geographic expanse.

OPENING STATEMENT OF CHRISTOPHER COLLEY, ASSISTANT PROFESSOR OF SECURITY STUDIES, NATIONAL DEFENSE COLLEGE OF THE UNITED ARAB EMIRATES

COMMISSIONER BARTHOLOMEW: Thank you very much. Dr. Colley?

DR. COLLEY: Dear members of the committee, I would like to thank you for inviting me to come here today to present my research on Chinese and Indian maritime competition in the Indian Ocean.

Before I begin, I must point out that the opinions expressed in this testimony are my own and do not reflect in any way, shape or form the views of the National Defense College or the United Emirates government.

We have a very limited amount of time for these opening statements so I just want to brief and cover some of the main areas that I was asked to address.

What are Chinese leaders' key interests and strategic ambitions in the Indian Ocean? Beijing's key interests in the Indian Ocean is to have the ability to protect Chinese sea lanes of communication, also known as SLOCs.

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 American war ships may block passage of Chinese merchant ships and oil tankers from reaching China.

Considering that 90 to 95 percent of China's trade with the Middle East, Africa and Europe and roughly 80 percent of its imported oil transits the Indian Ocean, this is seen as a real threat by Chinese leaders and Chinese strategists.

More recently Chinese strategists seek to have the ability to protect and, if necessary, evacuate Chinese nationals from the region. This is a major driving force as well.

Over the past 10 to 15 years, we've seen numerous cases of where Chinese citizens and nationals have had to have been pulled out and evacuated from numerous conflict zones.

In terms of China's actual ambitions in the region, its goal is to increase its naval footprint in the IOR and thus increasing its sense of security. From Beijing's perspective, a larger naval force in the region will advance China's overall economic and strategic interests.

On the second question I was asked to address, what are the objectives and institutions that are driving China's policy in the Indian Ocean? How clearly do these align with the centrally issued strategy for the Indian Ocean?

As I've pointed out, their primary concern is safeguarding their interests. However, there are multiple interests and multiple institutions that are driving this process.

A key structural driver is the perceived economic opportunity. I think it is important to distinguish the economic opportunity from the potential strategic opportunities.

China's trade has exploded over the past two decades in the Indian Ocean region and numerous Chinese entities, ranging from state-owned to the private sector to the Chinese Navy are all taking part and have various interests at heart.

The going out policy of the 1990s and the early 2000s has since been merged with the Belt and Road Initiative and many Chinese see this as an economic opportunity.

It is difficult to actually pinpoint a defined Chinese Indian Ocean strategy, but we do see various Chinese actors emerging and trying to gain favor from a bureaucratic perspective.

These projects are not -- the projects that they engage in are not always economically viable at least in the short run. And we do find evidence of various Chinese entities playing off

specific concerns in Beijing, for example, the Malacca Dilemma, which is the belief that in the event of hostilities between Washington and Beijing, the American Navy would have the ability and the capacity to block the Strait of Malacca, thus cutting off a major line of Chinese economic lifeline.

What is the role of PLA Navy in achieving China's strategic ambitions? The PLAN, also known as the PLA, is seeking the ability to pose a credible deterrent to other states as a so-called risk fleet to other navies.

Importantly, the Chinese Navy is not designed for sea control, but it is designed to deter and show the flag. These are two important distinctions to make.

For the Chinese Navy, exercises in getting to know the regional Navies around the IOR are important. Furthermore, China has taken part in successful anti-piracy patrols off the coast of Somalia, and this has served as a very important training ground for PLAN officers.

As of today, the PLAN in the Indian Ocean does not represent a significant threat to the United States or India. There are many reasons for this, but the two most pressing are first the advantage of geography. Any PLAN mission in the IOR would be thousands of miles away from the home ports in China and would be dangerously exposed to enemy surface ships as well as missiles and submarines.

The second main reason is the lack of meaningful air cover for any Chinese flotilla or any Chinese battle group. China currently has two aircraft carriers, but these are best seen as training carriers. That means that they have yet to master catapult-assisted takeoffs. In the absence of catapults, Chinese carriers are using ski jumps.

Now there is an important distinction here because by using ski jumps, they are unable to takeoff fully loaded with fuel and they lack the requisite full ordnance loads. What this means is in reality the PLAN currently would struggle to engage in combat with a modern military.

How does the United States and India factor into China's leaders' visions for the Indian Ocean? Are they inclined to support or undermine India's efforts to position itself as a security provider?

Chinese strategists are very concerned about the expanding ties between the United States and India. But for much of the past 70 years, China was not concerned about India. However, more recently, we find Chinese-language sources that are actively voicing some apprehension about the emerging and close -- the increasingly close ties between Washington and New Delhi.

Some leading Chinese South Asian authorities have even gotten to call India a "prize" in great power competition. Other prominent Chinese scholars have warned Beijing that it's not -- China needs to be very careful in terms of pushing India towards the United States.

Given that China and India are rivals, they are asymmetric rivals, but they are still rivals. And from a security perspective, the role of India being a net security provider in the region is yet to be fully fleshed out in Beijing.

In terms of recommendations, we tend to hear a lot about strategic competition between Washington and Beijing. These are valid points. However, we do find areas of cooperation. We find areas to work with China in terms of anti-piracy patrols. These are important as the PLAN will continue to expand its presence in the region.

Two, deepen security and political ties with India and importantly work to build higher levels of friendship and interoperability between the two forces.

Number three, be aware of India's critical security ties with Russia and the role that Russia plays in terms of spare parts and military hardware.

And finally, build a cohort of China specialists in the American government with a strong

emphasis on language skills and increasing number of specialists who focus on China. Thank you.

**PREPARED STATEMENT OF CHRISTOPHER COLLEY, ASSISTANT PROFESSOR
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EMIRATES**

May 12, 2022

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The opinions expressed in this testimony are those of the author and do not reflect the views of the National Defense College, or the United Arab Emirates government.

Testimony before the U.S.-China Economic and Security Review Commission.

Title Of Hearing: China's Activities and Influence in South and Central Asia

Question 1: What are Chinese leaders' key interests and strategic ambitions in the Indian Ocean? Given those interests and ambitions, how do Chinese strategists view the Indian Ocean as a theater of operations? How do Chinese strategists subdivide the ocean into regions or see it interconnected to or influencing other strategically important neighboring regions, and how do they envision advancing China's interests in the Indian Ocean?

Chinese interests in the Indian Ocean Region (IOR) are increasing and have evolved over the past two decades. Commensurate with the expansion of interests is an emerging Chinese strategy for the IOR. At its core, this strategy is not only about protecting Beijing's economic interests in the overall IOR but, in particular, the northern IOR. An estimated 80-85 percent of China's imported oil transits the Indian Ocean and Chinese commentators have highlighted the fact that these Sea Lanes of Communication (SLOCs) are controlled by the United States.¹ Furthermore, an estimated 95 percent of Chinese trade with Africa, the Middle East and the European Union transits the Indian Ocean.²

Within the Chinese security community there is widespread agreement that China must protect its SLOCs in the IOR and by far the greatest threat to Chinese interests is the American navy.³ Their chief concern is that in the event of hostilities with the United States, the American navy has the ability to interdict Chinese oil tankers and merchant ships bound for China. Chinese security experts argue that such a situation for Beijing is "unacceptable," and must be countered with a more powerful navy.⁴ Unbeknownst to many outside of China, there is a history of the American Navy interdicting a Chinese merchant vessel in the Indian Ocean. In 1993, the Chinese merchant vessel "Yinhe" (银河) was suspected of transporting weapons and contraband from China to Iran and was forcefully stopped by the American navy and was then boarded and searched by a Saudi crew who found no evidence of such cargo. Numerous Chinese maritime

¹ Zeng, Xinkai. 'The American Factor in China's "Indian Ocean Dilemma." ' No. 2. 2012. P 52-65. 曾信凯,中国“印度洋困境”中的美国因素,南亚研究,2012年第2期52-65.

² Erickson, Andrew S. Denmark, Abraham M. Collins, Gabriel. "Beijing's "Starter Carrier" and Future Steps." Naval War College Review. Winter 2012, Volume. 65, No 1. P 15-54.; Bo, Hu. "Chinese Maritime Power in the 21st Century." Routledge. New York. 2020. P 190; Please also see Colley, Christopher K. "China's Ongoing Debates about India and the United States." Asia Dispatches. The Wilson Center. June 30, 2020. Accessed on April 30, 2021. <https://www.wilsoncenter.org/blog-post/chinas-ongoing-debates-about-india-and-united-states>

³ Author's in-depth interviews with Chinese security scholars and analysts. Beijing and Shanghai 2016-2018.

⁴ Ibid.

security experts argued that this event was a “national humiliation,” and that such an event must never be allowed to happen again.⁵

More recently Chinese interests in the IOR have expanded to taking part in anti-piracy patrols off the coast of Somalia as well as developing the capacity to rescue Chinese nationals who are stuck in conflict zones in Africa and the Middle East. Such concerns have already materialized with the evacuation of Chinese nationals from multiple conflict zones including Libya in 2011 and Yemen in 2015.⁶

Overall, Chinese ambitions in the IOR for the next 20-30 years are centered around the ability to dissuade a potential adversary (mainly the U.S., but possibly India) from attempting to block Chinese SLOCs, thus severing a vital Chinese economic lifeline. Beijing’s ambitions in the IOR differ significantly from those in East Asia, where a strategy of access denial is China’s main aim. In the IOR, at least for the time being, Beijing does not seek hegemony or sea denial. It is primarily concerned with having a maritime force that has the ability to defend China’s interests by possessing the ability to inflict a level of harm that dissuades any potential adversary from challenging Beijing’s interests.

The IOR as a Theater of Operations.

The modern Chinese navy’s (PLAN) entry into the IOR is a very new phenomenon. Chinese security scholars and strategists have only recently started to discuss the region as a theater of operations. The primary reason for this was the absence of naval hardware that could sustain constant and long-term patrols in the region. For example, in 2000 only 20 percent of China’s destroyers (DDGs) and 25 percent of its frigates were classified as “modern.”⁷ (Please see Box 1 below.)

Over the past decade-and-a-half and, in particular, since Chinese President Xi came to power in 2012, China has quickly shed its traditional aversion to foreign military bases⁸ with some government scholars stating that such a stance was not in China’s current interests.⁹ Song Dexing, the Director of the Nanjing Institute of International Relations, argues that China’s main concern in the IOR is the American navy and that Beijing must develop a blue water navy to

⁵ Ibid; See also Erickson, Andrew. Goldstein, Lyle. ‘China’s Future Nuclear Submarine Force.’ In the Andrew Erickson, Lyle J. Goldstein, William S Murry, and Andrew Wilson eds. *China’s Future Nuclear Submarine Force*. Annapolis Md. Naval Institute Press. 2007. P 182–211.

⁶ For a detailed description and analysis please see Ghiselli, Andrea. *Protecting China’s Interests Overseas*. Oxford University Press. New York. 2021.

⁷ Erickson, Andrew. “Exhibit 0-2. China’s Primary Naval Order of Battle (Major Combatants), 1985-2030. In the Andrew Erickson ed. *Chinese Naval Shipbuilding*. Annapolis Md. Naval Institute Press. Annapolis 2017C. P XVI-XVII.

⁸ Kennedy, Conor. “Strategic Strong Points and Chinese Naval Strategy.” *China Brief*. The Jamestown Foundation. March 22, 2019. Accessed on March 16, 2021. <https://jamestown.org/program/strategic-strong-points-and-chinese-naval-strategy/#:~:text=Strategic%20strong%20points%20will%20improve,and%20safeguarding%20China's%20overseas%20interests>.

⁹ Li, Jian. Chen, Wenwen. Jin, Jing. “Indian Ocean Sea Power Pattern and China Sea Power: Indian Ocean Expansion.” *Pacific Journal*. Volume 22. No. 5. May 2014. 李剑，陈文文，金晶，印度洋海权格局与中国海权的印度洋拓展，太平洋学报，2014年第5期 <http://www.cnki.com.cn/Article/CJFTTotal-TPYX201405009.htm>

protect China's energy security and commercial traffic. Song writes of the "strategic arc" of the Indian Ocean from the Red Sea to Malacca, but focuses mostly on the northern Indian Ocean.¹⁰ Hu Bo, the Director of both the Center for Maritime Strategy Studies and the South China Sea Strategic Situation Probing Initiative at Beijing University, has argued that the northern Indian Ocean is a boundary for China's naval strategy. Professor Hu, states that "China must tirelessly strive to maintain an aircraft carrier combat group as well as several reconnaissance support and early warning positions in each of these two major regions, in order to realize effective power presence."¹¹ Crucially, Hu believes that a future main zone for the PLAN will be the northern Indian Ocean from the Middle East and coast of Africa to the Malacca Strait.¹² Two scholars from the Chinese Institute for Contemporary International Relations (CICIR, which is affiliated with the Ministry of State Security¹³) see the northern Indian Ocean and the South Asian Subcontinent as being an area of "intense collision" and as "the most important theatre of contest."¹⁴

While these statements by Chinese scholars may be viewed as trial balloons testing the waters for a future Chinese Indian Ocean fleet, they are in-line with official government statements.¹⁵ The 2015 Official Chinese Defense White Paper openly calls for China to be a maritime power and to carry out "open seas protection."¹⁶

An Evolving Strategy.

Chinese strategists are now openly advocating a more assertive naval strategy and some have called for multiple bases to be stationed in the IOR. Such bases can be connected to key islands in the South China Sea and other countries friendly to China.¹⁷ Several authors from the Chinese Naval Academy of Military Science have stated that the port of Gwadar in Pakistan can serve as a strategic "fulcrum/strong point," and that other bases can be developed in the Seychelles, Hambantota and Tanzania. Interestingly, they also point out that China needs to implement this in a low key manner and should do the basic work first such as security cooperation, marine surveying, disaster relief, and anti-pirate patrols.¹⁸ Other Chinese scholars have also recognized the sensitivity of port projects that can double as military bases. Zhang Jie of the Chinese Academy of Social Science, has written that Gwadar by itself cannot fulfill China's strategic

¹⁰ Song, Dexing. "Using the Indian Ocean is China's 21st Century An Important Choice for Strategic Expansion." Number 5, 2014. 宋德星, 利用印度洋是 21 世纪中国实现战略拓展的重要选择, 和平与发展, 2014 年第 5 期 <http://kns.cnki.net/kcms/detail/detail.aspx?filename=HPFZ201405002&dbcode=CJFQ&dbname=CJFD2014&v=>

¹¹ Hu. 2020. P 13.

¹² Ibid. P 74.

¹³ Ghiselli. 2021. P 132.

¹⁴ Hu, Shisheng. Wang, Jue. "The Behavioral Logic behind India's Tough Foreign Policy toward China." China Institutes for Contemporary International Relations. Contemporary International Relations. Vol. 30. No 5. September/October 2020. P 63.

¹⁵ Colley, Christopher K. "A Future Chinese Indian Ocean Fleet?" War on the Rocks. April 2, 2021A. Accessed on January 26, 2022. <https://warontherocks.com/2021/04/a-future-chinese-indian-ocean-fleet/>

¹⁶ "China's Military Strategy 2015." Xinhua. Information Office of the State Council of the People's Republic of China. Beijing. Accessed on March 5, 2020.

http://english.www.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm

¹⁷ Hu. 2020. P 74.

¹⁸ Li et al. 2014.

goals in the Indian Ocean, thus China needs to build several “strategic fulcrums/strong points” that can support each other. He states that “building seapower is China’s road to power” and that ports are key to this. Echoing the concerns of other Chinese scholars, he argues that considering the sensitivity of ports, officials should emphasize the importance of economic cooperation and cultural exchanges and down play issues such as the Belt and Road Initiative (BRI).¹⁹

Overall, a Chinese Indian Ocean fleet is emerging out of the rapid modernization of the Chinese navy. As will be elaborated below, Chinese naval officers are gaining vital blue water experience in the Indian Ocean. It is difficult to ascertain the precise details of China’s maritime strategy or, assuming one exists, how coherent it is and how congruent it is with China’s foreign and security policies. Chinese strategists and scholars seem to be increasingly aware of emerging negative perceptions of China in the IOR. If, and how, this percolates to the top leadership and the decision making process is less clear. From a security perspective, over the past two decades, the PLAN has gone from being an almost non-existent actor in the Indian Ocean, to having a constant presence with at least 6-8 warships in the northern Indian Ocean at any one time.²⁰

Question 2: What objectives and institutions are driving China’s activities in the Indian Ocean, and how clearly do these interests align with a centrally-issued strategy for the Indian Ocean? To what extent do bureaucratic or parochial interests influence China’s policies in the Indian Ocean?

As discussed above, Chinese objectives in the IOR are heavily influenced by Beijing’s’ desire to defend its SLOCs from the American navy. An emerging secondary concern is centered on protecting Chinese nationals working or residing in unstable IOR states. Whether the American navy represents a real threat to Chinese SLOCs is up for debate, but what must not be underestimated are Chinese threat perceptions of the American navy. While there are some Chinese who have questioned the so-called “Malacca Dilemma,” others are ardent believers in the idea that Washington with its friends and partners might use their naval power to disrupt Chinese trade through the narrow choke point that separates the South China Sea from the Indian Ocean.²¹

In terms of the institutions that are driving Chinese policy in the IOR, it is critical to note that there are significant barriers to our ability to uncover some of the bureaucratic political games that take place behind the scenes in Beijing. However, there are several forces and actors that do play an important role.

¹⁹ Zhang, Jie. “Also on Construction of Maritime Safety Considerations of the Silk Road of the 21st Century.” Security Strategy. November 2, 2015. P 100-118. 张洁，海上通道安全与中国战略支点的构建—兼谈 21 世纪海上丝绸之路建设的安全考量，国际安全研究，2015 年第 2 期 100-118.

http://gjaqyj.cnjournals.com/gjaqyj/ch/reader/view_abstract.aspx?file_no=20150206&flag=1

²⁰ Admiral Sunil Lanba’s comments at the 2019 Raisina Dialogue. January 9, 2019. New Delhi, India.

²¹ Author’s interviews with Chinese maritime security scholars in Beijing and Shanghai. 2016-2018.

China's "Going Out Policy," which has its origins in the early 1990s,²² and the later Belt and Road Initiative, which subsumed the Going Out Policy are major drivers, but these are ultimately best understood as symptoms of China's insatiable demand for natural resources with the real cause being China's phenomenal economic growth over the past several decades.²³ For much of the past two decades market driven forces have formed the foundation of China's approach to the IOR. However, the nexus between the Chinese state, the Communist Party, and Chinese companies must not be downplayed. For example, the National Development and Reform Commission (a "Super Ministry") is in charge of coordinating BRI projects and has support from the Ministry of Foreign Affairs and the Ministry of Commerce. Frequently projects approved under the BRI are doled out to both state owned and private Chinese companies. There is also a government hierarchy that is in charge of carrying out the BRI with a Central Small Leadership Group for BRI development, this is staffed by a Politburo Standing Committee member as well as two Politburo members.²⁴

There are a multitude of actors striving for influence in the BRI and, in particular, Chinese activities in the IOR. The PLAN as an instructional actor plays a visible role in the region and actively sought permission to take part in the anti-piracy patrols in 2008. Since then the PLAN has used the patrols as a great learning opportunity as this forces PLAN officers to learn how to operate on the high seas thousands of miles from home ports.²⁵ The Chinese leadership's promotion of sea power has also given the PLAN a reason to lobby for greater responsibilities in the IOR. It must be noted that while the PLAN can be viewed as a bureaucratic force advocating for an expanded role in the IOR, the vast majority of its security responsibilities are still centered in the western Pacific. Conversely, the Chinese military as a bureaucratic actor, has seen its influence in the formal institutions of power greatly diminish over the past several decades.²⁶

Chinese companies, both state owned, and private also play a critical role in influencing China's policy in the IOR. Many Chinese companies are pursuing BRI related projects in the hope that they are able to obtain cash from the central government and state banks. This process has led to a large amount of waste and the funding of projects that are not economically viable.²⁷ China scholar Zhao Suisheng has noted that it is difficult to make sure the money is well spent because Chinese state owned enterprises do not have the ability to conduct proper risk assessment of proposals they have put forward. Specifically he states, "turning (the BRI) into Xi's signature diplomacy effectively gave local government's carte blanche to pursue whatever projects they can get away with" He further states that this has created a situation where there is a "politically driven rush for SOE's to take on projects hastily and the state banks to give out loans whether or not they are financially viable."²⁸

²² Norris, William. *Chinese Economic Statecraft*. Cornell University Press. Ithaca N.Y. 2016. P 75.

²³ Ghiselli. 2021.

²⁴ Zhao, Suisheng. "China's Belt-Road Initiative as the Signature of President Xi Jinping Diplomacy: Easier Said than Done." *Journal of Contemporary China*. July 26, 2019. P 3.

²⁵ Author's Phone interview with former American Naval Attaché based at the American Embassy in Beijing. 2017.

²⁶ Colley, Christopher K. "How Politically Influential is China's Military?" *The Diplomat*. April 27, 2019. Accessed on April 16, 2022. <https://thediplomat.com/2019/04/how-politically-influential-is-chinas-military/>

²⁷ Zhao. 2019. P 9.

²⁸ Ibid. P 9.

We do find evidence that in some areas various bureaucratic and parochial entities have joined forces to advocate for their interests in the IOR. The Yunnan provincial government, along with members of the PLA and China National Petroleum Corporation (CNPC), actively promoted the “Malacca Dilemma” in order to persuade Beijing that pipelines from south-west China were an effective solution to overcoming the “dilemma.” Specifically, PLA General Wang Zuxun, who was based in Kunming, Yunnan’s capital city, argued that China needed to build alternative routes for Chinese oil imports in the event that the American Navy blocked the Strait of Malacca. General Wang advocated for alternative routes through Myanmar and Vietnam. By 2010, the project was officially launched. Importantly, the Yunnan government allied with CNPC, which played a major role behind the scenes. CNPC saw this as a chance to gain additional market share from their rival Sinopec, which is also a state owned oil company. The pipeline was promised to bring in 22 million tons of oil per year, which is about four percent of China’s total imports. In addition, oil delivered by the pipeline will cost more than two times that of oil delivered by ocean tankers.²⁹ Oil delivered via supertankers is by far the most cost-effective means of transport. While transportation costs can fluctuate over time, in 2007, before many Chinese pipelines were started or completed, the estimated cost of transporting one barrel of oil 1,000 kilometers was 0.16 US dollars. This amount increased to 0.79 US dollars by pipeline and 7.19 dollars by train.³⁰

Overall, Chinese interests in the IOR are many and are quickly expanding. The foundation of these interests are the protection of Chinese SLOCs and increasingly the protection of Chinese nationals in the IOR. Within these interests there are a multitude of actors who likely share Chinese leaders’ interests, but who advocate their own narrow interests that may not always be directly congruent with the policies emanating from Beijing. Such a situation is common the world over, but in the context of the IOR and the rapidly emerging great power rivalries in the region, Chinese activities, whether state or non-state directed, are raising concerns in New Delhi.³¹

Question 3: What is the PLA Navy’s role in achieving Chinese leaders’ strategic ambitions? What do the PLA Navy’s key capabilities demonstrated—through vessel procurements, exercises, and doctrine—indicate about the types of missions and the types of conflicts that PLA Navy leaders anticipate? How would a PLA Navy capability to conduct military operations in the Indian Ocean complicate or threaten U.S. and Indian interests? What additional improvements or partnerships does China need to achieve that capability, and in what timeframe is the PLA Navy likely to achieve that capability?

²⁹ Wong, Audrye. “More than Peripheral: How Provinces Influence China’s Foreign Policy.” *The China Quarterly*. 235. September 2018. Pages 735-757. For tonnage of annual oil imports see Chen, Aizhu. “China’s annual crude oil imports drop for first time in 20 years.” *Reuters*. January 14, 2022. Accessed on April 22, 2022.

<https://www.reuters.com/markets/commodities/chinas-crude-oil-imports-post-first-annual-drop-20-years-2022-01-14/>

³⁰ Cole, Bernard D. “China’s Quest for Great Power.” Naval Institute Press. Annapolis. 2016. P. 82.

³¹ Author’s interviews with India security scholars. New Delhi 2016.

The PLAN's primary mission in achieving China's strategic ambitions is best understood in the role that it plays in securing China's interests. In East Asia this means posing a credible threat to any American carrier battle group that might try to come to the defense of Taiwan in the event of a war over the status of Taiwan. For this task the PLAN has reached a level of relative competence where it has the real or perceived ability to inflict what Chinese leaders hope is an unacceptable level of damage on American naval forces should they decide to intervene in a conflict. While this depends heavily on American assessments of the Chinese military, the U.S. navy would be extremely careful about sending its carriers within 500 kilometers of Taiwan in the event of a war.³² In the IOR, the PLAN is expanding its ability to protect Chinese interests. As mentioned above this includes, conducting anti-piracy patrols, thus providing an international public good, protecting Chinese SLOCs, and having the ability to conduct evacuations of Chinese in states experiencing civil unrest. The PLAN is also able to "show the flag." The main goal of this is to both conduct military diplomacy which includes foreign port calls and bi-lateral naval exercises, but also the prestige that comes with showing off large warships in distant seas. Such prestige is both for domestic (Chinese) and foreign audiences.³³

PLAN Capabilities.

As of May 2022, the PLAN's capabilities demonstrate an increasingly powerful and sophisticated maritime power that has many, but not all of the prerequisites of a modern blue water navy. In terms of procurements, the PLAN has tested different warships designs by only producing a few types of various ships. If these vessels meet the PLAN's standards they then begin serial production of that specific type of warship. This can be seen in the acceleration of orders since 2008 for the 052 D Luyang III DDG, 054A Jiangkai II Frigate, and the 056 Jiangdao corvette.³⁴ Furthermore, since 2000, the PLAN has rapidly increased the production of diesel electric submarines (SSKs). Such subs would be helpful in deterring the Americans in a Taiwan scenario, but are of limited utility in the Indian Ocean.³⁵

The American Naval War College estimates that the PLAN now possesses over 100 warships capable of operating in the Indian Ocean and can maintain a constant presence of 18 warships in the IOR if necessary.³⁶ Nearly all of the PLAN's DDGs are fitted with Dragon Eye combat systems, which are similar to the Aegis system found in American warships.³⁷ Box 1 below provides a small, but important snapshot of the transformation of the PLAN into a powerful combat force. In 2000, the vast majority of the Chinese navy was not considered "modern" by the American Office of Naval Intelligence. However by 2022, the majority of PLAN warships were considered modern.³⁸

³² Author's discussions with American Military Attachés based at the American Embassy in Beijing. 2009-2018.

³³ Author's interviews with Chinese maritime security scholars. Beijing 2016-2018.

³⁴ Murphy, Martin N. Yoshihara, Toshi. "Fighting the Naval Hegemon." *Naval War College Review*. Summer 2015. Vol 68. No 3. P 33.

³⁵ Ibid. P 32.

³⁶ Becker, Jeffrey. "China Maritime Report No. 11: Securing China's Lifelines across the Indian Ocean." U.S. Naval War College. China Maritime Studies Institute. CMSI China Maritime Reports. December 2020. P 6-7. Accessed on March 16, 2021. chrome-extension://oemmdcbldboiebfnladdacbdm/adm/https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1010&context=cmsi-maritime-reports

³⁷ Colley. 2021A.

³⁸ Erickson. 2017. P XVI-XVII

Box 1. Two Decades of PLAN Modernization. (Erickson 2017³⁹; IISS 2022⁴⁰)
Numbers in () represent percentage of warships considered modern.

Year	Destroyers	Frigates	Diesel Electric Submarines	Nuclear Powered Submarines
2000	20 (20%)	40 (25%)	60 (7%)	5 (0%)
2010	25 (50%)	49 (45%)	54 (50%)	6 (33%)
2022 ⁴¹	36 (85%)	45 (85%)	46 (75%)	12 (100%)

Importantly, the term “doctrine” has varying definitions and different militaries conceptualize “doctrine” in different ways.⁴² However, there are some clear goals that the Chinese leadership has identified over the years that help shed light on PLAN “doctrine.” The 2015 Chinese Defense White Paper states: “In line with the strategic requirement of offshore waters defense and open seas protection, the PLA Navy (PLAN) will gradually shift its focus from “offshore waters defense” to the combination of “offshore waters defense” with “open seas protection,” and build a combined, multi-functional and efficient marine combat force structure.”⁴³ In addition, over the last 25 years Chinese leaders have actively called for a stronger PLAN. In 1997 Jiang Zemin pushed the PLAN to build up China’s “great wall.” In 2004, Hu Jintao told the Central Military Committee to build up the nation’s sea power and develop a modern navy. Current leader Xi Jinping has called for a navy that can project force to distant oceans.⁴⁴

The greatest structural change in the Chinese navy in terms of strategy and tactics is the transformation of a navy based on regional defense and access denial, to a force that is firmly in-line with power projection and blue water capabilities. Such an evolution is a conscious decision by the top levels of the Chinese government to build a navy that has the ability to project sustained and meaningful power to locations thousands of miles from Chinese home ports.⁴⁵ This transformation is one of the most critical developments in the security architecture of the Twenty-First Century.

While the PLAN has been dramatically transformed over the past 20 years, at present it does not represent a credible threat, nor does it complicate American interests in the Indian Ocean. This situation is slightly different for India, but the tyranny of geography presents China with an enormous structural disadvantage in the IOR. Any Chinese naval flotilla that ventures into the IOR must pass through narrow maritime choke points around the Indonesian archipelago. Such transit points are heavily monitored by New Delhi and Washington and India has a base very

³⁹ Ibid.

⁴⁰ The Military Balance. The International Institute for Strategic Studies. 2022.

⁴¹ For 2022, these are low estimates for the percentages of these vessels that are modern.

⁴² Fravel, Taylor. Active Defense. Princeton University Press. Princeton New Jersey. 2019. P 11.

⁴³ *China's Military Strategy*. The Information Office of the State Council. Xinhua. May 27, 2015. Accessed on April 16, 2022. http://english.www.gov.cn/archive/white_paper/2015/05/27/content_281475115610833.htm

⁴⁴ Cole 2016. P 80.

⁴⁵ Author's in-depth interviews with Chinese security scholars. Beijing and Shanghai 2016-2018.

close to the entrance of the Malacca Strait where it has positioned Jaguar fighter bombers equipped with anti-ship missiles.⁴⁶

Of greater importance, the PLAN lacks any reliable air cover. Even though China has two operating aircraft carriers, these are best viewed as training vessels that lack the requisite requirements for meaningful air cover. Chief among these is the inability to master catapult take offs for the carriers' air wings. In the absence of this, the J-15, which is China's principal carrier based fighter, is forced to use a "ski jump" take off that does not allow it to be fully fueled or carry extensive ordinance. In the absence of meaningful air cover, any PLAN flotilla that engaged India (which has home-field advantage in that it can use land based fighter bombers to attack potential PLAN vessels in the IOR) or the American navy, would be at an enormous disadvantage and would likely be quickly destroyed.⁴⁷

China does have a formidable submarine fleet, but the SSKs are primarily designed for access denial in East Asia and are not well suited for open seas operations far from home ports. Away from safe ports they would be forced run their diesel generators to charge their batteries. This would require them to regularly expose their snorkel above the waterline, thus giving away their position and likely resulting in American or Indian attacks.⁴⁸ China's fleet of nuclear powered attack submarines has made progress over the past three decades, but are still plagued by high levels of noise, thus exposing their location.⁴⁹

From China's perspective, the PLAN has demonstrated its ability to be a net security provider in the IOR. By some estimates between 51-70 percent of the merchant ships escorted by the PLAN in its anti-piracy patrols have been foreign flagged.⁵⁰ Furthermore, as a sovereign state, the PLAN has the right to conduct operations on the high seas and to conduct training exercises with IOR states that invite the PLAN to make port calls.

The PLAN is working to improve its combat effectiveness and ability to conduct operations on the high seas. While China does not have any formal allies in the IOR, it does have strong ties with Pakistan and PLAN warships make regular port calls at Karachi. Interestingly, as of 2020 the PLAN has not made a single port call in Gwadar. It appears to prefer Karachi because of its superior logistical capabilities.⁵¹ Until the PLAN has a viable carrier battle group with real air

⁴⁶ Colley, Christopher K. Hosur Suhas, Prashant. "India-China and Their War Making Capabilities." *Journal of Asian Security and International Affairs*. vol. 8, 1. 33-61. February 28, 2021.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Author's interviews with maritime security experts. Washington D.C. 2017.

⁵⁰ For the 70 percent figure please see Cheng, Cindy. *Trilateral Cooperation Research Series No. 5 China and U.S. Anti-piracy Engagement in the Gulf of Aden and Western Indian Ocean Region*. The Carter Center. April 9, 2017. P 6. Accessed on April 16, 2022. chrome-extension://oemmmndcbldboiebfnladdacbdm/adm/https://www.cartercenter.org/resources/pdfs/peace/china/trs-05-anti-piracy-engagement.pdf.; For the 51.5 percent figure please see "Chinese naval fleets escort 3,400 foreign ships over past 10 years." China Daily. January 1, 2019. Accessed on April 16, 2022.

<https://www.chinadaily.com.cn/a/201901/01/WS5c2b5aeda310d91214051ec1.html>

⁵¹ Kardon, Isaac B. Kennedy, Conor M. Dutton, Peter A. "Gwadar." China Maritime Studies Institute. China Maritime Report No. 7. August 2020. U.S. Naval War College. P 54. Accessed on June 23, 2021. <https://digital-commons.usnwc.edu/cmsi-maritime-reports/7/>

cover, its ability to engage in meaningful combat with an adversary that has a viable air force, or carrier based air wings, is extremely limited. China will likely begin to obtain these capabilities towards the end of the 2020s. Importantly, by 2030, it may well have a truly modern navy, but it will not have the ability to control the seas. However, it needs to be noted that many of China's new warships face mid-life servicing starting in 2028. This is especially the case for the advanced DDGs and frigates. This will add an enormous expense to the PLAN and such challenges are frequently not included in future forecasts of the PLAN.⁵²

Question 4: How do the United States and India factor into Chinese leaders' vision for the Indian Ocean? Are Chinese leaders inclined to support or undermine India's efforts to position itself as a net security provider in the region? How do Chinese leaders view U.S. naval presence in the Indian Ocean, and how has this perspective shaped the PLA Navy's decisions regarding force development and employment in the Indian Ocean?

The American navy is the driving force behind China's security concerns in the IOR. Fear of the American navy blocking Chinese SLOCs has led to a steady increase in PLAN forays in the IOR. Historically, Beijing has not been very concerned with New Delhi and many Chinese commentators have viewed South Asia as a secondary strategic consideration.⁵³ Ye Hailin, the Vice President and a researcher at the Institute of Asia-Pacific and Global Strategy at the Chinese Academy of Social Science, has stated that China does not regard India as a "priority" in China's foreign strategy.⁵⁴ However, this perception of India has started to change.

The primary reason for this change is the deepening relationship between Washington and New Delhi. Chinese South Asia experts have raised concerns over this and have even written that India is becoming a "prize" in the great power competition.⁵⁵ Others see Washington's Indo-Pacific strategy as the Asia-Pacific plus India.⁵⁶

⁵² Carlson, Christopher P. "PLAN Force Structure Projection Concept." China Maritime Studies Institute. China Maritime Report No. 10. U.S. Naval War College. November 2020. P 9-12. Accessed on June 23, 2021.

<https://digital-commons.usnwc.edu/cmsi-maritime-reports/10/>

⁵³ Guo, Bingyun. Zhuo, Xuchun. "The Modi Government's Measures to China and China's Response. Based on the analysis of the superposition of the ambitions of India as a big power and the mentality of weak countries towards China." Asian Research Communication. November 19, 2020. 郭兵云、卓旭春：莫迪政府对华举措及中国的应对——基于印度大国抱负与对华弱国心态叠加的分析. 亚研究通讯. 2020-11-19

<https://www.essra.org.cn/view-1000-1493.aspx>

⁵⁴ Ye, Hailin. "The Impact of Identity Perception Bias on the Prospects of Sino-Indian Relations." Indian Ocean Economy Studies. July 30, 2020. 叶海林. 身份认知偏差对中印关系前景的影响, 印度洋经济体研究. 2020 年 07 月 30 日. Accessed on August 24, 2021. http://www.cssn.cn/gjgxx/gj_ytqy/202007/t20200730_5163496.html

⁵⁵ Lin, Minwang. "Trump Visits India, Except for the Huge Political Show, the Trade and Defense Achievements are Few." The Paper. February 26, 2020. 林民旺, 特朗普访问印度: 除了声势浩大的政治秀, 贸易、防务成果寥寥, 澎湃新闻, 2020 年 2 月 26 日, https://www.thepaper.cn/newsDetail_forward_6168745

⁵⁶ Long, Xingchun. "Trumps First Visit to India, what Impact Will it have?" Global Times. February 21, 2020. 龙兴春, 特朗普首访印度将带来什么影响, 环球时报, 2020 年 2 月 21 日

<https://opinion.huanqiu.com/article/3x7FvIhdIOi>

The Quadrilateral Security Dialogue, or the “Quad”, composing the U.S., India, Japan, and Australia, is perceived by many Chinese commentators as directly aimed at China.⁵⁷ Other commentators believe that the Quad will lead to increasing tensions between China and the U.S. at the regional level.⁵⁸ Chinese South Asia and security analysts note that China’s behavior may be playing a role in pushing India towards the U.S., with one analyst writing that after the deadly violence along the disputed border in 2020, India’s strategic community believed that China had lost India.⁵⁹ Other Chinese scholars have warned Beijing that when they deal with India, they must be careful not to push India into the “American camp.”⁶⁰ There have been instances where Beijing has tried to improve relations with New Delhi in order to limit Washington’s outreach to New Delhi, but these have not been very successful.⁶¹ The most recent overture in March 2022, with Chinese Foreign Minister Wang Yi’s trip to New Delhi, is the latest example. However, the underlying structure of the relationship consisting of a history of war, a territorial dispute of over 128,000 square kilometers, and the uncertainty in India because of China’s rise and ambitions, are far too great to resolve over a few relatively short high-level meetings.

A primary Chinese strategic goal is to end the unipolar structure of global power that from Beijing’s perspective privileges the U.S.⁶² India’s rise has the long-term potential to position India as a major player in international politics. However, as long as India and China are engaged in a rivalry the potential for deadly violence persists, Beijing will not assist New Delhi to achieve this goal. From New Delhi’s perspective, China is not supportive of India obtaining a permanent seat on the United Nations Security Council, and in 2008 at the Nuclear Suppliers Group in Vienna it worked against a ruling that would have eased the implementation of the India-US nuclear technology agreement.⁶³

The current trajectory of Sino-India relations does not bode well for meaningful cooperation. As long as tensions and occasional deadly violence along the disputed border persist, Beijing will be very wary of India playing the role of a net security provider in the region. To add to the tension, since 2017, the Indian Navy has conducted “Mission Based Deployments” in the IOR. These

⁵⁷ Zhang, Li. “A Preliminary Study of the US-India-Japan-Australia Quadrilateral Mechanism from the Perspective of Indo-Pacific Tension.” *South Asian Studies Quarterly*. No. 4. 2015. 1-8. 张力, “印太”视域中的美印日澳四边机制初探, 南亚研究季刊, 2018年第4期1-8。

<http://kns.cnki.net/kcms/detail/detail.aspx?DBCode=CJFD&DBName=CJFDLAST2019&fileName=NYYZ201804001>

⁵⁸ Zhang, Jie. “The US-Japan-India-Australia Summit Intensifies the Game of Regional Order. *South Asian Research Newsletter*. April 2, 2021. 张洁: 美日印澳峰会加剧地区秩序博弈. 南亚研究通讯. 2021-04-02. Accessed on April 8, 2021. <https://www.essra.org.cn/view-1000-2361.aspx>

⁵⁹ Lou, Chunhao: India fully embraces the "four-sided mechanism." *South Asian Studies Communication*. 2021-01-25. 楼春豪: 印度全面拥抱“四边机制。”南亚研究通. 2021-01-25. 美国防长埃斯珀、国务卿蓬佩奥与印度防长辛格、外长苏杰生（从左到右）在新德里举行2+2会谈. <https://www.essra.org.cn/view-1000-1893.aspx>

⁶⁰ Wang, Xinhao. “Interview with Zheng Yongnian: “Don’t push India into the arms of the United States”.” July 30, 2020. Accessed on February 18, 2021. 郑永年: 不要把印度推向美国的怀抱, 时代在线. <http://www.time-weekly.com/post/271970>

⁶¹ Garver, John. *China’s Quest*. New York. Oxford University Press. 2016.; Garver, John. And Wang, Fei-ling. “China’s Anti-encirclement Struggle.” *Asian Security*. 6:3, 2010. Pages 238-261.

⁶² Author’s interviews with Chinese security scholars. Beijing 2016-2018.

⁶³ Garver. 2016. P 749-750. It should be noted that in 2005 Chinese Prime Minister Wen Jiabao gave overt support for India’s claim for a permanent seat on the Security Council and recognized Sikkim as part of India. See Holslag, Jonathan. *China and India*. New York. Columbia University Press. 2010. P 57.

deployments are specifically designed for Indian warships to shadow and monitor the PLAN in the IOR.⁶⁴

Question 5: The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for Congressional action related to your testimony?

Chinese interests have dramatically increased in the IOR over the past 20 years. The PLAN now maintains a constant presence with at least 6-8 warships in the northern Indian Ocean and has the capacity to maintain a constant presence of at least 18 warships in the Indian Ocean. China's primary concern at this point is not to seek regional hegemony, but to protect Chinese interests. Part of this strategy is to put to sea a fleet that has the capability to inflict a level of damage on an adversary that, while not being capable of winning a battle, has the ability to inflict an unacceptable level of damage. The PLAN's footprint will continue to expand in the region and beyond and it is extremely likely that more Chinese bases will emerge in the IOR and beyond over the next decade. From Beijing's perspective these bases would be no different from American bases in other parts of the world and are China's and the host nation's sovereign right to grant China access. However, no bi-lateral relationship exists in a vacuum and future Chinese bases and forays into the IOR will have repercussions in China's strategic rivalries with both the U.S. and India. Chinese leaders are well aware of the tensions that can arise from rival states maintaining military bases in other countries. Beijing is very clear in its opposition to American bases in East Asia that are granted to Washington by sovereign states such as South Korea and Japan.

In the current state of the Sino-U.S. rivalry, ties are severely strained. A fundamental lack of trust exists between both sides and, considering the challenges of the Covid-19 pandemic and China's stance on the war in Ukraine, one can expect a continuation of rivalry escalation. However, there are some areas for cooperation between China and the U.S. The following five recommendations cover multiple areas.

1. The U.S. and China do share common interests in the IOR and adjoining regions. American military officers who have worked with the PLAN in anti-piracy patrols have generally had a relatively more positive experience with the PLAN than officers engaged in other areas. These should be maintained. Even if the threat of piracy has dramatically decreased, the mere symbolism of Chinese and American warships working together to provide a public good is helpful. Unfortunately the PLAN did not join Operation Sentinel near the Strait of Hormuz in 2019, but at the time the Chinese Ambassador to the UAE, Ni Jian, did not outright reject Chinese participation and stated "if there happens to be a

⁶⁴ Colley, Christopher K. 'The Transformation of the Indo-China Rivalry in the Twenty-First Century.' In the Aparna Pande ed. Routledge Handbook on South Asian Foreign Policy. Routledge. New York. 2021B. P 275.

very unsafe situation we will consider having our navy escort our commercial vessels.”⁶⁵ China and the U.S. also share a common interest in preventing Iran from acquiring nuclear weapons, with China playing an important, but behind the scenes role in helping to facilitate the 2015 nuclear agreement.⁶⁶ Overall, there are limited opportunities for China and the U.S. to work together, but where they do exist, they should be pursued.

2. The United States needs to work with India and deepen the current military-to-military ties. While defense ties are on the surface robust, the level of interoperability between the militaries needs to be significantly improved. Many of the exercises between the American and Indian air force and navy lack any real level of interoperability as both sides frequently turn off their combat systems.⁶⁷
3. Washington needs to be aware that threats of punishing India for its ties to Russia may be counterproductive. India is heavily reliant on Russian arms and spare parts for its military to function properly. In fact roughly 70 percent of India’s fighter bombers and its entire carrier based air wings of modified Mig-29Ks are of Russian origin.⁶⁸ If New Delhi were to sever ties with Moscow, the India military could find itself unable to function as a viable combat force. Washington should increase its military assistance to New Delhi in its quest to modernize its military. This also requires a much deeper understanding of Indian domestic politics and its deep seated fears of playing a junior partner to the U.S.
4. Washington needs to realize that the IOR is not a top-level strategic priority for China and that Chinese policy in the region is frequently ad-hoc and the BRI lacks meaningful coordination.⁶⁹ Many of the BRI projects in the IOR may never become economically viable, and some are already turning into white elephants.⁷⁰ While the IOR is increasing on Beijing’s radar, East Asia is by far the most pressing foreign security concern for Chinese leaders and domestic security concerns (maintaining social stability) are paramount in China. With this in perspective, Washington does not necessarily have to overreact to China in the IOR, but it needs to maintain its partnerships with regional states. In parts of the IOR and in particular, the Middle East, there is a common misperception that the U.S. is “leaving the region.”⁷¹ This view is not in-line with the reality that the American military presence in the Arabian Peninsula has actually

⁶⁵ Cornwell, Alexander. “China might escort ships in Gulf under U.S. proposal: envoy.” Reuters. August 6, 2019. Accessed on January 26, 2022. <https://www.reuters.com/article/us-mideast-iran-tanker-china-idUSKCN1UW1DR>

⁶⁶ Garver, John. “China And The Iran Nuclear Negotiations.” In the James Reardon-Anderson eds. *The Red Star and the Crescent*. Oxford University Press. New York. 2018.

⁶⁷ Mason, Chris M. ‘Less than Meets the Eye: A Critical Assessment of the Military-to-military Dimension of the U.S.-India Security Partnership.’ In the Sumit Ganguly and Chris M. Mason eds. *The Future of U.S.-India Security Cooperation*. Manchester. Manchester University Press. 2021. 19–37.

⁶⁸ *The Military Balance*. 2022. P 269.

⁶⁹ Zhao. 2019.

⁷⁰ Chinese projects in Hambantota Sri Lanka are a case in point. See Pattanaik, Smruti S. “India’s Policy Response to China’s Investment and Aid to Nepal, Sri Lanka and Maldives: Challenges and Prospects. *Strategic Analysis*, 43:3, June 3, 2019. P 240-259.

⁷¹ Al Sharif, Osama. “A new regional order in the Middle East.” *Gulf News*. November 30, 2021. Accessed on January 27, 2022. <https://gulfnews.com/opinion/op-eds/a-new-regional-order-in-the-middle-east-1.84040660>

expanded over the past decade.⁷² Washington must make it clear to the region that it is not leaving and needs to highlight the importance of the American security presence in the region. Oddly enough, some Chinese scholars have admitted that China is free riding off the American security presence.⁷³

5. The federal government should dramatically increase funding to projects related to China such as the Foreign Language Areas Studies program, and should more actively develop a strong cohort of Americans with high-level Chinese language skills. In some embassies the State Department currently has an individual dedicated to the study of China, but not all embassies have such staff. This needs to be significantly increased. In addition, in embassies located in countries where China has a large presence, several diplomats and not just one should be assigned China specific tasks. This requires them to be able to read Chinese. One key challenge for China as it expands its role in the world is a profound lack of area experts. Many of China's IOR experts, were trained as American or European specialists and therefore initially lacked a concrete understanding of this new region.⁷⁴ Washington needs to make sure the U.S. is not facing a similar deficiency.

⁷² Janardhan, N. Colley, Christopher K. 'Flag Follows Trade.' In the N Janardhan ed. *The Arab Gulf's Pivot to Asia*. Hamburg. Gerlach Press. 2020. 193–209.

⁷³ Xu, Ruike. Sun, Degang. "Sino-American Relations in the Middle East: Towards A Complementary Partnership?" *Asian Journal of Middle Eastern and Islamic Studies*. April 23, 2019. P 154.

⁷⁴ Author's interviews with Chinese area specialists. Beijing. 2016-2018.

OPENING STATEMENT OF SAMANTHA CUSTER, DIRECTOR OF POLICY ANALYSIS, AIDDATA AT WILLIAM & MARY'S GLOBAL RESEARCH INSTITUTE

COMMISSIONER BARTHOLOMEW: Thank you very much. Dr. Custer.

DR. CUSTER: Honorable members of the Commission and staff, thank you so much for the opportunity to speak with you today.

In my remarks, I will first describe how Beijing has positioned itself as an economic partner to Sri Lanka and the Maldives. Second, I will discuss how Beijing has translated economic tools into leverage to advance its national interests.

Third, I'll assess how the PRC's engagement with Sri Lanka and the Maldives has affected its relations with other partners and propose five recommendations for your consideration.

Over the past two decades, Beijing has bankrolled 235 development projects worth \$15.7 billion in Sri Lanka and the Maldives. But Beijing is a banker, not a benefactor. It supplies much of its economic assistance in the form of loans and export credits rather than grants.

Debt financing has allowed Beijing to generate interest payment revenues and position Chinese firms as go-to exporters of goods and services.

Beijing has accumulated \$3.2 trillion in foreign exchange reserves. But its state led industrial policies have created an oversupply in its construction, steel and engineering industries. Therefore, the PRC is highly motivated to put the excess financing of its state-owned banks and the implementation capacity of its state-owned firms to productive use abroad.

The scale of this assistance gives Beijing leverage to influence smaller countries to back its policies, avoid criticism of its actions and grant concessions. The PRC needs Sri Lanka and the Maldives to help secure its maritime trade and project power in the Indian Ocean.

The two countries may be small, but they have voting power in the United Nations to help insulate Beijing from censure for its human rights practices and assertive territorial claims.

Of course, Sri Lanka and the Maldives have their own motives to partner with China, economic opportunity chief among them. The PRC bankrolls infrastructure projects at a scale unmatched by traditional development partners, and it is critical to their tourism dependent economies.

Geopolitical considerations are a secondary concern. Political leaders view Beijing as a useful counterbalance to blunt the influence of India, the U.S. and allies in their domestic politics.

Beijing provided timely assistance at critical junctures, a civil war in Sri Lanka and a tsunami in the Maldives, which generated goodwill and stoked demand for Chinese development projects.

The PRC was opportunistic to befriend leaders isolated by international criticism and bankroll their priorities. But then public enthusiasm waned and political opposition intensified over unprofitable airports, empty stadiums, expensive roads and mounting public debts.

New presidents rose to power with pledges to root out corruption, reduce debt and temper the pivot to Beijing. They placed projects on hold, scrutinized agreements and renegotiated their debts on more favorable terms.

So Chinese leaders modified their strategy. They purchased goodwill, gifting prestige projects, renegotiating debts and channeling financing via special purpose vehicles.

The PRC also invested in public diplomacy efforts to counter negative perceptions and

regain favor. Ultimately, most PRC projects were restarted and the public blamed local politicians rather than Beijing for white elephant projects and runaway debts. And both Sri Lanka and the Maldives signed new agreements with the PRC, albeit at a smaller scale.

Beijing also positioned itself as an emergency lender, signing balance of payment agreements to prop up reserves and boost liquidity so Colombo could secure new debt to repay old debts.

Beijing has achieved some economic gains, but these have been difficult to sustain. A 2017 Maldives-China free trade agreement steamed through the Parliament but has yet to be ratified. Sri Lanka declined IMF assistance in 2020 and rejected a \$480 million MCC grant, but it began negotiations with the IMF after its debt default last month.

Both countries used elections to renegotiate the terms of assistance. And leaders have been willing to say no to Beijing, cancelling projects or seeking alternative funding when other motivated partners were waiting in the wings.

Beijing has won some foreign policy concessions. Neither country recognizes Taiwan. Both are reluctant to condemn Beijing's human rights practices or maritime aggressions. Sri Lanka voted with China in the United Nations 99 percent of the time for nearly a decade.

But it's less certain that the PRC will achieve its security aims. Sri Lanka's willingness to grant the PRC a 99 year lease to operate Hambantota Port was likely more about Colombo's interest in easing their broader debt situation than necessarily specific to China. The Maldives also rejected the PRC's proposal to establish a joint ocean observation station near India.

Beijing's ability to convert economic leverage into concessions ultimately comes down to how countries assess the viability of alternative partners.

India is geographically proximate, but domestic politics have splintered across pro-China and pro-India lines. If we include grants and loans of varying concessionality, Beijing now outspends the U.S. two to one.

But there are drawbacks to the PRC's assistance. Beijing supplies financing on less generous terms and requires implementation by Chinese firms and labor, the features that make the PRC's projects so attractive to local politicians, sourcing ideas from leaders, expedited approval, opaque procurement processes, heightens the risk of politically expedient but less financially sound projects.

It also creates opportunities for local politicians to collude with Chinese firms to prop up costs and pocket the illicit proceeds. These risks can compound the distress of borrowers if projects don't generate sufficient revenues to repay the high cost of financing.

Ultimately, Beijing's influence is strongest in cases where counties lack negotiation leverage and political leaders succumb to pressure to take short-term actions that may not be in their national interests.

To mitigate this risk, I propose five recommendations for your consideration. First, help leaders design stronger public financial management processes to mitigate waste, corruption and debt distress.

Second, assist leaders to develop better planning processes to assess the total life cycle, costs and benefits of large scale infrastructure projects.

Third, model transparency in disclosing the terms and amounts of our own foreign assistance while pressuring other donors to do the same.

Fourth, advise leaders on how to improve the investment climate for private sector investment and mobilize non-governmental actors to increase accountability.

Finally, invest in public diplomacy, promote investigative journalism and support citizen

monitoring to help countries create space for debate and discussion about their engagement with foreign powers on their own terms. Thank you very much.

PREPARED STATEMENT OF SAMANTHA CUSTER, DIRECTOR OF POLICY ANALYSIS, AIDDATA AT WILLIAM & MARY'S GLOBAL RESEARCH INSTITUTE

Testimony before the U.S.-China Economic and Security Review Commission

“China’s Influence in South and Central Asia”

For the panel: “Competition in the Indian Ocean and
China’s engagement with Sri Lanka and the Maldives

May 12, 2022

Ms. Samantha Custer

Director of Policy Analysis

AidData at William & Mary

Introduction

Commissioners Bartholomew and Schriver, honorable members of the commission and staff, thank you for this opportunity to share my thoughts on this important topic of China’s economic engagement and influence in two South Asian nations of the Maldives and Sri Lanka.

Economic opportunity is routinely cited as an explanation for what attracts countries to engage with the People’s Republic of China (PRC). Political leaders see infrastructure as the gateway to economic growth for their countries and increasingly view the PRC as a lender of first resort. Citizens and private sector leaders see the PRC as important to their livelihood prospects—creating jobs, offering capital, and generating revenues from tourism or trade. But these economic ties can also constrict autonomy of action for smaller countries like Sri Lanka and the Maldives, creating obligations to back Beijing’s preferred policies, avoid criticism of its actions, and grant political or security concessions.

In my remarks today, I will first describe how Beijing was able to position itself as an indispensable economic partner to Sri Lanka and the Maldives through being responsive to domestic shocks that created an opening, opportunistic to befriend leaders isolated by international criticism, and flexible to adapt its tools to align with the priorities of its counterparts. I will then assess the extent to which Beijing has been able to exploit its superior economic clout to advance economic, security, and geopolitical objectives these two South Asian countries. Third, I will discuss how the PRC’s engagement in Sri Lanka and the Maldives has changed their relations with India and other development partners. I will conclude with six recommendations for the Commission’s consideration moving forward. These remarks reflect my views alone and do not represent the official position of my employer, AidData—a research lab at William & Mary’s Global Research Institute—or any of the funders of our research.

What motivates Beijing’s engagement with Sri Lanka and the Maldives and vice versa?

The People’s Republic of China (PRC) is an undisputed economic heavyweight: the number one trading partner to 70 percent of the world’s countries has enjoyed nearly three decades of trading

surpluses, accumulating \$3.2 trillion dollars of foreign exchange reserves.¹ But Beijing has an Achilles Heel—state-led industrial policies have created an oversupply in its construction, steel, and engineering industries relative to demand at home.²

One of the most important goals for the PRC's engagement in Sri Lanka and the Maldives, therefore, is economic. Beijing must put the excess financing of state-owned banks and implementation capacity of state-owned firms to productive use abroad by generating interest payments and export markets for Chinese goods, services, and capital. Over the last two decades, the PRC positioned itself as a major trading partner to the two countries and bankrolled more than 235 development projects to the tune of US\$15.7 billion.³ Sri Lanka attracted the lion's share of this financing in absolute terms (US\$13.8 billion, 163 projects), but the PRC's overtures cast a longer shadow over the Maldives smaller economy.

But the PRC is better thought of as a “banker, rather than a benefactor”.⁴ Globally, for every dollar of aid it provides to low- and middle-income countries, it provides 9 dollars of debt.⁵ Sri Lanka and the Maldives are no exception to this rule, with much of the PRC's economic assistance coming in the form of loans and export credits, rather than grants. The scale of this lending has prompted concerns of debt sustainability, giving the Chinese Communist Party a powerful lever to exploit economic vulnerabilities of countries struggling to repay their debts.

Security is a second motivation for the PRC's engagement in Sri Lanka and the Maldives. Approximately 80 percent of the PRC's oil imports pass through the busy Malacca Strait, one of the world's busiest shipping lanes.⁶ Chinese leaders are concerned about chokepoints for the U.S. and its allies to apply pressure to cut off access. Beijing's ability to cultivate friendly relations with Colombo and Malé 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.⁷ The PRC must also contend with discontent over economic inequality between its prosperous coastal regions and underdeveloped interior. For this reason, Chinese leaders have sought to position Chinese President Xi Jinping's signature Belt and Road Initiative as delivering economic opportunity to mitigate further instability in its southwestern and western provinces.⁸

Geopolitically, Sri Lanka and the Maldives present an attractive opportunity for Beijing to win over foreign publics and elites wary of India's influence in their domestic politics and status as a

¹ Trading Economics. (2022). China Foreign Exchange Reserves. Accessed from: <https://tradingeconomics.com/china/foreign-exchange-reserves>.

² Custer, S., and M. Tierney. (2019). “China's Global Development Spending Spree: Winning the World One Yuan at a Time?”, In: Strategic Asia 2019: China's Expanding Ambitions, by Ashley J. Tellis, Alison Szalwinski, and Michael Wills, eds. (National Bureau of Asian Research: Washington, DC).

³ This estimate is based upon the best available data AidData has been able to capture on Chinese state-financed overseas development projects over a 19-year period between 2000 and 2018. These figures are drawn from AidData's Global Chinese Development Finance Dataset, Version 2.0, which includes 2000-2017, with the addition of the as yet unpublished data for 2018. Custer, S., Dreher, A., Elston, T.B., Fuchs, A., Ghose, S., Lin, J., Malik, A., Parks, B.C., Russell, B., Solomon, K., Strange, A., Tierney, M.J., Walsh, K., Zaleski, L., and Zhang, S. (2021a). Tracking Chinese Development Finance: An Application of AidData's TUFF 2.0 Methodology. Williamsburg, VA: AidData at William & Mary.

⁴ Dreher et al. (2022). Banking on Beijing: The Aims and Impacts of China's Overseas Development Program. Cambridge University Press. Note: Official publication forthcoming on May 5, 2022.

⁵ Ibid.

⁶ Hillman, J., and D. Sacks. (2021). China's Belt and Road: Implications for the United States. Independent Task Force Report No. 79. Council on Foreign Relations.

⁷ Custer, S., Sethi, T., Solis, J., Lin, J., Ghose, S., Gupta, A., Knight, R., and A. Baehr. (2019). Silk Road Diplomacy: Deconstructing Beijing's toolkit to influence South and Central Asia. December 10, 2019. Williamsburg, VA. AidData at William & Mary.

⁸ Scobell, A., Ratner, E. & Beckley, M. (2014). China's Strategy Toward South and Central Asia: An Empty Fortress. Santa Monica, CA: RAND Corporation.

regional hegemon. These countries may be small, but they are also strategic, as they have voting power in international fora such as the United Nations which can help insulate Beijing from international censure for its domestic human rights practices (e.g., Taiwan, Tibet, Xinjiang) and its assertive pursuit of maritime and land-based territorial claims. President Xi Jinping has also spoken at length about his intent for China to win the world's admiration for its civilization and economic success following a "century of humiliation".⁹

Chinese economic assistance varies widely in its level of concessionality. Several different factors influence how costly it is for countries to access Beijing's financing. Is the money given with the expectation of repayment? When do they need to start and complete paying off loan? How much interest do they need to pay on top of the principal? Do they need to put forward any collateral in case of a default? Beijing supplies more costly financing to projects where it expects to see a financial return,¹⁰ such as offering a loan to build a commercial power plant or an airport at market rates. Conversely, Chinese leaders provide the cheapest financing for visible symbols of the PRC's generosity such as renovating government office buildings or building hospitals with grants or low interest loans.¹¹

Just as Beijing has goals for its economic engagement, so to do countries on the receiving end of its overtures. In Sri Lanka and the Maldives, for example, political leaders have emphasized public infrastructure as a gateway to economic growth for their countries. This includes physical structures such as roads, ports, airports, electricity, and water supply, as well as digital telecommunications. The PRC has proven itself to be a willing partner with an unlimited appetite to bankroll infrastructure projects at a scale unmatched by most traditional development partners. As a case in point: 70 percent of Sri Lanka's public infrastructure projects—including several highways, a large water reservoir, a coal-fired power plant, among other examples—were funded and constructed by Beijing between 2005 and 2015.¹² Chinese leaders also financed high-profile projects related to bridges, airport runways, and electricity generation in the Maldives.

Beyond infrastructure financing alone, Sri Lanka and the Maldives view Beijing as critical to their tourism-dependent economies. Although this has tapered off due to COVID-19 related travel restrictions, the PRC was consistently among the top suppliers of tourists and revenue for the hospitality industry in both countries.¹³ Chinese leaders have a unique ability to control over which countries Chinese tourists visit through its "approved destination status" system which allows for overseas group package tours to a list of preferred countries that have pre-negotiated agreements with the PRC.¹⁴ The promise to include or exclude a country from its list of approved tourist destinations is a powerful carrot or stick, as leaders in Sri Lanka and the Maldives recognize that this system gives Beijing implicit leverage to "turn the tourism valve on or off".¹⁵ Both Sri Lanka and the Maldives view the PRC as a major trading partner, though these relations are more heavily driven by imports from, rather than exports to, China.

⁹ Tischler, M. (2020). China's 'Never Again' Mentality. *The Diplomat*. August 18, 2020. <https://thediplomat.com/2020/08/chinas-never-again-mentality/>.

¹⁰ Dreher et al. (2022).

¹¹ Ibid.

¹² Smith, J. M. (2016). China's Investments in Sri Lanka, *Foreign Affairs*, May 23. Accessed at: <https://www.foreignaffairs.com/articles/china/2016-05-23/chinas-investments-sri-lanka>

¹³ Custer et al. (2019).

¹⁴ Arita, S., La Croix, S., & Mak, J. (2012). *How China's Approved Destination Status Policy Spurs and Hinders Chinese Travel Abroad*. College of Social Sciences, Department of Economics. Accessed from: https://uhero.hawaii.edu/wp-content/uploads/2019/08/WP_2012-6R.pdf

¹⁵ Custer et al. (2019).

Economic considerations are by far the strongest motivator for Sri Lanka and the Maldives to engage with China; however, geopolitical considerations are an important secondary concern. Smaller countries such as Sri Lanka and Maldives have at times been wary of India's influence in their domestic politics and status as a regional hegemon. The most apt example of this is the current "India Out" campaign promoted by the political opposition in the Maldives who aim to portray the incumbent government of President Ibrahim Mohamed Solih as too cozy with New Delhi at the expense of the island country's autonomy.¹⁶ In other cases, political leaders have cultivated closer relationships with Beijing to blunt the influence of the U.S. and its allies in their domestic politics, such as when President Mahinda Rajapaksa turned to the PRC to take the place of Western powers which cut their economic assistance in half during the Sri Lankan civil war.¹⁷

Third, we should not underestimate self-interest as an incentive for politicians and bureaucrats to exploit Beijing's economic assistance to advance personal agendas over the public good. To fast-track approval and implementation, Beijing typically goes directly to senior political leaders to ask what they want and then requires countries to use Chinese firms to implement agreed upon projects without open and competitive bidding.¹⁸ Taken together, this creates heightened risks that political leaders will propose politically expedient, but less financially sound projects, to win votes, reward allies, or satiate constituents. Meanwhile, wealth-maximizing bureaucrats may seek out opportunities to collude with firms implementing projects to artificially prop up costs, cut corners, and pocket the illicit proceeds from these deals.¹⁹

How consistent or variable is Beijing's engagement over time and between the countries?

The PRC's engagement with Sri Lanka and the Maldives was fairly limited until the 2000s. In both countries, Beijing was able to position itself as an indispensable partner through being responsive to domestic shocks that created an opening, opportunistic to befriend leaders isolated by international criticism, and flexible to adapt its tools to align with the priorities of its counterparts. Economic assistance and relationships with political elites have long been the cornerstone of the PRC's engagement throughout the region, but Chinese leaders had to modify their strategy in recent years. Election upsets in both Sri Lanka and the Maldives placed Beijing on the defensive in weathering a backlash to its development projects and Chinese leaders began to pay closer attention to popular perceptions of its overtures and diversify its relationships.

Phase One: Opening and Initial Enthusiasm

Beijing initially supplied weapons, aid, and diplomatic cover during the Sri Lankan civil war (2007-2009) and befriended the Maldives with post-tsunami relief and reconstruction in 2004.²⁰ The PRC's timely assistance at these critical junctures generated goodwill and stoked demand for Chinese state-backed development projects. In Sri Lanka, Beijing helped President Mahinda

¹⁶ Shivamurthy, A. G. (2022). A blurring dichotomy: Can the new bill prevent the Maldives diplomatic disruptions. Observer Research Foundation. Accessed from: <https://www.orfonline.org/expert-speak/a-blurring-dichotomy/>

¹⁷ Dreher et al. (2022).

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ In the first year of the Rajapaksa administration (2005), Western donors gave the country US\$1.1 billion in official development assistance, but this contracted to less than US\$500 million per year. By comparison, the PRC committed US\$12.4 billion between 2005 and 2014, an annual level of financing of US\$1.2 billion/year. Custer et al. (2019) and Dreher et al. (2022).

Rajapaksa (2005-2015) bankroll his post-war reconstruction and economic development priorities, which included turning his birthplace and home district of Hambantota into an international shipping, commercial, and cultural hub.²¹ Criticized by the West for his human rights practices and unsustainable borrowing, President Abdulla Yameen (2013-2018) instead found a willing partner with deep pockets in Beijing to bankroll his vision of infrastructure-led growth.²² This led to a series of signature projects such as the Sinamalé bridge, a second runway for Malé International Airport, and an apartment complex on reclaimed Hulhumale island.²³

Phase Two: Backlash and Reset in Relations

PRC-backed infrastructure projects fueled economic growth in Sri Lanka in the early years,²⁴ but enthusiasm waned over a proliferation of white elephant projects—from unprofitable airport and port facilities to an empty stadium and artificially expensive roads²⁵—and mounting public debts.²⁶ This combustible status quo enabled the opposition led by Maithripala Sirisena (2015-2019) to unseat Mahinda Rajapaksa in the 2015 election, which was largely seen as referendum on the government’s ties to Beijing and discontent over debt and corruption. Chinese leaders stoked animosity by openly campaigning and channeling money into Mahinda Rajapaksa’s campaign in a bid to keep its ally in office.²⁷ The newly installed President Sirisena subsequently launched a review of all major PRC-backed infrastructure investments, placed several major projects on hold to assess possible irregularities, and sought to renegotiate the country’s debts.²⁸ During the 2019 grand opening of the Lotus Tower, Sirisena alleged that the Chinese firm contracted to implement the project had disappeared with US\$11 million in state funds.²⁹

The tide ultimately turned for Beijing through a combination of old and new tactics. Not unlike its overtures to Mahinda Rajapaksa, Chinese leaders attempted to buy Sirisena’s goodwill, approving a US\$100 million grant to construct a hospital in the new president’s hometown of Polonnaruwa and allowing Sri Lanka to renegotiate its debts three times in 2016, 2018, and again in 2019.³⁰ There was a marked uptick in Chinese officials engaging with Sri Lankan media outlets and academia in a robust public relations effort to counter negative perceptions about its

²¹ The PRC backed Hambantota’s development via a series of loans to construct a deep seaport (US\$1.5 billion), an airport (US\$200 million), a road from the seaport to the airport (US\$412 million), an expressway connecting Hambantota to the capital city of Colombo (US\$180 million), and fast-tracked construction of various additional developments (convention center, cricket stadium, botanical garden, Tele Cinema Park, oil refinery, sports complex, luxury hotels and housing complexes). Dreher et al. (2022).

²² The international community was critical of the Yameen administration, and several donors reduced their financial support to the Maldives. For example, the IMF curbed the Maldives’ access to concessional financing due to unsustainable borrowing practices, while the US and the EU considered sanctions for human rights violations. Although previously President Mohamed Nasheed (2008-2012) also turned to Beijing for financing to support several public housing projects, the scale of these projects and the associated financing was more bounded and the Maldives’ relations with other foreign powers more varied. Custer et al. (2019).

²³ Ibid.

²⁴ During the first seven years of President Mahinda Rajapaksa’s administration (2005-2011), Sri Lanka sustained 8 percent growth rate per year. But by the end of Rajapaksa’s time in office, Sri Lanka’s debt had increased three-fold to US\$44.8 billion, including US\$8 billion owed to the People’s Republic of China. Dreher et al. (2022).

²⁵ The Mattala Rajapaksa International Airport 10 miles from Hambantota attracted public scorn as the “world’s emptiest airport”. By 2012, the deep-sea port and related projects were deemed to be minimally used and unprofitable. A 30-kilometer road connecting the president’s home district to the capital city became the single most expensive road project (in unit cost terms) ever built in Sri Lanka, as observers estimated that collusion between Sri Lankan officials and Chinese companies led to inflation of true costs by 545 percent. Dreher et al. (2022).

²⁶ One of the binding constraints behind the scenes was that some of the most expensive of Sri Lanka’s public infrastructure projects were funded by loans with interest rates approaching market rates, rather than grants. If the resulting projects were profitable, that may have offset the costs of debt financing, but as most projects were losing money, that further exacerbated the challenge for Sri Lanka’s authorities to repay their debts.

²⁷ Custer et al. (2019).

²⁸ Ibid.

²⁹ Ibid.

³⁰ Custer et al. (2019). Dreher et al. (2022).

state-backed infrastructure projects, reflecting a new awareness of the importance of public opinion.³¹ Beijing also provided a politically convenient way for President Sirisena to proceed with Chinese-financed infrastructure projects via special purpose vehicles—*independent legal entities* with their own assets and liabilities—which take debts and associated revenues off the public books.³²

Beijing was ultimately rewarded for its perseverance as, following review and renegotiations, the Sri Lankan government restarted all major Chinese government financed projects. The decision of Sri Lankan authorities to grant Beijing an ownership stake and a 99-year lease to operate Hambantota’s deep-water port in exchange for US\$1.1 billion in debt forgiveness sparked an international outcry,³³ but the domestic reaction was more sanguine. Noticeably, Sri Lankans largely blamed the Mahinda Rajapaksa administration, rather than Beijing, for the country’s glut of white elephant projects and the PRC’s willingness to renegotiate debts alleviated public angst.³⁴ Moreover, Sri Lankan political leaders and the public saw the West as overreacting to the incident, saying that the negotiated settlement was necessitated more by Colombo’s overall debt burden, rather than its specific inability to repay the Chinese government.³⁵

In a similar refrain, Chinese leaders were caught by surprise during the 2018 election in the Maldives, when voters unseated President Yameen in favor of Ibrahim Mohamed Solih who rose to power with a pledge to root out corruption, contain runway debts, and temper the pivot to Beijing that had strained relations with New Delhi and the West.³⁶ The political opposition characterized the PRC as an enabler of Yameen’s rampant corruption due to its opaque dealings and collusion to artificially inflate prices.³⁷ The most egregious example being the PRC’s issuing of a US\$125 million export buyer’s credit loan to the Irufen Island Resort Project owned by President Yameen’s close friend Ahmed Siyam Mohamed, but guaranteed by the government.³⁸ Frustration and confusion over how much debt the country owed Beijing boiled over into a social media spat between the Chinese Ambassador and the Speaker of the People’s Majlis (parliament), former President Mohamed Nasheed.³⁹

With Yameen out of power, Beijing had to navigate some headwinds in its engagement with the Maldives: greater scrutiny of past deals and less enthusiasm for new debt-financed public infrastructure projects. As the new government embarked on an “India First” foreign policy, Chinese leaders sought assurances that President Solih (2018-present) would honor the previous administration’s agreements.⁴⁰ Ultimately, Beijing lost some ground but weathered the storm. The Solih administration conducted a full “forensic audit” of the Yameen administration’s

³¹ Custer et al. (2019).

³² Dreher et al. (2022).

³³ This episode fueled growing speculation that the Chinese government had intentionally sought this outcome to secure a strategic port in the Indian Ocean at the expense of Sri Lanka’s sovereignty. Custer et al. (2019).

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid.

³⁷ This price inflation (or ‘overcosting’) can compound the problem of indebtedness as the revenues are insufficient to offset the bills due.

³⁸ By issuing a sovereign guarantee in support of the loan, the Maldives’s government was responsible for the repayment if the private company involved defaulted on its loan obligations. This risk of privately held, but publicly guaranteed debt came to the forefront amid the COVID-19 fallout on the tourism economy in the Maldives. On July 21, 2020, Ahmed Siyam Holdings Pvt Ltd failed to meet its \$10 million loan obligation, prompting China Eximbank to issue a warning to the government that failure to ensure timely repayment would be a sovereign default, jeopardizing the country’s international credit rating. The issue was only resolved when the Solih government threatened to exercise its mortgage rights if Ahmed Siyam Holdings Pvt Ltd did not deposit the overdue payment within five business days. Custer et al. (2021a).

³⁹ Custer et al. (2019).

⁴⁰ Ibid.

dealings, hiring external audit firms to scrutinize loan agreements and the finances of state-owned enterprises to root out any instances of fraud.⁴¹ But President Solih administration did not cancel all the legacy projects financed by the Chinese-government, though officials maintain their right to review these past deals and remedy any instances of corruption.⁴²

In a bid to regain favor with the Maldivian public, Beijing invested in education and cultural exchange activities such as sponsoring scholarships for Maldivian students and professionals to study abroad in China, as well as facilitating Mandarin language learning opportunities. One Solih administration official estimated that 70 percent of the 200 students the Maldives sends to study in China each year receive scholarships from a Chinese institution.⁴³ Although Confucius Institutes and Classrooms are not permitted in the Maldives due to religious sensitivities, Beijing established a Mandarin Language Learning Center in Malé and placed volunteer Chinese teachers in the Maldives National University.⁴⁴

Phase Three: A New Normal?

With the election of President Gotabaya Rajapaksa (2019-present), the former president's brother, Beijing's economic engagement strategy vis-à-vis Sri Lanka appeared to shift yet again, this time to emergency lending. Over the last two years, Sri Lanka's foreign exchange reserves have plummeted by over two-thirds due to several compounding factors: chronic budget deficits since the early 2000s, massive tax-cuts introduced by the new administration, reduced tourism and remittance revenues during the COVID-19 pandemic, and unsustainable borrowing on the international market to defray costs.⁴⁵ Rather than immediately turn to the International Monetary Fund (IMF) for emergency assistance, Colombo instead engaged in a desperate bid to ward off default with help from Beijing. The Central Bank of Sri Lanka signed a series of balance of payment agreements (e.g., currency swaps, foreign currency facility agreements) with the PRC to prop up foreign currency reserves and inject liquidity into the system so that Sri Lankan authorities could use new debt to repay old debts.⁴⁶

Nevertheless, following an April 2022 announcement that it would default on servicing its US\$51 billion in external debts,⁴⁷ Sri Lankan authorities began negotiations with the IMF on measures to stabilize their economy. In a press release issued on April 23rd, the IMF reported that it had "fruitful technical discussions on the authorities' request for an IMF-supported program" and spoke about "the need for implementing a credible and coherent strategy to restore

⁴¹ Reuters (2018). Maldives New President Warns Treasury Looted During China-Led Boom. Accessed from: <https://www.theguardian.com/world/2018/nov/18/maldives-new-president-warns-treasury-looted-during-china-led-boom>

⁴² Custer et al. (2019).

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Fernando, Y. (2022). Paradise squandered – what really happened to Sri Lanka's economy. March 31, 2022. DevPolicyBlog. Australian National University. Accessed from: <https://devpolicy.org/paradise-squandered-sri-lankas-economy-20220331/>

⁴⁶ For example, the China Development Bank and the Government of Sri Lanka signed a series of foreign currency term financing facility agreements (FCTFF) with the intent to "shore up official foreign reserves and meet outstanding debt obligations" including: US\$1 billion on October 12, 2018; US\$500 million on March 18, 2020; US\$500 million on April 12, 2021; and RMB 2 billion (US\$303 million) on August 17, 2021. The proceeds of the loan were to be used by the borrower (the Government of Sri Lanka) to shore up official foreign reserves and meet outstanding debt obligations (i.e., repay other loans). The People's Bank of China (PBOC) signed a RMB 10 billion (US\$1.5 billion) bilateral currency swap agreement with the Sri Lankan Central Bank on a three-year term to "facilitate trade and improve foreign currency liquidity" on March 19, 2021. Multiple sources indicate that Sri Lanka drew down on the entirety of this facility in the first quarter of 2022. Much thanks are owed to AidData Executive Director Brad Parks for his assistance in pulling together these agreement details.

⁴⁷ Jayasinghe, U. and J.D. Rosario. (2022). Sri Lanka unilaterally suspends external debt payments, says it needs money for essentials. April 12, 2022. Reuters. Accessed from: <https://www.reuters.com/world/asia-pacific/sri-lanka-temporarily-suspend-foreign-debt-payments-c-bank-governor-2022-04-12/>

macroeconomic stability".⁴⁸ Although the exact terms and total assistance package are still months away from resolution, early reports indicate that the IMF will likely grant Sri Lanka a combination of short-term assistance to purchase essential food and medicines, along with longer-term financing to stabilize the economy, but the government will need to be prepared to carry out painful reforms in return.⁴⁹ Shortly thereafter, the PRC's Ambassador in Colombo expressed regret that the Sri Lankan government had turned to the IMF for assistance and indicated that the outcome would likely impact future bilateral assistance from Beijing.⁵⁰

In the Maldives, Beijing's economic activity appears to be settling into a new normal in the under the administration of President Solih. The heyday of large-scale megaprojects may be over, but the Solih administration has still signed agreements with the PRC to pursue new Chinese-financed public infrastructure at smaller scale, such as renovations to the foreign ministry building or to support electricity generation.⁵¹ Nevertheless, there is uncertainty ahead of upcoming elections in 2023, as political parties have split along pro-India and pro-China lines. The political opposition appears prepared to mount a campaign for the presidency that argues against the dangers of the Solih administration's pivot to New Delhi and advocates instead for the country to adopt an "India Out" (rather than an "India First") foreign policy,⁵² which could change the political calculus for Beijing's future engagement.

Political parties are not the only actors in the Maldives divided on the merits of cooperating with India versus the PRC. Government and private sector leaders who favor working with the PRC argue that Chinese firms have superior resources and expertise to complete projects quickly and cost effectively⁵³. Comparatively, they cite delays with projects implemented by Indian and Saudi Arabian companies. However, others express frustration with the lack of spillover benefits from Chinese-financed development projects to the local economy, as materials and labor are imported from China and Chinese companies seldom pursue joint ventures with Maldivian companies. Moreover, some private sector leaders argue that the use of Chinese firms for PRC-financed public infrastructure projects undercuts the competitiveness of Maldivian companies, giving the former a foothold to compete with local businesses for commercial ventures.

How has Beijing converted economic power into influence in Sri Lanka and the Maldives? To what extent have countries been able to counter China's influence or change its behavior?

Beijing has employed economic tools in myriad ways to advance its interests in Sri Lanka and the Maldives. It can induce behavior change by using trade, aid, or investment as carrots or rewards for desired actions. For example, I described how Beijing sought to ingratiate itself with political leaders by gifting projects that would build goodwill with their home constituencies. But Beijing can employ the threat of removing economic benefits as sticks to coerce countries to change their behavior to avoid penalties. I raised the concern expressed by Maldivian leaders over the fear of losing the country's status as an approved tourism destination as a case in point.

⁴⁸ IMF (2022). IMF Team Statement on Sri Lanka. April 23, 2022. Accessed from: <https://www.imf.org/en/News/Articles/2022/04/23/pr22129-IMF-Team-Statement-on-Sri-Lanka>

⁴⁹ France24 (2022). Crisis hit Sri Lanka says IMF bailout three months away. April 29, 2022. Accessed from: <https://www.france24.com/en/live-news/20220429-crisis-hit-sri-lanka-says-imf-bailout-three-months-away>

⁵⁰ Krishnasi, A. (Ed.). China 'unhappy' with Sri Lanka for seeking bailout from IMF says envoy. WIOW News. Accessed from: <https://www.wionews.com/south-asia/china-unhappy-with-sri-lanka-for-seeking-bailout-from-imf-says-envoy-473662>

⁵¹ Custer et al. (2019).

⁵² Shivamurthy, A. G. (2022).

⁵³ Custer et al. (2019).

As we have seen, Chinese leaders have attempted to pick political winners (and losers) by aiding either the incumbent government or the political opposition in their election campaigns, though this is a risky proposition that can just as easily backfire. They can also sell the image of prosperity to attract leaders and publics to view the PRC's development model as one to emulate. It is notable that in two surveys conducted by AidData in 2020 and 2021, South Asian leaders (including those in the Maldives and Sri Lanka) identified Beijing as one of the most influential development partners in shaping domestic priorities and attributed this influence primarily to the PRC's economic importance to their countries.⁵⁴ Beijing also attempted to influence the rules of the game that dictate how countries interact with each other by positioning itself as an alternative emergency lender to the IMF. But translating economic tools into measurable influence able to shift popular opinion or leader behavior is "neither straightforward, nor quick".⁵⁵

Beijing's has come closest to achieving its economic objectives vis-à-vis Sri Lanka and the Maldives; however, even these gains are difficult to sustain over time. Chinese leaders have been able to put excess foreign exchange reserves and construction capacity to productive use implementing an estimated 235 development projects in the two countries worth an estimated US\$15.7 billion over a 19-year period. When these projects are financed with debt (i.e., loans or export credits), this further allows Beijing to generate revenues in the form of interest payments. Beijing has parlayed these projects to position the PRC as one of the major exporters of goods and services to both countries. In the case of the Maldives, Chinese firms have used their work on public infrastructure projects to gain a foothold to compete with local businesses for commercial contracts in the tourism sector. Local businesses have complained that Chinese firms exploit loopholes in domestic procurement processes and provide kickbacks or "sweeteners given under the table to civil servants" to win contracts.⁵⁶

In other respects, Beijing's ability to sustain economic leverage vis-à-vis counterpart countries has been more fleeting. In the Maldives, the clearest indication of local counterparts succumbing to economic coercion was the passage of the 2017 Free Trade Agreement with China under the Yameen administration, which critics described as being steamrolled through parliament without adequate consultation, insufficient review, and unfavorable terms for the country.⁵⁷ However, the Solih administration, subsequently indicated that it might pull out of the Free Trade Agreement with China, which has yet to be ratified,⁵⁸ and seek to renegotiate more favorable terms.⁵⁹ In Sri Lanka, Beijing may have benefited initially from President Gotabaya Rajapaksa's decision to decline assistance from the IMF in 2020 and reject a US\$480 million grant offered by the

⁵⁴ Custer, S., Sethi, T., Knight, R., Hutchinson, A., Choo, V., and M. Cheng. (2021c). Listening to Leaders 2021: A report card for development partners in an era of contested cooperation. Williamsburg, VA: AidData at the College of William & Mary. Also, Custer et al. (2021b).

⁵⁵ Custer et al. (2019).

⁵⁶ For example, Custer et al. (2019) noted several past loopholes raised by interviewees, such as the ability to eschew open bidding if the tender involved a Maldivian state-owned enterprise, no explicit requirement that foreign firms use local partners or materials, as well as the inclusion of criteria that make local firms less competitive.

⁵⁷ Maldivian interviewees involved in the negotiations described the process as giving parliamentarians approximately 10 minutes to review and approve a 1,000-page agreement that disadvantaged the country's tuna industry. Custer et al. (2019).

⁵⁸ China MOFA. (2022). Maldivian President Ibrahim Mohamed Solih Meets with Wang Yi. January 9, 2022. Ministry of Foreign Affairs of the People's Republic of China. Accessed from: https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wshd_665389/202201/t20220109_10480367.html

⁵⁹ Chaudhury, D.R. (2020). Maldives considers scrapping Free Trade Agreement (FTA) with China. Economic Times India. October 12, 2020. Accessed from: <https://economictimes.indiatimes.com/news/international/business/maldives-considers-scrapping-free-trade-agreement-fta-with-china/articleshow/78612972.cms>

Millennium Challenge Corporation,⁶⁰ but ultimately as the balance of payment crisis worsened Sri Lankan authorities began negotiations with the IMF.

Despite their asymmetric relationships with Beijing, Sri Lanka and the Maldives have exerted agency to protect their economic interests and curb external influence. Countries may have the strongest hand to renegotiate and reset their relations with Beijing during and following national elections. This dynamic was most clearly seen with the shift from Mahinda Rajapaksa to Sirisena in Sri Lanka and Yameen to Solih in the Maldives. As Chinese leaders lost their allies in Colombo and Malé, the new administrations were able to press Beijing to renegotiate the terms of past assistance and influence new norms for projects moving forward such as greater transparency, open procurement processes, a recalibration away from large-scale public infrastructure, etc.

Substantive support from the international community is also critical to strengthen the position of smaller countries like the Maldives and Sri Lanka. President Solih had a better negotiating position with Beijing because he had India, another motivated alternative partner, waiting in the wings. President Gotabaya Rajapaksa has similarly proven willing to say no to Beijing—banning fertilizer imports, cancelling energy projects, negotiating with the IMF on emergency lending—to the extent that he believes that Sri Lanka can access commensurate support from New Delhi or other international partners.⁶¹ Conversely, we have seen the unintended consequences of the international community’s inattention or censure, which created windows of opportunity for Beijing to gain unrivaled influence with the Mahinda Rajapaksa and Yameen regimes in the absence of alternative partners.

Beijing has achieved mixed results when it comes to advancing its geopolitical objectives vis-à-vis Sri Lanka and the Maldives. The clearest 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, nonetheless. Sri Lanka and the Maldives abide by the PRC’s One China policy and do not recognize Taiwan. Leaders interviewed in both countries acknowledged that the combination of their small size and the PRC’s economic importance makes them more reluctant to condemn Beijing’s actions related to human rights or maritime aggressions for fear of reprisal.⁶² Globally, countries that receive more financing from Beijing are also more likely than their peers to vote with the PRC in the United Nations General Assembly.⁶³ As a case in point: Sri Lanka voted in lockstep with China (a 99 percent similarity in voting record) in the United Nations General Assembly for nearly a decade between 2006 and 2014.⁶⁴

In terms of popular perceptions, Sri Lanka is a battleground country where no one foreign power had a clear edge over the others. India has historically garnered modestly higher approval rates with the Sri Lankan public, but attitudes towards foreign powers overall have been relatively tepid across the board, and the U.S. and the PRC are relatively close behind, according to public

⁶⁰ MyRepublica. (2020). Sri Lankan president says he will not sign MCC deal even in dream: Report. November 1, 2020. Accessed from: <https://myrepublica.nagariknetwork.com/news/sri-lankan-president-says-he-will-not-sign-mcc-deal-even-in-dream-report/>

⁶¹ Pant, H.V. (2022). As India and China compete smaller states are cashing in. Foreign Policy. Accessed from: <https://foreignpolicy.com/2022/01/24/india-china-competition-investment-sri-lanka-maldives/>

⁶² Custer et al. (2019).

⁶³ Dreher et al. (2022).

⁶⁴ Ibid.

opinion barometers such as the Gallup World Poll (2006-2020).⁶⁵ Nevertheless, Beijing has been able to ward off highly negative perceptions in Sri Lanka, most notably garnering its highest approval rating in Sri Lanka (56 percent) in 2020, despite heated controversy over the Hambantota port agreement. Moreover, public perceptions of Sri Lanka's debt crisis and economic woes appear to cast the blame more at the feet of domestic politicians, underscored by their declining job approval ratings, than Beijing. Unfortunately, we do not have comparative data from the Gallup World Poll for the Maldives, which is not included in its coverage.

Beijing may have a tougher time achieving its security aims, given the long-standing security presence of India and the U.S. in the region, as well as the changeable political fortunes of potential allies in electoral democracies. In Sri Lanka, some view the granting of an ownership stake and 99-year lease to the PRC government to operate the deep-sea port at Hambantota as an example of economic leverage resulting in security concessions.⁶⁶ However, this case is more complex, given the interest of Sri Lankan authorities in easing their broader debt situation, as opposed to isolated concerns about repaying the PRC specifically. The Maldives does not permit foreign military bases, though some argue that Yameen's willingness to lease two islands to Beijing could allow the PRC to establish a security presence in fact if not name.⁶⁷ Nevertheless, Solih rejected a 2018 (Yameen-era) proposal which would have allowed the PRC to establish a Joint Ocean Observation Station in Makunudhoo—a northwestern atoll, close to India.⁶⁸

It is highly likely that the degree of diversification of willing partners is as important to strengthening the position of countries to counter the PRC's geopolitical and security influence, as it is in the economic arena. For example, under Nasheed's tenure, the Maldives signed a defense cooperation agreement with India in 2009 and agreed to pursue joint maritime surveillance and patrolling activities.⁶⁹ Solih signed a defense agreement with the U.S. in 2020 and routinely holds joint military exercises and surveillance activities with India⁷⁰. Moreover, the ability of Beijing to exert economic leverage to secure geopolitical concessions also depends upon how countries assess the attractiveness of alternative partners and their willingness to engage. If Sri Lankan and Maldivian leaders feel their choices are constrained when it comes to revenues from tourism and trade or access to ready capital, then geopolitical concessions may be a relatively costless price to pay. Their strategic calculus may shift though when there are more trading, tourism, and investment partners to choose from.

How has China's economic engagement affected India's relations with Sri Lanka and the Maldives?

Politicians and cultural icons alike have referred to a long-standing familial dynamic between India, the regional hegemon and big brother, and the smaller South Asian countries of the Maldives and Sri Lanka as the little brothers in the relationship.⁷¹ This imagery aptly conveys on

⁶⁵ Custer et al. (2021b).

⁶⁶ Custer et al. (2019).

⁶⁷ Ibid.

⁶⁸ Mitra, R. (2022). The China-India Cold War in the Maldives. January 19, 2022. The Diplomat. Accessed from: <https://thediplomat.com/2022/01/the-china-india-cold-war-in-maldives/>

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ In a media interview on April 8, 2022, Roshan Mahanama a former Sri Lankan cricket player, urged the Indian government to support his country through its current economic crisis, much like the "elder brother" that had always stood by Sri Lanka in the past. Jalhotra, R. (2022). India Always Stands for Sri Lanka Like Elder Brother Says Roshan Mahanama. Accessed from: <https://theprint.in/world/india-always-stands-for-sri-lanka-like-elder-brother-says-roshan-mahanama/>

the one-hand the deep cultural, linguistic, and historical ties between these three South Asian nations that would be hard to completely break,⁷² paired with an undercurrent of resentment between the stronger and weaker members of the family that creates an opportunity for Beijing to insert itself into the situation as a counterbalance to New Delhi.⁷³

India has both natural advantages and disadvantages in sustaining close economic, security, and geopolitical ties with Sri Lanka and the Maldives. India is geographically proximate⁷⁴ and was the primary economic and security partner to the two countries many decades prior to when Beijing's overtures to Malé and Colombo began in earnest.⁷⁵ As the world's largest democracy, Indian leaders can also draw upon shared political norms and institutions as a foundation to partnerships with Sri Lankan and Maldivian counterparts. However, these same characteristics also have given rise to tensions between India and other South Asian nations over the years—from allegations of New Delhi's interference in domestic politics to its willingness to side with Western powers in criticizing human rights abuses or unsustainable borrowing practices.

Complicating the situation further, foreign policy in the Maldives and Sri Lanka has become highly politicized along pro-China versus pro-India lines. Some of this contestation appears to be rooted in substantive differences between the priorities and preferences of political parties, but there are other elements that may be more akin to “political theater” where criticizing New Delhi or Beijing is primarily a bid to win votes, rather than change policies.⁷⁶ Consistent with this, India's engagement with the two countries has fluctuated depending upon whether the political leader in power views themselves as advancing a pro-China or pro-India foreign policy.

In the Maldives, New Delhi has substantially ramped up its engagement with Malé since late 2018 in response to the window of opportunity created by Solih's explicit “India First” foreign policy which prioritized rebuilding relations with India and Western powers in the post-Yameen era. India has now outstripped the PRC as a supplier of tourists to the Maldives, as compared to 2019 when the PRC was by far the largest source of tourism revenues.⁷⁷ Seeking to signal that it too could be a major financier of development projects, New Delhi rapidly began working with Malé on an estimated “45 projects worth more than US\$2 billion” by mid-2021.⁷⁸ In August 2020, India announced a US\$500 million package to support The Greater Malé Connectivity Project, a 6.7-kilometer bridge and causeway to link Malé with three neighboring islands. This

sri-lanka-like-elder-brother-says-roshan-mahanama/908153/. Meanwhile, several years prior, the Maldivian ambassador to the PRC raised eyebrows in 2018, when Mohamed Faisal described India as a brother, but China as a long-lost cousin. Times of India .(2018). India is a Brother, China is Like a Long-Lost Cousin. March 24, 2018. The Times of India. Accessed from: <https://timesofindia.indiatimes.com/india/india-a-brother-china-is-like-a-long-lost-cousin-maldives-envoy/articleshow/63437113.cms>

⁷² Jain, B. M. (2017). *China's Soft Power Diplomacy in South Asia: Myth Or Reality?*. Lexington Books. Chicago.

⁷³ Wagner, C. (2016). The Role of India and China in South Asia. *Strategic Analysis*, 40(4), 307-320.

⁷⁴ “The Maldives is a mere 70 nautical miles away from Minicoy Island in India’s Lakshadweep archipelago and 300 nautical miles away from India’s west coast.” Kugelman, M. (2021). The Maldives: An Island Battleground for India-China Competition. July 16, 2021. Accessed from: <https://gjia.georgetown.edu/2021/07/16/the-maldives-an-island-battleground-for-india-china-competition/> The shortest distance between Sri Lanka and India via the Palk Strait is only 30 nautical miles.

⁷⁵ Pal, D. (2021). *China’s Influence in South Asia: Vulnerabilities and Influence in Four Countries*. October 13, 2021. Carnegie Endowment for Democracy. Accessed from: <https://carnegieendowment.org/2021/10/13/china-s-influence-in-south-asia-vulnerabilities-and-resilience-in-four-countries-pub-85552>. Also, Kugelman, M. (2021).

⁷⁶ Custer et al. (2019).

⁷⁷ This is likely due to a combination of foreign policy considerations, as well as travel restrictions Beijing imposed on its own population to combat COVID-19.

⁷⁸ Shivamurthy, A.G. (2021). *Balances and Benefits in Southern South Asia: The Maldives and Sri Lanka in 2021*. Observer Research Foundation. December 28, 2021. Accessed from: <https://www.orfonline.org/expert-speak/balances-and-benefits-in-the-southern-south-asia/>. See also Kugelman, M. (2021). For example, New Delhi has discussed plans to collaborate with the Maldives on a diverse range of public infrastructure projects including a hospital, cricket stadium, port facility, and airport upgrade.

prompted news coverage to note that New Delhi's bridge was about "overshadowing" an earlier China-Maldives Friendship Bridge "in length, scale, and price."⁷⁹

Indian leaders have been proactive in seeking to curb the PRC's influence in the Maldives in other ways while they have a relatively friendly counterpart in office in President Solih. In August 2021, the Maldives joined Sri Lanka and India for a trilateral security meeting called the Colombo Security Conclave where the three agreed to four areas of cooperation to address: terrorism and radicalization; marine safety and security; trafficking and organized crime; and cyber.⁸⁰ In the realm of COVID-19 response, the Maldives was the "first country to receive a vaccines from New Delhi—a shipment of 100,000 doses".⁸¹ India also made headlines by offering to help supply the Maldives with assistance to repay its debts to Beijing.⁸²

India's embrace of a more "proactive approach" to check Beijing's growing influence in the region is also visible in its dealings with Sri Lanka over the last few years⁸³—bargaining to develop and operate Colombo Port's Western Container terminal⁸⁴ and jockeying for position to wrest three solar power projects from China's control in the Jaffna Peninsula.⁸⁵ Although Colombo initially turned to Beijing for help with renegotiating debts and injecting liquidity into its foreign exchange reserves, President Gotabaya Rajapaksa also sought assistance from New Delhi. Indian leaders responded in various ways—supplying US\$2.4 billion in preferential loans and export credits in late 2021, sending essential food supplies (11,000 metric tons of rice) in April 2022,⁸⁶ and offering currency swaps after years of withholding similar requests.⁸⁷

As much as New Delhi has made inroads in recent years to rebuild economic and security ties with both the Maldives and Sri Lanka, Beijing is clearly still in the picture and if history has taught us anything, influence gains are fleeting and hard to sustain. As a case in point, Chinese Foreign Minister Wang Yi was still able to sign multiple cooperative agreements—from visa arrangements to economic assistance and infrastructure management—with the Solih government in December 2021 during his visit to the Maldives.⁸⁸ Moreover, with the upcoming presidential elections in the Maldives and continued political instability in Sri Lanka,⁸⁹ it is highly likely that both New Delhi's and Beijing's engagement strategy will need to evolve yet again in the near future.

⁷⁹ The much shorter China-Maldives bridge constructed during the Yameen era was only worth approximately US\$200 million. The Edition. November 24, 2020. <https://edition.cnn.com/2020/11/24/asia/maldives-india-china-bridges-intl-hnk/index.html>

⁸⁰ Rajagopalan, R.P. (2021). Colombo Security Conclave: A New Minilateral for the Indian Ocean? August 19, 2021. The Diplomat. <https://thediplomat.com/2021/08/colombo-security-conclave-a-new-minilateral-for-the-indian-ocean/>

⁸¹ Kugelman, M. (2021).

⁸² Ibid.

⁸³ Pant, H. (2022).

⁸⁴ Business Standard. (2021). Adani Group Seals Deal to Develop Western Container Terminal at Colombo Port. September 30, 2021. https://www.business-standard.com/article/companies/adani-grp-seals-deal-to-develop-western-container-terminal-at-colombo-port-121093001398_1.html

⁸⁵ Bagchi, I. (2021). India worked for a year to get China off Lanka projects. December 4, 2021. Times of India.

<https://timesofindia.indiatimes.com/india/india-worked-for-a-year-to-get-china-off-lanka-projects/articleshow/88080863.cms>

⁸⁶ Khanna, S. (2022). Why India should pull Sri Lanka out of China's debt trap and take it closer to the US. April 16, 2022. The Print. <https://theprint.in/opinion/why-india-should-pull-sri-lanka-out-of-chinas-debt-trap-and-take-it-closer-to-the-us/918063/>

⁸⁷ Pant, H. (2022).

⁸⁸ Ibid.

⁸⁹ President Gotabaya Rajapaksa announced in late April that his brother Mahinda Rajapaksa would resign as Prime Minister to make way for an interim government and a new Cabinet comprised of all parties in Parliament. Accessed from: <https://www.freepressjournal.in/world/sri-lankan-pm-mahinda-rajpaksa-agrees-to-resign>

Compared with the U.S., what are China's greatest advantages and weaknesses in its of economic engagement with Sri Lanka and the Maldives? How have debt concerns affected the willingness of other development partners to engage in these countries?

The PRC has now eclipsed the U.S. as the single largest bilateral provider of foreign assistance (broadly defined) globally. If we focus exclusively on grants and low or no-interest loans that are typically what the Organization for Economic Cooperation and Development (OECD) considers to be "aid" in a traditional sense, the U.S. still dwarfs China by a sizeable margin. But if we consider the full measure of China's state-directed financing for overseas development, including grants and loans of varying concessionality, the PRC now outspends the U.S. in global development spending by 2-to-1.⁹⁰ But it is also important to say that what China offers other countries is decidedly different than traditional development partners like the United States.

Chinese state-backed financing is appealing to countries like Sri Lanka and the Maldives for several reasons. First, the PRC deploys state-directed financing at a scale which outstrips what most bilateral and multilateral actors can offer. The number of "mega projects" financed with loans each worth \$500 million or more globally tripled each year during the era of President Xi Jinping's signature Belt and Road Initiative.⁹¹ Second, Beijing's overseas development projects seldom require extensive social or environmental safeguards which political leaders often view as hampering their ability to deliver on campaign promises quickly and efficiently.⁹² Third, the PRC's specialization in infrastructure-led growth is unique compared to most donors and timely because this is an expressed priority of countries in the Global South which often view Beijing the only partner ready and willing to engage in this area.

Finally, the PRC's assistance is often viewed by counterpart countries as having relatively fewer upfront strings attached. Western donors often make financing contingent upon policy changes (e.g., anti-corruption reforms), which means that governments must pay the costs up front and get the benefits down the road. Comparatively, PRC-backed development projects do not typically include governance conditionalities. Instead, they involve quid-pro-quo obligations that governments can defer to later down the road (e.g., signing economic agreements, abstaining from criticism, voting with Beijing in multilateral fora).

That said, there are several drawbacks to the PRC's economic assistance for countries on the receiving end of these overtures. One major drawback is that the PRC's assistance is typically provided on less generous financial terms than what other bilateral and multilateral actors can offer. Beijing most frequently relies on loans using market rates which generate interest payments. A typical loan offered by the PRC has a 4.2 percent interest rate, a repayment period of less than 10 years, and may require collateral (e.g., future commodity exports or physical assets).⁹³ A comparable development loan from Germany, France, or Japan carries a 1.1 percent interest rate, a repayment rate of 28 years, and seldom includes collateral requirements.⁹⁴

⁹⁰ Malik, A., Parks, B., Russell, B., Lin, J., Walsh, K., Solomon, K., Zhang, S., Elston, T., and S. Goodman. (2021). *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*. Williamsburg, VA: AidData at William & Mary.

⁹¹ Ibid.

⁹² This might partly explain why an estimated 35 percent of the PRC's projects implemented under the Belt and Road Initiative have encountered major implementation problems, such as corruption scandals, labor violations, environmental hazards, and public protests.

⁹³ Ibid.

⁹⁴ Malik et al. (2021).

“Circular lending” is a second drawback of the PRC’s economic assistance.⁹⁵ This term refers to a common practice of the Chinese government to commit financing for a project but require the implementation to be completed by Chinese firms, suppliers, and labor. An estimated 89 percent of Belt and Road Initiative projects are implemented by Chinese state-owned enterprises⁹⁶ which have privileged access to low-interest financing which allows them to outbid their competitors.⁹⁷ This is a smart risk mitigation strategy for the PRC, as the money never leaves the country so to speak, but it has been a flashpoint of controversy in borrowing countries as this creates fewer positive economic spillovers locally in the form of jobs and revenues for domestic companies.⁹⁸

A third drawback of the PRC’s economic assistance is that it can be a high-risk proposition. Beijing is willing to lend to countries that have a higher risk of debt default and have fewer alternative sources of capital available. But the PRC requires more stringent repayment terms to issue credit, considering those higher risks. Ironically, the unique features that make the PRC’s projects so attractive to local politicians—sourcing project ideas directly from leaders, offering expedited approval, eschewing safeguards, and employing opaque procurement processes—heightens the risks of price inflation, corruption, and negative spillover effects. Taken together with the more stringent repayment terms, these risks can compound the distress of borrowers if projects cannot generate sufficient revenues to repay the high costs of accessing financing.

In the case of Sri Lanka and the Maldives, this discussion of debt distress is not a theoretical one. The IMF estimates that the Maldives will remain at a high risk of debt distress with a projected debt-to-GDP ratio of 123 percent in 2026,⁹⁹ largely (though not entirely) driven by its repayment obligations to Beijing.¹⁰⁰ The IMF curbed the Maldives’ access to concessional financing during the Yameen administration as a penalty for its unsustainable borrowing practices; however, this created the perverse incentive for President Yameen to rely more heavily on Beijing for capital, which it was ready to supply. The IMF has indicated that it considers the Maldives’ debt to be on a sustainable trajectory; however, largely due to commitments made by the Solih administration to implement necessary reforms recommended by the international finance institution.

The context in Sri Lanka is very different. Sri Lanka’s recent debt default was driven by the country’s heavy reliance on international sovereign bonds—debt securities that a government issues to borrow capital on the international market. This source of debt financing alone accounts for nearly half of Sri Lanka’s external debt and the effective interest rates are more than double those of most Chinese-state backed loans. Although Sri Lanka was slow to reach out to other development partners beyond Beijing for assistance, the government is now engaged in negotiations with the IMF and several of its bilateral creditors to resolve the current crisis.

⁹⁵ Horn, S., Reinhart, C., and C. Trebesch. (2019). China’s Overseas Lending. NBER Working Paper Series. Working Paper 26050. July 2019. National Bureau of Economic Research: Cambridge, MA. Retrieved from: <https://www.nber.org/papers/w26050.pdf>

⁹⁶ Hurley, J., Morris, S. & Portelance, G. (2018). Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective, CGD Policy Paper 121, March. Accessed at: <https://www.cgdev.org/sites/default/files/examiningdebt-implications-belt-and-road-initiative-policy-perspective.pdf>

⁹⁷ Wuthnow, J. (2019). “China’s Belt and Road: One Initiative, Three Strategies.”, In: Strategic Asia 2019: China’s Expanding Ambitions, by Ashley J. Tellis, Alison Szalwinski, and Michael Wills, eds. (National Bureau of Asian Research: Washington, DC).

⁹⁸ Custer et al. (2019).

⁹⁹ This includes both total public and publicly guaranteed debt-to-GDP. IMF (2021). IMF Executive Board Concludes 2021 Article IV Consultation with Maldives. <https://www.imf.org/en/News/Articles/2021/10/07/pr21287-maldives-imf-executive-board-concludes-2021-article-iv-consultation>

¹⁰⁰ IMF. (2020). Staff Report for Rapid Credit Facility Request—Debt Sustainability Analysis. April 16, 2020. <https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr20133.pdf>

What recommendations should the Commission consider for Congressional action?

When America's core economic and development assistance legislation was signed into law in the 1940s and 1960s, the world looked quite a bit different than it does today. Western democracies were the principal financiers of overseas development. The U.S. enjoyed economic superiority vis-a-vis potential competitors and partner countries had limited alternative financing options available. Grants along with low- or no-interest loans were the most popular tools and low- and middle-income countries had limited access to alternative sources of international capital or private sector investment.

Today, the rules of the game are decidedly more complex. Leaders in the Global South have more suppliers of financing to choose from and the structure of this financing is more varied. Grants and concessional lending from the OECD's club of advanced economies (i.e., traditional official development assistance) has shrunk as a proportion of the total resources available. The level of sophistication and opacity of alternative forms of international financing has grown, making it more difficult to monitor financial indebtedness, political capture, and undue influence of external financiers that may harm U.S. and borrowing country interests. The PRC's economic engagement in Sri Lanka and the Maldives is an important part of this story.

Beijing's influence is strongest in cases where countries lack negotiation leverage in the face of the PRC's growing importance to their economies and political leaders succumb to pressure to take short-term actions that may not be in their national interests. To mitigate this risk, I recommend that the Commission consider legislation that will promote the U.S. government's ability to support Sri Lanka and the Maldives in six key areas:

- Help government leaders design public financial management and procurement processes to mitigate the risks of waste, corruption, and debt distress.
- Assist government leaders to develop robust planning processes to assess new projects considering social, economic, and environmental costs and benefits.
- Model transparency in disclosing the terms and amounts of our own foreign assistance, while pressuring other donors to do the same.
- Advise leaders as they undertake reforms to improve the investment climate for private sector investment and mobilize nongovernmental actors to curb corruption, monitor progress, and hold the government and donors responsible for results.
- Invest in public diplomacy activities that enable countries to create space for debate, discussion, and dialogue about their engagement with foreign powers on their own terms
- Expand efforts to promote investigative journalism, citizen-monitoring initiatives, civil society strengthening, and data science for think tanks and universities with an emphasis on ensuring countries are getting the most from their engagement from foreign powers.

PANEL IV QUESTION AND ANSWER

COMMISSIONER BARTHOLOMEW: Thank you. And you were right on the dot with your timing. Thanks so much. We're going to start with Chairman Wong.

CHAIRMAN WONG: Well, thank you, Ms. Custer, for your -- really all of you for your testimony. But I was listening because I dealt with a lot of -- a good number of the issues you discussed, maybe not in the particular countries you discussed, but on looking at and how to balance Chinese debt financing for these projects.

And I guess my question is pretty simple. You talk about the government-to-government loans that have financed these projects. But what can the United States and our partners, including India, do not to match it in the same method of government financing but create environments, perhaps subsidize or encourage, you know, the large amount of private sector financing that might be out there that would be interested in an infrastructure project in some of these areas. Now they might not be, but how do we bridge that gap between private sector viability and actually creating something?

DR. CUSTER: Thank you very much for the question. I think it's a two-pronged attack, I guess I would advocate for. You know, and I think you alluded to the fact that one of the appeals for countries in choosing lending from China, and often at less generous financial terms I might add, than, you know, Japan or the U.S., is that there are sweeteners.

You know, I was out of region, but in a country in the East Asia region, one of the rationales for accepting a higher interest rate loan from China was, oh, there's export markets for bananas, and there will be tourism revenues coming in. And so there are additional factors in play. And so I think that's why the private sector actually becomes really important because it's not just about what USAID can do.

In terms of the private sector, I think that, you know, the fact that U.S. Development Finance Corporation has been formed and has been expanded, I think, is an excellent step in the right direction.

I think one of the biggest challenges for the private sector in these countries is risk and risk management and viewing this as very risky markets to engage in. So the more that the U.S. government can think thoughtfully about reducing the risk for countries to engage is all the better.

And I think that goes hand in hand with the second prong of attack, which is increasing the resilience of countries to not get into debt distress in the first place. I think if they are in a better position to be able to manage their public debts, create a good investment climate for private sector actors to be reliable partners, those are things that the U.S. government can do, but that opens the door for private sector companies to come in and increase the value proposition of the offer.

CHAIRMAN WONG: But just, you know, a basic question for Mr. Colley. You know, you chart out in your written testimony and in your oral testimony that China is essentially trying to secure its sea lines of communication, essentially provide a some would say a free and open commons for trade though the Indian Ocean through some of these choke points.

My question for you is from the U.S. perspective, what exactly is wrong with that? I mean, we have been the overwhelming provider of security on the maritime commons for many

decades. And if someone else wants to contribute to that, why should we be worried about that if you believe we should be worried about that?

DR. COLLEY: Is this on? I'm actually not worried about that. I think one of the things that we find with some of the Chinese scholars and security strategists is some of them, not many, but some of them openly admit that there is a level of free riding going on with the United States.

And so there is not lot of data in terms of long-term perspective of what China is doing in the Indian Ocean. But with the data that we do have, I mean, according to the Carter Center, roughly 70 percent of vessels, merchant vessels that were escorted by the Chinese Navy and anti-piracy patrols were foreign flagged. And so, I mean, strictly speaking from China's perspective they would say, hey, we're providing a public good, and this is what we're doing.

The Xinhua News Agency, I think, had a statistic of 51.5 percent. But I guess the answer to your question, the Indian Ocean is a vast area. And just to give you an example, it takes a Chinese war ship at least 10 days to go from the South China Sea to Djibouti at least and that's if it's going full throttle.

And so the idea that we should be concerned about, you know, a handful of Chinese war ships that are for the most part taking part in anti-piracy patrols, yeah, you could question whether or not that is a valid concern at least at this time.

CHAIRMAN WONG: Does anyone disagree with Mr. Colley in the five seconds?

MS. BARUAH: I don't disagree, but I wanted to add that is also -- definitely that's more providing common good. But it is also a way to get more -- Chinese biggest disadvantage is operational disadvantage in the Indian Ocean region.

So when it deploys to the region and it conducts exercises, it's also gaining training and data on how best it can deploy its navy in the future. The first time China deployed its submarines into the Indian Ocean region was in support of anti-piracy missions. You don't need submarines for anti-piracy missions. So that is something that could be useful. So maybe that's something that should concern the United States.

COMMISSIONER BARTHOLOMEW: Dr. Colley, do you have one response quickly?

DR. COLLEY: Oh, yes, I would agree. I mean, if you look at a lot of the up and coming PLA, officer staff, almost all of them have taken part in anti-piracy patrols. There's a learning process going on there. But, you know, that's what we would expect.

COMMISSIONER BARTHOLOMEW: Thank you. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you to our witnesses and Chairman Wong, it's not my position, of course, to disagree with you. But later on we'll have some challenges about the predicate for your question.

Mr. Colley, I want to pull on that just a bit longer, which is to ask are there any red lines or actions that China may take in the IOR that would concern you? Are there some sort of going too far approaches?

DR. COLLEY: To be honest with you, I think we're a very long way from that happening. I mean, China does not have a viable aircraft carrier battle group. It doesn't have the ability to project force from a perspective of providing meaningful air cover.

I think in terms of a red line, what we're really asking is what are American red lines? I mean, is Washington comfortable with the Chinese Navy let's say 10, 20 years down the road,

you know, having a meaningful presence in the Indian Ocean?

Now, according to the Naval War College, they currently have about 100 vessels that are blue water capable that could go into the Indian Ocean. And the same report from the Naval War College said that any given time China has the capacity to have 18 warships in the Indian Ocean. They currently have about six to eight depending on who we look at, what is the data we're looking at.

But I think this is -- you know, this is a political question not so much from you but in terms of how does Washington view Chinese activities in the Indian Ocean from, you know, a purely rivalry perspective?

And I guess I would argue that the red lines are probably more important for a place like New Delhi as opposed to Washington. I mean, the United States, I think, and if you listen to what some of the Americans who have actually dealt with the Chinese in the Gulf of Aden anti-piracy patrols, they actually say this is one area where there is grounds for cooperation between the two which is kind of interesting because in Washington there's a sense, well, there is this rivalry going on. But that region is surprisingly one area where we may find grounds for cooperation.

I think the perspective from other countries may be slightly different, especially in New Delhi but that's sort of -- my research is more focused on specifically how China deals with this.

COMMISSIONER WESSEL: Thank you. Ms. Custer, let me ask you a question if I can. This Commission has looked a lot at the flow of Western capital, primarily U.S. capital, into China and has raised concerns about not only the security of U.S. investors' funds but also whether we are advancing CCP interests as part of that flow.

What would your view be on steps to try and moderate or reduce U.S. capital going into China and redeploying it in the region? And if you think that's a good idea, what do you think the priority utilization of those funds should be?

DR. CUSTER: Thank you very much for the question. I mean, I think that if you look at the major firepower that China has to use, it's \$3.2 trillion of foreign currency reserves, that is not just from U.S. capital, but the U.S. is a major trading partner to China so there is a fair amount of capital that are feeding into those reserves.

I think, you know, if I were going to deploy capital elsewhere, I think that, you know, one of the things in my written testimony that I emphasized is that if we can't compete with China dollar for dollar, which I don't think that we can in terms of assistance, I think that we can provide additional negotiating leverage for countries by increasing the range of options at their disposal. If there are different partners around the negotiating table, that gives them the levers to be able to ask for better terms or ask for greater transparency from China.

And so I think that is one strategy. You know, actually being responsive to the priorities that leaders in the region are saying that they want, you know, providing better terms for the assistance that's on the offer and, you know, pushing China to actually offer better terms.

In terms of trying to curb U.S. capital going into China, I'm not sure that I think that is a viable idea or necessarily a good one. But I think I would probably more emphasize directing more of that capital towards places like Sri Lanka and the Maldives.

COMMISSIONER WESSEL: Thank you.

COMMISSIONER BARTHOLOMEW: Great. Thank you. Commissioner Scissors.

COMMISSIONER SCISSORS: Ms. Custer, I will unsurprisingly ask you a question, but first I need to make a speech, a short one.

The BRI started shrinking before COVID. It looked very different in 2018 than it did in 2014. It looks very different now than it did in 2018. There are obvious reasons for that, but, you know, Chinese trade, investment, aid, construction, they change over time. And one of the problems we have with American policy is we're backward looking.

This happened back then, and it was a big story. And then we're going to obsess over it in our policymaking and I'm actually going to tie this to Sri Lanka.

But we have -- there was a recovery in Chinese on our data, a recovery in Chinese investment and construction, a moderate one, in 2021. We have a sense of where the Chinese will go. Maybe not an exact one coming out of the pandemic. It's not governed by "I want to obsess over the port city in Colombo for years."

So I just caution anybody who might be listening to this, the BRI is not that old. It's been very dynamic. First, it was dynamically growing. Now it's dynamically shrinking. We should not -- don't get caught up in policymaking looking to the past and certainly not to individual stories about projects which capture people's attention.

The Colombo \$1.4 billion is a tiny fraction of what China is spending overseas. You know, follow the current money rather than stories that got a lot of press coverage four years ago. Having said all of that, I have my own view of this, but I want to ask you, I don't think there are new projects in Sri Lanka. I think the new project pipeline flattened out. They are struggling with old projects. So I want to hear you agree or disagree with that.

And then since there -- you know, if it's the case that you agree that we don't have new projects in Sri Lanka, then U.S. decisions to engage with Sri Lanka should not be made on the basis of, oh, my God, we have to compete with the Chinese because that's no longer really an active factor.

And, again, if you disagree with me, that's totally fine but that would be my -- you might agree with the empirical part and disagree with the implication. So pick whatever part you want to agree and disagree with.

DR. CUSTER: Thank you for the very knowledgeable question. I appreciate that. So I agree with a lot of what you said. First, the Belt and Road Initiative, and I'm doing a survey of leaders right now and I'm asking the question, do you think that this is primarily an advertising campaign or do you think this is a fundamental shift in China's policy?

And the reason I say that is because in Sri Lanka and elsewhere in the region, there have been a rash of grandfathering in of projects that predate BRI that are now miraculously BRI.

And so, you know, I think that does give additional credence to your point that, you know, there is some subterfuge here in terms of -- this is just a really good branding play.

Secondly, I think that we have to be careful about concluding that there's no activity. I think there is activity, but it's changed. One of the ways that it has changed particularly with the current President, you've seen China becoming more of this emergency lender of first resort, you know, rather than going to the IMF, Sri Lanka's Central Bank went to Beijing multiple times looking to get currency swap agreements or foreign currency facility agreements to try to bail themselves out of debt. Now the challenge with a lot of that is the terms of these things are hidden. They're often not known.

The other thing that I will say is that we've seen an uptick in the use of what I refer to as special purpose vehicles, which are separate independent legal entities that allow you to park revenues and debts separately, kind of off the public books, but they're still supported by sovereign guaranty.

So the question becomes then, you know, is there a hidden debt liability there that is not immediately obvious as like a government-to-government project, but it's kind of hidden away in this regard?

I think your point, though, about Hambantota Port is absolutely on point. I went out of my way actually in my verbal testimony and the written one to say that that's a boogie man that doesn't always play well because if you look at the composition of Sri Lanka's debt and the current crisis, actually, reinforces this point, 67 percent of the known external debt that Sri Lanka is saddled with is actually international sovereign bond debt.

These are debts that are often at interest rates that are much higher than China. And China on official record it is probably about 10 percent of its overall debt burden.

But I think that, you know, I think the U.S. should engage, but it shouldn't be about primarily competing with China and Sri Lanka. I think it should be about how you curb this vicious cycle of Sri Lanka overborrowing to repay past debts, trying to renegotiate debts and then doing it all over again. I think that's the name of the game.

COMMISSIONER BARTHOLOMEW: All right. Commission Schriver.

COMMISSIONER SCHRIVER: Thank you. I want to make an observation, and Dr. Colley, feel free to respond if you like. Based on your testimony, your statement that the Chinese are not interested in sea control or don't have the -- maybe more accurately, they don't have the capability for sea control, just deterrence and show the flag, I think Commissioner Wessel's question about red lines, you projected too far out and say it's a long way out there.

I might ask it in a slightly different way. My reading of PLA documents don't suggest that they view carriers as the center of a carrier battle group that would deploy to the Indian Ocean, project power, provide air defense. That they might have a very different concept of a surface battle group that can do the air defense, can do the power projection without carriers. So I'm not so sure the ski jump is the long pole in the tent. That sounds like an odd mixing of metaphors. But I'm not sure that that's the right criteria.

You also say China is a long way away, which is true. And I don't see that changing. But we have the tyranny of distance and time in the Pacific, and we deal with that with forward basis and access.

And, you know, the Indians used to talk about the string of pearls, and I think that goes back to the 80s or early 90s. Everybody thought they were crazy. And now you look at the possibility of a Chinese base or something to the untrained eye would like a base in Cambodia, which I realize is still on the other side of the Malacca dilemma, but Cambodia, Burma, Pakistan, Sri Lanka, Djibouti, Africa.

So I guess the point is the limitations you cite may be real, but I think we should still have an eye on what triggers us to see them as moving beyond the capability of just deterrent, show the flag and into something more resembling sea control and more power projection.

And so I'd like to understand what you would look at and be concerned about along that sort of continuum from sea control to -- pardon me, from deterrence to sea control. And if I have

time, I'll ask a second question but --

DR. COLLEY: Sure. Thank you very much for your question. Yeah, I should point out that from my reading and my research that China, I would say 90 to 95 percent of China's naval modernization is strictly geared towards East Asia.

Especially since 1995 and 1996, the PLAN has tried to develop the ability to keep the Americans out of East Asia in terms of any conflict in the region. Specifically, they've invested enormous resources in diesel electric submarines and various missile systems.

This is not something that you're going to be able to control areas of the Indian Ocean with. Diesel electric submarines which, I mean, I argued from forthcoming publication from the 1990s until about 2010, it was more of an access denial type of navy. Pretty much, keep the Americans at least 500 to 1,000 miles out of East Asia in various island chains.

We've seen that change right around 2000, the late 2000s. I mean, the Chinese start issuing statements saying, well, we need to branch out into the open seas, you know, active defense on the high seas or power projection, build a world class navy. These are some of the buzzwords that we see flying around.

In terms of the utility of a carrier, I agree. I mean, there is differing perspectives in both China and outside of China on what would constitute a future Chinese carrier battle group. Some people say, well, they are going to have, you know, multiple -- it's going to be composed of mainly very modern frigates, one or two cruisers and one or two guided missile destroyers and maybe, you know, a couple of subs. That may be the case. I guess I'm looking at it from a perspective of what do you get if you actually have to engage in hostile actions of 5,000 miles from land bases?

Air power is an incredibly important aspect here. And so when I talk about the importance of geography and Chinese battle groups, we could see a situation in 20 years where the carrier is obsolete.

In fact, if we go back to the 1980s, Admiral Stansfield Turner famously wrote an article in Proceedings Magazine calling them unnecessary in modern warfare. The Chinese are aware of this.

And I posed this question to many Chinese strategists. What is the purpose of the carrier because you know the deficiencies of the carrier? And they say, well, yeah, we know the deficiencies. This is about power projection. And more importantly it's about showing the flag. This is about prestige. The Chinese people are very interested in, you know, in prestige and where you want to give it to them.

Well, we're almost out of time now. So I guess the answer to your question directly, in the future an Indian Ocean force does not necessarily have to have aircraft carriers and battle groups. But I think it's important that if you don't have air cover, that this could be in the form of drones and other things or guided missile ships. That's an incredibly important aspect at least as of 2022. I hope that answers your question. Sorry I went over.

COMMISSIONER BARTHOLOMEW: Thank you. Commissioner Mann?

COMMISSIONER MANN: Thank you. I'm going to pass on this round.

COMMISSIONER BARTHOLOMEW: All right. Commissioner Friedberg, you're up.

COMMISSIONER FRIEDBERG: Thank you very much. Dr. Colley, I wanted to pursue some of the questions that Commissioner Schriver raised with you. You described a situation in

which China is very heavily dependent on sea lines of communication running across the Indian Ocean to the Persian Gulf in particular and also to Africa to gain access to energy imports and a situation in which at least for the moment they have no ability to defend those sea lines of communication presumably against the United States.

So my first question is, and I apologize if this is inviting you to speculate about issues of policy that you would rather not comment on, but it would seem that this is a powerful contribution to deterrence from our perspective.

We have this capacity -- they are aware of this vulnerability. They are in no position to lessen that vulnerability. Therefore, they are more likely to be deterred from going to war with us. Do you agree with that?

DR. COLLEY: Yeah. It could be. I guess I would argue -- I mean, in my conversations with Chinese strategists, I'm not sure so much deterrence is the best way to look at it. I sort of see them as they frequently bring up the concept of the risk fleet going back to, you know, the British and German Navies.

China is not building a navy that can defeat the United States Navy. They're not doing that. They know it. This gets back to the previous question about access denial, you have to have 1,000 war ships in the Indian Ocean to actually be able to have meaningful access denial.

From my understanding looking at Chinese sources but also in my conversations, they want to have the ability to impose a high risk on an opposing navy that would try to interdict them and primarily in a place like Malacca. They would frequently reference the Yinhe incident of 1993, which I found to be -- most people are unaware of it, but you walk around think tanks in Beijing and maritime strategy, and this is really important. I mean, this is, you know, they say this was unacceptable. It was a national humiliation. Multiple people said never again.

And so having the ability to actually take on head-to-head an American battle group, I don't think they want to do that. They just want to have the ability to raise the cost of confrontation to such a level that any political decision taken in Washington to actually do something kinetic would say, it's probably not worth it. And now maybe that's a form of deterrence more on the side of the part of the Chinese to say, well, we're going to deter you from actually interdicting what we're doing.

So I hope that sort of answers your question maybe not exactly head-on. But ultimately, I see deterrence sort of going both ways, have the ability to make costs unacceptable for Washington.

COMMISSIONER FRIEDBERG: You mentioned risk fleet, of course, that didn't work out too well at that last event.

DR. COLLEY: No, no.

COMMISSIONER FRIEDBERG: And I guess if you have the time maybe you could say a little bit more about what exactly you mean by that. But two other issues, one you mentioned in addition to concern over sea lines of communication, they have a desire to be able to extract their personnel from distant locations.

Might they also be interested in projecting power ashore maybe in relatively limited increments but to defend their interest to defend their friends, to punish rulers who perhaps have run afoul of them, in other words doing things not that dissimilar to what we've done over the last several decades with our power projection capabilities?

DR. COLLEY: Yeah, so my take on that is they actually are very careful about this. And from some of this stuff that's come out recently, there's a debate going on in China today in public about military operations short of war. If we have to rescue, you know, Chinese nationals in Libya or in other places, what happens when we actually go in to do that?

I mean, it's one thing to send a couple of helicopters and pull people out, and it's another when opposing forces are shooting back. And following, like, what China is doing in terms of UN PKO is an interesting way of looking at this.

There is sort of a debate that, well, we know that if we get involved in some sort of a rescue mission, we could take casualties. So how do we deal with that from just a logistics perspective? You know, what do we do about backup? What do we do about -- who is going to actually go in and do the rescuing?

This right now is being debated. And it's a fascinating question. Unfortunately, I don't have an inside seat to this discussion, but this is how, you know, the current research is sort of looking at it.

COMMISSIONER FRIEDBERG: Thank you.

COMMISSIONER BARTHOLOMEW: Commissioner Fiedler.

COMMISSIONER FIEDLER: So I am going to come back to Taiwan for a second because it seems to me to be the most likely source of conflict in the short term. So Aaron talked about deterrence. Let's assume for the moment that the Chinese say we don't care. We're going to take Taiwan.

Number one, it appears to me that their navy would be occupied doing that and that there would necessarily -- their decision would be predicated on the notion that we didn't have a stomach for a long-term struggle about the issue of Taiwan.

They can't -- does anybody believe that they can defend themselves or come cross the Indian Ocean unscathed for a long period of time after they attempt to take Taiwan or take Taiwan? Their navy doesn't seem to be up to it. So I think there's a real short-term problem they have that we're not talking about.

DR. COLLEY: I'm sorry was that directed -- I assume that was directed towards me?

COMMISSIONER FIEDLER: Or anybody but, yeah, you, too.

DR. COLLEY: I guess in terms of actually operating from the Indian Ocean perspective, I mean, this sort of -- this gets into their concerns about -- if I'm reading your question correctly, their concerns about if there is a battle over Taiwan, with the Indian Ocean, what would happen there?

I mean, they've written extensively about this. The concern is that, well, let's say you have, you know, problems or it appears that you're going to have problems there, the Malacca Strait is very narrow. It's about two or three miles at its most narrowest choke point. And so, yeah, there is a real concern in Beijing. Are they up to it? I don't know. I mean, that's

COMMISSIONER FIEDLER: I mean, let me just interrupt that. It's not just the Malacca Straits. You don't have any evidence -- my earlier question about what the Indians would do in the case of Taiwan is relevant here. In other words, perhaps if the Indians decided to throw in with us that they would help interdict Chinese trade or ships coming into China if that was the decision that the West made.

So I say that their inability to protect themselves in the Indian Ocean for the foreseeable

future is a consideration in their decision to take Taiwan or not.

MS. BARUAH: I can come in on the India question. I think there is some level of understanding or assumption in Washington that if tomorrow there should be a Taiwan crisis that India would choose to perhaps coordinate with the United States on the Indian Ocean region to protect the Straits of Malacca. I think that decision will depend on what the situation along the continental border at that point in time is.

And I do not think India and U.S.'s conversation on the Indian Ocean is as open and as detailed as it should be because of the differences between the two countries' approach to the Indian Ocean region. So I don't think India and the U.S. has even reached that stage where the two countries are willing to have a conversation on Taiwan and where India can come in, if at all, it wants to come in.

And that comment stems from the division and the approach of how the two countries look at the Indian Ocean despite the fact that both Delhi and Washington are much closer today than they were a decade ago.

I just quickly want to add one -- I do want to add one thing on it from the conversation is that when we discussed protecting or disrupting Straits of Malacca, by the time that situation comes, you are talking about a very strong and heavy military conflict.

At that point, China has established its dominance, prominence along South China Sea and to the southern Pacific as well. It will come into the Indian Ocean region. If we are talking about the only red line is that if China is able to protect Malacca Straits, I think by that time, India will have lost a lot of its geographic advantage and perhaps the United States as well.

I think from a Chinese perspective, it is the ability to be present and maintain and sustain a presence in the Indian Ocean region despite a limited conflict on the other side of the Malacca Straits to showcase its partners in the Gulf and African countries that it is a credible partner.

COMMISSIONER FIEDLER: Thank you.

DR. COLLEY: I believe, yeah, you --

COMMISSIONER BARTHOLOMEW: She said it all.

DR. COLLEY: She said it.

COMMISSIONER BARTHOLOMEW: All right. Great. We'll move on to Commissioner Borochoff.

COMMISSIONER BOROCHOFF: Ms. Custer, I want to just talk for just a moment about the debt trap and the cost of borrowing from the Chinese. We hear about this a lot in a variety of venues.

And in another part of my life, I serve on a commission in the state where I live that oversees lending within our state. And there is a vehicle -- I always get concerned about anything called a special vehicle whether it's for investment or loans because I live in the state where Enron was headquartered and as a result we ended with Sarbanes-Oxley and the PCAOB was put in place to make sure that companies weren't taken advantage of, people weren't taken advantage of, just try to correct that.

But one area we did not and have never really been able to control is the area of what is colloquially known as payday loans. And payday loans are for people who don't have credit. You know, someone who is driving to work in a beginning level or lower level paying job, and they get a flat tire, and they can't get to work anymore. No bank will loan them the money so

they go to a payday lender, and they borrow \$80.

And one of the things that we did on that commission was we passed a law where I live that we audit and require all of the payday lenders to disclose everything they are charging, including their contracts and a variety of other things.

One of the things that shocked me was to find the percentage of loans that are never paid off. They're evergreen and that's what you referred to. It's amazing that a person can borrow \$80 for a tire and end up paying more than 2,000 percent interest over time because they just keep renewing the loan.

And the way they get around the usury laws are that they are fees. They are not interest. So somebody had to go back, and we do this now, and calculate what is the real cost of these things.

And I'll end it before I ask the question by saying that banks are 100 percent in favor of payday loans because they don't want to be forced to loan the money to people that they think can't repay it, and they don't want to feel like they're going to take advantage of people, and it hurts their business. So there's a real need for a vehicle for people who need short-term money because not everybody doesn't pay it back.

So my question is has anyone gone in and looked at the real cost of these special vehicle loans, not in terms of what does it say, the percentages, but I'm sure they have special terms that cause it to be effectively a gigantic payday loan.

So out of curiosity, do we know what they pay? Because it would seem like if people knew that it would be easier to find alternatives.

DR. CUSTER: Thank you very much for the question. I think the payday loan analogy is a really good one. And it resonates with me as relevant to this.

You know, I think that's one of the appeals for countries like both the Maldives and Sri Lanka actually in dealing with China is because they are riskier borrowers, and China is willing to lend to them. But it's not stupid. It is going to, you know, require more stringent repayment terms because it is a riskier bet.

And I think that the other thing that is concerning about the opacity of a lot of these things it's not just payday loans. Think about this. It's not just payday loans to the government. It's payday loans to the private sector that the government is on the hook to repay.

COMMISSIONER BOROCHOFF: Right.

DR. CUSTER: I gave in my written testimony an example, it's just so classic, of under Abdulla Yameen, a big fan of Beijing, a friend of his got a huge loan from Beijing for a private resort that the government was then required to guarantee.

And when the resort looked it wasn't going to actually fulfill the terms of its loans, it was the government that got the call. So I think that's one of the real challenges here.

In terms of the payday lending, I think the costs are multifaceted. I think one is you just get into this cycle, this vicious cycle that you're borrowing to repay the past debts. And in a way the lender wants to keep lending you money because they don't want you to default either because that's not good for their books.

And, you know, for when you have electoral administrations that are saying, oh, it's the next administration that can deal with this mess. You know, I'll just keep borrowing today and be able to have these perceived projects. That's another cause. You're basically pushing down

the pain and the cost to others down the road, and you're getting the benefits right now.

Some of the percentage rates are really, really high. And I think one of the reasons why it's so concerning -- you know, in another part of the world Argentina is actually one of the biggest examples of borrowing from China on this kind of payday loan cycle.

The interest rates are really high, but the terms are even less transparent than your normal kind of grants and loans that you see. And what you see is a situation like in the Maldives when you had a change in power and the new government coming in did not even know how much it owed. And that is, I think, another real challenge of payday loans. It's like the paper trail is so opaque that the debts are kind of pushed forward that it's just easy to kind of push it off on the next person.

COMMISSIONER BOROCHOFF: Thank you for that answer.

COMMISSIONER BARTHOLOMEW: Great. Thank you. Yeah, I was going to ask or just note that we don't know the terms and conditions of a bunch of these loans and that's a problem going forward.

Sri Lanka, it's chaos there, right now, I mean, right, well, turmoil or chaos or however you want to call it, which raises to me sort of a couple of questions about China's presence there.

One, Dr. Colley, I don't know how many Chinese might be there, present, and how safe they are and whether they are going to do an extraction. And, two, stability is really important to Beijing in its investments.

So what does it do? Does it have relationships with an opposition that might be moving into power? It has done that in other countries. But how does Beijing manage what's going on in Sri Lanka right now? And I would ask that of any of you.

DR. COLLEY: I guess I'll quickly just comment. Yeah, I haven't followed the Chinese news very closely, but I'm sure that the Chinese are currently following extremely closely as are other countries around the world trying to figure out, you know, okay, if things don't go well, do we have a plan in place to protect our people?

And I don't have a specific answer as to, you know, what Beijing is going to do about that, but it's a serious concern. And we see this increasingly with construction sites throughout the world where, you know, political stability is not always guaranteed. I'll pass it off to somebody else.

MS. BARUAH: I think a lot of the presence in Sri Lanka and Maldives is also from the point of view of Chinese laborers that are there building a lot of the projects. And that could be a separate line or form of the way they move them from there. But China has established or has proven the ability to carry out evacuations from the region. I think Dr. Colley mentioned Yemen. And I would assume they would have mechanisms and tools at hand to be able to extract their citizens during such instability.

And both in Sri Lanka and Maldives in the recent past we have seen one party each having either a closer linkage to India or China. And whenever one is under crisis you see another one being pushed forward. And I would assume that at this point in time, whichever that may be, you know, the Chinese would have their mechanisms in place to be able to at least extract or evacuate the citizens for most of them the point of view of laborers at this point since tourism is limited.

DR. CUSTER: I think I would add to this a few strategies that China has been employing

in Sri Lanka and elsewhere to mitigate its risks.

One is a practice that I call circular lending, which is China will for projects like infrastructure projects that China is bankrolling, it will tie the implementation to Chinese firms, suppliers and labor. And so the money never leaves the country so to speak so that's one way that it mitigates its risk. And it gets some sort of return on its investment because it's deploying that to productive use.

I think second with the current emergency lending situation, one of the reasons why I think that Beijing was willing to be that first lender of resort is because if Sri Lanka goes to Beijing to get currency swaps and get payday loans or whatever it might be, China can then require that it is -- its precedence in repayment so it will be the first that is repaid.

One of the reasons why you heard the Chinese ambassador to Colombo express its regret that Sri Lanka went to the IMF to negotiate its loans is that now that's off the table. Now Beijing is just like every other lender.

And then finally, you know, I said this in the answer before, another thing that it's doing, because this is a super risky market China is adding that into its stringent repayment terms for certain.

COMMISSIONER BARTHOLOMEW: I'm going to take the prerogative of the chair because this next question might go over a little bit if anybody has a second round they want to ask.

Of course, one of the pressing issues for the Maldives, for Sri Lanka, for the other island nations is climate change. And I wonder if they are having discussions or any cooperation with the Chinese government on actions to either address climate change or mitigate the consequences of what's going to be happening -- what's happening to them now.

DR. CUSTER: That's an interesting question, I think, because everybody can think of the cabinet meeting that was underwater and videotaped in the Maldives as classic for this.

So what's interesting about China both in the Maldives and elsewhere it's a little bit of mixed mind on climate change. On the one hand it is a big advocate of trying to position itself as like a major financier of green energy projects. On the other hand, it also happens to be one of the largest funders of coal fire power plants.

You know, I think that one of the challenges for the Beijing is because it positions its projects as being responsive to local priorities, if leaders are asking for projects that are not environmentally wise, it will fund those. But if you have leaders that are savvy enough to know, hey, we have to guard against climate change, it will provide support there. So I think it's very opportunistic in its approach I would say.

COMMISSIONER BARTHOLOMEW: Ms. Baruah?

MS. BARUAH: I think that's actually an opportunity for both India, U.S. and other countries working in the region. When you go to any of the six island nations and ask them tell us which is your key security challenges that you face, your national security threat, number one is climate change followed by illegal fishing, human trafficking, drug smuggling. A base by China, base by India, base by U.S., it's not there anywhere on the list. So it's always not what U.S., India and others classify as soft or non-traditional issues are the top five security issues for these countries. So they would work with anybody who is willing to engage on these issues, who is willing to listen and who is willing to support and sponsor projects on this.

Even on the question of infrastructure, I think if it comes down to a competition with say infrastructure competition, whether it is India and U.S. or whether it's India and China or U.S. and China, climate resilient infrastructure would perhaps go a long way than building ports and bridges that would survive the favored party another term in the chair.

There are many initiatives in place between U.S., India and others in the region but for some reason, they have not been directed towards the Indian Ocean islands. Adding one challenge to that is unlike in the Pacific where the islands come together and they have the Pacific Island forum, the Indian Ocean does not have any one regional forum that brings the islands together.

Ironically or incidentally or a very smart policy approach, the Chinese foreign minister was in the Indian Ocean islands in January of this year and proposed creating an Indian Ocean island to bring together all the islands together and talk about what is important to them.

COMMISSIONER BARTHOLOMEW: Thank you. Do any of my colleagues have a second round of questions? Randy? Oh, sorry, Dr. Colley, did you have something you wanted to add?

DR. COLLEY: Yes, sorry.

COMMISSIONER BARTHOLOMEW: Please, no, no. Go ahead.

DR. COLLEY: Yeah, I just -- sort of to pick up from the previous conversation, the American diplomatic presence in the region could be significantly reinforced. For example, there is no American embassy in the Seychelles. And there's a long way between the Seychelles and other parts of the Indian Ocean. I believe it's conducted out of Mauritius.

But just, you know, even a token presence, if nothing else, just to have people on the ground to say what are your concerns? What are your national security priorities? How can we assist you in this? I think that would be really important. It's not only from a practical perspective but, you know, the imagery of having an American embassy there I think is really important.

COMMISSIONER BARTHOLOMEW: Thank you. All right. Randy?

COMMISSIONER SCHRIVER: That's a great point. First of all on the Maldives, I just want to say in fairness President Yameen did not mean to hand that off to President Solih. He had every intention of stealing that election successfully. But the more serious point in question, Ms. Baruah, I applaud your suggestion for an Indian Ocean strategy. I applaud all of the work you're doing on the Indian Ocean.

My question is, let's say we got our act together, and we had a good Indian Ocean strategy, more effective, are the Indians ready for that? And I don't have the expertise you have and I don't have the data you have, but my read of body language reading the room and anecdotes is the Indians are ready for us in the Indian Ocean but at the right levels and at the right type of activity that they can live with.

MS. BARUAH: Thank you for that question. And I think it is an important one because India will be, even whenever -- I hope there's a strategy at some point in the near future. But whenever there is, I think India would be named one of the key players.

Five years ago the answer probably would have been a little bit of hesitation, but today I'm confident in saying that U.S. and India share that sort of a partnership where there is space and scope to discuss and coordinate efforts in the Indian Ocean region.

I do not see United States being present in the Indian Ocean region in the same manner, level and priority that Indian Navy or the Indian diplomatic presence will be simply because that's home theater, that's where India is based.

But India also has great disadvantages in the Indian Ocean region. Its geography is an advantage but it also a disadvantage. The Indian Navy receives the lowest defense budget from all of the services it receives within 14 to 19 percent of the defense budget.

Does the Indian Navy have the capabilities to man all of the choke points from the Eastern Coast of Africa all the way to the Straits of Malacca? It's a challenging task and it's a lot of waters to be covered. It might look very small on the map, but it takes days.

And I think that is where -- whether it is for capability, building capabilities, whether it is through Quad, whether it is through Malabar exercises or tech transfers, I think that's an area where it can be highlighted, and it can be supported if the United States lists down its priorities, draws its red lines, says these are its interests in the Indian Ocean region wherever they may be or it says we do not have any interest in the Indian Ocean region. Then I think its partners and allies still have an avenue to then figure out what it can best do, how it can collaborate with the interested countries and what is the best approach forward?

And I think defining that would be a great start because it would force India and -- India and U.S. already has a maritime security dialogue, right? When Taiwan is such an important conversation for U.S., why haven't India and U.S. had any conversation on what India would do on Taiwan? It's because of the difference of what we -- the way, I think, the two countries approach the different regions.

But my answer to your question is I think India will be welcoming and open to an Indian Ocean strategy more so in the western Indian Ocean where India's weaknesses lie.

COMMISSIONER BARTHOLOMEW: All right. One more question from me. Ms. Custer, I appreciate and support this idea of training for doing better contracts, transparency and all of these things, and USAID has done it successfully in a few places.

But I guess what I wonder is given the level of corruption in some of these places, are the leaders actually interested in getting training or having their citizens trained in a way that would insist on transparency because then either their ability to pocket a lot of the money or their -- you know, people don't want to see that necessarily is what is coming out of these contracts. So how realistic is it?

DR. CUSTER: That's a good question. I think it depends. You know, it's notable that President Solih, who succeeded President Yameen in the Maldives, when he took office actually undertook a forensic audit of all past statements and really used the elections as leverage to push for greater transparency.

Now it was beneficial because any blame could be cast on the past administration. It wasn't anything that was his dirty laundry. You know, so I think if you have a willing partner like that, giving them stronger tools to be able to enforce this is a good thing.

I think, you know, when you have -- it could happen, actually, that the elections are coming up in the Maldives. If Yameen came back to power again, I think he probably wouldn't have as willing of an ally. And there, I think that's where you need to think through how do you create pressure from other parts of society, you know, investigative journalism, you know, civil society watch dogs creating pressure because in a way that is what contributed to Yameen falling

out of power previously.

So I think you have to look at the context, say, like, do you have a willing government partner to work with? If so, let's double down on building their capacity. If you don't, then you have to work with the private sector.

I guess the other thing I would say is, you know, if there's a way you can position this as actually advancing their own interests, you know, that is really compelling, I think.

COMMISSIONER BARTHOLOMEW: Thank you. All right. With that, I think we're going to end. Thank you to our witnesses. It was an excellent panel. We really appreciated your time, your knowledge.

And our next hearing is, you mentioned, June 9, is that right? June 9, our next hearing is on June 9 for anybody who is watching. So, again, thank you very much for appearing before us today.

(Whereupon, the above-entitled matter went off the record at 4:15 p.m.)

QUESTIONS FOR THE RECORD

FORTHCOMING UPON RECEIPT FROM WITNESSES